



# THE EUROPEAN TECHNOLOGY INDEX

Fostering growth in a challenging market



EVERYTHING MATTERS

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# OVERVIEW AND FOREWORD

**In the midst of one of the most turbulent financial periods in European economic history, international law firm DLA Piper commissioned a survey of senior European technology leaders to measure current perspectives and attitudes to the challenges and opportunities for growth within the technology industry across Europe.**

The study asked 300 experts in the field, including executives, investors, policy makers and officials aligned with the technology market, a series of questions to assess the extent to which each of the following areas are seen as impacting growth within the sector:

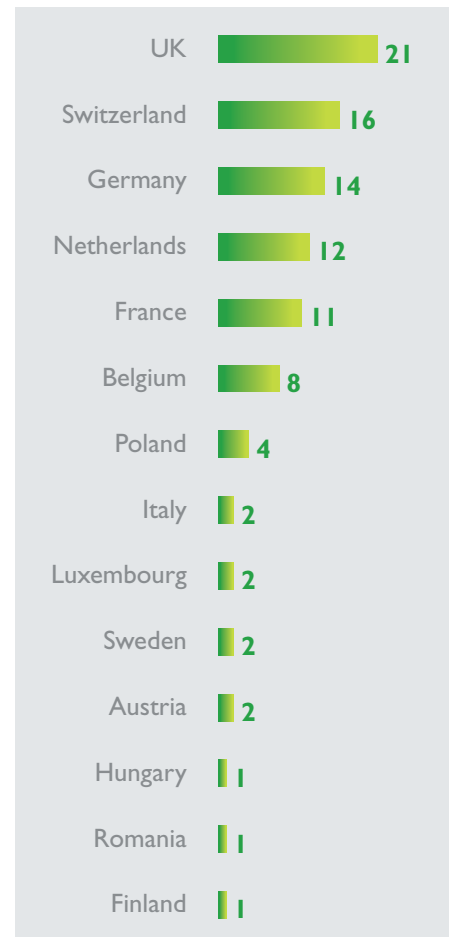
1. regulatory environment
2. tax environment
3. availability of finance
4. availability of talent
5. protection of intellectual property rights

The results of the survey have been collated and weighted to provide DLA Piper's first technology index. This is based on a diffusion index and weights the percentage of respondents answers that are positive, negative and neutral - the results are presented as a scorecard next to each of the areas indicated above. The scorecard is designed to demonstrate degrees of positive feedback, where 50 represents a neutral score, 100 represents the maximum positive score and 0 represents an entirely negative score. This score then gives an overall view of the sentiment of the respondents, and therefore the index. Further detail on the index methodology can be found in the appendix.

Respondents were also invited to consider the specific areas within the industry that offered greatest opportunity for growth.

Despite the challenges the industry has faced in the past few years and the adverse economic environment, respondents expressed optimism for 2012 and beyond. Whilst concerns exist around barriers to growth posed by current levels of taxation and regulatory control, the overall ability for the industry to grow, access finance and tap into top talent is positive. The findings reiterate research from Gartner which estimates that global technology spending should rise to US\$ 3.8 trillion in 2012 and will continue to grow a further 5% by 2015<sup>1</sup>. Technological innovation certainly supports grounds for optimism with software-as-a-service, cloud computing, mobile communications and the rise of social media and online channels all helping to create positive movement in the industry.

## Best European countries in which to do business (%)

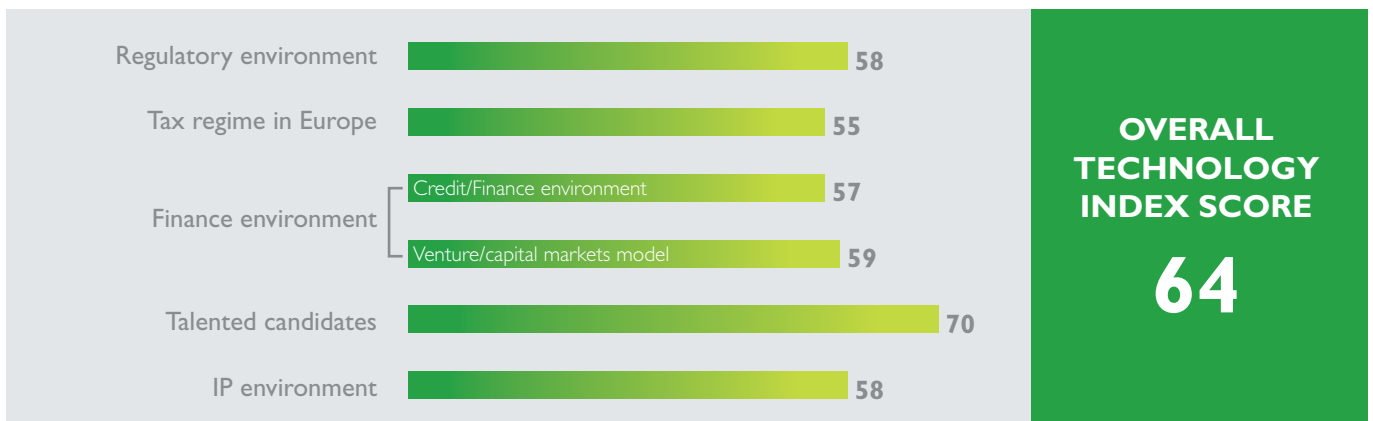


<sup>1</sup>Gartner IT Spending Worldwide 4Q11 Update

Key findings and highlights:

- Overall respondents chose the UK (21%), Switzerland (16%) and Germany (14%) as the top three best places to do business. The Netherlands and France came in a close fourth and fifth place, with 12% and 11%, respectively.
- Respondents are broadly optimistic about the current **credit/finance environment** and its ability to support future growth; 36% felt positively about this, and just 23% felt that it had a negative impact. Given liquidity, financing and covenant requirements, this is a rather upbeat finding. Respondents expressed a similarly positive view about capacity within **current venture/capital markets**, with 37% of respondents claiming that the current model is positively affecting growth in the technology sector.
- A third of respondents (33%) see the current **regulatory environment** as promoting growth in the European technology sector.
- In relation to Europe's **tax** regime most respondents were again positive, with only 18% indicating that current regimes were detrimental to growth and 28% saying that it improved growth. A slightly higher proportion, 37%, felt that the tax regime in their own countries helped improve growth. We also asked respondents which European country, they felt offered the best tax regime for growth. The survey found 26% of respondents nominated the UK is the best tax environment, followed by 15% for Switzerland, 12% for France and 11% for Germany. We did, however, see a definite bias towards the respondent's country of establishment.
- In terms of accessing the right **candidates for hire**, only 8% of respondents expressed concern about the available talent pool, whereas nearly half (48%) claim that it is increasing.
- Attitudes towards the current **Intellectual Property** environment are broadly neutral with 30% of respondents seeing the environment as positive and just 8% claiming that it is negatively affecting growth.
- We asked a series of questions which asked respondents to rank which areas they thought offered the greatest opportunities. It was interesting to find that the top three areas nominated for growth were emerging markets (77%), cloud computing (70%) and renewables and green technology (67%). Converged communications came fourth with 33% and social media and online channels came in fifth with only 23% rating it as a top three priority.

**The European Technology Index**

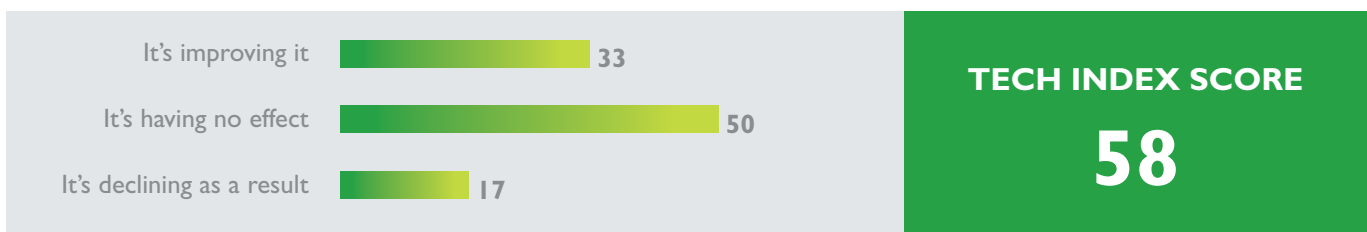


# REGULATION:

## Overall which country is best for doing business in Europe?

We asked respondents how the current regulatory environment affects growth and which countries' regulatory environment is best for doing business in Europe.

### How is the regulatory environment affecting growth in the sector? (%)



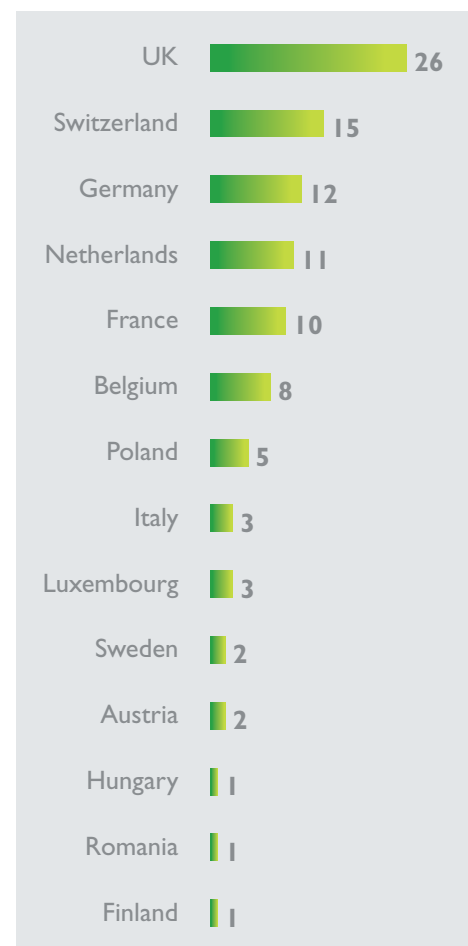
We are not surprised to see that the **UK** tops the list of countries in Europe that respondents felt had the best tax and regulatory regime with which to do business.

- The UK has one of the most highly developed and competitive financial services market in Europe, with wide market access for new entrants and competitors. Despite pressure to tighten up financial services regulation, both the UK Government and financial services regulator wish to ensure that the UK remains the main financial centre for Europe.
- The UK was the first regime in Europe to liberalise its markets and remains at the forefront of opportunity in this space. It was the first large country to mandate mobile number portability and remains the easiest market in which a telecoms operator can open for business - provided no spectrum is being used there are no formalities to start a new open (by contrast almost all other countries require potentially complex notifications to regulators).

- The UK is widely regarded as leading the way in the electronic payments sphere in implementing EU legislation at a national level, most notably with the Payment Services Regulations 2009 and the Electronic Money Regulations 2011.

At number two, **Switzerland's** regulatory environment allows investment with minimal barriers to trade which strongly supports business activity. It will be interesting to see whether the UK can maintain its leading position given the pressures to tighten up regulation, criticisms of the Financial Services Authority's light touch regulation following the banking crisis and the new regimes replacing the Financial Services Authority; the new Prudential Regulatory Authority; and Financial Conduct Authority.

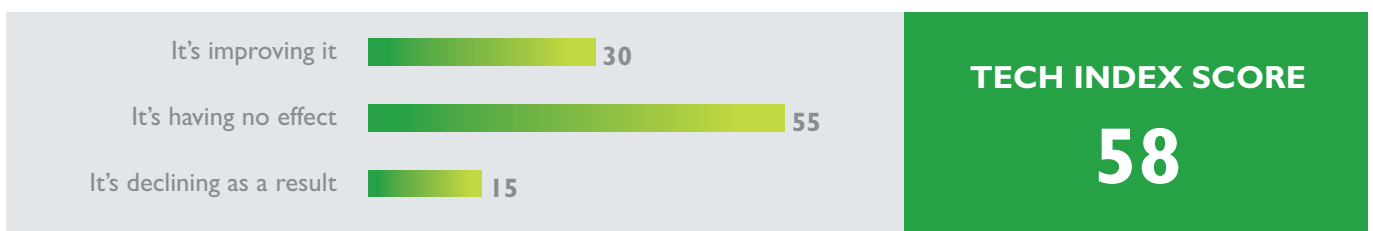
### Which country in Europe has the best tax/regulatory regime? (%)



# INTELLECTUAL PROPERTY (IP):

## How does the current IP environment affect growth?

How is the current intellectual property (IP) environment affecting growth in the sector? (%)



**The Survey indicates that the regulatory environment for protecting IP is viewed either as positively impacting growth of technology or having no impact at all. Interestingly, respondents from technology companies view the IP environment more favourably than respondents within the investor community or working for Government/regulatory bodies.**

The importance placed on the IP environment is understandable. IP - particularly the laws on copyright and patent protection - is critical for a technology owner's ability to maintain their exclusive right to use and sell a technology. Something which is evident from the huge increase in patent litigation, particularly amongst the mobile technology providers in recent months.

The positive feedback presumably reflects the efforts that have been made over many years to align intellectual property laws (both internationally and within the EU) to provide a predictable legal framework across member states. The results also reflect the additional legal protections that have been implemented in the last few

years particularly to protect computer software and rights in information more generally.

The survey, not unsurprisingly, indicates that emerging markets need to improve patent protection laws to realise the growth potential of those markets. It is interesting that respondents rated this issue ahead of political stability for driving growth in these markets. While developed countries have standardised much of intellectual property law through international treaties, the major gap in emerging markets is the lack of prompt and cost-efficient IP enforcement mechanisms. Until technology companies feel that they can act effectively to enforce their intellectual property rights, there will

be a substantive risk for companies to operate in those territories. One route by which confidence may increase is through supra-national methods of dispute resolution - such as the resolution of domain name disputes via the WIPO UDRP. These bodies do afford technology companies' limited, but meaningful, ways of protecting certain IP rights when trading in emerging markets. The big lost opportunity here is of course China, which even though it is on track to become the world's biggest economy by size in a matter of years, remains a challenging market for companies to do business. It will be interesting to see how this anomaly develops as China becomes a more developed economy over time.



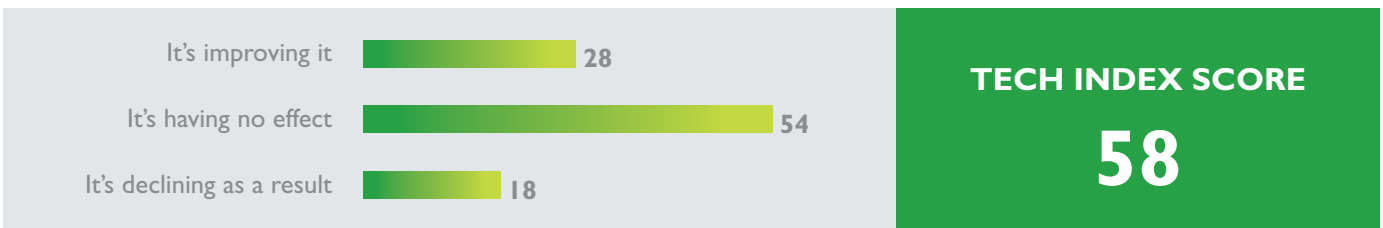
**The biggest lost opportunity here is of course China, which even though it is on track to become the world's biggest economy by size in a matter of years, remains a challenging market for companies to do business.**



# TAX:

How does the current tax environment affect growth and which country's tax regime is most favourable?

## How is the current tax regime in Europe affecting growth in the sector? (%)



**The fact that most respondents consider the tax regime across Europe to have minimal impact on growth in the sector is unsurprising. In the wake of the global financial crisis, European economies have faced the competing challenges of consolidating public finances and improving their tax structure to make it more growth friendly.**

The changes to tax systems across Europe have generally involved broadening the tax base while offering targeted incentives through the granting of tax credits, allowances and longer payment deadlines. The global financial crisis has also slowed the trend of lowering corporate tax rates in Europe. From 2000 to 2008 corporate tax rates among EU Member States decreased on average by 1 percentage point per year. Since 2008, that decrease has slowed to 0.85 percentage points per year.

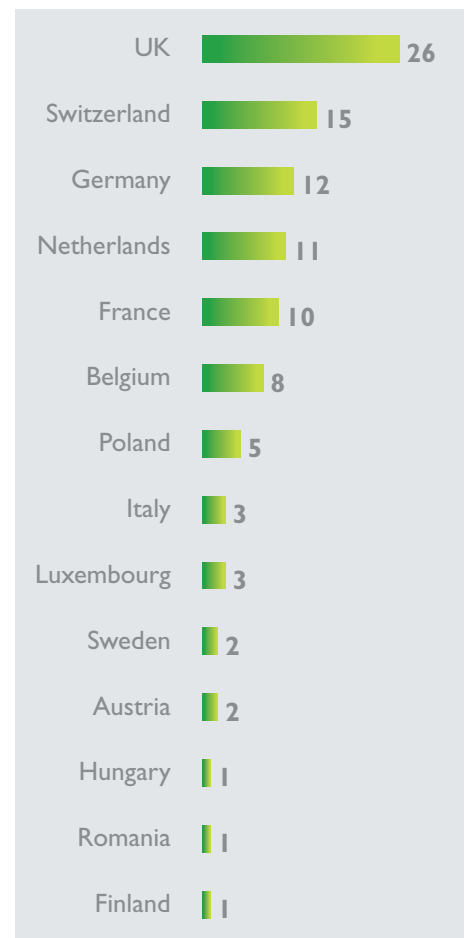
A few European economies continue to decrease corporate rates. The UK has announced that its corporate tax rate will decrease to 23% by 2014 and it is also proposing to introduce a "patent

box" regime from 2013 providing for a 10% tax rate on profits attributable to patents. These measures, together with the UK's existing tax credit system for Research & Development (R&D) expenditure, may explain why 26% of all respondents feel the tax/regulatory regime in the UK is currently the best in Europe.

In total, 15% of respondents felt that Switzerland had the best tax regime in Europe (which included, relatively speaking, a large proportion of respondents based outside Switzerland). This could be explained in part by Switzerland's corporate tax rates, which tend to be lower than most other parts of Europe. Taking into account federal and cantonal taxes, the effective corporate tax rates are typically between 13% and 22%.

France and Germany also feature prominently on the list of the best tax and regulatory regimes. This may reflect the relatively high level of expenditure in those countries on R&D activities and (in the case of France) tax credits given for such expenditure.

## Which country in Europe has the best tax/regulatory regime? (%)



# ACCESS TO FINANCE:

## How does the current credit/finance environment affect growth?

How is the current credit/finance environment affecting growth in the sector? (%)



**Against the backdrop of the current financial crisis, in which liquidity and bank lending have been severely limited, it is perhaps surprising that there is a prevailing optimistic view about current and future potential growth within the European technology sector. Such an upbeat outlook may be attributed, in part, to the recognition of the EU that SMEs are key to the recovery of the European economy.**

In an effort to promote the growth and sustainability of technology businesses both the EU and individual member states have proposed the implementation of a number of measures and initiatives which encourage and facilitate

investment by and in SMEs. This is to be achieved by, for example, reducing the regulatory burdens on smaller businesses as well as an initiative under the Programme for the Competitiveness of Enterprises and SMEs, which includes €1.4 billion of new financial guarantees in order to promote access to loan capital. These strategies form part of a wider European strategy (Europe 2020) designed to maintain and underpin growth across the region as a whole over the next decade. The European Investment Bank has also recently stated its intention to maintain its SME loan activity at 2011 levels (approx. €10 billion).

In the UK, the Government has announced its intention to implement, early in 2012, the National Loan Guarantee Scheme. This scheme intends to facilitate banks to raise up to £20 billion of funding (guaranteed by the Government) in order to lend to businesses at a lower cost than would otherwise be possible. Whilst some commentators question the likely effectiveness of the proposed measures and whether they are far reaching enough to improve the current state of affairs, (or indeed whether they actually achieve what they aim to), it is likely that the proposed measures have instilled a degree of confidence that there is life in the sector yet.



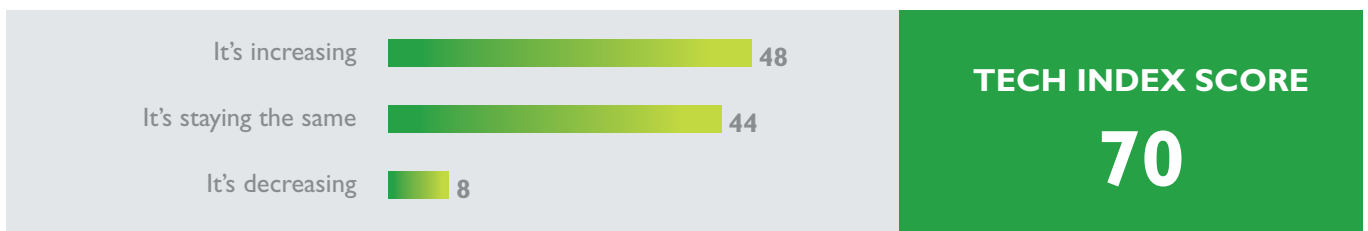
Against the backdrop of the current financial crisis, in which liquidity and bank lending have been severely limited, it is perhaps surprising that there is a prevailing optimistic view about current and future potential growth within the European technology sector.



# ACCESS TO TALENT:

## What is happening to the number of talented candidates available for hire?

How would you rate the availability of talented candidates for hire in your sector? (%)



**There is broad agreement across the survey from respondents that there is no shortage of talented candidates. 44% of respondents say that the number of candidates available for hire remains the same whereas 48% say it is increasing.**

Although the availability of a wide pool of talent is positive news for the sector, it remains crucial that employers have in place a recruitment strategy which enables them to come out ahead in the battle for the top tech talent. Having plenty of candidates to choose from is one thing, recruiting and retaining the right person is another. The remuneration package and additional employment benefits on offer are always important but these are not the only factors which influence an individual's decision to join or stay with an organisation. Other points to consider are ensuring a good fit between job requirements and skill set; working hard from the outset to engage new starters in the organisation; focusing on creating a good work-life balance for staff and ensuring there is plenty opportunity for development and promotion.

Many individuals in the technology sector operate not as employees but as independent contractors. This has benefits both for the contractor and for the business engaging them. However, the viability of arrangements of this type must be revisited in view of the provisions of the Agency Workers Regulations (AWR), in force from 1 October 2011. The AWR provides agency workers with rights to employment conditions equivalent to those that would apply if they were employed on a permanent contract, after just 12 weeks service. High-end contractors were never the intended target of this legislation, which is to protect vulnerable low paid workers, and many will want to remain outside the legislation's scope to enable them to continue to earn more than their permanent counterparts. To avoid alienating candidates, companies need to keep pace with developing market practices in the freelance sector which aim to keep contractors' arrangements outside the AWR and which will allow both sides to continue to enjoy the flexibility of the contractor model.

“ There is no shortage of talented candidates. 44% of respondents say that the number of candidates available for hire remains the same whereas one half (48%) say it is increasing.

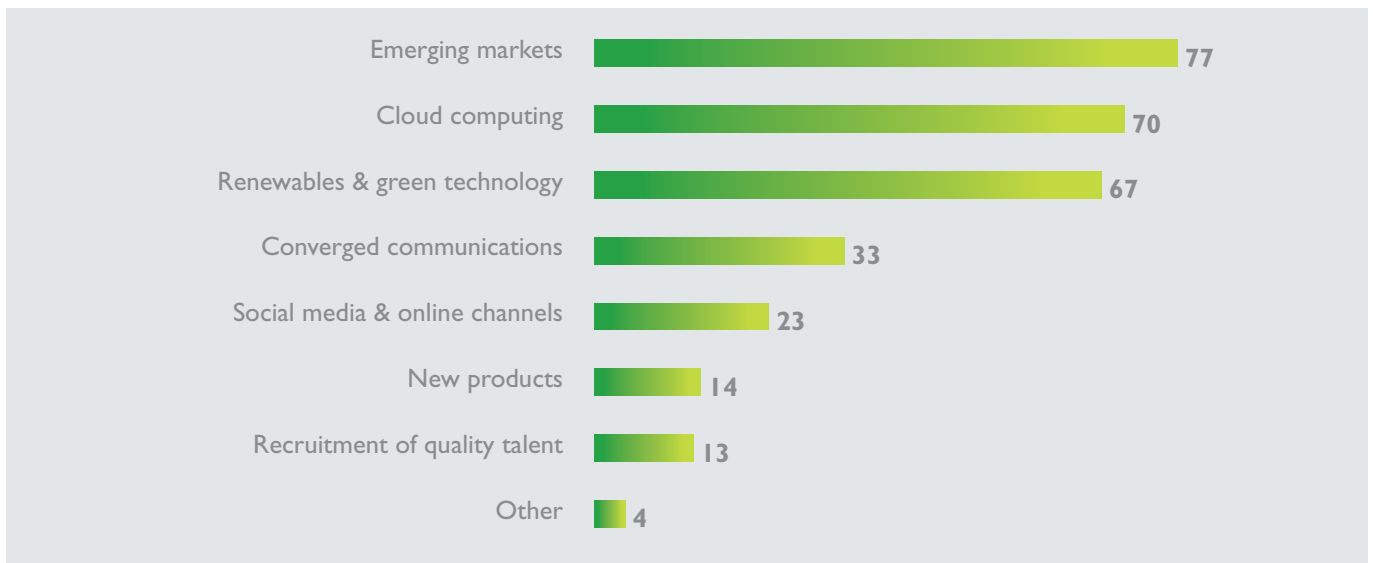
“ To avoid alienating candidates, companies need to keep pace with developing market practices in the freelance sector.”

# POTENTIAL AREAS FOR GROWTH

When asked to rank the areas that offer the most potential for future growth in the technology sector respondents indicated that the top three were:

1. Emerging markets (77%)
2. Cloud computing (70%)
3. Renewables & Green technology (67%)

## Respondents were asked to rank their top three areas for potential future growth (%)



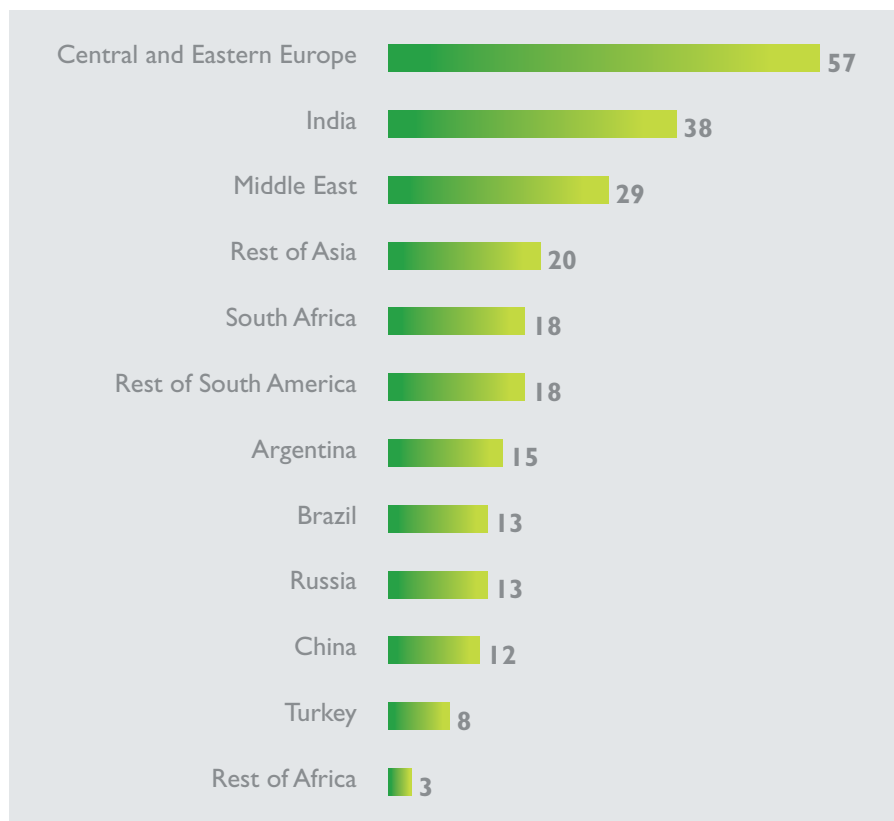
Perhaps surprisingly, social media and online channels and converged communications lie in fourth and fifth place, respectively, with new products and recruitment of quality talent receiving very few nominations.

We asked respondents further additional questions to explore their views on the opportunities for growth in each of these areas and set out those findings on the following pages.

## Areas for growth: emerging markets

The respondents that ranked emerging markets as a top three area of potential growth, were also asked which countries offered the greatest potential for their business and where they felt there is an opportunity within these markets.

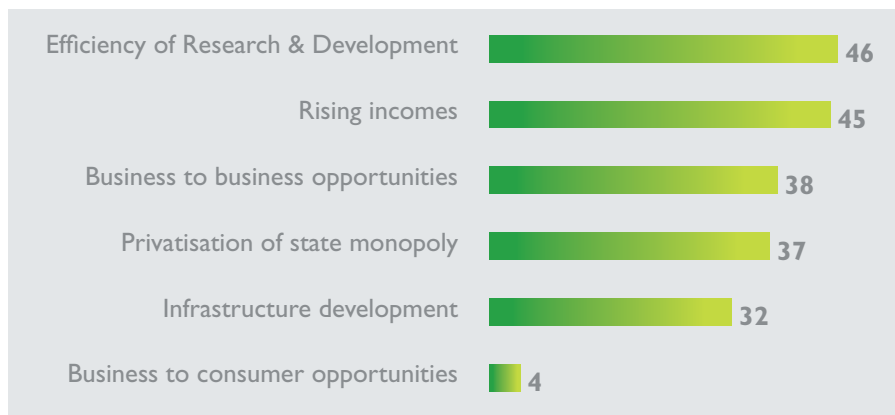
### Emerging markets with greatest growth potential in the next three years (%)



With gloomy predictions hanging over “old world” markets, attention has turned more sharply than ever to the potential for growth and expansion in emerging markets. Emerging markets have not escaped unscathed from the global financial crisis (for example, in the past year growth in the “big four” emerging markets; China, Brazil, India and Russia has slowed), but growth still outstrips that in the US and Europe.

When asked to rank which economies offered the greatest potential for growth, respondents cited Central & Eastern Europe (57%), South America (46%), India (35%), Middle East (29%), China (12%). It is interesting that despite China’s unprecedented growth over the last few years its ranking is so low. This may reflect the challenges of securing IP protection rights that are so important to large technology businesses.

### Areas of greatest opportunity within identified emerging markets (%)



When it comes to opportunities for growth in emerging markets, the focus is often in the mobile technologies market.

- Governments in emerging markets are investing heavily in telecoms infrastructure. This is particularly evident in South East Asia, where the Indonesian Government has committed significantly to telecoms and IT infrastructure spending.
- China and other BRIC countries are increasingly involved in financing projects. There is a sharp contrast to the unwillingness of US and European investors to participate in large scale telecoms projects.
- The increased usage of smartphone technology in developing countries sees operators such as Orange launching new ranges of affordable devices featuring social networking integration specifically designed for emerging markets, where consumer demand for devices is high but disposable income is low.
- Innovative technologies are being rolled out specifically for the development market such as M-PESA in Kenya, a mobile based money transfer service which has subsequently been rolled out in Tanzania, Afghanistan, South Africa and latterly India.



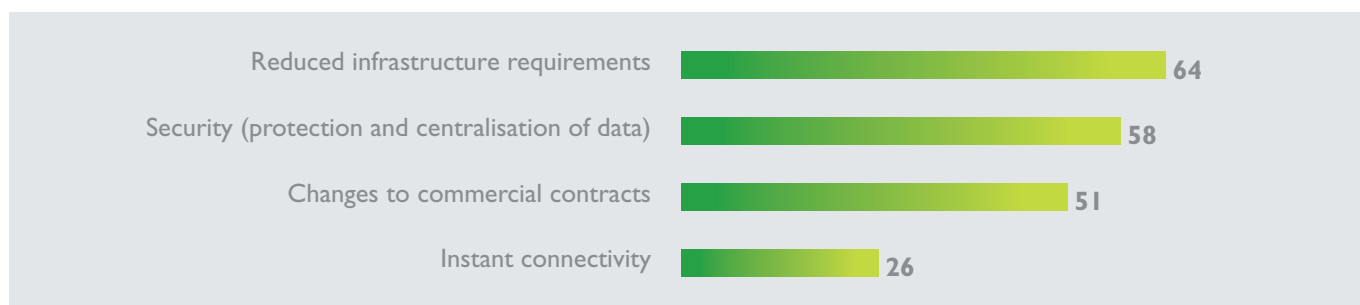
**China and other BRIC countries are increasingly involved in financing projects. This is sharp contrast to the unwillingness of US and European investors to participate in large scale telecoms projects.**



## Areas for growth: cloud computing

The respondents that ranked cloud computing as a top three area of potential growth, were also asked which areas would most drive their company's adoption of cloud computing, and what would be the key benefits and potential drawbacks for their business.

### Features that will drive the adoption of cloud computing (%)



In the recent past, cloud computing has become one of the most used buzz words in the IT industry. Besides its technical and economic aspects, legal issues of this new business model have been intensively discussed.

The debate has been around for a while now, but only recently it has become apparent that cloud computing is not just another hype but a true paradigm shift for the IT sector and experts are confident that the market for cloud services will grow significantly in the next few years.

There are obvious and immediate benefits to cloud computing - lower implementation and infrastructure costs, greater flexibility to take on new services where required and ramp up volume on a utility model.

This is reflected in the survey. 61% of respondents say the cloud is helpful because it will support the creation of more flexible business models, whilst 56% see its ability to generate a fast return on investment as a major advantage.

The ability of cloud providers to demonstrate hands-on successful cloud computing projects, together with the enthusiasm with which the consumer market has taken to the cloud, has put real pressure on corporates to adopt cloud within their traditionally 'closed' operating environments.

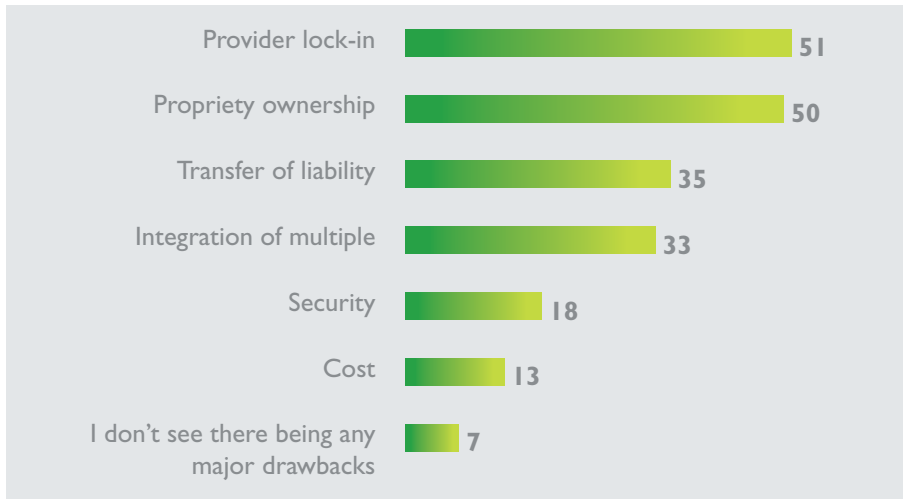


The corporate market has been slow to adopt the new technology. Legal concerns have certainly played a role in this. CIOs are rightly concerned about the implications of transferring corporate data into the cloud - not knowing exactly where the data sits.



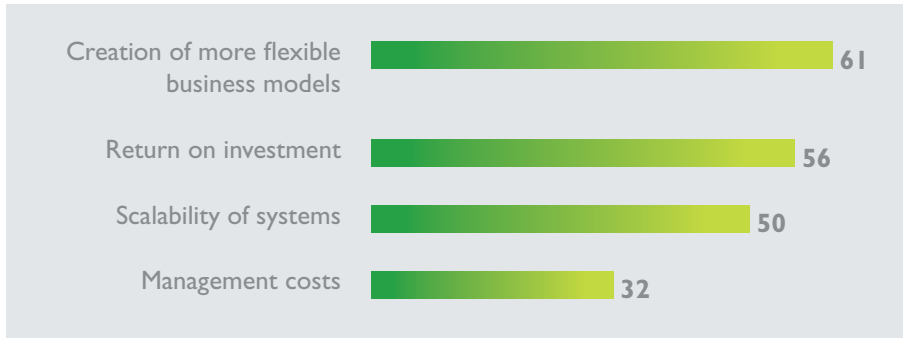
In reality, the corporate market has been slow to adopt the new technology. Legal concerns have certainly played a role in this. CIOs are rightly concerned about the implications of transferring corporate data into the cloud - not knowing exactly where the data sits, who may access it and where it may be transferred. This explains why half of respondents identify provider lock-in (51%) and proprietary ownership (50%) are still the biggest drawbacks to cloud technology.

**Potential drawbacks of cloud computing (%)**



It is interesting that these concerns are being gradually overcome and respondents cite reduced infrastructure requirements (64%) and resolution of security issues (58%) as key drivers to cloud adoption.

**Key benefits of cloud computing (%)**



## Areas for growth: renewables and green technology

**The respondents that ranked renewables and green technology as a top three area of potential growth, were also asked what will most drive their company's adoption of green technology and the key benefits and biggest potential drawbacks of this technology for their business.**

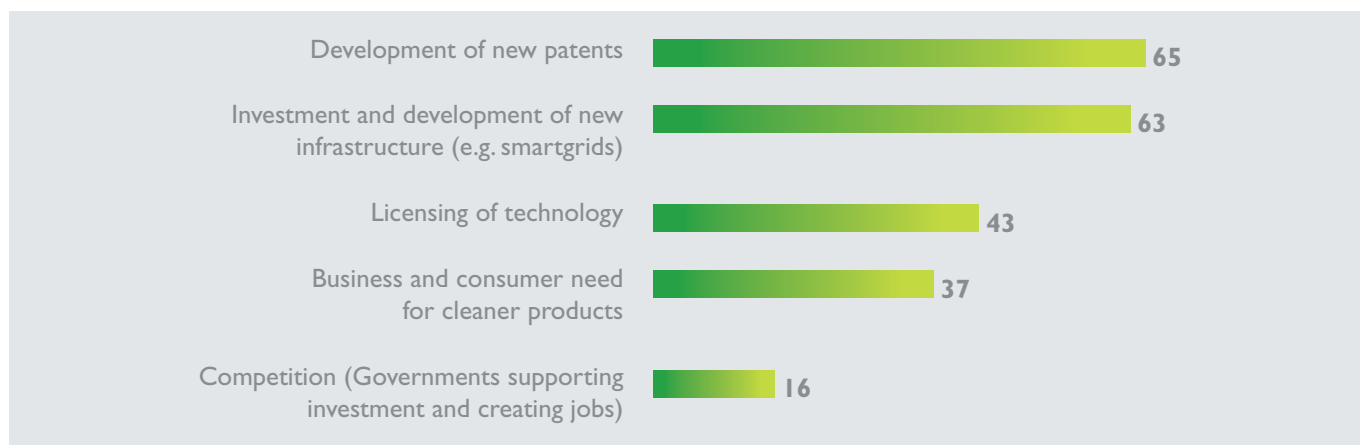
Europe is currently a significant market for green technology. The United Nations Kyoto Protocol, the European Union Climate Change Package and a range of legislative instruments have been implemented to regulate areas such as energy, biodiversity, waste management and air quality. These initiatives should transform Europe into a highly energy-efficient, low carbon economy.

The EU Directive on 'the promotion of the use of energy from renewable sources' places specific obligations on Member States to build infrastructure for energy from renewable sources, whilst recent legislation enables car manufacturers to receive CO2 emission credits if they fit new cars with approved 'eco-innovations' that contribute to significant CO2 savings.

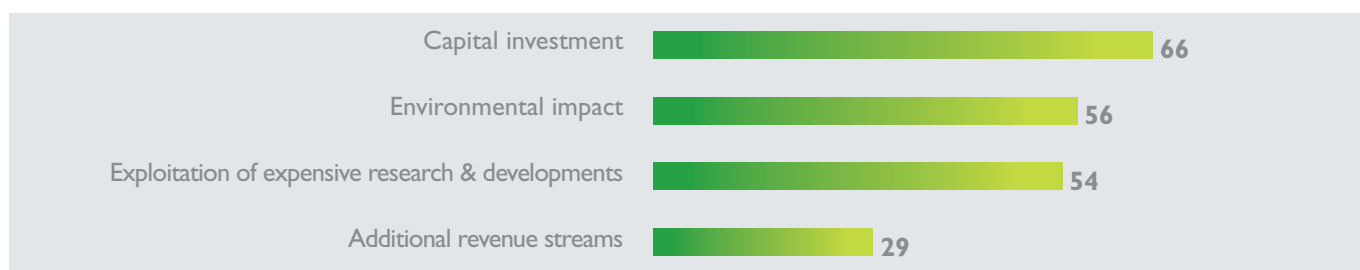
Businesses that are able to deliver new technology to respond to this market will find lucrative opportunities and the high rating of clean technology by our respondents acknowledges this potential.

It is interesting that two thirds of respondents cite new patents (65%) and investment and development of new infrastructure (63%) as key drivers in the adoption of green technology, whilst a similar number (66%) see capital investment as the key benefit in adopting this technology.

### Features that will drive respondents adoption of green technology (%)



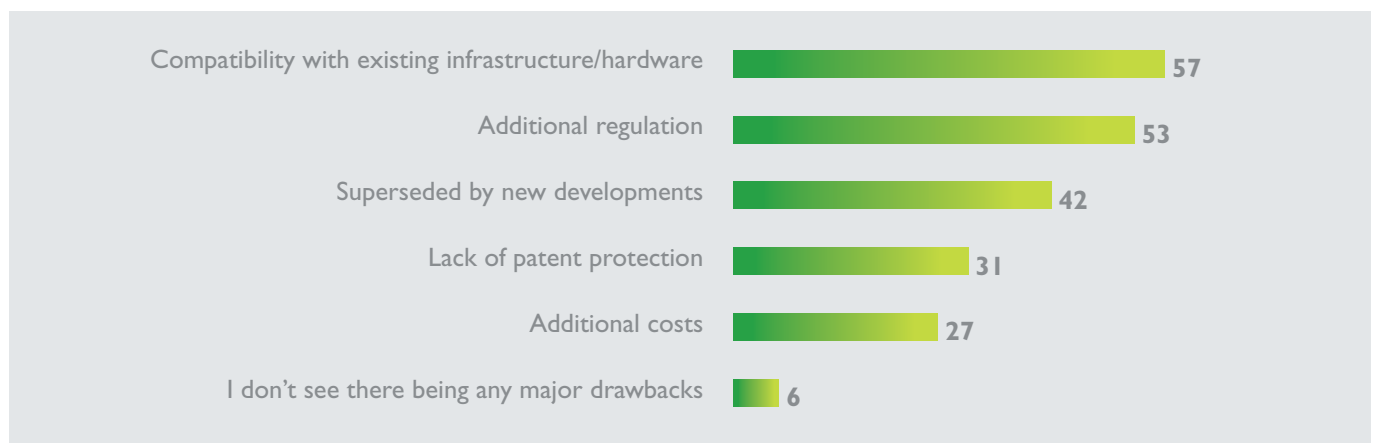
### Key benefits of green technology for business (%)



A business which is able to patent green technology successfully, creating an industry standard, will be able to leverage those patents effectively and derive significant business benefits.

While many firms invest in sustainable practices as a “check box” activity, the technology industry is viewing the ability to monetize green technology as a core advantage.

### The biggest potential drawbacks of green technology for business (%)



A business which is able to patent green technology successfully, creating an industry standard, will be able to leverage those patents effectively and derive significant business benefits.



## Areas for growth: converged communications

**The respondents that ranked converged communications as a top three area of potential growth, were also asked what were the benefits and which markets and areas would provide the most growth potential.**

Converged communications is now a part of everyday life. For consumers, traditional mobile phones have been replaced with smartphones and tablets, whilst businesses are seeking new ways in which to harness the benefits of unified communications. Indeed, research has indicated that approximately two thirds of businesses are seeking to move towards some form of unified communications.

We believe key trends in 2012 will be:

- **Consumer driven change:** analysts believe that consumer expectations on use of technology will drive further developments in the use of technology in the workplace. To date, the particular focus has been on integrated messaging, tele-presence and voice over IP (VOIP). Use of instant messaging and video conferencing will continue to

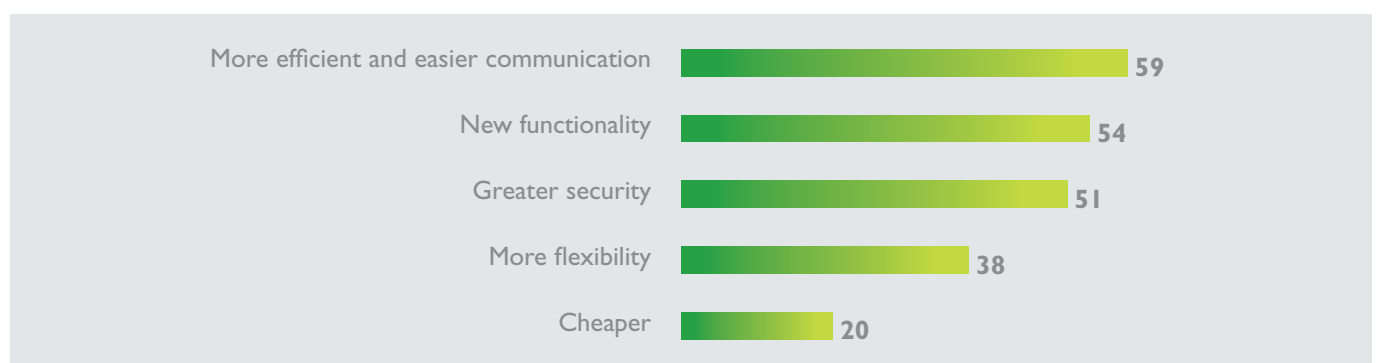
grow with businesses seeking to fully integrate communications into the existing IT environment.

- **Emerging markets:** converged solutions are ideally suited to emerging markets which typically lack the requisite fixed line infrastructure to rely on more conventional IT solutions. Integrated smartphone devices sold at affordable prices will bridge that gap between the developed and the developing IT markets. In 2011, Orange launched a new range of affordable devices featuring social networking integration specifically designed for emerging markets where consumer demand for devices is high but disposable income is low.
- **Cloud offering:** as outlined earlier in this report, the cloud is perfectly suited to converged communications, offering scalable and cost effective

solutions. Many businesses are offering hybrid deployments of cloud and converged communications services such as conferencing, instant messaging and video.

- **Social media integration:** organisations (including DLA Piper) are embracing social media as a means of communicating with and creating a virtual community within the business. The use of Facebook, Twitter and other blogging platforms is now common place. The advantage is obvious, a quicker, more efficient and flexible way to communicate to employees which are familiar to them already. Social media applications are cost effective and easy for business to deploy and customise.

### The benefits of converged communications (%)



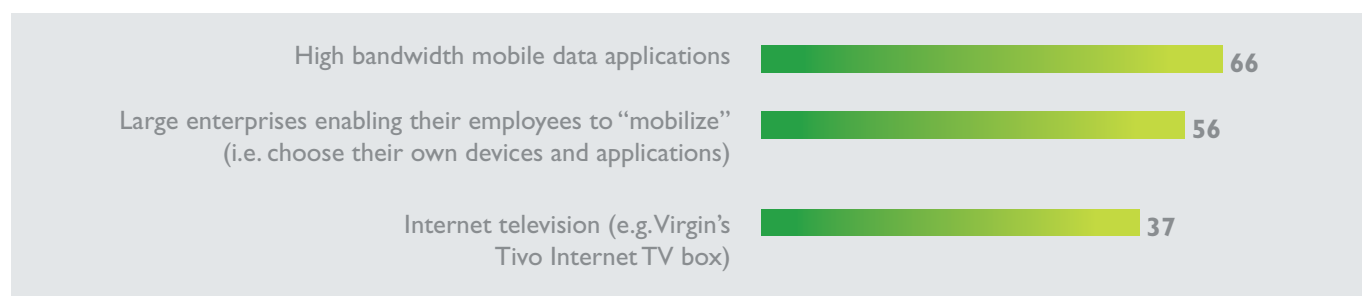
Despite the complexity of converged communications and the impact on businesses that have to adapt to these changes, respondents placed converged communications as only the fourth area for growth. Another reason why converged communications is only fourth is perhaps because there has already been significant growth in this area for leaders in technology and thus, they view the potential for growth as less.

### Who offers the most growth potential in converged communications (%)



The majority of respondents (66%) believed that high bandwidth mobile data applications will be a key area of converged communications, but 56% said that large enterprises that enable employees to “mobilize” will be key. This “consumerisation” of devices has historically been a challenge for corporates, as legacy IT systems work to keep up with the speed of IT innovation. However, our respondents believe that arming employees with their chosen technology, will create growth in converging communications.

### Key areas of the converged communications market (%)



## Areas for growth: social media and online channels

**The respondents that ranked social media and online channels as a top three area of potential growth, were also asked where they will see growth, who will benefit from this growth, which channels will offer the greatest access and what are the limitations.**

The initial version of the Internet was arguably all about pages - web pages, as we first moved online - but that the second, Web 2.0, was all about people. That may be a simplification. The earliest bulletin boards and forums were always about social interaction and yet, it is certainly true that online life in the last five years has been dominated by the rise of social networks and user-generated content. The sheer scale of those platforms is impressive: Facebook claims 800 million users worldwide in 70 different languages, Twitter users send a billion tweets a week.

Unsurprisingly volume of use has stimulated a wide range of legal and regulatory activity. Examples range from

defamation cases and breach of privacy claims, through to regulator action against sponsored tweets, and the issuance of social media guidance for listing rules and investor relations.

Employment law issues, such as ownership of online contacts and controlling employee communications, have often featured: something addressed in the DLA Piper Shifting Landscapes report, *Knowing your tweet from your trend - keeping pace with social media in the workplace*.

Arguably the full impact of social media has yet to be felt in some sectors. Commercial questions about its true value in, say, direct advertising remain and its effect on television, as traditional

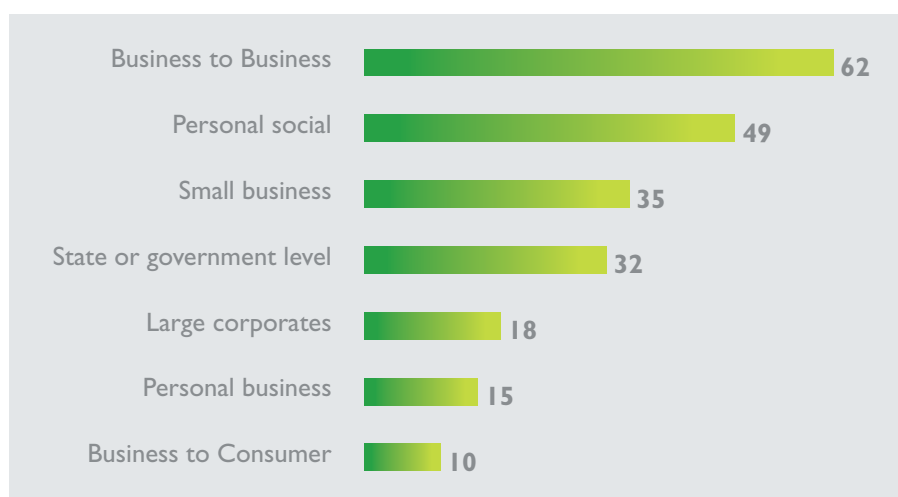
broadcast merges with online video, is not fully developed or understood. Accordingly the media liability issues we explored in another of our Shifting Landscapes reports *Social media - new laws for new attitudes* will likely provide future challenges. Just as that report itself showed the impact that recent "troll" prosecutions, Wiki-leaks exposures and Twitter scandals may have had to date.

Although social media has taken the corporate market by storm in the last few years by offering the ability to communicate with employees, customers and other stakeholders in new and innovative ways, our respondents have ranked it only as the fifth area for growth in technology.

Perhaps this is due to technology executives being early adopters of social media innovation and, whilst other industries are still identifying how to capitalise on these new communication channels, technology pundits have mastered social media use already.

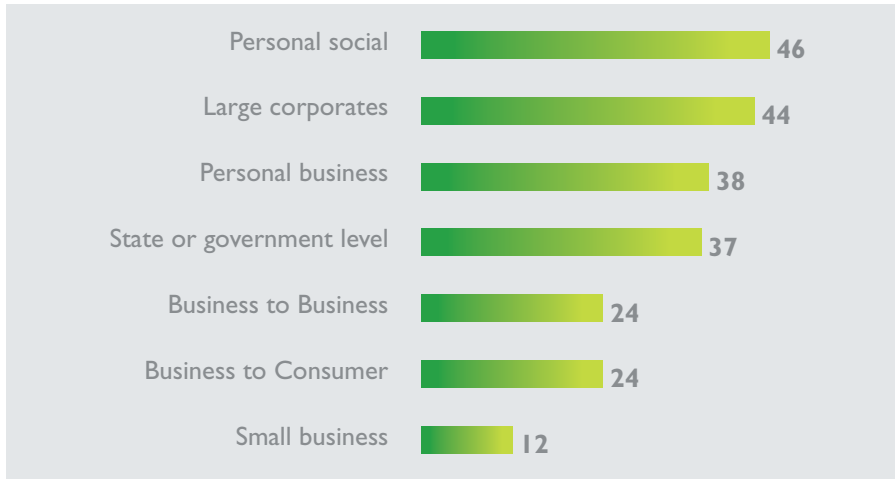
Whilst consumers have driven adoption of social media and almost "everyone" has a Facebook, Twitter or LinkedIn account, 62% of respondents believe that now is the time for businesses to drive further social media use.

### Areas of growth potential within social media (%)



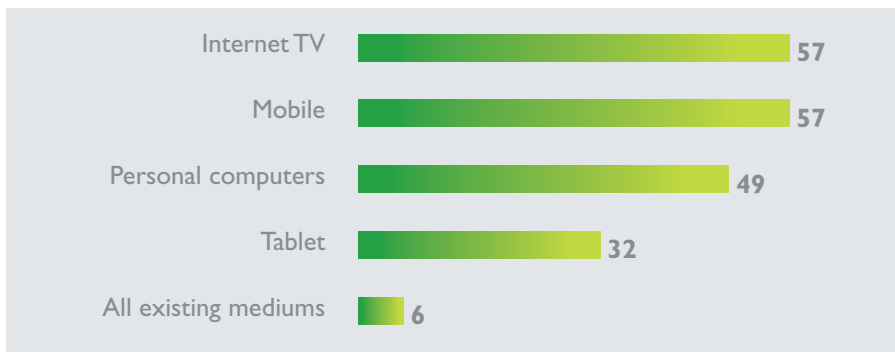
However, 46% of respondents believe that consumers will benefit most from the growth of businesses engaging in social media activity, whilst 44% believe large corporates will be the key beneficiaries.

**Who will see the benefit of social media growth? (%)**



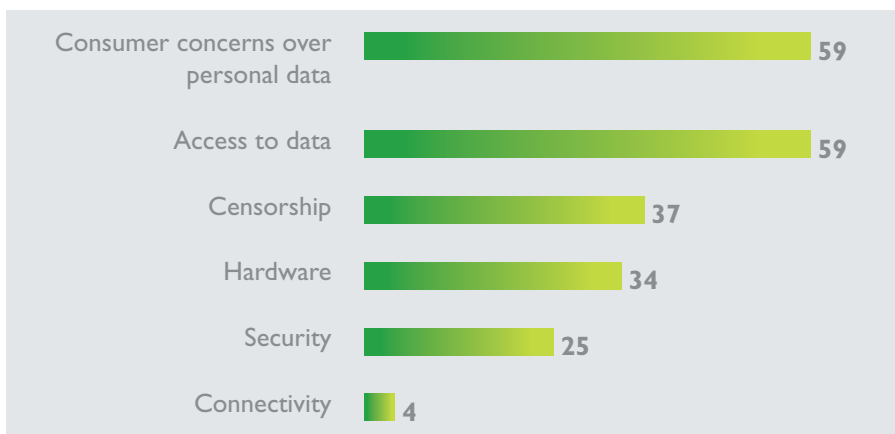
At 57%, both Internet TV and Mobile are seen as being the most adopted channels for social media growth, with only 49% seeing personal computers being used.

**Which channels will offer greatest access to social media? (%)**



It is interesting to see that concerns over personal data and access to data (59%) are high on the radar of our respondents as a limitation to further roll out.

**What could create limitations for social media and online channels? (%)**



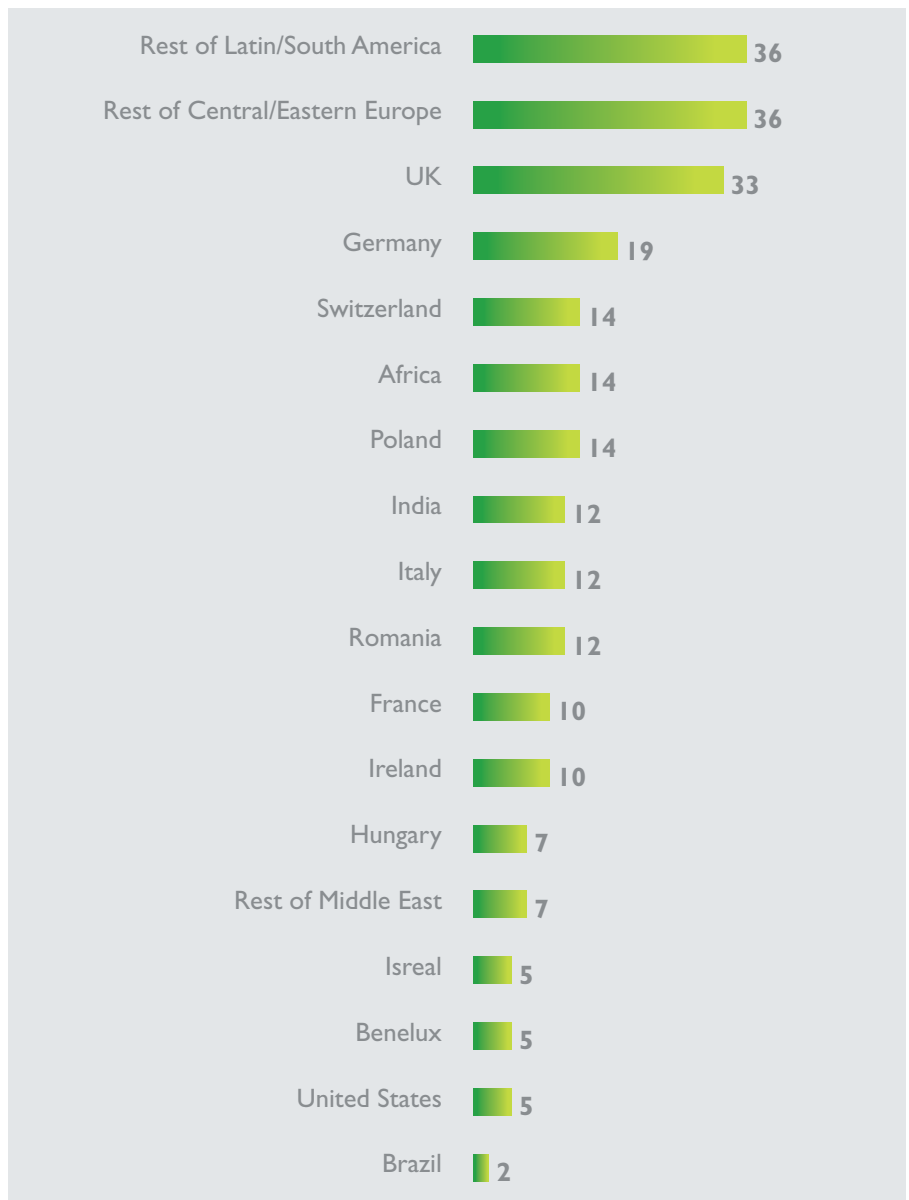
## Areas for growth: new products

**Innovation is a key element in the development of new products and technologies. In today's intense and competitive market companies are involved in an array of activities to ensure their products are at the forefront of the market. In recent years the fast and high profile development of smartphone technology demonstrates this.**

In today's business climate a company's product differentiation and new product development are vital in ensuring survival in such an expeditious industry. As one respondent says "the current market situation requires us to consistently update our existing products and invest into new products that can give us sustainable market value". It is not only consumers demanding the best technologies, investors – both individual and institutional – want technology executives to continuously bring new products to their portfolio.

36% of respondents suggested that Latin/South America, and 36% of respondents suggested Central/Eastern Europe offer the greatest business potential for new products. The attraction of Eastern Europe's lower operating and human capital costs, as well as close access to Western European infrastructure may explain why the region appeals for product development and innovation. The appeal of Eastern Europe is by no means recent, Skype's software development started in Tallinn, Estonia. While internet infrastructure and network communications is developing, the growth prospects look promising.

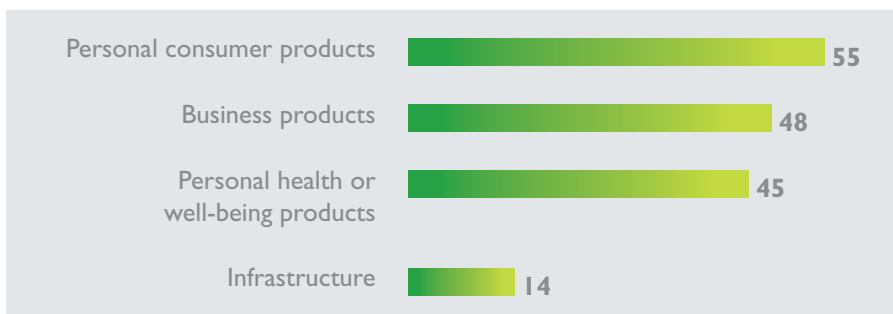
### Which countries/regions offer the greatest potential for growth for new products? (%)



Similarly, the growth potential in Latin/South America is promising. Telecommunications is a growing industry in Spanish-speaking South America. As infrastructure develops and technologies stabilise, technology will play a key role in contributing to economic growth. While there is still work to be done in bridging the gap between those using cutting edge IT and those with non-existent IT systems, financial institutions are just one of many that will benefit from technological development.

The development of new products was ranked sixth as an area for growth with 55% of respondents stating that personal consumer products would be the front runners in this area and 48% suggesting that business products will benefit from new products and technologies most.

### Greatest growth potential for new products (%)



Overall, respondents think that competition is key and that “bringing a new product to the market gives us the chance to stay one step ahead of our competitors.” In addition, respondents want to remain close to customers and said “innovative business products for corporate clients ensure longer lasting relationships.”



The current market situation requires us to consistently update our existing products and invest into new products that can give us sustainable market value.



Innovative business products for corporate clients ensure longer lasting relationships.



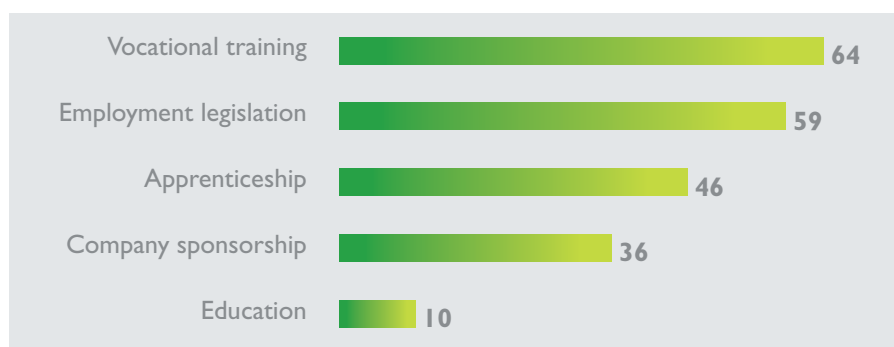
## Areas for growth: recruitment of quality talent

**The respondents that ranked recruitment of quality talent as a top three area of potential growth, were also asked what areas needed to be improved to raise the quality of talented staff and how to retain talented staff.**

Overall, problems in accessing quality talent is seen as the least critical area for supporting growth in the technology market.

Of those who do identify the need for an enhanced pool of talent to support growth, 64% believe enhanced vocational training is required to raise the level of quality talent in the market and 59% looked to legislation to deliver this.

### Areas of improvement to raise quality of staff (%)



Rather than deterring employees from leaving, employers should focus their efforts on encouraging their key talent to remain with their business.



Surprisingly, 64% of those who ranked talent as an important area considered restrictive covenants to be the best method of retaining staff. 62% considered long term incentive plans the best method, whilst 46% cited share incentives and 21% remuneration. These results appear to demonstrate a misconception in the sector as to the ease with which post-termination restrictions can be enforced against departing employees. In several European jurisdictions, an employer wishing to rely on a contractual provision restricting an employee from competing post-termination must continue to pay the employee for the duration of the restriction. In Germany and Belgium, the amount payable each month is 50% of the monthly salary as at the termination date. In other

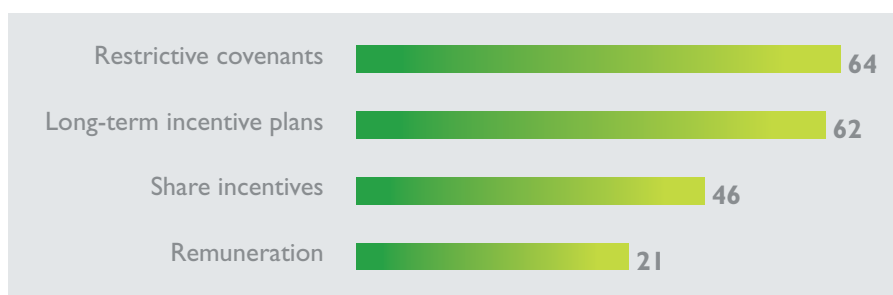
jurisdictions, such as Italy and Spain, the amount of compensation is required to be "adequate" or "fair" which leaves considerable scope for interpretation. In the UK, although an employer is not required to pay compensation for the duration of a non-compete restriction, provisions of this type are notoriously difficult to enforce and the litigation required to achieve enforcement is both costly and time consuming.

In view of these limitations, covenants are best viewed not as a means of retaining staff but instead as a means of deterring unfair competition, should the need arise, after employment ends. Once an individual decides to leave their current workplace, they are unlikely to be put off doing so by technical contractual provisions which, in many jurisdictions,

the former employer will have an uphill struggle to enforce. Rather than deterring employees from leaving, employers should focus their efforts on encouraging their key talent to remain with their business and this can be achieved by a well-planned and implemented employee retention strategy. Such a strategy will ensure that key staff are motivated by expanding roles and regular challenges, are recompensed with appropriate financial incentives, and are engaged in the business by the opportunity to be involved in strategic planning and by a strong leadership.

A significant proportion of respondents (72%) said that leadership is the key factor to encourage an entrepreneurial spirit amongst employees.

### Which methods are best to retain talented staff (%)



# APPENDIX:

## Methodology and respondent profile

DLA Piper commissioned Coleman Parkes Research to conduct this study in January 2012, using our expertise to examine views on the current climate across core business areas and future growth areas within European businesses.

### RESPONDENT BASE

300 interviews were conducted online with executives from key European technology firms, members of the investment community with a technology focus and finally Government officials focused on technology policy making. All interviews were carried out in the respondent's local language, within organisations with more than €10 million annual turnover:

Country	Company type			No. of interviews
	Technology companies	Investors	Government/Regulatory companies	
UK	33	33	9	75
France	19	26	10	60
Germany	25	26	9	60
Spain	10	10	5	25
Italy	9	11	5	25
Netherlands	6	8	4	18
Belgium and Luxembourg	10	8	4	22
Switzerland	7	7	1	15
<b>Total no. of interviews:</b>	<b>124</b>	<b>129</b>	<b>47</b>	<b>300</b>

Figure 1 – Sample breakdown by country and company type

Respondent job functions varied by industry and focused on decision makers of technological advancement, policy and business issues and across various company sizes and revenues.



Figure 2 – Sample breakdown by job title (%)

## METHOD

All surveys were conducted under the MRS code of conduct. The results were then collated and provided a weighting to align them to create DLA Piper's first Tech Index.

## TECH INDEX METHODOLOGY

The actual index itself is based on a diffusion index. A score for each of the first seven technology index questions (focused on regulation, tax, financing, talent and IP) was generated using the calculation below.

$$\text{INDEX} = (P1 * 1) + (P2 * 0.5) + (P3 * 0)$$

P1 = Percentage number of answers that reported an improvement.

P2 = Percentage number of answers that reported no change.

P3 = Percentage number of answers that reported a deterioration.

Thus, if 100% of the panel reported an improvement the index would be 100.0. If 100% reported a deterioration the index would be zero. If 100% of the panel saw no change the index would be 50.0 ( $P2 * 0.5$ ).

Therefore, an index reading of 50.0 means that the variable is unchanged, a number over 50.0 indicates an improvement while anything below 50.0 suggests a decline. The further away from 50.0 the index is, the stronger the sentiment. E.g. a reading of 55.0 points to a stronger increase in a variable than a reading of 52.5.

As each factor (regulation, tax, financing, talent and IP) has a different level of impact upon the growth of the technology sector, once each individual score has been calculated each have the following weighting applied:

- Regulatory = 20%
- Tax = (10%+10%) 20%
- Financing = (15%+10%) 25%
- Talent = 10%
- IP = 25%



**EVERYTHING MATTERS**

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Our IP & Technology Group is made up of specialist intellectual property, technology telecoms, media, sport and commercial lawyers. We have an unrivalled understanding of the converging technology, media and sport sectors and offer a unique, global full-service capability. With more than 400 dedicated lawyers, including 120 partners, our group is recognised worldwide by legal directories and industry members as one of the leading groups of its kind.

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