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Entrepreneurial governance for local growth

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ABSTRACT

With a starting point in the general literature on entrepreneurship and the growing body of literature on entrepreneurship among public sector actors and institutions, we offer a conceptualization of entrepreneurship and metrics that can capture municipal propensity to launch local development initiatives. Results of an initial survey of Swedish municipalities indicate that there may be important differences in the way larger and smaller communities of various types introduce new initiatives and leverage local resources. We conclude that not only do local governments contribute to the creation of communities that support entrepreneurial firms, they can also be said to act in entrepreneurial ways. In particular they create new institutions or participate in the creation of new institutional fields as a response to the risk and uncertainty associated with new development ventures and also due to local resource constraints.

Keywords: entrepreneurial governance, institutional entrepreneurship development policy, municipal cooperation, institutions, local economic development

Introduction

In Sweden, as elsewhere, local governments address not only local service provision but also development, though local development is largely a function of economic forces at the regional, national and global levels. Few local governments have the resources to make the kinds of capital investments often required to significantly improve development potential. Therefore, local development initiatives often require investment and policies coordinated with other local governments, regional authorities and national agencies as well as private firms. The planning literature therefore emphasizes the importance of local institutional capacity for innovation and collaboration with a range of public and private partners. (Cars et al 2002, Rader Olsson 2009.)

Some have described the phenomenon of local government efforts to actively foster expansion and economic development as entrepreneurial behavior (Wilks-Heeg et al. 2003.)¹ However, the insights from the literature on entrepreneurship have not been brought to bear in the planning and governance literature. This paper therefore explores the concept of entrepreneurship as applied to the efforts of local governments to promote development in new ways and in new forms. Can tools and metrics developed within entrepreneurship research be useful in understanding how municipalities approach local development challenges? To address these questions, we used a questionnaire including both standard questions and ample opportunity for spontaneous responses to try to find examples of municipalities that seem to take an entrepreneurial approach to local development.

¹This reference refers primarily to urban municipalities and “urban entrepreneurialism.” We share with Wilks-Heeg *et al.* (2003) an interest in the way in which local public authorities now engage actively in development oriented initiatives, though our survey sample includes a large number of rural municipalities.

The remainder of this introductory section introduces existing conceptualizations of entrepreneurship from several dimensions and as an individual or collective phenomenon. The sections that follow review the results of our survey. Concluding sections discuss the implications of our findings for the study of entrepreneurship.

Entrepreneurship: a multidimensional phenomenon

The mainstream of empirical entrepreneurship research has confined itself to relatively simple and robust definitions of the concept: the starting-up of new businesses or being self-employed. Many general definitions of entrepreneurship are centered on the discovery (or creation) of business opportunities and the gathering of resources to exploit them.

Nevertheless, a growing body literature is investigating the phenomenon of entrepreneurship outside the business sphere. There is now a relatively developed field of research on *social entrepreneurship* (see e.g. Boschee 1995, Leadbetter 1997, Peredo & McLean 2006), *civil/civic entrepreneurship* (Henton et al. 1997, Gawell 2006, Banuri et al. 2002), *academic entrepreneurship* (Klofsten & Jones-Evans 2000, Powers & McDougall 2005, Wright et al. 2007), *innovative entrepreneurship* (in contrast to replicative entrepreneurship; see Baumol 2010, Piergiovanni & Santarelli 2006, Wennekers & Thurik 1999) and *political entrepreneurship* within or connected to the public sector (Buchanan & Badham 1999, Harris & Kinney 2004, Chatterjee & Lakshmanan 2009). From a traditional view of entrepreneurship, this 'multidimensional' use of the concept can be questioned. It can be argued that the use of the entrepreneurship concept should be restricted to the business field and that the other, abovementioned phenomena should have other denominations and not mooch on the popularity of the entrepreneurship concept. On the other hand, it can be claimed that the increasing use of the concept also outside the business world reflects a

recognition that entrepreneurial behavior does exist in other spheres of society, and that this behavior can be analyzed within the same theoretical framework as traditional entrepreneurship.² This paper takes this latter perspective as its starting point.

Perspectives on entrepreneurship

As the notion of entrepreneurship as a multidimensional phenomenon has become more accepted, some have sought to provide unifying definitions of entrepreneurship. Among these, one of the most often cited is the definition of entrepreneurship as involving several distinct but interrelated processes of discovery/creation, resource mobilization and exploitation of new opportunities (Shane 2003). Hindle (2008) builds on earlier research from Blackman and Hindle (2008), Klyver (2005) and Davidsson (2004) that describe entrepreneurship as either related to the creation of new organizations (an emergence perspective) and new relationships that can include new links between existing organizations (an opportunity perspective) (Blackmen and Hindle, Klyver, Davidsson in Hindle, 2008). These admittedly broad definitions would seem to leave room for the definition of local government development efforts as entrepreneurial if they involve the creation of new institutions of governance, new links between existing institutions or actors or new ways of exploiting opportunities.

² This discussion strongly resembles the discussion of whether social capital should be denominated capital or not. As shown in Westlund (2006), using the term capital for social capital does not have any support in traditional capital theory and it is thus a matter of taste whether the concept should be used or not. In fact, it can be argued that the multidimensional use of the entrepreneurship concept has a stronger theoretical support than the denomination 'capital' for social capital.

Can entrepreneurial behavior be a collective phenomenon?

There is an emerging consensus in the literature that entrepreneurs can be found within firms, civil society organizations and in both the public and private sectors. But can entrepreneurial behavior describe a collective phenomenon or is it reserved for a description of individual behavior? The entrepreneurship literature has hitherto reflected an overwhelming emphasis on the individual entrepreneur. However more recent contributions reflect a growing sense that the individual entrepreneur requires a network of supporters, and moreover, the idea that entrepreneurship involves mobilizing a support community. As noted earlier, this may be the result of an ongoing dialogue between scholars of entrepreneurship, social capital, and institutional change. Followers of this approach refer to the work of Shane and Venkataraman and others who underscore that entrepreneurship requires both entrepreneurial individuals and an environment offering lucrative opportunities. (Shane and Venkataraman 2000, Shane 2003; for a review see also Hindle 2012) We find a particular reliance on this approach in studies of policy and political entrepreneurship. Pozen (2008) for example notes that policy-related entrepreneurship by definition involves the process of mobilizing support from a variety of different stakeholders and decisionmakers. Therefore, qualities such as networking and brokering are critical to the success of the policy entrepreneur. In other words, policy entrepreneurs—and indeed all entrepreneurs—must navigate existing structures of stakeholders, rules and resources. Westlund and Bolton (2003) introduce the concept of “entrepreneurial social capital” based on Johannisson’s (2000) contention that entrepreneurship is a collective phenomenon and earlier references to “community entrepreneurs” (Johannisson and Nilsson 1989). Johannisson and Nilsson refer to individuals that act as change agents and facilitators for a range of other entrepreneurial activities including within existing organizations, public,

private and intermediate. But as we learn more about the role of social capital we can ask whether or not it is possible to disassociate the actions of the individual from that of the collective. In other words can groups be entrepreneurs or better yet, engage in entrepreneurial behavior?

We suggest that if local governments' work discover new development opportunities, mobilize resources to achieve them and exploit them actively, then we can describe such activities as "entrepreneurial." This does not negate the complex and important phenomena describing how individual change agents build support for and diffuse new ideas to a broader audience. Rather, we are simply interested in another piece of the puzzle; less the who and how of entrepreneurial behavior within local governments and more the *what*; what is actually attempted and why.

Entrepreneurship and institutions

The evolving literature on policy-related entrepreneurship has a strong institutional flavor. Kalentaridis and Fletcher (2012) describe institutional entrepreneurship as involving the process by which individual agents diffuse ideas and practices across a wider network. In describing the critical and necessary community context for entrepreneurship, Björkman and Sundgren (2005) describe political entrepreneurship in contrast to economic entrepreneurship: economic entrepreneurship is exploiting market opportunities and political entrepreneurship is exploiting opportunities within an organization. This organization-internal view on entrepreneurship links it to the literature on intrapreneurship (Pinchot & Pinchot 1978, Pinchot 1985, Stough & Haynes 2009). Related definitions of political entrepreneurship focus even more explicitly on political entrepreneurship as creating new organizations or new institutions (norms and rules) or working outside the

boundaries of existing institutions (Thornton 1999, Kropp and Zolin 2008). These can be compared with definitions and studies of institutional entrepreneurship as “the endogenous transformation of institutional environments” (Pacheco et al, 2010, McMullen 2010.) Sheingate (1998) offers a definition of political entrepreneurship as entrepreneurial innovation: “a speculative act of creative recombination that, when successful, transforms the institutional boundaries of authority” that can include non-market relations with external actors. This perspective is developed in Chatterjee and Lakshmanan (2009) who describe political entrepreneurs as nodes, linking social and economic entrepreneurs. These authors, and many others, underscore that instable institutional frameworks or local conditions (such as economic downturns) can create opportunities for political entrepreneurs to develop new institutions for collective action.

Measuring entrepreneurial behavior in local governments

We describe municipal efforts to promote local development using new types of initiatives, partnerships and institutions as “entrepreneurial governance.”³ We measure activities designed to be productive or developmental in character rather than activities designed to influence policies for the purpose of rent seeking. We focus on the local (municipal) level of government; a scale we argue has been largely ignored in the literature (but see Schneider and Teske, 1992). One reason for this focus is that in Sweden, a large share of income taxes accrue to municipalities⁴ and are responsible for many local services that have the potential

³ A more detailed explanation of why we have chosen to use the term “entrepreneurial governance” to describe this phenomenon in local government is offered in the discussion section of the paper.

⁴ The local municipal revenue base is comprised of income from municipal income taxes (roughly 20-25 percent) plus/minus redistributive contributions to other municipalities, as well as local fees for some services.

to benefit from innovative service provision initiatives. Likewise, this study is more interested in entrepreneurial governance as a reflection of municipal capacity for innovation related to local economic development than in identifying individual political or policy entrepreneurs.

Few studies address the issue of how to measure entrepreneurship within local governments. Those that do, develop metrics of rather different character. Schneider and Teske (1992) are concerned with also the motivation of the (individual) political entrepreneur to affect the direction of local policy. They classify local government expenditures in the U.S. as allocational (“housekeeping” expenditures such as overheads related to government administration but also public safety), redistributive (welfare, urban renewal and hospitals) or developmental (generally related to the provision of infrastructure such as transport, sewage, water and energy). Using Peterson’s contention that allocational expenditures are those least subject to political limits and other rigid institutional structures, they argue that allocational expenditures offer political entrepreneurs the greatest opportunity for profit. They test this hypothesis by comparing the share of allocational expenditures to the number of observed political entrepreneurs, based on a survey of municipal clerks asked to identify individuals with entrepreneurial characteristics. Political entrepreneurs identified were mostly mayors or politicians (almost 70 percent) but also city managers, bureau chiefs and private businessmen. Probit estimates of the likelihood of finding a political entrepreneur based on the levels of various types of expenditures (as well as other local conditions) show that allocational expenditures have a significant and positive

The municipal level has among others responsibility and authority for child care, schools, elderly care, local land use planning and local sector development (environment, energy etc).

effect on the probability of finding local political entrepreneurs, while redistributive and developmental expenditures are associated with a somewhat reduced likelihood of finding political entrepreneurs.

While the results of Schneider and Teske's analysis are compelling, their reliance on a rather simple taxonomy of budget expenditures raises some questions. Welfare expenditures, defined here as "redistributive", could include innovative social welfare initiatives that involve new partnerships with other public or private actors (which we would define as entrepreneurial activity). Likewise, allocative expenditures may well be tied to very rigid municipal charters that restrain innovation in governance and public administration. For example, many municipal charters in the U.S. require that the community maintain its own fire or police department, which restrains local governments from entering into partnerships with other communities to achieve scale economies.

We offer a third approach more focused on observing entrepreneurial communities than on finding and measuring the incidence of individual policy-oriented entrepreneurs. Compared to the aforementioned studies, our survey is measuring something different; not the incidence of entrepreneurs who can profit individually from opportunities offered different institutional and environmental contexts, but rather entrepreneurial municipal governments that exhibit a capacity for experimentation and innovation in the pursuit of developmental goals. We seek to measure *collective capacity* for exploiting opportunities for innovation in local government activity rather than *individual capacity* for exploiting opportunities for personal gain within the constraints of local government activity.

Survey method and data

Following Shane (2003, p. 4) we constructed a survey based on the idea that “Entrepreneurship is an activity that includes the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials, through organizing efforts that previously had not existed.” A growing literature has taken this opportunity approach as a starting point for applying the entrepreneurship concept in fields of society outside the business sphere.

Our study uses new empirical data from a survey of Swedish municipalities who responded to open ended and multiple choice questions designed to capture municipalities’ own examples of the ways in which local governments *create/discover, evaluate opportunities, mobilize resources and exploit opportunities* for local development.

Swedish municipal classifications

The Swedish Board of Agriculture has developed a classification system for municipalities in Sweden that reflects not only population size and density, but functional relationship with neighbouring communities. Municipalities are classified as four municipal types (MT): (MT 1) metropolitan areas (N=46), (MT 2) urban areas (N=47), (MT 3) rural areas/countryside (N=164), and (MT 4) sparsely populated rural areas (N=33). The four types of areas are defined as follows. Metropolitan areas (MT 1): Includes municipalities where 100 percent of the population lives within cities or within a 30 km distance from the cities. Using this definition, there are three metropolitan areas in Sweden: Stockholm, Gothenburg and Malmo. Urban areas (MT 2): Municipalities with a population of at least 30 000 inhabitants and where the largest city has a population of 25 000 people or more. Smaller municipalities neighbouring these urban municipalities are included in a local urban area if more than 50

percent of the labour force in the smaller municipality commutes to a neighbour municipality. In this way, a functional-region perspective is adopted. In practice, this group of municipalities is comprised of regional centres and the suburban municipalities surrounding them. Rural areas/countryside (MT 3): Municipalities not meeting the criteria for metropolitan areas and urban areas are classified as rural areas/countryside, given they have a population density of at least 5 people per square kilometre. Sparsely populated rural areas (MT 4) are those municipalities not included in the three categories above and with less than 5 people per square kilometer.

Survey data

To capture municipal activities that can be described in terms of entrepreneurial governance, we developed a questionnaire addressed to municipal directors. The rationale for using municipal directors as respondents is similar to that of Schneider and Teske (1992), namely that local civil servants possess an overview of local political and governance activities that makes them credible respondents.⁵ In our case, however, the municipal directors were asked to describe activities rather than nominate individuals. The web survey was sent in June 2009 to all 290 municipal directors in Sweden and was followed up by telephone interviews. The response rate was 82%. Table 1 shows the number of replying and non-replying municipalities and response rate in each category.⁶

⁵ Schneider and Teske use municipal clerks as respondents, while we used city managers/city directors. Both types of respondents possess a good overview of municipal policy and are closely involved in the creation of new agreements, contracts and other innovative institutions for partnership.

⁶ Only the municipalities that answered all questions in the survey are counted as replying.

Table 1. Numbers and rates of reply for each municipality category.

	Missing	Replied	Sum	Reply %
Metro	11	35	46	76%
Urban	8	39	47	83%
Rural	25	139	164	85%
Sparse	8	25	33	76%
Total	52	238	290	82%

The survey was comprised of over thirty questions regarding a range of activities generally outside the scope of “everyday” municipal business. Such activities include new forms of cooperation with business and with other municipalities to attract new business or new residents, participation in marketing, tourism and benchmarking initiatives, and participation in European Union projects related to local development. These questions capture and measure the (essentially positive) initiatives of communities that seek to experiment with new ways of working to achieve local development goals. The survey was based on the perspective that entrepreneurship can be divided in various stages: discovery or creation and evaluation of opportunities, resource mobilization and exploitation of these opportunities (see Shane 2003). Thus, the following types of activities were measured:

- *Creating, discovering and evaluating new opportunities*: Benchmarking, marketing, learning and competence development activities and strengthening local business climate. (Maximum points: 7 of total 48)
- *Mobilizing resources*: includes co-financing of development projects with local industry, project cooperation with other municipalities, and development projects co-financed by EU and national agencies. (Maximum points: 10 of 48)
- *Exploiting opportunities*: Measures for promoting industrial development such as measures for improving cooperation with local industry. Maximum points: 28 of total 48)

The distribution of points between the three stages was based on an assumption that most points should be available in the third, “executive” stage. Note that the category labels

above were not given in the survey. Rather, the survey comprised over thirty questions as well as additional information from text boxes that could be used for further explanation and the followup telephone interviews. For example municipalities were asked to what extent they work together with local industry and then to elaborate on the character of this type of cooperation.

Scores

In the first stage, responses in each category were scored and tabulated. Taken together, the three categories produced a potential score range of 0-48 points, an average of 28 points, and a maximum and minimum of 43 and 9 points respectively. In other words, the 238 municipalities that answered all questions represent a wide range of observed entrepreneurship activities. Table 2 shows descriptive statistics for the three categories of the survey.

Table 2. Descriptive statistics.

Category	Obs	Mean	Std. Dev.	Min	Max
identify	238	4.76	1.36	0	7
Collect	238	8.67	2.14	2	13
Exploit	238	14.64	4.63	4	25
Total Index	238	28.06	6.46	9	43

Results were documented for each individual municipality but also by spatial type, using the division of geographic types described above. To help compare smaller and larger communities of the same general type (urban, rural) we call the larger areas “higher order” and the smaller areas “lower order” (Table 3). Metropolitan areas have the lowest scores for entrepreneurial governance but the highest rankings for economic entrepreneurship

(startups/capita), here measured as startup firms per 10 000 population. Sparse rural and rural municipalities have high scores for entrepreneurial governance and lower rates of startup firms (economic entrepreneurship).⁷

Table 3: Entrepreneurial governance scores, indexed to national averages

Municipal type	Economic Entrepreneurship (annual rate of new firms per 10 000 population)	Entrepreneurial Governance
METRO/URBAN MUNICIPALITIES		
Metropolitan (higher order)	132	90
Urban (lower order)	100	105
RURAL MUNICIPALITIES		
Rural (higher order)	91	100
Sparse rural (lower order)	99	105
National average	100	100

Table 4 shows the average scores of the three entrepreneurial stages for the four municipality types. Some noticeable observations can be made. The low score for the metropolitan municipalities is due to weak resource collection and exploitation of opportunities. The urban municipalities get the highest totals thanks to high scores in identifying/creating and in exploiting opportunities. The sparse rural municipalities have the lowest score in identifying opportunities but that highest in collection resources. The former can probably be explained with the fact that these are the smallest municipalities with lack of resources for strategic analysis and planning, while the latter probably reflects that this

⁷However some studies have found equally high startup rates in rural and urban areas when they are defined in another way than in this paper, see e.g. Eliasson and Westlund (2013).

group has the best access to EU structural funds and other, national regional policy measures. The urban-rural differences are shown by the fact that metro and urban municipalities score highest in identifying opportunities but lowest in collecting resources. Regarding exploitation it is the “little brothers” of each municipality category, the urban and sparse ones that score highest.

Table 4. Average scores of the three entrepreneurial stages for the four municipality types

	Identify	Collect	Exploit	Sum
Metro	4.97	7.89	12.63	25.49
Urban	5.18	8.38	15.90	29.46
Rural	4.66	8.79	14.63	28.08
Sparse	4.36	9.52	15.56	29.44
Total	4.76	8.67	14.64	28.07

Survey results

This section summarizes results from the survey questions and interviews. As noted, respondents were invited to provide additional comments to their answers given to standard questions and were also contacted for follow-up interviews by telephone. These results provide a deeper understanding of the character and motivation for various types of entrepreneurial governance activity. All answers from text boxes and from interviews were documented and used to better understand responses to the standard questions. For example, more detailed responses to questions regarding whether or not municipalities invested in activities to strengthen the local business climate revealed that these activities included everything from production of information brochures, to the formation of business councils to discuss local land use plans, to municipal administrative reforms regarding business permits.

Identifying, creating and evaluating new opportunities

We classified activities as related to this category if they could be said to improve the preconditions for development. There is a strong emphasis on learning and capacity building activities both within the local government and in the community in general, as well as marketing campaigns meant to attract new residents or business.

Measures for strengthening the local business climate

Measures and activities for strengthening the local business climate include sponsoring projects supporting new startups for specific groups such as immigrants or women (84%), support for education and cluster development (65%) and marketing activities to attract new business (76%). Examples of activities municipalities use to strengthen the local business climate include producing information brochures, forming of business councils to discuss local land use plans, and municipal administrative reforms to speed the approval of business related permits. Almost half report investing in business incubators and a quarter invest in science parks. Other business development measures reported include investments in transport infrastructure, including owning or co-financing railroads and airports. Here again, detailed responses reveal a high incidence of informal meetings but also the creation of new companies and organizations for business development, marketing, logistics and goods handling, or to guide the implementation of large projects such as new housing developments. Several also note initiatives within local government to offer training programs for civil servants in “customer-oriented” public service.

Benchmarking, learning and competence development activities

Three quarters (75.6%) of municipalities invest in surveys and related activities that measure local opinion among residents or businesses and/or benchmark results against that of other communities. 67.6% report participating in formal benchmarking studies such as the “municipal compass”, a benchmarking tool offered by the Swedish Society of Municipalities and County Councils since 2002. Almost as many (66.4%) also produce surveys among municipal staff or develop other forms for stimulating and implementing “bottom-up” ideas for new development initiatives or increasing efficiency in public administration. Such activities can be important starting points for entrepreneurial activities representing the phases in which background material is gathered and opportunities recognized.

Marketing

Municipal representatives were asked to what extent the local government, alone or in association with other actors, had tried to create or strengthen an identity or image for the municipality. A majority responded that they had engaged in this type of city marketing, “to a very great extent” or “to a relatively great extent.” About one quarter (27%) had used city/municipality marketing programs relatively little and 8.4% not at all. A review of the descriptions of the profiles and images used to market local communities reveals striking similarities. About one third include an “entrepreneurial attitude,” a “land of opportunity” or a community that is in general friendly to business. At least as many underscore the community’s responsiveness to residents’ concerns and a “customer focus.” Others highlight specific sectors or business profiles such as tourism, lean production techniques or small business. A good quality of life and a safe or clean environment is a common theme.

Over 90 percent had taken specific promotional initiatives between 2006 and 2009, and one third report established a marketing company to produce ongoing programs (alone or in partnership with other actors). Examples of marketing initiatives include producing citizen and employee panels, marketing campaigns targeted to tourists and property buyers from specific countries such as the Netherlands and Germany, or participation in international conventions. Many initiatives are related to new or improved/refurbished infrastructure such as retail centers, central area redevelopment, specialized schools or new housing developments. Many report initiatives to make attractive parcels of land available to developers, which may require changes in formal and informal institutions governing zoning or permitting processes. In some cases improving attractiveness has meant adding staff, such as tourist managers, and in other cases reducing staff to cut administrative cost.

Although the scope and ambition level of local marketing initiatives varies widely, it is in this context that many respondents noted the creation of cooperative initiatives with other actors. These include neighboring communities, communities along a major transport corridor, regional market development companies, and a range of business partners including developers. Some, though not all, of these initiatives have created new institutions for partnership.

Mobilizing resources

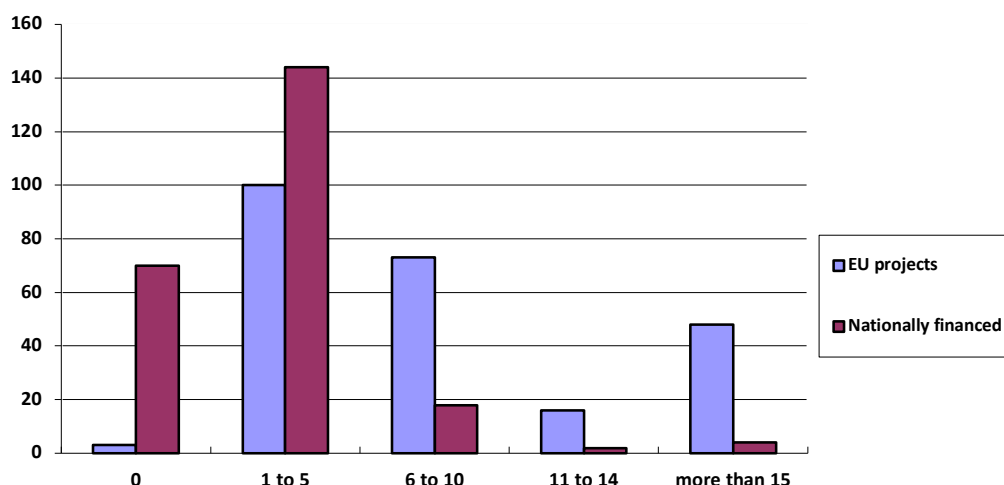
We chose to focus on the ways in which local governments mobilize resources outside of local government resource and capital mobilization processes (taxation, borrowing, etc.). Rather we focused on resource mobilization activities that involved cofinancing with other communities or with local firms, which is sometimes also a way to attract grants and subsidies from other sources such as the European Union. In other words we are interested

in what municipalities do to reduce their individual financing share of public or semi-public goods, to capitalize on scale economies or to access additional public revenue (through subsidies).

Development projects (co-financed by EU and national agencies)

Survey respondents reported frequent participation in development projects cofinanced by the European Union and national development agencies. The highest share (41.7%) participated in 1-5 European projects in the period between 2006 and 2009, and almost a third (30.4%) participated in between 6 and ten projects. Also notable is that one fifth (20%) participated in more than 15 development projects cofinanced from sources external to the community. About 60% participated in 1-5 projects cofinanced by national development agencies during the same period, but almost a third (29.4%) had no nationally financed projects.

Figure1: Number of municipalities and number of development projects funded or co-funded by national or international agencies, 2006-2009, responding Swedish municipalities



These projects represented a total contribution to the local community that ranged from a few million kronor (about 200 000 Euro) to 4.5 million Euro. This is a significant increase of

local development resources to municipal coffers and can be said to represent a profit from political entrepreneurship, though these contributions often require co-financing from local authorities; most had contributed about 20 000- 80 000 Euro. A particular source of development funds for Swedish municipalities is the EU LEADER+ program for small business development in rural areas. Several noted that experience with LEADER+ projects help mobilize resources for other projects, both from within the community and from other EU programs. LEADER projects also created networks and other institutions for cooperation among local businesses and between small business startups and the local government authorities. In this sense they fit the criteria for political entrepreneurship as related to institutional change and activity outside of traditional institutional boundaries. LEADER and other European programs have also led to institutional change within local authorities: 57% of municipalities report having a dedicated coordinator for European proposals and programs.

Co-financing of projects with local industry

Municipal representatives were asked how many projects the local government had co-financed with industry in the three year period between 2006 and 2009. Almost half (45%) reported 2-4 projects and over a quarter had 5-9 projects. About thirteen percent had no projects or one project, and roughly the same number had more than ten. Notably, seven percent reported more than 15 unique projects co-financed with local industry during the three year period. Detailed responses, however, reveal a wide range of responses including single events (such as commonly produced meetings or congresses, or producing a brochure) but also major multi-year initiatives for urban development or training. The latter include the creation of new institutes and in some cases new infrastructure, such as a new motorsports

stadium, biofuel facility or training center. Many larger projects and associated investments are linked to development projects co-funded through national development programs or the European Union's structural funds.

Exploiting opportunities

This category included several questions asking communities how they go about forming new cooperative ventures for promoting industrial development by improving cooperation with local industry. We asked local government representatives to be as specific as possible about the types of activities they engage in to capitalize on opportunities for local development together with firms or other communities. Some activities self-reported by municipalities may fill several functions; for example a regular series of dialogues with local industry leaders may help discover new opportunities but also exploit them.

Cooperation with local industry

Municipalities cooperate with local industry on a wide range of initiatives. Almost all municipalities meet with industry representatives in the context of information meetings, industry breakfasts and the like—and indeed, the extent to which such activities in and of themselves represent entrepreneurship can be debated. More interesting is the high incidence (over 80 percent) of municipalities that report common projects with industry, including developing new infrastructure such as district heating systems, startup firm incubators and science parks. Many of these projects have necessitated the creation of new organizations and institutions of governance such as commonly owned business development corporations. Admittedly, few of these initiatives are radical in the sense that they are “new to the world”, to use a distinction often used in the literature on entrepreneurship, (see for example Baumol's (2010) distinction between innovative and

replicative entrepreneurship) but they are often new to the local political context. Half of the responding municipalities noted that local business policies are developed in close dialogue with industrial leaders and that this has led to the creation of new networks between the municipality and businesses, but also among businesses and among municipalities.

Cooperation with other municipalities

Three quarters of responding municipalities reported cooperating with other municipalities to attract new residents and companies and almost all (94%) cooperate with neighboring communities to attract visitors. It bears noting that in Sweden, income taxes accrue to local governments but business taxes do not, so communities profit directly from new residents whereas businesses are valuable if they create jobs for local residents or provide goods and services that attract or retain residents. Municipalities in the same region often compete for residents (and, less often, businesses), but can also pool resources to try to attract more households or firms to the region. 96 percent of municipalities report cooperating with other local governments in the same county, about one quarter with local governments in nearby counties, but only 3.4 percent with other Swedish communities. However, 9.5 percent report cooperating with local governments in other countries to attract new residents, and 5.6 percent to attract new business, which may be an effect of structural funds providing resources for cross-border cooperation. As such they may represent instances where political entrepreneurship was necessary to produce institutional change.

Empirical results - conclusion

The prime conclusion of the descriptive results being reported above is that a vast majority of Swedish municipalities can be classified as performers of entrepreneurial governance in a number of various fields. As shown in Table 4, different municipality types lay various

emphases on the various stages of the entrepreneurial process. Possible explanations to this phenomenon are, among others, discussed in the next section.

Analysis and discussion

Entrepreneurial governance as a strategy to reduce risk and cost

In one of the most comprehensive reviews of concepts of entrepreneurship, Pozen (2008) attempts to tease out the key differences among concepts defined as “entrepreneurial.” He argues that economic entrepreneurs (which he calls capitalist entrepreneurs) are in general more willing and able to bear risk in the pursuit of their goals. Indeed, economic entrepreneurs typically assess the profit potential of their new venture in relation to the risk of failure in the market. Pozen notes that other types of entrepreneurs, such as policy, social or civil entrepreneurs, do not incur similar levels of personal risk. Our study suggests that for the municipalities we surveyed, this distinction can be taken even further. Those municipalities with higher survey scores seemed to be those that actively seek new partnerships with industry, or initiate common projects with other municipalities, as a way of significantly reducing risk and cost. A higher proportion of municipal initiatives were projects or temporary partnerships than new companies, public-private partnerships or long term ventures. This can also be seen as a lower-risk strategy when experimenting with new ideas.

In other words, the potential to reduce risk associated with development initiatives is in itself the motivation for testing new ideas and ways of working. The high incidence of investments in benchmarking and marketing studies can also be seen as a way of reducing

risk by helping municipalities to better estimate the potential impact of introducing new ideas or investing in new initiatives or infrastructure.

On the other hand we found the highest scores among the “little brother” municipalities: those with a relatively less powerful strategic position. Sparse rural communities had higher scores than other rural communities, and smaller urban centers had higher scores than metropolises. This may reflect the weaker relative position of small cities relative to larger agglomerations, and of sparse rural areas relative to other rural areas, as they compete for households and firms. In this sense, “little brother” municipalities are strongly motivated to seek new ways to improve their competitive position and may be more willing to act as political entrepreneurs. The two concepts need not be mutually exclusive; smaller rural communities and smaller cities are more motivated to take risk but are also resource-poor relative to their larger neighbors. They must introduce new initiatives (which is usually associated with some risk), but to control costs (which may be difficult to estimate for new initiatives) they can only do by spreading risk, by working together with industry, with the EU or with other municipalities.

This perspective finds support in recent contributions to the literature on entrepreneurship focusing on why entrepreneurs make the choices to organize as firms (or not). A 2007 special issue of the *Journal of Management Studies* brought together scholars of entrepreneurship and of the theories of firm formation to investigate these issues. In their introduction to the special issue, Alvarez and Barney (2007) note that the question of the organization of governance institutions for entrepreneurship is understudied and suggest that it is associated with what we know about how economic actors make choices regarding the organization of their activities (as firms, through alliances, etc.). Although theories of the

firm (using transaction cost and contract approaches) do a good job of explaining some firm formation, they assume that the risks and rewards for various alternative governance structures can be estimated, at least as probabilities. In entrepreneurial settings, they argue, it may be impossible to assess risks and rewards. They therefore use the term “entrepreneurial governance” to describe how and why entrepreneurs may adopt different institutions of governance than traditional firms.

The results of our survey suggest that a similar phenomenon occurs as local governments assess the risks (political and economic) and potential development benefits associated with new development initiatives. We have therefore borrowed the concept of entrepreneurial governance as a way of describing the particular phenomenon of local governments creating, mobilizing and exploiting new opportunities for local growth. We use this term because it was coined to describe the choices made by entrepreneurs regarding the character of governance institutions – with a focus on the ways in which decisions to organize new institutions is related to the risk associated with new development ventures.

Entrepreneurial governance and new institutions

Our approach follows the emphasis in the literature in entrepreneurship regarding the creation of new institutions, and also the definition of institutional entrepreneurship as endogenous institutional change. Indeed, this is what makes entrepreneurial behavior among municipalities somewhat unique. Municipal governments are highly constrained by their embeddedness in a range of higher-level institutions such as regional or national regulations. Just as important, local municipal charters typically define strict procedural institutions that often imply significant constraints to innovative behavior. Municipalities with twelve year land use planning horizons—and a host of other interdependent

policymaking institutions based on this time frame—may find it difficult to capitalize on an opportunity to cooperate with municipalities with shorter or longer planning horizons. It may be nearly impossible to quickly mobilize local budget resources required to co-finance capital investments due to municipal institutions demanding local referenda, harmonization with budget cycles, etc. Therefore, we describe political entrepreneurship as involving the creation of new institutions for development, without necessarily changing or reforming existing institutions. Rather, political entrepreneurship— in our study— is defined as new institutions layered onto an existing institutional structure. As such, our definition of political entrepreneurship closely follows Sheingate (1998) in its emphasis on “creative recombination that, when successful, transforms the institutional boundaries of authority” but we underscore that these new institutions may be temporary and may not imply transformation of the underlying institutional framework governing municipal behavior.

Earlier in this paper we relate our concept of political entrepreneurship to the conceptual traditions introduced by Kingdon, (1984), Minton and Norman (2008) and others. However, our survey results indicate that we may be measuring something rather different, and that this may have important implications when developing metrics and searching for patterns of behavior among municipalities. Policy entrepreneurship focuses on producing changes in laws, rules or in the allocation of resources to existing initiatives. Policies are principles that govern a range of other decisions that follow. We are by contrast measuring experiments and research into new ways of working, resource mobilization and partnership that, according to our findings, are constructed specifically because they can promote local development *without necessitating changes in local (or regional or national) policy*.

The importance of this distinction becomes clearer when considering how new ideas are diffused among municipalities of different types. Shipan and Volden (2008) studied patterns of policy diffusion among US cities and found that larger cities are more likely to adopt new policies, and more likely to learn from other cities than smaller cities, but less likely to imitate the policies of other cities. Our survey results indicate that lower order municipalities (sparse rural municipalities and regional centers) are more likely to engage in learning and competency building activities, and are more likely to initiate new development initiatives than their larger counterparts. Are these results in conflict?

Perhaps not. Perhaps higher order municipalities (metropolises, and rural municipalities that are larger than the peripheral communities around them), do have a greater capacity to learn from other communities and adopt new policies. However, it may be the lower order municipalities that most actively seek to improve their own capacity and who are attracted to initiatives that can be tested within existing policy frameworks and with fewer municipal contributions. Instead of leading by enacting new municipal policies, these types of communities seek partnerships and temporary projects that can leverage sparse local resources. This implies that policy entrepreneurship and political entrepreneurship (as defined in this study) measure very different phenomena. Moreover, it suggests that there are important differences in the way that larger and smaller communities in local markets introduce new ideas.

With this in mind we may want to consider local government efforts to work outside the confines of local politics and governance institutions when searching for new ways to approach local development as the creation of new institutional fields rather than new institutions per se. Kalantaridis and Fletcher (2012) make a clear distinction between

changes in the interactions among the various actors involved in entrepreneurship; distinguishing between changes to institutions (changing the existing rules within which actors must operate) and institutional fields (within which sets of rules meet, and whose power derives from the fact that actors seeking support and legitimacy must conform to other modes, rules and ways of working.) Importantly, they argue that the creation of institutional fields may include both new and existing institutions. The results of our survey, which emphasize the temporary and special arrangements formed with other communities or with firms without dismantling existing local government institutions, could be argued to be the creation of new institutional fields. However, more study is needed to articulate the character of institutional fields in this context.

Concluding Remarks

This study is a contribution to the very limited literature on entrepreneurship related to local development at the municipal level and offers new empirical data regarding the ways in which Swedish municipalities approach local development in new ways and with new partners. The survey results support the notion that what we can call “entrepreneurial governance” is occurring in a wide variety of municipalities; it is not a phenomenon exclusive to only urban or high-growth municipalities. While our survey employed a fairly broad definition of entrepreneurship, a close examination of results reveal a high incidence of new institutions created to support development at the municipal level. These include formal agreements such as public-private partnerships or co-financing agreements with other municipalities, but also new forums for informal exchanges of knowledge and dialogue. Municipalities are immobile and often have rigid procedural institutions, not least to ensure democratic process and transparency; in other words local bureaucrats or politicians cannot

decide to radically transform their own institutions. This may well be why our survey noted many instances of municipalities creating space for innovation by participating in cooperative projects (which often can be governed by institutions that don't need to follow municipal procedures).

Importantly, most of these new institutions were created to govern specific projects or studies. Many were of a temporary character or created new organizations not under the direct authority of any one municipality. This type of temporary partnering with other public and private authorities—often in the context of planning new strategic development investments—may have afforded individual municipalities a degree of freedom to experiment with new ideas and approaches without fear of reprisal and without hindrance from procedural institutions. This implies that partnering and other forms of cooperation between municipalities and other public and private actors may not only reflect resource constraints or recognition that the relevant economic geography comprised an area larger than the municipal borders. Rather, collaboration and cooperation may be an efficient strategy to experiment with new ideas without the transaction costs—and risk—involved in reforming municipal institutions. The fact that our entrepreneurship scores were higher among lower order municipal types, who are arguably most vulnerable to competition from larger neighboring higher order communities, may reflect the challenge of “doing more with less;” introducing new ideas and initiatives without the transaction cost or pecuniary investment involved with acting alone or with introducing new policies. It could be useful, in further studies, to track the progression of important local policy initiatives from short-term project or pilot project to formal policy change.

In sum, we find that municipal development initiatives can be described as a form of entrepreneurial behavior because they involve seizing opportunities for reaching development goals by creating new institutions—or perhaps institutional fields-- that can steward new ideas and encourage experimentation. On the other hand, they may be distinguished from other types of social, civil, or policy entrepreneurship in that they tend to layer temporary or limited collaborative institutions onto existing municipal institutions of governance rather than transforming existing institutions. We conclude that the types of municipal development initiatives we studied can be analyzed as a form of entrepreneurship and compared to other types of entrepreneurship such as policy-related entrepreneurship and institutional entrepreneurship. Just as institutional entrepreneurship has been argued to address a “blind spot” in institutional theory by integrating notions of individual change agents, we attempt to fill a gap in the entrepreneurship literature. Specifically, the literature on entrepreneurship now reflects an interest in the ways in which entrepreneurs are dependent on the resources (social, economic, environmental) of communities, but not how the process of building those community resources is in itself an entrepreneurial enterprise.

The results of this study have also highlighted some issues regarding the way in which statistics are collected for various types of municipalities. Growing interest in functional relationships as a determining factor in defining municipalities as urban or rural has led to the development of new taxonomies that still offer only crude divisions between e.g. urban and rural municipalities. It may be that for the purposes of this type of analysis, using municipal statistics grouped by labor market region would yield different results.

A final question is whether the results of this study can be generalized to most other western countries or if Sweden might constitute a special case? The facts Sweden has only

290 municipalities (compared with e.g. ca 8,100 in Italy and 12,000 in Germany), that local government (municipalities) is the most comprehensive governmental level in Sweden, that municipalities have a taxation right of their own, and that the average municipal tax rate 2014 is as high as 20.65% on taxable incomes, are indicators on that Sweden might be a special case. On the other hand, it is not primarily size or access to resources that determines whether an organization acts entrepreneurial or not. Rather it is whether formal and informal institutions, the latter including social capital, provide employees and other actors in the municipalities the opportunity to act entrepreneurial. It goes beyond the scope of this chapter to make an international comparative analysis of this issue, but it is an important topic for future research on entrepreneurial governance.

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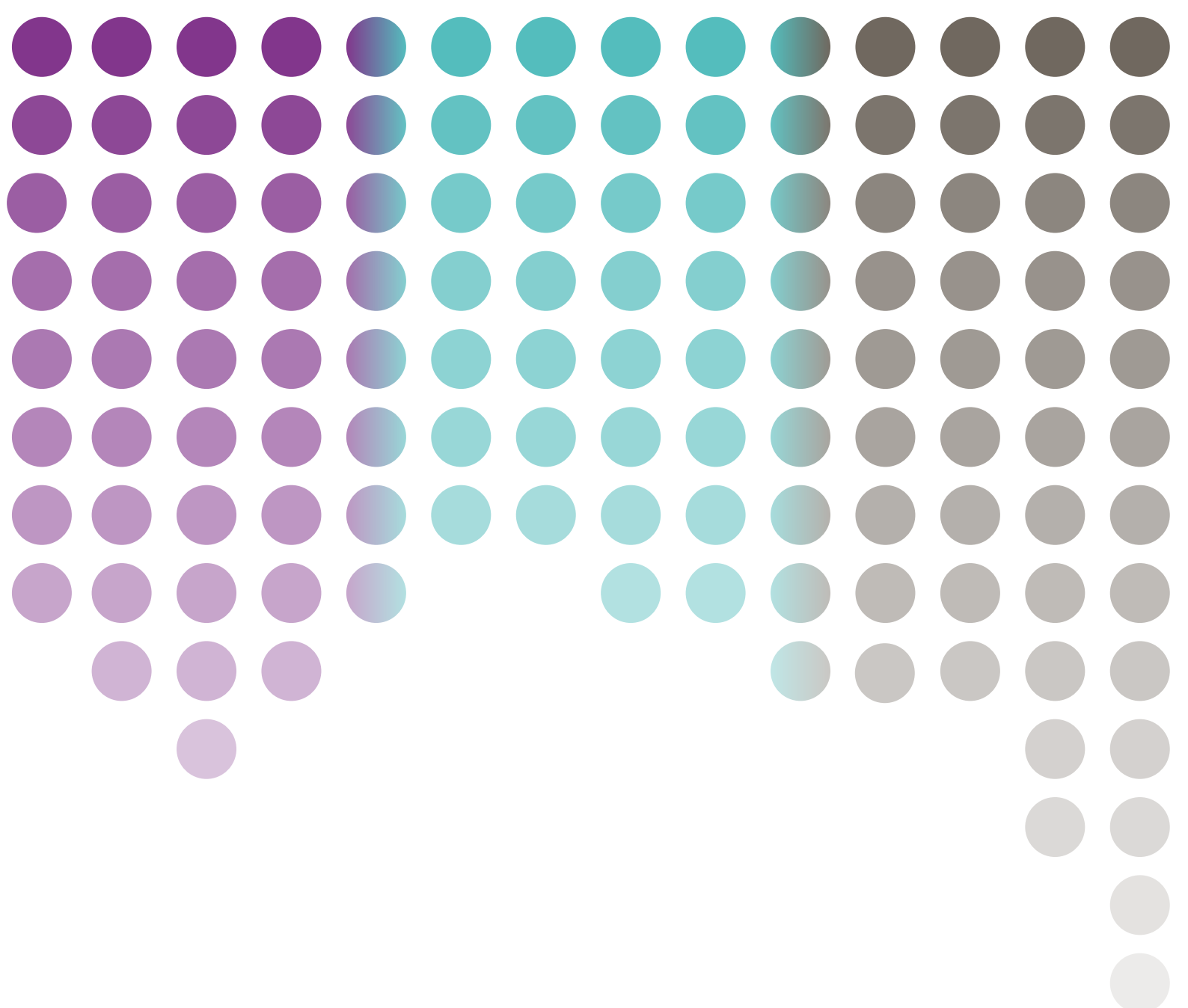
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