

Building Entrepreneurial Ecosystems in Europe

Summary of Bruegel Workshop, Innovation and Growth, 2nd December 2014

Policy makers in Europe are seeking ways to create jobs and spur economic growth. Entrepreneurship, and particularly the segment of innovative young high-growth firms, has been identified as a key driver for growth¹. The workshop highlighted the role that entrepreneurial ecosystems can play in facilitating the creation and growth of these innovative young firms as well as models for collaborative innovation, which in turn can spur more high growth entrepreneurship. The workshop also identified some steps that policy makers can take to facilitate the development of collaborative innovation and entrepreneurial ecosystems in Europe. It was agreed that another workshop will be held in the spring of 2015 to delve further into these issues.

Session 1 - Drivers of entrepreneurial ecosystems

Entrepreneurship flourishes in areas which have a vibrant entrepreneurial ecosystem consisting of a collaborative mix of start-ups, large firms, universities, funders and other factors. There has been a growing interest in the “phenomenon” of ecosystems from policy makers, researchers and practitioners, particularly as a number of countries have attempted to create Silicon Valley clones. In Europe, as well as in other parts of the world, an increasing number of entrepreneurial ecosystems have developed.

The discussion focused on exploring the factors that explain the creation and growth of entrepreneurial ecosystems. Many drivers are potentially involved and there have been many qualitative reports highlighting these, however, few reports are backed by economic evidence. Bruegel presented some initial findings from current research underway which includes a quantitative analysis of some of the potential key drivers of entrepreneurial ecosystems in Europe based on regional indicators and firm level data of young high-growth firms, known as “Gazelles”.

However, ecosystems are complex, data at that level is difficult to obtain and it is hard to determine causality. In addition, ecosystem performance can be held back by systemic bottlenecks. Successful policy needs to mobilise and engage with ecosystem stakeholders to promote mutual awareness, commitment and coordination. Insights from these collaborations can provide useful insights to complement ‘hard’ data and unblock some of the ecosystem bottlenecks.

Entrepreneurial ecosystems tend to be concentrated in larger cities, particularly in Northern European countries, such as London, Stockholm, Copenhagen and Paris. These are poles where new talents can develop and grow thanks also to supportive educational systems. It was noted in the discussion that entrepreneurial ecosystems are also developing beyond the “usual suspects”, for example, in Central and Eastern Europe.

Dynamic entrepreneurial ecosystems have mechanisms for allocating resources to where they can be utilized most efficiently. At the same time, the “ingredients” at the origin of some of these entrepreneurial systems are relatively simple: one person with an idea, developed and grown over time, leading to other opportunities and the development of the ecosystem through a network of trusted relationships.

There was a discussion about bottom-up versus top-down approaches to building entrepreneurial ecosystems, the latter often favoured by policy makers in Europe and elsewhere. However, the success of grassroots, community driven activities, as demonstrated by Startup Weekend, Endeavor, UpGlobal and many other initiatives, is clear as evidenced by their speed of growth and the people engaged around the globe.

¹ <http://www.bruegel.org/nc/blog/detail/view/1514/>

It was also noted that there is a delicate border between entrepreneurial policy and innovation policy. Innovation policy tends to focus on technology while entrepreneurship is broader and focuses on translating innovation into action. However, the common element is risk. An entrepreneurial environment can develop only where people are willing to take risk. Many issues were raised about risk, including who is taking it, how is it rewarded and which institutional actors are willing to accept it. Looking at the example of the Silicon Valley, about two-thirds of businesses have been created by non-US citizens, who were willing to go abroad and perhaps take more risk. In Europe, there are strong cultural barriers to risk-taking.

The session discussions also touched upon the role that large companies play within the development of these entrepreneurial hubs as sources of inspiration, mentoring and finance for smaller companies. They can also provide exit strategies through, for example, acquisitions. But at the same time there is some evidence that they might crowd out entrepreneurship in certain cases. This could happen if established firms create barriers to entry to potential new competitors, or crowd them out of human or financial resources. This will be explored further in the Bruegel research.

Session 2 – Collaborative Innovation: Facilitating links between large and small firms

This session was organised in collaboration with the World Economic Forum and linked to an ongoing project² on collaborative innovation between young dynamic entrepreneurs and established firms, which builds upon earlier Forum work on Innovation Driven Entrepreneurship.

Partnerships between large and small firms can create significant value through collaborative innovation. Young, dynamic and flexible firms can work together with established companies to commercialize new ideas that can be mutually beneficial in different ways. The aim of this session was to explore the different possible synergies that can be generated, and to identify the main challenges to establishing them.

One way partnerships can play a critical role in young firms' success is by acting as a source of mentoring and investment. Indeed, 30% of the venture capital raised by young entrepreneurs originates from established corporates. Having this in mind, the Startup Europe Partnership organizes matching events linking established firms with entrepreneurs, aiming at achieving possible procurement agreements, investments or acquisitions.

Another way these matches can create value is by allowing young firms to access established companies' customer base. By allowing young firms to offer innovative complement products, larger firms are able to provide their clients with a better service, and also be perceived by these as more innovative. For example, Lufthansa has created an innovation hub to co-create, engineer and generate new ideas with small companies by sharing not only physical space, but also digital assets and data that can be profitably explored.

However, creating and managing partnerships is always challenging as incentives need to be well aligned and clearly defined. Two critical issues for this process are the structure of the partnership and the protection of relevant Intellectual Property (IP).

Regarding the structure of partnerships, Pfizer, for example, adopts a hybrid approach. Different structures need to be chosen depending both on the nature of the organization they potentially partner with, and the objective of the partnership. In this process, the challenge is to find the right mode of collaboration sharing enough information to assess the value for each other, without revealing the core of a given idea.

² <http://www.weforum.org/projects/collaborative-innovation-transforming-business-driving-growth>

Finally, finding the right mode for collaboration is also tied to the protection of IP, which in certain industries is critical before starting any negotiations. Thus, an issue that will always arise in collaboration is the ownership of the IP that is used/created in the partnership. In this regard, Qualcomm emphasized the relevance of learning how to protect IP to maximize innovation and scale up. Moreover, this may potentially be a role established firms can play to support and mentor entrepreneurs in finding their way in the complex legal framework around IP protection.

Session 3 – Policies to promote entrepreneurial ecosystems

The final session addressed the challenges in creating entrepreneurial ecosystems from a policy perspective. Some of the major topics discussed included addressing regulatory barriers and moving towards a single market, recognizing the critical role of universities, and building the necessary pan-European and international networks.

It was mentioned that after the financial crisis policy makers focused too much on investor/consumer protection with a risk mitigation perspective. This might have discouraged risk-taking by making investors more risk-averse. As noted earlier, risk is key concept in entrepreneurship and it was suggested that there needs to be more discussions at the policy level about risk and perceptions of risk.

While there is no silver bullet in terms of policies to promote entrepreneurship and innovation, it was noted that lowering the regulatory hurdles in starting, growing and closing firms as well as addressing some of the barriers in the framework conditions can help fostering entrepreneurship. The speakers also pointed out that the current regulatory environment in some countries might have some pernicious effects on firms' incentives to grow. For example, there is evidence that certain policies benefiting small firms provide incentives for young companies to remain small.

It was suggested that regulation should be more flexible in adapting to disruptive innovations, and adjusted to a global international economy to enable even small new firms to start selling their products globally. This means that regulation needs to be simplified and harmonized across the different member-states. It also means that policy makers need to listen entrepreneurs more often to better understand their challenges and adapt to their needs.

In addition to addressing the regulatory issues, it is also critical to create an entrepreneurial culture, in which risk-taking is better understood and people are encouraged to try, fail and learn from that process. It was noted that skills and knowledge spill-overs are critical factors in sustaining a successful entrepreneurial ecosystem and that universities are critical players not only in generating and sharing knowledge, but also in training a skilled work force. They are essential to spur an entrepreneurial culture and educate future entrepreneurs. In order to do this, the European universities need to be more open and more interdisciplinary.

Also of great importance for the generation of knowledge spillovers is the learning potential between different players in the ecosystem. The speakers suggested that European policy makers need to strengthen entrepreneurial networks across Europe and globally. These networks facilitate learning and mentoring as well as increasing the number of potential business opportunities, including access to finance.

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