

The Foundations of the Entrepreneurial Society

Les fondements de la société entrepreneuriale

Los fundamentos de la sociedad emprendedora

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Entre logiques individuelles et collectives, aux fondements de la société entrepreneuriale
Between Individual and Collective Logics, Toward the Foundations of the Entrepreneurial Society
Entre las lógicas individuales y colectivas, hacia los fundamentos de la sociedad emprendedora

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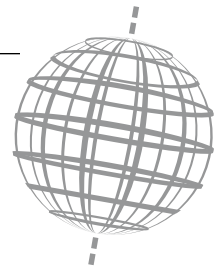
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Résumé de l'article

Si l'économie entrepreneuriale est une économie dans laquelle l'activité entrepreneuriale joue un rôle moteur dans la performance économique, la société entrepreneuriale fournit le contexte institutionnel, politique et culturel propice à l'entrepreneuriat, lequel à son tour conditionne la performance économique. Cela étant, l'article met en lumière un paradoxe inhérent à la société entrepreneuriale – l'impact de l'entrepreneuriat sur la performance économique dépend d'un plus vaste ensemble de facteurs d'influence. Un tel constat suggère que restreindre les politiques publiques au cadre institutionnel, politique et culturel favorisant l'entrepreneuriat est trop restrictif et ne les amène pas nécessairement à renforcer la performance économique. L'article conclut que pour être efficaces, les politiques publiques en faveur de l'entrepreneuriat ne peuvent se limiter à une conception simple et singulière de l'entrepreneuriat mais doivent être compatibles avec les autres forces qui conditionnent et influencent la performance économique inscrite dans l'espace géographique.



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ABSTRACT

Just as the entrepreneurial economy is one in which entrepreneurial activity serves as a driving force underlying economic performance, the entrepreneurial society provides the institutional, policy and cultural context conducive to entrepreneurship, which in turn, shapes economic performance. By providing the foundations of the entrepreneurial society, this addresses an inherent paradox – the impact of entrepreneurship on economic performance is embedded in a considerably broader range of influences. This suggests that a focus solely restricted to institutions, policies and culture promoting entrepreneurship is too narrow and may not necessarily generate the public policy goal of a stronger economic performance. This paper concludes that rather than a simple and singular focus on entrepreneurship, effective entrepreneurship policy needs to be compatible with the other main forces shaping and influencing spatial economic performance.

Keywords: Entrepreneurial society, entrepreneurship, public policy, spatial and regional economics

RÉSUMÉ

Si l'économie entrepreneuriale est une économie dans laquelle l'activité entrepreneuriale joue un rôle moteur dans la performance économique, la société entrepreneuriale fournit le contexte institutionnel, politique et culturel propice à l'entrepreneuriat, lequel à son tour conditionne la performance économique. Cela étant, l'article met en lumière un paradoxe inhérent à la société entrepreneuriale – l'impact de l'entrepreneuriat sur la performance économique dépend d'un plus vaste ensemble de facteurs d'influence. Un tel constat suggère que restreindre les politiques publiques au cadre institutionnel, politique et culturel favorisant l'entrepreneuriat est trop restrictif et ne les amène pas nécessairement à renforcer la performance économique. L'article conclut que pour être efficaces, les politiques publiques en faveur de l'entrepreneuriat ne peuvent se limiter à une conception simple et singulière de l'entrepreneuriat mais doivent être compatibles avec les autres forces qui conditionnent et influencent la performance économique inscrite dans l'espace géographique.

Mots-Clés : Société entrepreneuriale, entrepreneuriat, politique publique, économie spatiale et régionale

RESUMEN

Del mismo modo que la economía emprendedora es una economía en la que la actividad emprendedora sirve como fuerza impulsora del rendimiento económico subyacente, la sociedad emprendedora proporciona el contexto institucional, político y cultural propicio para la iniciativa emprendedora, que a su vez, configuran el rendimiento económico. Al esclarecer las fundaciones de la sociedad emprendedora, el artículo pone en relieve una paradoja inherente a la sociedad emprendedora: el impacto del emprendimiento en el rendimiento económico está imbricado en una gama considerablemente más amplia de factores de influencia. Esto sugiere que un enfoque exclusivamente restringido a las políticas públicas y al entorno institucional, político y cultural que promueven el emprendimiento es demasiado limitado y no necesariamente contribuye al objetivo de política pública de un rendimiento económico más sólido. El artículo concluye que, en lugar de un enfoque simple y singular sobre el emprendimiento, las políticas públicas de fomento de la iniciativa emprendedora, para ser eficaces, deben ser compatibles con las otras fuerzas principales que configuran e influyen en el rendimiento económico inscrito en espacio geográfico.

Palabras Clave: Sociedad emprendedora, emprendimiento, política pública, economía espacial y regional

Entrepreneurship is a concept that traditionally involves the smallest units of analysis in the social sciences, typically the individual or the new or small business. Introduction of the concept of *the entrepreneurial economy* made a link between this smallest of units of analysis to one of the largest and most aggregated – economic performance at the spatial level, ranging from cities to regions, states and even entire nations (Audretsch and Thurik, 2001). The most salient and distinct feature is that entrepreneurship emerges as a driving force for economic performance, which is typically conceptualized and measured in terms of economic growth, unemployment and standard of living.

In an effort to uncover the empirical links between entrepreneurship and economic performance at the spatial unit of

analysis, a large number of studies were undertaken, with at least one common feature – entrepreneurial activity was inevitably assumed to be exogenous. While these studies ultimately succeeded in confirming the existence of a systematic and compelling link between entrepreneurship and economic performance at the spatial unit of analysis, they begged the question of where exactly the observed level of entrepreneurship actually came from in the first place.

One response may have been reminiscent of the implied technical change in Solow's (1956) growth model, in that it "falls like manna from heaven", or is stochastically determined. A very different response was provided by shifting the focus to the entrepreneurial society, which suggests that it is the underlying institutions, culture and policies that shape the

role of entrepreneurship and ultimately its impact on economic performance.

Most of the studies prevalent in the entrepreneurship literature have focused exclusively on institutions, culture and policies that directly influence entrepreneurship activity. The purpose of this paper is to suggest the existence of a paradox inherent in the entrepreneurial society – that the impact of entrepreneurship on economic performance is embedded in a considerably broader range of force. This paradox suggests that a singular focus on institutions, policies and culture to promote entrepreneurship is too narrow and will ultimately disappoint public policy. Rather than a simple and singular focus on entrepreneurship, for entrepreneurship policy to be effective it needs to be compatible with the other main forces shaping and influencing spatial economic performance.

In the second section of this paper, the extension from the individual and firm in analyzing entrepreneurship and its impact to the spatial unit of analysis, or to place, is explained. In the third section a framework embedding the role of entrepreneurship within the key dimensions of resources and factors of production, the spatial structure and organization of economic activity, and the human dimension, or culture, is provided. This framework is used to both explain but also reconcile the paradox of the entrepreneurial society in the fourth section. Finally, in the last section a summary and conclusions are provided. In particular, this paper finds that the foundations of the entrepreneurial society are embedded in a considerably broader set of institutions, policies and culture that ultimately shape spatial economic performance.

Pivoting from Individual to Place

It is no secret that entrepreneurship was largely ignored throughout most of the previous century. As scholars began to discover and unravel entrepreneurship, the focus was predominantly on the individual (McClelland, 1961). In a society which the sociologist, William Whyte (1956), characterized as being comprised of “the organization man”, the entrepreneur posed a puzzle as a deviant refusing to conform to mainstream values. Scholars responded with a focus on the individual. In particular, research centered around what made entrepreneurs different from other people, from non-entrepreneurs. The ensuing research agenda analyzed personality traits and characteristics, along with trying to distinguish various inclinations, propensities and preferences between entrepreneurs from non-entrepreneurs (McClelland, 1961).

The controversy emerging from this research is whether or not entrepreneurs are born or made. In other words, can individuals be influenced or prepared through training, experience or education to become entrepreneurs. Studies consistently found that access to key resources, such as human capital, social capital and finance, along with possessing capabilities central to the entrepreneurial process enhanced entrepreneurial performance along with the decision to become an entrepreneur. There is a subtle but profound difference between the two sides of the debate. The former side of the debate viewed entrepreneurship as a decision that the individual was, by virtue of his or her personality makeup, unable to resist however dismal the consequences. By contrast, the latter side of the debate clearly

viewed entrepreneurship as being aspirational to at least some individuals, suggesting that the returns to entrepreneurship were actually superior to the alternatives. Individuals might invest in acquiring the requisite skills and capabilities and accessing the requisite resources in order to attain the competitive advantage accruing to entrepreneurship.

The academic jury was unable to immediately reach a verdict but did respond to the controversy by unleashing a tempest of research. The point here is not which side of the debate was ultimately shown to be correct, but rather the focus of entrepreneurship on the individual. In fact, more recent research suggests that both nature and nurture influence the decision to become an entrepreneur.

Scholars, particularly in the fields of management and strategy, expanded the focus on entrepreneurship to the organizational level, and especially to firms. Studies focusing on the individual tended to think about, or even define entrepreneurship on the basis of organizational and legal status, such as starting or owning a new business. By contrast, studies distinguishing entrepreneurial organizations from their non-entrepreneurial counterparts tended to focus on two key behavioral aspects. The first key behavioral aspect involves recognizing or creating entrepreneurial opportunities. The second key behavioral aspect involves acting upon or pursuing those opportunities.

A line of research in evolutionary economics proposed a distinction between entrepreneurial industries and non-entrepreneurial industries. According to Nelson and Winter, (1982), the technological conditions underlying industries resulted in this key dichotomy. What they characterized as the *routinized technological regime*, referred to industries in which the large incumbent firms tend to have the innovative advantage. At the other end of the spectrum is the *entrepreneurial technological regime*, where the underlying knowledge conditions bestow the innovative advantage on new and small companies (Winter, 1984). On the basis of the relative innovative performance of small and large firms, systematic empirical evidence identified industries as being characterized by the routinized technological regime as distinct from those characterized by the entrepreneurial technological regime.

The jump, or gap linking individuals and firms to a spatial unit of analysis, such as a city, region, province or even country, or place, was anything but trivial. While variations in economic performance across geographic space have long been observed, economics offered an explanation. Economics, dating back to Ricardo (1817), which was subsequently updated by Solow (1956) among others, argued that the endowment of resources and factors of production influenced the economic performance at the spatial level. While the focus on particular factors of production and resources has evolved considerably over time, ranging from natural resources to physical capital, skilled labor, human capital, talent, knowledge, and technology, the common denominator is that each one of these represents a factor of production. The economic performance of places, ranging from cities to regions, states and even countries has been consistently linked to the endowment of key factors of production, or resources in a compelling manner.

The focus on resources and factors of production as the key to economic performance at the spatial unit of analysis

seemingly precluded more microeconomic issues. It did not seem to matter what the place actually did with those factor endowments. That is, until Michael Porter (1990) came along. Challenging the conventional wisdom and prevailing doctrine in economics, Porter argued that it is not just the endowment of factors of production and resources that shape spatial economic performance but also their configuration, or their structure and organization. In particular, Porter suggested that a spatial structure and organization consisting of complementary economic activities in the form of a cluster is most conducive to an enhanced economic performance. Most importantly, Porter argued that it was not sufficient merely to have an abundant endowment of the appropriate factor of production or resource to generate a strong and sustained economic performance. Rather, economic activity needed to be organized in a structure of a cluster. Porter adapted the key concept of organization and structure from the field of industrial organization and instead applied it to the spatial context of a place. Taking the core framework and approach in the field of industrial organization that the economic performance of industries is shaped by the structure and organization of economic activity within that industry, Porter proposed that the organization and structure of economic activity, as reflected by a configuration of clusters, within the spatial unit of economic space influences the economic performance of that place.

It is easy to overlook other important dimensions of spatial organization that seem overshadowed by the predominance of Porter's cluster approach. Both scholars and policy makers have suggested that a specialization of economic activity enhances economic performance of places. Not only does specialization foster increasing returns to scale but it also reduces transactions costs.

By contrast, Jacobs argues that a spatial structure and organization of exactly the opposite, diverse economic activity rather than specialization, is more conducive to an enhanced economic performance. Jacobs essentially argues that knowledge spillovers across firms, industries and individuals are promoted by complementary differences rather than homogeneity. Glaeser *et al.* (1992) subjected these two conflicting hypotheses to empirical scrutiny based on systematic empirical evidence analyzing cities in the United States to reach the conclusion that a spatial structure and organization of diversity is more conducive to economic performance, measured in terms of growth, than is specialization.

Yet another dimension of spatial structure and organization revolves around the extent to which firms at the place are characterized by monopoly or competition. On the one hand is the argument that firms possessing monopoly power have access to economic rents which they can invest in new knowledge to drive subsequent innovation and ultimately economic growth. Just as a compelling literature has been generated linking monopoly power to the innovative activity and economic performance of firms, this argument extends the relationship to the spatial level as well.

Jacobs (1969), however, made exactly the opposite argument. Rather than arguing that regions with firms possessing market power facilitate innovative activity, she instead argued that competition is conducive to an enhanced regional economic performance. However, there is a subtle distinction between the two hypotheses, one positing the superiority of market

power in generating a stronger economic performance and the other positing the superiority of competition. The argument by Jacobs for competition focused on the input market, and in particular, the market for new ideas that would drive innovation. If a region is characterized by a high degree in the input market for workers with ideas, any given worker faces a myriad of alternatives which he or she can select in partnering with a firm to develop and commercialize the idea. By contrast, under conditions of market power, the knowledge worker may be held hostage and left unable to develop and commercialize the idea, unless he or she chooses to leave the region.

In an important empirical test of these two competing dimensions of spatial organization and structure, Glaeser *et al.* (1992) find that competition is more conducive to economic performance, measured by the growth of U.S. cities, than is market power. However, the point here is less about which side of the debate between competition and market power, in terms of promoting spatial economic performance is correct. Rather, it is that spatial characteristics, such as the extent of market power or competition, are important dimensions of spatial structure and organization.

In observing the emergence of what they termed as *the entrepreneurial economy*, Audretsch and Thurik (2001) made the jump from the microeconomic analyses of the individual and the firm to the spatial level. They accomplished this by referring to the empirical link that had been established in growing volume of empirical studies between various measures of entrepreneurship and economic performance at the societal level, ranging from cities to provinces, regions and entire countries (Audretsch and Thurik, 2001; Thurik and Kollinger, 2012; Thurik *et al.*, 2013). Places in the developed country context that were more entrepreneurial, in that they exhibited higher levels of entrepreneurship as measured by self-employment rates, business ownership rates, and new-firm startup rates, systematically generated superior levels of economic performance.

The theory underlying the observed econometric relationship between entrepreneurship and economic performance is the knowledge spillover theory of entrepreneurship (Audretsch, 1995; Qian and Jung, 2016; and Ghio *et al.* 2015). According to this view, economic growth responds to entrepreneurship because it serves as a conduit facilitating the spillover of knowledge from the organization where it is created to a new, entrepreneurial firm, where it is commercialized into innovative activity. Thus, a spatial organization and structure with a higher composition of entrepreneurial firms is more conducive to knowledge spillovers, which in turn drives innovative activity and ultimately economic performance. By contrast, a paucity of entrepreneurship will limit the extent of knowledge spillovers, leading to a more tepid innovative activity and economic performance.

Culture

Saxenien (1994) raised the question of why two regions with similar endowments of the same key factor, knowledge or human capital, exhibited persistent differences in terms of economic performance. In *Regional Advantage*, Saxenien attributed the persistent competitive advantage resulting in a superior economic advantage in Silicon Valley vis-à-vis the Route 128 region

surrounding Boston not to differences in either resources and factors endowments, or spatial organization and structure, but rather to culture. In particular, she argued that Silicon Valley consists of a culture of rich interactions among the relevant workforce, promoting networks, linkages and the vibrant exchange of ideas. By contrast, she portrayed the Route 128 region as characterized by a different culture where autonomy and isolation, rather than interactions, are more typical. According to Saxenian (1994), the persistent superiority in economic performance of the one region over its east coast counterpart is attributable to the disparity in underlying cultures.

Networks and other connections among key individuals within a region are not the only dimension of what Acemoglu and Robinson (2012) refer to as culture but Audretsch (2015) as the human element influencing the economic performance of a place. Link (1995) attributed the formation of the Research Triangle Park region of North Carolina to *A Generosity of Spirit*, in the form of leadership in the region. Other key aspects of the human dimension include image, or how companies, organizations, governments and individuals outside of a region view that place, and image, which is how those living and working at a place think of it (Audretsch, 2015). As Florida (2002) argues, a positive image and identity is conducive to attracting and preserving a highly talented workforce and companies. By contrast, a negative image and identity does the opposite by repelling highly talented workers and successful companies.

Recent studies have attempted to make explicit links between regional culture and economic performance. In particular, Obschonka *et al.* (2016) and Stuetzer *et al.* (2016) have attempted to measure culture at the spatial level and link it to economic performance. These studies measure the most widely used contemporary model of personality (John *et al.*, 2008), commonly referred to as The Big Five Personality Traits, for regions. Because of the unequivocal empirical evidence that has been compiled identifying the individuals scoring high in extraversion (E), conscientiousness (C), openness (O), low in agreeableness (A) and low in neuroticism (N) have a greater propensity to choose entrepreneurship and to generate a stronger entrepreneurial performance (Zhao and Seibert, 2006), they propose aggregating the measures at the individual level to the spatial level.

Using a large data set to measure the personality of individuals and then aggregating the measures to the spatial level of cities in the United States and United Kingdom, Obschonka *et al.* (2016) provide compelling empirical evidence that regional knowledge resources are positively related to measures of entrepreneurship in those regions exhibiting a profile of an entrepreneurial personality. Similarly, the impact of a spatial structure and organization which is diverse in terms of economic activity is found to have a positive impact on entrepreneurship only in those regions which are characterized by an entrepreneurial personality.

In a different study, Stuetzer *et al.* (2015) link the personality profile of regions in Great Britain to their industrial structure during the Industrial Revolution. The empirical results suggest a remarkable hysteresis with respect to culture. Entrepreneurship culture remains low in those regions characterized by a large share of employment accounted for in industries characterized by scale economies. By contrast, in those regions which did not

enjoy the presence of capital-intensive industries a century earlier, the personality profile is considerably more entrepreneurial. Thus, the cultural or human dimension of a place may be considerably more resilient and stable than the dimensions involving resources and factor endowments, and spatial and the organizational structure of economic activity.

Can Policy Make A Difference?

Research on the efficacy of entrepreneurship policy has generated a literature that is mixed and ambivalent at best. On the one hand is the compelling evidence from a large body of studies concluding that policies to promote entrepreneurship actually have a negative impact on economic performance (Shane, 2002). For example, Lerner (2012) concludes that public policies to promote entrepreneurship constitute a *Boulevard of Broken Dreams*. Similarly, Bresnahan and Gambardella (2004), in their highly cited study, *Building High-Tech Clusters: Silicon Valley and Beyond*, provide a series of studies spanning a broad spectrum of national contexts and conclude that there is no basis that public policy can have a positive impact on entrepreneurial activity. The founder of Intel, Gordon Moore and Davis (2004, p. 7), provides a sharp critique of public policies to promote entrepreneurship, “The potential disaster lies in the fact that these static, descriptive efforts culminate in policy recommendations and analytical tomes that resemble recipes or magic potions, such as: Combine liberal amounts of technology, entrepreneurs, capital, and sunshine. Add one (1) University. Stir vigorously.”

In considering the hypothesis that public policy to promote entrepreneurship enhances economic performance, Bresnahan and Gambardella (2004, p. 9) conclude, “We ultimately reject that proposition.”

On the other hand is a plethora of studies reaching exactly the opposite conclusion – that policies to generate entrepreneurship have had a significant positive impact on economic performance. In their highly influential book, *Start-up Nation: The Story of Israel's Economic Miracle*, Senor and Singer (2009) identify specific policies promoting entrepreneurship that generated not just an enhanced economic performance, but what they characterize as “Israel's economic miracle.” Link and Scott (2003) connect the strong economic performance of the research triangle region in North Carolina to successful policies simulating entrepreneurship. Similarly, Breznitz (2007) and Breznitz and Murphee (2011) provide compelling documentation of how targeted entrepreneurship policies in a broad range of countries, ranging from Israel, Taiwan, and China have contributed to a stronger economic performance.

The reconciliation of the ambivalent and sometimes contradictory results emerging from studies linking entrepreneurship to economic performance at the spatial level of analysis can be found in the framework presented by Audretsch (2015) and discussed in the previous section. Most fundamentally, while entrepreneurship can influence the economic performance of a place, albeit a city, region, state or country, it is only one element of one of the key dimensions shaping economic performance. While entrepreneurship is an important component constituting the main dimension of spatial organization and

structure, the other main dimensions of resources and factors of production and the human dimension, including all of the specific components constituting these two main dimensions also influence the economic performance of a place. Thus, the efficacy of policies to promote entrepreneurship is embedded in the other key dimensions shaping economic performance. As Obschonka *et al.* (2016) and Stuetzer *et al.* (2015) find, the impact of specific public policy instruments is considerably different in distinct underlying cultural contexts. Policies that work in not just spurring entrepreneurship but subsequently enhancing economic performance in one spatial context may not have the same impact, no impact or an adverse impact, in very different spatial contexts.

Thus, the answer to the question, “Can policy make a difference?” is unequivocally, “It depends”. What the efficacy of entrepreneurship policies depends upon could be characterized as the spatial context, which reflects all three dimensions and the myriad of components shaping each dimension. This means that the same entrepreneurship policies having a positive impact on economic performance in one spatial context might have no impact or even an adverse impact in a different spatial context.

Conclusions

What was characterized as the entrepreneurial economy by Audretsch and Thurik (2001) had entrepreneurship as a key force driving economic performance. While their focus was on the links between entrepreneurship and economic performance, they were less concerned about where entrepreneurship comes from in the first place. Entrepreneurship neither emerges in a vacuum, nor does it fall like manna from heaven. Rather, it reflects social institutions, culture and policy that champion and prioritize entrepreneurship. What is characterized as the entrepreneurial society refers to a context in which institutions, culture and policies prioritize, or at least are conducive to entrepreneurship.

An incipient but rapidly emerging literature on entrepreneurial ecosystems is devoted to identifying those institutions in a spatial community that are most conducive to entrepreneurship. However, this paper suggests that an important feature of the entrepreneurial society that is typically overlooked is that, while entrepreneurship has an important role to play, it is by far from being the only force influencing economic performance. Entrepreneurship is embedded in a complex and myriad set of forces involving factors of production and resources, the spatial organization and structure of economic activity, and the human dimension that ultimately shape the economic performance of a particular place. For entrepreneurship policy to be effective, entrepreneurial activity has to be congruent with these other key forces influencing the spatial economic performance. Thus, the paradox of the entrepreneurial society is that the underlying foundations involve institutions, culture and policy that do not directly, or even indirectly in some cases, influence entrepreneurship.

A tension, or misunderstanding generally exists between scholars of entrepreneurship and thought leaders in public policy. Entrepreneurship scholars generally have an interest in entrepreneurship for its own sake. In their research, scholarship and thinking, the main focus tends to be on entrepreneurship,

as a quick reading of the main scholarly journals will quickly testify. To the scholar, entrepreneurship is the focal point and priority.

By contrast, in public policy economic performance is the main concern and priority. Entrepreneurship becomes interesting and important only to the extent that it is a vehicle that can deliver the ultimate goal – economic performance. While public policy considers entrepreneurship policy to be one among many strategies available to spur spatial economic performance, entrepreneurship scholars have an almost exclusive focus on entrepreneurship as the *bona fide* policy that can enhance economic performance.

The recent emergence of studies on entrepreneurial ecosystems is instructive. The goal or focus of this literature is to identify which institutions, policies and culture are most conducive to entrepreneurship. While this is of great interest to the academic field of entrepreneurship, it is ultimately peripheral to public policy, which instead has a priority on which institutions, policies and culture are most conducive to economic performance. Whether or not entrepreneurship policies and entrepreneurship ultimately influence spatial economic performance in a significant and positive manner may depend more on the other dimensions and components comprising those dimensions than entrepreneurship itself.

This paper has made the case that any singular strategy to enhance spatial economic performance, albeit “smoke stack chasing” (of physical capital), clusters, the creative class, but also entrepreneurship will inevitably disappoint the public policy community because of an inherently restricted focus and approach. Rather, the foundations of the entrepreneurial society clearly and unequivocally rest on a broad set of institutions, policies and culture, where entrepreneurship plays a key and pivotal but not an exclusive role. In the entrepreneurial society, entrepreneurship is surprisingly embedded among a set of forces and dimensions upon which the effectiveness of entrepreneurship ultimately rests.

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