STRATEGIC ENTREPRENEURIAL ECOSYSTEMS AND BUSINESS MODEL INNOVATION

Edited by

VANESSA RATTEN

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Acknowledgments

Firstly, I wish to thank Fiona Allison for commissioning this book that is on a very relevant and timely topic of strategic entrepreneurial ecosystems and business model innovation. The title of this book appeals to me because of my lifelong interest in entrepreneurship. Initially when I started studying at the University of Queensland, they did not have a Bachelor of Business Management degree but by the time I was in my second or third year they did so I transferred to that degree and ended up with a first class honors degree as well as Doctor of Philosophy in this field. My interest in entrepreneurship and in particularly entrepreneurial ecosystem comes from my parents. My mum was always very entrepreneurial by having her own hairdressing salon in Sydney Road, Brunswick, by the time she was 21 years old. My mum and dad lived above the shop before they sold it and moved on to other endeavors. They also owned a house at a very young age in Sandringham, which is still there. After my brothers and I were born she returned to her entrepreneurial pursuits by owning another business for a number of years. My dad was a professional photographer so from him I also learnt a lot about entrepreneurship.

I have fond memories of many trips with my mum including driving all the way from Pittsburgh to Memphis because we accidently missed some pages of the map when estimating the travel distance and ended up at Memphis at 2a.m. in the morning. I am also lucky that I got to see many Civil War historical places including Gettysburg as my mum enjoyed military history. Thus, I would like to acknowledge here the support of my parents and also other family members whilst I worked on editing this book. In 2020, we had four months of lockdown in Melbourne (Australia) followed by another three months in 2021. During this time all the retail stores were closed, we worked from home and there was a 9p.m. curfew. Many other parts of the world had similar restrictions but Melbourne has officially had the world's longest lockdown. Despite our international borders being closed for close to 2 years and having hotel quarantine for returning travellers the COVID-19 pandemic still had a big impact on life. Therefore, in writing this acknowledgment section of this book in November (2021) we are now back to almost normal conditions. Thank heavens for that.

I want to thank my family (Kaye, David, Hamish, Stuart, niece Sakura, and sister-in-law Tomomi) who has made it possible for me to live the way I do and to pursue my passions. It is hard to express in writing how thankful I am to them. Therefore, I can never thank them enough for their help. Finally, to all the contributors and reviewers of this book, my warmest thanks.

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Chapter 1

Toward a Theory of Strategic Entrepreneurial Ecosystems and Business Model Innovation

Vanessa Ratten

Abstract

The time is right for a theory on strategic entrepreneurial ecosystems and business model innovation. Both topics have increased substantially during the past couple of years due to their strategic nature. This means they are uniquely placed to provide practical advice but also theoretical development. This chapter discusses the theory in terms of how it bridges strategic planning, innovation management, and entrepreneurship literature. Thereby propelling the field of entrepreneurial ecosystems further by suggesting it has both a strategic and business model perspective. This chapter argues the reasons for a new theory to be developed in order to maintain the relevance and practicality of the entrepreneurial ecosystem literature.

Keywords: Business model innovation; entrepreneurial ecosystems; entrepreneurship; innovation; strategic management; theory development

Introduction

The concept of an entrepreneurial ecosystem is ambiguous as it can refer to a number of different things depending on the context (Auerswald & Dani, 2017). From a business perspective, an entrepreneurial ecosystem refers to the different interactions occurring between business, entrepreneurs, and government entities within a specific place (Colombelli, Paolucci, & Ughetto, 2019). However, from an economic perspective, it refers to the economic activity occurring within an entrepreneurial area. This means care needs to be taken as to understanding the context to which the entrepreneurial ecosystem applies (Ferreira, Fayolle, Ratten, & Raposo, 2018). Normally the place referred to in an entrepreneurial ecosystem is land-based but it can include digital environments. Bischoff (2021, p. 1121)

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refers to an entrepreneurial ecosystem as "an interconnected set of stakeholders in a regional environment that provides the underlying infrastructure for entrepreneurial activities". This definition highlights the need to consider stakeholders in society as to how they collaborate regarding entrepreneurial pursuits and the importance of place. There are locational aspects of entrepreneurship that make the study of ecosystems important (Mota, Braga, & Ratten, 2019). These locations also foster collaboration but in different ways. City or urban areas are more likely to foster manufacturing or high-tech while rural areas encourage farm and other land-based activities.

At the moment, there is no specific theory regarding entrepreneurial ecosystems that take into account strategic management perspectives (Ratten, 2020). There is some research on the topic, but a more specific theory of strategic entrepreneurial ecosystem will provide a better theoretical framework to merge planning and competitive aspects with entrepreneurial behavior (Ratten, 2021a). There are still many unanswered questions regarding entrepreneurial ecosystems due to the uncertainty about how they develop in society. This means there is no generally agreed upon formula for starting and growing an ecosystem (Rashid & Ratten, 2021). Rather it depends on a number of factors that relate to business innovation conditions in a region.

There is an abundance of literature on network analysis, entrepreneurship and strategic management in general (Ratten, 2021b). However, if all these research tracks are combined it will provide a better way to understand the phenomenon of an entrepreneurial ecosystem. Much like previous new fields such as strategic entrepreneurship and strategic management developed and became popular, the field of strategic entrepreneurial ecosystems need to be substantiated (Ratten, Braga, & Marques, 2021). This will enable more research and practice to be devoted to strategic entrepreneurial ecosystems.

In order to develop more the concept of strategic entrepreneurial ecosystems, this chapter views them in a strategic way. Thereby focusing on strategic entrepreneurial ecosystems that involve some form of planning. This means they do not normally occur by accident as they have some kind of objective. It is also useful to go beyond the vague meaning of an entrepreneurial ecosystem to incorporate a more specific meaning. Despite having an assumed strategic nature to an entrepreneurial ecosystem the word strategic does not often occur in conceptualizations of the topic.

In this chapter, I intend to contribute to the existing body of knowledge by showing how business model innovation requires a strategic entrepreneurial ecosystem. I intend to address the following questions: (1) How can strategic entrepreneurial ecosystem research be combined with business model innovation literature?, (2) What are the key conceptual foundations of strategic entrepreneurial ecosystems?, and (3) What are the main theoretical frameworks for understanding business model innovation?

The remainder of this chapter is organized as follows. A detailed overview of the entrepreneurial ecosystems literature is presented that highlights the need to take a strategic perspective. The linkage with business model innovation is then presented that emphasizes the connection between strategy, entrepreneurship, and innovation. Lastly, a theory of strategic entrepreneurial ecosystems and business model innovation is presented. Thereby paving the way for a new and much more creative way of considering entrepreneurial ecosystems in terms of strategy and innovation.

Entrepreneurial Ecosystems

Entrepreneurial ecosystems are not well understood as they are a buzzword with no specific common definition (Spigel & Harrison, 2018). This means they can be understood in a variety of ways. Due to this variation in meaning, new theories need to be developed with regard to entrepreneurial ecosystems. This can include bridging existing theories from other fields to an entrepreneurial ecosystem context. Thereby utilizing existing information from other fields but extending the context to an entrepreneurial ecosystem perspective (Spigel, Kitagawa, & Mason, 2020). New theories will enable the theory on entrepreneurial ecosystems to adapt to new ways of thinking. An entrepreneurial ecosystem is an umbrella term for including concepts such as an industrial cluster, business innovation system, and a regional group (Roundy, Brockman, & Bradshaw, 2017).

Much of the seminal work on entrepreneurial ecosystems has been published in the past few years. Some concepts such as a regional innovation system are similar to an entrepreneurial ecosystem due to the emphasis on continual innovation (Santos, Marques, Ratten, & Ferreira, 2021). However, entrepreneurial ecosystems take a broader approach to innovation as they focus on an evolving system rather than just a regional perspective. Entrepreneurial ecosystems place the entrepreneur at the heart of the system emphasizing their role in the entrepreneurship process. This means instead of emphasizing the region, the entrepreneur is emphasized.

Entrepreneurial ecosystems can be defined in different ways depending on their stage of development. Governments are trying to introduce policies that are conducive to entrepreneurship due to the need to revitalize their regions and take into account various forms of entrepreneurship (Santos, Oliveira, Ratten, Tavares, & Tavares, 2021). There are different types of entrepreneurs needed to make an entrepreneurial ecosystem work properly. This includes habitual entrepreneurs who continually develop new projects. Some entrepreneurs also develop a portfolio approach to their business ventures (Ratten, Leitao, & Braga, 2021). This enables them to quickly scale up successful business ideas in order to create economies of scale.

An entrepreneurial ecosystem comprises two components: entrepreneurial and ecosystem. The entrepreneurial component refers to the innovation, risk taking, and proactive activity (Ratten & Ferreira, 2017). Normally this means that a business is completely aggressive in the marketplace. The ecosystem component refers to the ongoing change that occurs based on different types of interactions. Entrepreneurship is an important source of employment and productivity growth. It occurs based on the need for new types and forms of business to enter the marketplace. Technological innovations mean there are continuous changes occurring that necessitate new business growth (Ratten, 2019). The entrepreneurial ecosystem approach is like an innovation and learning system but focuses more on new business creation. Entrepreneurs provide the leadership for change to take place in an economy (Patria, Usmanij, & Ratten, 2020). They try new business ideas with the goal of producing a profit. Not all new businesses are a success as it can take time for the marketplace to adapt.

Isenberg (2010) suggested that to build an entrepreneurial ecosystem the following principles should be used. Firstly, they should not copy existing ecosystems but develop their own based on local conditions. This means engaging with others from the start and then shaping the business based on environmental conditions. The entrepreneurship process should be organized based on context. This means while ambitious forms of entrepreneurship are encouraged it will depend on the market conditions as to whether the business will succeed (Marques, Lopes, Braga, Ratten, & Santos, 2021). There should also be the right kind of human capital to maintain its workforce. This means emphasizing technical skills as well as general people skills. There may be specific types of skills needed that require training or experience. There also needs to be accessible markets in which entrepreneurs can sell their products. This means there needs to be customers and they can include business, government, or citizens. As funding is needed to build a business, there should be venture capital funds, private equity investors and angel investors. This will result in some competition between funding agencies for new projects. Thus, there is an emphasis on new projects but also access to finance. An entrepreneurial ecosystem requires networking in the form of advice and feedback on business proposals (Leitão, Ratten, & Barroca, 2020). This can be done in conjunction with entrepreneurship training programs that help people develop an entrepreneurial mindset. Universities should be part of an ecosystem as they can facilitate technology transfer processes (Malecki, 2018). This enables research to be commercialized. As part of the process of facilitating new ideas there also needs to be cultural support. This will enable an entrepreneurial culture to develop that promotes innovation and risk-taking activity (Ferreira & Ratten, 2017).

The entrepreneurial ecosystem concept is alluring as it provides a way to understand the connections needed for entrepreneurship. None of the previous theories on entrepreneurship were able to fully explain how it occurred. They normally focused on one aspect at the expense of other factors. The ecosystem approach takes a broader view as to what entrepreneurship is and how it occurs in society. There is still a long way to go before fully understanding the cause and effect of entrepreneurship (D'Souza et al., 2021). This is due to there being no consistent explanation for entrepreneurship. The main outcome of a system is to produce a positive benefit. Whether this occurs depends on how the system evolves.

Stam (2015) suggested that the main elements of an entrepreneurial ecosystem are framework conditions (formal institutions, culture, physical infrastructure, demand) and systemic conditions (network, leadership, finance, talent, knowledge, support systems/intermediaries). The framework conditions are necessary for entrepreneurship to occur. They include banking entities, buildings, and customers. The systemic conditions involve having the necessary people with the right skills to perform the business activities.

Feld (2012) suggests that there are nine attributes of a start-up community that makes it successful: leadership, intermediaries, network density, government, talent, support services, engagement, companies, and capital. Each of these attributes will now be explained. Leadership involves having a group of entrepreneurs who are willing to commit to innovative practices. This means they encourage others to also be entrepreneurial through their business practices. This means helping and supporting others who show an interest in entrepreneurial activities. Intermediaries are people who can link entrepreneurs to resources they require to start their businesses. These can include general advice about the economic climate of a region and the business trends. Intermediaries need to know how to connect different people in the community. To do this means encouraging entrepreneurs to be part of accelerators and incubator programs. This can facilitate business networking activities aimed at sharing business knowledge. Intermediaries can act as mentors or coaches for entrepreneurs. Network density refers to how well-connected people are in the community. Networks that have a high level of interconnectivity are better able to pass along information. This helps to facilitate faster forms of innovation and speeds up the entrepreneurship process. Government support is needed in a community in order to facilitate entrepreneurship. This means having supportive policies for entrepreneurship. Talent refers to the human capital in an area. For this it helps to have higher education institutions such as universities in the community. Some entrepreneurs require specific types of knowledge in order to start their business. For example, technology start-ups require people with data analytics skills. This means it can be helpful for an entrepreneur to locate their business close to a university. Support services refer to people such as accountants and marketers that can help an entrepreneur with their business. Engagement means that there are a number of events or other types of activities that enable entrepreneurs to connect with others. Companies involve businesses that are well established and can act as an anchor for other companies. This enables businesses to collaborate with others and to build entrepreneurial momentum in the community. Capital refers to finance or other resources that an entrepreneur requires in order to establish their business.

Entrepreneurial ecosystems develop in society based on business need and the willingness of others to contribute to innovative development (Cohen, 2006). The concept is relatively new in the literature so its underdeveloped. The nature of an entrepreneurial ecosystem changes over time. In an entrepreneurial ecosystem entities compete for scarce resources (Alvedalen & Boschma, 2017). This means while there is cooperation, there is also competition for timely access to resources. Acs, Stam, Audretsch, and O'Connor (2017, p. 2) state that an ecosystem "is a biotic community, its physical environment, and all the interactions possible in the complex of living and nonliving components." This means that it operates in a science sense in terms of different ingredients being needed in order to sustain its development. The growth of one entity may harm or encourage others. This means there is a sense of survivability in terms of the stronger entities surviving at the expense of weaker entities. Just like a science experiment the actions of one entity can have repercussions on others.

Society Aspects of Entrepreneurial Ecosystems

Entrepreneurship involves finding opportunities then exploiting them in the marketplace. To do this they require the input and feedback of others at different times of their business journey. An ecosystem is nested within the broader economic system existing in society (Bhawe & Zahra, 2019). This means an entrepreneur commercializes new ideas based on interactions with others in a specific region. Entrepreneurs are best positioned in society to take advantage of new trends. This means they can assess new opportunities in the hope that they recognize them before others. Entrepreneurs should be in a position to take advantage of an opportunity but sometimes they may need the help of others. The government can help entrepreneurs by adjusting their policies. This can occur via changes in laws or regulations. Entrepreneurship should be assessed for its impact on society. Not all forms of entrepreneurship are good as it can depend on the type of business that is conducted. For example, businesses with a social or societal perspective are likely to be considered as better than purely financially focused businesses. Thus, the quality of the entrepreneurship should be considered.

To encourage information to flow in an ecosystem people need to exchange ideas (Audretsch & Belitski, 2017). There has been tremendous attention placed on the concept of an entrepreneurial ecosystem. In the past, the focus on entrepreneurship was on the entrepreneur rather than the environment. This has changed due to the need to include a number of different perspectives in our understanding of how an entrepreneur works. This means an ecosystem perspective provides a more holistic understanding about the process of entrepreneurship.

Entrepreneurship is often geographically orientated in terms of people and businesses moving to an area because of the environment. This means the cultural, economic, and social conditions of an area related to the level of entrepreneurship occurring within a region. Due to the interdependencies between the cultural and business factors, it can be hard to replicate an ecosystem. There are specific cultural elements such as work attitude and entrepreneurial orientation that influence economic development. Nascent entrepreneurs can be influenced by these conditions but also the political climate existing in an area. Some high-risk ventures that are in unchartered territory may need specific policies to help them succeed. These policies can relate to an industry such as airplanes or tourism or can be general in orientation. Public policies that incentivize entrepreneurship are more likely to lead to the growth of high-tech ventures.

Expansion of Entrepreneurial Ecosystem Literature

The literature on entrepreneurial ecosystems have rapidly expanded in the past few years. The topic is probably the most talked about topic in both the entrepreneurship and strategic management fields. The reason for this is due to its simplicity and usefulness in explaining how entrepreneurship occurs in society. Entrepreneurship rarely happens through the actions of one person as it normally requires the input of a number of people. This makes it important to take a systems view toward any kind of innovative and risk taking activity.

A systems view of entrepreneurship recognizes the interwoven connections between people, business, and government. There are interdependencies and socio-economic forces that require some form of cooperation. The cooperation is from a business purpose but enables the entrepreneurship to occur in a meaningful way. The systems view of entrepreneurship emphasizes that one action needs to help of another and vice versa. Thereby the connection is continually evolving in society.

Entrepreneurship is a contextual activity. This means it is based on time and place. The ecosystem view of entrepreneurship builds on the systems perspective by adding an eco-analogy. This means the entrepreneurial ecosystem is like the biological environment where things grow, are maintained or die. Therefore, just like the natural environment where things are interconnected, an entrepreneurial ecosystem continually changes. The changes can be positive, negative, or inconsequential. Some entrepreneurial ecosystems grow more quickly than others.

To understand how strategy is used in an entrepreneurial ecosystem it helps to look at the informal and formal exchanges. The informal exchanges between members of an ecosystem can lead to unintended outcomes. These outcomes can have positive flow on effects when they involve some kind of knowledge exchange. Not everything can be planned in business so unintended interactions can be helpful. They enable new information to be used in order to help a business. Formal exchanges tend to be more well planned. This means there needs to be stakeholders involved in a business decision. These stakeholders can offer advice and different forms of resources. Some stakeholders will have more power than others due to their position in society. This means it is important to take into account who a stakeholder is and their history in a community. Larger companies and entities are more likely to have a more powerful position in society. Smaller entities can still be powerful as they can hold specific types of required information or resources.

Strategic Entrepreneurial Ecosystems

Strategic entrepreneurship encompasses entrepreneurial activity that is planned or deliberate. This means it is linked to the concepts of economic and societal performance. Strategic entrepreneurial ecosystems are an interdisciplinary approach to strategy and entrepreneurship that emerged from a need to combine different fields of thinking. It has specific relevance to the entrepreneurship, strategic management, and economic geography fields. Whereas traditional entrepreneurial ecosystems research emphasizes generalizability, the distinctive feature of strategic entrepreneurial ecosystems is in the competitive dynamics of the business environment that require some form of planning. This means it can be described as a relational perspective that focuses on the timeliness of decisions.

Since entrepreneurial ecosystems research is a relatively young scientific field, the adoption of theories from other fields is useful. The term "entrepreneurial ecosystem" is a catchphrase in terms of capturing any innovative activity that occurs within a given environment. This means it is a metaphor for the ongoing and concurrent transactions that occur in the business world. However, to fully understand the nature of an entrepreneurial ecosystem it helps to place attention on the role of strategy and strategic development.

Entrepreneurship can occur through planned and unplanned processes. The planned processes typically involve focusing on a new product or service for the sport sector. This means the typical process regarding funding and developing the idea is followed. Different industries can have a unique entrepreneurial ecosystem due to its hybrid nature combining both profit and non-profit initiatives. This means entrepreneurship develops differently compared to other contexts. There is likely to be more involvement by the government and other regulatory agencies in the sport entrepreneurship process. This is due to the large amount of funding the government receives compared to other industry sectors.

One of the most relevant strategic considerations entrepreneurs need to take is regards to the effects of the digital economy. Rachinger, Rauter, Muller, Vorraber, and Schirgi (2019, p. 1146) define digitalization as "the process of converting analogue data into digital data sets." There has been a rapid digitalization process due to the impact of the COVID-19 pandemic necessitating online communication. As a result, there has been a digital transformation of the global business economy that requires different kinds of strategic thinking. Digital transformation is considered as the process used to restructure information in a digital format. There has been an increased emphasis on digitalization particularly during the COVID-19 pandemic due to the need to communicate online. This has meant an increased reliance on mobile commerce and cloud technology. As a result of the changes from digitalization, businesses have had to reflect on their current strategy and develop new business goals. This has meant increasing the amount of information and services they offer in an online format. Furthermore, digitalization has put pressure on businesses to act in a more online way that enables quicker and faster communication. This enables direct engagement between consumers and businesses that should lead to more value being created.

Digitalization impacts most areas of business particularly in terms of the transaction process. As a consequence, a business strategy regarding the future has had to change. Business models are more reliant on technology because of the digitalization trend. As a general concept, digitalization refers to the increased use of digital technologies in a business. A business model can be described as "an architecture for how a firm creates and delivers value to customers and the mechanisms employed to capture a share of that value" (Teece, 2018, p. 40). Every business no matter its size or location has a business model. This is due to the need for some form of direction in terms of planning and improvement.