

SCALING THROUGH CRISIS

Data-driven and visual research and insights into what makes entrepreneurial ecosystems thrive.

endeavor
NIGERIA

Fostering Productive Entrepreneurship Communities

Key lessons on generating jobs, economic growth, and innovation

Entrepreneurs play a critical role in cities and nations as they create new jobs, generate economic growth, and spread the development of new innovations. Nigeria's entrepreneurship ecosystem is witnessing the transition of technology-driven startups into mature, high-growth scaleups, including companies like Paga, Flutterwave and Filmhouse, that have successfully navigated the precarious early startup phase, but still have significant runway for growth.

This article draws on information from a 2018 report published by Endeavor Insight, the research division of Endeavor. The findings are based on interviews with more than **2,000 technology entrepreneurs in six cities** in Africa and Asia, as well as secondary data on over **5,000 tech founders** and their companies. Data was also gathered on more than **500 investment firms** and local **entrepreneurship support organisations**. The cities are: Lagos, Nairobi, Kampala, Dar Es Salaam, Bangalore, and Dhaka.

The technology entrepreneurship community in Lagos has a greater level of productivity than the other African cities in this study. It has produced close to 9,500 jobs and its firms have raised an amount of venture capital funding that is similar to those in comparable cities like Nairobi. At the time the data was collected for this study, 18 companies in Lagos had reached the level of 100 or more employees — roughly 2 percent of all companies. This is impressive, but when compared to leading emerging market software communities such as Bangalore, it is clear that tech founders in Lagos can be even more productive.

| COMPARATIVE PRODUCTIVITY: LAGOS VS. OTHER CITIES IN STUDY (APPROXIMATED RESULTS) | | | | | | |
|--|-----------|--------|-------|---------|---------|---------------|
| | Bangalore | Dhaka | Lagos | Nairobi | Kampala | Dar es Salaam |
| Total Firms | 3,100 | 900 | 800 | 660 | <200 | <100 |
| Total Jobs | 550,000 | 22,000 | 9,500 | 7,400 | <2,000 | <1,000 |
| Average Jobs per Firm | 180 | 25 | 12 | 11 | <10 | <10 |
| Firms with 100+ Employees | 6% | 3% | 2% | 1% | 1% | 0% |

“More than funding, research shows that founders who want to create truly scalable businesses require access to experienced mentors, dynamic capital and commercial markets, and support from key decision makers in their ecosystem.”

LESSON 5: WHEN FOUNDERS AT SCALE ARE MORE INFLUENTIAL, IT EMPOWERS ENTREPRENEURSHIP COMMUNITIES TO BE MORE PRODUCTIVE.

Ecosystems with higher levels of absolute and average job creation also tend to have a greater proportion of local influence coming from entrepreneurial leaders that have successfully scaled their companies. The prevalence of connectivity in terms of experience, support, and investment coming from leaders of firms that reached scale can explain why some tech entrepreneurship communities become so much more productive than others. Increasing the influence of the best performers in a network should have positive results, while increasing the influence of worse performers and people with no relevant experience should have negative effects.

LESSON 1: ENTREPRENEURSHIP COMMUNITIES ARE NOT PREDESTINED TO FOLLOW A SINGLE DEVELOPMENT PATH.

Entrepreneurship communities develop a variety of characteristics depending on the choices of local decision makers. Endeavor Insight analysed local patterns in each city by looking at the traits of the largest companies and the most influential actors, the reasons why founders choose to start their companies, and the major challenges they face when operating there. Many of these lessons can be illustrated by examining two specific ecosystems: Bangalore and Lagos.

| Example 1: Bangalore | Example 2: Lagos |
|---|---|
| Development of off-shore sector with corporate and local, entrepreneurial firms | -10-year history, with early presence of B2C (e-commerce and travel) and B2B software development companies |
| Significant numbers of “boomerang” entrepreneurs (repatriated founders) | Significant numbers of “home grown” entrepreneurs |
| Involvement of top global venture capital firms | Involvement of regional & local venture capital firms, impact funds and DFIs |
| Relatively low participation in accelerators/incubators | Relatively high participation in accelerators/incubators |
| One of the most productive urban tech centers in emerging markets | Large proportion of new support programs aiming to catalyze growth |

LESSON 2: ENTREPRENEURSHIP COMMUNITIES BECOME PRODUCTIVE BY GENERATING A RELATIVELY SMALL NUMBER OF COMPANIES THAT REACH SCALE.

A very small number of companies that reach significant scale — defined as having 100 or more employees — are responsible for a disproportionate amount of productivity in most entrepreneurship communities. Four productivity trends can be observed in ecosystems across the world.

1. A large proportion of entrepreneurial companies are low-productivity microbusinesses.
2. A small number of companies that reach significant scale generate a large share of productivity.
3. More productive entrepreneurship ecosystems outperform less productive ones by generating more firms that reach scale.
4. Firms that go on to reach significant scale tend to grow much faster than peers in their startup years.

LESSON 3: ENTREPRENEURS AT THE FASTEST-GROWING COMPANIES ARE MUCH MORE LIKELY TO HAVE RECEIVED EXPERIENCE, SUPPORT AND INVESTMENT FROM LEADERS OF COMPANIES THAT REACHED SCALE.

The founders of the fastest-growing companies observed in this project were much more likely to have built connections with people who had led companies that reached significant scale, i.e., 100 or more employees. These high-value connections came in three forms: experience via previous employment, support through mentorship, or investment, all of which provide knowledge and skills that are critical to the growth of a business. These types of connections can also be found among successful founders around the world.

LESSON 4: PATTERNS OF INFLUENCE SHAPE THE DEVELOPMENT OF ENTREPRENEURSHIP COMMUNITIES.

A number of common principles of network systems can be applied to entrepreneurship communities. For example, the principle of like-attracts-like helps to explain the pattern of specific types of members attracting others like themselves to each community as they become influential. Another principle illustrates how influential network members transmit value signals to others that can shape their behavior and establish norms. Founders who wish to earn status and influence among their peers respond to signals from influencers that indicate the best behaviors for reaching this goal.

HOW CAN DECISION MAKERS EMPOWER LOCAL ENTREPRENEURSHIP COMMUNITIES?

Today, Nigeria features some of the world's most exciting startups, but seeing more startups successfully transition into scaleups, requires us to place high-impact entrepreneurs at the centre of our ecosystem. Productive entrepreneurship ecosystems yield outsized benefits for regional and national economies.

Decision makers should support and elevate the influence of people who have led companies that scaled and incentivise them to assist upcoming founders.

| ENTREPRENEUR-LED ECONOMIC DEVELOPMENT | |
|--|---|
| Five Practical Steps For Decision Makers | |
| 1 | AVOID THE MYTHS OF QUANTITY Increasing the quantity of startups, support organisations, or connectivity does not automatically generate greater productivity. |
| 2 | FOLLOW LOCAL FOUNDERS WHO HAVE REACHED SCALE Establish success in a targeted industry before moving forward with programs in new industries or geographies. |
| 3 | LISTEN TO THE LEADERS OF THE FASTEST-GROWING FIRMS TO IDENTIFY CRITICAL CONSTRAINTS IN THE LOCAL COMMUNITY Addressing the critical constraints and challenges of the fastest-growing firms will have the greatest systemic impact on the ecosystem. |
| 4 | EXPAND THE TOUCHPOINTS OF SCALEUP ENTREPRENEURS TO INFLUENCE UPCOMING FOUNDERS Established entrepreneurs can improve the performance of local founders by acting as mentors and investors. |
| 5 | INVITE LEADERS OF COMPANIES AT SCALE TO POSITIONS OF INFLUENCE AT EXISTING SUPPORT ORGANISATIONS Invite founders and executives from scaleup companies into leadership and/or board roles at existing entrepreneur support organisations. |

Endeavor is leading the global high-impact entrepreneurship movement to drive long-term economic growth and build strong entrepreneurship ecosystems in growth markets by selecting, mentoring, and accelerating the best high-impact entrepreneurs. Endeavor Nigeria launched in 2018. For more information, visit www.endeavor.org.

This article summarises 'Fostering Productive Entrepreneurship Communities', a research report by Endeavor Insight. You can find the full report at bit.ly/endeavorngFPEC. This research was made possible by funding from the Bill & Melinda Gates Foundation.