

# FOSTERING ENTREPRENEURSHIP IN DISTRESSED URBAN NEIGHBOURHOODS

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**Abstract**

During the last decade entrepreneurship research has focused increasingly on spatial aspects of entrepreneurship. Many systematic studies have been conducted on the national or regional scale, although other geographical scales – cities and their single districts and neighbourhoods – have drawn less attention. In this context, the paper aims, firstly, at identifying spatial success factors of entrepreneurial activities and their promotion at the local scale. Secondly, the paper aims at contributing to the development of a conceptual frame at the interface of entrepreneurship research, urban and economic geography, and regional economics. The paper draws on empirical results from explorative case studies in two distressed urban areas.

**Keywords**

Entrepreneurship promotion, Local networks, Social capital, Local economies, Urban districts renewal

## **1. Entrepreneurship Research on the Local Scale: Challenges and Aim of the Paper**

During the last decade interdisciplinary oriented entrepreneurship research has focused increasingly on spatial aspects of entrepreneurial activities and entrepreneurship policies (e.g., Malecki, 1997; Thornton & Flynn, 2003; Scott, 2006). Interestingly, remarkable differences can be observed with respect to the geographical scale of these research activities. Many systematic studies have been conducted on the national (e.g., Reynolds et al., 1994) or regional level (e.g., Littunen, 2000; Fritsch & Schmude, 2006). Other geographical scales – larger cities and in particular their single districts and neighbourhoods – have drawn less attention of the research community, although this comes as a surprise, given the local embeddedness of entrepreneurship. There is, indeed, a long history of research into the determinants and patterns of inner-urban, regional and intra-regional economic disparities (Knox, 1995). Yet, this type of research is usually based on regional statistics, thus neglecting the viewpoint of individual economic actors and their embeddedness in local economic and social structures.

In an attempt to economically revive distressed urban districts of old industrialized agglomerations, policy makers turned to approaches for fostering entrepreneurship specifically on the local level (OECD, 2003). In this context, spatially oriented entrepreneurship research faces several challenges: to investigate empirically the specific environment, nature and extent of entrepreneurial activities in small distressed urban territories, to consider the particular interaction between economic and urban policy measures, to adapt existing theories to incorporate the emergence of new ventures and economic activities at local level, and to provide assistance to policy makers and practitioners with respect to designing, monitoring and evaluating relevant public and private initiatives.

With this explorative study, we hope to contribute to the emerging discussion. We aim, firstly, at identifying spatial success factors of entrepreneurial activities and their promotion at the local scale. Secondly, the paper aims to contribute to the development of a conceptual frame at the interface of entrepreneurship research, urban and economic geography, and regional economics. More specifically and based on two regional case studies, we will explore factors assisting or hindering entrepreneurial activities in distressed localities, the emergence and role of network organisations therein, the integration of economic local structures within the overall urban ones, and related to this opportunities for new economic activities in the geographical area of operation.

The paper draws on empirical results from a research project concerned with the “Socially Integrative City” programme (SIC) of the German federal state of North Rhine-Westphalia (NRW) (cf. Neumann et al., 2006 for more details). In this paper we compare the approaches to entrepreneurship promotion in two urban districts in the Ruhr area. The article proceeds as follows: the next section contains a conceptual review of major elements contributing to and explaining entrepreneurship in distressed neighbourhoods. In part 3, we briefly sketch the empirical design of the study, while part 4 presents empirical results. Section 5 discusses what factors determine the “success” of entrepreneurial promotion on a local level. We conclude with policy implications, limitations of our study and theoretical and methodological challenges for further research.

## **2. Entrepreneurship in Neighbourhoods and the Recovery of the Local Economy**

### **2.1 The Embeddedness of Entrepreneurship**

From a geographical perspective, the concept of relational economic geography provides an umbrella under which to explore the local embeddedness of entrepreneurship in relation to economic renewal under specific social conditions in urban districts. This concept rests on the propositions of contextuality, path-dependency and contingency (Bathelt & Glückler, 2003: 128-129), which draw on sociological and institutional theoretical approaches that are popular in entrepreneurship research. At a particular time and in a particular territory, firms (entrepreneurs) are closely linked to suppliers, customers and organisations through communication and business relationships (contextuality; cf. Granovetter, 1985; Grabher, 1993, Zukin & DiMaggio, 1990). Economic decisions, actions and interactions of the past enable and constrain present activities of the economic agents. Moreover, they direct future intentions and actions to some extent (path-dependency). Although present economic action is directed partly by activities of the past it remains subject to unforeseeable changes and is, therefore, fundamentally an open-ended process. Present economic action may reproduce or transform contextual structures, thereby shaping the preconditions for future action (contingency).

The ideas of contextuality, path dependence and contingency build on concepts of embeddedness and social capital. Embeddedness occurs on cultural and individual levels. Cultural embeddedness is related to the cognitive dimension of social capital (Nahapiet & Ghoshal 1998), in emphasizing the role of shared collective memories and interpretations in shaping economic individual behaviour. Regarding the individual level, Granovetter (1985) introduced the notion of “undersocialised” and “oversocialised” human actions. In the former, institutional arrangements render malfeasance too costly for individual actors, while in the latter trust plays a role in regulating human behaviour. This characterises the relational dimension of social capital, which refers to assets such as trust, trustfulness, norms and obligations based in relationships (Nahapiet & Ghoshal, 1998). Additionally, the structural

dimension of social capital is understood to be inherent in network ties providing access to resources and information; and it is reflected in the “formal” structures of a network (Nahapiet & Ghoshal, 1998).

In other words, social capital consists of existing and potential resources which are inherent in and available through networking relations (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998). There exist bonding and bridging forms of social capital, with the former referring mainly to intra-firm or horizontal relationships, the latter to inter-firm and vertical relations (Adler & Kwon 2002: 19-21). The bridging form of social capital can be of particular importance in starting and growing a firm, while in a geographical context the bonding form includes vertical links between entrepreneurs, business organisations and local authorities at and across different levels.

While it is important for entrepreneurs to belong to a relatively dense network with trust-based personal relationships, it is also important to maintain a number of weak ties in order to obtain non-redundant information which will assist business development. In the context of neighbourhoods, Läßle (2000) finds that a segment of small craft and service businesses is distinguished by particularly strong local ties, e.g. by focusing on local markets and recruiting employees locally, predominantly via informal channels, in particular social milieus. At the same time many of these small firms are linked to regional, national or even global markets and surroundings e.g. through customer relationships, their membership in regional or national business associations or through the participation in small business and entrepreneurial promotion schemes (Krätke, 1995).

With regard to urban renewal, social capital is the “glue” which helps to foster the local embeddedness of entrepreneurship; and trust, as one important property of social capital, is the “lubricant” without which networking would not be possible (Anderson & Jack, 2002). Liao and Welsch (2005) conclude from their study of nascent entrepreneurs, that it is

not so much the amount of social capital inherent in networks which matters for entrepreneurs, but rather how they utilize social ties and interactions, thus drawing attention to the social and personal interactions needed to create social capital and trust-based relations. Trust building takes mainly place through familiarity arising from experiences from the past, repeated transactions and face-to-face contacts. For example, within a network individuals could build up reputations of trustworthiness, which is important information for other actors in selecting possible business partners.

How do networks emerge? Only few studies so far have tackled this question, which however gains importance in the context of discussing the elements contributing to embedding entrepreneurship. In this context, the works on the creative milieu suggest that so-called high communicators play an important role for network development. High communicators are individuals at the decision making level in several public and private organizations. They transmit information, speed up decision-making, and foster inter-organizational linkages (Fromhold-Eisebith, 1995). These key individuals contribute to the development of “institutional thickness” by bringing in local knowledge and the ability to access and link local capacity at different levels (Malecki, 1997). However, path dependency and contingency also characterise a “dark” side of embeddedness. Overly strong forms of interpersonal trust might result in closed networks and inward-looking behaviour both on individual and on regional level. Consequently, entrenchment may result, and the performance of networks (as well as of regions, cf. Grabher, 1993) may deteriorate further.

## 2.2 Neighbourhood and Economic Renewal through Fostering Local Entrepreneurship

Neighbourhood is a social and spatial phenomenon. A neighbourhood can be defined as a bundle of spatially based attributes associated with clusters of residences and other land uses

(building structures, demography, public services, social and economical interactions). It is an open system which is embedded in superjacent urban structures and faces continuous changes due to an ongoing flow of resources. The amount and direction of these flows depend upon the interaction of decision makers like households, businesses, property owners and the local government (Galster, 2001; Webster, 2003).

Some inner city areas are affected adversely by deindustrialisation and suburbanisation of population and industry. The growing persistence of geographical concentrations of blight phenomena, long-term unemployment, declining income and purchasing power, out-migration, and related changes of demographic and socioeconomic structures are among the negative effects of current urban dynamics and may cause a continuing deterioration of location factors in certain districts (Glennester et al., 1999). For this reason, (distressed) urban districts have been considered as one of the targets of public intervention in certain European countries since the 1990s (ILS, 2000, Meegan & Mitchel, 2001).

SME research and practical experience show that the effort to economic renewal in deprived urban districts through fostering entrepreneurship faces several obstacles (Curran & Blackburn, 1994; Storey, 1994; Berg et al., 2004):

- small savings and the declining purchase power of consumers in these localities,
- a lack of entrepreneurial skills, entrepreneurial experiences and role models of successful entrepreneurs,
- a lack of appropriate working space and meeting points in the locality, an often distant location from the city centre and an unattractive ambiance of the area,
- a strong tendency of small business formation in business fields, where low entry thresholds and low opportunities for growth, but high competition go hand in hand,

resulting in less sustainable business models (e.g. household services, retail trade, catering),

- a lack of social capital, both due to the absence of network organisations and the individuals' lack of resources - time and money - to engage themselves in networks.

In this context, one of the few starting points to break this vicious circle are collaborative initiatives for social capital formation, which incorporate local authorities, the local business community and residents (Purdue, 2001). On the one hand neighbourhood policies can support the development of bridging forms of social capital, i.e. by providing support to community groups, giving them a role in local policy and planning processes and boosting the local identity (Forrest & Kearnes, 2005). On the other hand the formation of the bonding form of social capital is considered to be another factor of successful neighbourhood renewal. It helps to claim interests of the local (business) community against urban authorities and influential decision-makers and social groups (Middleton et al., 2005).

As mentioned above, the successful formation of both forms of social capital is linked to the existence of local leaders who act as key points of contact between governmental regeneration initiatives, local residents and business people. Recent research studies emphasize the role(s) such network promoters play in the emergence and development of networks (Koch et al., 2003). For example, Axelsson et al. (2002) identified typical forms of networks, all of which are based on the different roles network actors play: The 'locomotive-driven network' is one which is initiated and dominated by one actor, while a 'joint umbrella' describes a network structure which is driven by members and their joint interests. The competent and accountable engagement of a leader in local initiatives helps to develop trust towards local residents and entrepreneurs. This again strengthens their position as outside representative of the neighbourhood (Purdue, 2001).

Additionally, the establishment of business advisory service in a neighbourhood can be a suitable starting point to foster social capital formation at the local scale (Krätke, 1995, 2001). Ideally its implementation should be evidence-based, for example, as outcome of a survey on local needs, jointly conducted by responsible authorities and representatives of the local business community (Hall & Hickmann, 2002). With the help of local business advisors (nascent) entrepreneurs can gain access to individual information and counselling or find a platform to meet with each other, with already established business owners and representatives of the administration to discuss the local circumstances of entrepreneurial activities (Schmude, 2001; Tamasy, 2005). Moreover, entrepreneurs can also be enabled to join existing support schemes and business networks at the city, state and national level (Läpple & Walter, 2003).

Furthermore, an in-depth analysis of the economic perspectives of a particular site or region may disclose opportunities to develop new industries through fostering local entrepreneurship. Such joint activities of entrepreneurs and development agencies may help to use “windows of opportunities”, i.e. to cluster new ventures in a promising business (Storper & Walker, 1989; Thorton & Flynn, 2003). At a more general level, local entrepreneurship promotion may focus on developing the local infrastructure, i.e. the creation of adequate business space, perhaps with shared facilities in a managed workspace like incubators. Additionally, incubator managers can promote networking activities to form internal sets of relations as well as external relations to receive advice and access to resources through external actors (Tötterman & Sten, 2005). Overall, any strategy to promote established small firms and entrepreneurs under the described circumstances should aim at simultaneously strengthening intra- and inter-local relations (Läpple & Walter, 2003).

Whether such entrepreneurial support activities at the lower geographical scales – provided they are successful – effectively counteract the blight phenomena caused by macro

level factors, remains an open question and challenge for future research (IfS, 2004). In the remainder of this paper, we will explore some facets of local entrepreneurship support in distressed urban areas, thus contributing to this discussion.

### **3. Empirical Design of the Study**

#### **3.1 Background and Methodology**

The paper draws on empirical results from an evaluation of the SIC-NRW. The economic structure of the state, and in particular the old industrial Ruhr area, was dominated by coal mining, steel production and metal processing, for over a century. The structural transformation, forced by the downturn of the traditional industries since the 1950s, has provided a base for the emergence of knowledge-intensive and service industries. But not all cities, and therein not all localities, have been able to cope with structural change equally successfully. In the 1980s and 1990s especially the neighbourhoods adjacent to the now closed industrial sites and coal mines were characterized by an industrial, commercial and overall urban blight.

The neighbourhood programme of the SIC-NRW aims at counteracting these trends at the local (urban district) level through mobilization of local governments, educational institutions, welfare organisations, local chambers of commerce, business associations and citizen groups of the project areas. Joint activities are supported in fields such as edificial and environmental improvements, social infrastructure with an emphasis on school children and adolescents, local child care facilities, programmes focussing on ethnic minorities, creation of (temporary) employment through public labour programmes and last but not least through

fostering small businesses and entrepreneurial activities. Support for all districts is envisaged to be temporary.

The SIC-NRW is headed by the state ministry in charge of urban development, which coordinates work at the state level. Within the municipalities responsibility is usually attributed either to the town planning or social affairs departments. The main function of the municipal management teams is twofold: to coordinate activities initiated by local actors and to develop new initiatives and form new coalitions of local stakeholders. Around 25 participating cities in NRW run a specific network aiming at an exchange of experience and views and at lobbying on the state level.

Methodologically, the study employs a multidimensional and multi-level approach. It combines qualitative elements (document analysis, 40 in-depth interviews with policy makers, public officers, entrepreneurs and network promoters) with a standardised questionnaire among entrepreneurs. The personal interviews were conducted from May 2005 to June 2006, the surveys from November 2005 to January 2006. We surveyed entrepreneurs and nascent entrepreneurs from three network organisations in two urban districts; two organisations are located in the Essen District VI, one in Gelsenkirchen-Bismarck. The response rate ranged between 13 out of 103 in Gelsenkirchen and 30 out of 105 in Essen. In addition, administrative data was examined in order to gain information on the probable effects of the combined economic and urban renewal initiatives on the local project areas.

### 3.2 Study areas

Since its initiation in 1993, the neighbourhood-oriented programme has covered 34 urban districts in 25 cities of North Rhine-Westphalia. The programme districts in NRW are parts of big cities with at least 100,000 inhabitants. The districts comprise of areas between 2 and

20 km<sup>2</sup> and 10,000 to 25,000 inhabitants. Figure 1 illustrates the spatial extension of the programme over time and the strong focus on the Ruhr area.

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The two programme zones in Essen (district VI) and Gelsenkirchen (Bismarck) are similar with regard to their geographical location within the city, their economic history, size and socioeconomic structure. Both places are located in a distance of around 5 km from the respective city centres. For about 150 years both areas were dominated by coal mining. Steel and metal plants were located in the southern edge of the Gelsenkirchen quarter; the coal mine closed down in 1993. In Essen, the coal mine was closed in 1986, the adjacent cocking plant in 1993. As a result, around 4.000 to 5.000 persons lost their jobs in each district.

Up to the 1990s a large number of immigrants entered into the areas in search for jobs and housing facilities or as refugees. At large these areas were characterised by uncomfortable housing and environmental conditions. In the course of the industrial downturn and due to redevelopment measures the environmental situation improved, but socioeconomic conditions deteriorated. Unemployment and the share of recipients of social benefits were well above the cities' respective averages (Table 1). Moreover, in the 1970s a selective out-migration process set in, which left lesser educated persons and poorer families as dominant groups in the areas. In both areas industrial blight and selective migration caused a decline in local purchasing power. As a result firms in the retail and consumer service trades closed down. This in turn further reinforced emigration from these areas.

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Regarding the layering urban economic structure the city of Essen is in a comparatively favourable position. The headquarters of some of the largest German public companies (energy, steel, trade) are located there. Furthermore, the city is an internationally renowned place of commercial fairs, conferences, and has a university. Essen hosts widely acknowledged cultural institutions, e.g. the Folkwang School of Arts, galleries and theatres. Recently the building complex of the coal mine “Zollverein” – located in our study area – became enlisted by the UNESCO as a World Heritage Memorial, and the city was nominated as *European Capital of Culture 2010*. This is expected to boost local firms engaged in tourism.

On the contrary, the economic structure of Gelsenkirchen has been completely dominated by coal mining, steel production and metal processing. Scientific institutes and a technical college were established only in the beginning of the 1990s; there is a lack of adequate cultural and tourism infrastructure. Hence, the process of de-industrialisation has not been buffered by a heterogeneous and vital urban service sector. This distinction is reflected in remarkably different unemployment rates at the city level (Table 1).

#### **4. Exploring the Revitalisation of Neighbourhoods through Entrepreneurship Support**

##### 4.1 Essen

Immediately after the closure of the “Zollverein” coal mine in 1986, several organisations started initiatives to counteract the blight phenomena in district VI (figure 2). Examples include activities of the faculty of social work of Essen University, and initiatives by local business people. The university group was focusing on the enhancement of the social

infrastructure, with an emphasis on ethnic minorities. Members of an already existing local business association initiated since the early 1990s more than 25 biannual “neighbourhood conferences” to discuss the future urban and economic development of the area. A wide variety of different stakeholders participated such as representatives of political parties, confessional groups, chambers of commerce and crafts, trade unions, municipal authorities, property owners, councillors, citizens’ initiatives and media. Besides being entrepreneurs, the initiators of this conference were usually active members of political parties, local confessional groups or sport clubs. Hence, they were widely known and trusted among neighbourhood residents and gradually took up the role of local leaders.

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Several projects were initiated, e.g., the conservation of the old mining and coking plant estates, improvements of technical, social, health and cultural infrastructure, and the development of new residential quarters to attract middle class families, all in order to enhance demand and local purchase power (figure 2). In 1992, district VI was selected as a pilot area for the SIC programme of NRW, as a result of the joint public initiatives and in order to bundle the various activities. Apart from urban renewal activities, the municipal programme management coordinated two programmes for entrepreneurship promotion. The first project is a start up incubator (Triple Z) which provides workspace for more than 60 firms. The incubator is integrated into the overall city’s approach in fostering entrepreneurship. The second project is an association to promote tourism in the location, based on the historical industrial architecture and new forms of land use in the old industrial estates. This association is supported by local citizens and entrepreneurs.

*Triple Z* was established on a side estate of the former “Zollverein” coal mine in 1994 (figure 2). The incubator provides work space for new ventures, shared facilities such as security and office services at reasonable prices, and a business advisory service for the tenants and other entrepreneurs of the neighbourhood. The tenant group includes engineering consultants, metal workshops, whole-sellers, IT and media firms, advertisement and design agencies, and business consultants. From 1994-1998 the site underwent reconstruction. In 1998, the first tenants, initially 22 firms, set up their businesses, providing 40 jobs on 2.000 m<sup>2</sup>. In 2005, nearly 350 persons work in 65 firms, which occupy 95% of 10.000 m<sup>2</sup>. The next phase of spatial extension will start soon since there is still a high demand of office space.

The incubator is organised as a public company with 41,000 shares; 8,600 of which are held by citizens from the neighbourhood, thus fostering its acceptance in the local area. The first shares were auctioned at one of the above-mentioned “neighbourhood conferences”. The remaining shares are owned by semi-public institutions like the municipally owned Essen Economic Development Corporation (EEDC), local saving banks, and the chambers of commerce and crafts. As a result, the incubator is well embedded in the neighbourhood and the city. Moreover, *Triple Z* spends part of its profit on social and cultural sponsoring in the neighbourhood.

The incubator manager can be considered a high communicator, thus being an important success factor for the incubator. Due to his former work in the EEDC he is known to several important key actors and stakeholders within the city, thus ensuring vertical links with public shareholders and the municipality. Moreover, he also is well accepted within the neighbourhood. In the future the linkages between the start-up incubator and the city can be expected to intensify. Recently a new consulting firm located in *Triple Z*, took up the responsibility to set up a city-wide advisory network for entrepreneurs on behalf of the EEDC.

The growth of the incubator community fosters a mix of young firms and now established ventures. From the viewpoint of the resident firms this can be interpreted as a locational advantage, because due to this heterogeneity the internal flow of information broadens and opportunities for inter-firm cooperation increase.

In 2002, the main estate of the coal mine “Zollverein” became listed by the UNESCO as a world heritage. Today, the area hosts a museum, a design centre, conference rooms, restaurants and cinema. This site plays an important role in regional strategies aiming at fostering tourism. Already in 1997, local citizens set up the local tourism association; and established local business people acted as promoters, bringing in their contacts to municipalities and local policy. Some of the local business people belong to the above-mentioned group of local leaders; and in this way, the initiative became known to the SIC programme management. Between 1998 and 2004, it was supported financially. The costs for the tourism association added up to around €0.12 Mio, e.g. for feasibility studies and an initial PR campaign. The city-wide Essen Tourism Agency was also paid for helping to implement a booking and a quality management system.

Within this project, the group of “young entrepreneurs” consists mainly of elderly ladies, often housewives without an academic background. Entrepreneurship in these cases often is a part-time activity in order to earn more income. Entrepreneurship support accordingly happens at a very basic level. For example, programme funds were used to support English language tuition for these entrepreneurs. As a result they can now accommodate international guests, thus broadening their source of income considerably. Around 40 landladies are nowadays affiliates of the tourism association, offering a total of around 100 bed & breakfast facilities adjacent to the world heritage area and accommodating around 1,000 overnight guests in 2003.

Since 1997, experienced hotel and restaurant owners of the adjacent area also joined the local tourism association, providing advice to the landladies who also gain from cooperation with the nearby start-up incubator. For example, the new bed & breakfast facilities are now used by the organisers of conferences and seminars in the incubator. Additionally, a newly-established design school and the prospective activities of the “Capital of Culture 2010” promise further good business.

#### 4.2 Gelsenkirchen

Fostering entrepreneurship and SMEs also played an important role in the programme district of Gelsenkirchen-Bismarck, although the approach used was different. Here, the municipal programme management used their regional contacts to other SIC programme cities, the regional chamber of commerce and a regional development agency to brainstorm for ideas regarding entrepreneurship and SME promotion at the local level. Based on these results, they appointed a consulting firm from outside Gelsenkirchen to set up a temporary SME promotion centre (“BfW”) for the programme district. The centre ran from 1998 to 2004, after which the Bismarck district received no more funding from the SIC.

As a first step, the SME promotion centre conducted a comprehensive survey on the district’s economic structure and land use. Together with local citizen and business groups a set of projects was developed, of which not all turned out to be feasible. Among the non-feasible projects were a proposed start up incubator and a business estate for established SME in the crafts and repair trades. The approach failed due to unsuccessful negotiations with the mining company as estate owner. As a result, the SME centre concentrated on fostering entrepreneurship and SMEs through advisory services and networking activities. For example, it connected individuals interested in starting a new venture with experts of the

municipal authorities and the regional chamber of commerce. Between 1998 and 2004, around 30 people started their business through this advisory service, creating 10 additional jobs. However, in comparison to the whole city, where in 2004 around 2,000 new businesses were registered (IHK 2006), this result is modest.

Additionally, since 1999 a so-called “Roundtable” was organised, where entrepreneurs could obtain information about taxes, marketing, public support initiatives, and the like. Again, results appear modest. Although 103 persons took part between 1999 and 2004, the majority of entrepreneurs only attended once; only 12 entrepreneurs took part in more than ten of the meetings. Furthermore, those five persons who took part most often met each other just three times. The volatile nature of the Roundtable prevented close-knit network links. Here, our survey revealed that the homogeneity of the entrepreneurs turned out to be a major obstacle to the emergence of stable networks. Most of the participants in group meetings planned to start a micro business in different services, such as catering, retail trade, marketing and advertisement. Nearly all of them were pushed into considering entrepreneurship because of (impending) unemployment. Many of these nascent micro entrepreneurs gained sufficient information during the first few group meetings and found no incentive to engage in further networking activities. Moreover, as the Roundtable was restricted to new ventures, the participants had limited opportunities to meet with established local firms.

Although the Bismarck SME centre succeeded in establishing vertical linkages to important actors for entrepreneurship promotion at upper administrative levels, its overall success in linking entrepreneurs at the local level remained modest. Contrary to Essen, where the manager of the Triple Z incubator acted as “high communicator”, no widely respected local leaders emerged in Gelsenkirchen. One example where this became apparent concerns the “business brunch”, arranged quarterly by the SME centre and well attended by local

business people as well as by local politicians and authorities: The objective was to foster networking amongst SMEs. However, when the SIC programme finished in 2004, the business brunch stopped as well as no local actor felt responsible to continue this network activity.

In 2004, the SIC programme was transferred to an adjacent area in Gelsenkirchen. The contractor of the SME centre in Bismarck received an assignment to operate another information centre in the new programme zone. Time will have to tell if the new district provides better local preconditions for stimulating entrepreneurial activity.

#### 4.3 Exploring Costs and Benefits of Collective and Individual Activities within the SIC

In this section we now turn to assess the costs and benefits of the collective and individual activities outlined above. For this, we have to rely on qualitative assessments through the expert interviews and the survey data. Any quantitative assessment of the SIC and its impact were rendered impossible because we were not able to obtain sufficient or any information in order to calculate the precise costs for entrepreneurship support within the SIC.

In Essen, the redevelopment of the Zollverein coal mine site was a direct prerequisite of all subsequent local economic promotion schemes, with expenses amounting to about € 250 million since 1989. In Gelsenkirchen, redevelopment of the coal mine site was linked more indirectly with the activities of the SME promotion centre. The only figure available here concerns personnel expenditures for the SME centre which amounted to € 550,000 between 1998 and 2004. In both areas however, no conclusive information is available as to how much of the overall budget had been allocated to entrepreneurship support measures. Similar problems arise when trying to assess the effects of the entrepreneurship and urban renewal activities of the SIC on local labour markets. Again, there is a lack of appropriate

data, which is a phenomenon generally known for most entrepreneurship and SME support programmes in Germany not conducted at federal level.

Here, our survey amongst the entrepreneurs allows us to draw some tentative conclusions based on their assessment of location factors and business development over the past years. Overall, entrepreneurs in Essen appeared to have fared better than in Gelsenkirchen: In the former area, around 50% and 40% of the respondents reported an increase in turnover and profit over the past five years respectively. Another 25% showed stable development, while in Gelsenkirchen only 30% showed any growth at all and another 10% stable development in turnover and profits respectively.

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In particular, entrepreneurs valued the possibility of cooperation and the services business development agencies offer (Figure 3). In Essen entrepreneurs are more satisfied with these factors, while in Gelsenkirchen the opportunities for networking are regarded as insufficient. Furthermore, the network-based approaches to foster entrepreneurship seem to have had a substantial impact on entering the market. In both areas, a majority of entrepreneurs (60% in Essen, 55% in Gelsenkirchen) emphasized the role of network organisations in finding (new) customers and in overcoming difficulties (30% in both areas). The atmosphere within the start-up incubators such as Triple Z might have helped to facilitate trust and consequently close relationships between members. Interestingly, and with possible implications for policy, such network organisations play a negligible role in supporting the longer term competitiveness of local entrepreneurs; only few of whom saw any importance at all for such organisations in fostering innovations.

## 5. Factors Fostering Local Entrepreneurship

In this section, we will review our empirical results in the light of the literature review in order to identify factors of success for local entrepreneurship promotion. In line with the reviewed literature our case studies revealed three crucial factors fostering local entrepreneurship. They are linked to social capital formation through the simultaneous strengthening of intra- and inter-local relations for individuals and organisations (Läpple & Walter 2003) and can be summarized as follows:

- the establishment of local SME advisory services in connection with the provision of appropriate floor space due to the reconstruction of abandoned industrial estates,
- the development of formal structures in SME and entrepreneurs organisations which provide convenient and comprehensive access to information, resources and markets,
- the activities of network promoters and high communicators with respect to social capital formation and the consequent development of “institutional thickness” across different geographical scales.

In accordance with Krätke (1995), Schmude (2001) and Töttmann et al. (2005) we saw that the setup of *physical “anchor points”* was an important mean to initiate bridging forms of social capital in a neighbourhood. Such a local “anchor” can be in the form of an incubator, or it can take the form of meeting points for spatially dispersed micro firm owners and information points for (nascent) entrepreneurs. Moreover, as the example of the UNESCO heritage in Essen shows, the existing environment itself can induce new entrepreneurial activities after reconstruction, although this depends on the availability of appropriate sites and funds for reconstruction. The example of Gelsenkirchen clearly illustrates the problems arising when public authorities, representatives of the local business community and property owners cannot agree on property use, while in Essen, a coordinated

public initiative induced property owners to hand over vacant industrial estates for further usage.

Secondly, the case studies underpinned the ideas emerging from our conceptual review with respect to the interrelation between *formal structures in business network organisations* and the access to information, resources and markets of its participants (e.g., Nahapiet & Ghoshal, 1998; Adler & Kwon, 2002). Local networks need a heterogeneous membership in terms of sectors, size and experiences of the entrepreneurs in order to ensure a continuous flow of information and a wider range of opportunities for inter-firm cooperation. In this regard, the two Essen networks can be seen as good examples, while the network in Gelsenkirchen faces the problem of internal homogeneity and missing links to established local firms.

Thirdly, and building on an earlier study (Welter & Trettin, 2006), as well as the results obtained for network emergence and neighbourhood governance (for references see section 2.2) we found that the existence of an *integrated chain of network promoters* across different geographical scales serves as *basis of all networking activities*. Such network promoters fulfil different functions at different levels in creating institutional thickness which in turn fosters innovative economic activities (figure 4). We can distinguish three main types of network promoters at different levels.

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Insert Figure 4 about here

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Firstly, in the urban districts themselves *local leaders* contribute to the emergence of bridging forms of social capital. This can happen through citizen networks bringing together stakeholders of the neighbourhood, or through networks of entrepreneurs and small business. A second type of network promoter operates at the local / city interface between business community, neighbourhood and municipality. In coordination with the neighbourhood and its leaders **she** might foster social capital at the local scale in two ways: through local networks, e.g. start up-incubators, and through supporting horizontal links between different local business networks. Additionally, this *high communicator* strengthens the legitimacy and integration of local firms and networks into the wider city through the involvement of various agents from the city level, thus contributing to the evolvement of bonding social capital.

A third type of network promoter, the *urban leader*, links local leaders and high communicators at the city level. **She** forms formal and informal networks with stakeholders at the city level, thus fostering bridging social capital. Moreover, **she** also contributes to bonding types of social capital in the sense that **she** keeps close contact to responsible authorities and other agents at the regional or state level.

For the city of *Essen* we find examples for all three types of network promoters which form an integrated chain, e.g. local business people, the managers of the start-up incubator as well as a consulting firm therein, and members of the governmental authority who drive the renewal initiatives from the local to the regional scale. Most of these stakeholders knew each other personally before the renewal schemes were officially implemented. Hence, trust as the 'lubricant' of cooperation between agents at different scales already existed and helped get the renewal programmes off the ground.

In *Gelsenkirchen*, the local context was not favourable since no local leaders arose from the district's business community. Further, in comparison to the high communicator in Essen, the appointed network promoters from outside the city (BfW) lacked comprehensive

tacit knowledge about important stakeholders and networks at the city scale. This seriously hampered their potential to contribute to bonding social capital in linking initiatives and actors across different urban levels. This differs at the city level, where we find committed and cooperative municipal agents who support district-internal and upward-oriented bridging and linking forms of social capital. However, as the basis of the chain remains incomplete, the success and sustainability of activities to foster entrepreneurship is to be questioned.

## **6. Conclusions and Implications for Policy-Makers and Research**

Based on our explorative study we can see that policy makers tend to combine two strategies in fostering local entrepreneurship, namely to use entrepreneurship promotion at the local level as an instrument to sustain a certain degree of local economic activity and to develop specific trades and industries which are thought to harmonise with the particular location factors. Although the initial approach and central circumstances were quite similar in both of our study areas, the results of the strategic approaches differ remarkably. We found indications that within the distressed urban districts new ventures in prospering branches can only emerge successfully if this goes hand in hand with the development of trust-based business networks and incubators, which are linked horizontally in the neighbourhood and vertically in the wider city; and if this is an integral part of a comprehensive revitalisation strategy. This might help improving the image of formerly distressed urban districts, thus helping to attract new residents and entrepreneurs, preferably from outside the locality.

It seems likely that the reduction of intra-urban differentials may be an advantage for overall urban economic performance (Bénabou, 1996). Yet, so far there exists no empirical evidence for this proposed interrelation between intra- and inter-city disparities. It is, therefore, still uncertain to what extent local economic promotion in distressed urban districts

can be regarded as part of an overall growth-oriented urban development strategy. Definitely, it belongs to a policy approach which aims at sustaining and improving the attractiveness of cities as entrepreneurial and residential locations.

However, there is a caveat regarding expectations connected with local entrepreneurship promotion. Our case studies revealed that a thorough *analysis of new business opportunities* under the given location factors and constraints renders the potentials and barriers of approaches towards economic renewal more visible (cf. Hall & Hickmann, 2002), thus helping politicians to formulate realistic goals for entrepreneurship support at local level. Measures have to take into account liabilities of newness and smallness as well as short term effects on growth and employment in many segments of the service sector (cf. Storey, 1994: 109).

Overall, research on appropriate policy approaches for entrepreneurship promotion at local level is a promising challenge for the future, although the measurement of direct effects of entrepreneurial activities on local economic development remains another methodological challenge (Robson, 2004), and here our approach has its *limitations*. Small urban districts are open systems and strongly integrated into the urban and regional economy. Therefore, it remains difficult to isolate the effects of local initiatives from superimposed regional economic and political development processes and from other policy initiatives affecting the same area. The construction of a contrafactual situation, which would allow a thorough comparison between the performances of economic actors in “treated” and “untreated” areas will remain a task for future research. However, if we accept the contextuality, path dependence and contingency of collaborative economic action at the neighbourhood level, we also have to accept that this always will restrict the comparability of different areas with the help of statistical methods. Moreover, under the circumstances of multi-target regional and

urban development programmes, it also remains a target of future research to provide a thorough cost-benefit analysis for support measures aimed at local economic development.

With regard to *implications for research*, we can conclude, that the concept of relational economic geography proves to be a useful frame for the analysis of organisational structures on which the local economic renewal is based. Its strength is the combination of ideas from different theories popular in entrepreneurship research: the concept takes into account path dependencies, emergence and embeddedness of both individual entrepreneurial activities and collective approaches which exert some influence on economic and spatial development. Furthermore, with regard to the embeddedness of business activities this concept helps to analyse type, extent and results of horizontally and vertically directed interaction between individuals, organisations and groups of agents (networks). Regarding further research themes, our results illustrate an interesting link between local entrepreneurship and the responsibility of local leaders for their community as well as the embeddedness of entrepreneurship in household contexts. Here, it would be of interest to analyse the relationships between urban renewal strategies and social and community entrepreneurship. Moreover, the “everydayness” of entrepreneurship (Steyaert & Katz, 2004) is of particular importance in distressed urban neighbourhoods; and this opens up promising avenues for future research.

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TABLE 1

Area	Inhabitants	Share of recipients of social benefits	Unemployment rate	Share of migrants
Essen District No. VI	23,387 (1998)	12.0 % (1997)	10.3 % * (1998)	17.8 % (1998)
City of Essen	603,335 (1998)	7.6 % (1998)	8.4 % * (1998)	9.5 % (1998)
Gelsenkirchen-Bismarck	18,700 (1999)	~ 7.5 % (1999)	~ 20 % (1999)	20.5 % (1999)
City of Gelsenkirchen	283,000 (1999)	6.4% (1999)	~ 18 % (1999)	13.6 % (1999)
State NRW	~ 17,976,000 (1998)	3.8 % (1998)	11.7 % (1998)	11.1% (1998)
FR Germany	~ 82,037,000 (1998)	3.5 % (1998)	12.3 % (1998)	9.1 % (1998)

Sources: Austermann&Zimmer-Hegmann 2000. Federal Statistical Office 2003a,b. Statistical Office NRW 2000. The figures in brackets show the reference year. \* Share of unemployed persons on the total population in % (age group 18 to 64 years).

Socioeconomic characteristics of the sample areas in the early/mid-programme phase of the SIC-initiative

FIGURE 1

Participants in the programme “Socially Integrative City” of the State North-Rhine

Westphalia

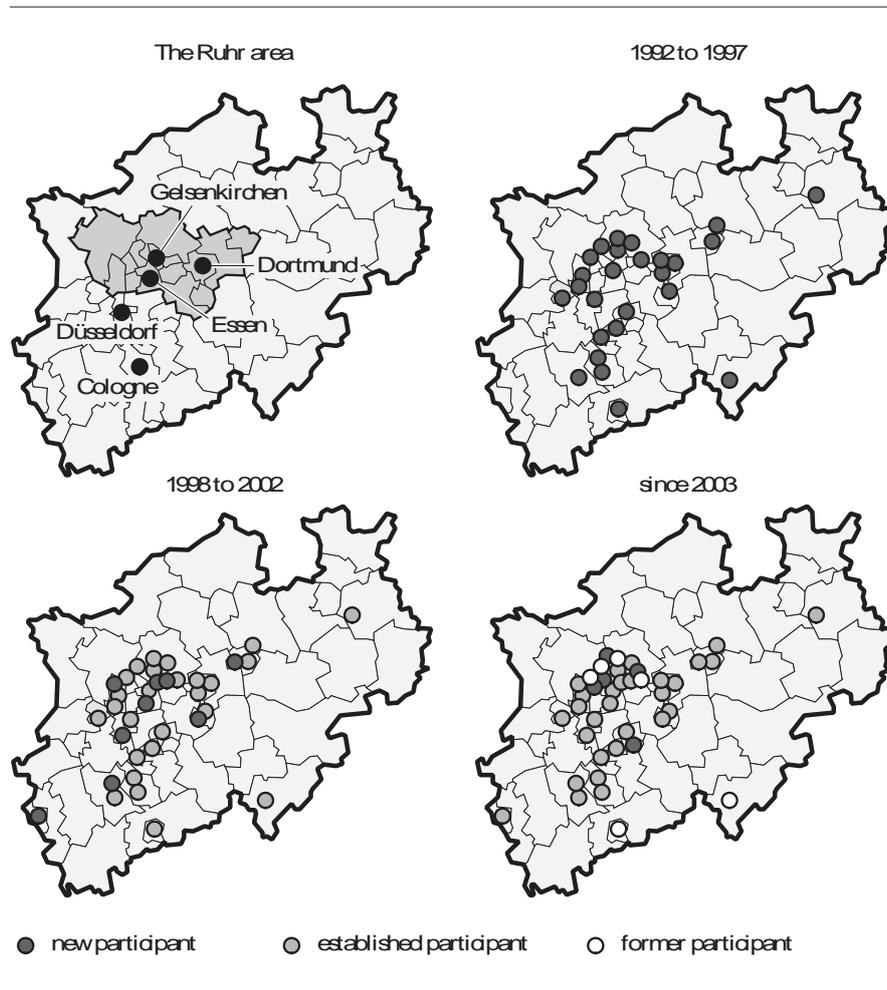


FIGURE 2

Projects on entrepreneurship and neighbourhood regeneration in Essen District VI

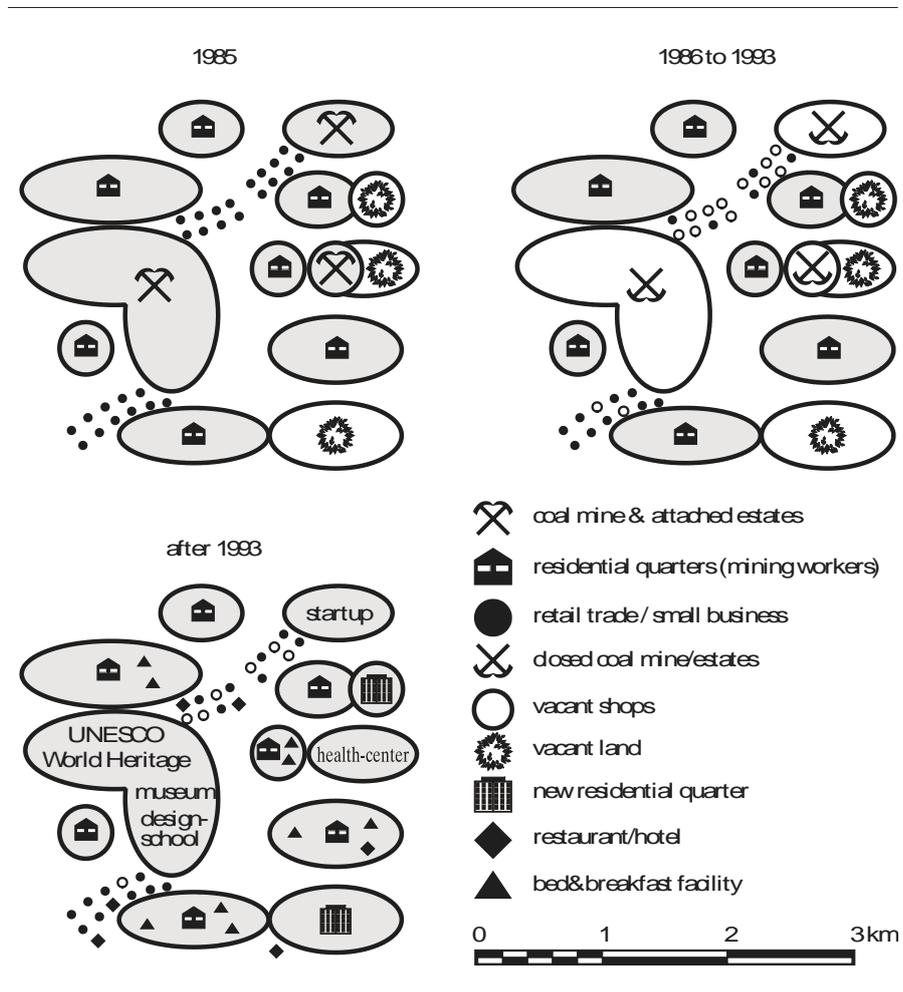
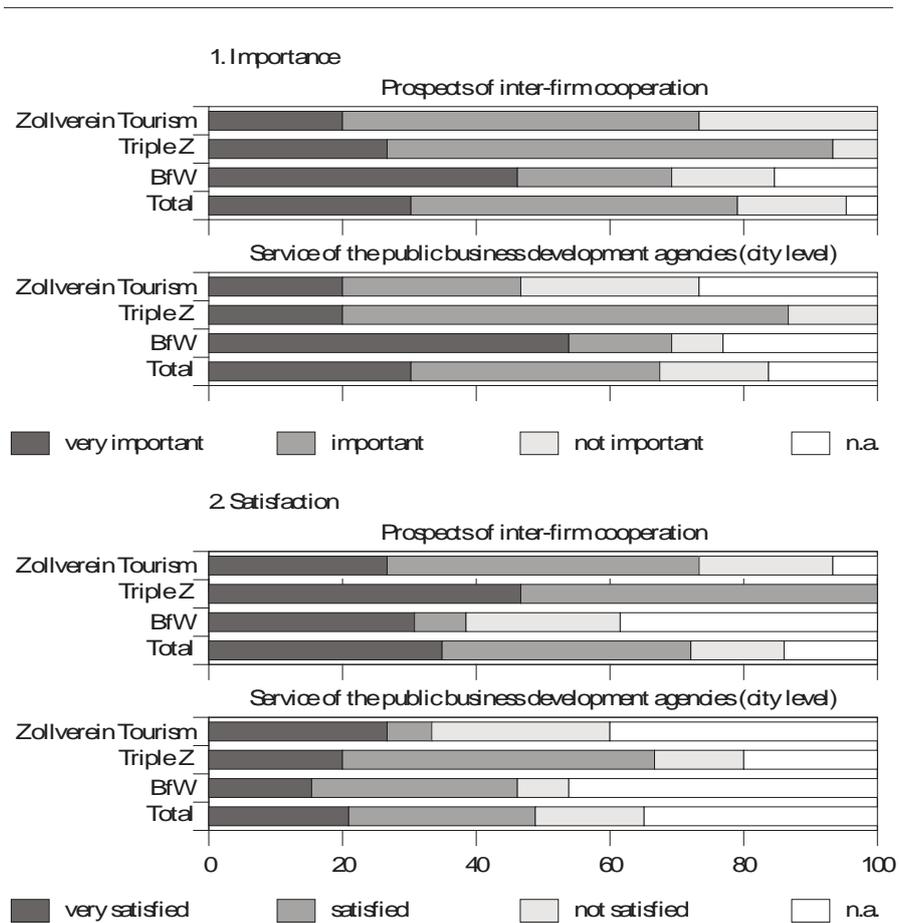


FIGURE 3

Entrepreneurs' assessment of location factors in the programme areas (% , multiple answers)



Source: Own survey, RM Essen, october 2005 to january 2006. – Number of observations Zollverein Tourism= 15, Triple Z = 15, BfW = 13, total = 43.

FIGURE 4

Integrated chain of network promoters across different geographical levels

