IGL

Innovation Growth Lab
Global Conference 2017

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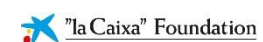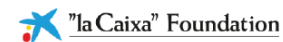
13-14 June 2017
Barcelona

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In partnership with:

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Innovation Growth Lab
Global Conference 2017

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13-14 June 2017
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What works to support high growth entrepreneurship?

Policy & Practice Learning Lab
Session A1

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Introduction

Workshop Objectives

At today's event we have delegates for at least 24 countries

- Crowdsource proven and new ideas of **what works** to support high growth entrepreneurs and businesses

Workshop Structure

Introduction and context	9:30 – 9.40

1) Using high growth to shape policy
    • Presentation
    • Group discussion
	9:40 - 10:10

2) What works to support high growth
    • Presentation
    • Group discussion
	10:10 – 10:45

3) Ideas for experimentation	10:45 – 11:00
4) Wrap-up	11:00 – 11:05

What is high growth entrepreneurship?

High Growth

- OECD and Eurostat definition of high growth firm

"enterprises with 10 or more employees in the beginning of the observation period with average annualised growth in employment (or turnover) greater than 20% over a three year period"

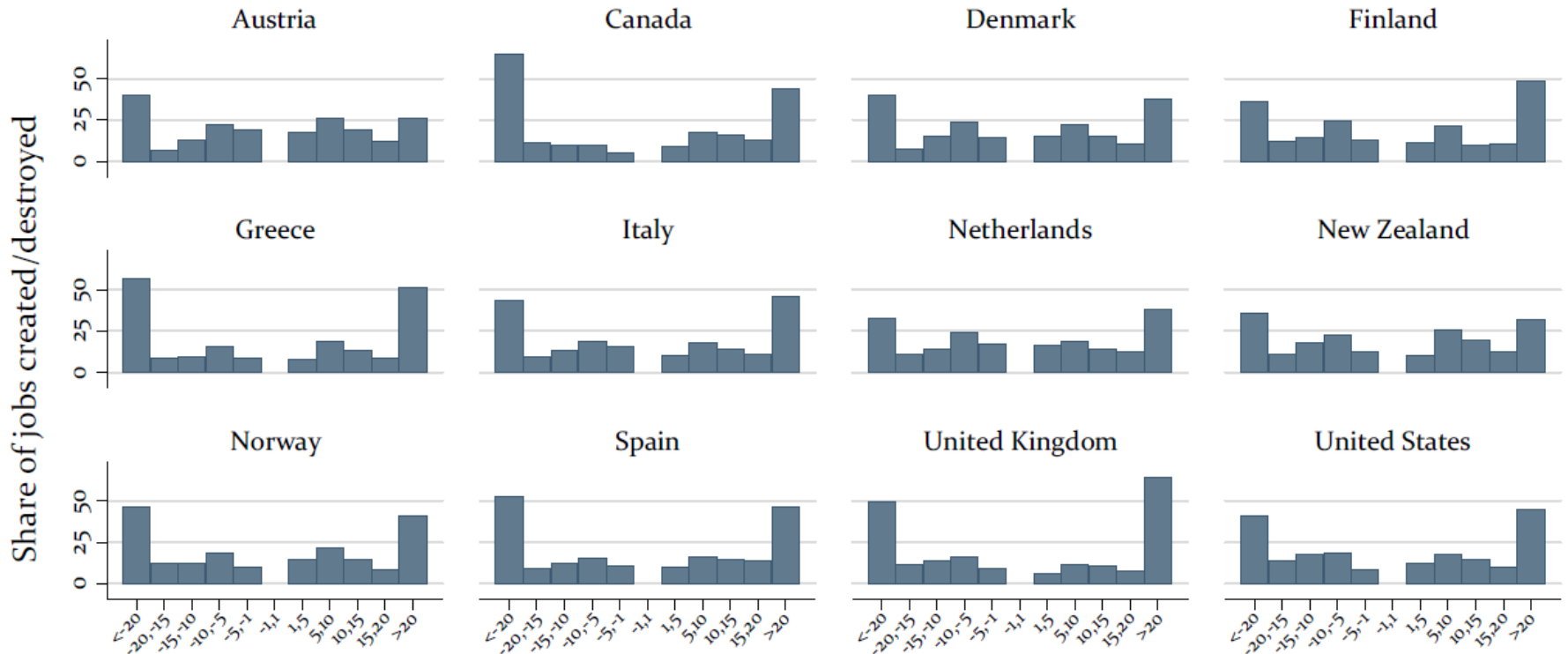# This is a small but important group…

Nesta...
WORKING PAPER SERIES

Nesta Working Paper No. 16/03

Firm growth dynamics across countries: Evidence from a new database

Albert Bravo-Biosca

4.5% of surviving firms with 10 or more employees, **40%** of all jobs created

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…making a large contribution in each country examined…

Average annual employment growth rate over the period

…and are found in all regions, sectors and business age groups

- Not looking at specifics of definition

- Key point for this workshop is that targeting those businesses achieving the fastest rates of growth

- Could be to get:
  - More of them
  - Sustain or accelerate growth

- Will look at whether this approach reaches those that add greatest 'value'

Using high growth to shape policy
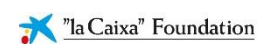
Lets start at a high level

How should a focus on high growth shape policy?

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- **View 1:** Limited benefits for policy making, at best should be restricted to creating the right eco-system

- **View 2:** High benefits to policy, including interventions to support the success of individual businesses

View 1: Limited, eco-system only

- Can't pick winners – just get more people buying tickets
  - Growth is effectively random or we don't understand it enough to spend scarce public resources on identifying and supporting firms
  - High growth most often a phase rather than permanent status

- Growth potential fixed from early stage
  - Potential largely determined by conditions at firm's creation. Policies should focus on increasing the likelihood of firms getting better draws (ecosystems, regulatory environment, early stage finance, mentorship, etc)

- Government's role should focus on what it does best
  - Public sector has greatest influence through regulation, tax and infrastructure
  - Lack of proven ability elsewhere

View 2: Strong benefits and targeted support

- Beneficial shift in policy narrative
  - Away from focus on number of start-ups and business stocks
  - Need to consider package of support rather than individual solutions (eg finance and innovation)
  - Can address misconceptions about what growth - high growth firms found in all regions and sectors

- Don't need to be right on every occasion
  - May not be right on majority of occasions, but greater odds than not trying at all
  - Can help avoid those with lowest potential

- Resource allocation can respond to areas market is identifying as having greatest value
  - Firms achieving high growth have some form of advantage, which creates this opportunity

Table Discussion 1: How useful?

Using 'high growth' as a target for policy is…

Not at all useful   Very useful

⬅️➡️

1. Place your views on the lines…

2. …then explain why?

3. Please write down any good examples, arguments or ideas

What works to support high growth

Black Swan Start-ups

Understanding the Rise of Successful Technology Business in Unlikely Places

Sami Mahroum
IGL Conference Barcelona June, 14 2017

California or Lahore?
California or Dubai?

Stockholm or Tallinn?

London or Madrid?

Thailand or Austria?
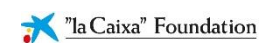
- Zafar Khan from California to Lahore to set up Sofizar, an internet search engine.

- Rabea Attaya from California to Dubai to set up Infoport and later Bayt.Com, the Arab world answer to Monster.Com

- Janus Friis from Denmark and Niklas Zennström moved from Sweden to Estonia to set up Skype.

- Justo Hidalgo and co-founders set up their online books reading service in Madrid despite dependency on London VC firms (publishing houses).

- Austrian entrepreneur Dietrich Mateschitz in partnership with the Thai Chaleo Yoovidhya, founded Red Bull in Chakkapong, Thailand, but then re-launched in Fuschl-am-See in Austria.

- Siri Kalvig moved from Oslo in Norway to Bergen to start up, StormGeo, the world's largest weather analysis company.

- It was only a decade since Estonia has regained its independence from the Soviet Union, when a Dane, Janus Friis, and a Swede, Niklas Zennstrom, left Stockholm to the Estonian capital, Tallinn, to launch what would become one of the world's most valuable start-ups – Skype.

- Clearly, there was something about Tallinn that was superior to Stockholm in the eyes of the founders! What was that?

3
Skype in Tallinn, Optimizing the 'e' in Estonia

Soviet authorities did not choose Estonia as the location of particular technical universities for political reasons but rather because of the country's long-standing involvement in information and communication technologies. This dates back to the early 1900s when Ericsson, at the time an emerging Swedish telecommunication company, set up manufacturing facilities in the country after having to relocate them from St Petersburg owing to the Bolshevik Revolution (Tiit and Kalvet 2010, 2012).

The technical universities established by the Soviets in the Mustamae area of Tallinn, where Skype would 1 day be based, have over time become a melting pot for 'liberated Estonian IT junkies' (Løcke and Bjerge 2013). Education and information technology have increasingly come to be seen as vehicles to future prosperity. Estonia was among the first of the Soviet communist-bloc states to be allowed limited autonomy to experiment with setting up small-scale enterprises (Kilvits 2002). In fact, Ahti Heinla, an Estonian techie who was one of the original forces behind Skype, was the son of two Soviet-era programmers working at the institute who were able to provide him with privileged access to computers and who taught him to write source code at an early age' (Løcke and Bjerge 2013).

- Similarly, in the mid-2000s two Swedish music enthusiasts Eric Wahlforss and Alexander Ljung looking for a location to create a website that would be for sounds what Flickr was to photos, visited Silicon Valley and initially set up a small office in Stockholm before relocating to Berlin, a city then in a state of economic decline.

- SoundCloud went on to become one of the biggest audio-sharing websites in the world attracting over 250 million listeners each month.

- What was lacking in Stockholm? The home base of another successful music streaming company, Spotify?

4

SoundCloud in Berlin, Sharing the Vibe

SoundCloud is an audio platform that enables sound creators to upload, record, promote and share their original creations. It was the brainchild of two Swedish-born music enthusiasts, Eric Wahlforss and Alexander Ljung, who suspected that there was a large enough community of potential music makers and users to justify the creation of an interactive online audio platform on which to launch and host new music. Their efforts to fill this niche market resulted in SoundCloud (Wahlforss 2012). The company has grown rapidly following its launch in October 2008, attracting over 250 million listeners per month around the globe by the end of 2013 (Dillet 2013). While originally based in Sweden, the company quickly relocated to the more musically inclined Berlin. It now has satellite offices in San Francisco, New York City, London and Sofia(Bulgaria) (Taylor 2013) and can count Paul McCartney and 50 Cent among the many artists to have released singles on the platform (WEF 2013).

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- After years of working in the Silicon Valley, Zafar Khan, founder of Sofizar, an algorithm software company, moved from the Silicon Valley to Lahore in Pakistan to start-up his multi-million dollar company.

- How could it possibly be that Lahore provides a location for a technology start-up better than Silicon Valley?

5

Sofizar in Lahore, Turning the Competitiveness Index Upside Down

Sofizar-ConstellationCK is an online Search Engine Optimization (SEO) and Internet marketing company specialising in online ticket sales and educational services. Sofizar itself was founded in 2004 in Lahore, Pakistan, by Zafar Khan, of the Pakistani-American diaspora. With the support of global networks, in early 2009, Khan partnered with US-based serial entrepreneur Carlos Cashman to launch Sofizar's sister company, ConstellationCK. The two companies merged soon thereafter, operating out of a shared facility in Lahore, with front offices in the USA, and have developed a strong presence in the global industry for Internet marketing, especially in the highly competitive US market. By 2014, the combined operations of Sofizar-ConstellationCK, together with a more recent spin-off company, OrionCKB, generated some US$30 million in annual revenue and employed approximately 170 people, the majority of whom were located in Lahore. During his freshman year of college, Khan declared to friends that he was going to be a millionaire. He did it.

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- Rabea Ataya was based in California after graduating from Stanford University, decided in 1994 to move to Dubai first to start a records and information management company and later in 2000 to establish the Arab world's answer to Monster- Bayt.com.

- Was Dubai a better place for an internet start-up in the year 2000 than Silicon Valley?

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Bayt.com in Dubai: Taking Nepotism Out of 'Wasta'

Bayt.com, an Internet company and leading recruitment Website, was established in 2000, coinciding with the collapse of the dot-com boom, in a place lagging in Internet adoption: Dubai, in the United Arab Emirates (UAE). At the time, less than 2 % of the population in the Arab world was using the Internet, compared to rates of 28 % in OECD countries and 44 % in North America. E-recruitment was at a nascent stage of development in general, with job Websites such as Monster.com in the USA and Jobserve.com in the UK having launched only a few years earlier.

Hence, the launch of Bayt.com in the Middle East and North Africa (MENA) region appears to be a bold decision by the company's founders, though it seemed to fit a need: when Bayt.com was founded, countries in the MENA region were not creating sufficient jobs to meet the needs of their growing populations, resulting in high rates of unemployment by international standards. The man behind the company was a Kuwait-born Lebanese citizen, RabeaAtaya, who returned to the Middle East in 1995 after studying and working abroad, an aspiring entrepreneur looking for opportunities.

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S. Mahroum, *Black Swan Start-ups*,
DOI 10.1057/978-1-137-57727-6_12

Some entrepreneurs should have left their challenging locations, but they stayed on succeeding against the odds!

MAKTOOB in Amman: A Rose Between a Rock and a Hard Place

- In Amman, Jordan, despite the many difficulties often facing founders of start-ups, including lack of risk capital, red-tape, low internet penetration, Samih Toukan and Hussam Khoury, founders of Maktoob.com, preferred the advantages of their hometown than potentially other superior locations.

- How did the founders manage the lack of seed and risk capital? How did they build a market place in a region that lacked an online market?

Maktoob launched the first Arabic-language Web site to offer an online e-mail service in 2000. At the time, the Web barely existed in the Arab world, and there were fewer than one million Arab-speaking Internet users. As the popularity of the Internet grew rapidly in the Middle East, Maktoob expanded to include messaging services, news, entertainment and other services tailored to the Arabic-speaking market.

The company's Jordanian founders, Samih Toukan and Hussam Khoury, initially adopted a cautious growth strategy before expanding rapidly, prompted by a burgeoning increase in Internet use, revealing the commercial possibilities of the Arabic-speaking market. Between 2000 and 2010, the number of Internet users in the Middle East and North Africa (MENA) region grew tenfold to more than 100 million users (Sweis 2012).

Maktoob had an estimated 16 million unique users[1] when it was acquired by Yahoo! in August 2009 for an estimated US$164 million—

[1] The term *unique user* refers to a unique IP address on incoming requests that a Web site receives. Hence, if a user visits a site one or more times during a measurement period, it is counted as one unique user. Source: http://www.pcmag.com/encyclopedia/term/53438/unique-visitors

- Likewise, at a time Helsinki was dominated by the global giant- Nokia, the founders of Rovio, the company behind the world-famous videogame Angry Birds—Niklas Hed, Jarno Väkeväinen and Kim Dikert—chose to remainin freezing, expensive and highly taxed Helsinki than move to London or the Silicon Valley.

- How did Rovio compete for talent? Office space? And funding?

6

Rovio in Espoo: Epitomizing the Rise of "Palo Espoo"

Almost every time I ask someone whether they have heard of a company called Rovio, they say no. But when I ask again if they had heard of a game called Angry Birds, they almost always say, 'Of course'. Rovio Entertainment is the maker of Angry Birds, released in 2009. It was the Finnish company's 52nd game. And yet very few know about its Finnish identity. By late 2013 Angry Birds had been downloaded 1.7 billion times, making it the most downloaded paid mobile game application in the world of all time—a notable example of entrepreneurship in the electronic entertainment industry. Before we delve into the intricacies of this company, we must first take a look at the gaming industry to put the story in its industrial context.

The Gaming Industry

The global gaming industry can be divided into (1) game software developers and (2) hardware producers that manufacture devices, with the software market accounting for the larger share of revenues. The industry is dominated by Nintendo, Sony and Microsoft, followed by companies

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- A similar situation is observed in the case of TomTom in the Netherlands a country better known for its century-old multinationals, three Dutch and one French entrepreneurs–Peter-Frans Pauwels, Pieter Geelen, Harold Goddijn and Corinne Vigreux—managed to beat the odds and create the first new global Dutch corporate brand in living memory.

- How did TomTom founders carve out a place for them in a country dominated by big players?

8

TomTom in Amsterdam, Clogs and Cheese, but Also Transport and Logistics

Since the establishment of the Dutch East India Company in the early 1600s, the Netherlands has been a hub of trade, logistics and commerce. Strategically located at the nexus between Scandinavia and the rest of Europe, the country has Europe's largest port, Rotterdam. It also boasts a sophisticated banking system with which to finance international trade and lays claim to the title 'home of the world's first central bank', which commenced operations in Amsterdam in 1609, and of the first ever stock exchange (Kerrie 2013). For trade to flourish, its relatively small population of 17 million (CIA 2015) has been compelled to learn other languages, especially English. These combined strengths afford significant benefits to companies operating from within its borders.

Further competitive advantage is derived from a highly developed information and communications technology (ICT) sector. The Netherlands is reported to be the most IT-intensive economy in Europe after the UK, with an ICT sector estimated to be worth 55 billion euros and to grow by 2.6 % per year until 2015. It purportedly has the largest number of

These are all examples of entrepreneurs moving from more competitive locations to less competitive ones.

Zafar Khan moved from the Silicon Valley to Lahore to set up Sofizar, a search optimization company, which is today SofizarConstillation a holding technology services company worth tens of millions USD.

The Global Competitiveness Index
2013 – 2014. US vs. Pakistan

1	Switzerland
2	Singapore
3	Finland
4	Germany
5	**United States**
6	Sweden
7	Hong Kong SAR
8	Netherlands
9	Japan
10	United Kingdom
11	Norway
12	Taiwan, China
13	Qatar
14	Canada
15	Denmark
16	Austria
17	Belgium
18	New Zealand
19	United Arab Emirates
20	Saud Arabia
21	Australia
22	Luxembourg
148	**Pakistan**

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Janus Friis from Denmark and Niklas Zennström moved from Sweden to Estonia to set up Skype.

	GCI Score	(Rank)
Finland	5.94	(1)
Denmark	5.65	(4)
Sweden	**5.65**	**(3)**
Netherlands	5.21	(11)
United Kingdom	5.11	(13)
Germany	5.10	(15)
Austria	4.95	(21)
Estonia	**4.95**	**(20)**
Portugal	4.91	(22)
Luxembourg	4.90	(25)
Ireland	4.86	(26)
Spain	4.80	(29)
France	4.78	(30)
Belgium	4.63	(31)
Slovenia	4.59	(32)
Cyprus	4.54	(34)
Malta	4.54	(35)
Czech Republic	4.42	(38)
Hungary	4.38	(39)
Slovak Republic	4.31	(41)
Greece	4.26	(46)
Italy	4.21	(47)
Poland	4.00	(51)
Croatia	3.74	(62)

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Bayt.com: From the US to UAE (Dubai)

The Global Competitiveness Index
2013 – 2014. US vs. UAE

1	Switzerland
2	Singapore
3	Finland
4	Germany
5	**United States**
6	Sweden
7	Hong Kong SAR
8	Netherlands
9	Japan
10	United Kingdom
11	Norway
12	Taiwan, China
13	Qatar
14	Canada
15	Denmark
16	Austria
17	Belgium
18	New Zealand
19	**United Arab Emirates**
20	Saud Arabia
21	Australia
22	Luxembourg
23	France

Our Research Questions

1. What factors are typically associated with the success of fast growing high-tech start-ups in "traditional" hubs for technological entrepreneurship (such as Silicon Valley, Route 128, Taiwan and Singapore?)

2. How many of these factors can we observe in the instances of "solo" or 'black swan' start-up successes located elsewhere?

3. How many of these "traditional" factors were present in the home locations of these 'black swan' start-ups?

4. What can we learn about the relationship between place and the successful entrepreneurship?

But what does the literature say?

16 frequently cited factors that make a place conducive to entrepreneurial activities and success.
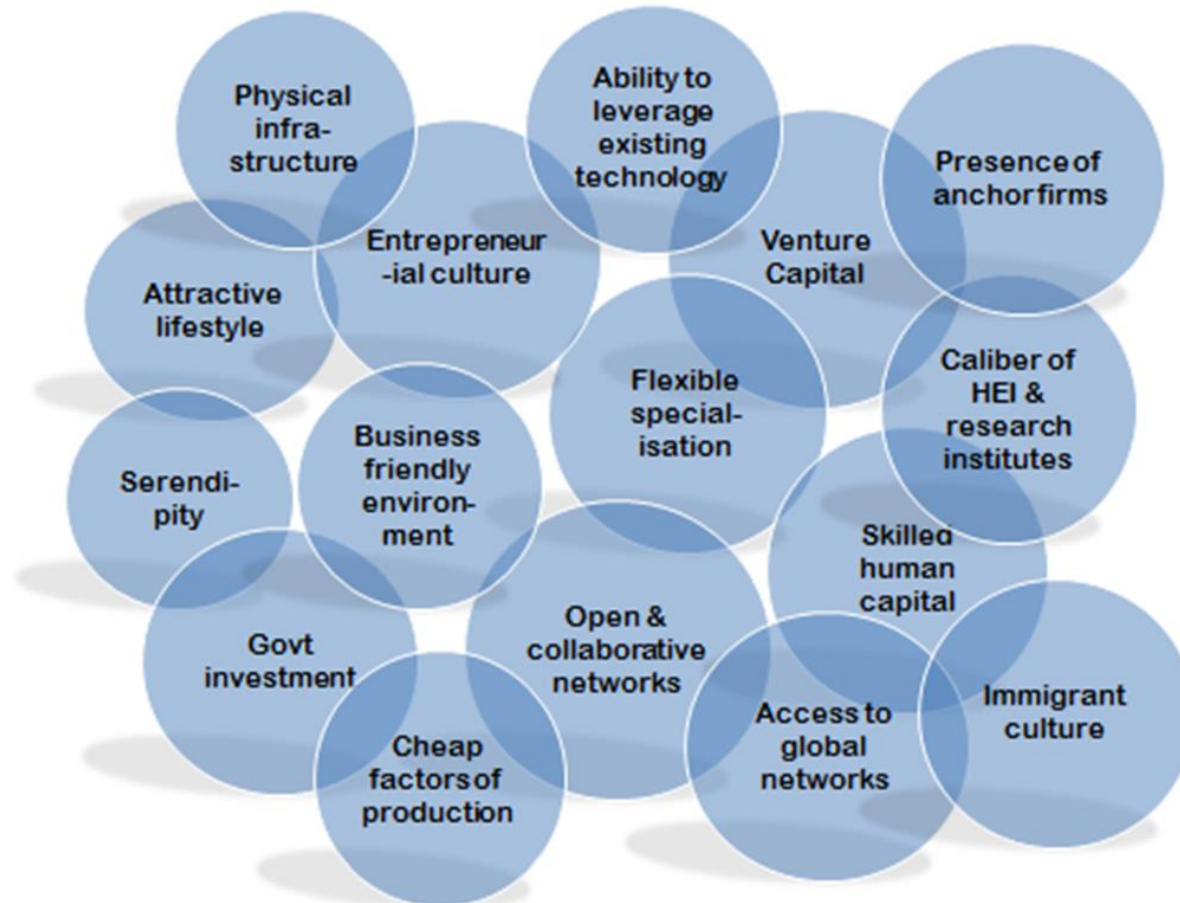
But how many of these 15* factors played a role in the success of our 11 black swan firms? (*serendipity not included)

How many of the 15 Supporting Conditions were relevant to the various start-ups?
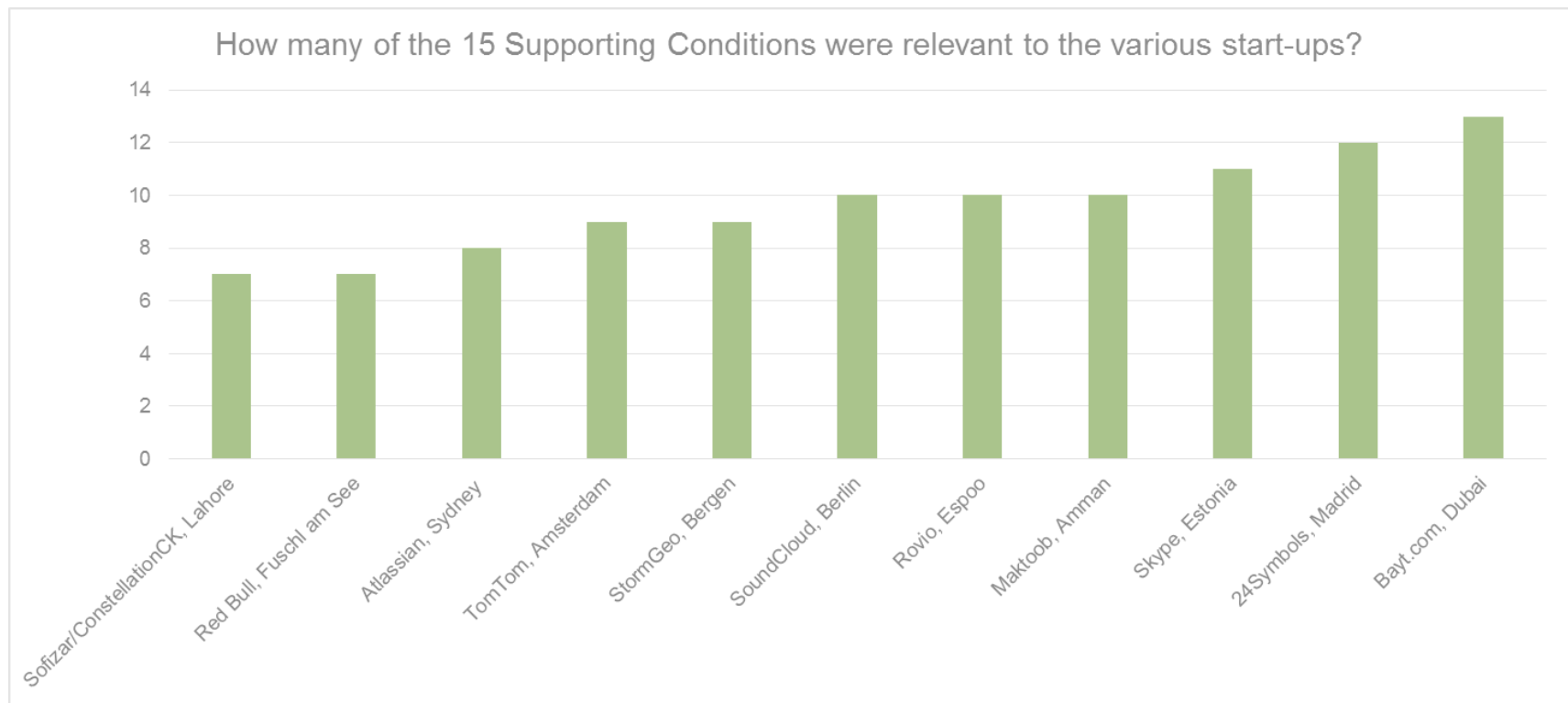
Which of the 15 factors were available at the different locations?
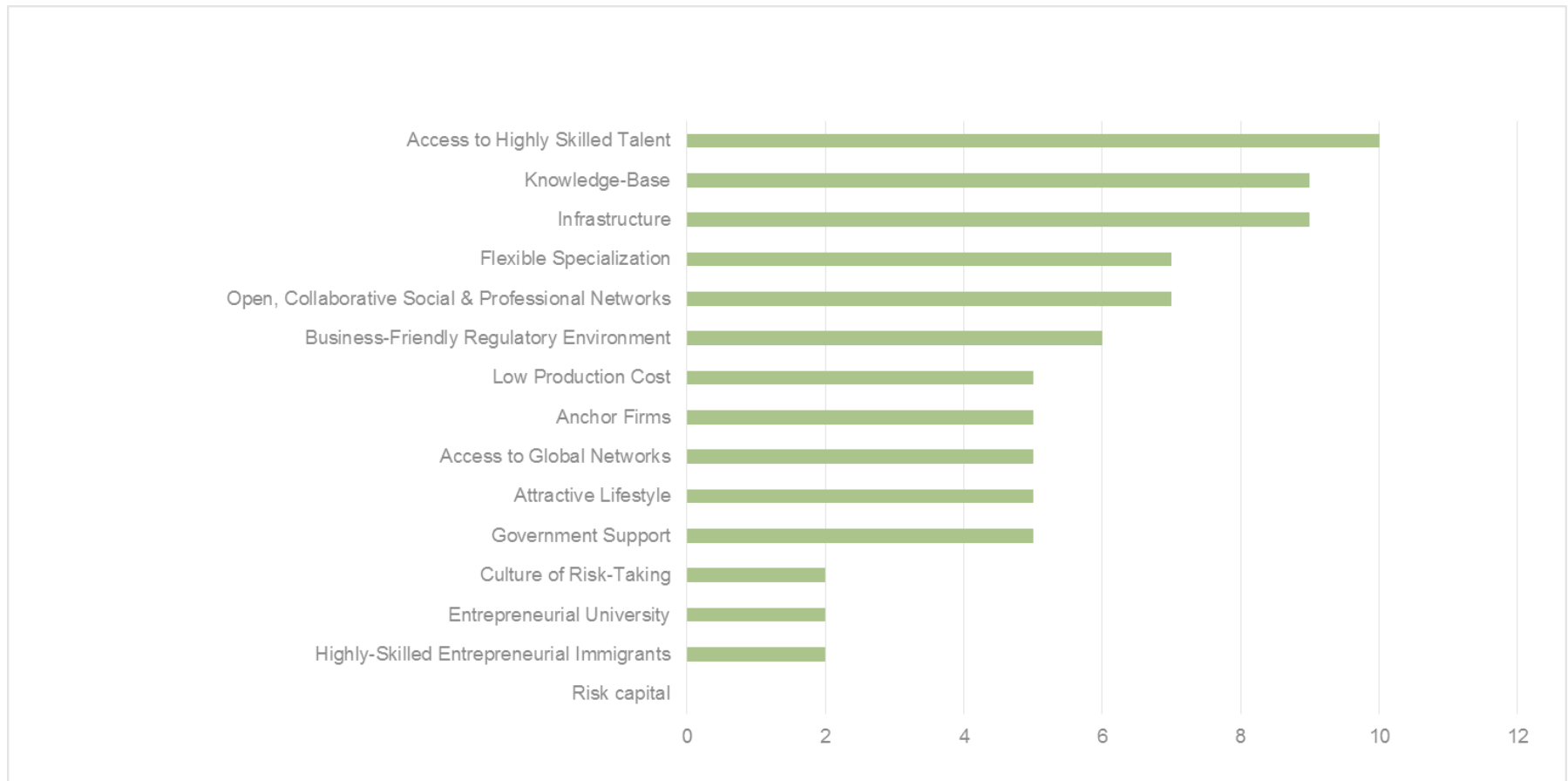
Place-Firm Matching

Figure 3: Matches betweeen available factors at the various locations and the Factors identified as relevant to the various start-ups.
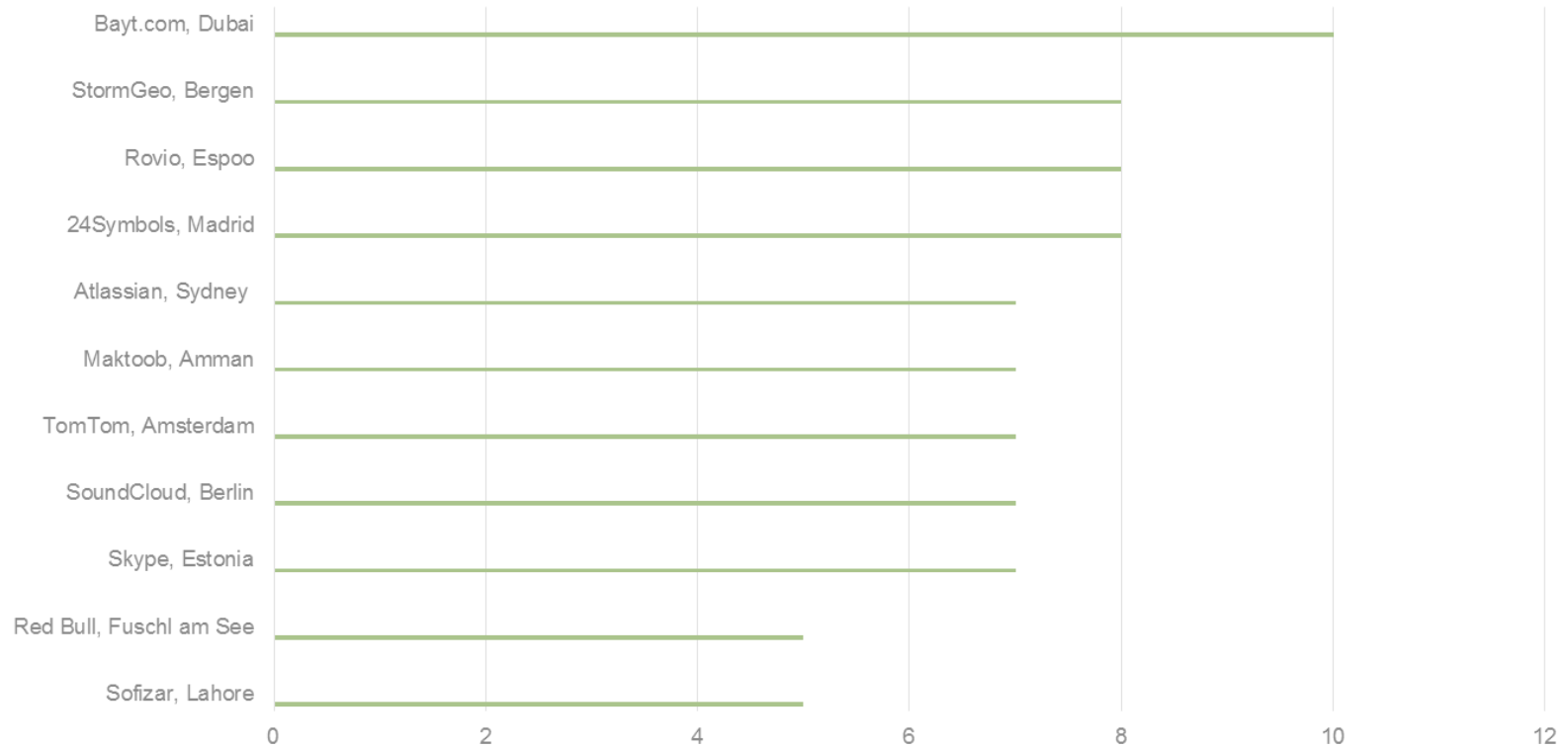
What can we learn from these 11 successful start-ups about the relationship between place and success?

- Most of the 15 factors are important, but they are not equally important in every case.

- The importance of certain factors does not mean that their local absence is detrimental to the success of a start-up/business.

- Business founders look for the locations that correspond best to their most critical needs.

- Places/cities and regions vary in their ability to cater for different types of businesses.

Table Discussion 2: What Works

Eco-system most effective   Targeted support most effective

1. Place your views on the lines and then discuss why

2. Please write down any good examples and why you like them
   (Just enough so someone knows why it is special and can google for more)

3. As a table identify the best examples, and why:
   1. Novelty
   2. Scale of impact
   3. Strength of evidence

Experimentation

What should we find out?

Experimentation

Trying new policy approaches

Using robust evaluation to learn what works
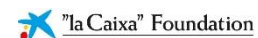
Lots can be done to improve our understanding of what works...

Source: What Works Centre for Local Economic Growth

...and to explore new ways to develop and deliver policy

Stakeholder insight
- Sponsors
- Owners
- Businesses

Funding
- Gateway to Research
- Beauhurst
- Pitchbook

Market Intel / Transformative
- Frost & Sullivan
- Go Science
- Innovate UK

How 'hot'?
- Springwise
- Lexis Nexus
- Specialist media Wired, D-sruption etc

1. Identification of emerging sectors and technologies

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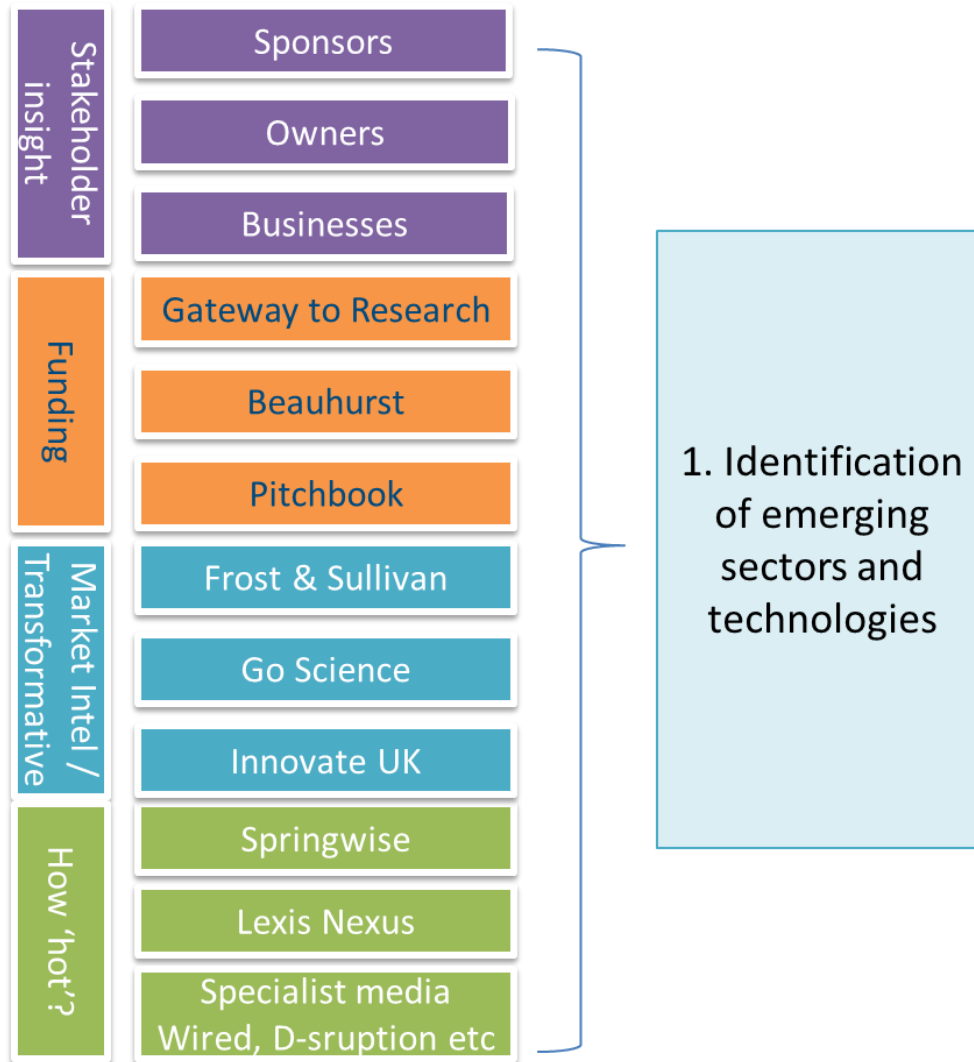
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Table Discussion 3: Experimentation

1. What aspects of policy do you most want to test?

2. What new ideas or approaches do you most want to explore?

3. As a table identify the best ideas?