

# Start- Up Community

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Best Practice Report - Nicosia

*Promoting the early stages of the Start-up Communities Concept*

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## Introduction:

It is widely known that economic growth can be achieved by the promotion of competition, entrepreneurship and innovation. A feasible strategy to reduce unemployment, particularly, among youth is the encouragement of entrepreneurship.

The desire to stimulate economic and job growth via the application of entrepreneurship and innovation has been a common theme in government policy since the 1970s. Over the past 40 years the level of government interest in entrepreneurship and small business development as potential solutions to flagging the economic growth and rising unemployment has increased.

California's Silicon Valley has created an innovation and enterprise trend that flourished around the world. This trend has served as a role model for many governments seeking to stimulate their economic growth. Big names such as Steve Jobs (Apple), Bill Gates (Microsoft), Jeff Bezos (Amazon), Larry Page and Sergey Bin (Google) have become the "poster children" of the entrepreneurship movement.

What government wants is to replicate Silicon Valley and the formation and growth of what have been described as "entrepreneurial ecosystem". So what are "entrepreneurial ecosystems" and how developed countries, that are leaders in this field, can help less developed countries in order to boost their economic growth.

## What an entrepreneurship ecosystem actually is?

According to the Financial Times lexicon entrepreneurial ecosystem refers to the collective and systematic nature of entrepreneurship. New firms emerge and grow not only because heroic, talented and visionary individuals (entrepreneurs) created them and develop them. New ventures emerge also because they are located in an environment or "ecosystem" made of private and public players, with nurture and sustain them, making the action of entrepreneurs easier. In other words it can be considered as a group of companies including start-ups, and one or more coordination entities, which share similar goals and decide to form a network or organization in order to explore economies of scale combined with flexibility and strong entrepreneurial drive.

## Components of the entrepreneurial ecosystem.

The components of an entrepreneurial ecosystem vary depending on the source and the purpose for which the analysis has been undertaken. The diagram below shows the nine major elements that are considered important to the generation of an entrepreneurial ecosystem. This diagram was introduced by Professor Daniel Isenberg from Babson College in 2010 and the World Economic Forum (WEF 2013).



The entrepreneurship ecosystem consists of a set of individual elements—such as leadership, culture, capital markets, and open-minded customers—that combine in complex ways. In isolation, each is conducive to entrepreneurship but insufficient to sustain it. That's where many governmental efforts go wrong—they address only one or two elements. Together, however, these elements turbocharge venture creation and growth. When integrating them into one holistic system, government leaders should focus on the following nine key principles.

## Isenberg's prescriptions:

Isenberg also, outlined several “prescriptions” for the creation of an entrepreneurial ecosystem:

1. Stop emulating Silicon Valley – while Silicon Valley is a successful entrepreneurial ecosystem it is unique for its region and unlikely to be replicated in other areas.
2. Shape the ecosystem around local conditions – look for locally based industries with growth potential and existing capacity and build upon these foundations.
3. Engage the private sector from the start – entrepreneurial ecosystems must be led by the private sector and the role of government is to facilitate not try to lead or control.
4. Favour the ‘high potentials’ – while there must be room for all types of business attention should be given to fostering the growth of firms with the capacity for innovation and global market engagement.
5. Get a big win on board – success stimulates and motivates others to have a go and where there are successful firms they should be showcased and used as case examples for others.
6. Tackle challenges head-on – entrepreneurial activity in some areas may be stifled by an entrenched culture that is risk averse or conservative, this should be challenged by active communication and education programs.
7. Stress the roots – entrepreneurial growth oriented firms should not be flooded with ‘easy money’ through grants or venture capital flows. Firms must be profitable and sustainable with good financial management.
8. Don't over engineer clusters; help them grow organically – government enthusiasm for building industry clusters needs to be tempered by a realisation that they emerge organically from existing industries and not from attempts to ‘pick winners’ or building green fields science parks.
9. Reform legal, bureaucratic, and regulatory frameworks – a key role for government is to address legal, bureaucratic and regulatory issues such as taxation, licensing and compliance so that there are no unnecessary impediments to entrepreneurship and small business growth.

It is noteworthy to say that each entrepreneurship ecosystem is unique. Although any society's entrepreneurship ecosystem can be described using the same nine components, each ecosystem is the result of the hundreds of elements interacting in highly complex and idiosyncratic ways.

## Methodology of Cyprus Mobility.

Capitalising on the knowledge brought to the project by the variety of the consortium partners and specifically those partners actively participating in the entrepreneurial process, originating from countries where this concept is advanced, the purpose of the Cyprus meeting was to exchange ideas between the consortium partners on the referred subject.

All partners were required to provide a report for their country, based on some research questions (see appendix).

## What the consortium has to offer?

The main theme of the Cyprus mobility was to involve all the partners in order to provide a clear image of what is happening in their countries and how they could help countries that are not yet so entrepreneurially developed.

### AJEV Spain:

Even though Spain is considered a not advanced European country in the area of entrepreneurship, stands 7 points above the EU average regarding the number of entrepreneurs who made the decision to start a business. Spain believes that in order to reach a decent entrepreneurial level has to learn the good and bad practices from other countries. Additionally, using an online platform to transfer expertise and with an established network, the countries lagging in the entrepreneurship area will have the opportunity to leave in a dynamic and open economy with an efficient administrative sector which will make simple the creation of new businesses.

### Amery Bros UK:

United Kingdom is an advanced country in terms of entrepreneurship, start-ups and the support structures that create a productive environment in which new businesses are encouraged and able to succeed. There are many statistics available which can be used to various stories and experiences. It is believed that an entrepreneurial culture will not appear instantly, but develop over time at different speeds within different demographics/communities and with differing levels of success and impact dependent on multiple complex variables. Due to their high expertise and a vast trial and error stories, United Kingdom could play an important role in encouraging and supporting the entrepreneurial culture.

## EU Fundraising association Germany:

In 2012 self-employment was the main occupation for about 4.4 million people in Germany which is an increase of 42% since 1992. There is also a fast growth in self-employment of women, although female entrepreneurs are still a minority (31.7% of all self-employed persons). In general it can be stated that entrepreneurship in Germany is well-developed: There are exemplary national promotion schemes for start-ups and one can observe the beginnings of a sustainable entrepreneurial culture. Germany could be an excellent resource in order to establish programs and initiatives to support and educate other countries.

## E-juniors-France:

France has plenty of potential as a source of innovative and competitive new ventures, but has struggled to convert this into solid support for its entrepreneurs. This is an unfortunate reality for a country of this size and at this level of development (it is the fifth largest economy in the world in terms of GDP). An important part of the problem appears to be the lack of a cultural foundation for entrepreneurship. This may be happening due to the level of taxation both in terms of its direct effects on entrepreneurs, and as a symbol of the country's relative unease with private enterprise.

## Materahub-Italy

According to the latest data of Eurostat 2011, Italy has 3,8 millions of businesses, being in front of France (2,5 millions), Germany (2,1 millions) and Spain (2 millions). Italy has several gaps that are hindering the development of the business community, that are taking the economy in a condition of severe crisis with high rates of unemployment and several difficulties for companies trying to overcome or survive.

## Euroconto-Bulgaria:

Entrepreneurs are the backbone of the Bulgarian economy. They are a major source of growth and job creation. Moreover, the SMEs are the most sensitive economic units to changes in the business environment. They bear the greater part of excessive bureaucracy, while at the same time they are more active in taking advantage of the initiatives to relieve the administrative regulation. They are the ones which bore the biggest disadvantages of the economic crisis, and also they are the ones which can bring the economy back to the economic growth path.

## Mecmettin Erbakan Universities-Turkey:

Turkey is a developing country in the area of entrepreneurial activities. Entrepreneurship at a country level continues to be supported by various policy tools.



## Summary:

As previously mentioned the theme of the Cyprus meeting was “*Promoting the early stages of the Start-up Communities Concept*”.

The ultimate purpose of the meeting in Cyprus was to determine, through the answers provided by the partners which were based on the research provided by all partners, *whether countries where entrepreneurship is at an advanced stage can assist countries where entrepreneurship is not well developed*.

In the process, ENIA Rdi also reviewed a study prepared by KPMG on the subject of entrepreneurship, “Cyprus Entrepreneurship Ecosystem, A Roadmap for Economic Growth”. In that study the following components of an entrepreneurial ecosystem defined by Dr. Daniel Isenberg of the Babson Entrepreneurial Ecosystem Program (BEEP) are defined as critical that must grow concurrently and in parallel in order for an entrepreneurial environment to thrive:

1. Culture, supportive to entrepreneurs and accepting of failure
2. Customers and markets
3. Entrepreneurs and their start-ups
4. Financing: angel investors, venture capitalists and private equity firms
5. Legal and regulatory framework
6. Liaisons
7. Media (social media, publications, newspapers, magazines, blogs, TV, radio, etc.)
8. Private sector and professional services providers such as accountants and auditors, lawyers and fiduciary services amongst others
9. Universities and Research & Development ( R&D) Centres

Voice of the industry which includes associations such as the Chamber of Commerce, business associations, non-governmental organizations, informal entrepreneur groups, incubators, accelerators, etc.

In addition to the above mentioned, based on our experiences and our research, we consider extremely important the development of efficient channels for the early stages of start-ups combined with the promotion of innovation and collaboration between start-ups and support organisations.

It is hereby noted that complex financing schemes, complex application forms and other strict regulations constitute most calls as out of reach by start-ups and new entrepreneurs, although HORIZON 2020 seems to be in the right direction in attracting applications from start-ups and SMEs.

On the question about the most appropriate method(s) to assist countries lagging in the entrepreneurship we pinpointed the answer which identified the United States as the most entrepreneurship friendly country in the world. According to the same answer over two-thirds of the people globally polled said that "fear of failure" was their number one obstacle to starting a business while 62% of the people polled in the U.S. are not afraid to fail and at the same time four out of ten Americans can imagine starting their own business. This answer emphasizes the twofold need for the European Union to assist or facilitate the development of an entrepreneurial



ecosystem across Europe and establish a legal and regulatory framework that will allow European citizens to not be afraid of failure.

Our conclusion on the referred issue is that as an economy and as a society, at the European level, we need to seek to identify methods that will allow the development of an entrepreneurship culture across the whole of Europe.

The argument on the need for the development of an entrepreneurship culture across Europe is complemented in another answer through the referral of a speech on a conference in Berlin in 2011, where Bernard-Louis Roques, from Truffle Capital stated the following: *"We [Europeans] are in a comfort zone. There is a welfare state here in Europe and many things are free and available, and so maybe the sense of emergency is not here. In the U.S. if you don't have a job, you have to get one because they don't have such generous payments. It is a big problem in Europe. It is the disadvantage of rich countries. The so called "poor countries," such as Brazil, have this hunger. They are going to catch up on us."* Although we need to be extremely careful not to mimic or better idealise the American way of doing business and developing new companies, we need to compare the European way with other more successful cultures.

It is also worth noting the comment of another partner for the need of an online platform accessible in different languages for crowd funding, business angels and incubators as well as for the dissemination of the results of successful project and exchange of ideas and free communication between users. On our side we would like to emphasize the pan-European nature of such a platform in order to be of true added value. The issue of financing across Europe, meaning the complexity involved in a new entrepreneurial firm receiving seed financing from an investor based in another country, combined with the complexity of cashing in, meaning realizing profits on the investment for example through selling the shares in an IPO, is in our opinion one of the major constraints holding back entrepreneurship in Europe.

On the issue of indicators, the following very straight forward set of indicators was defined, that in our opinion, would help in assessing the stage a country is in terms of entrepreneurial development. Properly measuring the following indicators will also help in giving a European view of entrepreneurial development:

- a) Number of start-ups
- b) Survival rates of start-ups
- c) Number of self-employed people
- d) Number of patents granted
- e) Investment in start-ups
- f) Government policy and support
- g) Presence of support organisations

The other main question was whether project management is important for the entrepreneurial process. All participant organisations answered positive and one of them actually defined the need for project management skills in the entrepreneurial process by stating that *if the entrepreneur does not have a clear understanding of the resources available for its business and the possibilities how he can use them, then the business will fail. A successful entrepreneur is the one who obtains maximum of results with minimum resources.*

## Entrepreneurial Ecosystem Indicators:

Throughout Europe and within each individual country there are communities at very different stages along the journey to a well-developed entrepreneurial ecosystem. As an initial exercise in understanding how developed a country is, the following indicators can be useful. Here, we propose four indicators that we think answer the question from ecosystem leaders: what do we measure, and how do we measure it?

**Density:** At the core of any entrepreneurial ecosystem are the entrepreneurs themselves, so naturally we want to know how many entrepreneurs are in a given city or region. The most straightforward way to measure this is the number of new and young companies per 1,000 people in your city or metro area, where “young” can mean less than five or ten years old. This will tell you, in the most basic way, how the level of entrepreneurship changes over time relative to population. Another way of getting at density is by looking at the employment impact of new and young companies. Entrepreneurial vibrancy should not just be measured by the number of companies—it also should include all the people involved in those companies. Thus, another data point to track is the share of employment accounted for by new and young companies.

**Fluidity:** The indicator of entrepreneurial vibrancy is fluidity. Entrepreneurial vibrancy means people both coming and going. One of the principal resources that entrepreneurs need is people, and population flux should provide a mixing and remixing of people, strengthening entrepreneurial bricolage. Population flux tells us about geographic mobility more broadly, but individuals also need to be able to find the right match with different jobs within a region. The pace at which they are able to move from job to job and between organizations also should be an important indicator of vibrancy. The third suggested measure of fluidity is the number (and density) of high-growth firms, which account for a small share of companies, but are responsible for a disproportionate share of job creation and innovation. A concentration of high growth firms will indicate whether or not entrepreneurs are able to allocate resources to more productive uses and rapidly capitalize on that process of bricolage.

**Connectivity:** A vibrant entrepreneurial ecosystem is not simply a collection of isolated elements—the connections between the elements matter just as much as the elements themselves. Recent years have seen a proliferation of entrepreneurship education and training programs around the world, but the mere existence of programmatic resources is not the same thing as effectiveness, let alone vibrancy. Connections matter, and a dense network of connections, among a small number of programs, is arguably more important than a sparse network among a larger number.

**Diversity:** What we have in mind here is not diversity instead of specialization, but a diversity of specializations. Cities and regions that specialize in multiple economic areas should enjoy greater entrepreneurial outcomes than those that only specialize in one or two industries. Additionally, we would like to see how well your entrepreneurial ecosystem successfully diversifies opportunity. The purpose is to improve the quality of life for citizens, to expand opportunity, and to create a virtuous circle of opportunity, growth, and prosperity.

These indicators are a starting point and can guide initial stages in exploring how developed an entrepreneurial ecosystem is in a community or a country. Analysis beyond these is vital, looking at factors specific to each case and deeper research where appropriate. Of note is the purpose of this process which can be to identify areas for improvement, to understand how to build a new ecosystem and to bring together stakeholders in the design of a future ecosystem appropriate for each community.

## Building Blocks to an Entrepreneurial Ecosystem – The model.

An entrepreneurial culture will not appear instantly, but develop over time at different speeds within different demographics/communities and with differing levels of success and impact dependent on multiple complex variables. What follows are some of the core factors worth researching, exploring in your community and using as guidance in developing a strategy or planning practical steps in building your entrepreneurial ecosystem:

1. **Education** – is paramount for an entrepreneurial culture. There are many skills, abilities and qualities which are very important which can be gained through education and delivered to almost everyone during compulsory education – there is no other opportunity to ‘catch all’ and no better time to do so than when people are young. The shape and structure of education that is beneficial is not pre-determined and must vary for different countries and different communities within each country, this said there are elements which can always be incorporated:
  - a. **Employer engagement** – students having access to and the opportunity to work with businesses
  - b. **Enterprise education** – working on real life projects and managing them from inception to delivery to raise capacity and confidence
  - c. **Awareness** – of entrepreneurialism as a career path, what it involves and the likely challenges that will be faced throughout
  - d. **Core skills** – such as creative problem solving, effective professional communication, sales techniques
2. **Entrepreneurial spirit** – though difficult to define and actively increase, this can be broken down to provide a starting point for generating activity and momentum promoting entrepreneurialism, and making it a more natural part of any community. Our starting point components are:
  - a. Prominence of entrepreneur role models – give them some publicity and support
  - b. High profile organisations offering competitions and publicity – across enterprise and entrepreneurship sectors
  - c. Support for socially focused community action projects - that inspire and enable people to develop and deliver ideas
  - d. Increasing the national reputation of entrepreneurs and the positive impact they can have on society and the economy
  - e. Nationally funded programmes – that give people the chance to try their own small project or business

This spirit should contribute heavily to raising aspirations to become an entrepreneur and belief in it as a viable career path. It also provides the vehicle for generating positive press around entrepreneurs and understanding the value they add to the community.

3. **Appropriate infrastructure** - this removes many barriers for entrepreneurs and is widely varied across the EU. Of particular note are; the process of starting a new business, an appropriate tax system for start-ups and an efficient administrative sector that promotes and supports young businesses. More specifically an entrepreneur's infrastructure program, like the Australian's Government one should be researched, which offers:

**Business management:** Provide support for business improvement and growth through Business evaluations, Supply chain facilitation, Growth services and grants.

**Research Connections:** Helping small and medium businesses collaborate with the research sector to develop new ideas with commercial potential.

**Accelerating commercialisation element:** expert guidance, connections and grants to accelerate the commercialisation of novel intellectual property in the form of new products, processes and services.

4. **Opportunity for practical experience** – in education, employment and normal life. When people are given the chance to bring their own ideas to life there is a higher chance that they will have the confidence and ability to start a business of their own. In many countries this opportunity is rare, but in some it is very accessible which leads to a comparatively high uptake and increased entrepreneurialism. It is also of note that this practical experience can create better employees and increase innovation.
5. **Support Infrastructure** – provides a far lower access point and a much more effective process for the development of sustainable start-ups. Though it is important to first research the need there is a range of components that can be successfully used to develop and support an entrepreneurial culture:
  - a. Co-working spaces – provide early stage facilities for new ventures and access to a simple network of like-minded people, also very functional for self-employed people
  - b. New business incubators – give start-ups the wrap around support based on practical experience to enable them to focus on their core business and fulfil all other responsibilities
  - c. Start-up Accelerators – offer programmes for start-ups to drive their business forward in a short space of time with access to valuable mentors, investors, networks and professional services
  - d. Networks – will develop naturally over time but can offer people encouragement, experienced help and the chance to meet relevant people for future collaboration and sales
6. **Finance** – is essential to build an entrepreneurial culture and give it real momentum. It is rare for a new venture not to require finance at some point in its early life, and often this finance enables it to take significant steps forward. The accessibility to different levels of money is vital so founders can target their strategy and plans around genuine prospects and focus on being sustainable and capable of growth.

## Research Conclusion

The research submitted by participating organisations provided a guidance on the different views and perspectives, related to the development of an entrepreneurial ecosystem and especially on how the countries that are leaders in this area can help those that are laggards.

There are certain conditions that need to be met in order for entrepreneurship to be promoted in the European Union. A combination of legal, regulatory, financing, educational and framework actions are required both at the “state” and at the European level.

In a report by the World Economic Forum on the subject of “Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics” it is noted that “Entrepreneurs view three areas of an entrepreneurial ecosystem as being of pivotal importance – accessible markets, human capital/workforce and funding & finance.” In the same report it is noted that entrepreneurs themselves can play multiple important roles in the build-out of an entrepreneurial ecosystem and at the same time five important roles are illustrated – mentorship, inspiration, investment, new founders and new employees.

We are confident that the results of the Start-Up Communities and other projects funded by the European Union can be of added value to the overall effort conducted to promote entrepreneurship across Europe through the development of the required culture and the required regulations and policies.