



BUILDING ENTREPRENEURSHIP  
ECOSYSTEMS **IN**  
COMMUNITIES **OF** **COLOR**



FEDERAL RESERVE BANK of KANSAS CITY



# BUILDING ENTREPRENEURSHIP ECOSYSTEMS — IN — COMMUNITIES OF COLOR

## FOREWORD

The Federal Reserve Bank of Kansas City serves the seven states of the Federal Reserve's Tenth District, which include Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri. As the regional headquarters of the nation's central bank, the Kansas City Fed participates in setting national monetary policy, supervises and regulates financial institutions, maintains stability of the payments system and provides financial services to banks and other depository institutions. To succeed in each mission area, the Federal Reserve relies on many resources, ranging from current economic and banking data to the analysis and expertise of its staff. One of the Federal Reserve's resources is its Community Development function, created in the 1980s following congressional approval of the Community Reinvestment Act. Community Development professionals take policymakers to the front lines of community issues through a range of initiatives, including forums, conferences, directed research and advisory councils. These initiatives position the central bank to respond effectively to emerging economic developments, long-term needs and new challenges confronting rural and urban low- and moderate-income communities. The Kansas City Fed's Community Development department focuses its research, resources and programming on five primary areas: community development investments, financial stability for the underserved, neighborhood stabilization, workforce development and small business development. The Kansas City Fed understands the vital role small businesses play in growing the economy by creating jobs, building communities and being key innovators of new technology and processes. This guide was developed to assist communities throughout the Tenth District and across the nation as they explore the benefits of a grow-your-own approach to economic development.

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# INTRODUCTION

Entrepreneurship is a powerful economic growth tool for the global and local economies. Over the last decade, an economic development practice called entrepreneurship ecosystem building has emerged. Entrepreneurship ecosystems leverage the connected resources of local communities to support entrepreneurs as they start and scale high-growth companies. In this strategy, local developers, known as ecosystem builders, work to build the capacity and connectedness of the entrepreneurship ecosystem to create faster local economic growth. Although this strategy has potential, it so far has appeared to lack emphasis on issues of diversity, equity and inclusion in ecosystem building. Another issue is an apparent deficit in thought, research and sharing of best practices around ecosystem building in communities of color.

This guide gives ecosystem builders and local developers an overview of key concepts, and general recommendations on how to use entrepreneurship ecosystem building to develop high-growth entrepreneurship in communities of color. The information in this guide was compiled through conversations with industry leaders, prior research and current ecosystem builders who have designed and led successful inclusive ecosystem building strategies in communities of color. The guide has three main sections:

- **SECTION I** – Understanding Inclusive Entrepreneurship Ecosystems. This section describes why inclusive ecosystem building is important to local economic growth, particularly in communities of color.
- **SECTION II** – Entrepreneurship Ecosystems in Communities of Color. This section discusses key concepts, programs and processes that need to be in place to develop ecosystems in communities of color.
- **SECTION III** – Ecosystem Builders in Communities of Color. This section discusses the specific role key individuals who specifically are dedicated to building local ecosystems play in supporting ecosystem building in communities of color.

As a high-level guide to this emerging field, it will not cover all topics in detail. Its objective is to provide a framework of key ideas, concepts and definitions to help those who are starting and developing ecosystem building strategies in local communities.

The guide opens with an overview of inclusive entrepreneurship ecosystems and examines why developing inclusive entrepreneurship ecosystems are specifically important for people of color. Finally, it defines key terms and provides core concepts for practitioners.

# SECTION I

## UNDERSTANDING INCLUSIVE ENTREPRENEURSHIP ECOSYSTEMS

Entrepreneurship ecosystem building (ecosystem building hereafter) is a fast-growing economic development strategy. To date, little work has been done to ensure this strategy is inclusive for both people of color and their communities. In a time of changing demographics in the United States, it is important to include diverse communities in all economic development strategies. Inclusion is important particularly in ecosystem building in communities of color because of the power entrepreneurship has to create jobs and decrease the racial wealth gap. This section will examine racial wealth equity, the importance of ecosystem building in communities of color, define key entrepreneurship ecosystem terms, and in conclusion, define entrepreneurship ecosystems and communities of color.

### *Focusing on Racial Wealth Equity*

It is important up front to identify the ultimate aim of inclusive ecosystem building in communities of color. Based on feedback from 15 national leaders who met in 2018 at the Federal Reserve Bank of Kansas City, the ultimate goal of inclusive ecosystem building in communities of color is racial wealth equity. This is defined as communities of color having parity of net worth. We contend that developing fully inclusive entrepreneurship ecosystems and strong entrepreneurship ecosystems in communities of color can address the persistent disparities in wealth in the United States. While there are many other benefits of inclusive entrepreneurship ecosystem building, which will be discussed, the No. 1 benefit identified by national experts is a reduction in the wealth gap achieved through the production of new wealth via high-growth entrepreneurship.

### *The Importance of Ecosystem Building in Communities of Color*

Entrepreneurship ecosystem building traditionally focuses on developing high-growth entrepreneurs. These entrepreneurs focus on creating fast-growing firms that increase revenue and jobs at a rapid rate and produce significant wealth. Historically, high-growth firms created by growth-oriented entrepreneurs have been called “gazelles,” firms that grow their revenue 20 percent year over year for five years. In 2013, the term “unicorn firm,” a privately held startup that reaches a billion dollar valuation, emerged in the entrepreneurship field, with ecosystem builders seeing the creation of these firms as a high-level goal.

These type of entrepreneurs and the businesses they create have a particular importance in economic growth. According to a 2017 research report by the U.S. Census Bureau, “... high growth young firms contribute disproportionately to job creation, output and productivity growth.”<sup>1, 2</sup> Research by the Brookings Institution echoed this finding: “Business startups account for about 20 percent of U.S. gross (total) job creation while high-growth businesses (which are disproportionately young) account for almost 50 percent of gross job creation.”<sup>3</sup> These entrepreneurs and the businesses they create are important to national and local economies.

<sup>1</sup> Haltiwanger, J., R.S. Jarmin, R.B. Kulick and J. Miranda. 2016. “High Growth Young Firms: Contribution to Job, Output and Productivity Growth.”

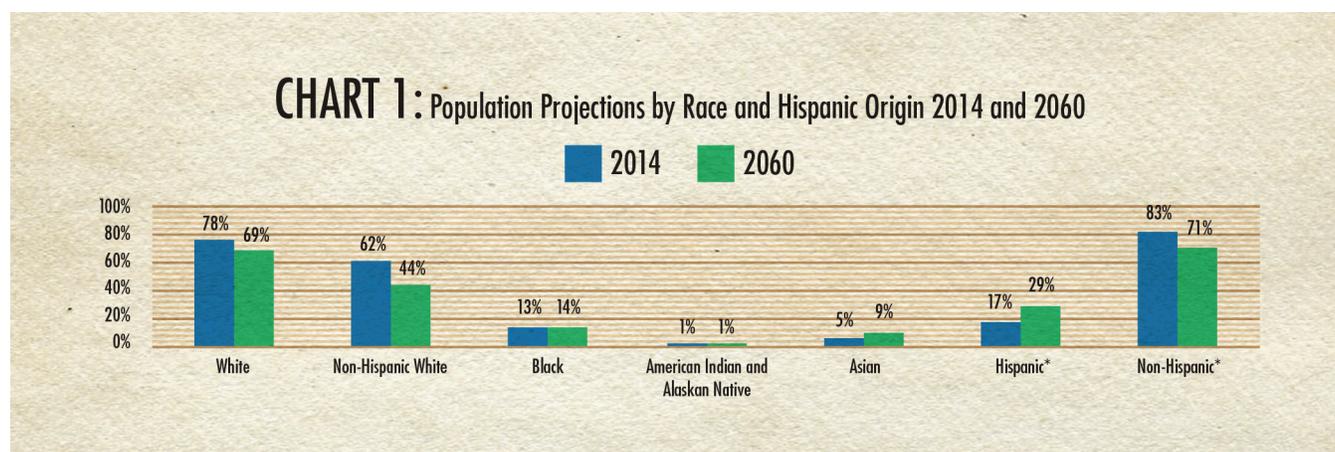
<sup>2</sup> Young high growth firms are defined in this article as those with a 25 percent annual growth rate and have been in existence five years or less.

<sup>3</sup> Decker, R., J. Haltiwanger, R. Jarmin and J. Miranda. 2014. “The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism,” *Journal of Economic Perspectives*, 28(3), 3-24.

Business dynamism, defined as the rate in which businesses start and grow and bad businesses fail, has been on the decline. This decline is a global economic challenge, according to many world economic leaders.<sup>4</sup> Reversing the lag in business dynamism and producing high-growth firms is an important economic development goal. We assert that an intentional focus that includes communities of color should be a specific and definitive priority. We find this is due to shifts in national demographics and the need to address the difference in business sizes between racial and ethnic groups.

### Shifting Demographics and Business Sizes

A significant shift in the nation's demographics has been occurring at an increasing pace since the 1990s. According to Census Bureau estimates, the non-Hispanic white population is projected to decline about 20 percent by 2060 (Chart 1).<sup>5</sup> At the same time, every nonwhite race or ethnic group is projected to increase. The Hispanic population alone is projected to increase from 17 percent to 29 percent.



\*Note: There is a distinction between race and ethnicity. Hispanic is an ethnic definition, and you can be a combination of both race and ethnicity.

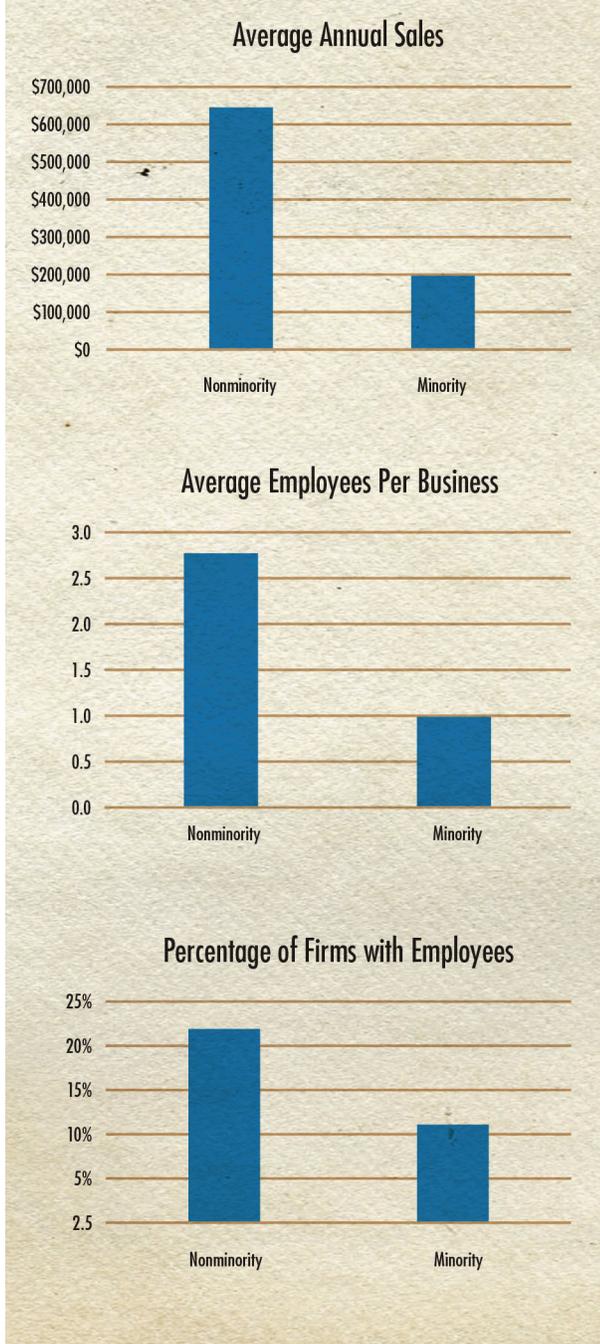
As populations of color increase, it is more important to ensure that they start and grow strong businesses to support the economy. The most recent data from Census Bureau Survey of Business Owners indicates there are large disparities in average sales, number of employer-owned firms and average employees between minority and nonminority businesses (Chart 2). In 2012, sales generated by the average nonminority business were more than three times that of the average minority business and employed close to three times the number of employees. In large part, the disparity in average number of employees is because there are nearly twice as many nonminority businesses with employees than minority businesses.<sup>6</sup>

<sup>4</sup> The decline in business dynamism and its effect on the global economy was a key discussion topic at the 2017 Federal Reserve Bank of Kansas City's Jackson Hole Economic Policy Symposium, which brings together global central banking leaders.

<sup>5</sup> Projections of the Size and Composition of the U.S. Population: 2014 to 2060 found at <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p25-1143.pdf>

<sup>6</sup> Data derived from the 2012 US Census Bureau Survey of Business Owners. At the time of this writing, it was the most recently released data available.

**CHART 2: Disparities in Minority, Nonminority Businesses, 2012**



Over time, differences in small business output between minority and nonminority businesses may have negative implications for both the labor market and economic production. The disparity in business ownership and business output already has caused economic loss, according a report by the Center for Global Policy Solutions (2016) titled “The Color of Entrepreneurship: Why the Racial Gap Among Firms Costs the U.S. Billions.”<sup>7</sup> The report says “If the number of people-of-color firms were proportional to their distribution in the labor force, people of color would own 1.1 million more businesses with employees. These firms would add about 9 million jobs and about \$300 billion in workers’ income to the U.S. economy.”

**Diversity, Inclusion and Economic Productivity**

In the corporate world, research shows companies derive economic benefits from diversity and inclusion efforts. In a 2015 McKinsey research report, “Diversity Matters,” they found:

- Companies in the top 25 percent for racial and ethnic diversity had a 35 percent greater likelihood of having higher returns than their peers.
- Companies in the top 25 percent for gender diversity had a 15 percent greater likelihood of having higher returns than their peers.

This effect has led many in the corporate sector to view diversity and inclusion strategies as being a key to driving long-run corporate growth and creating a competitive advantage.<sup>8</sup> Diversity and inclusion benefits achieved by corporations also are likely to be found in diverse and inclusive ecosystems. As diverse firms grow, connect with corporate supply chains and build both business-to-business and consumer-to-business buying power, the local economy as a whole can be expected to prosper.

<sup>7</sup> Algernon, A. 2016. “The Color of Entrepreneurship: Why the Racial Gap Among Firms Costs the U.S. Billions.” Center for Global Policy Solutions. Retrieved from [http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/#American\\_Indian\\_Womens\\_Firms\\_Declining\\_Sales\\_Declining\\_Pay](http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/#American_Indian_Womens_Firms_Declining_Sales_Declining_Pay)

<sup>8</sup> Hunt, V., D. Layton and S. Prince. 2015. “Diversity Matters.” McKinsey & Company, 1, 15-29.

Another important feature in developing inclusivity in entrepreneurship ecosystems is the potential it provides for innovation, which in turn, helps create economic growth. This is a major theme in the classic research by Mark Granovetter (1977) in his seminal work “The Strength of Weak Ties.”<sup>9</sup> Granovetter found that diverse networks provide better information sharing, faster change, greater ability to coordinate and greater access to resources. This indicates the diversity and inclusion in entrepreneurship ecosystem building can create significant benefit to the national and local economies.

### *Defining Inclusive Entrepreneurship Ecosystems and Communities of Color*

In this section, we will define what an entrepreneurship ecosystem is and what we mean by inclusion in the context of entrepreneurship ecosystem building. The section concludes with a discussion of expected outcomes if an entrepreneurship ecosystem is equitable and inclusive for communities of color.

As we begin the conversation about what makes an entrepreneurship ecosystem inclusive, we first must define entrepreneurship ecosystem, a newer economic development strategy term that still is relatively unknown.

### **Defining Entrepreneurship Ecosystems**

There is no current consensus on the definition of entrepreneurship ecosystem. Some useful definitions include:

- The essence of an entrepreneurial ecosystem is its people and the culture of trust and collaboration that allows them to interact successfully. The ecosystem allows for the fast flow of talent, information and resources so that entrepreneurs can quickly find what they need at each stage of growth. As a result, the whole is greater than the sum of its separate parts.<sup>10</sup>
- An entrepreneurial ecosystem is an interdependent set of actors that is governed in such a way that it enables entrepreneurial action. It puts entrepreneurs center stage, but emphasizes the context by which entrepreneurship is enabled or constrained.<sup>11</sup>
- A set of interconnected entrepreneurial actors ... entrepreneurial organizations ... institutions ... and entrepreneurial processes ... which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment.<sup>12</sup>

From these definitions, it is easy to see that an entrepreneurship ecosystem is more than just a program. It is an interactive and collaborative way a community supports its local entrepreneurs. For this guide, we define entrepreneurship ecosystems as:

<sup>9</sup> Granovetter, M.S. 1977. “The Strength of Weak Ties.” In *Social Networks* (pp. 347-367).

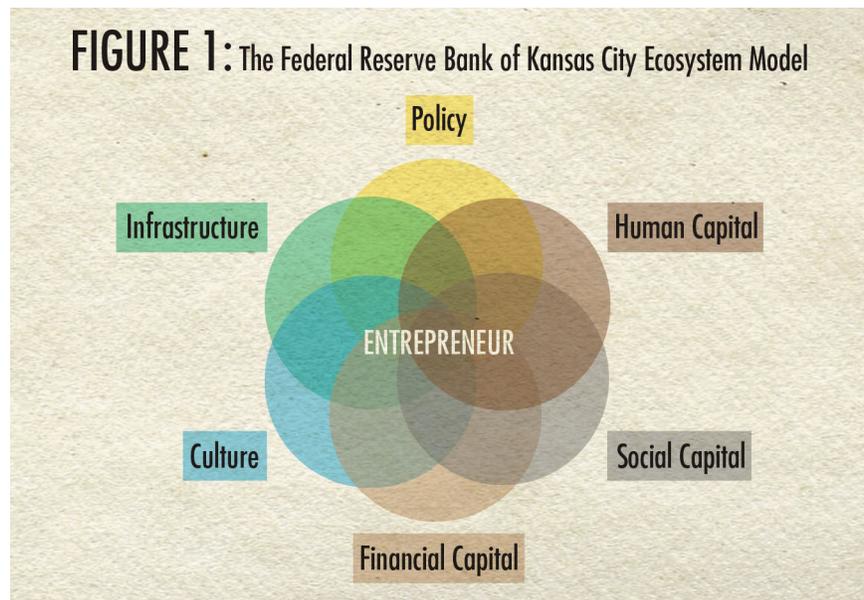
<sup>10</sup> Kauffman Foundation. 2018. ESHIP SUMMIT Playbook Draft 2.0. Kansas City: Kauffman Foundation.

<sup>11</sup> Stam, E. 2014. “The Dutch Entrepreneurial Ecosystem.” Birch Research.

<sup>12</sup> Mason, C., and R. Brown. 2014. “Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship.” Paris: OECD.

The individuals, organizations, support programs, investors, companies, relationships, policies, environments, spaces and cultures that interactively work together in support of entrepreneurs as they start and grow high-growth companies in local communities.<sup>13</sup>

The Federal Reserve Bank of Kansas City has combined various models from ecosystem thought leaders and identified six broad entrepreneurship ecosystem domains (Figure 1).



Each domain in the ecosystem interacts with the other domains and with the entrepreneurs within the ecosystem. The following are brief definitions of each category.

- Human Capital: The talent and ability entrepreneurs have or develop as they start and grow their companies. This includes technical talent and business talent. An example of technical talent would be someone who has the ability to code mobile and web applications. An example of business talent would be a person's skill in building and managing the processes, particularly sales and business development, necessary to grow and operate a software company coding business.
- Social Capital: The networks and relationships entrepreneurs have available to them, which allow them to access resources, information and support they otherwise would not have been able to access.
- Financial Capital: Equity and debt-related resources that allow entrepreneurs to fund their startup, hire teams, create product market fit, gain traction, acquire customers and grow their company.
- Culture: Social expectations, supports, encouragement, a sense of belonging and celebration of entrepreneurial action.

**13** Modified from the Kansas City Fed's *Grow Your Own* e-book found at <https://www.kansascityfed.org/-/media/files/publicat/community/gyo/entrepreneurship-econ-dev-local-communities.pdf>

- Infrastructure: Both the physical and technological capacity a community has to support entrepreneurship. For example, does a community have the appropriate co-working hubs, innovation districts, business parks approach and office space/business park or utility infrastructure to support entrepreneurs of various types? Does the community have access to the necessary broadband capabilities?
- Policy: Policies for entrepreneurship generally consist of reducing barriers to entry or creating an environment and resources that support entrepreneurship. Barriers to entry policies may include streamlining or improving permitting, licensing, zoning, infrastructure development and other factors as well as having appropriate tax policy that supports entrepreneurs. Policies that provide resources and support may include ones that focus on the use of tax incentives for early stage investment, technological development, grants for innovation hubs or accelerators and STEM (science, technology, engineering and math) education and workforce considerations.<sup>14</sup>

These broad domains, when functioning well, work interactively to support the development of local entrepreneurs. Together they create synergy in the local community producing increasing entrepreneurial startups and developing stronger high-growth companies.

### Defining Inclusive Entrepreneurship Ecosystems

Ecosystem practitioners and scholars focus on the creation and growth of high-growth entrepreneurs to facilitate local economic development. Generally, this focus is done without consideration of whom or where the entrepreneur is from or the economic effect on specific communities. Currently, the field rarely views entrepreneurship through the lens of equity and inclusion. This often leads generally to the exclusion of individuals from diverse backgrounds and specifically individuals from communities of color from full participation in the entrepreneurship ecosystem.

Inclusive entrepreneurship ecosystem building takes a different approach. It works intentionally to engage the disengaged and underresourced entrepreneurs to provide equitable opportunity for all entrepreneurs. Inclusive entrepreneurship ecosystem building works to ensure that individuals of different races, ethnicities, gender and geographies have equal opportunity to build a thriving high-growth company. This in turn, improves the broader economy by increasing business dynamism and developing new multigenerational wealth and economic mobility across a wider range of communities.

With a working definition of entrepreneurship ecosystems in place, we turn our attention to the term inclusion. A 2011 *Diversity Journal* article titled “Moving from Diversity to Inclusion” says “Diversity means all the ways we differ ... Inclusion puts the concept and practice of diversity into action by creating an environment of involvement, respect, and connection—where the richness of ideas, backgrounds, and perspectives are harnessed to create business value.”<sup>15</sup> Inclusion strategies most often focus on creating an organizational culture that values employees from different race/ethnic backgrounds, sexual orientations and, in many instances, religious or philosophical value systems.

<sup>14</sup> To learn more about OHub policy recommendations for ecosystem building visit <https://opportunityhub.co/policyformation>

<sup>15</sup> Jordan, T.H. 2011. “Moving From Diversity to Inclusion.” Retrieved from Profiles in *Diversity Journal*: <http://www.diversityjournal.com/1471-moving-from-diversity-to-inclusion/>

Inclusion in entrepreneurship ecosystems is similar in concept but different in practice from corporate inclusion initiatives. Some of the differences:

INCLUDING DIVERSE EMPLOYEES IN THE CORPORATION	INCLUDING DIVERSE ENTREPRENEURS IN THE ECOSYSTEM
<ul style="list-style-type: none"><li>• Focus - How individuals from diverse backgrounds can equally participate and develop within the organization.</li><li>• General Strategy - To adjust hiring policies and practices, create broader cultural engagement and celebration, conduct diversity and inclusion training, establish measurement systems, and celebrate diversity.</li><li>• Goal - To maximize employee potential to achieve increased revenue and competitive advantage.</li></ul>	<ul style="list-style-type: none"><li>• Focus - How diverse entrepreneurs can achieve wealth equity by participating in and having equitable access to the ecosystem.</li><li>• Strategy - Create activities that target diverse populations, expand networks to make them more inclusive, create targeted capital and credit programs, add diverse representation in both leadership and staff of entrepreneurship support organizations, house or hold existing programs in diverse locations.</li><li>• Goal - To achieve broader economic growth, equity, wealth creation, economic mobility and jobs across diverse communities and geographies.</li></ul>

Ecosystem inclusion is ensuring that diverse entrepreneurs are able to start and grow entrepreneurial ventures with equitable access and opportunity in the local ecosystem. This is why local strategies that focus on including diverse entrepreneurs in formal transactional and informal relationships, welcome them into networks that both provide program and capital access, and create accessible environments are important. Because entrepreneurship ecosystems are a local phenomenon, true inclusion also will lead to an ecosystem that mirrors the diversity in the local community. This is true both for entrepreneurs starting and growing high-growth businesses and those who have power or manage different elements of the entrepreneurship ecosystem.

With these in mind, we define ecosystem inclusivity as:

The ability of all entrepreneurs, regardless of background, to have equitable knowledge of, support, encouragement, opportunity and access to appropriate resources to start and grow their business venture.

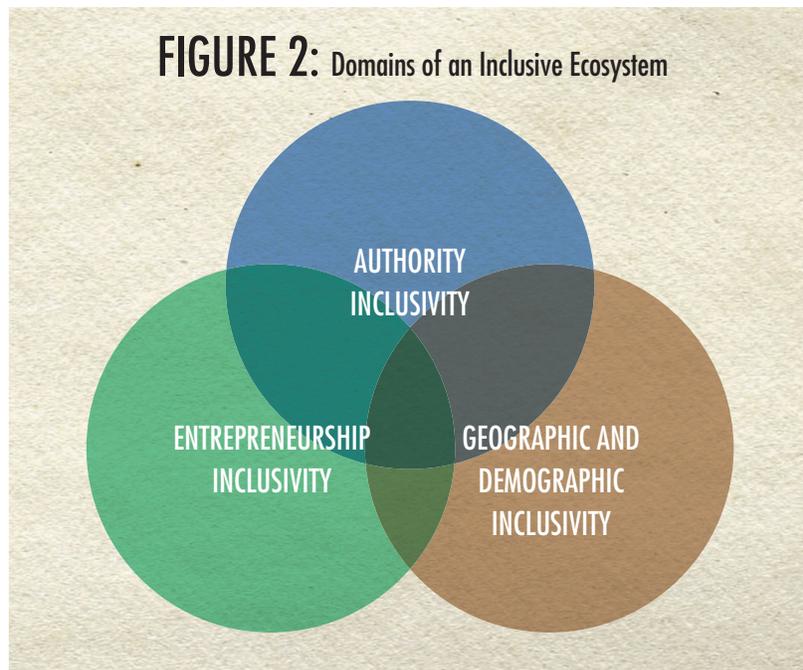
We define a fully inclusive ecosystem as one where:

Over time, those who are developing policy, providing resources, sharing information, and managing relationships and networks in the entrepreneurship ecosystem will reflect the diversity in the local community.

Unlike corporate diversity and inclusion, where each organization defines a strategy specific to its company, ecosystem inclusivity functions across multiple domains.

## Domains of a Fully Inclusive Ecosystem

Current conversations about ecosystem inclusivity focus almost exclusively on how diverse entrepreneurs can be included in pre-existing ecosystem opportunities. These conversations typically center on the entrepreneur and how they navigate the ecosystem. While this is important, it is not sufficient to create a sustainable inclusive ecosystem. This is because full inclusivity in ecosystems will occur across multiple domains. The three primary domains are the authority, geographic and/or demographic and entrepreneur domains (Figure 2). These three domains interact and reinforce each other when they are working toward inclusion, and restrict inclusion when they are not. A truly inclusive ecosystem will, over time, demonstrate inclusivity in each domain. A summary each domain follows:



- **AUTHORITY INCLUSIVITY** is present when people of diverse backgrounds are represented in decision making, authority, ownership and support positions across various points in the ecosystem. For example, while it is important to ensure black women have access to venture capital if their firm supports it and they require it, it is equally important over the long run to have black women who are venture capitalists.
- **GEOGRAPHIC AND DEMOGRAPHIC INCLUSIVITY**—Community inclusivity can be geographic, demographic or both. Diverse geographic communities should be included in ecosystem building strategies. Sometimes, these communities also will have a significant population identifiable by race/ethnicity, class, or culture, or other demographic feature. For example, an urban core community (geography) may be low-income, and have a high presence of Asian Americans (demographic). Your rural community (geography) may have a high concentration of Native Americans (demographic). We will discuss this domain extensively when we talk specifically about building ecosystems in communities of color.
- **ENTREPRENEURSHIP INCLUSIVITY** is the inclusion of both diverse entrepreneurs and individuals that support entrepreneurs in the ecosystem. We have talked previously about including diverse entrepreneurs in local ecosystems,

but ecosystem inclusion is not just the inclusion of entrepreneurs. Are individuals that want to participate in other aspects of supporting entrepreneurs included in the process? For example, are diverse investors, business bankers, founders of ecosystem support programs, technical assistance providers, experts and mentors, corporate innovation officers or policymakers given the opportunity to participate and grow in those areas?

As you can see, developing a fully inclusive entrepreneurship ecosystem is a holistic, long-run process, that if done correctly will see tremendous results in a community.

### Inclusivity and Accessibility

At this point, it is important to identify the differences between inclusivity and accessibility. Most major cities often have multiple entrepreneurship support programs and programs to help develop the local ecosystem. The presence of these programs, however, does not mean they are accessible to diverse entrepreneurs. Inclusivity requires both the presence of various programs and support systems and accessibility to them in the ecosystem. Table 1 shows how things can be present in various domains of the ecosystem but not accessible to diverse individuals.

<b>ECOSYSTEM DOMAIN</b>	<b>HOW DOMAIN CAN BE AVAILABLE BUT INACCESSIBLE</b>
<b>Human Capital</b>	Lack of resources for existing skill development and training, lack of transportation to training, exclusions from some types of training because of bias
<b>Social Capital</b>	Lack of access to networks, exclusion from some information once in networks, discrimination and bias within networks
<b>Financial Capital</b>	Personal investment threshold, access to funding networks, pattern matching challenges between entrepreneurs and potential investors when raising equity; credit score, asset ownership requirement when raising debt
<b>Culture</b>	Culture steering toward one form of ownership versus another (for example, an assumption that a black women is only going to start a microbusiness), cultural bias against entrepreneurship, lack of cultural validation and support for entrepreneurship
<b>Infrastructure</b>	Lack of access to core services (power, computers, internet, software building tools), lack of access to facilities and appropriate or welcoming space, distance transaction cost to key hubs
<b>Policy</b>	Excluding certain areas from infrastructure and development plans; creating permitting, licensing and other regulatory burdens; prioritizing some development strategies over others

## Defining Communities of Color

Communities of color are defined both by demographic and geographic features that often are interconnected. For example, the “African-American community” may refer both to an area in a city characterized by a large population of African-Americans, or the general community of African-Americans living anywhere in a city. Through an economic development lens, focusing on the geographic locations of communities of color provides a defined location where building an ecosystem can start.

Communities of color often are identifiable in cities. Research by the Pew Research Center shows urban areas have significantly higher concentrations of populations of color with 56 percent of all urban populations being nonwhite, compared with 32 percent and 21 percent in suburban and rural communities, respectively.<sup>16</sup> In addition to the urban concentration, communities within urban environments often tend to have distinct areas where specific racial or ethnic groups are the majority. In an article in 2018, *The Washington Post* reports, “The United States is on track to be a majority-minority nation by 2044. But census data show most of our neighbors are the same race.”<sup>17</sup> While neighborhoods trend toward racial or ethnic concentration, the concentration is especially strong for African-American communities. The *Post* went on to say, “Persistent and deep segregation is somewhat unique to African Americans ... This deep segregation is noticeable in cities with large African American populations.” The primary point is that there are identifiable communities of color, and once identified, strategies to build entrepreneurship ecosystems can be used to help create high-growth entrepreneurship, and ultimately create jobs and reduce the racial wealth gap.

Communities of color are not islands. They both are influenced by and influence the broader economic development and growth of a city. While these communities are embedded in the economic development environment of a city as a whole, they also are a subecosystem of the larger citywide ecosystem. Figure 3 shows the embedded nature of economic development and ecosystem strategies at the city level.

<sup>16</sup> “What Unites and Divides Urban, Suburban and Rural Communities.” 2018. Pew Research Center. Retrieved from <http://www.pewsocialtrends.org/2018/05/22/what-unites-and-divides-urban-suburban-and-rural-communities/>

<sup>17</sup> “America Is More Diverse Than Ever — but Still Segregated.” 2018. *The Washington Post*. Retrieved from [https://www.washingtonpost.com/graphics/2018/national/segregation-us-cities/?utm\\_term=.54d6495d5c78](https://www.washingtonpost.com/graphics/2018/national/segregation-us-cities/?utm_term=.54d6495d5c78).

**FIGURE 3:** Citywide Economic Development

Focuses on all aspects of economic development, including entrepreneurship

Responsible for supporting multiple public and private stakeholders to ensure economic growth.

## ENTREPRENEURSHIP ECOSYSTEMS

Focuses on supporting high-growth entrepreneurs as they start and grow firms.

Responsible for supporting high-growth entrepreneurs, and building connectivity and growth across ecosystem domains.

## COMMUNITY OF COLOR ENTREPRENEURSHIP ECOSYSTEMS

Focuses on supporting high-growth entrepreneurs from communities of color who start and grow firms.

Responsible for supporting high-growth entrepreneurs, and building connectivity and growth across ecosystem domains both in the broader ecosystem and the community of color ecosystem.

Because economic development and entrepreneurship ecosystems are embedded and influence each other, prioritizing inclusivity becomes more important. We assert that citywide economic development policy, in addition to focusing on large corporate recruitment and retention strategies, needs to focus heavily on developing entrepreneurial talent and building entrepreneurship ecosystems. This additional economic development focus also needs to be framed through the lens of equity and inclusion, and prioritize building ecosystems in communities of color.

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## SECTION II

### ENTREPRENEURSHIP ECOSYSTEMS IN COMMUNITIES OF COLOR

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We have defined entrepreneurship ecosystems and discussed the importance of equity and inclusivity in entrepreneurship ecosystems and the importance of focusing on communities of color within ecosystems. In this section, we will develop a framework to help local economic developers and entrepreneurship ecosystem builders better understand some of the major processes of building ecosystems in communities of color. We examine the uniqueness of ecosystem building in communities of color, a model of an economic development pyramid and conclude with program and activity needs related to ecosystem building in communities of color.

#### *What Makes Ecosystem Building in Communities of Color Unique*

Inclusive ecosystem building needs to be a local economic development priority. While it is important that diverse entrepreneurs have equitable access in local ecosystems, it is equally, if not more, important that ecosystem building occurs in communities of color themselves. Because there is ambiguity in regard to inclusivity, it is important for us to distinguish between ecosystem inclusivity and ecosystem building in a community of color. The following list identifies ways ecosystem building in communities of color is unique from general inclusive ecosystem building.

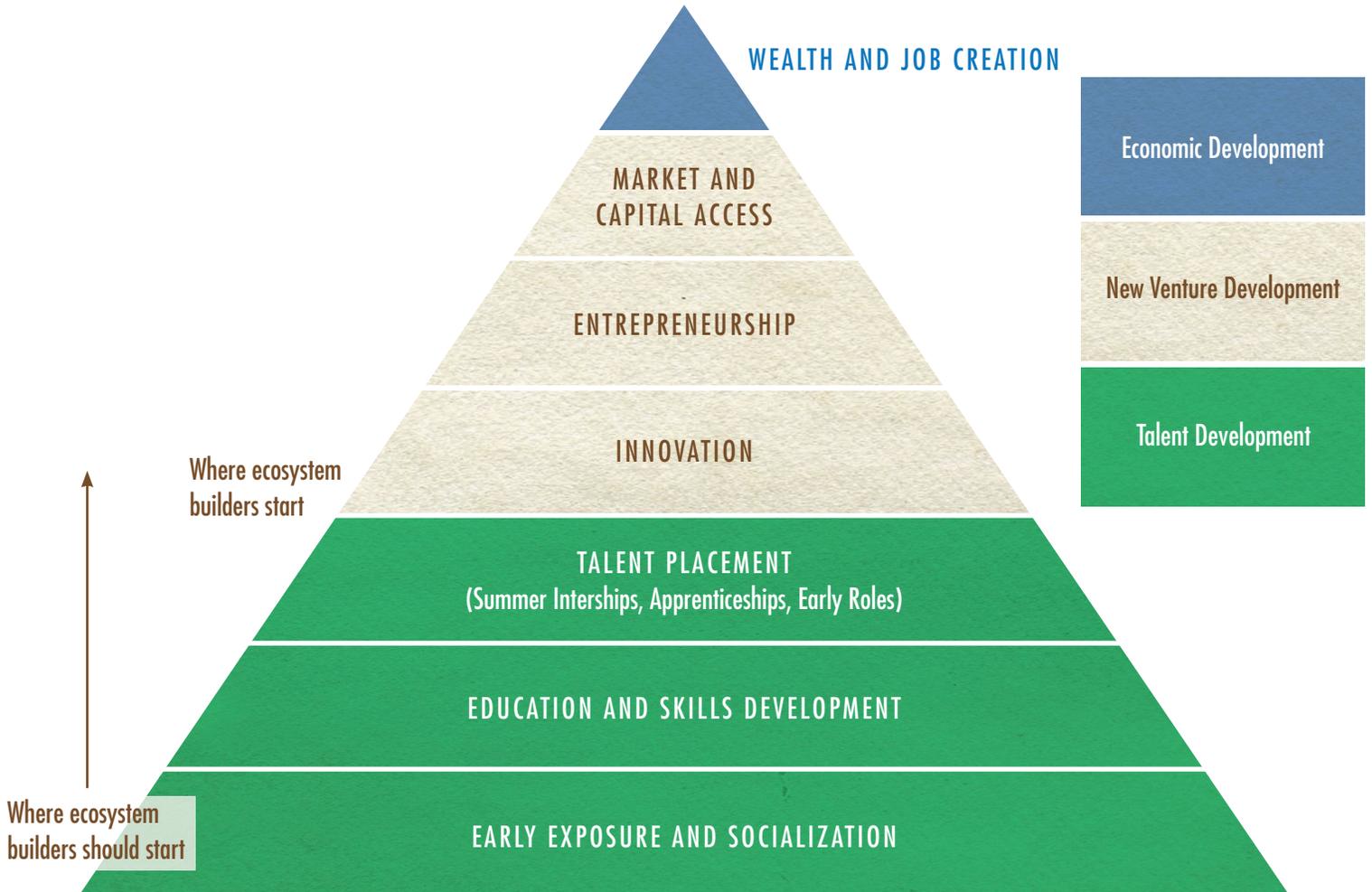
1. It focuses on a specific demographic group or geographic area with a high concentration of a specific race or ethnic group.
2. The ecosystem is owned by the community; it is designed with both insight and input from the community of color, making its design unique to the culture and identity of the community.
3. These areas often have limited wealth, access to resources and limited connection to strong high-growth entrepreneurship information and networks. This requires the development of a key baseline of resources or access to resources that may not be required in other communities.
4. Ecosystem builders are focused on creating a culture of high-growth entrepreneurship that often is absent because of historical inequities.
5. There often is an environment in which assets (real estate, cultural assets, understanding of key markets) are overlooked, undervalued, or not considered helpful to building the ecosystem.
6. The ecosystem has a priority focus on creating new multigenerational wealth to reduce the racial wealth gap over the long run.
7. The ecosystem is owned and managed by members of the community.

#### *The Economic Development Pyramid*

Most entrepreneurship ecosystem builders focus on the point where either an individual begins to innovate, or already has plans to launch, or has launched a business. We contend that entrepreneurship ecosystem building in all communities, but specifically communities of color, needs to start long before that point. Rodney Sampson, co-author of this guide and founder of OHUB, an African-American owned tech hub and inclusive ecosystem building platform, designed a pyramid-based model that identifies the key elements a high-functioning ecosystem needs to have in place.

In Figure 4, economic development in communities of color is the end goal, however, it must be preceded by broad-based talent development and followed by venture development. It is our position that long-run economic development that reduces the racial wealth gap can occur only if all levels of the pyramid are working in conjunction and effectively. Next we discuss the three components of the model and their subcomponents in the pyramid.

**FIGURE 4:** Economic Development Pyramid



*Credit: Rodney Sampson, OHUB*

**Talent Development**

Talent development is the foundation of any long-run entrepreneurship ecosystem building strategy. It consists of exposure, education and skills development into career pathways that have a high talent demand. It is a community’s talent that allows it to produce high-growth entrepreneurs and the workforce that supports them.

The pyramid shows a number of entry points for many into a high-growth entrepreneurship ecosystem. Among them are early exposure and socialization to innovation, entrepreneurship and investing, as well as exposure and education in computer programming, software development, ideation, design thinking and business modeling in math, science and technology.

When there is a lack of sufficient exposure and education, diverse youth and young adults tend, in many cases, to default into career pathways that don't foster innovation and businesses with little or no growth. This is because role modeling, information and education drive decision-making and perception of opportunity. When role models or information and effective education are not present, that absence reduces the likelihood of diverse individuals entering the high-growth entrepreneurship pipeline.

Community centered accelerators, tech hubs and co-work spaces also are important exposure tools. Although these play an important part in venture development, they also serve an equally important role of exposing and socializing local communities of color to entrepreneurship.

While lack of exposure and education are fundamental barriers, communities of color also must overcome many other barriers to build a strong talent base from which to create an effective entrepreneurship ecosystem. Some of these barriers are a lack of technical education or subpar education for future work skills, few opportunities to innovate and few training opportunities in STEM. Additional challenges are limited access to relevant curriculum and workforce programs in emerging technologies, computer programming, software development, cloud engineering, artificial intelligence, advanced manufacturing and finance. Also, there is limited exposure to high-growth startup entrepreneurship role models and education. A successful ecosystem building strategy in a community of color must overcome these obstacles.

The value of early exposure to entrepreneurship is supported in two research articles. One article showed that youth entrepreneurship education both enhanced students' entrepreneurial skills and intentions to start a small business.<sup>18</sup> Another article that focused on entrepreneurship education and African-American youth from lower socioeconomic backgrounds, found that entrepreneurship education also enhanced the students' entrepreneurship skills and encouraged them to start companies.

In 2015, the Federal Reserve Bank of Kansas City released a guide titled "The Case for Youth Entrepreneurship Education."<sup>19</sup> This guide asserts that education needs to both teach entrepreneurship and be more entrepreneurial. Among statistics reviewed in the guide:

- Just a little more than 50 percent of students wanted to start their own business;
- Only 47 percent of students said they had access to entrepreneurship courses in their school;
- Students of color had greater entrepreneurial aspirations than students not of color.

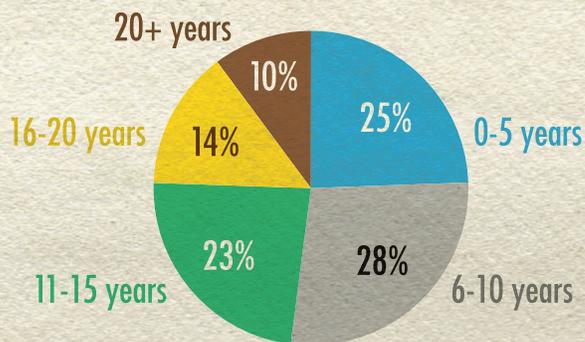
This means the education-to-entrepreneur pipeline must be strengthened significantly for all students, but specifically to support the aspirations of students of color.

**18** Peterman, N.E., and J. Kennedy. 2003. "Enterprise Education: Influencing Students' Perceptions of Entrepreneurship," *Entrepreneurship Theory and Practice*, 28(2), 129-144.

**19** "The Case for Youth Entrepreneurship Education," found at <https://www.kansascityfed.org/~media/files/publicat/community/smallbusiness/youth-entrepreneurship-guide.pdf>

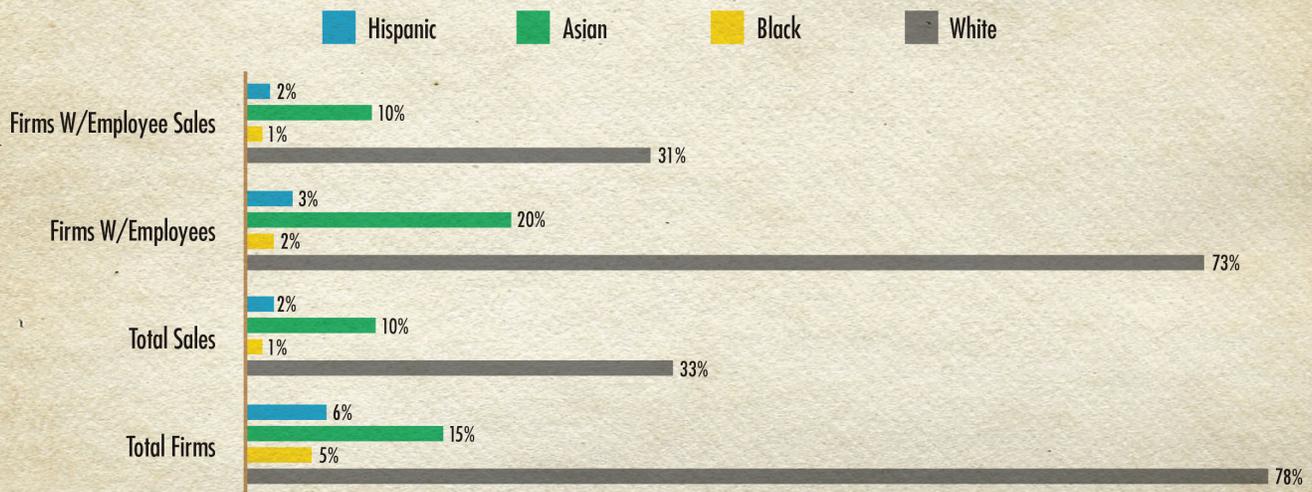
Career pathways are one of the underdiscussed aspects of entrepreneurship ecosystem building. One common stereotype is that high-growth entrepreneurs—especially those focused on technology—are young adults. Recent research shared in the *Harvard Business Review*, however, found that the average age of a successful startup founder in firms that are considered high-growth is 45.<sup>20</sup> Many of these founders of high-growth businesses have spent significant time acquiring talent, resources and networks when they are in the traditional workforce (Chart 3). When there is not effective diversity and inclusion, specifically in career pathways like technology, which are the focus of many high-growth entrepreneurs, it affects the pipeline of entrepreneurs supported by the entrepreneurship ecosystem.<sup>21</sup>

**CHART 3:** How Many Years Did You Work for Another Employer Prior to Starting Your First Business?



What this indicates is that the career pathway and the human, social and financial capital acquired while in the workforce affect entrepreneurship. Now we will drill down more specifically into the field of technology to provide more in-depth understanding. We are doing so because there is often a significant focus both in the U.S. economy, but specifically on technology-driven firms as a primary focus in entrepreneurship ecosystems.

**CHART 4:** Tech Firm Business Categories by Race and Ethnicity, 2012

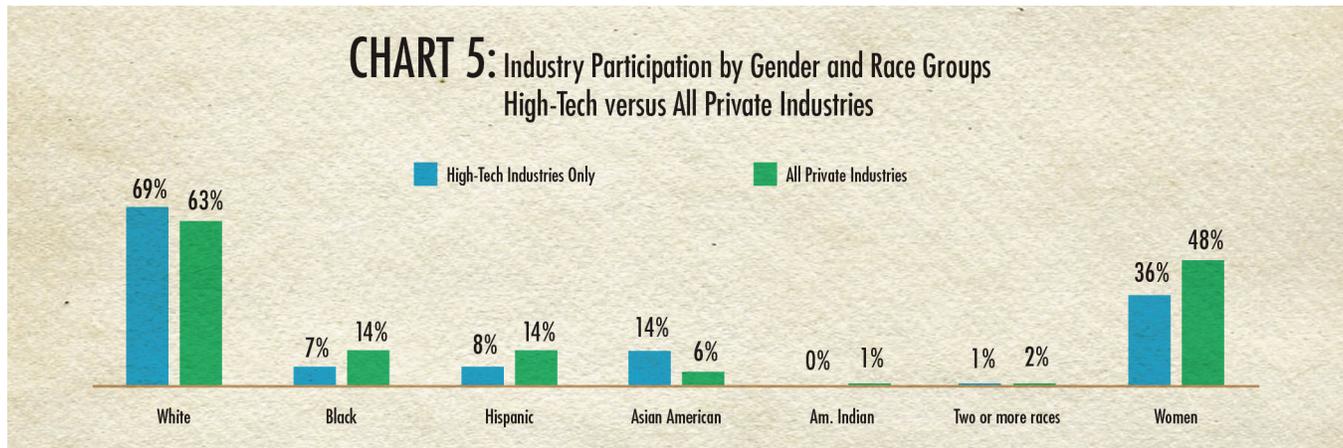


<sup>20</sup> FOUNDERS Research: “The Average Age of a Successful Startup Founder Is 45.” 2018. *Harvard Business Review*. Retrieved from <https://hbr.org/2018/07/research-the-average-age-of-a-successful-startup-founder-is-45>

<sup>21</sup> A large majority of all founders have spent at least six years working for an employer before starting a firm. This provides them with important managerial and technical skills as well as access to networks.

When we drill down and focus on technology-based firms, we can see a large disparity in diversity.<sup>22</sup> Firms owned by white and Asian males are predominant in the tech industry (Chart 4).

Both education pathways to technology careers and perceptions of discrimination when in the field may be responsible, in part, for the disparities in diverse tech firms. Chart 5 shows the disparity in diversity in high-tech careers compared with all private industries.<sup>23</sup>



According to a 2017 Pew Research article, employees in STEM careers say the top two reasons for the lack of representation in STEM careers was due to less access to high-quality education in the fields and that they are not encouraged to pursue the subject at an early age.<sup>24</sup> In the same Pew report, almost half of women who work in STEM said discrimination is a major factor that causes the lower representation of women in STEM fields (33 percent said this was an issue for African-Americans and Hispanics).<sup>25</sup>

This finding is supported in a 2017 report by McKinsey & Company.<sup>26</sup> It found that men and women of color and white women represent 64 percent of those entering the tech workforce, but only 33 percent of C-suite-level executives. Conversely, white men represent 36 percent of the entry-level tech workforce and 67 percent of C-suite-level executives.

Examination of the tech ecosystem reveals three general themes related to diversity. The first is that the lack of early exposure and access to high-quality and current technical education and skills development leads to less diversity in the technology field. The second is challenges related to diversity and inclusion in the tech workforce reduce the upward

<sup>22</sup> Firms owned by whites and Asians are predominant in all tech business categories, outperforming all other firms. Women-owned firms are substantially smaller in all tech business categories than their male counterparts. Publicly held firms (not included in charts) account for major differences in total firm percentage versus firm sales percentage.

<sup>23</sup> In total, only whites and Asians are overrepresented in high-tech industries. Industries defined as “High Tech” are: those producing innovative technology; they introduce new products and processes; they place great emphasis on technology.” Source: 2014 EEOC Diversity in High Tech.

<sup>24</sup> Blacks in STEM jobs especially are concerned about diversity and discrimination in the workplace. (2018). Pew Research Center. Retrieved from <http://www.pewsocialtrends.org/2018/01/09/blacks-in-stem-jobs-are-especially-concerned-about-diversity-and-discrimination-in-the-workplace/>

<sup>25</sup> Women in STEM see more gender disparities at work, especially those in computer jobs, majority-male workplaces. (2018). Pew Research Center. Retrieved from <http://www.pewsocialtrends.org/2018/01/09/women-in-stem-see-more-gender-disparities-at-work-especially-those-in-computer-jobs-majority-male-workplaces/>

<sup>26</sup> “Women in the Workplace 2018.” (2018). McKinsey & Company. Retrieved from <https://womenintheworkplace.com/>

mobility of diverse individuals, reducing the ability of those planning to launch a tech company to access critical social, financial and human capital prior to launching their company. This is consistent with research on high-technology ventures that says, “Founder’s business management expertise and academic status attracted external investment, but founder’s general technological expertise did not. Founder’s business management expertise and general technological expertise positively affected venture survival, but founder’s academic status did not.”<sup>27</sup> This deficit, according to research, also affects the start-up size of new technology firms.<sup>28</sup>

## Venture Development

The venture development levels of the pyramid-based model are central to the entrepreneurship ecosystem and the economic development process of wealth and job creation. We have defined high-growth entrepreneurship as entrepreneurs who are seeking to grow their business rapidly, and have a business that has the capacity to do so. This requires a combination of innovation and entrepreneurial talent by the entrepreneur. As the central focus of ecosystems, these entrepreneurs of color are the primary target of support within the ecosystem-building process.

Innovation is the precursor to high-growth entrepreneurship in entrepreneurship ecosystem building. However, research shows that disparities actually increase when innovation occurs in cities without inclusion. According to research published by Northwestern University, innovation density without equitable inclusion is responsible for 20 percent of a city’s income disparity.<sup>29</sup> The reason cited is the shift toward a knowledge- and innovation-centric economy and the clustering of opportunities in areas where both employment and an innovative culture are present. When looking at the income disparities between most communities of color in major cities, it is easy to see that a lack of opportunity to participate in the innovative economy is driving some of this disparity.

This returns us to the earlier discussion on both the importance of early exposure, relevant education and viable career pathways. By providing both young and old individuals from communities of color the opportunity to be exposed to various fields of innovation one sets the foundation for both inclusion by these communities in the broader economy as well as create a foundation for high-growth entrepreneurship. Some current and emerging fields where knowledge and innovation are required to create novel solutions include:

- Computer programming
- Mobile app development
- Augmented and virtual reality
- Blockchain
- Finance
- Business
- Entrepreneurship

**27** Gimmon, E., and J. Levie. 2010. “Founder’s Human Capital, External Investment, and the Survival of New High-Technology Ventures,” *Research Policy*, 39(9), 1,214-1,226.

**28** Colombo, M.G., M. Delmastro and L. Grilli. 2004. “Entrepreneurs’ Human Capital and the Start-Up Size of New Technology-Based Firms,” *International Journal of Industrial Organization*, 22(8-9), 1,183-1,211.

**29** Berkes, E., and R. Gaetani. 2018. “Income Segregation and Rise of the Knowledge Economy,” unpublished manuscript.

One definition of entrepreneurship is “when innovation meets the marketplace.”<sup>30</sup> In other words, innovation alone does not create and scale a company. Entrepreneurship takes innovation and connects it to market-based opportunities and entrepreneurial ability to create a company that can scale. Developing entrepreneurs in communities of color requires culturally relevant and accessible education, training and other support from the ecosystem to help potential entrepreneurs learn how to innovative as well as how to be an effective entrepreneur.

### Market and Capital Access

Market access is an important but often underdiscussed issue for entrepreneurs in communities of color.<sup>31</sup> Market access an entrepreneur has the ability to effectively buy and sell products and services with customers and vendors that exist within their marketplace. The lack of market access can take many forms. Many are traditional entrepreneurship barriers such as economies of scale, concentration of competition and other general barriers every entrepreneur faces. In many cases, however, entrepreneurs of color face additional market access barriers, including:

- **Information/Education barrier**—The ability to acquire, assess and learn information from formal sources and informal networks to make business decisions and identify opportunities.
- **Technological barrier**—Access to hardware and software for entrepreneurial purposes, access to sufficient broadband, technological infrastructure in a given geography, knowledge of the use of certain forms of technology to start and grow companies.
- **Resource barrier**—Access to financing, employee talent and various other business inputs that lead to starting and scaling companies.
- **Procurement policy barrier**—Public or private company policies that provide access to supply-chain opportunities and bidding by types of firms allowed to bid, size of contracts, scope of work required, capitalization table, invite processes and formal and informal process that exclude companies from bidding. This presents an interesting conflict of interest for high-growth firms led by entrepreneurs of color that are raising equity capital.
- **Gatekeeper barrier**—Key individuals control access in many industries to markets. If they have bias, or work only with groups they traditionally have worked with, this often is an access to market barrier for entrepreneurs of color.
- **Relationship barrier**—In many cases market opportunities are driven through relationship networks. Many entrepreneurs of color do not know or are not aware of these networks or have trouble developing and maintaining relationships in these networks.

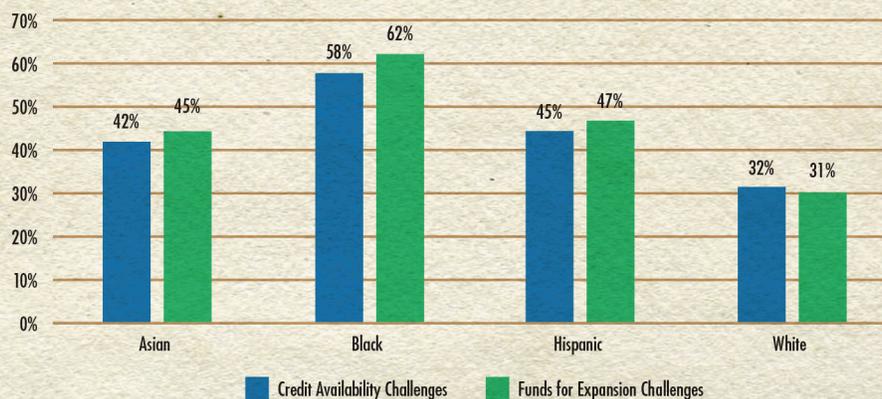
Access to capital and credit for entrepreneurs of color is one of the most well-researched topics in minority entrepreneurship. The consensus of the research is that entrepreneurs of color face challenges in both the credit and capital markets, which is a significant challenge to business growth and survival (Chart 6). The research consensus on challenges to credit access is supported in a recent report on minority firms and small business credit released in 2016 by the Federal Reserve System.<sup>32</sup> In this report, data showed that entrepreneurs of color had significantly greater credit challenges than their white peers.

<sup>30</sup> Definition from Federal Reserve Bank of Kansas City, *Grow Your Own* presentation <https://www.kansascityfed.org/community/smallbusiness>

<sup>31</sup> Shelton, L.M., and M. Minniti. 2018. “Enhancing Product Market Access: Minority Entrepreneurship, Status Leveraging, and Preferential Procurement Programs,” *Small Business Economics*, 50(3), 481-498.

<sup>32</sup> The 2016 Small Business Credit Survey: Report on Minority-Owned Firms can be found at <https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>

**CHART 6: Challenges to Credit Availability by Race and Ethnicity, 2016**



The challenges also extend to capital access. In research commissioned by the U.S. Small Business Administration, Alicia Robb found:

“... firms owned by African Americans and Latinos utilize a different mix of equity and debt capital, relative to firms owned by nonminorities. Relying disproportionately upon owner equity investments and employing relatively less debt from outside sources (primarily banks), the average firm in these minority business subgroups operates with substantially less capital overall—both at startup and in subsequent years—relative to their nonminority counterparts.”<sup>33</sup>

A report commissioned by the Kauffman Foundation found:

“Minorities are disproportionately hurt by the cost of and lack of access to capital. While approximately 16 percent of minority owned businesses report profits being negatively impacted by the cost and lack of access, only about 10 percent of nonminority-owned businesses report the same. Black entrepreneurs, in particular, are almost three times as likely as whites to have profitability hurt by lack of access to capital and more than twice as likely as whites to have profits negatively impacted by the cost of capital.”<sup>34</sup>

These challenges are also found in access to venture capital, which often is a key tool for entrepreneurs building companies with very high-growth potential (Chart 7). In unique research on entrepreneurs backed by venture capital and diverse workers in venture capital industries, a *Harvard Business Review* article found:

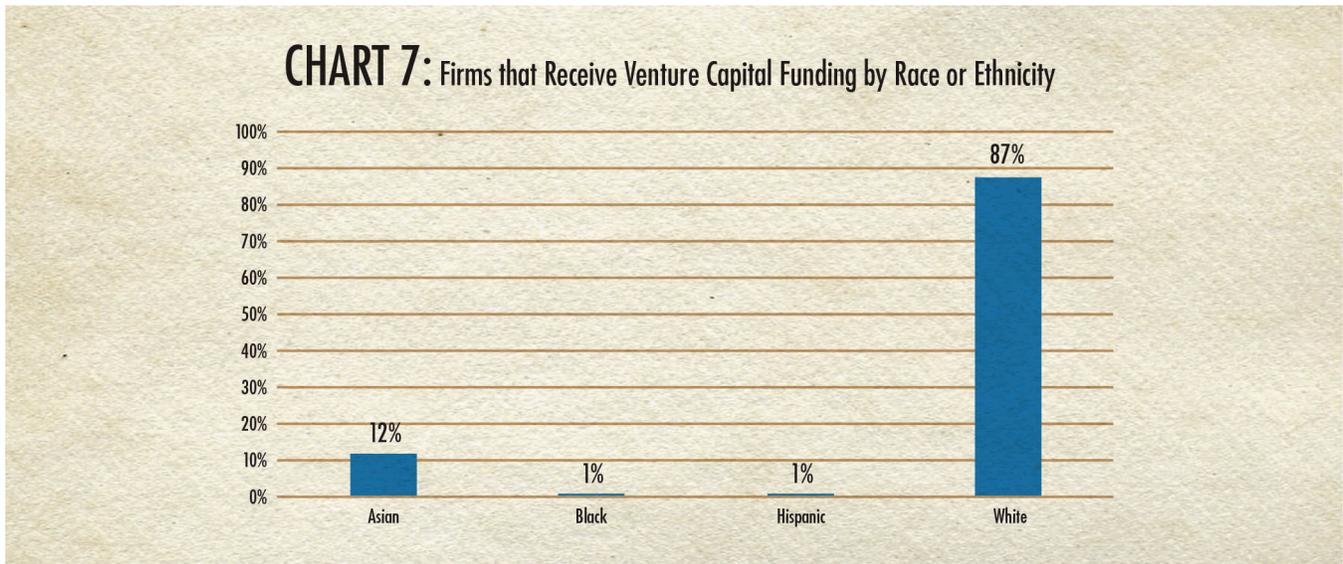
“... from 1990-2016 women have been less than 10% of the entrepreneurial and venture capital labor pool,

<sup>33</sup> Robb, A., Marin Consulting LLC. 2013. “Access to Capital Among Young Firms, Minority-Owned Firms, Women-Owned Firms, and High-Tech Firms.” Office of Advocacy, U.S. Small Business Administration, Washington, D.C.

<sup>34</sup> “Startup Financing Trends by Race: How Access to Capital Impacts Profitability.” 2016. Ewing Marion Kauffman Foundation. Retrieved from [https://www.kauffman.org/-/media/kauffman\\_org/research-reports-and-covers/2016/ase\\_brief\\_startup\\_financing\\_by\\_race.pdf](https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2016/ase_brief_startup_financing_by_race.pdf)

Hispanics have been around 2%, and African Americans have been less than 1%. This is despite the fact that all three groups have much higher representation in education programs that lead to careers in these sectors as well as having higher representation in other highly-compensated professions. Asians, on the other hand, have much higher representation in the venture capital and entrepreneurial sector than their overall percentages in the labor force.”<sup>35</sup>

These numbers are similar to reports that black and Hispanic businesses receive an estimated 2 percent combined of all venture capital funding.<sup>36</sup>



Addressing the challenges entrepreneurs of color face is an important component of entrepreneurship ecosystem building in communities of color.

### **Economic Development**

Two of the primary objectives of economic development is wealth creation and job creation. In short, if ecosystem building is done correctly the end result will be economic growth, which likely will drive job growth and ultimately racial wealth equity in communities of color.

### *Ecosystem Programs and Activities in Communities of Color*

Rodney Sampson, co-author and founder of OHUB, provides a list of some key programs and processes that can be developed to create a strong ecosystem in a community of color:

- Technical (and nontechnical) talent development programs and learning experiences.
- Entrepreneurship and business education.
- Founders solving very hard problems in industries, that will allow them to gain traction to scale.

<sup>35</sup> Gompers, P.A., and S.Q. Wang. 2017. “Diversity in Innovation,” (No. w23082), National Bureau of Economic Research.

<sup>36</sup> Chart compiled using data from <https://money.cnn.com/2016/04/12/smallbusiness/latino-venture-capital/index.html> and <https://www.gsb.stanford.edu/insights/latino-owned-business-survey-shows-12-trillion-left-table>

- Experienced mentorships from entrepreneurs who have succeeded and/or failed.
- Credible pre-accelerators, accelerators and incubators.
- Safe spaces (race, ethnic, gender, etc. specific co-working spaces, entrepreneurship centers, tech hubs, incubators and similar spaces) where entrepreneurs of color can work on building their company.
- Founder-friendly equity capital and capital that meets the various needs of entrepreneurs in communities of color.
- Developing more early stage investors, which can be nonaccredited investors using types of crowd or community based funding or larger investors that can help entrepreneurs start and scale.
- Developing corporate partners and markets.
- Entrepreneurs willing to invest their own money in building the ecosystem through memberships, investments, donations, financial support of conferences, events.

# SECTION III

## ECOSYSTEM BUILDERS IN COMMUNITIES OF COLOR

Entrepreneurship ecosystem building is an all-hands-on-deck approach to local economic development. As discussed earlier, entrepreneurship ecosystems focus on deep connectivity and collaboration between entrepreneurs, communities and organizations that support entrepreneurs through policy, funding, or knowledge and access. However, there are key actors that serve as catalysts, drivers and champions in most, if not all, local ecosystems. These individuals most often are known as ecosystem builders. These are individuals and their organizations that serve as a hub for relationships, information and resource exchanges in their ecosystem. According to the Startups Champions Network, the key focus of “... ecosystem builders is their long-term and system-wide approach to fostering innovation and entrepreneurship in their region or community.”<sup>37</sup>

### *Five Important Roles of Ecosystem Builders in Communities of Color*

In the fall of 2018, the Federal Reserve Bank of Kansas City and OHUB asked 15 national entrepreneurship ecosystem thought leaders of color to meet and provide insight into the issues of doing this work in communities of color. They offered this feedback about the most effective ecosystem builders:

1. Are representative of the community where the ecosystem building work is being done.
2. Have effective programs that support in-demand technology skills development (i.e., coding and technical sales schools) and high-growth entrepreneurs (pre-accelerator, accelerator, incubator) from the community.
3. Own or control real estate in which programs are conducted, where co-working, even housing, networking and relationship building can be facilitated and where the real estate can serve as a positive symbol to the community.
4. Can provide capital or connect entrepreneurs to capital.
5. Serve as a relationship facilitator and network builder both within the community of color and as a bridge to the broader ecosystem in the area.

In many cases, multiple ecosystem builders exist within an ecosystem, working collaboratively to ensure these five characteristics are all present. A closer look at each characteristic follows.

## THE ROLES OF ECOSYSTEM BUILDERS IN COMMUNITIES OF COLOR

Community  
Representative

Have Effective  
Programs

Own or Control  
Ecosystem  
Supporting  
Real Estate

Can Provide or  
Connect to Capital

Facilitate  
Relationships  
and Networks

<sup>37</sup> “Eship Series: So You Think You’re an Ecosystem Builder...” 2017. *B the Change*. Retrieved from <https://bthechange.com/so-you-think-youre-an-ecosystem-builder-63c8f2ab9fde>

### **Community Representative**

Ecosystem builders that represent the community of color they come from are important to the ecosystem building process. According to the Impact Network, “Representation refers to the assurance that those who are speaking for a specific community truly reflect that community’s norms, values and behaviors.”<sup>38</sup> Representation is particularly important when building ecosystems in communities of color. Representation allows the ecosystem builder to better understand the nuances and history of their community. In addition, it allows the ecosystem builder to serve as both a visible role model and, in many cases, allows the ecosystem builder to build relationships across the community faster.

### **Have Effective Programs**

Effective programs designed specifically for high-growth entrepreneurs in communities of color and that produce tangible results are important to the success of ecosystem building. The lack of scalable businesses in communities of color are the primary focus of ecosystem builders. Because of this, the ability to design, manage and scale these programs by local builders are one of the key characteristics of an ecosystem builder in a community of color.

### **Own or Control Ecosystem Supporting Real Estate**

Owning or controlling real estate to support entrepreneurship ecosystem building in communities of color is important for a variety of reasons. In many cases, it allows the ecosystem builder to create a “safe” space that is both comfortable and culturally appropriate for the community they are serving. This allows the ecosystem builder to build relationships and a community of entrepreneurship practice with high-growth entrepreneurs and resource providers of color. It also allows the ecosystem builder to have a well-known space to house various programs that convene and support the entrepreneurial community.

Another significant benefit of real estate is that it can serve as a revenue generator and wealth builder for the ecosystem building organization. Many entrepreneurship ecosystem real estate projects generate revenue from co-working memberships, corporate innovation labs, the accelerators housed in them and, in some cases, tenant rent leases from tenants. This revenue is an important component of funding the necessary work of building the ecosystem in a community of color. One important but less-discussed benefit of owning or having control of real estate is the symbolic nature of having a physical space designated specifically to supporting entrepreneurs of color. This symbolism is a building block of culture and can be a source of community pride.

### **Can Provide or Connect to Capital**

As we have discussed, the challenges communities of color face in accessing the appropriate level of early stage capital, credit, or capital can create significant challenges for them in starting and growing a company. This makes it even more important for the entrepreneurship ecosystem builder either to provide founders with capital or connect founders to those who have capital in communities of color. In many cases, high-growth entrepreneurs, more so than other types of small business owners of color, will require some form of crowdfunded, alternative, angel or venture capital investment to start, grow and scale their company.

<sup>38</sup> FAQ. 2015. IMPAACT Network. Retrieved from <https://impaactnetwork.org/community/faq.html#FAQ24>

The entrepreneurship ecosystem builder's access to funders and funding networks, or who even have a fund themselves, can significantly reduce the challenges high-growth entrepreneurs of color face in the capital market. This is true, in large part, because the angel and venture capital field largely is driven through relationships and networks. In a 2014 Forbes article titled "Where Are the Deals? How VCs Identify the Next Generation of Startups," David Teten, a venture capital researcher said, "Most investors rely on their network of colleagues and service providers to source investments." The ability of an ecosystem builder to support high-growth entrepreneurs of color in accessing capital is a critical role in building the local ecosystem.

### **Facilitate Relationships and Networks**

While listed last, the ability of an ecosystem builder to both develop and facilitate relationships in the entrepreneurship ecosystem arguably is the builder's most important skill. As seen previously when we defined entrepreneurship ecosystems, the most consistent theme in the various definitions were collaboration, networks and relationships across the ecosystem. In many cases, these relationships are developed, managed and facilitated by entrepreneurship ecosystem builders either by one-on-one interactions or by programs. The role of creating and managing these relationships by an ecosystem builder should not be understated. This is particularly true when working to develop an entrepreneurship ecosystem in a community of color. An effective ecosystem builder will be able to develop wide-ranging relationships with both entrepreneurs, the community, key stakeholders—such as the aforementioned funders—corporate partners and others. In addition, their ability to help facilitate the creation of relationships between others stakeholders and entrepreneurs in the ecosystem is vital.

### *Recommendations for New Ecosystem Builders in Communities of Color*

Each ecosystem builder will have to navigate the complex relationships, cultures, resource pools and structure of their given community to develop a vibrant ecosystem. However, there are some general recommendations provided by inclusive ecosystem thought leaders to help new ecosystem builders get started.

#### **Recommendations for New Ecosystem Builders**

- 1.** Focus on racial wealth equity.
- 2.** Understand the racial demographics in your area, and understand the economic data such as jobs, wealth levels and income.
- 3.** Convene likeminded people who are willing to invest in the building of the ecosystem.
- 4.** Engage the broader community around the opportunities for investment, talent and services.
- 5.** Determine who the stakeholders are. Are they going to be the high network individuals, family offices, foundations, larger corporations, colleges, universities, policymakers, existing business owners, funding organizations, meetups or others. This will identify ecosystem gaps.
- 6.** Identify what is missing in the ecosystem.
- 7.** Create or adopt a model based on where you are starting. This model should create immediate wins to create momentum.
- 8.** Design a program using best practices. Either create a program from these models or bring a model to your community that has had success.

9. Focus on metrics and outcomes such as people trained, placed in jobs, new venture creation, capital raised, customers acquired and new wealth created.
10. Know how your ecosystem building model can raise funding, generate revenue, raise philanthropic support and/or deliver a return on investment generates funding, revenue, philanthropic or market based. For example, how do various programs such as code schools, accelerators, networking events and other activities generate resources to support the ecosystem building process.

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# CONCLUSION

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This guide provides an overview of inclusive entrepreneurship ecosystem building in communities of color, with a specific purpose of reducing the racial wealth gap in these communities and, by extension, local and national economic growth. The guide defines key terms, provides an overview of core concepts and shares key programs and practices by leaders in the field.

We want to continue to encourage communities, economic developers and policymakers about the opportunities to transform their communities with this new economic development practice. More importantly, however, we want to encourage a clear focus on inclusivity. For more information on this topic please visit:

[www.kansascityfed.org/community/smallbusiness](http://www.kansascityfed.org/community/smallbusiness)

AND

<https://opportunityhub.co/>