
INNOVATION, INTERNATIONAL BUSINESS, STRATEGY

Greater Boston 2014 outlook: Entrepreneurial opportunity in the global innovation economy

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As we dig out of the first snowstorm of the year, we are reminded of one of the great appeals of Silicon Valley: the beautiful weather! And yet we both see - having just co-taught a course at MIT looking at entrepreneurial regions around the world – that Greater Boston and Massachusetts have many sources of competitive advantage that still make it a leading global hub for entrepreneurship and innovation, with new opportunities in 2014.

As an ecosystem, our New Year's resolution should be to do all we can to ensure that the whole is greater than the sum of the parts. This is not always easy: research at MIT has taught us that at least five key stakeholder groups matter in such an entrepreneurial ecosystem – a model we refer to as the 'pentacle', consisting of: entrepreneurs, universities and 'risk capital' (of course), but also large corporations and even government policy makers.

MIT's Entrepreneurial Ecosystem Model – the "pentacle"

More than simply having each of these groups play their parts in the 'pentacle', it is the myriad linkages among them that matter. This framework lies at the heart of our MIT model of innovation-driven entrepreneurial ecosystems. Based on wide-ranging exploration of what's happening in hubs around the world (and, perhaps even more importantly, on an historic analysis of Silicon Valley that goes beyond the simple stories of lone entrepreneurs or the power of one university), this research captures the dynamics of what supports, sustains and accelerates entrepreneurship in a region. Importantly, it also provides scope for pro-active interventions by all five of the stakeholder groups and for facilitating key interactions among them.

The importance of innovation and entrepreneurship

Before exploring what these five stakeholders could do to accelerate our entrepreneurial ecosystem more effectively, let's discuss why taking these actions matters; even when they are challenging, they shift the status quo or they ask that we take a more collective view of our role and our region.

Innovation and entrepreneurship clearly matter more than ever. As our advanced industrial economies slowly return to growth, we find ourselves in an economic and technological landscape that has changed since the 'Great Recession'. Productivity gains in corporate enterprises (often through technology) mean they now need fewer staff for a given output, while public authorities face continued cuts due to austerity. Together this means that employment and job creation have not returned to their pre-crisis levels.

New jobs are now largely coming from new enterprises - either directly, or as service jobs in support of them and their staff. Of these 'small- and medium-sized enterprises' (SMEs), the most valuable are still those in the 'innovation-driven enterprise' (IDE) subset (a term coined by Prof. Murray). It is such IDEs that enjoy the 'Moretti multiplier' [from Enrico Moretti's "New Geography of Jobs" (2012)] whereby high value tech jobs in turn support five other jobs in the local economy, from business services to pizza parlors.

While innovation and entrepreneurship may seem to be a topic for the elite few, in fact it is whole cities and the regions in which they are embedded that will benefit from this shift in the nature of innovation, entrepreneurship and the resulting employment. If this is true, then entrepreneurship becomes a topic for all parts of Greater Boston - not simply Kendall Square and Boston's Innovation District. It's also an opportunity for Somerville and Dorchester, for Needham and Newton.

Another lesson from our co-taught class was that many other regions around the US and the wider world also aspire to accelerating entrepreneurship within their local economies. Often led by their cities, these regions plan to capture a greater share of the new jobs and wider employment that come from 'innovation-driven enterprises' (IDEs), rather than just watching their most talented entrepreneurs leave for the better-known hubs in the global innovation economy. Boston (and other leading hubs) cannot afford to be complacent.

Greater Boston's entrepreneurial ecosystem

The good news is that an analysis of Boston and of its ecosystem pentacle shows that it is already strong in many of the component parts. We clearly have a strong community of entrepreneurs who start out here and continue to give back to the region (as mentors, angel investors, serial entrepreneurs, or all three). However our model suggests stronger roles for the other four stakeholders. Given the start of the new year – with the political calendar, and a new school semester – we will touch mainly in this piece on the government and university stakeholders.

This key role for 'government' in an entrepreneurial ecosystem reminds us that 2014 provides some unique opportunities for Boston. Comparing Greater Boston to other entrepreneurial ecosystems in our MIT course, it is clear that this region has benefitted from 'government' at a variety of levels, from the local to the state levels, taking innovation and entrepreneurship seriously. Our elected officials and public servants have shown themselves to be increasingly aware of the need to work collectively, and cross boundaries, to build our ecosystem. This is important, as other 'governments' in other regions are learning this lesson, so it is important to renew that commitment.

As the new leadership of Boston proper – i.e. the Boston Mayor and City Council – takes up its responsibilities, they will have a key role in terms of helping accelerate entrepreneurship in Boston itself (as Mayor Menino did in the ‘Innovation District’), and also across the Greater Boston regional ecosystem that includes Cambridge, Brookline, Somerville and well beyond. This year will also bring the election of a new Massachusetts Governor, who will follow Gov. Patrick’s indefatigable championing of the wider Commonwealth. As he underscored, the state benefits from the Greater Boston region, and the Hub’s growing openness to the world’s other entrepreneurial hotspots.

Universities also have a clear agenda. As one of us set out a year ago, we also have many educational assets here already: a range of institutions now teaching entrepreneurship (e.g. MIT, Babson, Northeastern, Boston University and Harvard). However, there are opportunities for greater cooperation among the universities around entrepreneurship, not least for the benefit for the Boston region in which they are based. These universities can and should make a commitment to really strengthen their engagement with a range of greater Boston communities through educational engagement, innovative outreach and a focus on their local (as well as their global) role.

For universities, entrepreneurship and innovation are a natural and key motivating focus for such engagement in a region. In the case of MIT, this builds on the recent call made by President Reif for the region’s universities to work together to safeguard Federal support of innovation in the Greater Boston area and beyond. Under his new leadership, we should expect further innovative suggestions.

The other two stakeholders – ‘risk capital’ (beyond just VCs to angels who support start-ups, to our banks that help enterprises scale up and prosper) and corporations – are no less important, as our ‘pentacle’ model sets out. We will return to their roles at a later point. Today’s short article, however, has focused on resolutions for government and university leaders, given the start of their new terms.

Teaching our MIT course as a ‘regional entrepreneurship-acceleration lab’ (REAL)– and engaging with students, faculty and entrepreneurs – has confirmed that the Boston region is still world-class in both innovation and entrepreneurship; but other regions in the US and beyond are learning the lessons and quickly catching up. So, Boston and its wider city-region need all the different ecosystem stakeholders - especially the various levels of government, and the region’s universities - to commit to New Year’s resolutions that push them to work together for the future Boston region as a whole.

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