



CREDIT SUISSE – SWISSCONTACT

Initiative to Promote
Entrepreneurship & Innovation

Key Learnings & Recommendations

In 2018, Swisscontact embarked on a journey with the Credit Suisse Foundation, with the aim of contributing to creating better conditions for opportunity-driven entrepreneurs which aligns with the promotion of the Sustainable Development Goals, especially SDG 1 (no poverty), SDG 8 (decent work and economic growth) as well as 17 (partnerships).

Research clearly recognizes the important role of entrepreneurs for economic growth and job creation in emerging markets.¹ At the same time Credit Suisse has a long history of entrepreneurship going back to its founding and Swisscontact has decades of experience fostering, supporting and accelerating entrepreneurs all over the world.

Yet, entrepreneurs do not exist in a vacuum. Just as it takes 'a whole village to raise a child', it takes a whole ecosystem to nurture, guide and enable successful entrepreneurs. It is widely acknowledged that a well-functioning ecosystem is therefore key to fostering systemic entrepreneurial success and for Swisscontact - with 'Inclusive System Development' as part of our DNA - it is only logical to take a systemic perspective on entrepreneurship.

The challenge we observed was that while the concept of entrepreneurial ecosystems and ecosystem building had gained attention, it was not obvious how to transfer and operationalize these insights to the programs on the ground. Little was being said about key characteristics of successful ecosystems, especially in developing economies, and even less about how to influence and measure them. The aim of this initiative was therefore to help identify and share best practices around the key characteristics of successful ecosystems.

Entrepreneurial Ecosystems

Most practitioners agree that the development of an ecosystem is not a linear process that starts at zero and then results in an ideal structure in which all conditions are met. On the contrary, looking at today's successful ecosystems, they have usually grown over decades, were by no means an overnight success and they have been built leveraging existing structures, be that a university such as Stanford, being selected as the first town for Google Fiber or a need for economic development promoted by the local government. In other words, they all had their unique starting point, are dynamic and complex.²

The challenge of ecosystem building is to be aware of all the different dependencies and conditions. This then allows you to make informed decisions and design relevant initiatives to strengthen the actors and thereby the ecosystem itself.

The Rainforest Model

An excellent analogy to the complexity of an entrepreneurial ecosystem is provided by Victor Hwang and Greg Horowitz, when they compare such ecosystems with rainforests, in which diverse factors interact and have a great influence on how they develop - *"each entity in the system both supports and reinforces the existence of another in a fine and complex balance which can be easily disturbed."*³ If you imagine a young plant growing in the rainforest: to start it needs good soil, access to water, sunlight and protection from pests; later, as a small tree, it must remain flexible, find its way between older trees, move to where the light falls and eventually, over the years, take its own fixed place, possibly flourish, attract insects to get pollinated, loose fruits and leaves which distribute seeds and serve as organic material to be nutrition for other living beings in the rainforest. And just as a plant's chances of survival, development and growth in the rainforest depend on various factors in its environment, so does entrepreneurial success.

¹Smith, Daniel (2010), *The Role of Entrepreneurship in Economic Growth*.

Carree, Martin and Thurik, Roy (2005), *Understanding the role of entrepreneurship for economic growth*.

²Meyers, Maria (2017), *Beyond Collisions: How to build your entrepreneurial infrastructure*.

³Hwang, Victor and Horowitz, Greg (2012), *The Rainforest: The Secret to Building the Next Silicon Valley*.

Over the course of the past six years, we have relied on various tools to help understand the current state of an ecosystem.

Early on, we resorted to Social Network Analysis (SNA)⁴ aiming to not only map the actors but focus on the relationship between them. Connections with people around us influence what we know, how we think and what we do, and the SNA allows to quantify and visualize these connections based on their quality, direction and reciprocity. SNA can be used as an analytical tool, to understand how resources flow or to determine information bottlenecks, clusters, influencers or silos. Based on these insights we can identify opportunities for specific support. At the same time SNA is a great advocacy tool as it allows you to make a complex system visible and thereby more tangible for its associated actors. This can be a useful entry point for conversations with these actors about their roles and the dynamics within the ecosystem overall.

While a SNA is a powerful tool, it requires substantial resources and expertise when done well and relies heavily on the participation of ecosystem actors. It is therefore not a tool that can be easily applied by any local ecosystem builder who wants to quickly get a better understanding of the ecosystem he or she is part of.

Driven by this insight and based on our own experience as entrepreneurs we have developed the Ecosystem Health Check⁵ together with our partner DEEP Ecosystem.

The 'Health Check' is a self-service tool for practitioners on the ground. It allows you to grasp and understand key ecosystem components at a glance. It uses standardized dimensions and metrics that can be applied to any ecosystem while still incorporating that system's uniqueness. It builds on quantitative data that is already available and most importantly it focuses on input indicators, commonly referred to as leading indicators.

In dynamic systems, it is important to differentiate between leading and lagging indicators. Most existing tools focus on output indicators – like total investment sums or number of jobs created – which are long-term effects and hard to influence as a local ecosystem builder. The 'Health Check' focuses on leading indicators under the control of practitioners on the ground – such as the community of entrepreneurs, diversity or the support system. The tool also invites benchmarking on indicator level instead of general ecosystem rankings. It thereby supports the development of a vision and goals that can realistically be achieved and are informed by local conditions.

Our experience has shown that the Ecosystem Health Check is helpful in reflecting on one's own ecosystem, understanding the dynamics at play and as an advocacy tool engaging in dialogue with other stakeholders. It supports incentivizing a shared vision, defining how to achieve it, and most importantly how to measure progress, based on quantitative data that is already available.

Recommendation:



Understanding entrepreneurs as part of a wider system instead of seeing them as isolated actors allows to define initiatives with a focus on more sustainable change.

A systemic approach to entrepreneurship will take more time and require different Key Performance Indicators than what is common in traditional cooperation initiatives.

For further reflection on Entrepreneurial Ecosystems have a look at:

- Ecosystem Health Check (ecosystemhealthcheck.org)
- Social Network Analysis Reports (<https://www.swisscontact.org/en/projects/cssc/sna>)
- 'Rainforest' by Victor Hwang and Greg Horowitz
- 'Startup Communities: Building an entrepreneurial ecosystem in your city' by Brad Feld
- 'Beyond Collisions: How to build your entrepreneurial infrastructure' by Maria Meyers

⁴ <https://www.swisscontact.org/en/projects/cssc/sna>.

⁵ www.ecosystemhealthcheck.org

Entrepreneurial Ecosystem Facilitating

Successful initiatives to strengthen ecosystems are seldom the work of an individual or a single organisation, but rather the result of collaboration between actors. They do not just automatically happen ‘along the way’ when an ecosystem develops, but require strong intention and leadership.

The findings of this and other projects suggest that to further develop ecosystems, it is crucial to accommodate a highly adaptive approach that focuses on co-creating solutions with the entrepreneurs and local ecosystem support organisations (ESOs) on the ground. This allows the project to quickly gain validated insights into what works and what does not and then pursue appropriate, entrepreneur-centric initiatives that are iteratively developed again with - and most importantly led by - local actors.

With this philosophy in mind, the task of those who lead such initiatives becomes less ‘building’ and

more ‘facilitating’. In working with and observing various ecosystems we have seen the positive impact of individuals who are genuinely interested in nurturing what is already there. Most importantly these individuals know the local context and have an entrepreneurial background themselves.

In our experience these individuals can be found in any ecosystem. What we see when we look at today’s ‘successful ecosystems’ are very specific dynamics that have played a role enabling such individuals to shape the ecosystem. In many cases these were entrepreneurs who – due to successful early exits or other sources of financial success – did not have to worry about how to make their money, and thus were able to pass on their contacts, knowledge and time with passion – without asking for anything in return. This is of course difficult to replicate, but what the example of Kansas shows is the positive effect of recognition for and professionalization of this role. Recognizing and supporting those people who are already doing the cumbersome and often invisible facilitation work is often much more effective than designing a whole new initiative from scratch.

Recommendation:



The effectiveness of light touch facilitation instead of fully fledged programs should not be underestimated.

For donors and implementors it is key to reflect their roles and understand how to strengthen the capacity of existing local ecosystem facilitators and support the development of sustainable business models for them.

Most importantly, for organizations who hire people for ecosystem building it is crucial to recruit individuals with not only an entrepreneurial mindset but actual experience as entrepreneurs. The success of ecosystem building activities depend to a large extent on the background and the skills of the people in these positions.

For inspiration around ecosystem building and the role of ecosystem builders have a look at:

- Kansas City’s KC Sourcelink and Greater Peoria Development Economic Development Council and our case studies on both: <https://www.swisscontact.org/en/projects/accelerating-the-guatemalan-entrepreneurial-ecosystem>
- Jeff Bennet on www.ecosystembuilderhub.com

Financial Sustainability of Ecosystem Support Organizations

One of the most important aspects that we have observed hindering the development of healthy ecosystems is the financial dependence of ecosystem support organisations on donor funding.⁶

What we have found repeatedly in our analysis of ecosystems is: low connectivity, low collaboration, lack of specialization, no sustainable business models, no financial sustainability - not only among the entrepreneurs, but also at the level of the ESOs that serve these entrepreneurs.

Experience, which became even more evident during the pandemic, shows that to contribute to healthy conditions for entrepreneurs these ESOs require support to develop sustainable business models, find their niche and make them largely independent of donor funding - so that they can lead by example.

If entrepreneurs, and especially ESOs, are highly dependent on donor funds, they will always consider the donor as their main client. Their offer will accordingly be more focused on project requirements and donor KPIs than on the actual needs of the entrepreneurs or end clients - and thus on the market. We often observe that ESOs 'hop' from one development project to the next, shifting their focus and offering from one topic to another to be eligible

for project funds (and thereby guaranteeing their financial stability) - from agriculture to financial services to artificial intelligence and back again.

Their lack of specialization additionally leads them to compete for the same pot of money, and thus always consider each other as competitors rather than potential partners for joint ventures. Financial stability is an important factor for cooperation - and thus for strong and healthy ecosystems.

Financially independent organizations have tested their offers in the market and therefore can focus on their core competence and provide the best service to the ecosystem in their field of work. They tend to refer entrepreneurs to downstream or upstream ESOs that complement them, rather than trying to serve every type of entrepreneur at every stage.

Financial stability requires that ESOs charge for their services, which in turn means that entrepreneurs pay for the services. This enables entrepreneurs to demand better services and usually forces ESOs to specialize and improve their offer⁷.

Finally, we also know that people and businesses are generally more open to collaboration and exchange once they have secured their finances.

Recommendation:

Empowering local ESOs to find their niche, provide high-quality services and become independent from international donor money is key for the development of healthy ecosystems. Defining KPIs that at least support or even better encourage such efforts is a good starting point⁸.



⁶Khieng, Sothy and Dahles, Heidi (2014), *Resource Dependence and Effects of Funding Diversification Strategies Among NGOs in Cambodia*.

⁷Abetti, Pier A. (2004), *Government-Supported Incubators in the Helsinki Region, Finland: Infrastructure, Results and Best Practices*.

⁸How to fulfill the potential of Business Development Services using SCALE by Argidius Foundation.

⁹Meyer, Benjamin (2020), *Time to move from donor-centric to entrepreneur-centric ecosystems*, www.sankalforum.com.

Intentional Trust Building

An important distinction in entrepreneurial ecosystems is between visible and invisible components.

Visible infrastructure refers to ESOs, co-working spaces and policies while 'invisible' infrastructure or 'social capital' refers to collaborative human engagement and culture⁹.

Many of today's initiatives - including some implemented by Swisscontact - focus on visible infrastructure, a critical element for entrepreneurial ecosystems that is comparatively 'easy' to observe, monitor, measure and define success.

For the CSSC initiative we have focused part of our work on the invisible infrastructure, specifically on trust building. We believe that trust is the foundation for collaboration, and thus building trust a key component for strong and healthy ecosystems. "The essence of an entrepreneurial ecosystem is the people and the culture of trust and collaboration that enables them to interact successfully."¹⁰

To start with, we tested the common assumption that trust happens automatically when people work together on a common challenge. We set up a small initiative and found that it was not true at all. Trust does not build 'automatically'. This does not mean that working together on common challenges is not important, but it is crucial to consciously add activities and formats that enable trust to be fostered.

The goal is not to focus on isolated trust-building activities, but to intentionally integrate trust-building components into ecosystem building activities and understand what happens when we trust others. A good example of this is the 'Give A Day'¹¹ format we piloted in Uganda with our partner Amarin Financial Group and replicated in Cambodia and

Guatemala. The format allows participants to build trust in small steps and at the same time take away a benefit for their businesses.

Trust-building starts with oneself. This is not always obvious and together with Amarin Financial Group and Erin Ouzts we developed the Trust Building Playbook¹² sharing methods on how to reflect one's own trustworthiness as a basis to more intentional trust-building in a community.

From a perspective of trust, there is another aspect that we consider crucial for the success of ecosystem facilitation. There tends to be a strong focus on results, which is justified, but it overlooks the immense value of the process of getting to those results. The process is at least and sometimes even more important than the end result - also because it usually includes opportunities to build trust that often go unused.

There is a quote by Kauffmann Foundation, which has been something like a compass for us in this matter:

"Entrepreneurial ecosystems, at their heart, are based on human relationships. Ecosystem builders are creating an invisible infrastructure in their communities to support entrepreneurs. It's not like traditional infrastructure. It's not about physical spaces, fancy buildings, pools of capital, or big institutions. Instead, ecosystem builders focus on building consistent, collaborative human engagement.

It's about process, not product. Context, not content. The journey, not the destination."

⁹ <https://startupsandplaces.com/wp-content/uploads/2021/06/Ecosystem-Health-Check.pdf>

¹⁰ <https://www.kauffman.org/ecosystem-playbook-draft-3/>

¹¹ <https://www.swisscontact.org/en/projects/cssc>

¹² The Building Trust Playbook, <https://bit.ly/3PAQiSh>



Recommendation:

Getting the trust-building right is the basis for any ecosystem initiative, because if there is no trust, there is no community.

When thinking about trust it is worthwhile to reflect about one's own trustworthiness and become aware of the importance of sharing vulnerability.

For some guidance and inspiration have a look at:

- The Trust Playbook (The Building Trust Playbook, <https://bit.ly/3PAQqSh>)
- Literature related to trust building, such as Paul J. Zak, Daniel Coyle, Stephen M. R. Covey, Robert D. Putnam, Francis Fukuyama.

Conclusion

Overall the CSSC initiative contributed to a deeper understanding of the different dimensions of ecosystems and the key characteristics of successful ecosystems specifically. It provided guidance for ecosystem facilitators on the ground, as well as academia, policy makers and donors on ways to use existing quantitative data to measure and monitor different metrics within an ecosystem.

We observe ongoing interest in our findings from the various SNAs and in replicating the Ecosystem Health Check in different cities and countries to develop a baseline, a common vision and a roadmap to get there.

While experience shows that there is generally a stronger focus on the tangible components of an ecosystem the initiative allowed us to highlight the importance of the intangible components and also share options and opportunities for intentional trust building in communities. The beauty of this resource is that it can be used as a basis for reflection on trust for anyone anywhere – be it on an individual level, for a team or an entire organization.

The experience of the past four and a half years also confirmed the importance of a truly entrepreneur-centric approach and light touch facilitation and all outputs of the initiative provide reflections and recommendations on how this can be achieved.

Just as for many other initiatives in the past two years the impact of the pandemic made us reflect the value of face-to-face meetings. We realize how important they remain especially at the beginning of connections and relationships, while at a later stage well conducted virtual gatherings can be sufficient or even advantageous.

Finally, fully co-creating the activities with local actors based on their interests and needs did require flexibility concerning our timeframes and KPIs. It also meant stopping initiatives when initial pilots showed they were not leading to the expected added value for the actors in the ecosystem or when they turned out to be beyond the scope of this initiative – for example the harmonization of KPIs among donors.

Such an approach to project design, implementation and evaluation would not have been possible without Credit Suisse and our local partners' interest, willingness and trust to embark on this journey together.