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Executive Summary

Entrepreneurial ecosystems and start-up activity – a long-term analysis of their interrelationships

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Summary

Based on the approach of the so-called entrepreneurial ecosystem, we analyze the mutual influences of selected aspects of institutional framework conditions, the economic environment, and entrepreneurial activity at the regional level. We examine these reciprocal relationships using data from 397 independent cities and districts from 2002 to 2018, focusing exclusively on startups with economic substance that have remained in the market for at least three years.

Strengthening the entrepreneurial ecosystem can stimulate startup activity

Business-friendly regulatory frameworks and a larger pool of potential entrepreneurs in particular lead to higher startup activity in the region. However, if the market is already highly competitive and saturated, an additional increase in entrepreneurial activity may result in the displacement of existing businesses and thus lead to more closures.

Interrelationships within the ecosystem lead to fluctuations in startup activity and economic growth

An increase in startup activity generally has positive effects on the entrepreneurial ecosystem. It boosts demand for goods and services, reduces unemployment, and stimulates economic growth in the region. At the same time, lower unemployment and higher prosperity dampen the dynamics of startup activity. This is due to more employment opportunities and higher wage levels, as well as increased production costs, which can lead to potentially higher financial burdens when starting a business.

Startups hardly change the institutional framework conditions

An improvement in resources or formal institutional framework conditions influences the dynamics of startups in the short term. In contrast, an increase in startups – at least in the ten-year period we examined – does not have a significant impact on institutional framework conditions. Studies that consider much longer time periods are needed in this regard.

Region-specific approaches are required to strengthen regional startup activity

Measures to strengthen substance-based and viable startups can be rewarding for the economic prosperity of the region. When selecting and implementing measures to shape startup-promoting resources, the specific regional conditions should be taken into account. Otherwise, strengthening individual aspects might be ineffective due to the complex interrelationships between the elements of the ecosystem – or even have a dampening effect on entrepreneurship. In contrast, creating generally business-friendly framework conditions can help make the location attractive for entrepreneurs in the long term.