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## LOCAL ENTREPRENEURIAL ECOSYSTEMS

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**"For effective use of local entrepreneurial ecosystem tools, local actors including entrepreneurs and policy makers need to align on a socio-economic vision for the region."**

Ecosystems have emerged as new perspective and tool to facilitate entrepreneurship and SMEs in the face of competitive environments and societal challenges. The term refers, analogous to biologies, to interacting organizations or 'factors' that rely on each other's activities. Whereas for stimulating entrepreneurship attention was traditionally paid to a limited set of factors (e.g. access to finance) and often aiming for specific target groups (e.g. women entrepreneurs), now a more systemic perspective that acknowledges the interplay of various actors and factors appears to resonate among both academics and policymakers.



For effective use of local entrepreneurial ecosystem tools, local actors including entrepreneurs and policy makers need to align on a socio-economic vision for the region, taking into account the local institutional heritage. Based on this they can diagnose to what extent specific conditions and/or linkages between different actors and factors should be improved in their local territory. However, at present local decision makers are ill-equipped to make appropriate diagnoses. A harmonized approach on local entrepreneurial ecosystems, firmly rooted in the academic literature and combining quantitative and qualitative approaches, is an important if not necessary ingredient to advance economic performance and wellbeing through entrepreneurship in local areas.

### Four types of entrepreneurial ecosystems

This report discusses the relevance of adopting local entrepreneurial ecosystems perspectives. Before elaborating on this, however, it is important to relate this concept to other types of entrepreneurial ecosystems, such as those discussed by Jacobides et al. (2018).

Given the popularity of the concept and the co-existence of different perspectives focusing on different units of analysis, there is a risk of mixing up concepts that are linked yet distinct at the same time.

First, there is the perspective of the business ecosystem, where the individual firm is the main unit of analysis. This is very much a stakeholder perspective from the viewpoint of a single enterprise developing its dynamic capabilities and includes a “community of organizations, institutions, and individuals that impact the enterprise and the enterprise’s customers and supplies” (Teece, 2007, p. 1325).

A second perspective is that of the innovation ecosystem introduced by (Adner & Kapoor 2010; Adner 2017), where the nexus of activities and actors around an innovation is the focal unit of analysis. This may be heavily determined by one or two single firms, however it is the network these firms with required ‘complementors’, organizations that are crucial to really embed a particular invention into the market and hence for the success of the innovative activity pursued.

Third, it will, given the recent emergence of the platform economy, not come as a surprise that platform ecosystems are being discussed heavily in recent years. They characterize themselves by a ‘hub-and-spoke’ system – e.g. platforms in the gig and sharing economy, and tend to challenge existing regulation by applying an own, semi-regulated, market system. This behavior of new niche systems challenging the existing regimes invokes negative and positive framings from key actors in the system (Martin 2016; McIntyre and Srinivasan 2017).

The local entrepreneurial ecosystem can be described as an interactive set of actors and factors that enable ‘welfare generating’ entrepreneurship in a given territory (cf. Stam, 2015; Autio & Levie 2017). The concept links to ‘industrial districts’, ‘triple helix’, ‘clusters’ and ‘regional innovation systems’, however it is much more oriented towards the role of entrepreneurship, and hence linking more explicitly to accumulated knowledge in entrepreneurship research (Stam 2015). It is also relatively agnostic towards industry as a unit of analysis. Links can be made with business ecosystems and innovation ecosystems, in so far these are locally embedded. Furthermore, connectivity between the local ecosystem and international networks, may be crucial (Malecki 2011) and can take place via both business and innovation ecosystems. Links with platform ecosystems are less obvious, unless local ecosystems give rise to the emergence of new hubs in the hub-and spoke system that characterizes these ecosystems.



### **Local entrepreneurial ecosystems: basic features and functionality**

Based on the rapidly emerging evidence in entrepreneurship (business) studies and regional development, several critical factors for developing a conducive. Local environment for entrepreneurship can be identified. Even though there is no widespread definition of entrepreneurial ecosystems, most definitions emphasize the “combination or interaction of elements, often through networks, producing shared cultural values that support entrepreneurial activity” (Malecki 2018, p.5). Most approaches then come up with a discussion of

the critical factors for producing value creation through entrepreneurship, such as the early, popular, contributions by Isenberg (2011) and Feld (2012).

Stam (2015) contributed to the academic debate by synthesizing the accumulated knowledge and offering an integrative framework. This framework highlights the interaction between (i) framework conditions enabling or constraining human interaction such as formal institutions, culture and physical infrastructure; (ii) access to demand for new goods and services and (iii) systemic conditions such as networks, leadership, finance, talent, knowledge and support services. Especially the systemic conditions are key in spurring entrepreneurial activity aimed at the outcomes the key local actors are aiming for, such as economic growth, inclusion and sustainability.

Spigel and Harrison (2018) show how entrepreneurial ecosystems may develop and evolve over time in order to deliver benefits to entrepreneurs and to citizens in the local area. They propose a framework that shows how a 'nascent' ecosystem, with relatively low levels of connectivity between actors and factors in the ecosystem may be strengthened via specific interventions. This could lead to self-sustaining, resilient ecosystem that can respond to challenges and shocks even though this is not at all evident. Shocks and challenges may also lead to 'leakages', represented by resources and key factors (including) entrepreneurs leaving the local area. Autio and Levie (2017) provide useful pointers when it comes to managing entrepreneurial ecosystems and stress the benefits of applying deep stakeholder engagement.

### **Local entrepreneurial ecosystems: what kind(s) of entrepreneurship?**

Taking entrepreneurship as a process in which opportunities for creating new goods and services are explored, evaluated and exploited (Shane & Venkataraman, 2000), it should be acknowledged that entrepreneurship comes in different types and shapes. For instance, even though the term entrepreneurship tends to be ascribed to 'high-impact or innovative startups' in popular media, entrepreneurship also includes entrepreneurial behaviour by employees in established (mainly large and medium-sized) organizations.



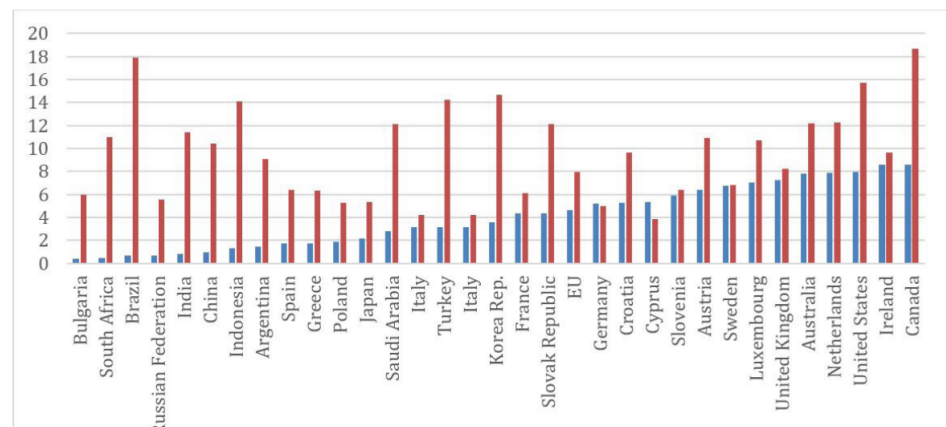
These organizations create organizational structures and cultures that stimulate entrepreneurial initiatives by their employees.

Results from the Global Entrepreneurship Monitor reveal that entrepreneurial employee activity is relatively high in countries like Sweden, United Kingdom, the Netherlands, the United States, Australia, and Canada, but very low in countries like Brazil, Argentina, Russia, India, China, Indonesia, Japan, and Italy (Bosma and Kelley 2019; see Figure 1 where this type of entrepreneurship is contrasted with independent earlystage entrepreneurship captured by TEA). Next to cross-national variation in these types of entrepreneurship we can expect significant variation at the regional level. Tying this to the perspective of local entrepreneurial ecosystems, in particular medium-sized enterprises may play a crucial role by combining a role as one of the local entrepreneurial leaders that interact with key stakeholders in the region while stimulating entrepreneurial activity within their organization. The degree to which innovation is developed through entrepreneurial efforts within or outside organizations may not be of high importance when the focus is restricted to the inputs and outcomes at the aggregate level. However, from a systemic perspective it is crucial to understand how key actors in a local area may facilitate innovation. For instance, in more risk-averse, high-trust local societies, entrepreneurial activities may primarily be expressed by employees within established organizations.

Another type of entrepreneurship that may be relevant is social entrepreneurship. Social entrepreneurship “encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner” (Zahra et al. 2009, p. 522). Hence, it comprises the efforts by independent entrepreneurs and entrepreneurial employees to contribute to overall wellbeing and sustainability (inherently related to social wealth) and captured by the United Nations’ Sustainable Development Goals (SDG’s). Increasingly, regions adopt policies linking to the SDG’s while explicitly addressing the role of social entrepreneurship (see e.g OECD/EU 2017).

These are just two examples. Other types of entrepreneurship exist and can be functional for regional development in their own way, as Bosma and Kelley (2019) posit using data from the Global Entrepreneurship Monitor. In line with Stam’s (2015) entrepreneurial ecosystem framework, a joint socioeconomic vision on the region, articulating what kinds of aggregate value creation is targeted, is crucial to see what types of entrepreneurship should be (further) developed. At the same time this should be contingent on the existing framework conditions that characterize the local area.

Figure 1. Entrepreneurial Employee Activity and Total early-stage Entrepreneurial Activity (TEA) Rates among Adults (aged 18-64)



Source: Stam et al. (2019) based on Global Entrepreneurship Monitor 2018/2019  
 Note: data from Australia and South Africa have been collected in 2017

## Towards harmonized assessments for better diagnoses and policy action

Witness the increasing attention to local entrepreneurial ecosystems in policy, academia and among other stakeholders (O'Connor et al. 2018), the concept seems to be in a 'make or break' phase. At the moment, while academic and policy discussions on the relevance and use of entrepreneurial ecosystems are underway, it becomes apparent that the lack of an existing harmonized research tool is hindering its further development. An initial diagnose of a local entrepreneurial ecosystem can be used to fuel the debate on future directions and the roles different actors can play. However, for a diagnose based on a harmonized research tool to be successful it needs to satisfy a number of criteria. First, the tool should convey the accumulated knowledge and evidence so far (partially described above) and be open for further improvements. Being open for improvements calls for explicit attention to the governance of any initiative proposing a harmonized research tool.

Second, such a tool should be applicable for most regions across the globe, with the aim to be able to compare and contrast with other regions. Importantly, the co-existence of different types of entrepreneurial ecosystems, reflected by different framework conditions and types of entrepreneurship to be stimulated, should be acknowledged. This will not be facilitated by emphasizing rankings based on particular assessments of the elements of entrepreneurial ecosystems. Such rankings often lead policy makers to be fixated on how to move up in the rankings with the risk to neglect the importance of local institutional heritage.

Third, entrepreneurial ecosystem assessments should aim for a combination of quantitative and qualitative data analysis. While elements of the ecosystem may be captured by available statistics, survey data and 'big data' such as social media analysis, the interactions between the elements can be captured only to a very limited extent. An initial diagnose based on quantitative data (e.g such as the recent methodology put forward by Sternberg et al. 2019) can make for a good reason for key actors to get together and discuss the strengths and weaknesses of their local entrepreneurial ecosystem. Through a qualitative analysis the diagnose can be updated and interventions can be developed, implemented and evaluated.



Finally, developing such a tool calls for the active involvement of entrepreneurs themselves. A self-sustaining ecosystem will only be achieved if key entrepreneurial actors including SMEs see value in (i) pursuing a joint vision for local socio-economic development, and (ii) in a supportive framework and research tool to diagnose and develop entrepreneurial ecosystems.



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Dr. Ayman El Tarabishy



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