Community building strategy for a successful startup ecosystem;
Evidence from Tech city UK

Introduction

As the variety of species multiply in the period being called "Cambrian explosion", the current booming of various digital startups could be named as an "entrepreneurial explosion" (Economist 2014a). They are changing not only traditional industrial structures but also the entire global economy (ibid.). On top of their significant influence on the economy, the huge success of Silicon Valley sparked an idea that a sustainable system to foster successful startups can be also established in other countries (Feld 2012; Mathews 1997). After Moore (1993) started to use the term "business ecosystem", this ecological perspective has also been extensively used in referring the business environment for startups.

Despite its importance and frequent usages in both practical and academic business, there has been little effort to theorize the attributes and process of a successful startup ecosystem by far. Most existing research tend to focus on the static description of an individual success case such as Silicon Valley rather than to draw meaningful implications which can apply to other countries or industries (Mathews 1997; Kenney 2000). Furthermore, while many governments – especially in developing countries – have tried to establish their own successful startup ecosystem (Herrmann, Marmer, Dogrultan, and Holtschke 2012), a few could succeed in building a competitive one (Mason and Brown 2014).

This study attempts to clarify what makes a successful startup ecosystem and how it can be sustained over time by providing evidence from Tech city UK. Particularly, by conducting interdisciplinary approach using "community building (or development)" perspective in sociology, the findings of this study could contribute to both scholars and policymakers who seek to find an effective way to develop successful startups.

Literature review

Since Beer (1959) introduced the biological concept into business system research which considers an economic organisation as an organism interplaying with surrounding environment, studies on ecosystem have flourished in various programmes; business ecosystem (Moore 1993); industrial ecosystem (Korhonen, Wihersaari, and Savolainen 2001); innovation ecosystem (Adner 2006); entrepreneurship ecosystem (Isenberg 2010; Spilling 1996). There exist somewhat different focus on ecosystem approach in business and management studies, however, it seems to be that all ecosystem perspectives attempt to

illuminate the complex and dynamic nature of interaction between industrial organizations and their environment (Rothschild 2004).

Specifically, Moore (1993) defines a business system as “an economic community supported by a foundation of interacting organizations and individuals”. Korhonen, Wihersaari, and Savolainen (2001) compare an industrial ecosystem to a “natural recycling model” which key materials and energy flow within the system and actors become to cooperate by using them. An innovation ecosystem means “the collaborative arrangements through which firms combine their individual offerings into a coherent, customer-facing solution” (Adner 2006). Meanwhile, the entrepreneurship ecosystem is a holistic system – integrated with individual elements such as “leadership, culture, capital markets and open-minded customer” – which can accelerate “venture creation” and economic growth in a particular region (Isenberg 2010).

Despite these analogous but slightly different notions in business and management studies, several important analytical domains about the successful startup ecosystem have been drawn from case studies on Silicon Valley. Evans, and Bahrami (1995) identify following key dimensions; “venture capital, a talent pool of knowledgeable professionals, universities and research institutions, a professional service infrastructure, and customers (that is, lead users) of innovation”. These elements except the customer aspect resonate with Mathew’s (1997) argument which knowledge, finance, and technology are required as resources for a successful startup ecosystem. On top of these findings, Zacharakis, Shepherd, and Coombs (2003) emphasizes a system in which entrepreneurship evolves with limited resources.

Isenberg (2011) also emphasizes the importance of comprehensive view on startup ecosystem for policymakers. However, the author argues that governments should quit their efforts to emulate Silicon Valley as it is. This is because, firstly, Silicon Valley ecosystem itself has evolved “under a unique set of circumstances” in chaotic ways. Secondly, it is required that huge and life-long investments in education to achieve a knowledge-based industry while technologies and experts are already overflowing in Silicon Valley. Thirdly, the ecosystem is functioning as a “powerful magnet for ready-made entrepreneurs” rather than breeding the locals (Isenberg 2010). Thereby, it is vital to shape a startup ecosystem which fits its own local conditions if a government attempts to create a vibrant startup ecosystem such as Silicon Valley within its yard (ibid.). In the same vein, Ács, Autio, and Szerb (2014) suggest the “national systems of entrepreneurship” emphasizing on

contextualization; because the "processes are always embedded in a given country's institutional framework".

To date, there has been little agreement on what makes a successful startup ecosystem. Particularly, distinct views in the definition, key factors, and the measurement exist mainly due to the following reasons. Firstly, the existence of country-specific characteristics is the key problem in theorizing a successful startup ecosystem. It drives researchers to pursue an individual case analysis, thereby causing difficulty in generalizing their studies on the best practice (Mathews 1997; Kenney 2000). The overemphasis on a certain geographical area also tends to underestimate the distinct interest among startups which basically stem from different industrial characteristics. Thus, Nambisan and Baron (2013) regard a business ecosystem as a sort of field in which participants of a specific industry engage. Secondly, the evaluations on the effectiveness of policies for the startup ecosystem differ among researchers. While Isenberg (2011) indicates most governments fail to develop a competitive startup ecosystem wasting resources to copy Silicon Valley, the "startup ecosystem report" argues that new startup ecosystems supported by local governments are emerging across the world which could challenge the dominant reputation of Silicon Valley (Herrmann, Marmer, Dogrultan, and Holtschke 2012). Finally, inconsistent definitions on the successful startup ecosystem among researchers lead in different approaches to measure its competitiveness. For example, Ács, Autio, and Szerb (2014) design "The Global Entrepreneurship and Development Index (GEDI)" which combines "opportunity pursuit indicators" at individual level with institutional variables at the country level. In contrast, Stangler, and Bell-Masterson (2015) focus only on the vibrancy of entrepreneurial ecosystem proposing indicators to measure it such as density, fluidity, connectivity, and diversity. Therefore, further studies which take these issues into account are definitely needed to be undertaken.

Research method

A case study is not only appropriate method for the new research issue but also defined as "an empirical inquiry" to rigorously investigate a current phenomenon in "real-life context" (Eisenhardt 1989; Yin 2013). This case study analyses one of the successful startup ecosystems except Silicon Valley. Drawing conclusion with a new case rather than adding a similar analysis on the same case could be more helpful to generalize findings on the issue. Of course, abundant findings from previous studies on Silicon Valley are utilised to identify the key research dimensions and directions in this study. The Tech city in London is selected

for this case study because it has become "the most successful startup ecosystem in Europe" (Herrmann, Marmer, Dogrultan, and Holtschke 2012). Extensive secondary data from multiple sources were collected to construct validity (Yin 2013), and in-depth interviews were conducted with various types of participants in Tech city such as startup CEOs, investors, accelerators, and policymakers. Nvivo10, one of the computer-assisted qualitative data analysis software (CAQDAS), is utilised in analysing collected data in order to provide more transparent approach (Grbich 2012).

Findings and discussions

First of all, although different views still exist in the field of studies, there appears to be an agreement on what a successful startup ecosystem means in practice. The case study on Tech city London reveals an implicit assumption on the topic by far, that a successful startup ecosystem has a "self-sustaining" mechanism. That is, entrepreneurial recycling – "whereby successful cashed out entrepreneurs reinvest their time, money and expertise in supporting new entrepreneurial activity" occurs within it (Mason, and Brown 2014). This finding implies a critical lesson for policymakers in developing countries. They should take a holistic approach, especially in the process which creates the virtuous cycle. Existing studies have tended to focus on the structure and to take static approach on it unconsciously ignoring the origins and drivers of the dynamic (Mason, and Brown 2014). The increasing inquiries on a *sustainable* startup ecosystem – in which successful startups are continuously created and growing – also reflect this need for understanding the developmental mechanism.

Secondly, this self-sustaining virtuous cycle for startups could be clearly understood when researchers apply "*community building* (or *development*)" perspective in sociology rather than does the existing ecology view. As Moore (1993) noted, business ecosystem is intrinsically "economic community". While there exist little research which takes account of the community aspect, a few books and reports – which note on the importance of building a startup community – have been recently published based on authors' personal experiences in practice (Feld 2012; Economist 2014b). According to the community development perspective in sociology, community is broadly defined by a view of place or that of interest (Phillips, and Pittman 2009). The former is a location and the latter is a group of individuals with shared interest or a tie which is proximately gathered or widely spread network (Mattessich, Monsey, and Roy 1997). Drawn from the review of various definitions, it can be said that community consists of people, ties, and location in priority order (Phillips, and Pittman 2009). The definition of community development includes "developing *ability to act*

(capacity)", "taking collective action" and "the result of that action in a community (improvement)" (ibid.). These refined concepts on the community could be a useful tool to understand how a startup community can be built and developed.

Particularly, community building perspective could shed more light on the research gap in business ecosystem studies, especially in illustrating how social capitals work within it. While the role of social capital has been bursting in entrepreneurship studies for the last decade, it is relatively ignored in the business ecosystem research. In entrepreneurship studies, social capital means "resources embedded in one's social networks or resources that can be accessed or mobilized through ties in the networks" (Lin 2008). Similarily, it is defined in sociology as the facilitator for the community development, which is "abilities that residents organise and mobilise resources to achieve agreed goals" (Christenson and Robinson 1989). Scholars and policymakers had inclined to emphasise mainly on the spatial and physical aspects of the development such as "land, labour, and capital", however, recent studies on social capital include more wide-ranging dimensions such as institutions, technology and innovation, and the community's capacity to make a decision (Shaffer, Deller, and Marcouiller 2006). The findings from Tech city case also indicate that the latter becomes more important than the former type of social capitals in recent years (Kwon and Arenius indicate 2010) and that social capital is the key "network-based resources" for the successful startup community.

Overall, while previous literatures that hold the ecology view focus on the equilibrium of the business system in the *competition* among actors, the community building perspective pays more attention on enhancing the performance of the system in which actors collectively *cooperate* for the *sustainable development* of their community. In light of these distinct directing points between them, community building perspective could be more appropriate approach in analysing a successful startup ecosystem. Furthermore, there exist common findings on the topic between Tech city case and other cases from the community development perspective (Mattessich, Monsey, and Roy 1997). For instance, it is crucial to establish an efficient public-private relationship and the private sector must lead the developmental process (West 2009). Therefore, the current debate should shift from to answer "what makes a successful startup ecosystem" to "how to build a successful startup community". That is, to achieve a competitive startup ecosystem, policymakers should understand the significance of establishing a vibrant startup community fitting their own local conditions rather than seek to imitate policies and the structure of Silicon Valley.

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