Entrepreneurship, Firm Growth and Regional Development in the New Economic Geography: Introduction

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One of the most important findings in the Small Business Economics literature is that context matters. Context shapes not just the role of small firms, but also their structure strategy and performance. There are many different dimensions of context, ranging from the nation to the industry. One of the strongest, most important contexts for small business and entrepreneurship to emerge in recent years is the region.

The regional context has been found to matter for small business and entrepreneurship for several reasons. The first is that the region facilitates the formation and transmission of social capital. The boundaries of a region also provide the geographic platform from which that social capital can be accessed. A second dimension involves knowledge. An important new line of research has identified that knowledge is rooted in regions. While it spills over across the firms and workers of a region, such regional spillovers tend to be localized; thus, accessing and participating in knowledge requires geographic proximity. Small-firm networks, clusters, and linkages are organizational structures that have emerged in an effort to take advantage of the regional contexts. A third dimension is the perspectives introduced by the New Economic Geography literature with its emphasis on market potentials, geographic transaction costs, internal and external economies of scale and self-reinforcing growth (and decline), which provides new insights into entrepreneurship, firm growth and cluster formation. However, it also provides new insights as regards how entrepreneurship, firm growth and cluster formation could be stimulated and supported – insights that in many respects are at odds with the conventional wisdom in the field.

To explore and analyze further the role of small business and entrepreneurship in the regional context, an international symposium with the theme "Entrepreneurship, Firm Growth and Regional Development in the New Economic Geography" was organized by David Audretsch, Rolf Dahlberg, Börje Johansson, Charlie Karlsson and Roger Stough. The symposium was held in Trollhättan, Sweden, June 15–June 17, 2000 and hosted by the University of Trollhättan/Uddevalla. The symposium was sponsored by The University of Trollhättan/Uddevalla, Jönköping International Business School, The School of Public Policy at George Mason University, The Municipality of Trollhättan, Volvo Aero Corporation, Trollhättan, The European Community's Social Fund, The Savings Bank Foundation of Western Sweden, The Regional Council for Västra Götaland and Fyrstadskommittén ("The four towns committee").

This special issue of *Small Business Economics* includes a selection of papers from the conference. These papers generally address the issues of entrepreneurship and small business within the regional context.

Westlund and Bolton in their paper provide an extensive review of the growing literature on

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social capital and a systematic analysis of entrepreneurship as a function of social capital. Their aim is to analyze the role that located social capital plays in local/regional entrepreneurship. They compare social capital with other forms of capital and reach the conclusion that in the main social capital can be analyzed in the same way as other types of capital but that it has some important special attributes. With these attributes as their starting point they present an outline model of how the spatially-defined producer and consumer surplus forms a place surplus, and of the role played by social capital in the creation of producer surplus. They also introduce entrepreneurship into their model and discuss social capital in inter-firm relations and also the entrepreneurship-inhibiting and -facilitating aspects of social capital. The paper also contains some formal modeling approaches of the theoretical relationship between social capital and entrepreneurship inspired by the well-known Blanchflower-Osvald model.

The paper by Westlund and Bolton is important since it provides an introduction to a very comprehensive and rapidly expanding research field, where economists and economic geographers so far have not been in the forefront. This subject is obviously of great relevance to small business economics to the extent that small business results from entrepreneurship.

The second paper by *Schutjens and Stam* describes the evolution of networks during the first three years after start-up and tries to put forward explanations as regards the nature of these networks. The authors try to extend current research on networks by explicitly including both temporal change and spatial variation in the analysis. Networks are defined as the main business relationships with respect to sales, supply, outsourcing and cooperation. The nature of these business relationships is specified by four main characteristics: type, number, source, and location. Interestingly they find a persistent geographical concentration strategy in the main business relationship. It seems that extra-regional relationships are losing ground to intra-regional relationships over time, i.e. young firms are narrowing their spatial scope during their early life. The research presented in the paper can be placed into a wider context of how networks change as the business grows and how this change affects the growth of the firm. From such a perspective the research question, which this paper seeks to address, becomes all the more important. Such research is interesting and has great potential not least for formulating SME policies.

The paper by *Nyström and Karlsson* investigates the process of exit and entry of firms in the Swedish manufacturing industry within the framework of the product life cycle theory. The product life cycle theory explains how the high degree of uncertainty, as regards product designs and production methods, which is connected to the early stages of the product life cycle, requires firms to have a high level of knowledge intensity during these stages. Since uncertainty decreases over the product life cycle, less knowledge is needed in production during later stages of the product life cycle. This implies that the knowledge-intensity of firms differs for firms that enter and exit in different stages of the product life cycle. In the paper four hypotheses regarding these relationships are stated and empirically tested using data at the 5-digit SIC-level for the Swedish manufacturing industry for the period 1990–1996. The empirical results show that entrants in the early stages of the product life cycle are more knowledge-intensive than incumbent firms. Firms exiting in early stages of the product life cycle are also more knowledge-intensive than firms exiting in later stages.

Friar and Meyer in their paper explores the factors differentiating between the formation of high-growth ventures and low-growth micro-businesses in the Boston empowerment zone. They also discuss how these factors may best influence the activities of organizations that either nurture ventures or create government policies for regional development. Based upon an analysis of ninety business plans submitted to a business plan competition in Boston they found that founders of high-growth ventures have work experience and advanced training in their technologies, and that teams rather than individuals created the plans. The authors suggest that a combination of exogenous and endogenous approaches may be needed to stimulate a lagging region's economic growth.

For many decades Southeastern Michigan was characterized by a rapid decline in manufacturing jobs and was labeled a typical rust-belt region over-dependent upon one sector of industrial production. However, during the last two decades of the 20th century the region developed into a center of high-tech activity, an area of increasing employment in manufacturing, and a striking example of revitalized and restructured industry. The root of this transformation can be found in the way the industry was restructured in order to confront its problems, and, among other things, in the way it increasingly relied on a more flexible structure of engineering and production led in part by smaller and independent businesses. But this transformation has also meant a significant change in the kinds of work performed and the skill sets needed, and a need to revise how workers are to receive education and training to ensure a workforce able to address the workplaces of the future. The paper by *Jacobs and Fasenfest* reviews the history of this remarkable restructuring, examines recent data on employment in the region to highlight the reorganization of work both geographically and internally, and reflects on the existing education and training programs in place and needed to sustain the new regional economy.

The next two papers of this special issue interestingly enough are two papers related to developments in Finland. The first of these two papers, written by *Sadowski, Dittrich and Duysters*, is a study of collaborative strategies in the event of technological discontinuities. This is a kind of case study centered on the Finnish telecoms giant Nokia. Technological discontinuity can be defined as the process in which some technologies have turned out to be increasingly non-competitive and many of the barriers that firms have erected around these technologies in the past such as scale advantages have become ineffective. In this paper the authors examine the extent to which the collaboration between large and small firms has been able to deal with the effects of discontinuous technological change. From an evolutionary perspective the authors investigate the process by which technological competencies and resources of large firms evolve and its effects on the characteristics of their collaboration with smaller companies. In focusing on the issue of complementarity between local and international sourcing of capabilities and resources in the mobile telecommunication industry, the study combines an empirical analysis of the structure of Finnish science parks with an examination of internationalization strategies of large Finnish companies. Among other things this paper illustrates how global firms, which are integrated with a local setting of clusters of small and medium-sized enterprises (SMEs), might become less integrated as an internationalization strategy is applied to deal with technological discontinuity. Eventually such a strategy might lead large companies to become integrated with local settings of clusters of SMEs in other countries with the relevant technological capabilities and resources.

The second paper dealing with conditions in Finland was written by *Littunen and Tohmo*. This paper examines the effects of the factors involved in the start-up situation and the first seven years' development on the subsequent high growth of new metal-based manufacturing and business service firms in Finland. The results presented in the paper indicate that it is the internal networks of firms that bring about competitive advantage, innovations and efficiency. In these entrepreneurial team-driven firms a group of people participates in the strategic management of the firm. Furthermore, the results presented in the paper show that cooperation between firms as well as changes in external personal networks contributed to a high rate of growth. Interestingly it seems as if new firms had equal chances for growth irrespective of their locality. If this result holds in a more general setting it would mean that located social capital plays a limited role for the growth of firms contradicting the claims by Westlund and Bolton in the first paper of this special issue. However, the results presented in the paper show that growth was affected by changes in a new firm's competitive situation and by changes in strategic factors. The results also clearly indicated that high-growth firms were characterized by rising labor productivity at the same time as they were generating new jobs.

The last paper of this special issue by *McCartan-Quinn and Carson* reviews issues pertaining to marketing practices in the small firm. Defining small firm is somewhat arbitrary as criteria used to classify entities as such include size, number of employees, sales volume, asset size, type of customer, capital requirements and market share. There is, however, general agreement that smallness and newness create specific difficulties for business. Furthermore, there is widespread acceptance of the notion that small firms typically possess certain characteristics, which serve to differentiate them from larger organizations. These characteristics include inherent weaknesses with respect to capitalization and marketing awareness and practice. Small firms are perceived as vulnerable yet valuable entities, important both economically and socially to the economy as a whole. High failure rates of small firms are largely attributed to weaknesses in financial management and marketing. Many classical management concepts are unsuitable for application in a small-firm context, with research suggesting that non-implementation of theoretically-based marketing practice is the rule rather than the exception in the small firm. The authors examine the general characteristics and marketing characteristics of small firms, and those of the owner/manager. The omnipresence of the owner/manager and his/her marketing ability is further explored in the discussion of success, failure and growth. The implications of the above for marketing training of small-firm owners/managers are explored within the context of the aims and objectives of the owner/manager.

The papers published in this special issue do not give a full coverage of all aspects related to "Entrepreneurship, Firm Growth and Regional Development in the New Economic Geography", which was the theme of the symposium. However, each of the papers adds substantial evidence to the growing body of theoretical and empirical literature dealing with entrepreneurship, small business and firm growth in a new economic geography perspective. Fortunately, each of the papers also highlights important issues to be dealt with in future research in the field.