Boosting the entrepreneurial scene in cities: experiences and reflections from the InFocus network

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Abstract

This article contains a reflection on local entrepreneurial ecosystems and how to boost them, in the context of smart specialisation strategies of cities and regions. It is based on a literature study and inputs from 10 member cities of the InFocus project (sponsored by the EU's URBACT programme), that exchanged and developed knowledge about the development of smart specialisation strategies on the urban level. In September 2017, the network held a meeting in Turin, dedicated to the topic of promoting an entrepreneurship ecosystems. The article discusses several specific aspects of policies regarding entrepreneurship: the relation with smart specialisation approach, startup promotion policies, fostering a culture of entrepreneurship, and the different development stages in entrepreneurship: Starting, scaling, growing, with examples from cities in the InFocus network. Among other things, it concludes that a stronger alignment between the urban and regional policy levels is required to link the urban-focused startup ecosyetems to the regional industrial tissue.

Keywords: entrepreneurship ecosystems, startups, smart specialisation, cities, incubators, innovation systems

1. Introduction

Innovation and entrepreneurship are broadly recognized as core drivers for knowledge-based regional development (Romano et al., 2014). This article contains a reflection on local entrepreneurial ecosystems and how to boost them, in the context of smart specialisation strategies of cities and regions. It is based on a literature study and inputs from 10 member cities of the InFocus project (sponsored by the EU's URBACT programme), that exchanged and developed knowledge about the development of smart specialisation strategies on the urban level, in alignment with the region. In September 2017, the network held a meeting in Turin, dedicated to the topic of promoting an entrepreneurship ecosystems.

This article starts by elaborating the core idea of the entrepreneurial ecosystem: what is it, and what are its elements and characteristics. Next, we discuss some specific aspects of policies regarding entrepreneurship that we focused on during the workshop: the relation with the smart specialisation approach, startup promotion policies, fostering a culture of entrepreneurship, and the different stages in entrepreneurship: Starting, scaling, growing. Finally, we derive some conclusions, and outline the relevance for the smart specialisation process.

2. An entrepreneurial ecosystem: what is it?

What is an entrepreneurial ecosystem? The term has become popular due to the increasing networked nature of our contemporary economy. It reflects the insight that there are many interdependencies between economic actors, and that the success of individual firms depends on

their role and interaction with wider (local and regional) networks. It is worthwhile to recall that the word “ecosystem” is a metaphor, borrowed from the biology field.

A quote from Isenberg (2012), an influential author on the topic, further explains the analogy: “An ecosystem exists in nature when numerous species of flora and fauna interact in a dynamic, self-adjusting balancing act. Thus, in cities, you need to provide a broad platform to support the inclusive vision, encouraging restaurateurs, designers, neighbourhood groups, schools and universities, real estate developers, law firms and architects, chambers of commerce and other government agencies to interact with each other in innovative ways. Best processes are more important than best practices” (Isenberg, 2012, p.1). An ecosystem is a self-organising, dynamic system, without a central body that makes decisions. Here, we see a difference between an ecosystem approach and a cluster approach. Typically, cluster strategies tend to prioritize a sector, for example clean tech, biotech or ICT. In an ecosystem approach, a specialisation is not predefined but “emerges” from a continuous interplay, interaction and dialogue between entrepreneurs, knowledge institutes, and others.

After reviewing many studies, OECD (2013) defines an entrepreneurial ecosystem as ‘a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment’ (p.5)

Applied to cities and regions, OECD (2013) defines several characteristics of the entrepreneurial ecosystem:

-The ecosystem thrives on ‘large established businesses’, with significant management functions (e.g. head office or divisional/ subsidiary office) as well as R&D and production activities. These larger businesses play a role as 1) Talent magnets 2) training people 3) source of new business 4) developing the ecosystem’s managerial talent pool/providing commercial opportunities for local businesses. If they fail, they may release a startup spree (as happened in Helsinki, Eindhoven, or Toronto when big tech firms failed there); The entrepreneurial enrichment to ecosystems provided by corporate failure has been labelled ‘whale fall’ (Isenberg, 2011).

-The growth of the ecosystem is driven by a process of ‘entrepreneurial recycling’. Entrepreneurs who sold their successful companies remain involved in the local economy, starting another firm, investing in new startups and/or helping them with their expertise. Some become business angels, or even set up a venture capital fund. They may become advisers, mentors, or entrepreneurship teachers (‘pracademics’). Communities of innovation may emerge (Elia et al., 2016).

-Ecosystems are ‘information rich’: It is easy to access information and knowledge on demand trends, new technologies, logistics solutions, production and machines, and service and marketing concepts. Being located close to each other in the same region helps to share tacit knowledge (Gertler, 2003). Information is shared through organised and accidental meetings. Moreover, there are “bridging assets”: well-connected and experienced people who can connect people to each other and thus provide for the flow of information and knowledge; they are able to help starters realise their growth potential.

-Aspects of culture are important features of ecosystems: a culture of inclusiveness, an attitude of 'give-before-you-get', a culture of widely sharing knowledge experience and expertise. The attitude to failure is also critical.

-The availability of finance is a key feature of the ecosystem: a critical mass of investors to provide finance and support in the various stages of the company. These might be business angels, seed capital funds, business accelerators etc.

-Universities also play an important role in entrepreneurial ecosystems. Their most important contribution is its students, who bring new ideas and increase the intellectual capacity of the community. The commercialisation of academic research can also generate new business, but numbers of university spin-out companies are typically small and high growth spin-outs are rare (Harrison and Leitch, 2010; Laitinen et al., 2016).

3. Reflections from the In Focus workshop

During the in-focus workshop, we exchanged ideas and policy approaches regarding the boosting of the local entrepreneurial ecosystems. The workshop was divided into four key sessions. Session 1, "setting the scene", we discussed the role of entrepreneurship ecosystems in the wider framework of smart specialisation. Session 2 focused on start-up policies, session 3 on the creation of a culture of entrepreneurship, and session 4, finally, dealt with the question of scaling up after the initial setup of a company.

3.1 Setting the scene: The role of entrepreneurship in the smart specialisation concept

In the smart specialisation concept, entrepreneurship plays a double role. First, entrepreneurship is the cornerstone of the urban and regional economy (Romano et al., 2014). Entrepreneurial activities of established firms, startups and other stakeholders are the basis for economic and social value creation. Entrepreneurs are key actors driving the economic specialisation of the city of the region. This is especially –though not exclusively- the case for entrepreneurs in knowledge-based sectors and industries, where better alignment and collaboration with knowledge institutes and universities might lead to more innovation. In the smart specialisation approach, deeper entrepreneurial collaborations between firms and knowledge actors are seen as seen as drivers for innovation, and may also help to focus or redirect investments in knowledge resources in fields where private entrepreneurship is strong, in order to further develop unique strengths together (McCann and Ortega-Argilés, 2011). Second, on a higher level of abstraction, a key concept is the entrepreneurial discovery process. This is the process by which local and regional policymakers "discover", together with stakeholders, new promising economic opportunities in which the city or region might invest (Foray et al, 2011). The entrepreneurial discovery process implies that urban/regional economic policies and investment decisions should not be made in the ivory tower of city hall or regional government, but rather be based on an open, collective and on-going "search" for new opportunities.

3.2 Supporting startups: what is the best policy?

Supporting startups has become fashionable. Cities and regions offer a rich variety of startup support approaches, and the number of incubators has grown. Oxford University Innovation Ltd (2016) counted 7,000 incubators worldwide.

Some are directed at any type of startup, others are more knowledge or technology oriented; some target specific industries or sectors (Fintech, ICT, Biotech etc.), others are linked to universities, to promote student entrepreneurship, or to commercialise research. Some are run by private actors (banks, commercial incubators that make money from fees, rents and shares); others by the (semi)public sector. Then, there is a plethora of funding sources for startups: traditional banks, angel investors, VC funds, and public sector funds. During the session, we discussed different forms and types of support. Also, we heard the stories of two entrepreneurs who had recently started their companies. Some key findings from the workshop were the following:

- The recent surge of entrepreneurship as such is a positive development, but in part it is also a reaction on a poorly functioning labour market. There are indications that many startups emerge because there is a lack of regular job opportunities and fixed contracts.
- For startups, it can be difficult to understand and navigate through the rich variety of support measures, and find the ones that fir them best. Cities and regions could take action to align the offer, and making it accessible; Frankfurt announced to make a single website with all the startup support available in region and city; this would help startups find their way in the sometime complex and confusing variety of support measures in the city and the region.
- The MIP programme in Turin indicates that the success of more “mundane” startups (i.e. not in high tech of advanced services) can be greatly enhanced when they obtain a small amount of support and coaching; such programmes can also prevent the creation of companies that are probably not viable.
- Most incubation programs focus on funding, business modelling and technology. However, startups need also legal support in very practical fields, for example concerning the type of information that must be printed on packages or user manuals. This was a message conveyed by two of the startups that presented themselves at the session.

These notions from practitioners resonate with Bathelt et al.(2011), who argue that startup policy should go beyond promoting academic, research-based spin-offs; rather, a broader view of spin-offs is required; a view that accounts for a larger array of ventures and that looks beyond the firm or university to the broader set of regional structures and relations. They also support the conclusion of Mas-Verdu et al (2015) who found that incubators' impact will depend on tailoring their services to the needs of their target customers (i.e., start-ups).

Box 2: Some examples from InFocus partners

Almost all IN FOCUS partners are developing significant policies and programmes promoting entrepreneurship, most of them with a strong ecosystem approach, which connects quite well with the RIS3´s visions. In ***Torino***, Universities play a prominent role promoting the local start up scene, basically through two main facilities, I3P, inside the campus of Politecnico di Torino and one of the biggest incubators in Italy, and 2i3T, linked to Università di Torino. Both incubators have been credited as "best practice" at EU level. In ***Bilbao***, “Bilbao Auzo Factory” is a network of business centres promoted by Bilbao Ekintza, which are located in different districts across the city. They act as an innovative interface between citizenship, neighbourhood, entrepreneurs and companies. The centres are based on revitalized disused buildings, and each of them has a focus in one of the city´s sectoral priorities, e.g. Tourism, Urban Solutions, Health, Creative industries. This focus consists on particular networking programmes, training sessions, etc. ***Bielsko-Biala*** has also got significant achievements in creating a favourable local entrepreneurship ecosystem, thanks to the activity developed by the Bielsko-Biala Development Agency. Just to highlight a number of them: First

technology incubator in Poland - Beskid Technology Incubator (Beskidzki Inkubator Technologiczny BIT); a dedicated web-based platform whose purpose is to attract potential entrepreneurs; The Bielsko-Biała Endorsement Fund to support the small, local businesses and a specific local funding scheme for technology-based start-ups named Techno-BIT Venture; FabLab Bielsko-Biała, specialised in 3D print and design.

Source: InFocus Baseline study, by M. Rivas, lead expert of the InFocus network

3.3 Fostering a culture of entrepreneurship

In this session, we put the following questions central: What is a culture of entrepreneurship? How to stimulate it? How do we know that we do it the right way? The starting point is that entrepreneurship is not limited to start-ups. Rather, it is an attitude of recognizing new opportunities and then act upon that. This can be embedded in schools, universities (Secundo et al., 2015), companies, but also in the local and regional government.

An important message from the workshop was that a culture of entrepreneurship is fostered when there are ***concrete physical spaces and places*** where entrepreneurs, not only starting ones, can meet and interact (Carvalho and Van Winden, 2017). Entrepreneurs Rui Couto, from Founders Founders Porto[1], explained how he (and others) developed a new house for entrepreneurs that had outgrown the incubation stage. As a group, and supported by the city, they bought a house and redeveloped it as post-incubation space for firms, where they can easily meet each other and exchange knowledge- ideas, etc.

The leader of an incubator from Grenoble (and successful founder in the past) stressed that a culture of entrepreneurship asks that (young) ***people are seduced*** to become entrepreneurs. Then, the next question is how seduction works. An important factor is visibility: students will be more likely to go for a career as entrepreneur when they see how their fellow students have done so successfully. Thus, it is important to organise many such points, events and moments where this interaction occurs. This must not only be done in dedicated entrepreneurship courses –mostly located at business schools- but across the board. A good example is YesDelft[2], a union/community of entrepreneur-students at Delft University of Technology: they combine student life with starting up a company, and present entrepreneurship “peer to peer” as realistic career in all study courses at the university.

Finally, entrepreneurship should not only be seen as career opportunity or vehicle to create economic value; ***Entrepreneurs can also be engaged to solve societal challenges***. The leader from Torino Social Innovation, and “startup in residence” showed how the city of Turin seeks to promote this kind of entrepreneurship. One of the key lessons was that providing grants or other financial incentives to not-for-profit entities was not an appropriate avenue; The city shifted to an approach in which urban challenges are defined (for example, the refurbishment of a square), and invites entrepreneurs to develop and deliver a solution, that can be purchased by the city when it works.

3.4 Starting, scaling, growing?

Under this heading we discussed the stage that may come after the startup stage: scaling up. According to the workshop participants, the problem why scaling often does not happen has several reasons.

[1] http://www.founders-founders.com/the-founders-house/
[2] https://www.yesdelft.com/

Many startups are marginal small local business, for example in retail, tourism, or personal services; their ***founders often have no interest in scaling***, they are happy to make a living in their own micro firms. For more knowledge based or tech business, scaling is often an option. However, compared to the US, European firms have difficulties in scaling up. A key issue is that many founders in Europe (and also the support structures) tend to lay ***too much focus on building the product*** and the business model, but much less on the large scale operational roll-out. It is a blind spot in the mental map. Moreover, ***large scale rollout requires different competences*** (in the field of production, logistics, operations), that are often not included in the startup team. Rui Couto, from Porto's Founders Founders initiative, saw several cases in which US venture funds ask promising European firms to incorporate in the US, scale up their business there; if successful, they will have deep enough pockets to make a large entry in the EU markets.

A business development manager from a Torino scaleup in the medtech business pointed at another barrier for scaling: ***the difficulty to find qualified staff***. Search costs are high, and the fresh graduates from the university often lack the practical skills to be of value for the firm, so they need retraining. Also, she underlined that scaling up asks for being active in the right kind of networks. After a "chat in a café" her company discovered a new application for their testing device, which now constitutes an important market. This point underlines the importance of having an "information rich" local ecosystem where the chance of such seemingly random encounters is enlarged.

4. Conclusions and relevance for smart specialisation

The workshop revealed a number of viable options to improve local and regional entrepreneurial ecosystems, and resulted in concrete suggestions and lessons. Entrepreneurship is a growing phenomenon across the board, especially young people increasingly see it as a viable career option, witness the growing numbers of startups and the increasing popularity of entrepreneurship-related programmes at universities. The ecosystem approach stresses that entrepreneurs, especially in their early stage, rely on local and regional supporting networks for access to ideas, people, capital, markets and suppliers. The stronger, richer and information-dense these networks, the better the chances that startups will thrive. This suggests that the most promising types of startups will probably emerge in fields in which the city and region already have strong competences, either in business or in research, or in fields that are strongly related. A striking example was the Turin startup that develops GPS trackers for bikes; it relied on the traditionally strong manufacturing competences in the Turin region for the high-quality manufacturing of the equipment.

This can be read as a recommendation for cities and region to especially support specific startup incubation in fields in which the city/region is already specialised. Also it underlines the importance for regions and cities, in co-operation, –very central in the InFocus project- to 1) know what and where the specific economic strengths are, 3) to align the investments of the public sector (city & region) with those of the private sector and knowledge base, in order to further develop these strengths, and to 3) constantly monitor the situation and new developments, and discover, through a continuing dialogue with many stakeholders, the emergence of new promising fields.

Furthermore, the workshop results hint at the relevance of stronger collaboration between urban and regional policymakers in designing and implementing smart specialisation strategies. The EC designed the smart specialisation framework primarily from a regional, not an urban perspective, and regional authorities are in the driver's seat. However, Europe's growing startup ecosystems have a strong geographical bias towards core cities, and, as argued in this communication, they play a driving role in the development of urban and regional knowledge economies. Thus, when regional management authorities design and implement smart specialisation strategies, they need to take this urban reality into account. A stronger collaboration and alignment between the urban and regional level might also link the urban-centered startup scene to more traditional industries that are more geographically spread in the region. This could help startups to link to clients in the region, and might help established regional firms to get an innovative impetus from startups.

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