

INTERNATIONAL BUSINESS

## London Tech City: an emerging entrepreneurial ecosystem

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Imagine the scene: an entrepreneur is sitting across the table from a psychologist playing a word association game (reminiscent of a scene in the recent 007 movie *Skyfall*). “London” says the questioner. What will our entrepreneur answer? Until recently he or she might have said “Olympics”, “Tower of” or “Banking”... but today a plausible answer would be “opportunity”, “entrepreneurship” or “Tech City”.

Several visits to Britain to meet a wide range of entrepreneurs, investors and policy makers interested in London's entrepreneurial ecosystem have confirmed that London is a serious place for global entrepreneurs. When entrepreneurs and their teams now consider where to locate their start-up businesses to maximize their chances of success, they should think about London - alongside Silicon Valley/San Francisco, New York and (of course) Boston.

The London visits complemented a four-month project here at MIT to analyse the success of Greater Boston as a ‘world-class hub of entrepreneurship’ (as [Phil Budden reported on this site in December](#)). The observations from Boston's experience were intended to provide lessons for entrepreneurship in London.

This project, together with a visit to Boston in November by a team of entrepreneurs and policymakers from London (to present at MIT and at the [British Consulate](#)), has helped raise the profile of London's new opportunities, especially in the ‘Tech City’ area around ‘silicon roundabout’.

### ***Background: London entrepreneurship***

London's ‘Tech City’ quarter is in the city's east, stretching from the Old Street ‘silicon roundabout’, through Shoreditch and Hackney, to the Olympic Park. It is embedded in London's wider ecosystem, alongside the traditional City of London banking district and Canary Wharf (a finance power house but now home to finance start-ups), Soho (the

traditional hub of the global music industry) or Bloomsbury (for advertising and creative media).

Just a few statistics emphasize the growing importance of London in the tech entrepreneurial scene and indeed on the world stage:

- London's 'Tech City' is now home to over 1300 entrepreneurial companies
- Almost 100 London-based technology companies received venture capital investments in 2012
- London's share of 2012 venture capital amounts to 60% of the British total of GBP 1.01 Billion (of which Internet/wireless services is the largest sector)
- Global Entrepreneurship Monitor (GEM) data shows that British residents are well above the European average in the high status they attribute to successful entrepreneurs (while their fear of failure in entrepreneurship was well below the average)

Should we be surprised by the surge of entrepreneurial activity in London? A short digression into London's history suggests not, as the opening ceremony of the Olympics reminded us. London has been a hub of entrepreneurship for centuries: in fact any lower levels of entrepreneurship in the post-WWII period are an exception rather than the norm.

From the late seventeenth century, London was at the heart of a network of highly entrepreneurial scientists and 'natural philosophers'. They strove to build entrepreneurial organizations, engage with investors and the business community to solve real world problems, and push back the frontiers of knowledge underpinning the 'scientific revolution'. At the same time, entrepreneurs in banking established the foundations of the 'financial revolution', developing new products and services that transformed the capital markets, banking and even credit itself. Gresham College – London's answer to 'Oxbridge' – was a key node in this network, endowed by a prominent financier, and the first home of the Royal Society's scientists.

Entrepreneurial property developers made fortunes after the Great Fire of 1666, developing the iconic properties around London's squares and gardens. One of the most famous – the Boston-educated George Downing – laid out the street named after him during this period.

The city gradually started its centuries-long development westwards, resulting in some neglect of east London.

The post-WWII years saw a rise in the dominance of large corporations in London, particularly in banking and finance with the arrival of global banks to the City (which incidentally sits right up against more gritty 'Tech City'). London also became the preferred European (and often global) headquarters of many leading corporations, a favourite with ex-patriates and locals alike. It also strengthened its already leading position in media, entertainment and the creative arts, with leading advertising firms growing ever larger.

While the growth of such large and successful organizations brought great prosperity to London, it also had a few unintended consequences: the brightest graduates, quite rationally, sought to join these large companies rather than pursue a career building new companies; universities (particularly those in London) became increasingly separated from the innovation-driven needs of early-stage companies; and there was less demand for risk capital to support the innovation-savvy. Government policy largely neglected the fostering of entrepreneurship.

### **London today**

So what has changed over the past several years?

- The economic crisis of 2008/9 has catalyzed a new generation of graduates to think beyond traditional careers in finance or in large established corporations and to consider an entrepreneurial career as a viable and exciting option.
  - The crisis also lowered rents making more space available (an important consideration given the high cost of space in many parts of London) as large established firms downsized.
- At the same time, the economic tightening that has spread throughout Europe has created a large, well trained pool of talent across that continent more eager for work, more affordable and more mobile.
- The broader secular trend towards entrepreneurial opportunities in consumer-oriented digital media (rather than in hardware or 'hard' sciences) now favours entrepreneurial teams with skills in design and content, and access to media giants in TV, advertising, music, fashion and beyond.

London is well placed to take advantage of these changes: in this regard, London is much like New York, which has also seen a recent upsurge in entrepreneurship albeit on a different scale. But just to emphasize a **point made before**, London (and New York's) success will not rest on entrepreneurs who are building small and medium sized enterprises (SMEs) but instead on those focused on innovation-driven entrepreneurship (IDE).

It is only if London's entrepreneurs can build competitive advantage based on innovation – in this case in the digital media space and beyond – that their firms will drive growth and expansion. It is such high-growth-potential IDE firms, not traditional SMEs, which have the potential to drive the UK Government's prosperity agenda and bring more jobs into the economy.

Of course in today's world, entrepreneurs and their teams of highly talented founders have many location choices. Entrepreneurs are mobile when the innovations that form the core of their businesses are based on design, data and customer insights (rather than the lab-based technologies of biotech, clean tech and IT that characterize many of Boston's traditional entrepreneurial activities). They can, as many have told us, just pick up their laptops and move to where their start-ups have the best prospects.

### **What London needs to do**

So what does London have to do to be attractive to global entrepreneur teams?

In work at MIT Sloan on 'accelerating entrepreneurship' with regions around the world, we have seen the importance of several different policies and programs. We also recognize the need for multiple stakeholders to engage. Here are some headlines from our research into best practice in developing an entrepreneurial ecosystem, which we develop with the full members of [REAP](#).

First, both visa and tax policies are critical:

- Visa policies are essential to make a place attractive and plausible as a location for mobile entrepreneurs. Founding teams also need visa policies that allow them to hire talent without regard to national boundaries. Britain's new "entrepreneur's visa" and related policies, together with the boundary-less mobility of the European Union, are critical.
- Tax policies help the flow of risk capital into early stage ventures at the seed stage, venture stage and later through public markets. Here again, the UK has put into place some of the most generous capital gains policies for seed-stage entrepreneurial investors.
- Turning to stakeholders, both universities and large corporations are critical partners for entrepreneurial teams and their investors:
- Universities need to emphasize effective entrepreneurial education – what we at MIT call "disciplined entrepreneurship", as practiced at its [Trust Center for](#)

**Entrepreneurship.** Not for a special group, not confined to the business schools, but for students across different subjects, especially those with technical and design expertise. More could be done to move towards flexible undergraduate education which makes entrepreneurial activities – really taking action – part of the learning experience.

- Large corporations need to be engaged with the entrepreneurial ecosystem too: entrepreneurs need partners when they want to scale and grow. A case in point is the robust recovery of Boston's life science ecosystem after the economic crisis, helped in no small part by the role of big pharmaceutical partners. Being a good partner takes time and practice: London's global headquarters in media, finance, fashion etc. need to engage and practice collaborating.

The British Government, led by No. 10, has ensured that its "Britain is GREAT" campaign includes entrepreneurship: it says "Entrepreneurs are GREAT" and we have assessed that Britain will in turn be great for entrepreneurs. But to really make Britain great for entrepreneurs in the long run it is going to take the combined talents of many stakeholders – not only the Government which can really only lay the foundations of success with effective policies and programmes - but also universities, investors, large corporate partners and most importantly entrepreneurs themselves.

The entrepreneurs have a great champion in the newly appointed head of the **Tech City Investment Organisation (TCIO)** – Joanna Shields. An American who has lived in London for many years, Shields comes from Facebook and before that Google, bringing with her both the entrepreneurial credibility, but also experience in building partnerships, that will be needed to succeed. Her task will be to help accelerate the virtuous cycle of entrepreneurial success that begets success.

### **Conclusion**

In short, London's future is bright. With 'Tech City' in east London, this historic place is tapping into its entrepreneurial past, and once again becoming a magnet for talent from across the country, the continent and perhaps the world. Entrepreneurs now graduating from top business and technology schools, should now think about London - alongside Silicon Valley/San Francisco, New York and (of course) Boston – as a place to launch their start-up enterprise. With right policies, and drawing on some best practice, London has a chance to be one of the planet's key entrepreneurial ecosystems.

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