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Innovative Milieux and Entrepreneurship (Volume Entrepreneurship)

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Synonyms

Productive local system; Regional cluster; Regional innovation system

Introduction

Spatial economic theory was structured to the 1980s around two alternative thesis: the first one was called the thesis of convergence and the second approach was the thesis of divergence. For the convergence approach, income of production factor should tend to equalize all over the world. On the contrary, for the divergence approach, central and richest regions will keep on winning from their past advantages. But Aydalot (1986) brought to the fore a third way he called “reversal.” In such a situation, the old industrialized regions face a persistent decline, whereas new regions, without tradition of industrialization but service-oriented, appear and become richer. The same phenomenon was observed in many European countries and in the

United States. This phenomenon challenged scholars because these regions developed on an endogenous basis. As far as development is concerned, advantages are never permanent. Winning regions can lose their competitive advantages if they do not keep them up, whereas losing regions can overcome their drawbacks to create new advantages.

To revitalize themselves, regions have to develop an important endogenous factor: entrepreneurship. Scholars are still debating on the concept of entrepreneurship. Today, two main approaches exist (Bruyat and Julien 2000). The first approach takes up the work of Turgot and Say and considers that any actor which creates a new activity is an entrepreneur. The second approach, following Schumpeter's work, considers that entrepreneurs are only the innovators. The entrepreneur is the individual who originates the dynamic of evolution in the economy. He detects new opportunities to make profit and creates a new organization to generate the innovation. In this sense, the entrepreneur has a non permanent status. As soon as he stops innovating, he is not still defined as an entrepreneur.

Entrepreneurship can be defined as the creation of a new organization in the economy. This new organization can be created *ex nihilo*; the owner-manager was not an "entrepreneur" before the creation. The new organization can also be a spin out of a large incumbent company (it is called corporate entrepreneurship) or from a university or a public research organism (academic entrepreneurship).

Innovative Milieux Produce Entrepreneurship

Maillat and Perrin (1992) define a "milieu" as "a geographic space without a strictly defined frontier which is characterized by a kind of unity that one can identify by behaviours. Different kind of actors such as firms, institutions, and public organism of research and formation. . . are located into the milieu, they own material and immaterial ressources that characterizes the milieu." To sum up, for these authors, milieu has three components:

(1) a productive system including various and diversified activities, productive activities, and activities of service (as funding, transport, and consulting); (2) a local workforce market with a work time, which corresponds to the productive specialization of the milieu and a system of training and research that also contributes to the productive specialization; and (3) a dynamic of interaction and learning. Actors located into the milieu interact locally and create between them this structure of organization that allows the functioning of the milieu and the development of innovation. Learning facilitates the adaptation of the milieu to the change of the economic environment. It allows the evolution of the milieu and allows to replace specific resources that are the basis of the competitive advantage of a milieu because these resources differentiate this milieu from the others.

Most of work on entrepreneurship and on the ability to concretize the project of creation insists on the importance for the future owner-manager of two kinds of factors: from the microeconomic point of view personal characteristics of the owner manager and from the macroeconomic point of view the characteristics of the environment (Fisher and Nijkamp 2009).

Schumpeter is the first author that defines the owner-manager as the economic actor who has a peculiar ability to detect new opportunities. This ability is an important component of the entrepreneur's personal characteristics and competences. This competence is differentiated between individuals. Following Audretsch and Aldridge (2009), this ability is linked in an endogenous way to the production of knowledge during the innovation process. When an incumbent firm produces knowledge during its innovative activities, it faces what these authors call the "knowledge filter," i.e., to the gap between produced knowledge and knowledge useful to develop a marketable innovation. The valuation of produced knowledge and its ability to be converted into marketable innovation becomes a competence of actors. The commercial value of knowledge is a source of incertitude for actors. The entrepreneur becomes the actor that detects that some piece of knowledge could acquire a bigger commercial value and tries to exploit

that perception, leaving the incumbent firm to set up a new organization. Doing so, the future entrepreneur becomes the actor that will be the transmitter of knowledge spillovers. The entrepreneur will assure the diffusion of knowledge and its concrete use into the new organization. To sum up, the process of innovation activities impulses the apparition of non-exploited opportunities and at the same moment allows the apparition of entrepreneurs. So, the process of knowledge creation generates entrepreneurs endogenously because of the existence of spillover phenomenon.

Initially, most of the works took into account a large environment; it is only recently that scholars took into account spatial environment set up the works on innovative milieux and regional systems of innovation.

To accomplish the setup of the new organization an entrepreneur should be able to mobilize a set of diversified resources. He can mobilize his own resources but also the resources that are located into the milieu. Therefore, the entrepreneur is embedded into the “organic square” of the economy (Uzunidis 2010). The composition of the potential of resources depends of the entrepreneur’s own resources, of the economic organization of the milieu, of the relative place of large firms compared to *sme*’s, and of the public policy.

The entrepreneur’s resource includes his personal knowledge and diversified kind of capital, including social capital that allows him to access to the social network that he will use at the different stages of the funding process. The economic organization of the milieu is linked to the degree of concentration of the market, to the state of the scientific and technical potential that will get an influence on the technical development of firms, to the nature of the funding system and especially to its facility to grant credits to the firms, and lastly, to the kind of regulation that exists into the milieu (public regulation vs regulation by private operators). The relative importance of large firms plays a part too because it makes the setup of *sme*’s easier or not. Besides, the existence of networks between small and large firms will also make the creation easier.

Lastly, public policy can support the creation of new firms with public measure.

Innovative milieux favor entrepreneurship combining three kinds of proximities: geographic proximity (the distances between the actors located into the milieux are small), organized proximity (networks between actors located into the milieu make the milieux function), and cognitive proximity (actors share professional, organizational, and even cultural knowledge. Their interaction leads to the set up of norms of regulation shared among them.). These three kinds of proximities contribute to aliment the potential stock of resources that are available for the actors of the milieu. Besides, networks between local actors contribute to the “domestication of the market,” favor the entrepreneurship reducing the risks linked to the creation, and protect new organization during the first stage of the start-up.

So, when the three kinds of proximities are present simultaneously, the dynamic of interaction inside the milieux induces entrepreneurship endogenously and leads to the development of the milieux.

Perrin (1992) studies three different milieux and demonstrates that they have a different capacity to create innovation and entrepreneurship. In the Nice area, the milieu has remained few industrialized for a long time. Firms have only adapted products that were not new to the market using new process neither. In this area, the milieu fails to become an innovative milieu. On the contrary, in the Marseille area, firms belong to medium- and high-tech sector. Firms located outside the region create spin-off located into the city. Public policy played an important part in developing the creation of varied areas of activity and by modifying the productive specialization of the enterprises moving from an industrial specialization to a service orientation. Doing so, public policy managed to attract any large firms interested by the amenities of living into the area. The third case concerns the scientific park of Sophia Antipolis. In fact, this area managed to become a milieu only on the third part of its development, after a long period without any internal interactions between local actors. Lastly, large groups perceived the interest of local interactions and

modified the functioning of their plants to impulse local interaction and innovation. In the third case, large groups are the major set up of entrepreneurship creating spin-offs.

However the part played by large firms is ambivalent as far as entrepreneurship is concerned. In fact, large firms can favor new organizations, creating spin out, as they can destructure the industrial tissue of a milieu. Large firms can favor spin outs, but the local milieu will function well only if these large firms will allow local interaction between the new spin out and other organizations of the milieu. Besides, the innovative milieu will survive only as long as the large firms are interested by local interactions and are convinced of the efficiency of local geographic spillovers. On the contrary, large firms that prevent their local plant from interacting locally will contribute to limit the development of the milieu. Large firms that are located outside of the milieu can also contribute to the malfunctioning by buying the local firms and by using them in a global and nonlocal strategy.

Influence of Entrepreneurship on Innovative Milieux: The Missing Relation

Effects of Entrepreneurship on Regional Growth and Regional Employment

Scholars have identified the relationship between entrepreneurship and regional growth and employment for a long time. But empirical studies have not validated this relationship for a long time. Fritsch (2008) surveyed a set of studies that corroborate the relationship. The entry of new firms on a market affects the competition's process. The first consequence of this entry is to challenge the market position of the competitors and conduce them to more efficiency. Then, the creative destruction process takes place and revitalizes industrial tissue. Public policies generally consider that entrepreneurship has a positive impact on regional growth and employment. Empirical studies that take into account the spatial level of the influence of entrepreneurship are very scarce and generally conducted at the regional level. However, any studies bring to the

fore a striking result: setup of start-up would lead to a decline in total regional employment in rural areas and in areas where the birth rate of start-up is weak. On the contrary, the growth of regional employment would be higher in urban areas and areas where the birth rate of start-up is higher.

Networks of the Entrepreneurs During the Setup of the Start-up and During the First Years of the Ongoing Business

Empirical studies about the spatial location of the entrepreneurship's networks during the phase of the setup of the start-up are very scarce. In the pre-start-up phase, entrepreneurs mobilize their social networks. This social network includes member of entrepreneur's family, friends, and neighborhood relationships (Schutjens and Stam 2003). In the setup phase, the entrepreneur's network evolves to include organizations that focus more directly on the direct needs of the start-up as incubators, funders, and various kinds of professional advisors. The creation device support is generally local. Lastly, once the new organization has set up, its network includes customers and suppliers. Besides, the new entrepreneur should set up quickly if he wants the new start-up manage to stay on the market. But many start-ups have no networks at all after many years as Quevit and Bodson (1992) illustrate for the city of Liège. From a spatial viewpoint, the network's start-up does not evolve from local space to international. In fact, start-ups choose the spatial extent of their network directly linking it to their strategy. So, any start ups will choose a local network, whereas others choose directly a national or international network. In fact 39% of the start-up began with an extraregional network and not a local one (Schutjens and Stam 2003). Besides, this network has remained extraregional for a long time.

So, firms have some difficulties to create their milieu because networks are not necessarily established locally. That point limits the interaction dynamic. So, a start-up, even if it locates into a well-developed milieu, does not necessarily take part in the dynamic of local interactions. Doing so, it does not contribute to reinforce the milieu.

Besides, the local dimension of the network will also depend on the firm's sector. Therefore, service firms use more local networks than industrial firms. Besides, the size of the firm will influence the need of a local network. Small firms have a more local network than large firms.

Implications

One of the limits of the innovative milieu approach is the question of their border. Scholars of the GREMI's group have deliberately not defined the border, because they consider that the border must be defined in reference to the interaction systems and the existence of a local culture shared among the actors. But this open definition leads to consider various kinds of spaces as "milieux," e.g., cities, set of cities, or area defined in reference to geographic attributes. This lack of indicator often leads to some practical difficulties to identify a milieu, and the comparison between many case studies of milieu becomes difficult.

Quévit and Bodson (1992) demonstrate that external relationships are as frequent as interactions internal to the local milieu. In such situation, can someone consider that the object identified can be defined as an innovative milieu? In fact, these two authors hesitate to qualify their case as a milieu and prefer to speak of "a nascent dynamic."

The second limit of the approach is due to the fact that a well-functioning milieu is characterized by two dynamics: a dynamic of local interaction and a dynamic of learning. The learning dynamic favors the revitalization of the milieu. If the interaction dynamic has been well documented on various kinds of milieux, it is not the case for the learning dynamic. This dynamic is difficult to observe. Besides, the interaction dynamic should be local to allow the growth of the milieu. But at the same time, the milieu should open to the outside economic space if the milieu wants to remain efficient. So, actors of the milieu should establish both local interaction and external interaction to get some new ideas and sources of innovation and let the milieu

renew over time. The way to link the two kinds of interaction is not often studied, whereas it is fundamental to understand how entrepreneurship appears in a milieu.

As far as public policy is concerned, two main points can be underlined. Firstly, Audretsch and Aldridge (2009) bring to the fore the endogenous development of entrepreneurship in the milieu because of knowledge spillovers. From this point of view, any public policy that encourages innovation and knowledge production will sustain entrepreneurship at the same time. Then the debate is to choose to encourage innovation of the public sector or of private organizations. As the social return of research is larger than the private one, public policies should encourage more innovation from the public sector to promote entrepreneurship.

However the experience of many countries, as far as entrepreneurship is concerned, does not corroborate this prediction. And it appears that many other factors can prevent the creation of start-ups. So, public policy has a very important part to play to protect nascent organizations and domesticate the market. Public policy should contribute to reduce the risks that new entrepreneurs take when they create their firm. Public policy still has many instruments to sustain entrepreneurship, but they are not all efficient. For example, incubators get a mitigated outcome. Besides, the financial system plays an important part too, in making the creation and the funding during the first years of the ongoing business easier or not. Public policy could intervene to sustain the funding or encourage financial system to give credit to small firms.

Secondly, public policy promotes entrepreneurship. But if its negative impacts have been brought to the fore by theory, with the well-known effect of Schumpeters' creative destruction, its concrete manifestations are not really taken into account by policies. In fact, today, there are no means of preventing the close down of firms in industries with important modification of competition regimes due to the innovators.

Lastly, the milieu approach can lead to competition between territories. The milieu approach focuses on the endogenous ability of a territory to

create factors of development. If the milieu is not able to create these factors by itself, it can try to draw them from the outside, especially firms located in other regions by a policy of grants, for example. But doing so, one milieu can grow more rapidly than another one and become a winner region, but it is at the expense of the other territory. The milieu generates a dynamic of competition between another milieu and from the macroeconomic point of view, the total effect for a country can be negative.

Conclusion and Further Direction

One of the most promising further ways of research is to conduct more work on the missing relationship: one of the influences of the entrepreneurship on innovative milieu. GREMI's group demonstrated that the set up of new entrepreneurs could have negative effects on the future evolution of the milieu. An important change in the kind of activity in which the milieu is specialized, for example, often leads to a phase of decline before a potential recover. But the recover does not appear in all the cases studied. The part played by entrepreneurs into the milieu and their impact on the evolution of the dynamic of interaction is not yet theorized.

The milieu approach remains the most interesting approach to understand endogenous development in connection with entrepreneurship. However this will be true except the different milieu search to draw competitive advantage by drawing factors and especially firms from the outside, increasing competition between territories. In fact, milieu needs the openness to the outside to grow over time, so they should develop more cooperation with other milieux to be connected to various spaces to be able to benefit from the variety of these links.

Cross-References

- Entrepreneurship
- Entrepreneurship and Business Growth
- Innovative Milieu

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Innovative Thinking

- Creativity and Innovation: What Is the Difference?

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