

# Driving Economic Growth Through Entrepreneurship Ecosystems

## Agenda

1. Problems with startups as entrepreneurship policy
2. Two case studies of ecosystem interventions
  - Manizales-Mas
  - Scale Up Milwaukee
3. Five action for creating Scale Up™ ecosystems

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September 2015

# Part 1: The problems with Startups as Policy



PREVIOUS STORY

Watch the Coachella live stream here all weekend

NEXT STORY

Armando Iannucci is leaving Veep after season four

POLICY &amp; LAW

US &amp; WORLD

# New York's expensive startup initiative only created 76 jobs

*Start-Up New York promised 2,000 jobs, but only delivered 76*

By **Nitasha Tiku** on April 10, 2015 07:30 pm [Email](#)

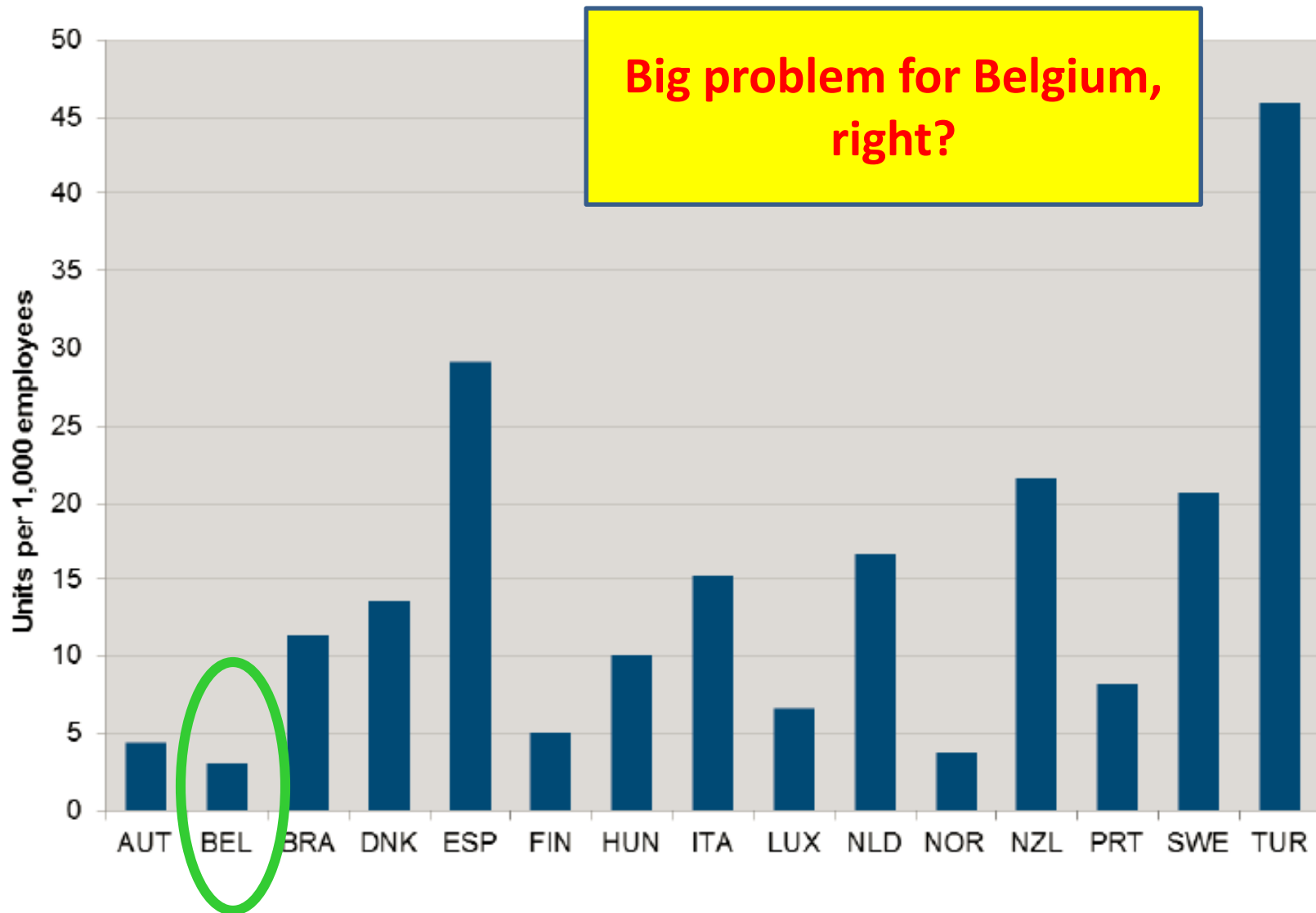
*Cost = \$28 million  
campaign*



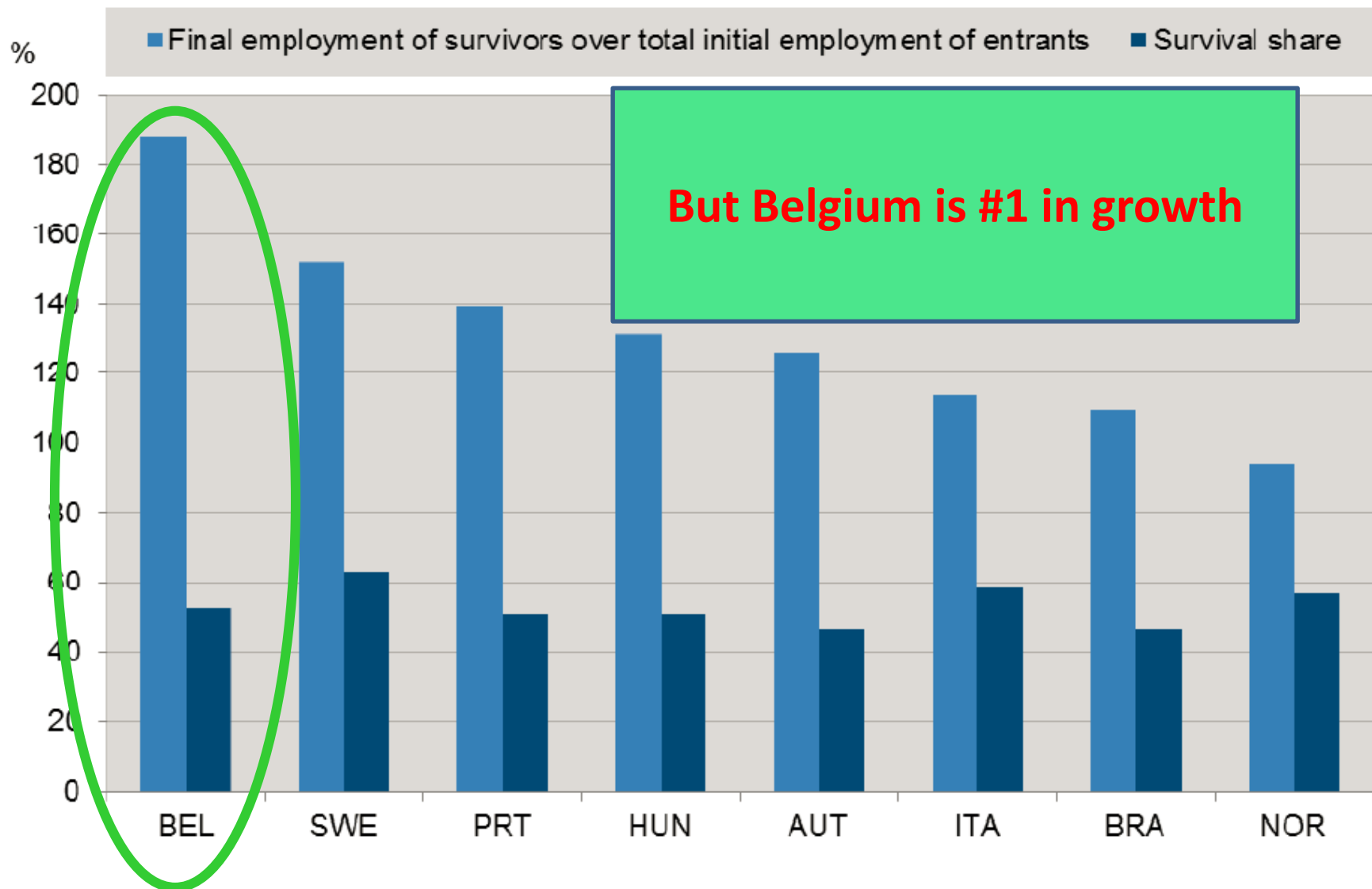
67

COMMENT

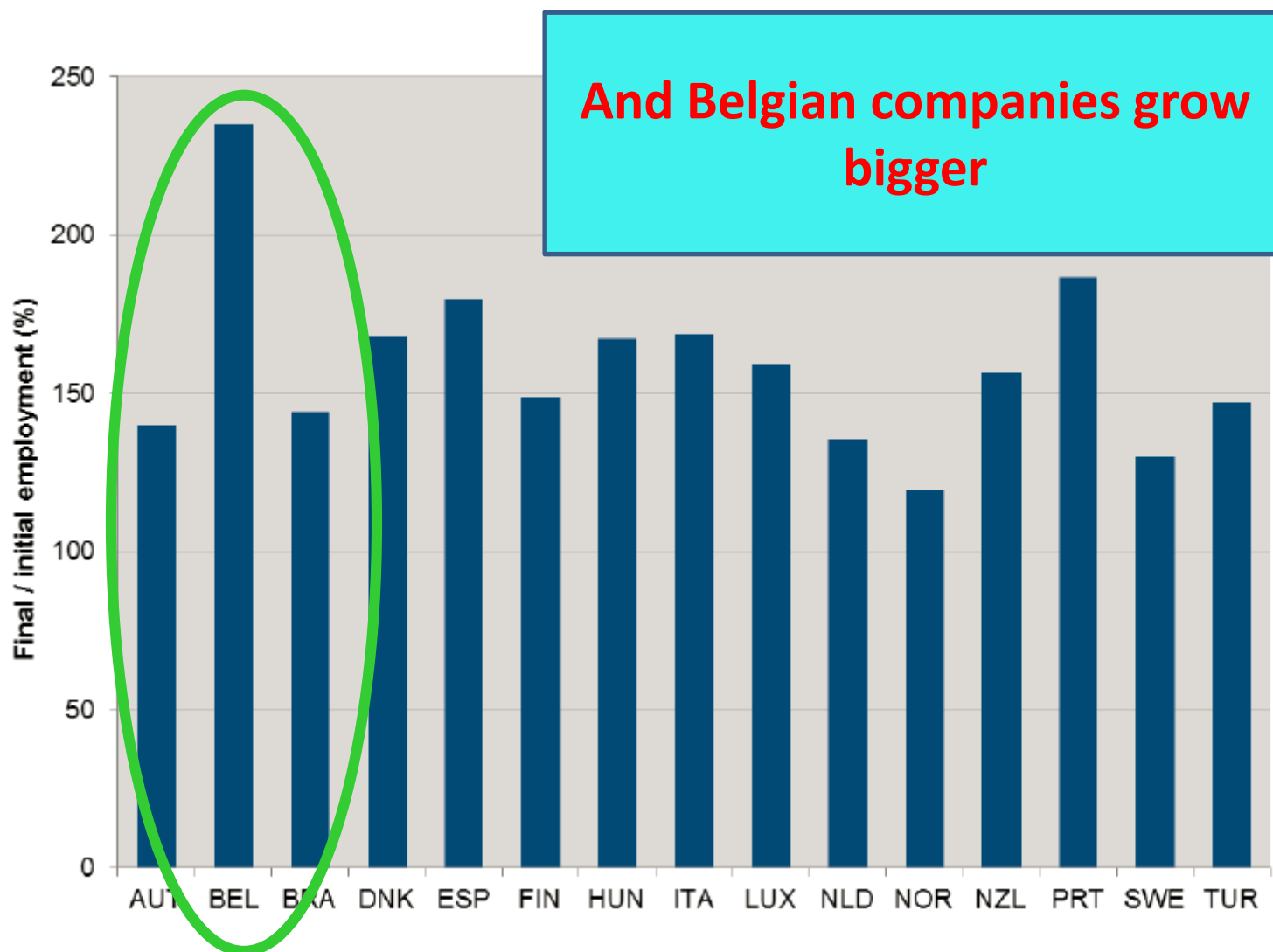
*Panel A. Start-up ratio*



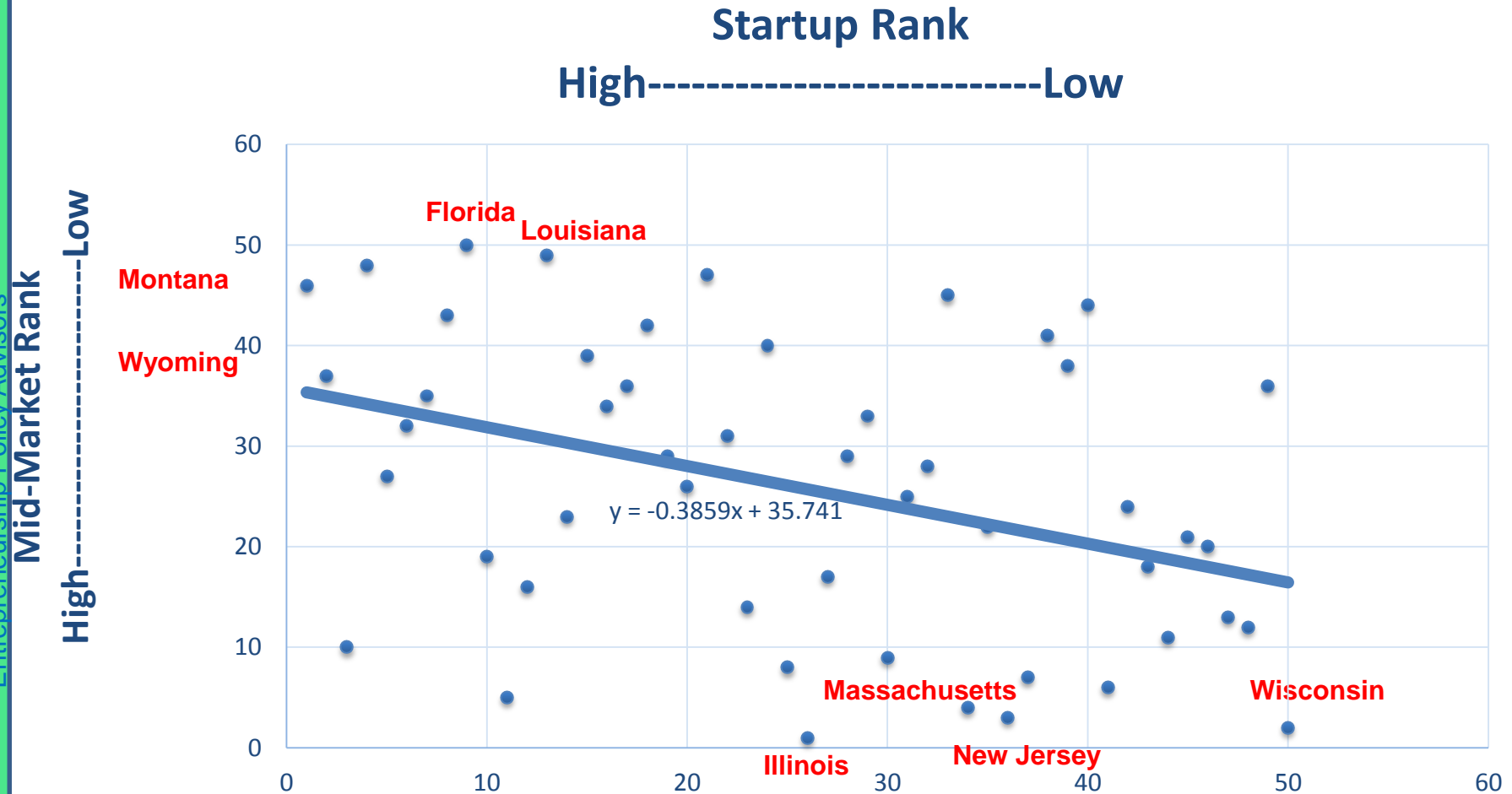
*Panel B. Survival rate (after 3 years)*



*Panel D. Average post-entry growth*

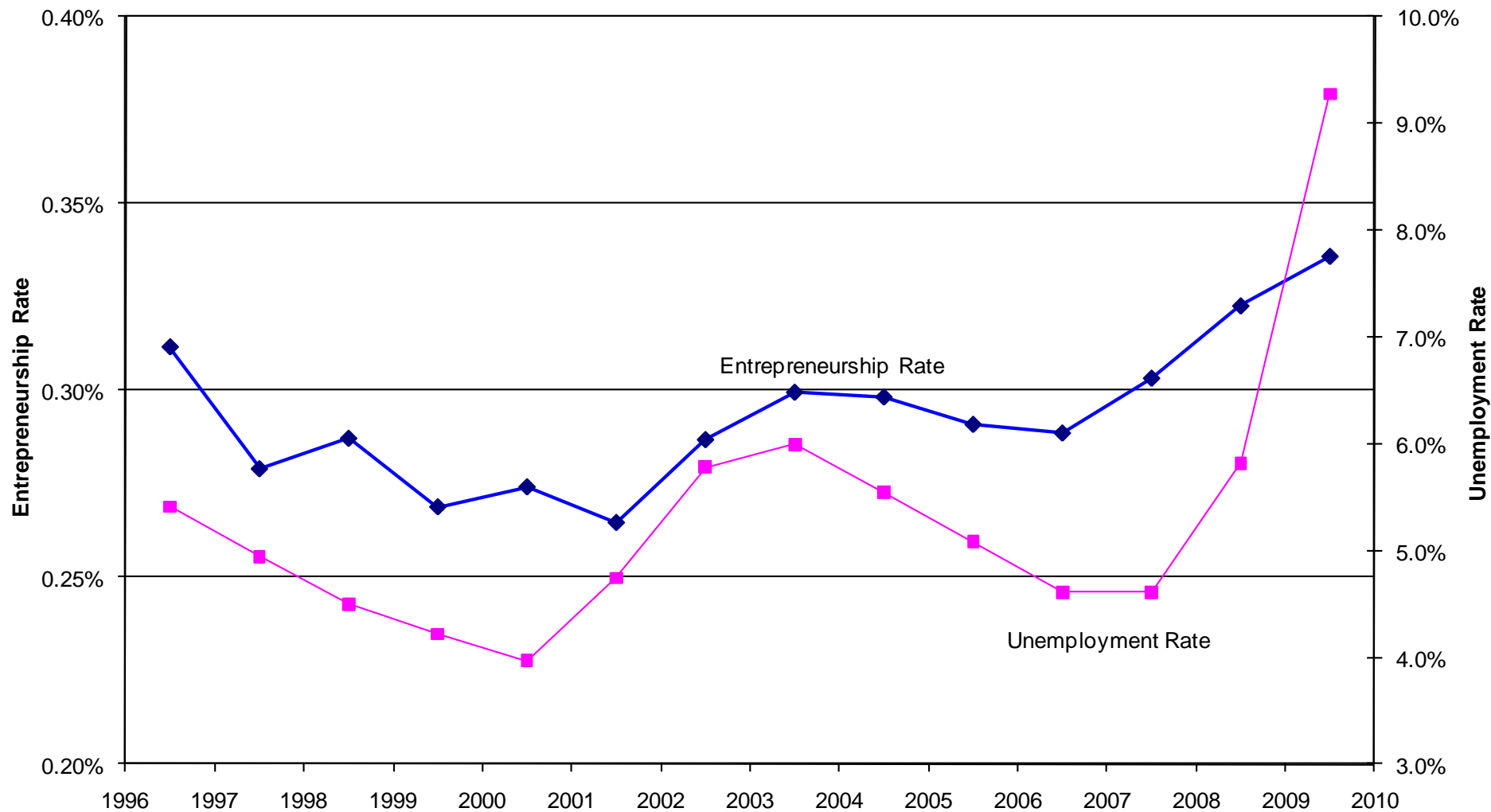


# High “startup states” have fewer growth companies



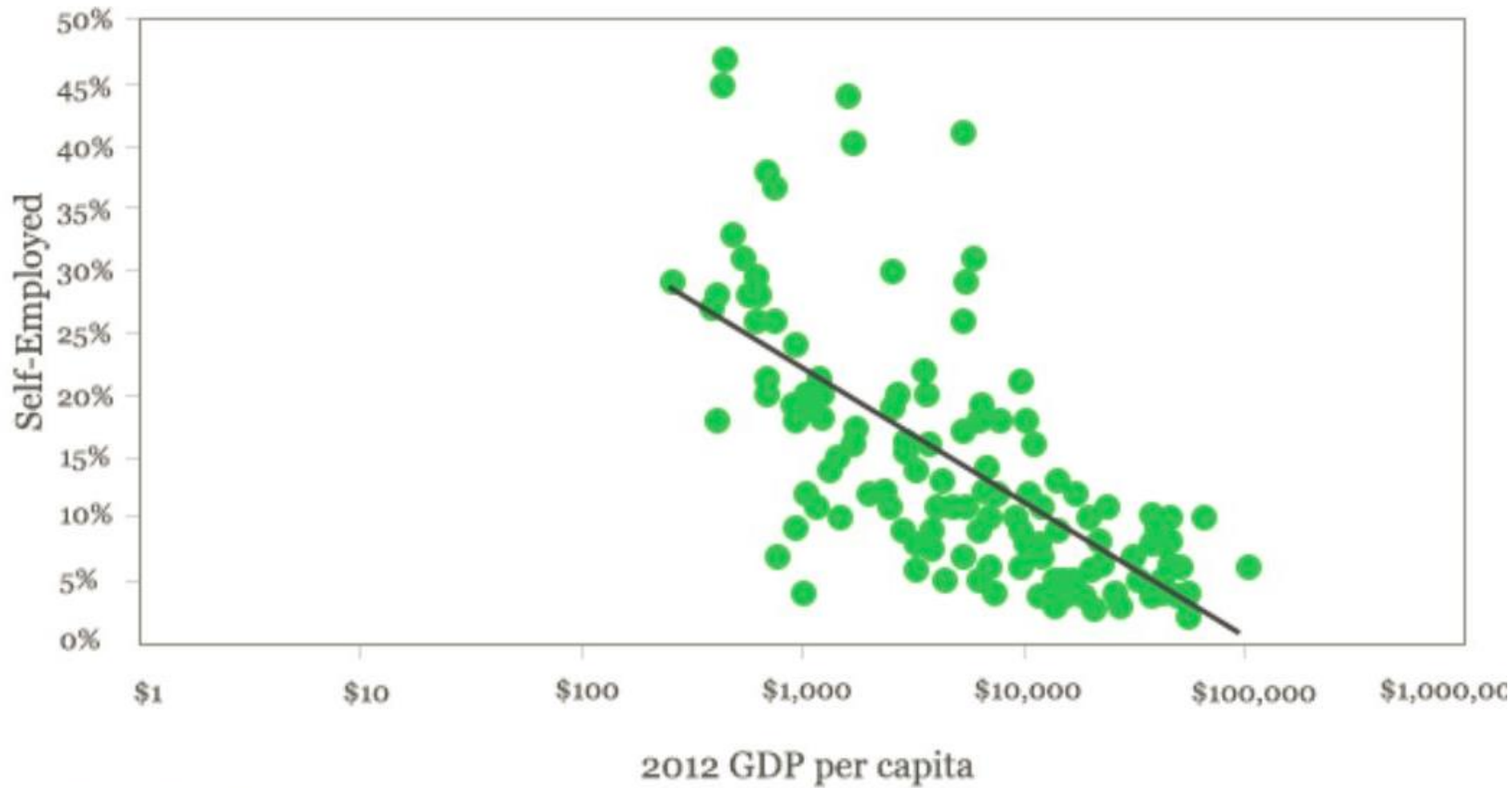
VC also completely uncorrelated with “startup indices”

**Figure 3: Entrepreneurship and Unemployment Rates**  
**Current Population Survey and U.S. Bureau of Labor Statistics (1996-2009)**





### Self-Employed vs. GDP per Capita (log scale)



GALLUP®



## Leveraging Entrepreneurial Ambition and Innovation:

A Global Perspective on Entrepreneurship,  
Competitiveness and Development

Figure 2.1.3: Distribution of early-stage entrepreneurial activity (% of population) by competitiveness (score)

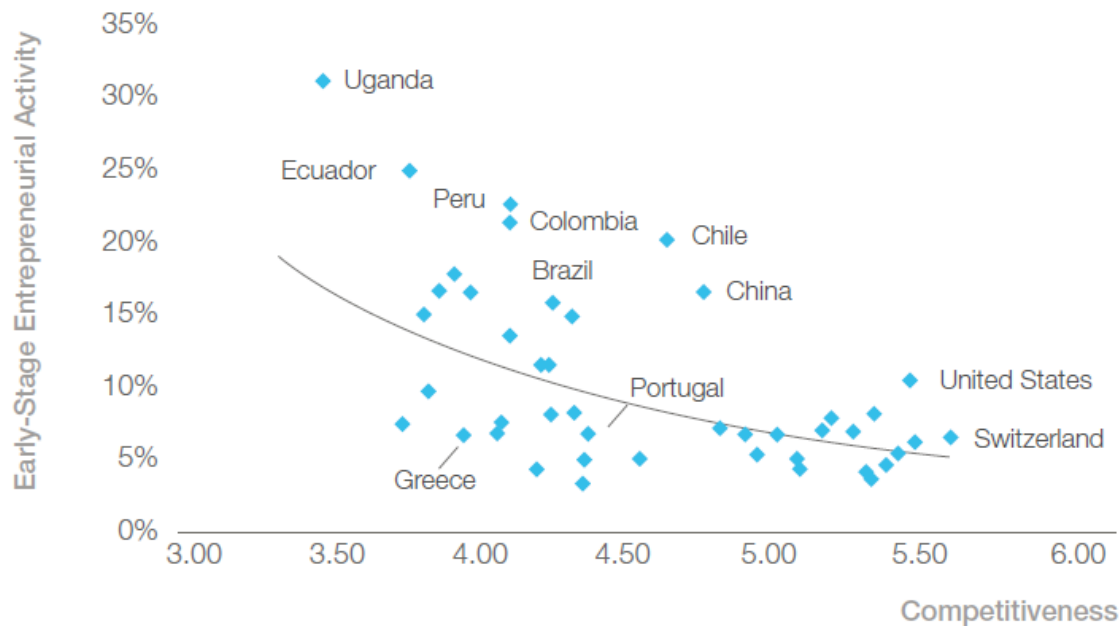
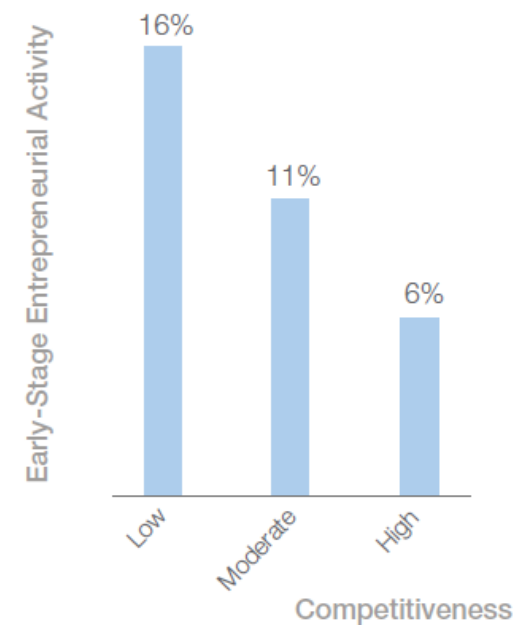
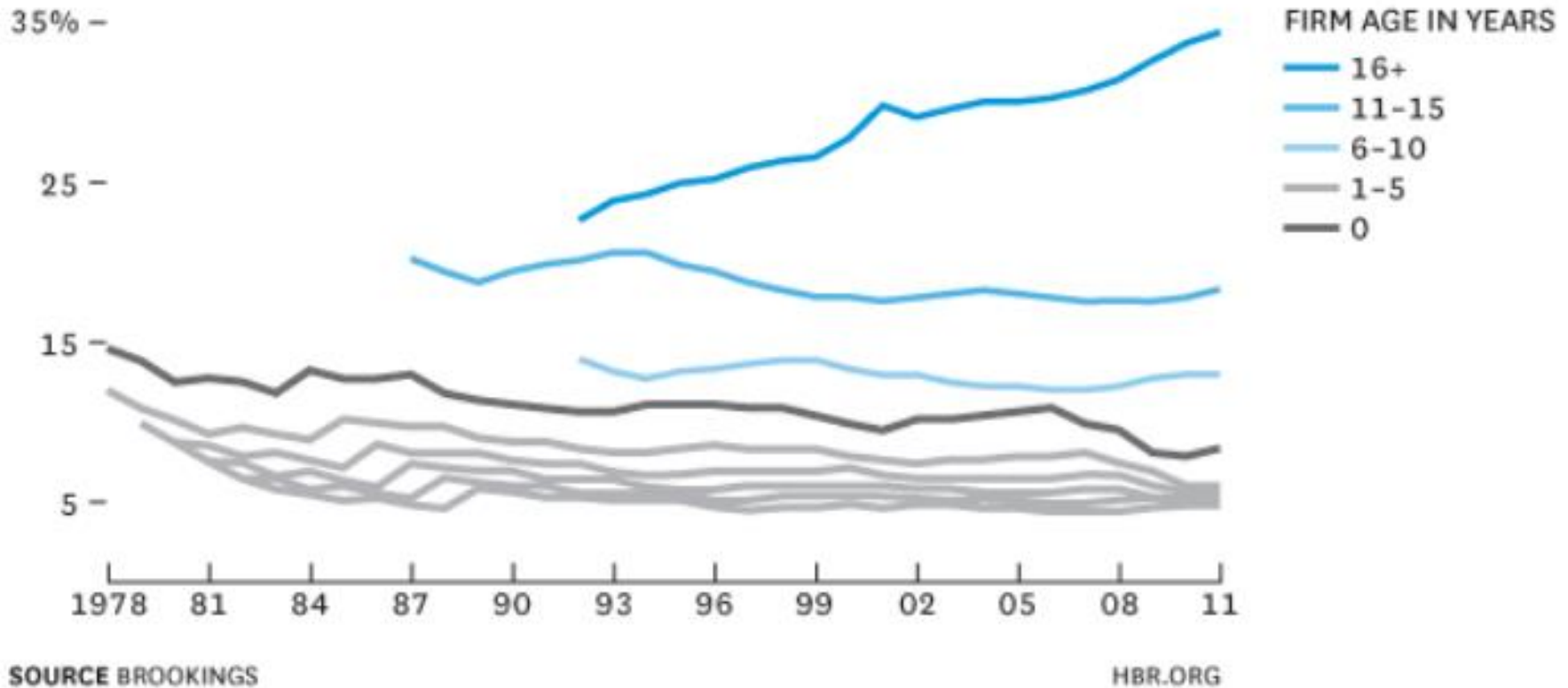


Figure 2.1.4: Average rate of early-stage Entrepreneurial activity (% of population) by competitiveness (level)

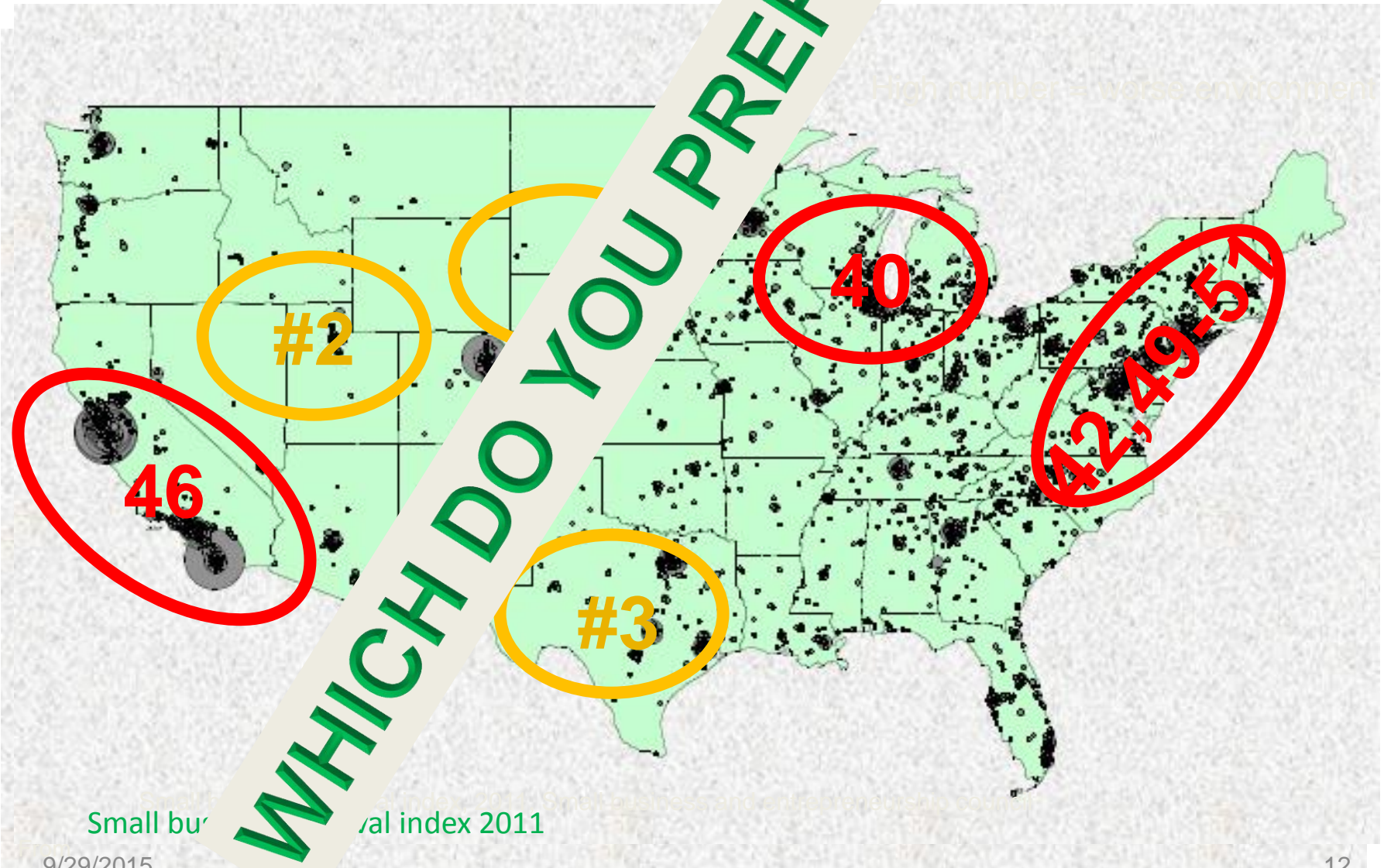


“Entrepreneurship is working!  
Firms scaling, surviving, getting bigger”



Or.. “America is losing its dynamism, fewer  
startups.”

The worst small business  
climates have the least VC \$\$\$



# The problems with “Startups Create Jobs”

- Economic implication of startups is not what we expect
- There is no construct validity to startup measurements
  - Startup indices are negatively correlated with scale up companies
  - Startups indices are uncorrelated with venture capital
- Huge investments, meager results
- Startups shed jobs
- Very small numbers of startups create net jobs (about 5%)
- Implication: “...therefore need to have more startups” is *non sequitor*
- Startup jobs are low quality
- Successful startups are associated with rising inequality
- Assumption that the more startups the better
- Human capital tied up in unproductive pursuits
- Innovation and productivity are negatively correlated with age
- Methodological issues
  - Regression to the mean – startups by definition create jobs
  - There are ubiquitous data anomalies (1000-person startups)
  - There is no a priori definition of startup vs. micro-enterprise
- There is significant body of empirical research showing 15-25 year old companies create jobs

In short...

Despite what you may read or hear,  
little persuasive evidence that  
increasing numbers of startups is in  
critical path to prosperity



# The **BAD NEWS....** There is huge confusion

**Accelerators?**

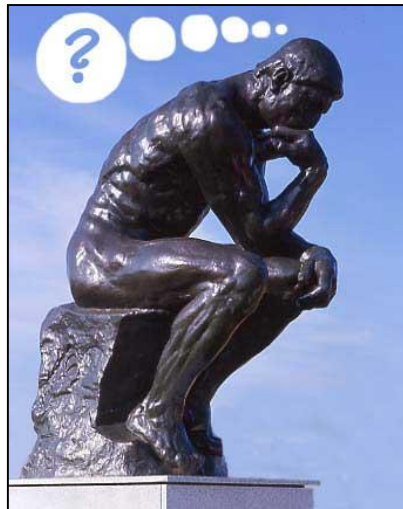
**Technology  
transfer?**

**Incubators?**

**Angel  
networks?**

**Startups vs. life-style business  
vs. micro-enterprise?**

**Clusters?**



**Mentor corps?**

**Startup  
Visas?**

**Microfinance?**

**SME loan  
guarantees?**

**Crowd  
funding?**

**SME  
policies?**

**Angel tax credits?**

**Government  
VC  
fund of funds?**

Innovation

Micro-  
enterprise

Startups

Self-  
employment

Family  
business

Technology

Silicon Valley

Misalignment is ubiquitous





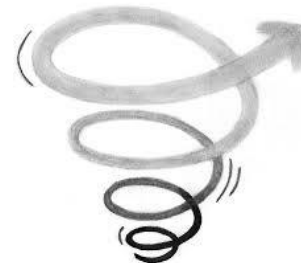
Useful to define entrepreneurship as  
“extraordinary growth”

“If more and more firms grow more  
and more rapidly in a specific region,  
the economy will grow.”

# Part 2: Manizales-Mas and Scale Up Milwaukee

# First, imagine a regional economy of 1-3 million people, and imagine:

- Dozens of firms increasing growth rates by 25-50%
- Manufacturers expanding facilities
- Local ventures winning first export contracts
- Banks increasing their loan portfolios,
- Equity investors making more investments
- Universities offering new courses on growth
- Media writing new stories about local firms growing
- VIPs from around the world coming to see the change
- ***There is “growth in the air”***
- ***Growth becomes infectious, spirals***

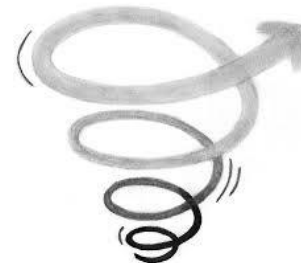


# First, imagine a regional economy of 1-3 million people, a

- Dozens of firms increasing revenue
  - Manufacturers expanding
  - Local ventures winning
  - Banks increasing
  - Equity investments
  - Universities
  - ...
- growth
- local firms growing
- coming to see the change
- “air”
- infectious, spirals*



**Babson Entrepreneurship Ecosystem Project**  
**How to sustainably accelerate economic growth in ~5 years**



# BEEP Case Example

Babson Entrepreneurship  
Ecosystem Project

Manizales   
más

cree + crea + crece +

# Manizales Colombia

400,000 people  
 Cafeteros region  
 Pioneer founded 160 years ago  
 Secure  
 Newly elected mayor  
 Collaborative culture  
 Strong arts and education  
 7 universities



High unemployment  
 Emphasis on FDI  
 High brain drain  
 Natural disasters  
 Low employability  
 Limited ambitions

Empleos  
**530**  
Directos

**868**  
Clientes  
Nuevos

**38**  
Mentores Activos

**1**  
Creación de diplomado en  
emprendimiento  
de SUMA

**4.423**  
Seguidores

**2.026**  
Seguidores

de 2015

**40**  
Empresas de  
alto potencial

**\$5.000**  
millones en  
Financiación

**55%**  
Promedio de  
crecimiento  
en ventas

**1**  
Empresa con Inversión  
de **Riesgo**

**\$4.000**  
millones en  
Inversión

**18.800**  
Personas  
Sensibilizadas  
en emprendimiento

**6**  
MATERIAS **SUMA**

Creación de la ruta del  
emprendimiento de

**5** empresas  
Exportaron por  
primera vez

entrenados en la  
forma de enseñar  
**EMPRENDIMIENTO**

**140** DOCENTES

**91**  
Apariciones en  
medios externos

**157** Iniciativas  
I sem

**140** Iniciativas  
II sem

de emprendimiento  
acompañadas en el  
2015

cree crea crece

**Manizales+**  
más

Johnson Entrepreneurship  
Ecosystem Project





- 55% average growth per company
- 100% 1-year jump in “total entrepreneurial activity”
- 38 active senior mentors, 179 hours (w MIT support)
- National attention -> investors coming from Bogota
- 530 new employees (7.4 new employees/Scalerator company)
- 171 new activities, meetups, pitches, investments
- 18,800 people participating
- New bank financings, equity investors
- New exports (5 for first time)
- 868 new business customers (21.7 per company)
- Culture has changed: ambition and success are good

Babson Entrepreneurship  
Ecosystem Project

cree + crea + crece +

In Colombia, Manizales, best known for its coffee and its schools, has registered higher levels of social progress than the capital

***“Manizales Colombia has registered higher levels of social progress than Bogota, despite Bogota’s 1.3x income...and higher income, decreasing inequality, decreasing poverty.”***

Professor Michael E. Porter

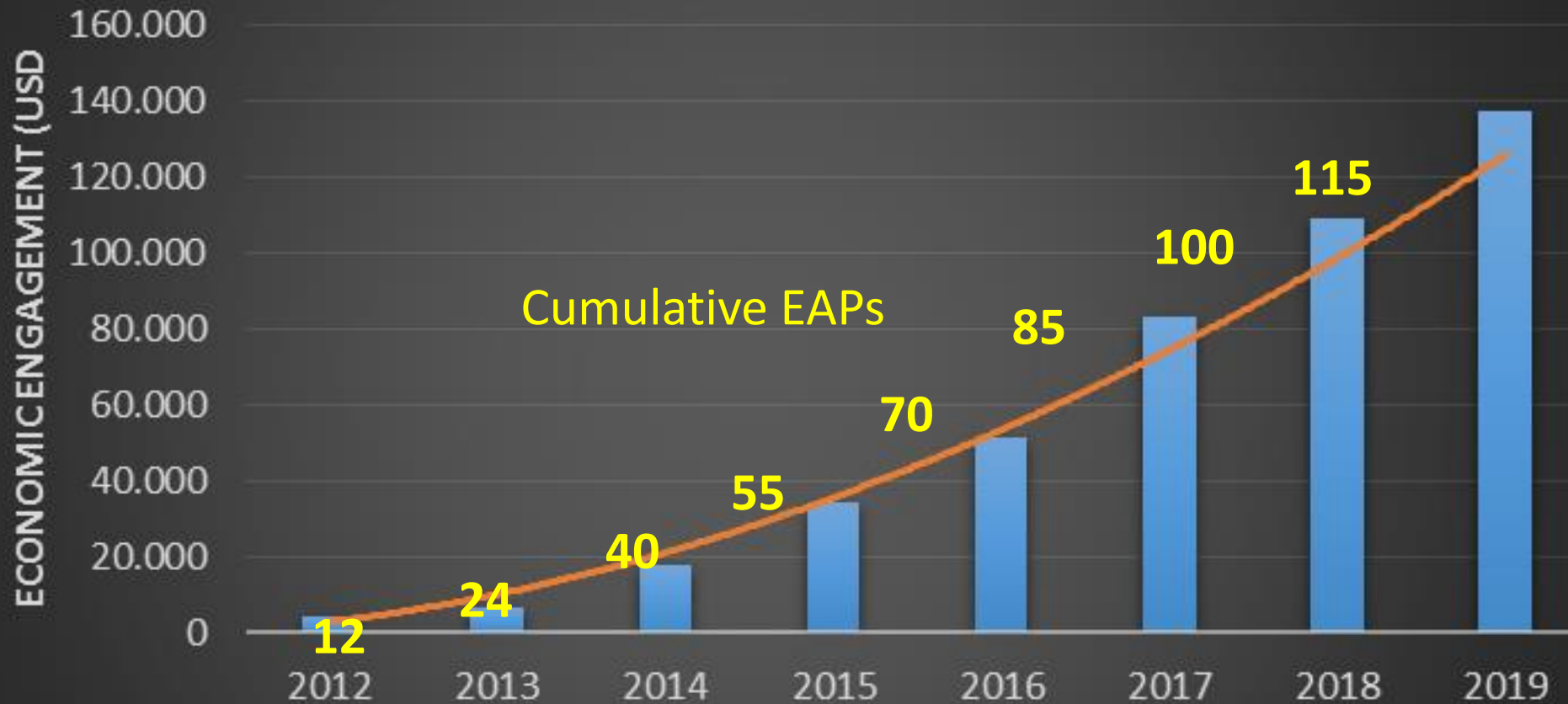
Chairman of the Advisory Board, Social Progress Imperative

September 4, 2015

*September 4, 2015*

*Professor Michael Porter, Harvard University*

## Economic Activity Pro Forma (For EAPs)



Video

# BEEP Case Example

Babson Entrepreneurship  
Ecosystem Project



## SCALE UP MILWAUKEE

**A Growth-Obsessed & Growth-Enabled Region**



# SCALE UP MILWAUKEE

AN INITIATIVE OF THE GREATER MILWAUKEE COMMITTEE

**Babson Entrepreneurship  
Ecosystem Project**

**\$65.1 Million**

2014 Total revenues of Scalerator participants

**27**

Companies graduated from Scalerator since its inception

**25%**

Median growth planned for 2015 by Scalerator participants

**41%**

Average growth planned for 2015 by Scalerator participants

**41**

Actual hires by first class since completion of Scalerator

**224**

Number of planned 2015 hires by Scalerator participants

**2,365**

Total social media followers of Scale Up Milwaukee

**Over 200 Million**

Media impressions since the start of Scale Up Milwaukee

**464**

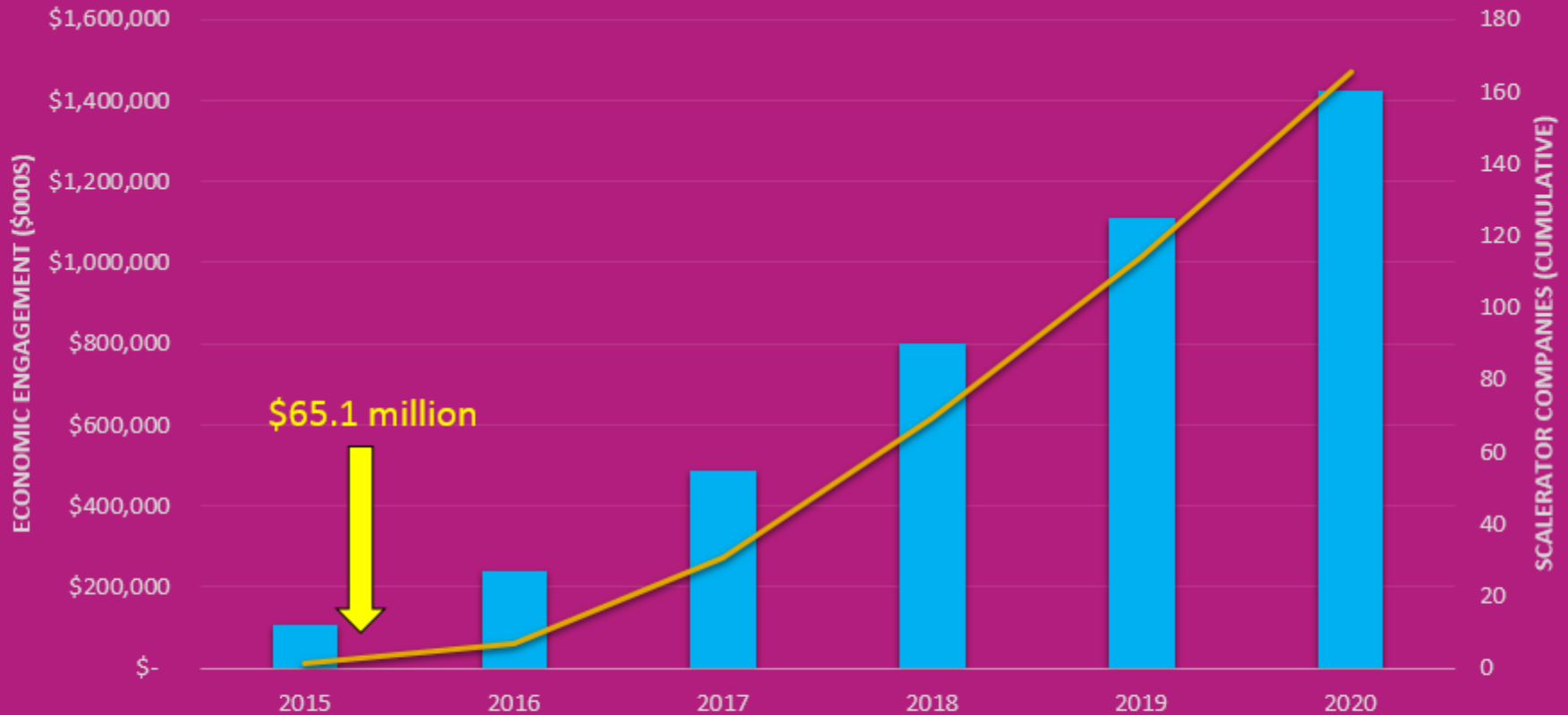
New customers acquired by Scalerator participants since the start of Scalerator

**41+**

Individual local companies engaged with Mayor Barrett through the Mayor's Growth Tour



## Economic Activity Pro Forma (Scalerator Expansion Only)



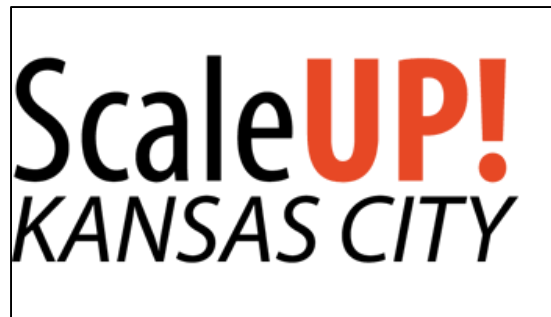
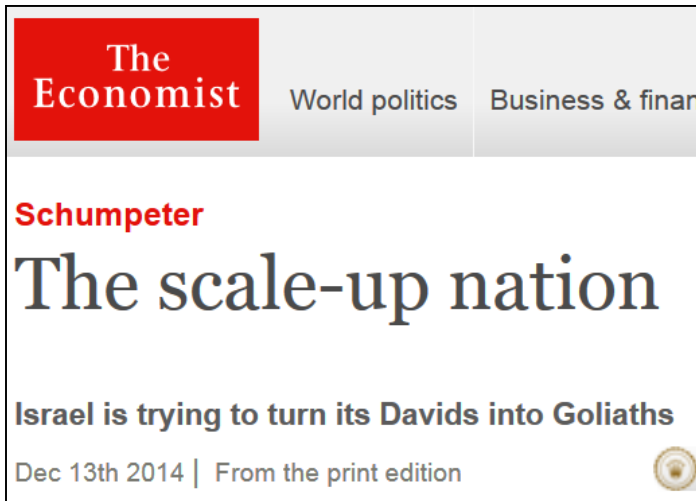
Economic engagement

**SCALE UP MILWAUKEE**





# Milwaukee is impacting global dialog



# What is going on?

Babson Entrepreneurship  
Ecosystem Project



**It is method, not magic.**



Part 3:  
Five Replicable Action Principles  
for Fostering  
Sustainable Scale Up™ Ecosystems



## **“FIVE P’S”**

**FIVE (OF MANY) PRACTICAL PRINCIPLES ON  
HOW TO DRIVE RAPID ECONOMIC GROWTH**



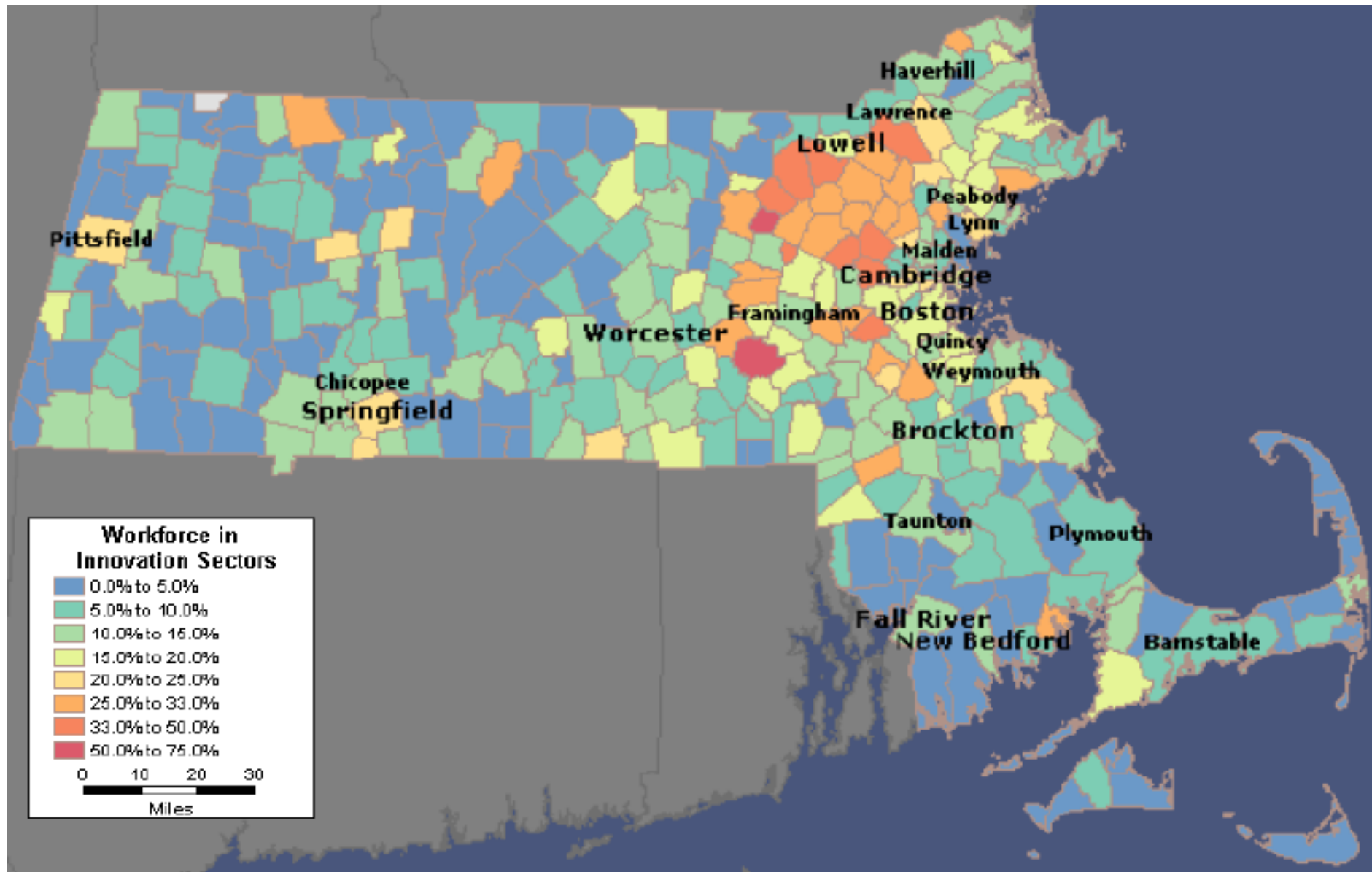
# Five “P” Practical Principles

- **Place:** Intervene in specific regions (subnational)
- High **Potential:** Focus on ventures with revenues rather than startups, or micro-enterprises, or conglomerates
- **People:** Get 15-20 most influential local leaders from different sectors of ecosystem for training, alignment, and planning
- **Purpose:** Set specific objectives for firm growth
- **Practicality:** Achieve and broadly communicate “quick wins”

# Five “P” Practical Principles

- **Place: Choose a specific region, not a country**

# Entrepreneurship ecosystems are “hyper-local”



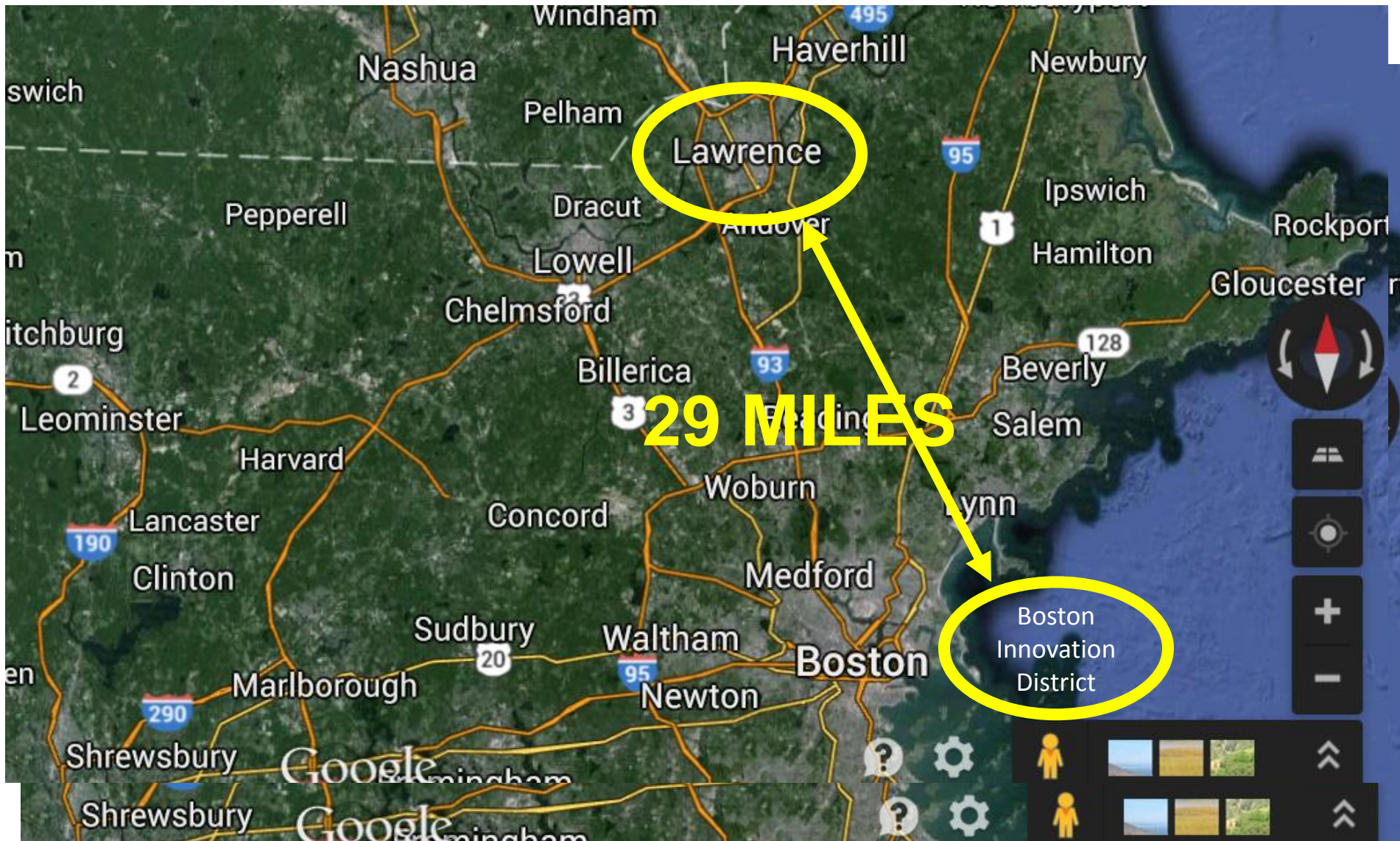


# Entrepreneurship ecosystems are “hyper-local”



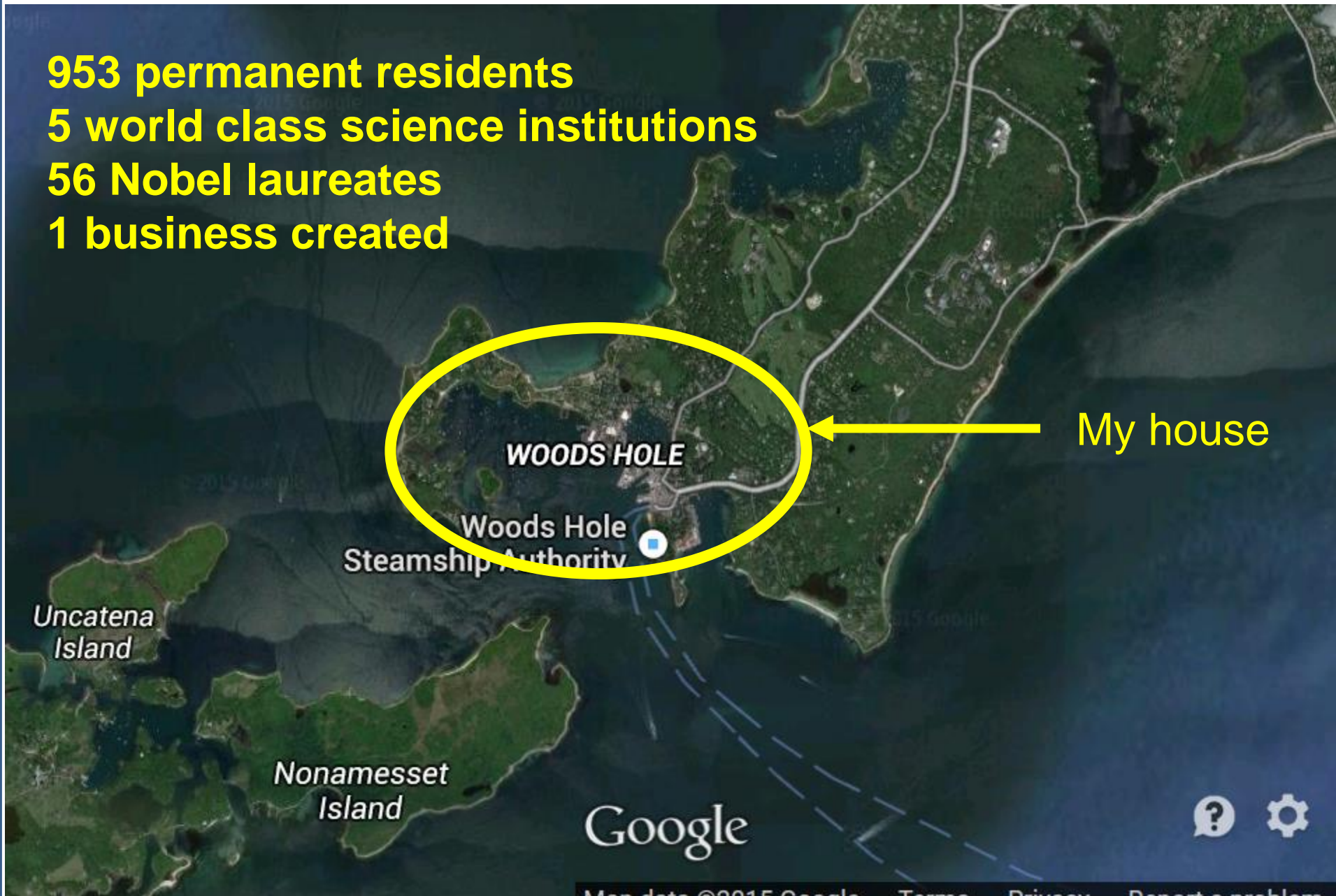


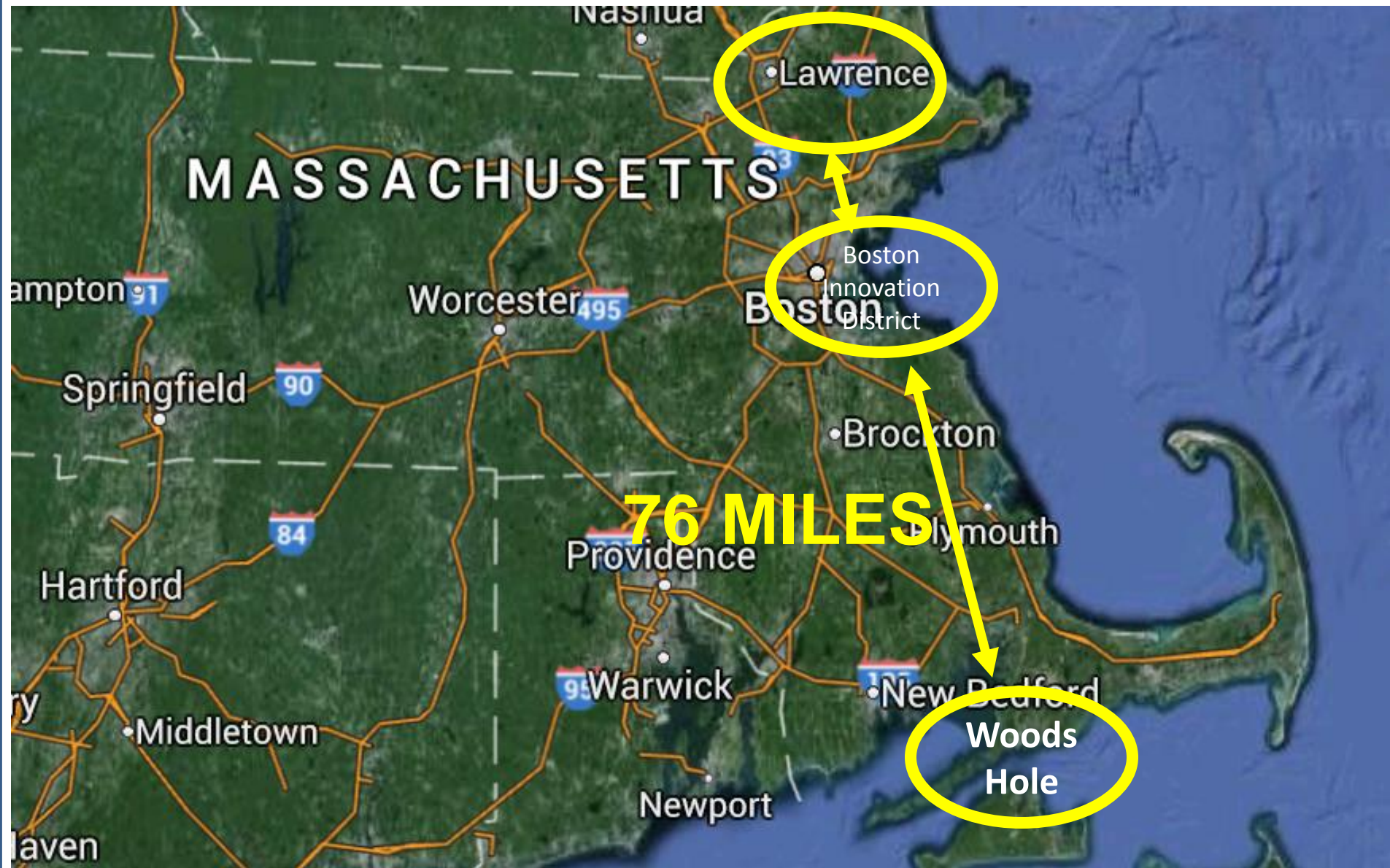
# Entrepreneurship ecosystems are “hyper-local”





**953 permanent residents**  
**5 world class science institutions**  
**56 Nobel laureates**  
**1 business created**





# Importance of specificity

**Nations are not usually good  
units of analysis**

**Variability within countries  
Is greater than between**

**Need local actors to coordinate**

**.5 million – 3 million population within 1 hour drive  
(very approximately)**

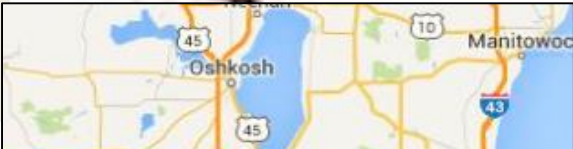


# Five practical principles

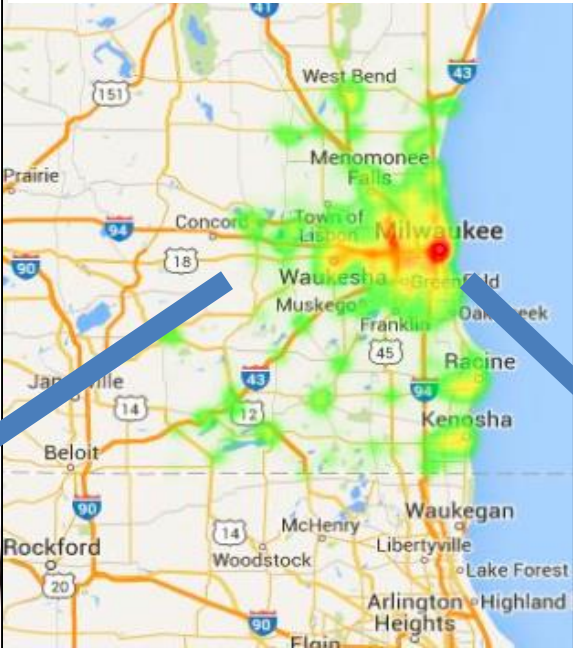
- Place: Choose a specific region, usually not a country
- **High *Potential*: Focus on existing ventures with revenues rather than startups, micro-enterprises, small businesses or large companies**

Companies between \$1-\$10 million revenues

19, 232 companies



Greater Milwaukee



5,264 companies



Waukesha

7,963 companies



Milwaukee

# Vast majority of initiatives are focused on new venture creation (startups)

- Incubators
- Angel networks
- Startup movements (Startup America etc.)
- Equity and other crowdfunding
- Small business incentives
- Coaching, mentoring
- Tax credits
- Government venture fund creation

**A mistake to start with these**



# But Startup and Scale Up<sup>(SM)</sup> are very different\*

- Start

- Goal: High number of new firms
- Measure: High survival rates
- Challenge: Access to funds

- Scale

- Goal: Low number of new firms
- Measure: High growth rates
- Challenge: Access to talent

\*Shane, S. (2009) Why encouraging more people to become entrepreneurs is bad public policy, *Small Business Economics*, 33, pp. 141-149.



Dun &  
Bradstreet

AMERICAN  
EXPRESS

Scale ups (high growth) create jobs

## **Middle Market Companies Playing a Vital Role in the U.S. Economy, According to New Research from American Express and Dun & Bradstreet**

**First-Ever Middle Market Power Index Finds Mid-Sized Companies Created 92% of Net New Jobs Since 2008**

NEW YORK, April 14, 2015 -- Middle market companies are leading job growth, employing more than 50 million people and making a contribution of nearly \$6.2 trillion to

# Scale Up<sup>(SM)</sup>- High growth firms

- Neglected in entrepreneurship policy
- Have highest spillovers (inspiration, capital, taxes, expertise)
- Have already been selected naturally
- Can show new growth in 6-12 months
- 10-20% of existing stock are able to kick start growth
- Capital efficient use of funds

# “Law of Small Numbers”



# Five practical principles

- Place. Choose a specific region, usually not a country
- Potential. Focus on existing ventures with revenues rather than startups, micro-enterprises, or large companies
- **People. Convene 15-20 most influential local leaders from different sectors of ecosystem for education, alignment, and planning**

# Domains of the Entrepreneurship Ecosystem

## Leadership

- Unequivocal support
- Social legitimacy
- Open door for advocate
- Entrepreneurship strategy
- Urgency, crisis and challenge

## Government

- Institutions  
e.g. Investment, support
- Financial support  
e.g. for R&D, jump start funds
- Regulatory framework  
Incentives  
e.g. Tax benefits
- Research institutes
- Venture-friendly legislation
- e.g. Bankruptcy, contract enforcement, property rights, and labor

## Early Customers

- Early adopters for proof-of-concept
- Expertise in productizing
- Reference customer
- First reviews
- Distribution channels

## Financial Capital

- Micro-loans
- Angel investors, friends and family
- Zero-stage venture capital
- Venture capital funds
- Private equity
- Public capital markets
- Debt

## Networks

- Entrepreneur's networks
- Diaspora networks
- Multinational corporations

## Labor

- Skilled and unskilled
- Serial entrepreneurs
- Later generation family

## Educational Institutions

- General degrees (professional and academic)
- Specific entrepreneurship training

## Infrastructure

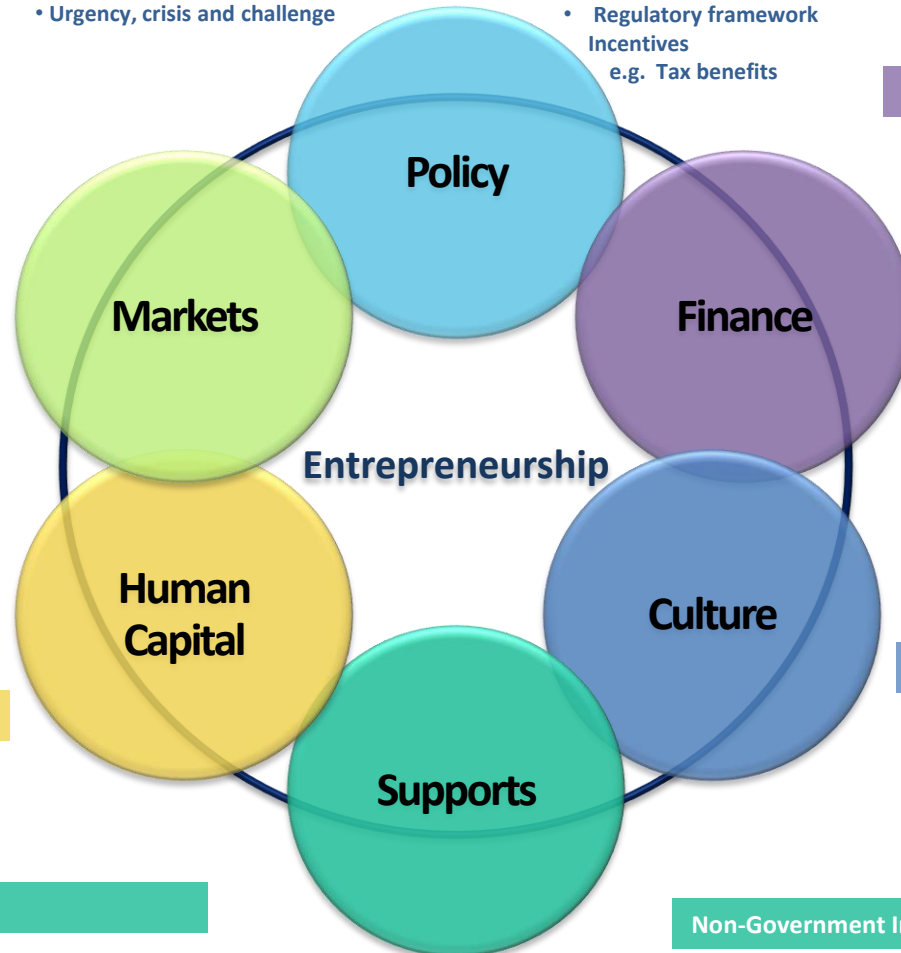
- Telecommunications
- Transportation & logistics
- Energy
- Zones, incubators, co-working, clusters

## Support professions

- Legal
- Accounting
- Investment bankers
- Technical experts, advisors

## Non-Government Institutions

- Entrepreneurship promotion in non-profits
- Business plan contests
- Conferences
- Entrepreneur-friendly associations



## Success Stories

- Visible successes
- Wealth generation for founders
- International reputation

## Societal norms

- Tolerance of risk, mistakes, failure
- Innovation, creativity, experimentation
- Social status of entrepreneur
- Wealth creation
- Ambition, drive, hunger

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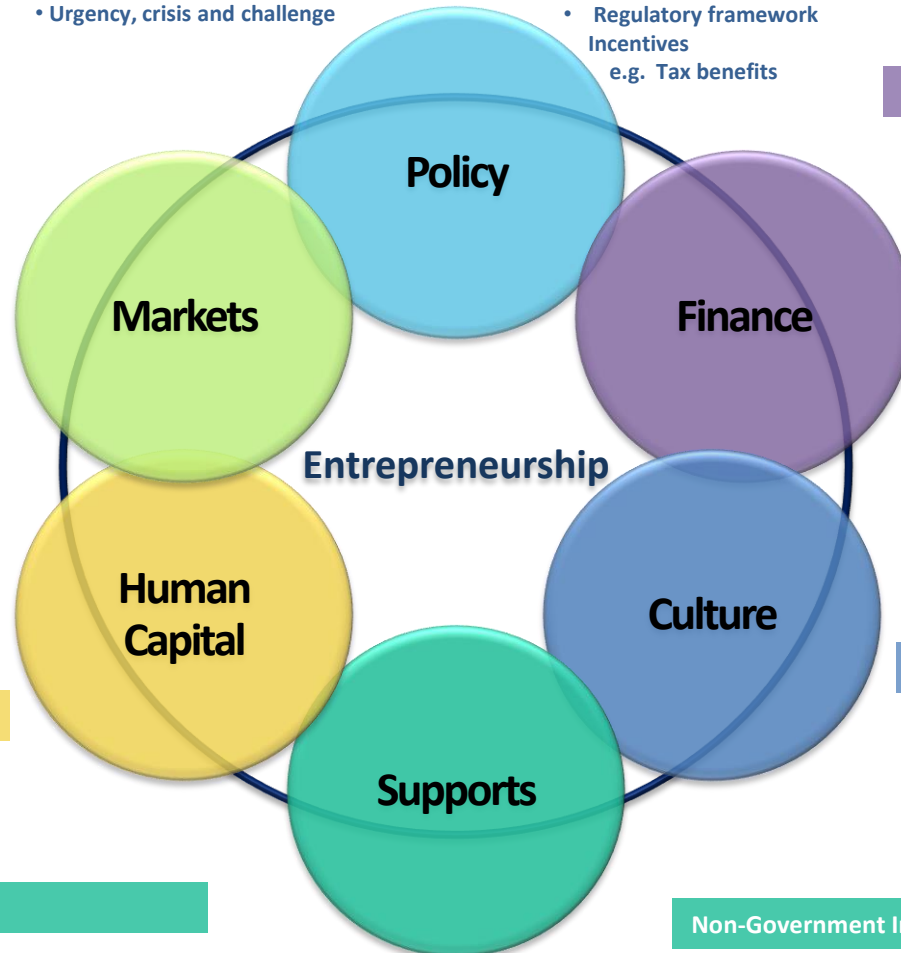
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# The problem with entrepreneurship ecosystems

News | September 8, 2015

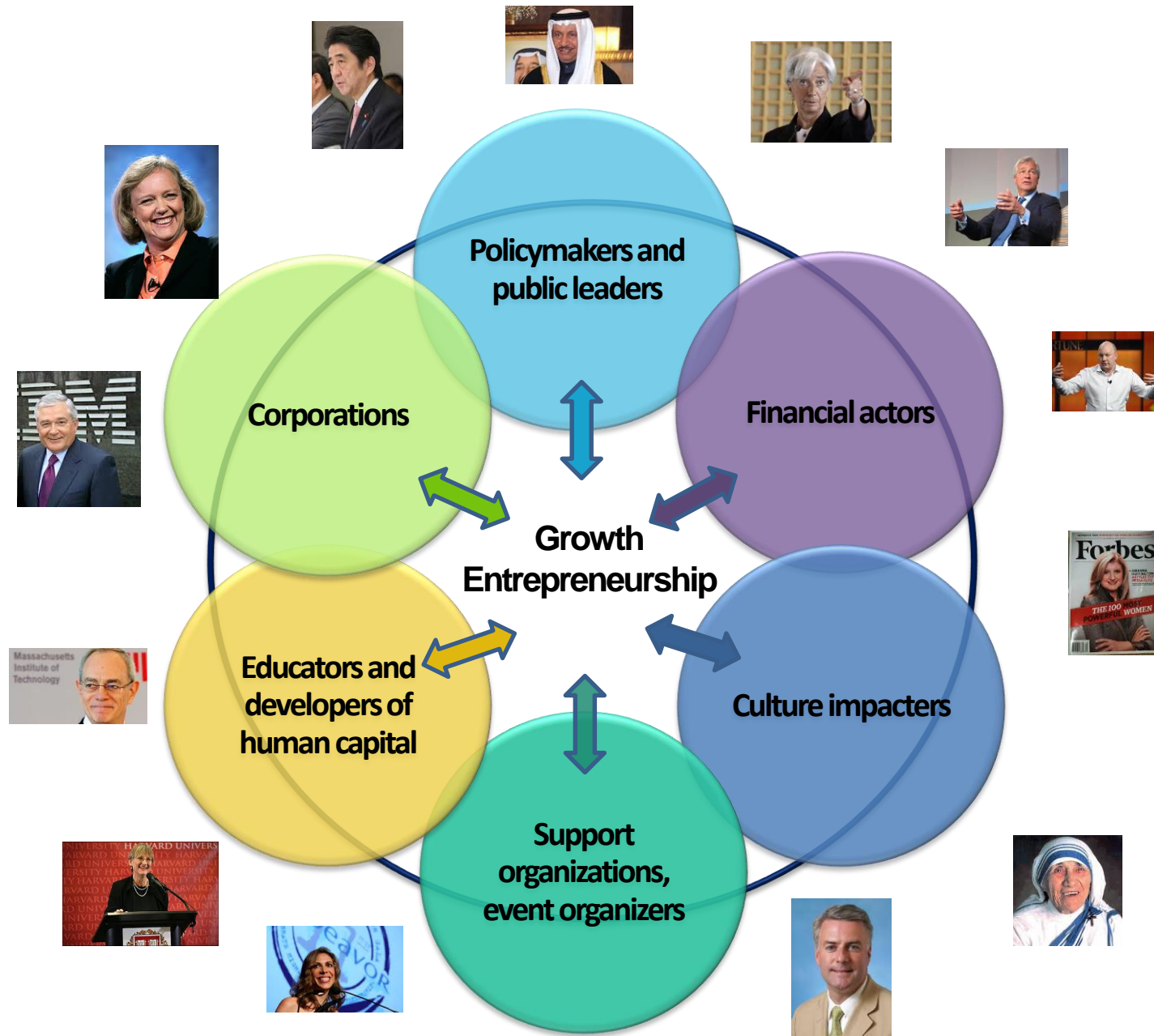


## **Ontario Government, University Of Toronto, And MaRS Secure Johnson & Johnson Innovation, JLABS For Toronto – First JLABS Incubator Outside Of United States**

"Research and innovation are fundamental to the mission of the University of Toronto," said Dr. Meric S. Gertler, President, University of Toronto. "We host a vibrant entrepreneurial ecosystem featuring nine campus-led accelerators under the umbrella of our Banting & Best Centre for Innovation and Entrepreneurship. The addition of JLABS to this ecosystem will further propel the creation of new companies and new jobs, and ultimately new healthcare solutions that will benefit individuals and our society for years to come."

"Toronto is home to a vibrant and prolific healthcare and life sciences community led by academic hospitals, world-class research institutions, top scientists, and a strong start-up ecosystem. For these reasons, Toronto is a

# Each Ecosystem Domain has Official or Unofficial Leaders



Innovation

Micro-  
enterprise

Startups

Self-  
employment

Family  
business

Silicon Valley

Technology

Misalignment can become...





Employ

Grow

Achieve

Scale Up<sup>(SM)</sup>

Be Big

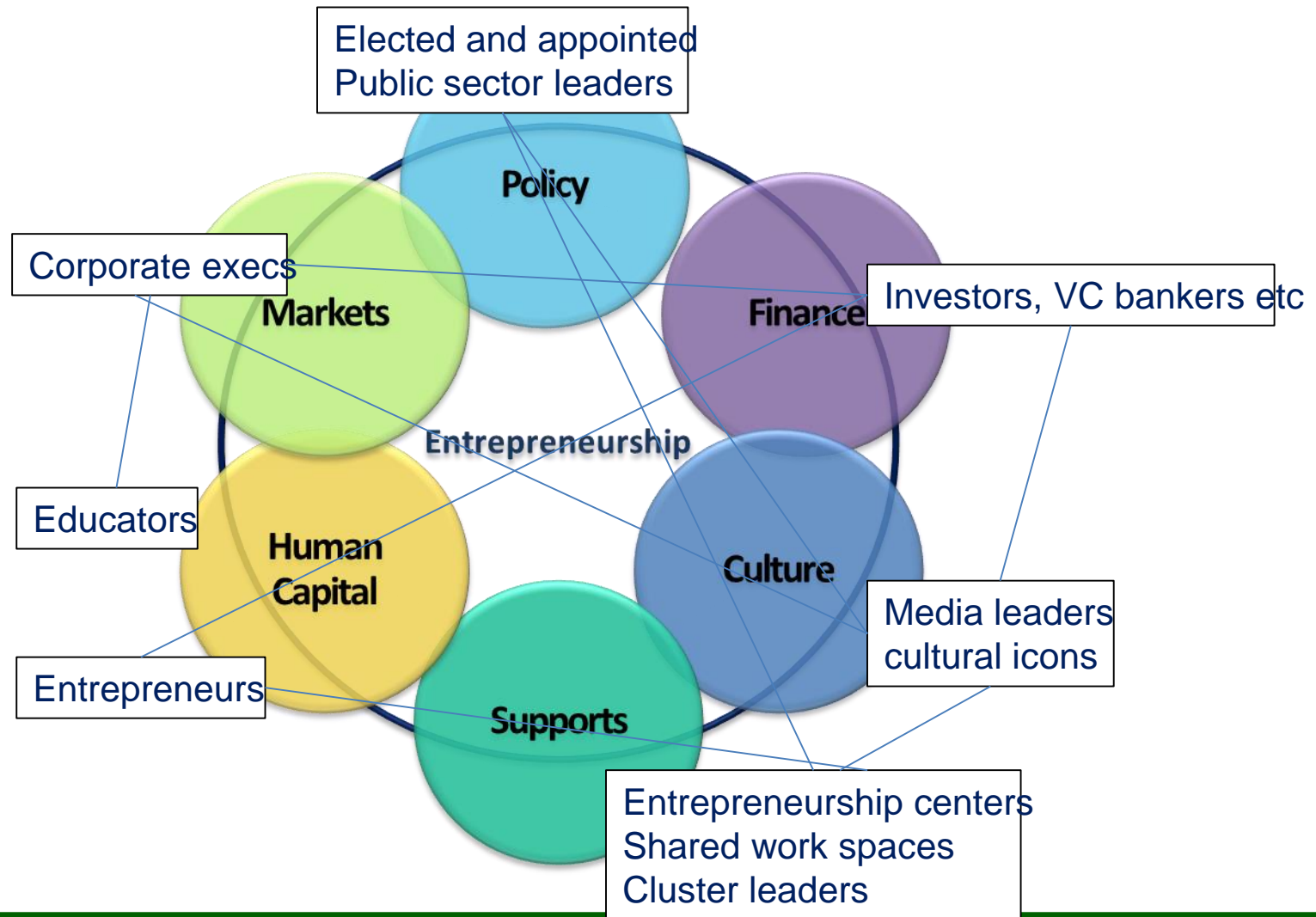
....Alignment ...

Alignment is possible...

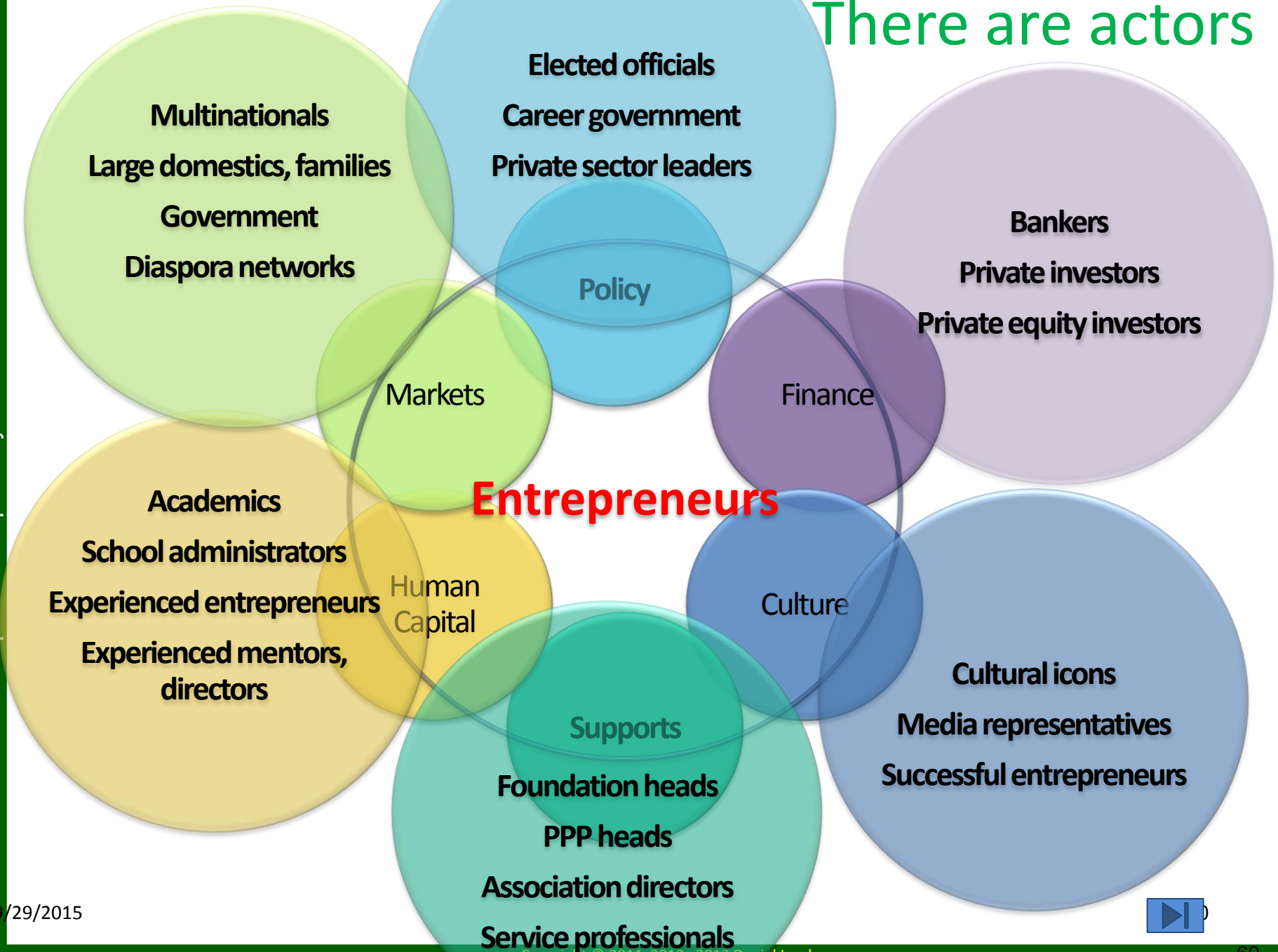


# Fostering Entrepreneurship Ecosystems

## You need a committed coalition of local leaders



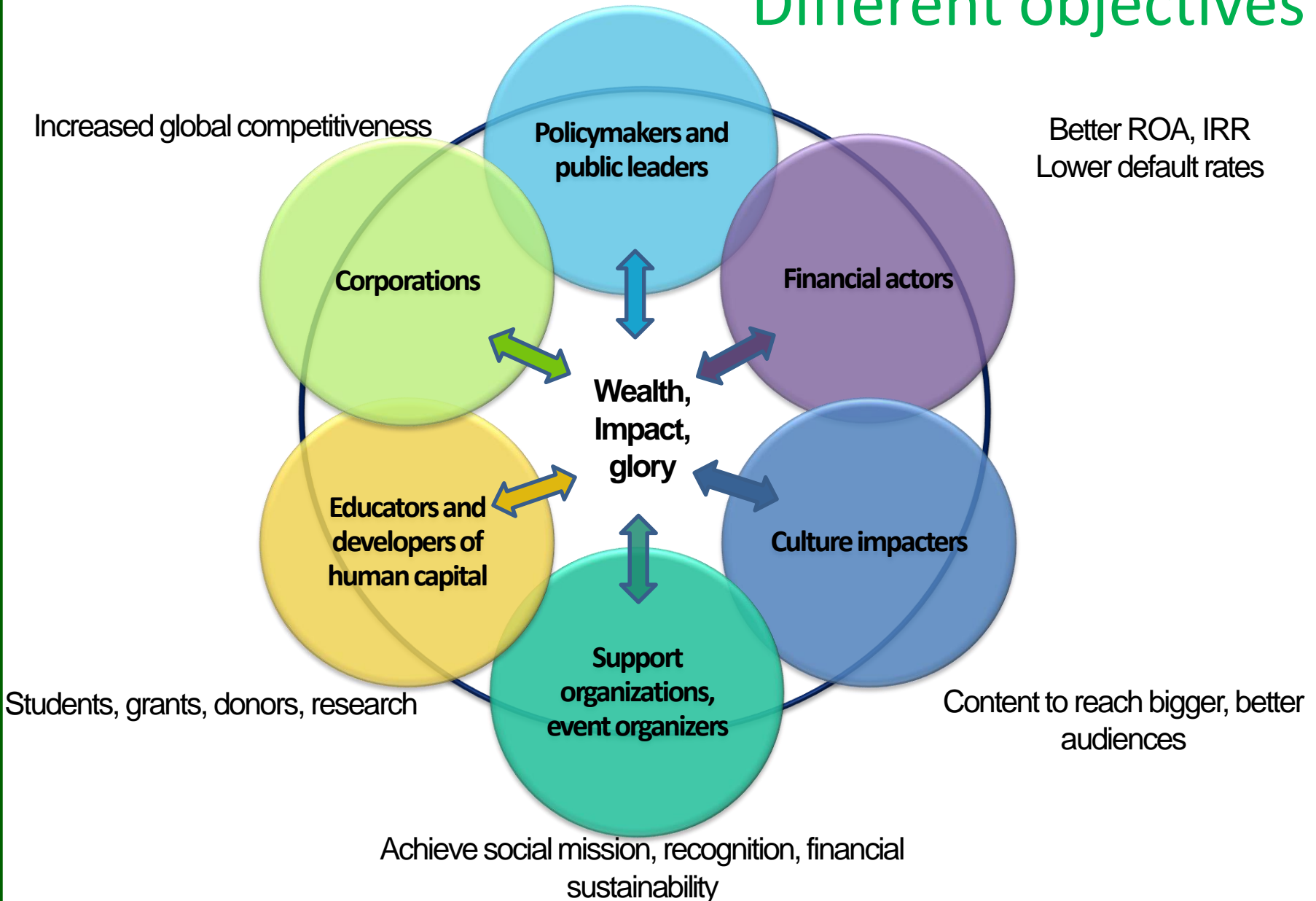
# There are actors





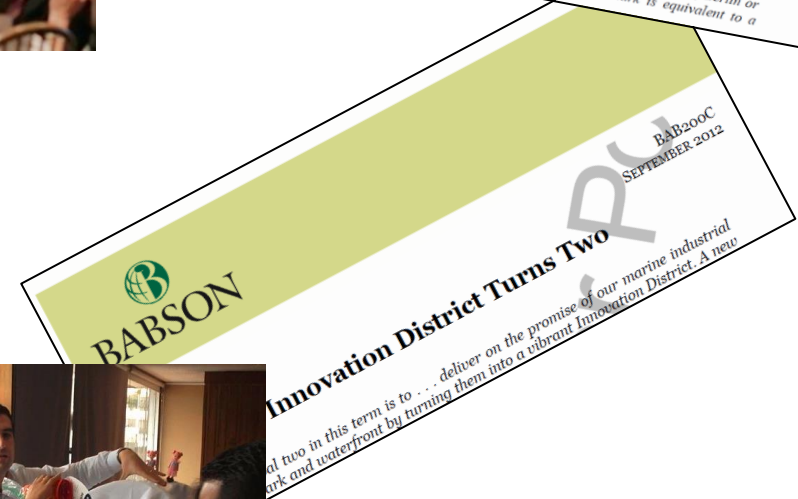
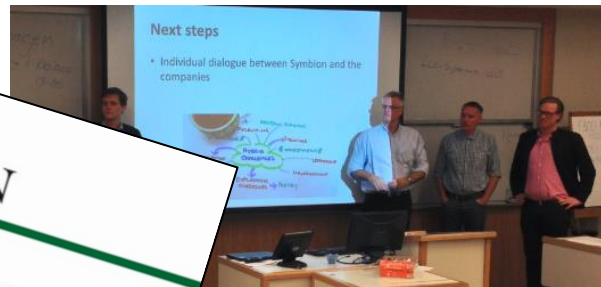
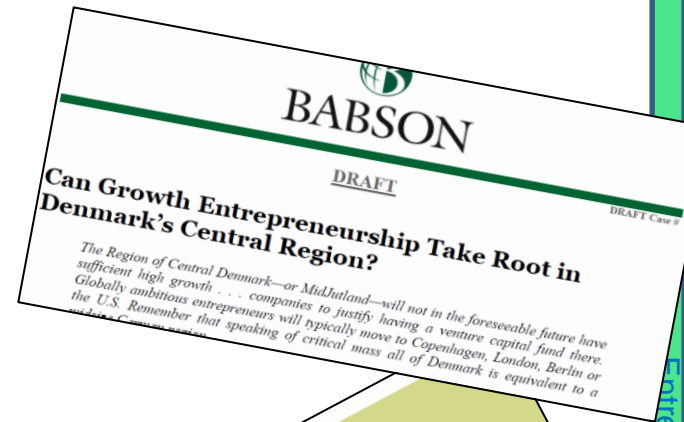
Dignified jobs, inclusion, broader tax base, votes

# Different objectives



# “Driving Economic Growth Through Entrepreneurship Ecosystems”

February 29-March 2, 2016



# Five practical principles

- Place. Choose a specific region, usually not a country
- Potential. Focus on existing ventures with revenues rather than startups, micro-enterprises, or large companies
- People. Get 15-20 most influential local leaders from different sectors of ecosystem for education, alignment, and planning
- **Purpose. Set specific objectives for how many firms need to growth more rapidly**

# Rule of thumb:

***For every 100,000 residents  
in the specific region,  
within five years there will  
be one newly, rapidly  
growing firm***



# Doctors per 1000 people

## Highest (4-7.7):

**Qatar (7.7)**

**Cuba (6.7)**

**Greece (6.2)**

Austria (4.8)

**Russia (4.3)**

**Georgia (4.2)**

**Spain (4.0)**

Median: 1.5  
Max: 7.7

## Middle range (~2.5):

**UK**

**New Zealand**

**Japan (2.3)**

**United States (2.4)**

Germany (3.8)

Belgium (3.0)

OECD (2.7, 2.9\*)

High income OECD (2.9)

High income other (3.6)

- **You need doctors**
- **You don't need very many**
- **More is not necessarily better**
- **There is natural limit**



# For example

Lagos  
~50 companies



Chennai  
~40 companies





# For example

Guayquil  
~25 companies



Quito  
~30 companies



Athens  
~30 companies



Thessaloniki  
~8 companies



Patras  
~5 companies



SCALE UP MILWAUKEE

# Imagine . .

60

Newly Growing companies by  
2020

# AND

A Region that Fosters Growth by Building a  
*World-Renown* Entrepreneurship Ecosystem

# Five practical principles

- Place. Choose a specific region, usually not a country
- Potential. Focus on existing ventures with revenues rather than startups, micro-enterprises, or large companies
- People. Get 15-20 most influential local leaders from different sectors of ecosystem for education, alignment, and planning
- Purpose. Set specific objectives for firm growth
- **Practicality. Achieve “quick wins”**

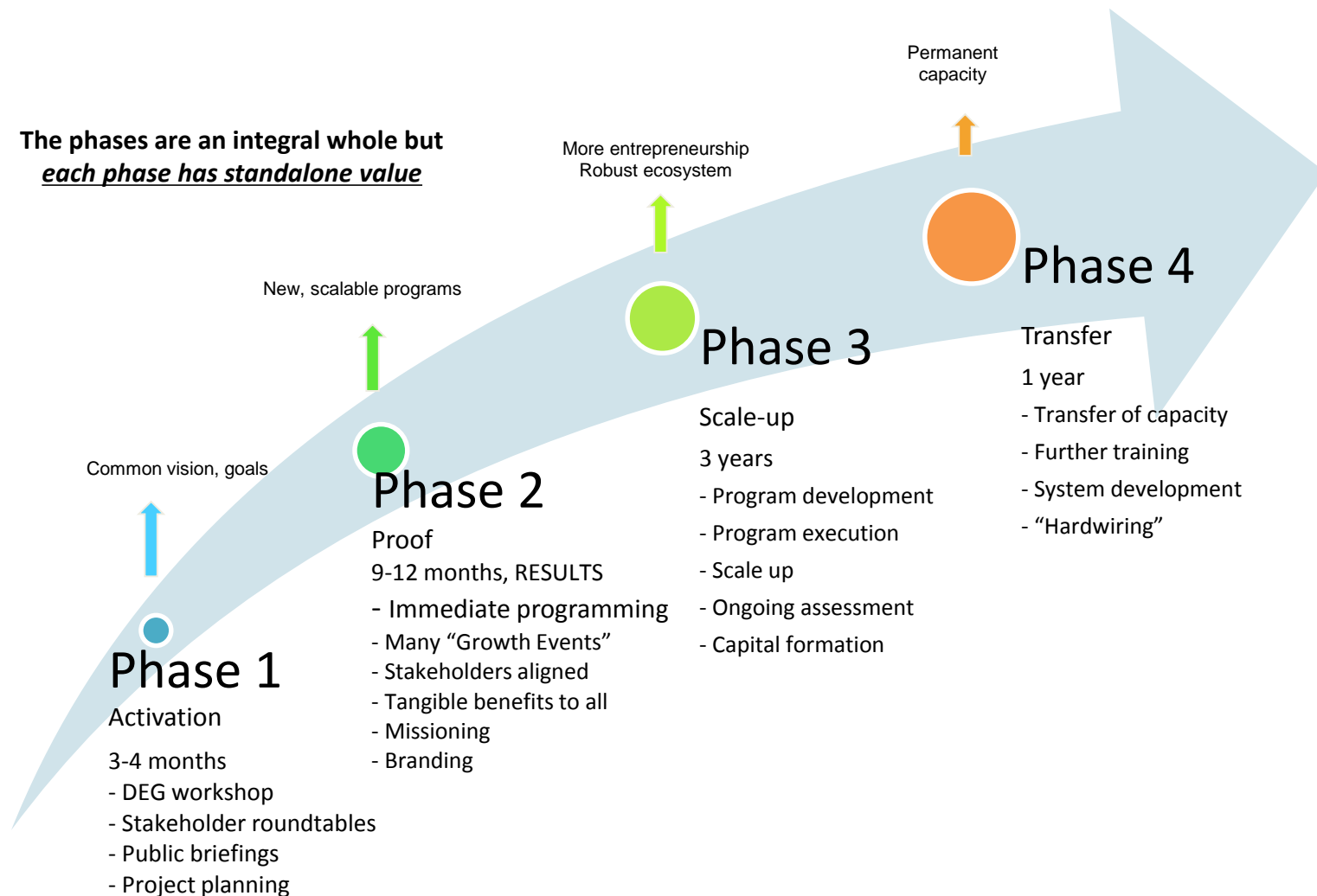


# Examples of quick wins (6-12 months)

- Scalerator Program for \$2-\$10 mio revenue companies
- Customized Driving Economic Growth Workshop
- Mayor's Entrepreneurship Programming
- CEO Forum (for larger local corporations)
- Multi-stakeholder Roundtables
- Local Case Writing
- ScaleCorps program for executives and entrepreneurs (not startups)
- Loan Officer Training

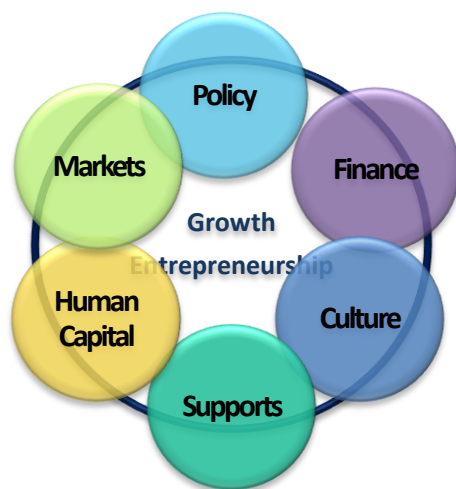
# Scaling up BEEP (5-years)

The phases are an integral whole but  
each phase has standalone value





# Structure of a BEEP program



## Programming in all Six domains

- Program
- Pilot
- Evaluate
- Scale
- Integrate
- Innovate
- Project manage

Professional team

Governance

Project team

Steering committee (governance)

Executive committee\*

- Babson responsible for recruiting, training, managing, professional decision making
- Steering committee's formal responsibilities are termination and approval of changes in deliverables
- Steering Committee vests formal authority in an Executive Committee

# Project Governance and Structure

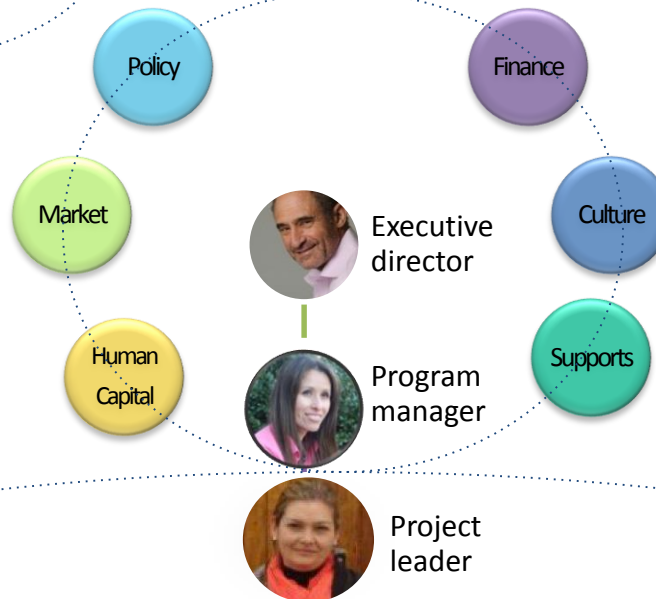
- Vini Omyemah
- Mary Gale
- Elaine Einsman
- Les Charm
- Kevin Mulkahi
- Candy Brush
- Matt Alan



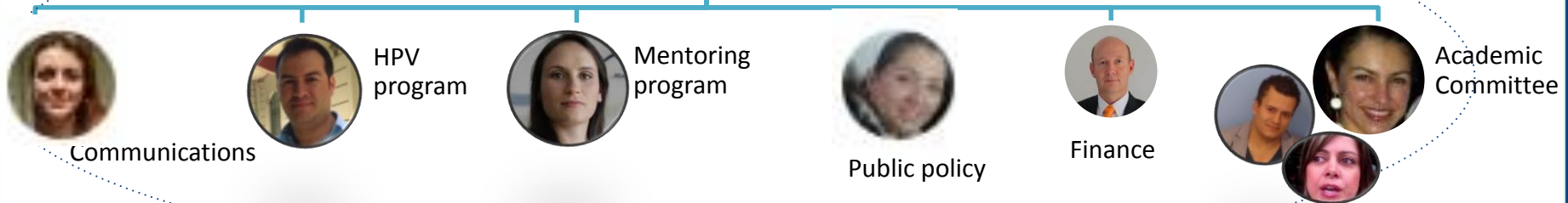
**Manizales Más  
Steering Committee**



**Manizales-Más  
Executive Committee**



**Manizales-Más  
Project Team**



# PROFESSIONAL TEAM

**Daniel Isenberg**



**Candy Brush**



**Vini Onyemah**



**Kevin Mulcahy**



**Mary Gale**



**Les Charm**



**Matt Allen**



**Elaine Eisenman**

# Five practical principles

- Place. Choose a specific region, usually not a country
- Potential. Focus on existing ventures with revenues rather than startups, micro-enterprises, or large companies
- People. Get 15-20 most influential local leaders from different sectors of ecosystem for education, alignment, and planning
- Purpose. Set specific objectives for firm growth
- Practicality. Achieve “quick wins”

# Takeaways

- Rapid economic growth is possible if
- You conceptualize entrepreneurship as growth
- You convene a group of leaders, different sectors
- From a specific location
- Set specific growth objectives
- Work quickly to generate evidence of progress

The public cost of a BEEP program in a city is <\$1 dollar per resident per year for five years.



