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Research: How Entrepreneurship Can Revitalize Local Communities

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Summary. Much has been written about the potential for entrepreneurship to spur economic growth — and yet time and time again, we've seen business-driven revitalization programs fail to make a real, lasting impact on their local communities. What will it take to foster... **more**

Both business leaders and policymakers have long understood the potential of entrepreneurship to foster local development. From Kenya's Silicon Savannah to business-driven revitalization efforts in Detroit, Baltimore, and other urban areas, programs abound to revive local economies through entrepreneurial training, investment, and accelerators.

Unfortunately, these efforts have had decidedly mixed results. Research has shown that entrepreneurship training for underprivileged founders has little impact on firm profitability. Entrepreneurial initiatives often fail to address urgent local issues, and high-tech growth in poor regions tends to enlarge income gaps rather than creating much-anticipated trickle-down effects. A recent review of more than 200 articles on entrepreneurship and poverty alleviation found that entrepreneurial initiatives aiming to address poverty through venture investment have been generally ineffective. A study that analyzed the impact of entrepreneurship across 44 countries similarly concluded that growth-oriented entrepreneurship did not generate as much impact in emerging economies as it did in developed economies, and that regions generally only benefit from high-growth entrepreneurship after reaching a certain threshold level of development.

Why are these entrepreneurship-driven efforts to boost regional prosperity — strategies that have been extremely effective in hubs such as Silicon Valley — so difficult to replicate in impoverished places? And are there any alternative approaches to entrepreneurship that could be more successful in revitalizing local communities?

To explore these questions, we conducted an eight-year investigation of two organizations dedicated to revitalizing Detroit through entrepreneurship. While the two pursued the same goal, they adopted very different approaches. The first organization, which we'll call ACCEL, was a traditional business accelerator. ACCEL identified ventures with high-growth potential that were likely to attract venture capital investment. It provided mentorship and resources to help them grow as quickly as possible. The second, which we'll call GREEN, was an alternative incubator. GREEN was founded on a philosophy that business should “grow like a living organism,” and thus encouraged its startups to leverage resources that already existed in the local community to nurture their growth.

To understand the impacts of these two approaches, we took a deep dive into the founding and early-stage development processes of two representative ventures from each organization. We sat in on all of their idea development meetings (a total of 148 meetings) as well as regularly interviewing both founders and mentors for these companies (a total of 67 in-depth interviews). In addition, we traced the subsequent development of all 27 ventures that emerged from the two organizations during our study, analyzing more than 600 news articles about the companies alongside other data sources such as follow-up interviews, company updates, and social media posts.

These detailed analyses helped us identify a key factor that contributes to the limited effectiveness of the Silicon Valley model in impoverished communities: its focus on *scaling up*, rather than *scaling deep*. In our study, we borrowed the ecological concept of “scale,” which refers to how an organism grows in both time and space, to understand how different types of entrepreneurial ventures grow. ACCEL, like many entrepreneurship programs designed to maximize financial growth, focused on helping its companies to secure venture capital investment. Because venture capital investors seek maximum returns at minimum costs (that is, in as short a timeframe as possible), these venture-capital-backed companies were strongly incentivized to expand as quickly and as widely as possible. As a result, the founders’ ideas consistently morphed into ventures optimized to grow broadly and quickly — that is, ventures that would *scale up*.

For example, one of the founders we shadowed originally intended to empower Detroit’s brick-and-mortar fashion retailers by building an online portal for local boutiques. Over the course of her participation in ACCEL, the idea transformed into an e-commerce platform that sold products from nationwide fashion boutiques to nationwide customers. ACCEL mentors would ask her questions such as, “How likely is it that you’ll ever be able to do this with stores nationwide?” In response to pressures like these, the founder dropped some of her venture’s original features, including its online inventory system for Detroit retailers and strategy of collaborating with retailers to host local fashion events. These elements would have helped Detroit’s disadvantaged retailers, but they couldn’t be quickly replicated across the country, and so they were abandoned in favor of a business model that enabled faster, broader growth. Although the move made her company more appealing to investors, the founder felt conflicted, lamenting, “I came here with a big vision. And then it was broken down to pieces and I built something for just one piece.”

Most of the ACCEL ventures went through similar transformations. Their local impact was explosive, but relatively short-lived. While many created substantial local employment opportunities at first, they ultimately tended to leave Detroit for greater access to the capital, talent, and industry-specific knowledge necessary to secure larger rounds of funding. Importantly, this suggests that the problem with the Silicon Valley model isn’t that high-growth entrepreneurship can’t emerge from poor places. Startups that were successful in a traditional sense did emerge from ACCEL, but they failed at making a lasting impact on their local communities because their approach to scaling focused on rapid expansion at all costs — eventually decoupling their success from that of their home regions.

In contrast, GREEN took a markedly different approach to scaling. In our research, we found that GREEN encouraged its founders to develop their ventures through entrepreneurial bricolage — that is, a model where entrepreneurs repurpose and recombine resources that are already available, rather than seeking out funding from external sources. These founders built rich relationships with local partners, and they sought out creative ways to leverage the resources available in their local environments to address urgent, local problems. This meant that their venture ideas became embedded in the Detroit ecosystem, growing deeply and slowly rather than broadly and quickly. We call this *scaling deep*.

For example, one venture we followed had developed a tool to help seniors manage their medications. Although they initially received an offer from a major pharmacy that would enable them to scale up nationwide, they instead transformed into a design-services firm, applying their core capabilities in eldercare product design to address Detroit-specific issues in collaboration with local hospitals, senior living communities, and insurance companies. Reflecting on this decision, the founder expressed his commitment to a philosophy he called "growth in depth": "We are not going to be flying all over the country anytime soon," he explained, "because community work is very localized." Similarly, another founder joined GREEN hoping to build a plant to recycle waste tires, but ultimately ended up creating a platform that mobilized local residents to collect waste tires in their neighborhoods and worked with local design schools to upcycle the tires into art projects.

These ventures never expanded beyond Detroit, but they successfully implemented customized, location-specific solutions to address location-specific problems. One company alleviated local unemployment by providing more than 200 disadvantaged culinary entrepreneurs with access to licensed kitchen spaces in local churches, fresh ingredients from urban farmers, and local customers through a local farmers' market. Another addressed the city's food desert problem by turning corner stores, community centers, local schools, and gas stations into fresh food distribution hubs. As one GREEN founder eloquently described his company's growth philosophy, "I want us to be like an oak tree that takes all of its energy for the first 20 to 50 years to set deep, deep roots, [and then] produces a lot of deep, rich offspring [and becomes] the anchor of the ecosystem."

To be clear, founders from both GREEN and ACCEL were motivated by a shared mission of reviving Detroit. But their differing approaches to growth led them to make vastly different impacts. While the ventures that focused on scaling up expanded beyond Detroit to raise investment in their next fundraising rounds, those that scaled deep instead invested in fostering lasting, local relationships, leveraging local resources and solving local problems.

This suggests that it may be time to rethink how we understand entrepreneurship-driven local development. Academics and practitioners alike rightly emphasize the fact that alleviating local poverty requires nurturing ventures that grow. However, a strong focus on *how much* ventures grow can often obscure critical differences in *how* ventures grow. Our research illustrates that venture-capital-backed, rapid expansion is not the only way to grow — ventures can also grow by deepening local embeddedness, simultaneously feeding on and cultivating local resources.

If the goal is to harness the power of entrepreneurship to revitalize impoverished places, we need to think about entrepreneurial ventures not as investment vehicles designed to maximize return, but as collaborative platforms that enable us to leverage local resources in creative ways to address urgent local problems. And this mindset shift has implications not only for how founders and advisors think about new ventures, but also for how policymakers support the entrepreneurial ecosystem.

Many accelerators (including ACCEL) receive significant funding from local government agencies, often in response to growing pressure to pour government money into addressing urban poverty. But accelerators like these are motivated by securing a return on their investments, and so they push founders to pursue scale-up strategies that are less likely to help their local economies, such as adopting large-scale automation tools instead of hiring local employees. To avoid this, policymakers should explicitly focus on supporting ventures that will create novel solutions to local problems by repurposing local resources — that is, ventures that scale deep.

As Joel Bothello, Concordia University Research Chair in Resilience and Institutions, succinctly summarizes, “We need less fetishization of blitz-scaling in entrepreneurship and more attention to ‘scaling deep’ that addresses local problems in a more sustained manner.”

Ventures that focus on scaling up may achieve financial success, but they will never turn a Detroit into a Silicon Valley by themselves. To make a meaningful impact on local communities, business leaders and policymakers should foster a mindset of scaling deep, supporting not only the ventures that offer strong returns, but also those that lift up poorer places to achieve sustained self-reliance.

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