

# ENTREPRENEURSHIP POLICY DIGEST

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## HOW TO COOK UP A VIBRANT ENTREPRENEURIAL ECOSYSTEM

The recovery from the Great Recession has not been felt evenly across the country. While some [localities bounced back quickly](#), others have been slow to find their footing. In the midst of this uneven recovery, cities are grappling with [widening income inequality](#), [slow economic growth](#), and a [capital restricted environment](#). To address these challenges, local policymakers are increasingly [turning to entrepreneurship](#)—a proven driver of economic growth and a catalyst of upward economic mobility.

Yet, boosting economic growth and opportunity through entrepreneurship is not as simple as importing more entrepreneurs. At the [local level](#), the connections among entrepreneurs, support organizations, and other related actors create an ecosystem that either enables entrepreneurial success or makes the process of building a new business more challenging.

Entrepreneurial ecosystems come in myriad forms. To better understand what contributes to vibrant entrepreneurial ecosystems, [Kauffman researchers](#) examined 355 U.S. metropolitan areas and found that some factors have a positive relationship to a strong ecosystem, while [other factors remain unproven](#). Though some variables certainly help enhance startup growth, most so-called necessary ingredients often are not statistically significant. Nor do all cities have identical resources and assets.

[Not all communities are bustling with entrepreneurial activity](#), yet as one [prominent entrepreneur](#) has said, all cities are capable of a vibrant startup scene. Each community must craft its [own unique and vibrant startup community](#); its own entrepreneurial ecosystem.

### Entrepreneurial Ecosystem Myths and Facts

#### MYTH:

Without Venture Capital Financing, an Ecosystem Cannot Flourish



#### FACT:

Among [high-growth Inc. 500/5000 firms](#), most entrepreneurs have not relied on venture capital.

- Most entrepreneurs started with personal savings (67 percent) or bootstrapping (13 percent).
- Only 8 percent received funding from angel investors, and 7 percent received venture capital.

#### MYTH:

Incubators and Accelerators Spur Entrepreneurial Growth



#### FACT:

Businesses affiliated with incubators [do not perform](#) better than those businesses not affiliated with incubators.

- Incubators can be [reconceived](#) to connect entrepreneurs and emphasize peer learning.
- Not enough is known about the effect of accelerators in supporting entrepreneurial ecosystems. It is clear, however, that the quality of accelerators varies substantially.

#### MYTH:

Entrepreneurs Need University Research Funding



#### FACT:

[College graduation rates are correlated](#) with startup rates. Yet, more scientific research [does not necessarily lead to more new business creation](#).

- In 2014, universities were among institutions that received [over \\$140 billion](#) in federal research and development funding.
- Annually, [only several hundred spin-offs](#), on average, emerge from [research-intensive universities](#).

## CREATE A RECIPE FOR ENTREPRENEURIAL SUCCESS



While the idea of entrepreneurship as an ecosystem is not new, the idea that the ingredients matter more than the recipe is relatively novel. Thus policymakers would be wise to apply the suggestions to their particular community instead of simply using, "an ecosystem-in-a-box" approach. For examples of different ecosystems, see [Spigel](#) and [Bahmri and Evans](#).

### GUIDELINES FOR CREATING VIBRANT ENTREPRENEURIAL ECOSYSTEMS

- [Avoid startup monoculture](#). Create your own recipe by connecting existing ingredients in the community to construct an environment conducive to new business creation rather than building or acquiring them in an attempt to copy what another city has done.
- [Convene entrepreneurs and organizations](#) to facilitate learning between entrepreneurs across industries and sectors. Understand that actors often play multiple roles in an ecosystem.
- Encourage diverse participation in the ecosystem by actively including women<sup>1</sup>, minorities, and immigrants.
- Strengthen local [education and increase graduation](#) rates.
- [Listen to local entrepreneurs](#) to understand what works for them and what doesn't.
- [Improve business licensing and permitting processes by streamlining requirements](#) and making the process easy to navigate, with the intent to level the playing field with incumbents who know the ropes.
- Simplify municipal tax codes to make payment systems more efficient and up to date, including through accepting online payments.
- Champion local entrepreneurs, and the ecosystem as a whole, both within your city and externally by publicly celebrating entrepreneurial success.
- Measure, measure, measure. Map your ecosystem, take inventory of your assets, and then [develop metrics](#) to measure the impact of policies. Make adjustments as necessary.

### CITIES PITCH THEIR OWN RECIPES

Cities are hard at work to create vibrant entrepreneurial ecosystems. At the Kauffman Foundation's [2015 Mayors Conference on Entrepreneurship](#), five cities were given the [opportunity to pitch a plan](#) they developed to strengthen their ecosystems. The cities of Knoxville, Tenn., and Louisville, Ky., were awarded funding to increase connectivity between entrepreneurs and support organizations and to improve economic opportunities for minorities and underserved populations through entrepreneurship.

<sup>1</sup> Watkins, Karren; Ozkazanc-Pan, Banu; Clark Muntean, Susan; and Motoyama, Yasuyuki. "Entrepreneurship Ecosystems and Their Service of Women Entrepreneurs." Presented at The Entrepreneurship Ecosystems Conference. Ewing Marion Kauffman Foundation. October 2015.

### FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at [jwiens@kauffman.org](mailto:jwiens@kauffman.org):

- Check out [Four Ways City Leaders Can Boost Entrepreneurship and Propel Economic Growth](#).
- Learn about the importance of connections in [Examining the Connections within the Startup Ecosystem: A Case Study of St. Louis](#).
- Consult [Measuring an Entrepreneurial Ecosystem](#).
- Read [Guidelines for Local and State Governments to Promote Entrepreneurship](#).



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