

Why Entrepreneurial Diversity Is the Secret Sauce Behind Resilient Entrepreneurial Ecosystems

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Behind every successful unicorn, there is a strong backbone of local entrepreneurs. While our fascination with these mythical creatures persists, we should remember the crucial role of other entrepreneurs who provide vital assets within entrepreneurial ecosystems like Tel Aviv or Berlin, bearing the brunt of failures incurred by high-flyers.

Current research emphasizes how various inputs in entrepreneurial ecosystems, such as finance, knowledge, infrastructure, and social networks, influence entrepreneurial outputs and regional economic performance. However, academic literature continues to hold on to high-growth firms as the only desired output of entrepreneurial ecosystems. Considering that entrepreneurial ecosystems thrive in diverse locations, from established regions like Silicon Valley to emerging areas such as Greenwood – Mississippi, and even developing countries in Africa, it is all the more concerning that we implicitly assume every region will produce high-growth firms or that all entrepreneurs aspire to rapid expansion.

In contrast, entrepreneurial ecosystems offer a range of desirable outputs beyond high-growth firms or unicorns. We focus on the role of specific entrepreneurial ecosystem resources that foster different entrepreneurial types, such as startups, SMEs, or big multinationals. We contend that entrepreneurial diversity is the backbone of a resilient entrepreneurial ecosystem.

To investigate this, we conducted a study analyzing a large dataset of four types of entrepreneurship distributed over 759 cities across more than 100 regions globally (e.g., Los Angeles, London, New Delhi, Tel Aviv, Berlin, Zurich, Paris): 61,583 startups, 7,863 co-working spaces, 228 influencers, and 88 global scale-ups. In addition, we assessed the quality of the business environment and the entrepreneurial ecosystem in each city by looking at the resources they provide. We study the differences between startups, co-working spaces, influencers, and global scale-ups by looking at which ecosystem resources they depend on and if the business environment has a stake in whether the different types emerge in a city. We were curious to know:

What is the difference between entrepreneurs, and which entrepreneurial ecosystem resources are needed to support them?

We put the entrepreneurs in categories of inward- and outward-looking types to understand their symbiotic relationship. Inward-looking entrepreneurs focus on the localized actions of individuals or organizations, creating a primary impact within an ecosystem. For instance, startup activities (e.g., Airbnb) that create a market opportunity led by highly-motivated entrepreneurs or co-working spaces (e.g., WeWork) provide a physical space to work, network, and share knowledge. In contrast, outward-looking types of entrepreneurship are more mature and focus on creating a global impact, transcending ecosystem boundaries. For example, the actions of influencers, such as founders or executives of large multinationals (e.g., Elon Musk or Jeff Bezos), acting as role models and formulating public expectations and opinions by influencing entrepreneurs, society, and government, or global scale-ups (e.g., Apple, Microsoft), which redirect resources into productive entrepreneurial activities and secure the ecosystem's support for

their ideas.

We saw differences between inward- and outward-looking entrepreneurs. While material and social ecosystem resources increase the likelihood of having inward-looking entrepreneurs, social networks and cultural resources predict outward-looking types. Furthermore, we discovered that a high-quality business environment in a city positively impacts the effects of each resource on the different kinds of entrepreneurship.

If we aim to replicate the success stories of renowned cities or regions, we often encounter challenges when formulating entrepreneurial ecosystem policies. It rarely yields the desired effects when we try to copy the Silicon Valley success story or transplant infrastructure concepts from entrepreneurial hotspots like London, Berlin, or Tel Aviv to regions with less entrepreneurial activity. We can explain this phenomenon with the metaphor of an iceberg, where we only see the visible successes – the high-flyers – while numerous hidden champions provide support below the surface. A thriving and resilient entrepreneurial ecosystem needs entrepreneurial diversity, bolstered by inward-looking entrepreneurs who contribute to constant economic development.

Policymakers can nurture a self-sustaining and resilient entrepreneurial ecosystem by fostering a symbiotic blend of inward- and outward-looking entrepreneurs. This involves three key steps:

- Analyze the prevalent mixture of entrepreneurship types in your ecosystem.
- Select the entrepreneurial type you want to foster.
- Implement tailored policy actions to spur entrepreneurial diversity.

More concrete, customized policy actions to promote the emergence of inward-looking types of entrepreneurship encompass strengthening the material and social entrepreneurial ecosystem factors. This includes investment in science parks and research centers to foster new knowledge, enhancing infrastructure (e.g., Internet speed), and developing business incubators to facilitate networking activities. Conversely, policymakers can bolster outward-looking entrepreneurship by improving social and cultural factors. This involves fostering diversity tolerance in cities, cultivating an entrepreneurial culture, reducing bureaucratic barriers, and investing in language education.

Understanding the heterogeneous nature of entrepreneurship empowers policymakers to attract the most desired types of entrepreneurship that drive economic development in their cities.

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