

Geographical Environments for Entrepreneurship


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➤ 'Perhaps the most important challenge facing entrepreneurship researchers today involves explaining why some local communities promote the founding of large numbers of organizations while others do not.'

- Romanelli and Schoonhoven (2001: 66).

Four Questions

- Is new firm formation equally likely everywhere?
 - Why are some places entrepreneurial?
 - Why are some places not so entrepreneurial?
 - How can local environments be improved?
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- A decorative graphic consisting of several sets of concentric circles in shades of blue, located in the bottom right corner of the slide.

Is new firm formation equally likely everywhere?

- Certainly not at the national scale
 - GEM research finds wide variation and distinguishes between
 - necessity entrepreneurship and
 - opportunity entrepreneurship
 - Most important for (national, regional and local) economic growth are high-growth entrepreneurs
 - Least helpful are survival and lifestyle entrepreneurs

The Entrepreneurial Event

- Life path change → perception of desirability → perception of feasibility → entrepreneurial event (company formation)
- Prefounding factors
 - Family background
 - Education
 - Work experience
 - Personality and motivation
- The local support base in the external environment

Characteristics of Munificent Environments

- Strong presence of family businesses and role models
- A diversified economy in terms of size of companies and industries represented
- A rich infrastructure and the availability of skilled resources
- A solid financial community
- Presence of government incentives to start a new business
 - Dubini (1989)

Characteristics of Sparse Environments

- Lack of an entrepreneurial culture and values, networks, special organizations or activities aimed at new companies
- Lack of a tradition of entrepreneurship and family businesses in the area
- Absence of innovative industries
- Weak infrastructures, capital markets, few effective government incentives to start a new business
 - Dubini (1989)

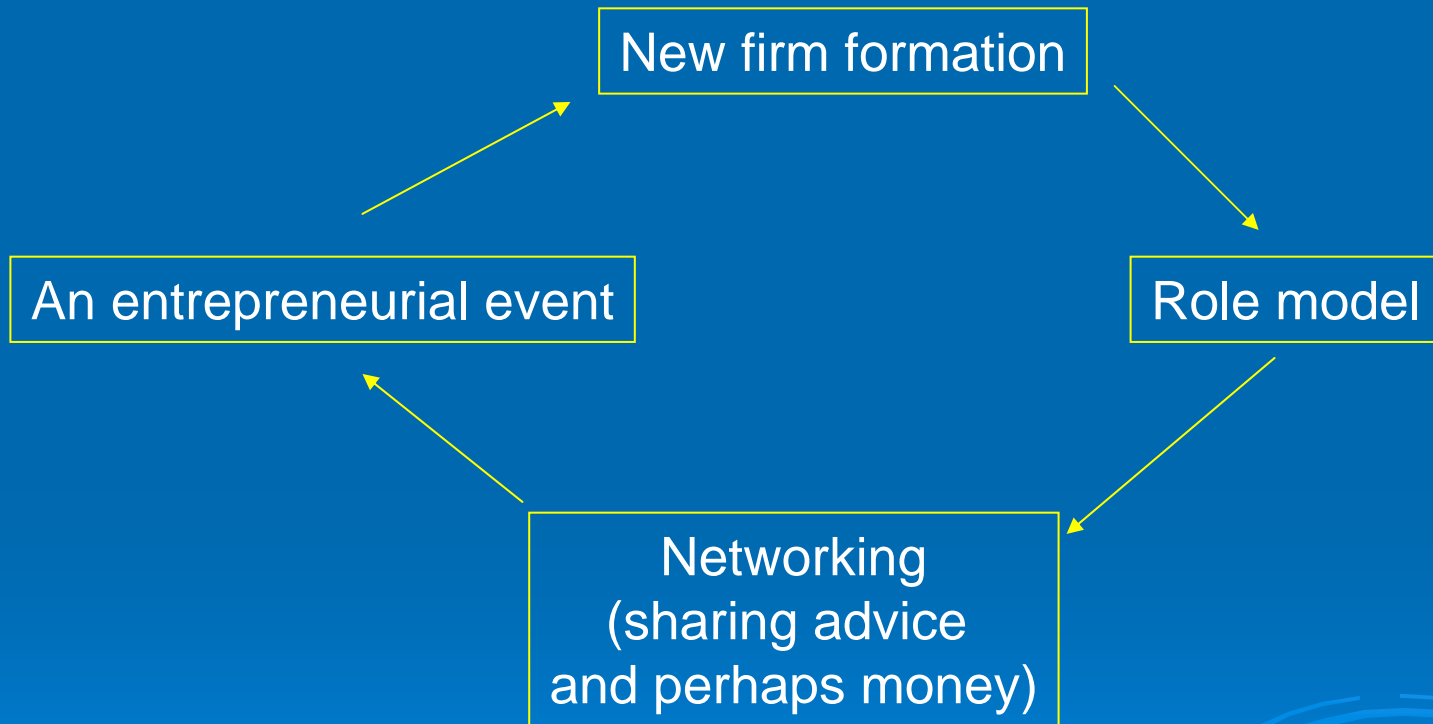
Environmental Characteristics of Entrepreneurial Places

- Availability of venture capital
- Supportive social capital (including role models)
- Entrepreneurial expertise/support services
- Research universities as growth engines
 - Feldman (2001)

Other Ingredients of Entrepreneurial Places

- *Entrepreneurship capital*
 - A region's endowment with factors conducive to the creation of new businesses
 - Audretsch and Keilbach (2004)
- Unmeasured (and unmeasurable?):
 - Untraded interdependencies
 - Pipelines to nonlocal knowledge
 - Supportive social capital
 - Technical effervescence
 - Technical culture

The Cumulative Causation (or Virtuous Circle) of Entrepreneurship Capital



Role Models

- Role models – or ‘positive regional entrepreneurial examples’, as Fornahl (2003) calls them – are central to thinking about a process of entrepreneurship cumulative causation or a virtuous circle.
- Some role models are serial entrepreneurs or habitual founders.
- Role models not only serve as examples. They may more actively provide advice to budding and recent entrepreneurs

Universities

- Universities are the source on technology-based new firms (TBNFs)
 - Universities are core institutions within knowledge-based regions, because universities are 'centrally involved in knowledge transfer, intended and unintended, formal and informal' (Howells 2002, p. 877).
 - There is no guarantee that new knowledge will be transformed into new ventures and new industries. An absence of venture capital, and the management advice that typically comes with it, automatically suppresses entrepreneurship (Garnsey and Heffernan 2005).
 - The process of emergence of high technology industry remains complex and 'basically unpredictable' (Garnsey and Lawton Smith 1998).

Collective Entrepreneurship

- Innovating regions and knowledge-based regional development depend on research universities
 - (Etzkowitz and Klofsten 2005)
 - ‘The key event is the creation of an entrepreneurial university, whether from an existing academic base or a new foundation, which takes initiatives together with government and industry to create a support structure for firm formation and regional growth’ (p. 243).
 - This cross-sectoral *collective entrepreneurship* builds a local culture that supports a self-sustaining cluster.

The Knowledge Filter

- New knowledge does not automatically or magically “spill over” from one organization to another, such as from a university laboratory to local firms.
- What is needed is to penetrate the knowledge filter, ‘a semi-permeable barrier limiting the efficient conversion of new knowledge into economic knowledge’ (p. 442).
- New ventures, and a subset of incumbent firms, are able to transform new knowledge to economically useful knowledge, largely through tacit knowledge transfer within relatively short distances.
 - Acs and Plummer (2005)

Venture Capitalists

- Venture capitalists – and angels, or informal venture capitalists – are useful not only for the money they provide.
- They also monitor, advise, and assist the ventures in which they invest, adding value in the process.
- This ‘relational expertise’ is a key contribution provided by venture capitalists.
 - Petit and Quéré (2006)

Angels

- Not all informal investors are angels.
 - In Norway, only 25% of whom were business angels, competent investors who contribute both knowledge and skills to the firms in which they invest.
 - (Sørheim and Landström 2001)
- Angels are an especially regional – or local – set of players in the entrepreneurial environment.
 - They are much more local and hands-on in their monitoring.
 - The *proximity capital* represented by angels with local knowledge cannot be created; it is a fact in some places and is absent in others (Crevoisier 1997).

Why are some places not so entrepreneurial?

➤ Industrial structure

- Branch manufacturing plants
- Workers with low human capital
- These create a 'life mode' which hinders entrepreneurship

➤ Human capital

- Low levels of education; narrower work experience

➤ Rural areas with little in-migration

- New migrants provide 'cerebral input' to an area

How can local environments be improved?

➤ Can places encourage entrepreneurship?

- Shapero (1984: 36) suggested four qualities that distinguish dynamic cities from all the rest:
 - (1) resilience, (2) creativity, (3) initiative taking, and (4) diversity.

➤ Can these characteristics be created?

- Cooke (2002) is optimistic. He identifies five ingredients of knowledge economy clusters, all of which are amenable to policy initiative:
 - research funding,
 - a systemic method of supporting clusters of new businesses,
 - incubators for new firms,
 - venture capital, and
 - policy intervention to build clusters outside large metropolitan areas.

More than human capital is needed

- Territorial knowledge management
 - - Not only measures of human capital but also intellectual capital, innovation capital, process capital, relational capital, and knowledge or intellectual capital.
 - This array attempts to capture the range of ways in which a firm and its employees scan and gather knowledge, process and absorb it, and transform it into products, services, and innovations.
 - Cappellin (2003)
- Support for a multidimensional view is found in Ederer's (2006) *European Human Capital Index*.
 - He defines four types of human capital: human capital endowment, human capital deployment or utilization, human capital productivity, and its demographic evolution.

A Role for Universities

- The role of universities goes beyond even the demands of a 'Triple Helix' world of entrepreneurial universities.
- Reichert (2006) suggests a 'Quadruple Helix' – adding the local public to the university – industry – government triple helix.
- The development of a knowledge region from the base of a university is far from assured.
- Intermediary institutions must be established and supported to forge new links between universities and knowledge-based businesses.
 - 'The importance of these intermediary institutions cannot be overestimated'. They 'identify identify promising areas of cooperation' and 'create the climate and mutual understanding on which sustainable partnerships can be built' (p. 38).

Gatekeepers and Knowledge Brokers

- 'Knowledge brokers' serve as bridges between the academic world and the business world.
- Knowledge brokers are key people in networks.
- More importantly, they are a type of *community entrepreneur*, who connect different networks for the benefit of a community

Conclusions

- All entrepreneurs are part of a society, enmeshed in several networks and several sources of knowledge and information.
- Communities and their entrepreneurs benefit if they are extroverted – or at least if their gatekeepers or knowledge brokers make the vertical and horizontal network links for them.
- Business frequently needs the skills and knowledge of people outside the business world.
- These social or community entrepreneurs are a key part of the geographical environment for entrepreneurship.