

Inclusive Entrepreneurial Ecosystems

> Overview

ESI Center for the Future of Cities intends to produce a multi-platform thought leadership research campaign on inclusive entrepreneurial ecosystems as a critical driver for the future success of cities. The significance of this research effort lies in the premise that cultivating a diverse and inclusive climate for all entrepreneurs to succeed takes intentional and sustained effort and is essential for a city to thrive in the future.

This initiative will draw from quantitative and qualitative research to determine which cities are succeeding and why, to provide a blueprint for others desiring to enhance their city's competitiveness in this way. Participating sponsors will receive full recognition of their ownership of this research effort on all end products (e-book, summary briefs, dedicated webpage), and will have access to all data, research, and tools produced, as well as participation in multiple venues for engagement on the topic (e.g., social media promotion, symposia, speaking opportunities).

> Premise for and Significance of Proposed Research

We at ESI Center for the Future of Cities believe that the cities that thrive in the future will do so by creating inclusive entrepreneurial ecosystems that address structural barriers and create access points for diverse participation. Our aim in this proposed research effort is to use data analysis and best practices research to shed light on how cities can get there.

Cities have always competed with each other as places of human expression, cultural exchange, and commerce. An important way that future cities will compete is as inclusive entrepreneurial ecosystems. This is true for two reasons. First, in our global knowledge economy, regions compete through innovation. Second, innovation requires diversity and intensity of interaction.

Despite the mythology around innovation – think of the solitary white-haired inventor toiling away in his lab until he reaches a “eureka!” moment – research shows that innovation generally happens in increments rather than all at once and is birthed by teams and not individuals. And innovation is accelerated in settings where interactions between diverse groups can happen frequently and at times, unexpectedly.

While innovation can emerge from anywhere in the world, cities represent an important location because of the possibility cities offer to gather people at scale, colliding together new insights and disparate perspectives to inch our way to breakthrough. That is, after all, the fundamental value proposition of cities, that concentrations of people create a virtuous cycle of discourse birthing new ideas, compelling more people and money to flow in, leading to still more engagement and energy and innovation.

But unlocking that value proposition takes hard and intentional work. For innovation cannot happen when entire groups are systematically excluded from making contributions and reaping the benefits based on race, ethnicity, sex, or income level. Unfortunately, there remains far too much disparity in access, resources, and opportunity in cities across the country, the legacy of historical injustices whose systemic influences carry into the present.

Thus, cities that fail to recognize and address the barriers that keep all entrepreneurs from succeeding will not only be less equitable places but also less successful places. Conversely, cities that desire to thrive in the future need to understand how to create inclusive entrepreneurial ecosystems. This research effort proposed by ESI Center for the Future of Cities intends to provide the quantitative and qualitative substance to help cities achieve this.

> Methodology

Any good research effort starts with asking good questions. These are ours, which will guide our explorations and yield insights to advance the state of inclusive entrepreneurial ecosystems:

- I. What cities are doing well in creating inclusive entrepreneurial ecosystems that enable all businesses to form, grow, and thrive?*

An important feature of this proposed effort is that it will be supported by empirical research. The question of how to build inclusive entrepreneurial ecosystems can be answered in part by observing where all entrepreneurs are thriving. This in turn can be determined by looking at the hard evidence around business formation rates, revenue levels, and capital access across race, ethnicity, and gender.

Econsult Solutions has deep expertise in mining publicly available data sets to answer these very questions. Data sources include:

- Business formation rates from the U.S. Census Bureau's Public Use Microdata Sample files
- Business counts and revenue levels from the U.S. Census Bureau's Annual Business Survey (as well as its predecessors, the Survey of Business Owners (SBO) and the Annual Survey of Entrepreneurs (ASE)
- Population detail available through the U.S. Census Bureau's American Community Survey
- Population migration patterns available through the U.S. Census Bureau's Current Population Survey
- Home lending, business lending, and branch location from the Federal Financial Institutions Examination Council

ESI will follow this evidence to the conclusions it yields in identifying cities across the U.S. that are producing equitable outcomes for all entrepreneurs. The data and analysis work enabled by these sources will help substantiate where cities are finding success in creating inclusive entrepreneurial ecosystems, thus providing empirical guidance on where to mine for recurring characteristics and best practices.

II. What do the methodologies used to create “best places for entrepreneurs” rankings tell us about what we perceive to be of value in a business location?

Publications that do “best places for entrepreneurs” rankings, and the cities that are featured in these rankings, recognize that when it comes to business formation, business retention, and business attraction, perception often is reality. Which is to say that, independent of the empirical evidence or hard characteristics, places that are able to develop a narrative around inclusion and success can create positive momentum in growing a local entrepreneurial class.

Therefore, it is relevant to probe these rankings to understand what criteria these rankings are based on, to litigate whether these are the correct characteristics that inform a location’s inclusiveness as a place of business. It is also relevant to identify what narratives emerge from these rankings, either narratives about how to define such a place or narratives about a particular place.

ESI Center for the Future of Cities will deconstruct recent rankings of this sort, to determine whether there is a prevailing characterization of what makes for an inclusive entrepreneurial ecosystem, whether any cities perennially make these lists, and whether any of these recurring themes are consistent with actual performance. This task will help identify a taxonomy of characteristics that can be monitored over time to serve as a set of metrics that cities can draw on for measuring progress over time and performance relative to other cities.

III. What levers does the public sector have to create more inclusive entrepreneurial ecosystems, and which cities are doing well at using those levers?

Some characteristics relevant to business climate are immutable: cities are unable to replicate the success of other locations that thrive because of temperate weather or water access. Other characteristics are not technically immutable but neither can they change quickly: for example, proximity to population centers in the Northeast Corridor or to oil and gas activity in the Gulf Coast area are traits that are not likely to materially change in the foreseeable future.

Yet, the public sector does possess real levers that can, on the margins, influence business activity in a positive or negative direction. At a local level, city governments can compete with and differentiate themselves against others through the decisions they make.

Typically, people focus on taxes and regulations, with low levels being automatically seen as “pro-business” and high levels being automatically seen as “anti-business.” But this is an overly simplistic rendering of a location’s competitiveness as a place to do business. ESI Center for the Future of Cities proposes to go deeper on this topic in two ways:

- It is often not the level of taxes and regulations but their type and implementation that make a difference, particularly in encouraging or discouraging an entrepreneurial ecosystem that is diverse and inclusive.
- Beyond taxes and regulations, there are many other points of differentiation, such as programming, incentives, public investments, and administrative responsiveness.

This more thorough approach to the role local governments can play in fostering inclusive entrepreneurial ecosystems will be a helpful contribution to a landscape that often puts too much stock into either tax and regulation levels (independent of what effect those taxes and regulations have in driving business behavior) or programs and incentives (independent of whether those programs and incentives mask an otherwise business-unfriendly climate). ESI Center for the Future of Cities will tee up examples from across the country, inclusive of case study write-ups illustrating different best practices, and culminating in a framework for summarizing what levers matter in driving inclusive entrepreneurial ecosystems, and for scoring individual city governments in accomplishing this in their communities.

IV. What role can anchor institutions, large corporations, and advocacy groups play in supporting inclusive entrepreneurial ecosystems?

By definition, ecosystems contain many diverse participants, who interact with and influence one another. Likewise, by definition ecosystems defy easy explanations of how they are organized. It is therefore common to speak of entrepreneurial ecosystems only in terms of the business participants themselves, as well as maybe the municipal governments which they interact with, rather than also including the wide range of entities whose presence and participation play a significant role in the vibrancy of the ecosystem.

This research effort will account for data points on and direct interviews with other ecosystem participants besides entrepreneurs and governments. This includes:

- Universities, hospitals, and research centers;
- The full range of the business community, from the largest multi-national corporations to the smallest start-ups and everything in between;
- The full range of capital access providers, including banks, venture capital funds and angel investors, and Community Development Financial Institutions; and
- The whole network of advocacy organizations such as chambers of commerce, industry associations, minority and female entrepreneur advocacy groups, and purchasing collaboratives.

This synthesis of primary and secondary data will yield a description of the different ways these participants can benefit from and in turn benefit the local entrepreneurial community. This is a no less important part of the road map for cities in fostering inclusive entrepreneurial ecosystems, is how they include, activate, and benefit from the broader ecosystem of participants in working with the public sector to ensure fertile ground for all entrepreneurs to succeed. Therefore, findings will be couched in broadly applicable terms for tangible application in a wide range of contexts, while offering location-specific examples to help illustrate how successful cities were able to do this effectively.

- V. *What are the common themes that can be found in inclusive entrepreneurial ecosystems, and what guidance can be given to cities to take action and create sustained progress?*

All of this research work is interesting in its own right, but only as good as it is organized in a way to support actionable recommendations. Thus, care will be given to synthesize findings into common themes, developing somewhat of a playbook to guide cities of all types and sizes on how to take action to ensure inclusive entrepreneurial ecosystems.

This playbook serves as a framework to sustain success, by providing overarching guiding principles around which to develop location-specific strategies. Sustaining success will also require developing a set of metrics as well as tracking infrastructure to monitor progress over time, so this research effort will endeavor to provide that guidance as well.

> Program Deliverables

Participating sponsors will have high-visibility prominence on all outward-facing content platforms, underscoring their connection to the thought leadership contained in the work on this important topic. Platforms will include:

- A main report in e-book format to facilitate the linkages that connect all the content and allow for reader interactivity with the material.
- A dedicated webpage inclusive of a benchmarking tool, to activate the research content and enable additional reader interactivity.
- Graphically rich one-pagers of subsets of content, highlighting key findings within the overall body of research work.

In addition to front cover exposure, participating sponsors will be given editable versions of all research and data produced in this effort. They will also be afforded multiple venues to engage with content audiences, including symposia, industry-specific gatherings, and speaking opportunities at conferences. ESI Center for the Future of Cities will also make itself available to each participating sponsor for private engagement with key staff and stakeholders.