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ENTREPRENEURIAL ECOSYSTEMS AND GROWTH-ORIENTED ENTREPRENEURSHIP

SUMMARY REPORT OF AN INTERNATIONAL WORKSHOP ORGANISED BY THE OECD AND THE NETHERLANDS MINISTRY OF ECONOMIC AFFAIRS

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Background

The OECD Local Economic and Employment Development (LEED) Programme and the Netherlands' Ministry of Economic Affairs organised on 7 November 2013 a workshop on "Entrepreneurial Ecosystem and Growth Oriented Entrepreneurship", hosted at the ministerial headquarters in The Hague. This topic is of key interest to the OECD, the Dutch Ministry of Economic Affairs and to policy makers in a range of countries, who are all seeking to improve their understanding of what makes for strong entrepreneurial ecosystems capable of supporting ambitious entrepreneurship and what is the role of governments and development agencies at national and local levels.

The Dutch government is concerned with what it perceives as a paradox; i.e. the number of entrepreneurs in the country's population is high by international standards, but the number of growth-oriented firms is relatively low. One of the possible reasons underlying this paradox is that the Netherlands' entrepreneurial ecosystem may not be sufficiently geared towards business growth.

The OECD LEED Programme is also pursuing an agenda of international comparative work on high-growth firms (HGFs) and policies, which has included previous international workshops on High-Growth Firms: Local Determinants and Local Policies and Leadership and Management Skills in High-Growth Firms, together with associated analytical papers. Through this workshop the OECD was keen to expand its holistic understanding of what can facilitate the emergence of ambitious entrepreneurs in the local actors and connections that surround them.

Defining entrepreneurial ecosystems

The concept of the entrepreneurial ecosystem is relatively new amongst both academics and policy makers. In the background paper prepared for the workshop, Prof. Colin Mason and Dr. Ross Brown define an entrepreneurial ecosystem in the following way:

"*A set of interconnected entrepreneurial actors (both potential and existing), organisations (e.g. firms, venture capitalists, business angels and banks), institutions (universities, public sector agencies and financial bodies), and processes (business birth rate, rate of HGFs, number of serial entrepreneurs and* *blockbuster entrepreneurs, and levels of entrepreneurial ambition and sell-out mentality in the society) which formally and informally coalesce to connect, mediate, and govern the performance within the local entrepreneurial environment*".

The concept of "entrepreneurial ecosystem" is, therefore, holistic and interactive in nature, thus recalling concepts such as clusters, industrial districts, local innovation systems, and learning regions, which have been shaping local economic development policies. Common to all these approaches is the belief that business performance depends not only on the internal behaviour of firms (e.g. the skills of the workforce, the level of investment in innovation, marketing and internationalisation strategies, etc.), but also on the quantity and quality of interactions with external stakeholders (i.e. firms, investors, public sector organisations, universities and research institutes, etc.) and on the way such interactions are orchestrated.

What makes the "entrepreneurial ecosystem" approach distinctive from these other approaches is that it places the entrepreneur at the centre. Hence what is analysed is the ability of the local environment to support ambitious entrepreneurs, rather than innovation or economic development more generally. Furthermore, entrepreneurs are not seen just as the outcome of a healthy ecosystem but as key players in generating and maintaining it. The role of the government is simply to facilitate.

Entrepreneurs as key drivers of the ecosystem

The background paper and several of the workshop presentations stressed three roles for the entrepreneur as the lynchpin of entrepreneurial ecosystems: i) early successful entrepreneurs can kick off a sound local entrepreneurial ecosystem; ii) private sector entrepreneurs are among the most important connectors and dealmakers who keep the ecosystem together (they are the "glue" of the ecosystem); iii) entrepreneurs are the key figures in "start-up communities" where entrepreneurship development is a bottom-up process, rather than one imposed or even incentivised from the top (i.e. the government).

The role of early successful entrepreneurs

In many presentations and in a good part of the (still scant) existing literature, the importance of early successful entrepreneurs for the take-off of a strong local entrepreneurial ecosystem has frequently been stressed.

Daniel Isenberg (2011), for example, reports how just a small number of successes can have a major impact on an ecosystem and how it evolves over time; what he calls "the law of small numbers". The reason is that successful entrepreneurship has spillovers that benefit the ecosystem through the emergence of role models, equity investors, advisors, professional services, serial entrepreneurs and board members.

In a similar vein, the Danish think-tank FORA talks of "blockbuster entrepreneurs", who grow successful entrepreneurial firms up to an exceptional size and create significant wealth (Napier and Hansen, 2011). Many of these blockbuster entrepreneurs re-invest their experience and wealth back into the local ecosystem as mentors, investors or serial entrepreneurs. Examples of blockbuster entrepreneurs are the people behind Starbucks in Seattle, Dell in Austin or Novo in Copenhagen's pharmaceutical sector. Together with established businesses and dedicated investors, FORA also recognises the importance of knowledge institutions (mainly as a source of skilled labour force rather than of direct collaboration with firms) and specialised service providers (e.g. lawyers, accountants and business consultants) as main contributors to the success of an entrepreneurial ecosystem.

Mason and Brown's principle of "entrepreneurial recycling" is akin to that of blockbuster entrepreneurship. They focus on cashed-out entrepreneurs who re-invest their returns by becoming business angels, launching a venture capital fund or setting up another business. However, for this positive cycle to get off the ground, "small exits" need to be avoided, i.e. the premature sale of companies out of a local or national economy that restricts financial returns and learning experiences not only to the local management team, but also to the ecosystem as whole. From this viewpoint, keeping a fast-growing firm anchored to the local economy is important at least until "sufficient" financial returns and learning experiences have accrued to the entrepreneurial ecosystem.[1]

The role of dealmakers/connectors

Dealmakers and connectors are often defined in the existing literature as the "glue of the ecosystem", who make networks possible and keep the ecosystem together. They can be existing or former entrepreneurs, experienced management teams or investors. These people are connected to or make connection with other firms in the ecosystem to bring them advice, resources and additional networks. Relationships involving dealmakers can be both informal and formal, for example taking an equity stake in a company.

In trying to assess the strength of an ecosystem, FORA has developed the following operational definition of dealmaker: "a dealmaker is an accomplished actor with serial venture experience in establishing new entrepreneurial firms and who has fiduciary responsibility for three or more entrepreneurial firms at the same time. Dealmakers also play a central role in mediating and shaping local entrepreneurial networks to share information, expertise and resources between entrepreneurs and investors, thus facilitating start-up creation and business development". From this viewpoint, dealmakers are therefore primarily serial entrepreneurs who have also turned into equity investors and originators of further networks.

In some of the existing literature, however, there is also reference to more traditional types of organisations as possible dealmakers, including accelerators, incubators, business associations and entrepreneur networks. More often than not, however, business incubators and accelerators are not seen as public sector organisations, but as organisations involving established successful companies either as sponsors or sources of advice.

In this respect, leader companies are also generally expected not to hinder corporate spin-offs, whereby their employees can start their own business, and indeed often to openly encourage them. In this regard, the absence of non-compete clauses in employee contracts can be important.

The role of start-up communities

The concept of "start-up community" was stressed in the workshop by Dr. Norris Krueger, after the title of a best-selling book by entrepreneur and philanthropist Bred Feld (2012). Rather than focusing on a major company as the starter of an entrepreneurial ecosystem, as in the blockbuster entrepreneur concept, the start-up community concept focuses on how a group of leading entrepreneurs (e.g. a dozen or so) can team up and help others to start businesses in their local community, for example by setting up an incubator. Universities, governments and investors can be "feeders" of an entrepreneurial ecosystem, but entrepreneurs are seen as the only leaders who can really ignite an ecosystem. To do this, they must have a long-term commitment to the community (i.e. 20 years), show an inclusive mind-set towards anyone with a genuine interest in start-ups, and be able to unwind substantive start-up activities that engage the entire community (an incubator, an accelerator, a fund etc.).[2]

1. Of course, what defines sufficient levels of financial returns and learning would be an issue of debate.

2. In Feld's theory, all of this can, and indeed, should be driven by the self-interest of the leading entrepreneurs.

The role of the government in the early stages of development of an ecosystem may therefore be limited to identifying leader entrepreneurs and helping them join up, out of self-interest and yet in the interest of the whole local community. This philosophy is being espoused by FORA in its project on the biotech sector of Copenhagen, which launched with a workshop gathering the 10-15 largest Danish biotechnology-devoted companies and international CEOs. Dr. Vogel (Federal Polytechnic School of Lausanne) is also engaged in a world-wide mapping exercise of leader entrepreneurs and connectors in several localities.

At a later stage of an ecosystem development the government can become a “feeder” through more traditional activities (e.g. provision of tax breaks, incentives for universities to collaborate with the business sector, etc.), although too much government tends to be seen negatively because it makes entrepreneurs less resourceful and may result in greater business regulation or taxation.

Policy implications

Many argue that the government role in supporting entrepreneurial ecosystems should be relatively light in touch. Supportive conditions and institutions (e.g. specialist services, public-private partnerships, and incubation mechanisms) can emerge spontaneously after a first wave of spin-offs creates the original critical mass of an entrepreneurial ecosystem (Mason, 2013). Furthermore, traditional grants and subsidies may kill off the entrepreneurial spirit rather than encourage it, while governments do not have the right skills set to advice and mentor entrepreneurs, who instead need to be coached and “incubated” by experienced entrepreneurs. Even when governments can get involved usefully, there may be a tipping point in scale of activity after which ecosystems become relatively self-sustaining and government intervention can be significantly reduced (Isenberg, 2012).[3]

Key roles that government can play in an entrepreneurial ecosystem involve at the same time facilitating networks and connections at local level and setting entrepreneurship-friendly framework conditions at national level (i.e. education, research, taxation, employment protection legislation, product market regulations, etc.).

Ms. Glenda Napier, from the Danish Cluster Academy, urged the audience to keep the framework conditions and ecosystems roles apart. In local ecosystems the role of policy makers is mainly to: i) identify and involve the key actors within each different group of stakeholder (e.g. serial entrepreneurs and established firms); ii) engage in an entrepreneurship ecosystem dialogue together with the other relevant stakeholders, while leaving the leadership of joint activities to entrepreneurs or private sector actors.

Dr. Peter Vogel (Federal Polytechnic School of Lausanne) also placed an emphasis on soft factors such as networks and culture (i.e. promoting the power of entrepreneurship and removing the stigma of failure), although he also referred to the importance of entrepreneurial finance (i.e. creating alternative funding opportunities and start-up-friendly taxation). Interestingly, and consistent with the prevailing view in the literature, in Vogel’s view business incubation is not responsibility of the government, but of successful local entrepreneurs.

The contributions of culture and awareness-raising to ecosystem development were stressed by Dr. Norris Krueger (Northwest Entrepreneurship), who mentioned the importance of celebrating local entrepreneurial success stories (i.e. role models and media campaigns) and of “doing little of many things”, suggesting that small-scale time-bounded programmes can help ignite or further support an ecosystem.

3. Both Professor Mason and Professor Lawton-Smith, however, disagreed with this view during the workshop, asserting the importance of a dynamic perspective in which entrepreneurial ecosystems arise, grow, but also decline.

Strong skills and knowledge bases (apprenticeship schemes, entrepreneurship education, university research) were, on the other hand, key to the development of the Oxfordshire high tech entrepreneurial ecosystem (Professor Helen Lawton Smith). These factors appear crucial for knowledge-intensive entrepreneurial ecosystems, which require collaborative industry-university efforts (e.g. university spinoffs and collaborative research projects) to take off and grow. Although the skills and knowledge bases of a locality are strongly influenced by the national education and research systems, there is scope for local action with respect to encouraging vocational training tailored to local business needs, entrepreneurship education initiatives, and improved industry-university relationships. Knowledge flows are indeed a major source of entrepreneurial opportunities, since knowledge that is generated but not exploited by incumbent companies underpins the business creation process (see the "knowledge spillover theory of entrepreneurship").

Colin Mason, in stressing the local dimension of entrepreneurial ecosystems, came up with a typology of policy approaches that are relevant to ecosystem development (Table 1).

Table 1. A typology of policy approaches for entrepreneurial ecosystem development

Focus	Examples
Entrepreneurial actors	Business accelerators, business incubators, talent attraction, time-bounded support
Entrepreneurial organisations	Business angels, venture capital, banks, service providers, universities
Entrepreneurial connections	Public-private partnerships and alliances, peer-to-peer learning, local and global pipelines
Entrepreneurial orientation	Entrepreneurship education, role models, peer-to-peer networking, entrepreneurial recycling

To wrap up, if we take a local view of ecosystems (but not necessarily sector-based) and thus exclude national framework conditions from our analysis, the most relevant policy areas for the development of an entrepreneurial ecosystem emerge as the following ones:

- Facilitate networks among the ecosystem stakeholders with a view to supporting learning and investment in the ecosystem. The government will limit itself to the task of facilitator, leaving the leadership to the private sector and, if possible, to experienced entrepreneurs or leading local companies.

- Create a local culture that is conducive to start-up, where this includes social values and organisational norms that are in favour of entrepreneurial risk-taking and corporate spinoffs. Awareness-raising campaigns (e.g. celebrating entrepreneurial success), entrepreneurship education, and dialogue with large companies that are possible seedbeds of spinoffs can be part of this strand of activity.

- Co-sponsor, together with the private sector, business advice and mentoring (e.g. incubators and accelerators) where experienced entrepreneurs are the main source of information and knowledge. An example in the Netherlands is the Utrecht Growth Accelerator, which is partly financed by the government but led by the private sector and provides opportunities for business diagnosis, coaching, training and peer learning to growth-oriented entrepreneurs.

- Fill the early-stage equity investment gap left by venture capital funds due to the inherently high costs and uncertainty of start-up. Concrete actions could be the support of networks of angel investors by defraying their operating costs and training of angel investors and entrepreneurs through investment readiness programmes.

Finally, an open question remains about what policy makers should do when a budding entrepreneurial ecosystem is not in sight: e.g. where there is no blockbuster company or informal group of entrepreneurs ready and willing to lead the effort of building an ecosystem. The way the concept of entrepreneurial ecosystem has repeatedly been reported in the workshop seems to require adjustment and tailoring if it is to work also in local contexts where entrepreneurship rates are low and a trust-based cooperation culture is not present.