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Creating growth clusters

What role for local government?

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Creating growth clusters: What role for local government?

A systematic approach to implementation could help start-up ecosystems flourish.

Many governments in industrialized countries aim to encourage entrepreneurship and start-up activity to spur job creation and economic growth. To what extent governments are capable of doing so is uncertain. Nonetheless, policy makers at the regional and municipal levels are closer to the sources of innovation than those at the national level. For example, innovation in the form of start-up activity tends to occur in large metropolitan areas, initially without the involvement of policy makers. Take Berlin, where a vibrant ecosystem developed in the past several years without systematic government intervention.

While an enabling policy context might not be a precondition for seeding entrepreneurial activity, it may become more critical when taking a cluster to scale. To flourish, entrepreneurial activity requires a concentration of talent, infrastructure, capital, and networks—key success factors of a start-up ecosystem, as epitomized by Silicon Valley. Not all economic-policy instruments aimed at nurturing start-ups are at the city level. Still, local policy makers should think systematically about what it takes to support a start-up ecosystem. When doing so, their focus could be on tackling the bottlenecks and constraints that might otherwise inhibit a vibrant start-up ecosystem rather than picking winners by supporting investment in particular sectors or business models.

More specifically, such local initiatives can help link entrepreneurs to schools and universities, ease administrative matters for foreign workers and founders wishing to settle in a location, support development of suitable infrastructure and connectivity, and communicate and market the attractiveness of a location vis-à-vis other start-up centers. New York, for example, founded a tech campus for applied sciences; Tel Aviv built working spaces for entrepreneurs; Berlin is in the process of setting up a privately managed fund to raise capital for start-ups.

Establishing a coherent and supportive entrepreneurial policy at the city level is challenging. Municipal decision makers should identify bottlenecks in the start-up ecosystem and design and carry out initiatives to address them. These moves require a project-oriented, dynamic, and capable organizational structure. This article outlines an implementation approach that local policy makers can use to strengthen a start-up ecosystem. It discusses, in particular, the concept of the start-up delivery unit—an approach employed recently by the mayor and municipal government of Berlin.

Spurring innovation in a dynamic, multistakeholder environment

Berlin, London, New York, and Tel Aviv are cities that stand out for their vibrant start-up ecosystems. London started its East London Tech City in 2010; New York and Tel Aviv have established New York Digital City and Start-up City Tel Aviv. In 2014, Berlin started implementing several initiatives.

These cities faced common challenges in defining and carrying out the initiatives, including having to deal with many stakeholders that create the potential for bottlenecks. A successful start-up policy must fulfill two requirements:

- The ability to keep pace with the start-up environment. The start-up world is volatile; investors and founders, and their needs and activities, change rapidly. Policy makers cannot pick winners in such an environment. Instead, they should focus on enabling structures that can address more fundamental requirements.
- The ability to succeed in a multistakeholder environment. When starting initiatives to spur innovation, there are many competing interests: stakeholders from the private sector, such as venture capitalists, corporations, and start-ups; diverse levels of governments; and universities and research institutes. Bringing together and managing those stakeholders and interests are essential to successful implementation.

We have found that start-up delivery units—situated primarily in the mayor's office—are an effective, pragmatic way of realizing these two requirements. Start-up delivery units are inspired by broader governmental delivery units, an approach employed worldwide to facilitate program implementation. Governments have used delivery units for more than 15 years to rigorously track performance, identify obstacles early, solve problems, and correct course. They vary in scope and size but generally are not too large. They can be centralized or within line agencies. McKinsey's study of delivery units and work with governments on them show that the most successful share several important characteristics: an outstanding leader with a track record of delivering outcomes, direct access to top leadership, talented staff with excellent communication and problem-solving skills, and the ability to use soft power to influence ministries.

Employing a start-up delivery unit

A delivery unit drives and coordinates start-up activities and helps cities progress much more rapidly than they otherwise might. The unit should mirror as much as possible the ad hoc way start-ups do business and provide a credible focal point for immediate problem resolution, stakeholder engagement, and response. We have identified three important steps to launch a start-up delivery unit.

Hiring the right talent

Policy makers' experience in London and New York suggests that finding the right kind of people to work in start-up delivery units is challenging. The participants must understand how to function not only in the volatile world of start-ups but also in the steadier, slower-paced environment of public administration. Successful start-up delivery units hire an established entrepreneur as their managing director and seek the best talent they can find from within public administration and established companies. Rotating employees in and out of the unit can help it remain fresh, open to new ideas, and improve dialogues.

One way to help overcome skepticism of start-ups toward policy makers is engaging an established entrepreneur to lead the delivery unit. In London, Eric van der Kleij, the founder of the successful start-up Adepra, was appointed to lead the London Tech City Investment Organisation (TCIO); in New York, Rachel Sterne Haot, the former CEO of the global crowdsourced news start-up GroundReport, was appointed chief digital officer of the NYC Digital program.

The job description should be similar to other top government or private-sector roles. The ability to truly shape the city's start-up ecosystem is critical. Direct reporting lines to the mayor ensure not only flatter hierarchies and clear chains of command but also imply a career launchpad for the managing director of the unit through enhanced visibility. Of course, competitive salaries and sufficient budget help attract talent as well. London's TCIO, for example, has an annual budget of £2.1 million pounds, 61 percent of which is spent on the salaries of the delivery unit.

Even competent leadership will only succeed if complemented by a cutting-edge team consisting of 8 to 12 talented private- and public-sector employees. Getting start-up founders themselves to dedicate substantial time is difficult. Instead, the delivery unit could aim for entrepreneurial talent from other private-sector companies

and government bodies. London's TCIO hired staff from Siemens, as well as long-term public servants previously involved in trade and investment promotion.

Additionally, to ensure the delivery unit will not revert to the somewhat slower-paced world of public administration, permanent rotation of staff into and out of the unit is an option and has proved to boost morale in other public-sector contexts (for example, in Denmark, Germany, and Norway).

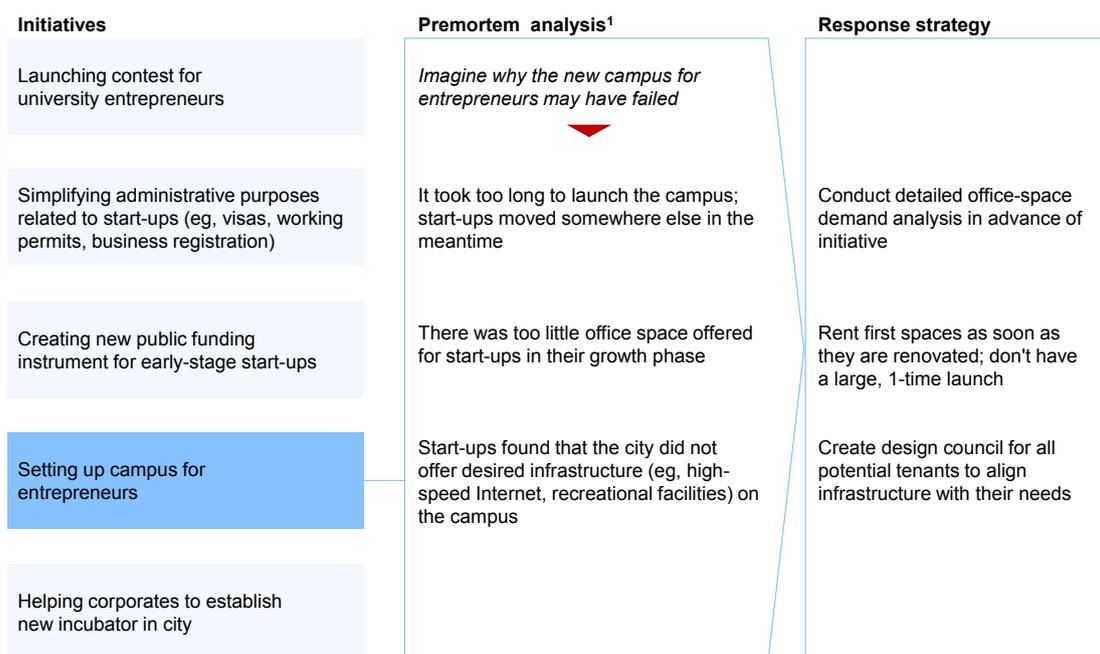
Conducting 'delivery labs'

Once the delivery-unit team is in place, a "delivery lab" can be used to inject ideas and translate high-level strategies into detailed implementation plans. A lab is an intense problem-solving environment that collocates the 20 to 40 key people needed to crack a problem. Delivery labs can also help build team spirit and momentum. Labs may comprise workshops of several days with relevant stakeholders, including venture capitalists, corporations, start-ups, diverse levels of governments, universities, and research institutes. For instance, the lab would attempt to pinpoint the key areas of actions in a start-up ecosystem. Questions like the following may be answered: What can we do to increase capital availability in our city? How can we ensure there are enough coworking spaces at reasonable prices? Taking into account that the start-up environment changes rapidly, analyses and solutions should be updated regularly. Ideally, such labs are conducted annually.

To assess the status of a start-up ecosystem in a delivery lab, a systematic and data-driven analysis aiming to clearly define and redefine the challenges to be addressed is valuable. By providing a data-driven basis for decision making, this analysis not only aids in obtaining buy-in of stakeholders but also helps the delivery unit to regularly update problem definitions and identify the root causes of problems.

Based on the problem definitions and the identified root causes, delivery labs can also be used to assess whether existing solutions are still adequate. Some employ "premortem analysis," a managerial tool used in the private sector to identify implementation obstacles (exhibit). In step one of such an analysis, all initiatives to be implemented are outlined. Then, delivery-lab participants are asked to imagine a worst-case scenario for each initiative and predict why it might fail. Next, responses to each potential failure are designed. To track the progress of initiatives, some start-up delivery units publish an annual report after a delivery lab.

Exhibit Some delivery labs use ‘premortem analysis’ to pinpoint implementation obstacles.



¹ Input from delivery-lab participants.

Focusing on quick wins and correcting actions frequently

The pressure to produce results is great, given the volatility of the start-up environment and stakeholder impatience. Thus, start-up delivery units risk overpromising and underachieving. To minimize this possibility, initiatives should be based on estimated impact on start-up activity (usually measured by how much activity can be enhanced along the funnel from start-up creation to growth and maturity) and the feasibility of implementation (a more qualitative internal assessment). Experience shows that this often will differentiate those initiatives that either have high impact but are difficult to carry out or are easy to do but have little effect.

Since speed and ability to react to changing conditions is crucial in a start-up environment, the most successful delivery units go for the low-hanging fruit first. In Berlin, the city carried out a start-up competition for university students to help foster entrepreneurial spirit among graduates. It also plans to create a digital directory aimed at enhancing start-ups' networks; start-ups will be able to list a short description of their business idea and identify business contacts that

could help them. In addition, the city is digitizing select administrative processes to lessen the bureaucratic burden on start-ups. These kinds of initiatives can offer early, fast victories for the delivery unit, showing stakeholders that it can produce results.

But policy makers must be realistic. Start-ups are a moving target, so cities likely won't get their initiatives right the first time, no matter how cautiously they plan. As such, successful delivery units don't waste time searching for the perfect design. Instead, policy makers should mimic the approach taken by most start-ups: launch the initiative, analyze the launch, learn what went wrong—and then adjust it and relaunch. This rapid prototyping allows policy makers to maximize the utility of an initiative by repeatedly and quickly adjusting to the needs of start-ups and sustaining momentum through prompt action, all while running at minimum cost.

An example is the New York City Open Data initiative, which aims to spur innovation and the founding of new digital tech start-ups by providing public data and hosting “hackathons.” At nyc.gov, data sets were added gradually and the website's functionality was improved little by little, moving from

a beta version to the one available today. This not only allowed a fast start for the site but also offered developers the opportunity to create apps using the open data already available there. Another case is the start-up campus Tempelhof in Berlin. Instead of waiting to launch the start-up campus at its anticipated capacity of 25,000 square meters—which would take more than three years—Berlin decided to go with an early version and move in start-ups from day one. Using the launch-relaunch approach, Berlin seeks feedback from the start-ups to improve infrastructure for more recently arrived renter-participants, all while generating revenue for the campus.



As the competition for investment and entrepreneurial talent reaches global proportions, municipal support for nascent entrepreneurial clusters becomes a must-have, especially for large metropolitan areas. City policy makers may find delivery units useful as they try to strengthen a start-up ecosystem. In introducing such an approach, policy makers should pursue the start-up model: rather than designing the perfect instrument and policy, they should see themselves as continuous problem solvers and work closely with the entrepreneurs and innovators around them.

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