

How to Foment an Entrepreneurial Revolution¹

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January 11, 2011

I am particularly pleased to be here since this is my first time more than transiting Bahrain, and my first time as an IEF participant. So I thank Tamkeen and University of Essex for inviting me. I hope you won't regret it later.

18 months ago we launched a program within Babson Global to address the following situation:

One morning, we, the collective body of the world's experts on entrepreneurship, get the proverbial knock on the door from a public leader – let's say, a head of nation, state governor, municipal mayor, or the like—who throws down the following challenge: **“Can you create an entrepreneurial revolution in five years in my city or state, so that it will be unrecognizable.** Money is no object. I want employment, innovation, vibrancy, sustainability. I want to attract attention as the regional capital of start ups. **Can you do it?”**

So I turn to you my professional colleagues, and I ask: Do we collectively know enough to be able to say, “Yes?” Is there really enough cumulative practical wisdom, consistent with or even supported by rigorous research, to be able to measurably move the needle of entrepreneurship, in say, five years?

As a former entrepreneur, social scientist, entrepreneurship educator, former venture capitalist and angel investor (very small, the kind of angel who dances on the head of a pin), active in Israel, Japan, and the U.S. my answer is a clear “yes.” If we structure the process in the right way, then with some minor skips of faith – not even leaps, just a few skips—I believe that our collective answer should be and is, “Yes, we can.”

So my purpose in the coming 30 minutes is to present principles and prescriptions for tangibly and measurably moving the needle of entrepreneurship in a region. I believe that these principles and practices are not those that are good or nice or useful to implement. They are not suggestions or recommendations. Rather, I believe that these are practices that are absolutely necessary to implement, if we want to accomplish the mission. That is, if we really want to accomplish the objective in five years, we have no choice but to take a path very similar to the one I am proposing. I do not make these claims lightly, they should generate discussion and debate, and I am aware of the ambitious nature of the task at hand. But as with the XPrize and other human endeavors, having a challenge forces us forward.

The seven guiding principles are that we must:

1. Focus on entrepreneurship, not self-employment.

¹ Based on a keynote address to the 10th International Entrepreneurship Forum, Bahrain, January 11, 2011

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2. Be very focused geographically.
3. Attack many of the elements of the ecosystem in parallel.
4. Quantify precisely how much entrepreneurship you want and when.
5. Create an independent, non-government S.W.A.T. team to carry out the job.
6. Allocate extremely high priority and budget.
7. Take action, learn, and scale.

1. The first order of business is to be very clear about what we mean by “entrepreneurship.” This hard-to-spell French word still means very different things to different people. It is confounded with innovation. It is confounded with self-employment. It is confounded with business ownership.

I want to reiterate something that Professor Zoltan Acs referred to yesterday but it is so important that it is worth repeating and elaborating: there is a huge divide between self-employment and entrepreneurship. Both are important, but they are not the same. Not in terms of motivation, attitude and mindset. Not in terms of their impact. Not in terms of paths to success, nor even in the definition of success itself. Probably the only thing they do have in common, in fact, is that the founder is the boss.

Yet in policy formation, the waters are still very murky and people continually confuse the two. Policy makers don't like this distinction; they find it uncomfortable, politically sensitive. I think this is because they believe, probably implicitly, that

- (a) It is not fair to give resources to those who will become wealthy from those resources. It is elitist: “We need to devote our resources to the needy and disadvantaged.”
- (b) Or, “Not to worry, if we start off with 1000 micro-enterprises, some percentage of these will naturally evolve into high growth “gazelles.”

Regarding the first concern, no doubt there is a legitimate political issue here, but I believe it is at least partly a red herring, to be avoided if possible. The tradeoff between the two occurs only if policy makers lump these two forms of ownership in the same category, and I contend that they should not. Personally I like to think about them as distinct activities as related, say, as sport and education: if you only have one dollar, you do have to choose, but if you have two dollars, both are important for different reasons, and a society has the right –indeed, obligation—to set priorities. (By the way, I am intentionally oversimplifying their differences to some extent in order to make the distinction very clear.)

There are a number of modifiers of the term “entrepreneurship” now current which convey this distinction: high impact, high potential, transformational, opportunity-based, for example. (I personally don't like the term high impact because you only know if something is impactful after the fact.)

I am a social psychologist by academic training and having looked at all the literature, I personally believe that actually the most important distinction has to do with the entrepreneur's level of aspiration, level of ambition, level of expectations, and that the other variables (high potential, high impact) are primarily proxies for that. I will illustrate with a personal example: My grandfather was brought to the United States as a baby in 1900 and left school at 3rd grade to work. He ultimately owned a small paint supply store in Philadelphia. Rather than becoming the Wal-Mart of painters, all he could dream of was making enough money to put food on the table, and get my father a good education so that he could get a good job and could avoid the kind of work that my grandfather did. Fast forward 2 generations, past my father's Ph.D. in theoretical physics and mine in social psychology. My eldest son, having received a decent education, recently quit his job running one of the hottest night clubs in the

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region, and is setting up his own global entertainment concept with a partner, with aspirations to make a mark on the entertainment world. His motivation is complex: all of his friends are entrepreneurs, he can make a lot of money, he doesn't like working for other people, he sees opportunity and challenge, his dad is involved in entrepreneurship, and so on. All of these enter into the mix.

I don't think it is necessary in this forum to repeat what is now clear, and that is that highly aspirational entrepreneurship drives economic growth and development. Aspiration develops as a characteristic of both an individual and a culture in complex ways, but one thing is clear: the power of example is not to be underestimated. My international entrepreneurship class at Harvard was attended by 180 students every year, and consisted primarily of 2 dozen or so cases I had written on global ventures coming out of Lebanon, Holland, Iceland, Brazil, Mexico, Japan, Hong Kong, India, Israel, Puerto Rico, Bangladesh, and Saudi Arabia. I would estimate that 10% of my students spontaneously mentioned to me before the end of the class reporting that they had never viewed themselves as entrepreneurs until they saw how these normal people were accomplishing abnormal things and they were determined, themselves, to try. I am sure that there were many others of whom I was unaware.

2. Having specified what domain we are focusing on, **the second step is to get geographical specificity as well.** As we look around the world, entrepreneurship tends to be very highly concentrated geographically in specific regions, cities, neighborhoods, and even buildings. Even in regions not particularly known for their entrepreneurship, it is still possible to find hotbeds of entrepreneurship, what I call "watering holes" – the use of the term cluster is a misapplication of the concept. Puerto Rico, a small 100x35 mile island, has two small municipalities known for the concentration of entrepreneurs, Mayaguez and Caldas. Research in Germany has shown that even adjacent states have markedly different levels of entrepreneurial activity. Do you know where the highest concentration of entrepreneurs in the world is? No, not in Silicon Valley or Tel Aviv or Cambridge England, but in Cambridge Massachusetts, in one building, on 7 of the floors of the Cambridge Innovation Center, which, by the way, is a for-profit non-incubator venture by the way that houses 320 start ups in Kendall Square.

Why is this true? Because resources tend to be concentrated locally and attract each other: human, capital, information, and markets tend to gravitate to one another. In addition, the demonstration effects are more potent when they are proximal, and the spillovers (which I will refer to later) are stronger as well.

Yet most governments, researchers, and policy makers continue by and large to treat the nation as the unit of analysis, and believe, for political purposes, that resources should be evenly distributed, more or less. Undeniably, nations can formulate policy to impact regulation, infrastructure, and the availability of certain resources. But if we need to make a measurable impact in five years, and arguably at all, the greatest effort has to be concentrated in a small footprint region, such as a city or even neighborhood. Experiments such as BarcelonActiva are illustrations of this. Buenos Aires is becoming an island of entrepreneurship because of concentrated and sustained effort supported by a broad based coalition of public and private entities and has passed an entrepreneurship day law. Chicago is now on the map following Groupon's visibility. Hsinchu City in Taiwan is another excellent example. In Manizales Colombia we have started an entrepreneurial revolution, and we are talking to leaders in Concepcion Chile. Cape Town now has its own Global Entrepreneurship Week in recognition of the fact.

3. One of the reasons that small geographical footprints are absolutely necessary is because when sustainable entrepreneurship occurs, it occurs because many things happen more-or-less

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simultaneously and are mutually reinforcing. An ecosystem evolves. **So the third principle is to intervene holistically; in other words leaders have to address the entire ecosystem.**

Any entrepreneurship development policy, one with the mission to actually make measurable change in 5 years, must address many factors in parallel. The failure to do so will not only be ineffective, but may lead to “perverse consequences.” Educating students, for example, in the absence of access to capital and a conducive legal environment will motivate students to leave: this is exactly what happens in Puerto Rico, which has one of the top 10 engineering schools in the US: they sarcastically call UPR Mayaguez Puerto Rico’s best exporter. Attracting or providing venture capital without a deal flow or exit possibilities, actually retards the development of private equity, it drives it away.

[INSERT FIGURE ABOUT HERE]

This map is one of a dozen different maps of the factors related to entrepreneurship. It is different in that it is the environment more or less as the potential or actual entrepreneur looks out at it. I believe, further, that (a) it is more comprehensible; (b) it has some crucial elements that are usually omitted (such as early customers and success stories); and (c) there are no causal loops. I think that whereas in general you can say that education and culture are causal over the long run (maybe 30 years or so), in many specific situations the appearance of inexplicable or even random examples of successes, when highlighted and celebrated, can actually be best viewed as root causes. So that what we usually treat as a result, is actually a determinant. Leadership can modify culture, when it is committed; it is not just the political expression of a society’s values.

One of the implications of the ecosystem approach is that societies have to “grow their own.” You cannot imitate Silicon Valley. Growing your own requires time, effort and resources. It requires experimentation and learning and dealing with uncertainty. Leaders cannot copy anyone else’s model because no one can replicate someone else’s ecosystem. One cannot copy BarcelonaActiva. One of my friends from Korea asked how Korea could copy the Israeli model: I told him, tongue-in-cheek of course, try to get China, Japan and Taiwan to declare war on you simultaneously, for starters.

Another implication of the ecosystem approach is that there is no policy silver bullet. Streamlining the permitting process or passing progressive bankruptcy laws are necessary, but insufficient. Research has shown that these changes have at best a positive but very small impact. Introducing entrepreneurship education is certainly important, but by itself it can backfire when the fired up graduates move elsewhere to find a more conducive environment. Making capital available is a waste of time if there is insufficient deal flow, and in fact, we have observed that in well-intentioned policies in various countries. Providing support to entrepreneurs in the form of space or capital or loans is meaningless unless more mature companies are willing to engage start ups as potential suppliers. All of these are at best mildly effective if carried out in isolation. In the worst case scenario, they can actually do damage.

4. Another of the logical implications of the ecosystem approach is that **you need to invent a new organization** to execute on this plan because no organization either has the mandate, the perspective, and the competence. This is the fourth principle.

Government has the mandate to intervene holistically, but not the competence. Government officials are not selected for their understanding of entrepreneurship or their ability to be entrepreneurs; those with entrepreneurial tendencies tend to select themselves out. The private sector has the competence

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but not the mandate or perspective—it is focused on profit generation, hopefully responsibly and socially aware, as it should be.

Leaders need to create a brand new team of people who are recruited and trained specially for the job. I call these “entrepreneurship enablers.” They should not be controlled by the government nor by any one sector, but by representatives of all. They should be a S.W.A.T. team empowered to succeed and resourced with everything needed to succeed, and with effective supervision. That is what we do at the Babson Entrepreneurship Ecosystem Project.

Does that mean we need yet another authority, another Tamkeen (for example)? Maybe, maybe not. But unique aspects of this team include (a) they are managed by experts (for example our project); (b) they are measured on results; (c) they disband after 5 years or so: They have a “sell-by” date. This ecosystem team, because it is small, is a catalyst and a fomenter. It is a partnerer.

5. The fifth principle is that **you need to set specific objectives, measurable, and quantifiable**. One of the interesting things about entrepreneurship is that success breeds success. Entrepreneurship is a highly addictive disease; when you do it, you do it over and over again. It is an elixir. It is compelling. It is exhilarating. People can’t stop doing it. What’s “worse,” is that they like to inflict the disease on others – entrepreneurs like other entrepreneurs, and they like entrepreneurship. They invest in others’ ventures, they form funds, they become advisors and angels and board members. They give interviews and guest lectures about entrepreneurship.

Entrepreneurship has other spillover effects. Of course there are the economic and social spillovers, such as wealth and job creation, and tax revenues.

Now, every engineer knows what happens when you have positive feedback. The phenomenon becomes self accelerating, and self-sustaining once the positive feedback reaches a “tipping point.” So how much entrepreneurship does it take to reach a tipping point? Have you ever thought about it? In a nation the size of Bahrain, how many new entrepreneurs or entrepreneurial ventures do you need every year for the phenomenon to snowball?

I find it interesting that in the business world, setting clear, challenging objectives which are measurable is as normal as in the policy sector it is unusual. To paraphrase Alice in Wonderland, if you don’t know where you are going, any road will get you there. So not only do you need to define the type of entrepreneurship, you need to define how much entrepreneurship is enough. For the past year I have been developing a rule of thumb: if a reasonably compact and populous region annually generates one high potential venture for every 50,000 to 150,000 inhabitants, you reach a tipping point. For very sparse populations (e.g. Iceland) one per 50,000 is enough, and for very dense ones, Buenos Aires for example, you can get away with one per 150,000 people. Of course these are not systematically derived heuristics, but I have used them in many settings and they seem to be both useful and not far off.

6. **Leadership must place an extremely high priority on generating entrepreneurship.** That has very importantly practical implications, because nothing is free. How important is entrepreneurship in any society? I think it is up there next to defense and education and health. Yet how many governments get past the lip service of saying that entrepreneurship is important, to saying it is one of the MOST important priorities, and budgeting accordingly. Leaders have to “put their money where their mouth is,” as the common saying goes. I believe entrepreneurship is truly one of society’s highest imaginable priorities: Entrepreneurship helps education, defense, health and security. BarcelonActiva has an

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operating budget of about \$13 million (€10 million). Medellin Colombia a few years ago had a \$17 million per year budget. A city or country should be spending .25-.5% of its annual budget on this kind of project.

7. Finally, **it is absolutely critical to act in an entrepreneurial fashion**, what Len Schlesinger, president of Babson College, calls [Entrepreneurial Thought and Action](#)[®], or ETA²: in a nutshell, when uncertainty is high, and we have to admit to ourselves that it is in this case, it is absolutely necessary to experiment, preferably starting small. In our projects we typically shorten or even bypass the assessment phase that is typical of most social change projects—I have found that everyone in a region already knows what the obstacles to entrepreneurship there are in the ecosystem, and we immediately launch pilot programs which we can learn from, and which can be scaled. For example, we get the various types of providers of capital in a room together with each other and a group of entrepreneurs, and begin to find out exactly where the capital is stuck in the pipeline. Inevitably there is sufficient capital in the system; it just doesn't get through to the entrepreneurs. Everyone shares part of the blame, as it turns out, but that is not the point; the point is that rapid minor adjustments can be made and tested. Similarly, we immediately begin to work with the media to understand and modify the kind of messages they are sending to the public about social values that are relevant to entrepreneurship, such as fear of failure, shame of wealth, and denigration of business ownership. The good news is that as a profession, collectively we really do know a lot about the specific programs to educate, finance, regulate, inspire, and lead entrepreneurs. But as a profession, we have never put them together systematically and holistically.

Conclusion

To summarize, I believe that we can answer affirmatively to the challenge and that we can pick up the gauntlet of creating an entrepreneurial revolution in any particular region, if it is compact enough, in five years. We have to be clear that we are developing entrepreneurship and not self-employment. We have to be clear that the entire ecosystem needs to be changed. We have to be specific in the numbers of ventures we are trying to create in order to reach a self-sustaining tipping point.

Is this foolproof? No. There is tremendous uncertainty. But anyone who sells you a program that is fool proof is foolish.

Is it based on sound principles? Yes, the proposals are based on all the latest research and the widest review of practice that anyone has conducted.

Can it do any harm? No. The only possible harm is the opportunity cost, and we know that leaders spend much more on programs that have less chance of success. And the alternative of doing nothing at all, or doing things that we know don't work, is unacceptable.

Why hasn't anyone thought of this before? I think it is because no one has yet combined the following insights:

1. That the ecosystem should not be the view from Mt. Olympus but the entrepreneur's;
2. That it does not help to worry about what causes what;
3. That the tremendous complexity and uncertainty places a premium on action and learning;

² Action Trumps Everything, <http://actiontrumpseverything.com/> 2010.

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4. That it helps to set concrete objectives that are directionally correct, even if they are imprecise;
5. And that it is necessary to focus on high aspiration entrepreneurship.

I want to come back to Zoltan Acs's framing of the problem, with which I agree wholeheartedly. I do believe that the nature of our future civilization depends, at least somewhat, on the spread of entrepreneurship. I do believe that entrepreneurship –sustainable, aspirational, and on a massive scale—will determine whether we live in a junk heap or not in 2050. I do believe that entrepreneurship is an idea whose time has come to all regions of the world, and to paraphrase Victor Hugo, no army is as strong as an idea whose time has come.

Figure 1

