

Key

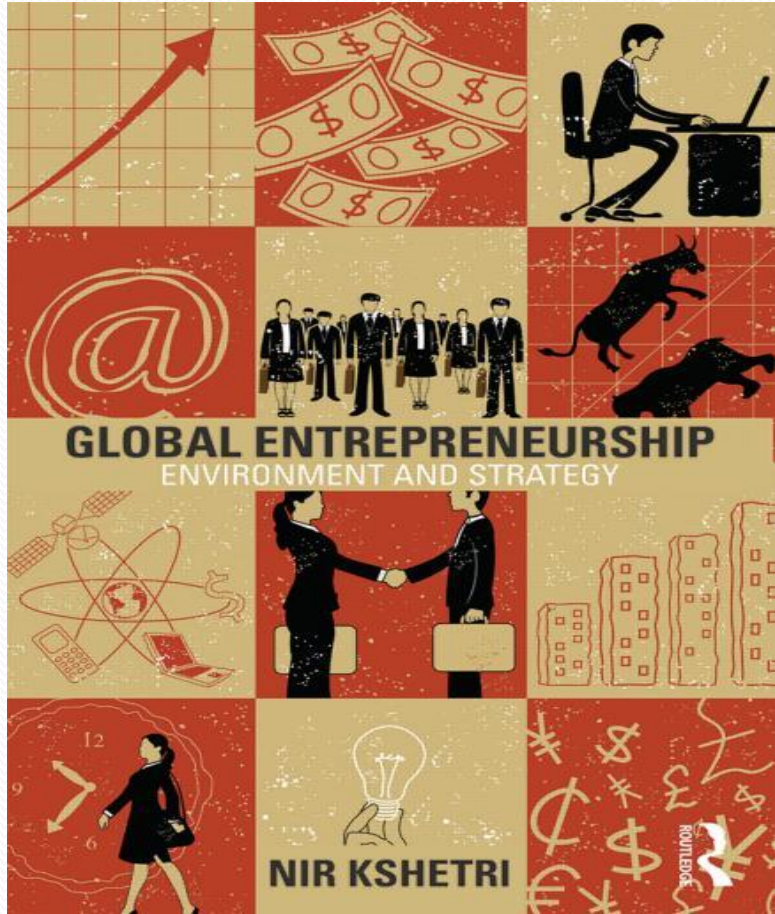
Key

# Key components of an entrepreneurial ecosystem: Linkages and processes

Los componentes clave de un ecosistema emprendedor: Vínculos y procesos

**Nir Kshetri**

**Professor, University of North Carolina—  
Greensboro**



# An ecosystem approach to entrepreneurship

- Ecosystem: biological environment
  - living or biotic components (e.g., animals and plants)
  - nonliving or abiotic physical components (e.g., air, soil, water and sunlight)
  - interaction
- Complex relationships of entrepreneurial firms with
  - government agencies
  - industry and trade association
  - consumers
  - investors
  - financial institutions,
  - capital markets
  - national culture
  - natural and geographic factors).

# Why a good entrepreneurial ecosystem?

- A good entrepreneurial ecosystem
  - values creativity, innovation and excellence
  - facilitates partnerships among key players
  - enables the development of good ideas and technologies.
  - attracts latent high-tech/high-expectation entrepreneurs
  - attracts local and foreign investments.

# Characteristics of a good entrepreneurial ecosystem

- Entrepreneurship is culturally supported: entrepreneur is viewed as a respected career choice.
- Business failure is not viewed negatively.
- Entrepreneurial role models and successful entrepreneurs: advice, support and mentoring to new entrepreneurs.

# Entrepreneurial ecosystem can be changed

- Policy makers
  - actions to align incentives to foster a productive entrepreneurial ecosystem.
- Entrepreneurial firms
  - singly and collectively
  - create an entrepreneurial environment
    - allows them to take calculated risks and become successful.

# Comparing natural and entrepreneurial ecosystems

## Productivity

- Rate of synthesis of organic materials (e.g., leaf litter)
  - photosynthesis by primary producers (trees and sea grass).
- Determines the population size of herbivores, omnivores, carnivores and other organisms
- Carrying capacity: maximum population size of a species that can be sustained by the environment

# Comparing natural and entrepreneurial ecosystems

- Productivity: the extent to which financial, material, human, and knowledge resources are used to achieve positive entrepreneurial impacts
  - job creation, economic growth and poverty alleviation.
- An increase in productivity: higher carrying capacity
  - more job creation, higher incomes and higher standards of living.
- Lively and active networks of individuals and organizations
  - financial institutions provide early stage funding for sensible ventures.
  - educational institutions provide the required talents.
  - local government agencies such as the municipality provide supports



## Diversity in an ecosystem

- Varied terrain (e.g., caves, mountains, forests, and bodies of water) and inhabited by a wide range of flora and fauna:
  - Healthy: containing species with a strong ecosystem effect.
- Each species has an important role
  - boosts ecosystem productivity.
- Diversity can also increase the efficiency of resource use
- Species diversity enhances the health of an ecosystem:
  - less likely to be damaged by calamities and natural disasters

# Diversity in an entrepreneurial ecosystem

- Health/productivity =  $f$  (diversity of entrepreneurial firms).
- Mature and healthy entrepreneurial ecosystems: size, product, market, industry, technological, and structural diversity.
- Firms of each type: have a niche in the entrepreneurial ecosystem
  - keep the entrepreneurial system healthy, resilient and productive.
- Allows firms to establish alliances with other firms: complementary

# Poor quality species and parasites

- Poor quality species is a cause of low productivity and destruction.
  - Parallel to the functioning of the entrepreneurial ecosystem.
- Easy availability of government money: without looking at efficiency, depth and quality of ideas: formation of low quality firms.
  - Negative impact on deal flow for private equity investors.
  - Venture capitalists or private equity investors are less likely to receive business proposals/investment offers.

## Parasitic entrepreneurs

- Formal and informal institutions: growth of parasitic entrepreneurs.
  - parasitic entrepreneurs in Egypt: produced low quality goods, sold to the state and did not pay taxes
- Natural ecosystem: Directly or indirectly modifying the environment of other organisms.
  - parasites' actions lead to increased mortality/reduced fecundity of the host population.

# Feedback systems

- Maintain the various elements in an equilibrium state.
- Interaction: dynamic exchange processes
  - associated with the circulation of energy or materials.
- A negative feedback loop: slows down a production process
- Positive feedback loop: accelerates it.

# Feedback systems

- Entrepreneurs--developing and learning: understanding of what must be done to succeed in the environment.
  - productive, unproductive and destructive entrepreneurship
- Nature and quality of entrepreneurial ecosystem: feedbacks that potential/actual entrepreneurs receive.
- Entrepreneurial success stories: positive feedback.
  - tend to have a perpetual cycle, which can lead to a further improvement in entrepreneurial performance.

## Negative feedback systems

- High levels of corruption: proliferation of low quality entrepreneurial firms and parasitic entrepreneurs: a negative feedback system
  - discourages entry in entrepreneurship
  - reduces levels of productive entrepreneurial activities.

# Essential elements of an entrepreneurial ecosystem

Key ingredients of an entrepreneurial ecosystem

- a) Regulative framework,
- b) Values and culture
- c) Access to finance, market, R&D and technology.



# Regulative framework

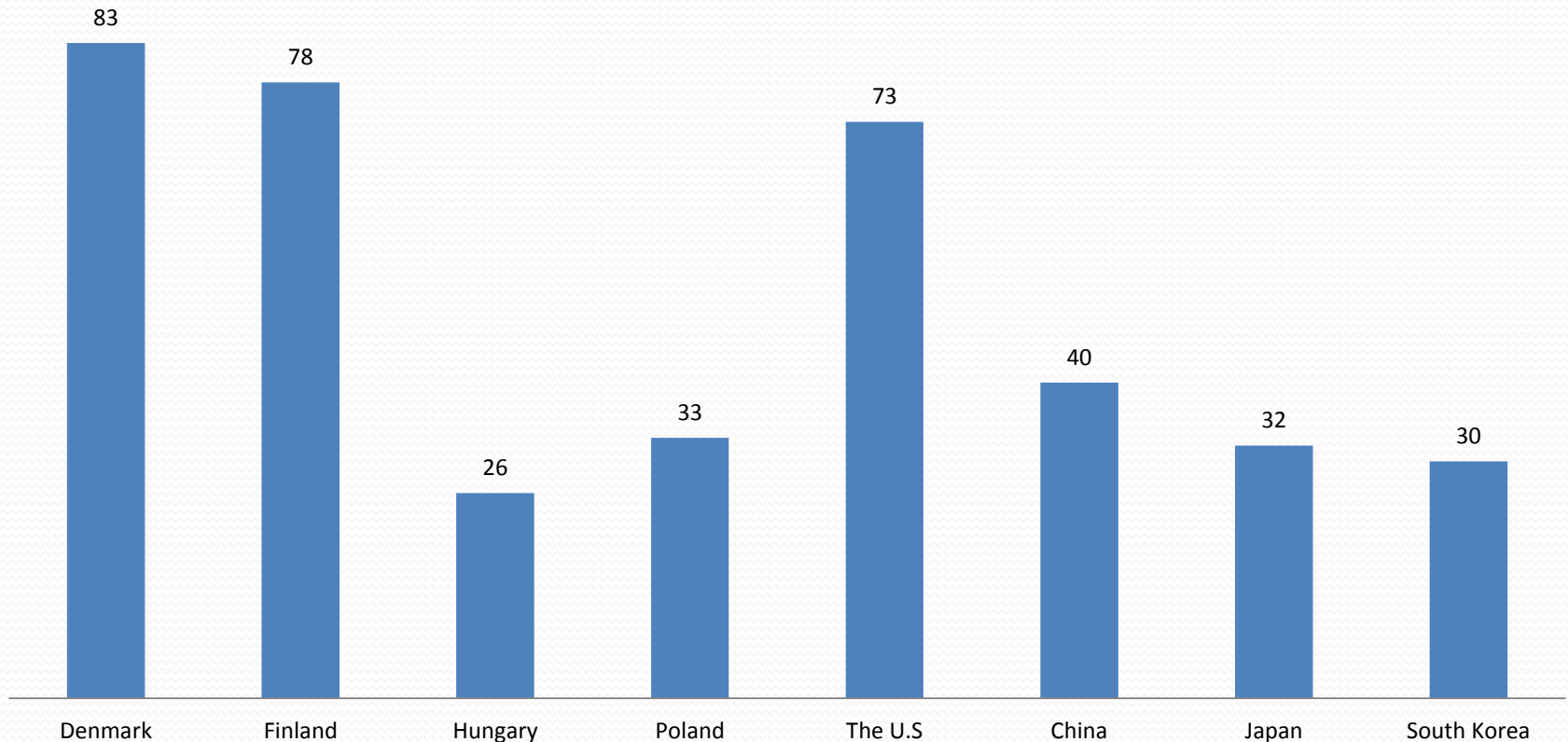
- Legislative framework: comprehensible, sensible and stable.
- Well-developed system of legal and commercial rules
- String enforcement mechanisms
  - commercial code
  - property law
  - intellectual property rights protection,
  - bankruptcy legislation
  - contract law
  - consumer law

## Values, culture and skills

- Entrepreneurs: Positive and negative images.
- Considered as members of the privileged class in some countries
- Regarded as “déclassé” in some economies: France, Germany, and Sweden
- Entrepreneurial skills

# Proportion of populations with a favorable opinion about entrepreneurs

■ % of Population with a favorable opinion about entrepreneurs



# Access to finance, market, R&D and technology

- Ability to enter new markets
- Ability to compete with incumbent firms
- Availability of funds
- Willingness to lend to small businesses
  - A village loan shark: interest rate is 200-300% a year.
- R&D/technology
- New and emerging sources of funding
  - Crowdfunding

# Crowdfunding is a growing phenomenon



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## Success of Crowd-based Online Technology in Fundraising: An Institutional Perspective



Nir Kshetri \*

*Bryan School of Business and Economics, The University of North Carolina at Greensboro, Bryan Building, Room: 368, P. O. Box 26165, Greensboro, NC 27402-6165, USA*

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### ABSTRACT

The use of crowd-based online technology for raising funds is gaining popularity and credibility. This paper seeks to provide a better understanding of the effects of formal and informal institutions on the success of a crowdfunding project. It also analyzes how the effects of different types of institutions are likely to vary across the four different types of crowdfunding projects:

# Natural and geographic conditions

Pattern and potential for entrepreneurial ventures

- climate
- distance to coastline
- landlockedness
- availability and type of natural resources
- land features (e.g., terrain and topography, the proportions of arable land and land area in the tropics)
- accessibility to transportation routes
- proximity to attractive customers and suppliers.

# Roles of policy/regulation

- The government: most powerful actor
- Regulative frameworks:
  - market conditions, infrastructures, human capital and access to finance.
- Development of a better corporate governance system
  - systems, principles, rules, laws and processes: businesses operated, regulated, and controlled.
  - good corporate governance: integrity of corporations, financial institutions and markets.

# Non-government actors as key players

- Sometimes more effective than the government in bringing favorable changes.
- Example:
  - Entrepreneurial success is not socially admired in the Scandinavian.
  - Sweden: Timbro is working to bring a long-term shift
    - “public opinion in favor of free markets, entrepreneurship, private property, and an open society
- India’s NASSCOM



# Conclusion

- Natural and entrepreneurial ecosystems: many parallels but also some important differences
  - propensity to change
- Systems approach to understanding an entrepreneurial ecosystem: from parts to the whole
- Important to pay attention to the whole system
  - rather than individual elements.



**Muchas gracias por su atención**