



# Using high-potential firms as the key to achieving territorial development<sup>☆</sup>



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## ABSTRACT

This study examines which entrepreneurial antecedents like education, gender, motivation, and age; and environmental variables like citizen insecurity enable high-potential firms to establish themselves and act as the key to territorial development. The inclusion of the variable citizen insecurity is unusual, but several authors note how a violent context can affect entrepreneurial activity in Latin America. Insecurity generates massive expenses for entrepreneurs, who must invest to protect themselves against violence and cover the extraordinary expenses arising from this violence. The data analysis technique is fuzzy-set qualitative comparative analysis (fsQCA), a powerful technique for analyzing complex causal relationships. The results highlight that policies should focus on reducing levels of citizen insecurity, among others, to lead to the creation of high-potential firms in countries similar to El Salvador.

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## 1. Introduction

Interest in entrepreneurship in Latin America is greater than ever before. This interest owes to the extent to which entrepreneurship contributes to economic growth, productivity, and the rejuvenation of productive and social networks (Audretsch & Thurik, 2001; Kantis, Ishida, & Komori, 2002). Entrepreneurship helps to refresh regional identity, driving innovation and creating job opportunities (Audretsch & Thurik, 2001). Likewise, innovation and growth contribute significantly to citizens' prosperity and well-being (Acs & Armington, 2006; Audretsch, 2007; Levie & Autio, 2008; Schramm, 2006).

Latin America has one of the highest levels of entrepreneurial activity in the world (Acs, Desai, & Klapper, 2008; Allen, Elam, Langowitz, & Dean, 2008; Weeks & Seiler, 2001), yet their economies are much less dynamic than many other emerging economies are. This lack of dynamism in Latin American economies owes mainly to high levels of necessity entrepreneurship and the low value added of entrepreneurial ventures in the region (Amorós & Cristi, 2008; Autio, 2005; Kantis, Angelelli, & Moori-Koenig, 2004; Minniti, Bygrave, & Autio, 2006). In fact, Latin American countries have poor technology and innovation development (López-Claros, Altinger, Blanke, Drzeniek, & Mía, 2006). Large firms absorb all technology- and innovation-based opportunities, and only a few small enterprises have the necessary capabilities to

become high-potential firms (Acs & Amorós, 2008). This paucity of technology- and innovation-based small firms creates problems when trying to identify them. Nevertheless, the study of such companies is of interest because innovation not only expressly aids performance, but also contributes to economic well-being and wealth creation in the country of origin (Braunerhjelm, 2011; Holcombe, 1998; Mas-Tur & Soriano, 2014; Wennekers & Thurik, 1999).

Unlike the abundant literature on entrepreneurship in Europe and North America, research on entrepreneurship in Latin America is scarce (de Arruda, 2009). To fill this research gap, the current study examines which entrepreneurial characteristics (education, gender, motivation, and age) and environmental variables (like citizen insecurity) enable high-potential firms to establish themselves and act as the key to territorial development. The aim of this research is to produce a series of recommendations for policymakers in Latin America.

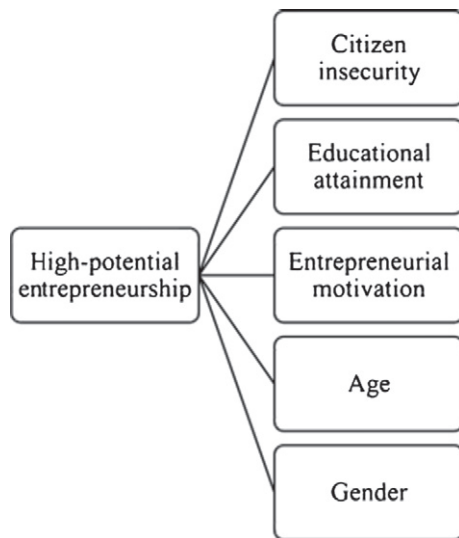
The inclusion of the variable citizen insecurity is unusual in this type of study (Brück, Naudé, & Verwimp, 2013), but several authors note how a violent context can affect entrepreneurial activity in Latin America (IDB, 2014; Schwab et al., 2009; Vidal, 2008; World Bank, 2011). Accordingly, this study focuses on El Salvador, which has one of the lowest levels of citizen insecurity in Latin America (World Bank, 2011).

To achieve these research objectives, the study uses 2014 Global Entrepreneurship Monitor (GEM) data for El Salvador. The GEM project is the leading global study of entrepreneurial activity, analyzing the issue of entrepreneurship from the perspective of the entrepreneur. By applying a uniform method across all participating countries, the GEM's national teams assess entrepreneurial activity with three aims: (1) to compare entrepreneurial activity among countries, (2) to identify

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Source: Compiled by the authors

Fig. 1. Theoretical model Source: Compiled by the authors.

the factors that enable entrepreneurial activity in each country, and (3) to propose measures so that policymakers can enhance entrepreneurial activity in certain countries or regions (Bosma & Levie, 2010).

These characteristics are consistent with the goals of the present study and provide evidence of why such research is necessary. The data analysis technique in this study is fuzzy-set qualitative comparative analysis (fsQCA), which is a powerful technique for analyzing complex causal relationships in studies with medium-sized samples (Eng & Woodside, 2012).

Section 2 presents a review of the literature on high-potential firms and a discussion of entrepreneurial and environmental characteristics that may affect the creation of this type of firm. Section 3 explains the fsQCA method and sets forth the results of the analysis. Section 4 presents findings. Finally, Section 5 offers the main conclusions of the study and discusses some policy implications.

## 2. Theoretical framework

The existence of high-potential firms is crucial because of their contribution to a territory's economic growth and their role in improving public well-being. The following sub-sections summarize the literature on the key characteristics of high-potential firms as shown in Fig. 1.

### 2.1. High-potential firms

Gallagher and Miller (1991) present a classification of firms by growth, using the term *flyers* to refer to firms with strong financial growth. Landstrom (2005) offers a modification of Birch, Haggerty, and Parsons's (1997) classification, explaining that *gazelles* are firms that drive growth and job creation—such firms not only grow in financial terms, but also in terms of personnel (Birch et al., 1997; Kirchoff, 1994; Storey, 1994; Soriano & Dobon, 2009; Westhead & Cowling, 1995). Henrekson and Johansson (2010) describe this type of firm in detail, noting that in addition to creating a disproportionate number of jobs, these firms are generally young, high-growth companies. Haltiwanger, Jarmin, and Miranda (2013) also support this view. Wong, Ho, and Autio (2005) point out that although many firms are technologically innovative, high-potential firms actually belong to a select group of enterprises. Within the GEM framework, Autio (2003) highlights four characteristics of high-potential firms: the potential to create jobs quickly, a capacity for innovation that enables expansion, a high proportion of overseas customers, and use of the latest technology.

This section presents a literature review of entrepreneurial characteristics that may affect the creation of high-potential firms in emerging countries, focusing on Latin America, particularly El Salvador. The literature review covers entrepreneurial profile variables (educational attainment, entrepreneurial motivation, age, and gender) and citizen insecurity, which policymakers attempt to make more conducive to entrepreneurship.

### 2.2. Educational attainment

In many cases, entrepreneurs prefer self-teaching as a learning method after they start a business (Martin & Halstead, 2003). Hughes (2001) refers to this self-learning as informal learning. Nevertheless, entrepreneurship training is becoming increasingly important for the society of the future (Lee, Lim, Pathak, Chang, & Li, 2006), and entrepreneurship training in most cases comes from formal education. Several studies report that entrepreneurs who lack training are unable to perform certain key business functions, especially in management and modern technology use (Lee, Ribeiro, Olson, & Roig, 2007; Lerner & Almor, 2002). Conversely, a highly qualified workforce is conducive to high value added innovation-based entrepreneurship, which increases economic dynamism (Minniti et al., 2006).

As Albuquerque (2004) points out, a country's educational offer should meet the innovation needs of the local system of production by catering to its specific profile. A basic generalist education is insufficient; instead, the education system must satisfy the specific needs of the local system of production and encourage creativity and new technology adoption.

A background in Porter's (1990) three stages of economic development helps to frame this issue within the existing theory. The first stage is the factor-driven stage, whereby economies rely on the primary sector and on activities that are natural resource or work intensive. The second stage is the efficiency-driven stage, whose foundations lie in the secondary sector and the use of economies of scale. The third and final stage is the innovation-driven stage, whose defining characteristics are the growth of the services sector, R&D activities, and knowledge management. Numerous studies highlight the benefits of knowledge-based economies with regard to the economic and social development of territories (Audretsch, 2007; Levie & Autio, 2008; Schramm, 2006). Most Latin American economies, however, are in the efficiency-driven stage (López-Claros et al., 2006), and they must foster innovation to reach the technological frontier and become knowledge-based economies, a key characteristic of the innovation-driven stage (Porter, 1990). Amorós, Fernández, and Tapia (2012) note that economic transformation in terms of both economic growth and institutional development is lower in some Latin American regions than in other emerging countries such as Korea, Singapore, Israel, and Ireland. According to some authors, this lack of economic growth and institutional development owes to chronic weaknesses in Latin America's education and knowledge creation. Acs and Amorós argue that these weaknesses in education are the reason for greater difficulties in starting entrepreneurial ventures or creating businesses. Despite progress in terms of democracy, property rights, and macroeconomic stability in South America in the last 20 years, areas such as education, knowledge creation, and economic reform remain weak (Acs & Amorós, 2008).

According to the Multipurpose Household Survey (*Encuesta de Hogares de Propósitos Múltiples*) by the El Salvador national statistics institute (DIGESTYC, 2012), educational attainment in El Salvador is insufficient. The average schooling level of the population is low. Only 32% of young people are in secondary education, and UNESCO (2008) indicates that the quality of this education is poor. Likewise, only 20% of young people are in higher education, and the offer fails to meet the needs of the territory, as USAID (2012) explains in its report on Higher Education in El Salvador. The 2012 GEM report (Sánchez-Masferrer, 2013) stresses the low attendance levels in El Salvador's higher education system. The report also explains that necessity entrepreneurship is common among

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