ENTREPRENEURSHIP, URBANIZATION ECONOMIES AND PRODUCTIVITY OF REGIONS: A MULTILEVEL APPROACH APPLIED TO EUROPEAN REGIONS (SUMMARY)

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SUMMARY

ENTREPRENEURSHIP, URBANIZATION ECONOMIES AND PRODUCTIVITY OF REGIONS; A MULTILEVEL APPROACH APPLIED TO EUROPEAN REGIONS

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Principal Topic

Regional economic growth literature has established that differences in regional productivity can to large extent be explained by the density of economic activity. This effect of ‘urbanization economies’ has been documented for regions in the United States (Ciccone and Hall 1996) and Europe (Ciccone 2002). Many studies have since contributed to ‘opening’ the black box of urbanization economies (Duranton and Puga 2004; Rosenthal and Strange 2004). Consistent with recent literature (Acs et al. 2004) we argue that entrepreneurship constitutes a relevant additional explanatory factor for observed regional variation in labor productivity. Moreover we argue that specific types of entrepreneurship can be related to urbanization effects. The need for identifying specific types of entrepreneurship requires the inclusion of the individual as the unit of analysis.

Method

We use a large database abstracted from the Global Entrepreneurship Monitor (GEM) consisting of over 350,000 inhabitants spread over 137 identified regions in 17 EU countries. First, we add regional-level rates of different types of early-stage entrepreneurship as explanatory variables to the model put forward by Ciccone (2002) designed to explain regional levels of productivity while measuring the effect of urbanization economies.

By using advanced multilevel regression techniques and controlling for individual-level determinants of involvement in entrepreneurship we also test for the importance of entrepreneurship as an additional factor explaining economic development. An alternative interpretation views the entrepreneurial process as a trigger for other inputs, such as employment and human capital.

Results and Implications

Our results indicate that regional levels of both low growth oriented early-stage entrepreneurship and high growth oriented early-stage entrepreneurial activity are indicators of higher levels of regional labor productivity. The impact of low growth oriented entrepreneurship complements urbanization economies, while high growth oriented entrepreneurship can be directly linked to urbanization economies. However, the estimated effect vanishes if we model entrepreneurial activity at the individual level and account for basic individual-level determinants of entrepreneurship in the multilevel analysis. Overall our results provide support for the importance of entrepreneurship as a – particularly urban – mechanism, since estimated effects of other indicators of productivity become more pronounced once we account for determinants and consequences growth-oriented entrepreneurship.

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