

CHAPTER ONE

INTRODUCTION

The last decade has been a transformational one for entrepreneurship throughout the world. The confluence of ubiquitous high-speed connectivity with inexpensive, powerful, and remote computing has dramatically lowered the cost of starting a digitally enabled business, allowing entrepreneurs to start new ventures in more places. In some parts of the world, capital available for startups is plentiful. In many others, it is still lacking. Consider Boston versus Orlando, or London compared to Caracas. Talent and technology are ubiquitous, but tangible opportunities are not.

The growth and geographic proliferation of innovation-driven startup activity is profound, empirically verifiable, and global in scope.¹ Today, we understand that communities of support and knowledge-sharing go hand in hand with other inputs and resources. The importance of collaboration and a long-term view has gained broad acceptance by entrepreneurs and startup community builders. These principles are at the forefront of the leadership behind many startup communities around the world.

Startup Communities: Building an Entrepreneurial Ecosystem in Your City, published in 2012, is a significant reason for this shift in thinking. Using the example of Boulder, Colorado, *Startup Communities* provided

practical guidance for entrepreneurs and other stakeholders to improve the startup community in their city. Unlike most other works on the subject, *Startup Communities* stressed the behavioral, cultural, and practical factors that are central to a collaborative system of local entrepreneurship.

Although we've made progress in recent years, much more work is needed. A great deal of startup activity is still highly concentrated in large, global, elite cities. Governments and other actors such as large corporations and universities are not collaborating with each other or with entrepreneurs as well as they could. Too often, these actors try to control activity or impose their view from the top down, rather than supporting an environment that is led from the bottom up, principally by entrepreneurs. We continue to see a disconnect between an entrepreneurial mindset and that of many individuals and organizations who wish to engage with and support local startups. There are structural reasons for this, but we can overcome these obstacles with appropriate focus and sustained practice.

Our aim with this book is to get all relevant parties better aligned—from founders to governments to service providers to community builders to corporations and beyond. We hope this book will be transformational while building on top of the foundation created by *Startup Communities* and the work done by people in startup communities everywhere.

THE NEXT GENERATION

The Startup Community Way builds off of the success of *Startup Communities*, going more in-depth in some areas while correcting foundational mistakes in others. This book isn't an update or a second edition to *Startup Communities*. Instead, it is a sequel, picking up where *Startup Communities* leaves off. It benchmarks progress made, develops new areas of inquiry and exploration, makes adjustments, and takes the content in a new direction.

In *Startup Communities*, Boulder is the basis for a framework for building a startup community. Here, we broaden both the geography and the stage, shifting to a worldwide view around existing startup communities. We try to make the concepts more generalized, especially when addressing the question: *Now that we have a startup community, what should we do next?* We emphasize that no two startup communities are the same, have equivalent needs, or operate on a comparable time frame. For each example where something worked in one city, there's at least one other city where it didn't. That's the nature of these systems.

When I wrote *Startup Communities*, there was little substantive content on the topic of startup communities. The phrase was new and has become the canonical one for naming the phenomenon. In the past eight years, a great deal of exploration and progress has occurred around startup communities. However, we have observed that, as with many things, the advice and tactics around startup communities, especially as they evolve, has become overly complicated and inaccessible to many who just want practical guidance to get started. In conversations with many people over the last few years, we've heard many variations of this: "My startup community is following the *Startup Communities* Boulder Thesis, but we don't know what to do next."

In this book, we try to address this hurdle while creating a new conceptual framework for startup communities, differentiating them from (and integrating them with) entrepreneurial ecosystems, and providing substantive examples along the way.

OUR APPROACH

We have taken both a pragmatic and researched approach to cultivate the material presented in this book. As co-authors, we've forced each other out of our natural comfort zones. By coming at the problem with different perspectives, we have been able to challenge each other to see the entire

picture, rather than get anchored on our frames of reference. While we each had more context than the people in the parable of “The Blind Men and the Elephant,” by using different experiences, perspectives, and skills, we have been able to continuously challenge each other’s thinking as we developed the ideas in the book.²

We collectively bring decades of experience to the practice and study of startups, startup communities, and their impact on local societies and economies. I have been a technology entrepreneur and venture capitalist for more than three decades. I’ve co-founded two venture capital firms, including the Foundry Group, the firm where I have been a partner since 2007. I also co-founded Techstars, the worldwide network that helps entrepreneurs succeed. Through that work, my writing, and my involvement in numerous entrepreneurial nonprofit endeavors, I have been involved in the cultivation of startup communities around the world.

Ian has a wealth of research and writing experience in the areas of entrepreneurship, innovation, cities, and economic growth for leading think-tanks, universities, and policy institutions. He also has a background in management consulting around analytics, strategy, innovation, and public policy. He began his entrepreneurship journey as a researcher, writer, and educator, but over time that has also evolved into the role of practitioner—first as a startup employee, then as a founder, and today as an advisor, mentor, and investor.

Our collective experience and knowledge are just a starting point as this book stands on the shoulders of many who came before us. Over many years, and intensively during the last few, we have reviewed thousands of pages of analysis and writing that covers a wide range of topics relevant to startup communities.³ These sources span academic papers, business and policy research, practical and theoretical book content, case studies, and informal commentary on blogs and websites. For those who want to go deeper, these resources are carefully referenced throughout and detailed in the back of the book.

Together we have spoken with thousands of entrepreneurs and other startup community participants around the world. Their experiences and learnings informed our thinking immensely.

In this book, you will encounter four types of sidebars. The first is a short description of a principle of *The Startup Community Way*, which will appear at the beginning of a chapter. You'll find the second type sprinkled throughout the text. They contain examples written by entrepreneurs and startup community builders that are relevant to the immediately preceding text. Third, you'll encounter "Values and Virtues" sidebars, where we try to explain a specific set of behavioral characteristics that are crucial to the long-term health of a startup community. Finally, there are short essays we wrote that are relevant to that section but are distinct from the flow of the main text.

A DEEPER MOTIVATION

We both share a fundamental belief that every human being on the planet should be free to live wherever brings them the most joy. They should have opportunities to engage in meaningful work in those places. When such opportunities don't exist, they should have access to resources that allow them to create meaningful work for themselves. We believe they should be able to do this in a relatively stable, peaceful, and just society where basic human rights, the rule of law, and individual freedoms exist for everyone.

We have a long way to go in achieving that goal. Currently, around 10 percent of the world's population lives in extreme poverty, though that is a marked decline from 35 percent, which was the rate less than three decades ago.⁴ More than half of humankind does not live in politically free societies.⁵ Millions more are unemployed or underemployed—either in terms of hours or ability—and in many places, necessity rather than opportunity drives business ownership.⁶ Millions of civilians see conflict

daily. Most of the world faces some form of discrimination on a consistent basis. Many people have deeper holes to dig out of than others.

We believe entrepreneurship can transcend political, economic, and cultural boundaries. For us, this is especially important to address in our current geopolitical climate and in the face of the many societal challenges we face globally.

We don't think a person should have to move to Silicon Valley—or London or Shanghai or Boulder or Dubai or New York—to become a successful entrepreneur. Instead, we want people to be empowered to pursue entrepreneurial endeavors anywhere they choose to live. Doing so may come with inevitable tradeoffs, but people who start businesses in the places they want to live are more likely to succeed than those who do not.⁷

As I wrote in *Startup Communities*:

I have a deeply held belief that you can create a long-term, vibrant, sustainable startup community in any city in the world, but it's hard and takes the right kind of philosophy, approach, leadership, and dedication over a long period of time. Hence, this book, whose goal is to help you understand how to do this and give you the tools to create an amazing startup community in your city.

Global entrepreneurial activity in the eight years since *Startup Communities* was published has strengthened our resolve. Talented, motivated individuals should be able to create and grow scalable businesses wherever they choose, and they can build communities of support and knowledge-sharing around those efforts. We believe that, through entrepreneurship, the world can become a better place.

Today, the proliferation of digital technologies, the availability of information on entrepreneurship, and the quest for sustained economic growth have put startups on the map for people, governments, corporations, and other stakeholders around the world. The momentum and excitement behind today's entrepreneurs feel unprecedented.

Along with the widely recognized growth opportunity presented by entrepreneurship in the digital age, the environment in which startups operate influences their success to a large degree. It is the nature of these external factors—and more critically their linkages with entrepreneurs and with each other—that explains why some places can consistently produce high-impact startups while others struggle.

In many cities, regions, and countries, little progress has been made in cultivating the communities of support and knowledge-sharing that entrepreneurs need to thrive. The gap between success and failure is not due to an absence of available knowledge about how to improve conditions for local entrepreneurs. Nor is it due to a lack of tangible examples upon which to draw. We have sufficient theory and data to guide us, and there are ample stories to motivate us. So, why is this so challenging?

THE BOULDER THESIS

While the attitudes, behaviors, practices, and values at the heart of vibrant startup communities are second nature to many entrepreneurs, they often are counterintuitive or misaligned with competing incentives, especially when the person represents an organization such as a large corporation, university, or government. These institutions, which are hierarchical organizations, operate in ways that are antithetical to startup communities, which, like entrepreneurial companies, thrive in a network model.

In *Startup Communities*, I introduced the idea of the Boulder Thesis as a basis for creating a startup community in any city. The four principles of the Boulder Thesis are:

1. Entrepreneurs must lead the startup community.
2. The leaders must have a long-term commitment.

3. The startup community must be inclusive of anyone who wants to participate in it.
4. The startup community must have continual activities that engage the entire entrepreneurial stack.

While simple yet powerful, there was an unintended negative side effect that created a gap between entrepreneurs and everyone else in the startup community. By labeling the entrepreneurs *leaders* and everyone else *feeders*, I segmented the people and behaviors of the startup community. While this approach is helpful for focusing on the unique role that entrepreneurs play, many people interpreted it to mean that leaders are more important to the startup community than feeders. This was not my intention. Both leaders and feeders are essential to the health and growth of a startup community.

STARTUP COMMUNITIES ARE COMPLEX ADAPTIVE SYSTEMS

As we started working on this book, we began with two simple questions: “What have we learned about the Boulder Thesis?” and “Is there a more robust framework for understanding how a startup community develops and evolves?”

We eventually concluded that startup communities are best understood and engaged with through the lens of complex adaptive systems, defined loosely as “the study of interactions.”⁸ We aren’t the first people to connect these ideas. A smattering of this work has existed in the far reaches of academia, and even some popular works we admire are influenced by complexity.⁹ We decided that our mission was to bring this concept mainstream by more deeply bridging the theoretical link with practice and by

dedicating an entire book to making our case. We each went deep on complexity theory and developed a framework called the Startup Community Way, which builds on the Boulder Thesis while using the framework of complex adaptive systems to support it.

As we compiled a list of mistakes people make around startup communities, we found many similarities to the mistakes people make when interacting with complex adaptive systems. Some of these mistakes will be familiar to you if you are already well versed in *Startup Communities*, including:

- Applying linear systems thinking in a nonlinear world.
- Attempting to control a startup community.
- Addressing problems in isolation.
- Focusing on the parts of a startup community rather than the interactions between them.
- Believing that a startup community is formulaic or replicable.
- Measuring the wrong things, especially things that are easy to capture but are less important for driving performance.

While we will explore each of these mistakes, this book is not a manual describing how to build a startup community. Instead, we will provide you with guiding principles and insights to aid you in your own process of discovery. However, this is not merely a book of theory. *The Startup Community Way* contains practical insights that go far beyond startup community building, including managing a business, designing effective public policies, and being a better leader or mentor.

Insights from complexity science and startup communities help navigate complex systems of relationships where a group of people work together to solve thorny problems. Today's world has geometrically increasing inputs and a hyper-connectivity among them. Our ability to process this is often overwhelming. As humans, we have access to more information than ever before, but this comes with a drawback. When the wrong

decision frameworks are applied, they can lead well-intentioned people and organizations to disastrous outcomes. Shifting from a linear system approach to a complex systems mindset is a powerful way to address these challenges.

WHERE WE WERE IN 2012

When I published *Startup Communities* in 2012, the transition from an industrial, hierarchical, top-down economy to a digital, networked, bottom-up one was already underway. Four significant events occurred around the same time that accelerated that process, profoundly changing the course of startups and entrepreneurs in the United States and around the world.

First, the world continued to slowly pull itself out of the deepest and longest recession since the Great Depression of 1929 to 1933. It became clear that the old model of production wasn't going to work for many companies and workers anymore. Jobs were scarce and unreliable. Many young, talented people began looking for new and better ways of contributing to society. During this period, as opportunities on Wall Street evaporated, topflight talent began shifting to Silicon Valley.¹⁰

Simultaneously, three digital technologies converged: ubiquitous high-speed Internet, smartphones, and cloud computing. Starting a digitally enabled company became much cheaper and easier to do in more places. All that was needed was an Internet connection, a laptop, and an imagination.

The third key factor, the full impact of which became clear only recently, was a low-interest-rate strategy adopted by central banks worldwide. It was intended to boost the economy as wary households and businesses rebounded from the recession. However, persistently low interest rates also pushed unprecedented amounts of financial capital into startups

globally, as investors searched for riskier assets, such as venture capital, to generate higher returns.¹¹ This continues today.¹²

Finally, interest in entrepreneurship spread to a broader set of actors and places. In 2011, President Obama announced Startup America, a national initiative designed to cultivate startup community development throughout the country. Universities began prioritizing entrepreneurship programs. A variety of new venture capital funds, with many focused on very-early-stage investment, began raising and deploying capital, as did a growing number of corporate venture capital groups. A range of startup support mechanisms, including startup accelerators and incubators, grew rapidly in size and scope.¹³ The media took a greater interest in startups. Entrepreneurship was once again accessible and set the stage for change.

As with other periods where change is rapid and pervasive, more people wanted to know how to apply the phenomenon of entrepreneurship. What felt different about this era, compared with the hysteria of the dot-com bubble, was a sense that people wanted to get things right. Instead of setting the singular goal of making money, they tried to understand how to effectively build a vibrant startup community in cities around the world.

Startup Communities provided a framework and practical guidance for startup community builders through the lens of my experience in Boulder, Colorado. In the mid-1990s, Boulder didn't have much in the way of a startup community. There was plenty of startup activity occurring in isolation, but there was very little bringing people together in a coordinated way. Slowly this began to change over time because of a small group of dedicated entrepreneurs who created an organic, bottom-up movement that built a startup community.

In Boulder, the culture of the community transcends startup activity and influences the entire city. This broader sense of purpose and responsibility translates to the local startup community. There was no plan, just a core group of founders looking out for each other, and a culture that encouraged this. Boulder, like many cities with successful startup communities,

discovered that the key to jump-starting one is as simple as a small group of credible, dedicated entrepreneurs who lead by example.

Boulder has a lot going for it—a well-educated workforce, a leading research university, a flurry of high-tech companies and research labs, a plethora of amenities, and the strong sense of community I just described.¹⁴ For that reason, using Boulder as a model for startup communities is criticized by some for being too idealistic. While understandable, this criticism misses the point. The lesson from Boulder is not that everything is perfect and that, if copied, a similar outcome can be achieved elsewhere. The true lesson is that Boulder's collaborative nature is what allows it to get the most out of the resources it already has in place. This increases the odds of success, which is the ultimate attractor of resources. A virtuous cycle then takes shape. Things weren't always that way and those of us involved in the Boulder startup community had to work hard at it. Rather than be concerned about imitating Boulder, instead draw the lesson that building a critical mass of people who are helpful and collaborative will improve the odds that entrepreneurs will succeed, no matter what other resources are available today.

WHERE WE ARE NOW IN 2020

Eight years later, the momentum building after the Great Recession culminated into an explosion of startup activity around the world.¹⁵ The reset of the global economy, expanding technological opportunities, the extremely low cost of capital, and a massive increase in the number of people participating in startups accelerated into high gear.

The global startup community has grown in size, exists in more places, involves more people and organizations, and produces more events than at any point in history. It has an enthusiasm and optimism for entrepreneurship

that is unmatched in many areas of society. This increase in startup activity is empirically verifiable. Research shows a substantial rise and a widening geographic dispersal of startup activity within the United States and around the world.¹⁶ While growth in startups in America is setting annual records, startup growth in the rest of the world is growing faster.¹⁷

In spite of all of this excitement, there are several reasons for caution. While progress has been impressive, no one has addressed the question of what happens when inevitable setbacks occur. When some or all of the tailwinds that have been at our backs the last decade slow or take a turn, will enthusiasm evaporate with them? Entrepreneurs will always create new companies, but will actors in startup communities continue to bring resources and lasting commitments when the tailwinds become headwinds? In the final weeks before this book went to press, the winds of change came upon us as the COVID-19 coronavirus pandemic swept the globe, making it abundantly clear that such shifts can occur swiftly, decisively, and seemingly out of thin air.

Next, many of the metrics we just referenced are inputs to entrepreneurship and startup communities. An increase in inputs doesn't automatically equate to better outcomes. The payoffs to a startup community from increased participation and activities can be quite delayed—sometimes by a generation—which can lead to disappointment, doubt, and abandoned efforts in the near term. Cause and effect often can't be established in complex systems and compounds the psychological impact from long feedback cycles.

Finally, we often learn the wrong lessons and ignore the correct ones. We regularly see violations of each of the four principles of the Boulder Thesis in rapidly developing startup communities. Many of them are not entrepreneur-led and inclusivity remains elusive. While many people and organizations claim they are taking a long-term view, we are a decade into the current cycle, and there is already clamoring for better and faster results. Engagement across the entrepreneurial stack gets

marginalized when participants start thinking that everything is working, and the entrepreneurial activities and events degenerate into generally useless awards, parties, conferences, and super-sized funding announcements.

USING COMPLEXITY THEORY TO EXPLAIN STARTUP COMMUNITIES

Over an extended period, a set of principles developed around managing systems. During the industrial revolution, they became formalized as a way to manage labor, improve efficiencies, and increase production. Hierarchical systems were built around these principles in the early 1900s by pioneers of thought and industry like Frederick Winslow Taylor and Henry Ford.¹⁸ Contemporary theories of scientific management based on these principles took root through most of the industrialized world during the 20th century. But things changed with the emergence of the commercial Internet in the mid-1990s. Rapid innovation around communications technologies, including hardware, software, and networks, allowed new forms of business interaction to take place. In the past decade, there has been a torrid transformation from hierarchies to networks, and a rapid shift from a top-down business approach to a bottom-up one, with a corresponding change in principles similar to the Startup Community Way.

The Startup Community Way derives its intellectual backbone from complexity theory, which is an interdisciplinary science developed by physicists, evolutionary biologists, and social scientists to better explain the inherently complex nature of our world.¹⁹ Complexity theory can simultaneously be illuminating and intellectually challenging as it explains the behavior of dynamic systems with many connected participants who are always acting and reacting to one another. It helps explain why things often

don't go according to plan, why we make predictable mistakes, and how to overcome many inherent mental, social, and organizational limitations.

Startup communities are fundamentally complex adaptive systems. For the sake of brevity, we'll use the phrase "complex systems" to refer to "complex adaptive systems" throughout the book. The following are some characteristics of complex systems that apply directly to startup communities.

Complex systems cannot be controlled. We have deep human impulses to want to control things, but this is an illusion as we are in control of very little. In startup communities, any effort to control or engineer a desired outcome is futile. Our advice is much bigger than "don't try to control." Instead, we suggest that you "let go of the illusion that you are in control."

Complex systems cannot be fully understood. Systems with a high degree of complexity, like startup communities, are extremely uncertain. Predicting outcomes is a futile exercise. Humans have a deep-seated aversion to uncertainty, which causes us to make predictable errors. A better strategy for dealing with complex systems is to run small-scale experiments, learn from them, adapt as necessary, and repeat. Instead of trying to engineer the outcomes, focus on setting the right conditions so that the right outcomes can unfold naturally.

Complex systems must be viewed holistically. In startup communities, for every action there is a reaction, which can then set off a chain of further actions and reactions. These actions may be non-obvious or delayed. A reductionist or siloed approach provides minimal insight into what is happening, which can also create new problems while trying to solve existing ones.

The interactions are critical in complex systems. In complex systems, while the elements are essential, the interaction between them is what matters most. In startup communities, many people

mistakenly focus on the individual elements rather than on connections and interactions between them. This occurs because the former are more tangible and easier to see or adjust, while the latter are more nuanced and require long time periods to evolve.

Run small-scale experimentation and learn from failure. Because of the uncertainty and nonlinearity in complex systems, participants in startup communities need to anticipate and be comfortable with failing. As failure is the most likely outcome for an experiment, we recommend taking an agile approach: try lots of small things, get feedback, adjust, and iterate.²⁰ Always keep the customer (in a startup community, that's the entrepreneur) in mind. Don't use a go-big-or-go-home strategy. Instead, start small so when things don't work, you don't have to go home.

Progress is uneven, slow, and surprising. Complex systems exhibit nonlinear behavior, phase transitions (large shifts that materialize quickly), and fat-tailed distributions, where extremely high-impact events are more common than a normal statistical distribution would predict. Seemingly small actions can produce massive changes that happen suddenly. There is little ability to link cause and effect, or to credibly predict the outcomes of various programs or policies.

Contagion is a force that can accelerate or constrain progress. The interconnectedness of complex systems means that ideas, behavior, and information can spread widely and rapidly, similar to a virus or a financial markets panic. It is essential to transfuse a startup community with healthy thoughts and practices that will help entrepreneurs succeed, illuminating what is helpful and dampening the influence of bad ideas, behaviors, and information.

Build on your strengths. History and local context are fundamental to complex systems. You can't recreate Silicon Valley, which is

one reason why we often say, “Don’t try to be Silicon Valley.” Every startup community should focus on being the best version of itself, rather than replicating something else. Every city has its own origin story and historical evolution, as well as a unique set of cultural, intellectual, and natural resources. Instead of emulating another place, focus on improving your own.

Don’t wait. You don’t have to get the entire city on board, just a core group of credible leaders with a commitment to improving conditions. A critical mass can be as little as a half dozen entrepreneurs who are all committed to a 20-year journey together. Then, do stuff, get more people involved, be visible about what you are doing, and iterate. The contagion effects are impactful and can suddenly create a tipping point that changes the course of a startup community forever. When people see that the leaders aren’t too busy to help entrepreneurs, they’ll find time, too.

EVOLVING THE BOULDER THESIS TO THE STARTUP COMMUNITY WAY

By the end of this book, we hope to reinforce the value of the Boulder Thesis while building a stronger and more durable framework we call the Startup Community Way. Rather than a replacement, it’s an evolution based on the experiences we, and many other entrepreneurs and community builders, have had in the decade since I started thinking and writing about startup communities. As with the Boulder Thesis, it’s a set of straightforward principles that can have profound effects when you adopt them throughout your entire startup community over a long period of

time. You will recognize all four principles of the Boulder Thesis, as this is a superset, rather than a replacement.

1. Entrepreneurs must lead the startup community.
2. The leaders must have a long-term commitment.
3. Startup communities are complex adaptive systems that emerge from the interaction of the participants.
4. Startup communities can be guided and influenced, but not controlled.
5. Each startup community is unique and cannot be replicated.
6. Startup communities are organized through networks of trust, not hierarchies.
7. The startup community must be inclusive of anyone who wants to participate.
8. Openness, support, and collaboration are critical behaviors in a startup community.
9. The startup community must have continual activities that meaningfully engage the entire entrepreneurial stack.
10. Startup communities must avoid the trap of letting demand for measurement drive flawed strategies.
11. Putting founders first, giving before you get, and having an intense love of place are essential values in a startup community.
12. Startup communities are propelled by entrepreneurial success and the recycling of those resources back into the next generation.
13. The best startup communities are interconnected with other startup communities.
14. The primary purpose of a startup community is to help entrepreneurs succeed.

We believe that entrepreneurship, and an entrepreneurial mindset, is valuable to our society. As startup communities have become pervasive around the planet, the lessons from the growth and development of startup

communities apply to every type of organization. We believe that applying the Startup Community Way to governments, academia, large corporations, and nonprofit organizations can have powerful results. This is especially true when considering that hierarchical structures are often efforts to control complex systems. However, they are an outdated mode of management. The world has changed, and so must we.

