ENTREPRENEURIAL TRANSIENCE: CRAFTING EFFECTIVE STRATEGIES UNDER LOCAL CONSTRAINTS (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

ENTREPRENEURIAL TRANSIENCE:
CRAFTING EFFECTIVE STRATEGIES UNDER LOCAL CONSTRAINTS

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Principal Topic

Local economies benefit from entrepreneurial activity in many ways from new job creation to economic growth to innovation as well as poverty alleviation. Accordingly, attraction, support and retention of entrepreneurial talent are arguably of strategic concern for the region’s well-being. Rates of new venture formation and failure are important determinants of the entrepreneurial landscape. Yet, entrepreneurial ventures migration (transience) – both inflow and outflow of new firms in the region – may substantially affect the amount and quality of entrepreneurial capital and the likelihood that the region will capture the full economic benefits of local entrepreneurial activity.

In this sense, business transience should be of serious concern for regional policy makers, perhaps more so than business failure per se. Unlike failed entrepreneurs that might start yet another business locally, transient entrepreneurs take local resources with them when migrating to other regions. In that, transient entrepreneurship generates problems similar to “brain drain.” Also, since transience may involve successful ventures, the region is deprived of the employment and income stream generated by these locally grown businesses. Attracting businesses from other locations, in contrast, may substantially improve economic situation in the region.

Method

Using rich multi-source secondary data on business formation and transience in selected Ohio counties in the period from 2002 to 2003 and controlling for a number of variables outside of the local authorities’ influence we test whether (1) county taxation levels, (2) administrative regulation of business environment, and (3) other factors increase the likelihood of attracting businesses from outside of the locale as well as venture creation within the confines of the county. In testing our hypotheses, we use panel data techniques which allow us to control for unobservable county-level effects.

Results and Implications

Our results indicate that while there is substantial overlap between the factors explaining new venture creation and entrepreneurial transience the effects exerted by those factors on firm formation and transience differ significantly. Businesses are more likely to be created in counties with above-average median income, higher population density and less crowded competitive landscape. Transient ventures also favor high-income counties but, in contrast, are drawn to areas with higher concentration of active firms and lower population density.

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