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A spatial analysis of new business formation: Replicative vs innovative behaviour



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ABSTRACT

Using spatial econometric tools, the paper examines the spatial structure of new business formation of Italian regions during the period 2004–2007. In particular, the study empirically investigates whether new business formation in a given geographical area may be explained in terms of replicative and/or innovative entrepreneurial behaviour in each area as well as in the neighbouring areas. Additionally, the analysis focuses on the influence of urbanization on the birth of new firms. From the estimation of a Spatial Durbin Model, we find a significant degree of spatial dependence among Italian regions not only in new business formation but also in some of its determinants. We also find that new business formation in Italy can be explained in terms of both replicative and innovative entrepreneurial behaviour, whose effects depend strictly on the degree of urbanization. Specifically, the replicative behaviour of new firms seems to be significantly dependent on the degree of urbanization, i.e. we find positive effects only when regions are lowly urbanized. A similar result is not found for the innovative behaviour, which positively influences new business formation independently on the degree of urbanization. However, when regions are lowly urbanized, some obstacles to new business of innovative nature can be observed.

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1. Introduction

Traditionally, new business formation has been empirically investigated from an industrial perspective where new firms are assumed to be homogeneously distributed over space. The seminal work conducted by [Orr \(1974\)](#) is a noteworthy example of that literature which considers geographical space as neutral to new business formation.

However, this hypothesis has been barely confirmed by empirical analyses. Therefore, since the nineties, the spatial dimension of new business formation has increasingly drawn the attention of empirical scholars (see, among the others, [Audretsch and Fritsch, 1994](#); [Garofoli, 1992, 1994](#); [Davidsson et al., 1994](#); [Danson, 1995](#); [Feldman, 2001](#); [Armington and Acs, 2002](#); [Fotopoulos, 2013](#)). Most recently, many empirical studies have provided evidence in favour of a significant degree of heterogeneity across space in the distribution of economic activities (see, for example, [Arauzo-Carod and Teruel-Carrizosa, 2005](#); [Espa et al., 2014](#)).

In line with the aforementioned literature, our study-taking into account the location of new business formation-explores the relationship between birth of new firms and factors related to the entrepreneurial mission of new entrepreneurs. Our research idea has been based on the intuitive hypothesis that new business formation can be led by both demand impulse (viz. demand-side oriented) and/or commercialization of innovative goods and services (viz. supply-side oriented). According to [Baumol \(2005\)](#), entrepreneurs can be replicative or innovative. In the spirit of the seminal articles by [Knight \(1921\)](#) and [Schumpeter \(1921\)](#), Baumol defines innovative entrepreneur who sets up a new firm with the aid of a new product or some other innovation, and replicative the entrepreneur who sets up a new firm, which is similar to a multitude of previously newly-established firms, to respond to the local demand and a growing population. As the economic success of a country or a region largely depends on firm entry decisions, it may be worthy to explore what is the commonly-held entrepreneurial behaviour of new entrepreneurs. Indeed, the long-run economic success of a country or a region should predominantly depend on those firms which start their economic activity with an innovative mission. On the contrary, new replicative firms tend to be mostly connected with economic cycle and hence they mainly influence short-run growth.

Moreover, the product life cycle theory ([Klepper, 1996](#); [Duranton and Puga, 2001](#)) postulates that new innovative firms should be mainly created in large metropolitan areas where there are innovating environments and skilled labour. Once products have reached maturity, production is decentralized toward less urbanized areas where firms can benefit from lower costs. In other words, this theory suggests that firms prefer to be located in more highly urbanized areas when their products are at the beginning of their life cycle. On the contrary, when their products are mature with stable technologies, firms prefer to move toward less urbanized areas (see also [Arauzo-Carod and Teruel-Carrizosa, 2005](#)). Thus, the degree of urbanization of a territorial area should influence the entrepreneurial mission of new firms (i.e. replicative or innovative).

The attention on the urban dimension of new business formation seems also to be increasing in empirical literature ([Berglund and Brännäs, 2001](#); [Arauzo-Carod and Teruel-Carrizosa, 2005](#); [Glaeser et al., 2010](#); [Delfmann et al., 2014](#); [Faggio and Silva, 2014](#)). Interesting insights arise from these studies related to our research. For example, [Delfmann et al. \(2014\)](#), investigating the Dutch case, find that the relation between new business formation and population change is positive in rural regions and negative in urban regions. [Faggio and Silva \(2014\)](#), exploring UK data, provide evidence of the role of urbanization in the relation between self-employment, new business formation and innovation. Notwithstanding the fact that urban studies of entrepreneurship appear, at present, to be a topic of particular interest in empirical literature (see [Glaeser et al., 2010](#)), research into the effect of urbanization on the entrepreneurial behaviour of new firms remains still largely unexplored.

Based on the above considerations and in line with the related literature, in our study we will explore the main factors affecting the spatial-geographical pattern of new business formation. Specifically, the study addresses the following research questions: (i) to explore the entrepreneurial mission in new business formation, viz. replicative and/or innovative entrepreneurial mission (Q1: replicative/innovative effect); (ii) to investigate the influence of urbanization, not only directly on new business formation, but also indirectly on the entrepreneurial mission of new firms (Q2: urbanization effect). According to the aforementioned literature, we should expect a predominance of

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