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Entrepreneurship, Social Capital, Governance and Regional Economic Development

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ABSTRACT

In this paper, we discuss three factors of critical importance for regional economic development, namely entrepreneurship, social capital and governance. We conclude firstly that the relationships between regional entrepreneurship, regional social capital, regional governance and regional economic development are complex and interdependent. Secondly, to influence these factors and the relationship between them policy-makers must have a long-term perspective and be both patient and persistent in their efforts. It is our hope that this paper provides both a somewhat better understanding of the relationships between regional entrepreneurship, regional social capital, regional governance and regional economic development and some help to national and regional policy-makers in formulating and implementing the proper long-term regional policies needed.

Key words: Regional economic development, entrepreneurship, social capital, governance

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1. Introduction

The purpose of this paper is to highlight the role of entrepreneurship, social capital, and governance for regional economic development. Regional economic development is a multi-dimensional phenomenon, which has stimulated various authors to come up with their own definitions. In this introductory chapter we use the definition suggested by Stimson, Stough and Roberts (2006, 6): "Regional economic development is the application of economic processes and resources available to a region that results in the sustainable development of, and desired outcomes for a region and that meet the values and expectations of business, of residents and of visitors." As all the other definitions of regional economic development in the literature, this definition is not perfect but it assists in the search for the role of entrepreneurship, social capital, and governance as factors that underlay and drive the processes, which support the sustainable development and competitiveness of regions. The strong relationship between regional economic development and entrepreneurship, social capital, and governance, respectively is clearly illustrated by Google Scholar, which September 20, 2011, generated between 10,000 and 15,000 hits for each of the three combinations.

2. Entrepreneurship and regional economic development

The phenomenon of entrepreneurship has attracted much interest among researchers in different disciplines in recent decades (Kirzner, 1973: Drucker, 1985; Aldrich & Zimmer, 1986) and not least among researchers focusing regional economic development (Alonso, 1968; Malecki, 1993; Amin, 1999; Markusen, 2004).

Myrdal (1957) presented one of the most well known theories of regional economic development – the cumulative causation theory. This theory has a clear market focus and emphasizes the processes by which certain regions are able to attract financial and human capital and thus accumulate a competitive advantage in relation to other less fortunate regions, where backward processes prevent the disadvantaged regions from developing their internal capacity to compete and grow. Some 40 years later Krugman (1995) stressed the importance of the same cumulative causation processes and their impact on the regional economic development processes. The same cumulative causation processes appear in the so-called new growth theory as self-reinforcing decline or growth processes. The new growth theory has a high significance for regional economic development through the explicit recognition of the role of entrepreneurship for initiating and driving the dynamic change processes (Karlsson, Johansson & Stough, 2001; de Groot, Nijkamp & Stough, 2004, Eds.). This has been pointed out not least by Rees (2001), who stresses that technology based theories of regional economic development need to incorporate the role of entrepreneurship, particularly as a factor in the endogenous growth of regions.

Porter (1990) and Ohmae (1995) claim that the most critical factor in sustaining regional economic growth is competitiveness, which is the single most important issue facing firms and regional policy makers in the future. Firms and regional development organisations must spend a significant amount of their time and resources on research and business intelligence to understand the general factors and the specific factors such as entrepreneurship that generate competitiveness. They must scan their business environment regionally, nationally and internationally to understand potential threats and risks at different time horizons. In addition, they must to anticipate and develop potential new markets that could be created through capitalizing on internal firm factors as well as regional factors that can generate a competitive advantage at the firm levels well as at the regional level.

The stress on the role of entrepreneurs in regional economic development is based on the idea that entrepreneurs have a key role in taking risks to get things done by developing new combinations of ideas and/or doing things differently, i.e. by introducing innovations. Innovations will induce regional productivity and employment growth, i.e. regional economic development, if they are successful. Regional entrepreneurship is driving regional structural change and economic rejuvenation by launching production techniques for producing existing products, which are more efficient, improved versions of existing products or new products in the regional market (Fritsch & Mueller, 2004). This will affect incumbent firms and force them either to fight the new firms with lower prices or better services and/or to improve their production techniques and their product portfolios. Successful new and growing firms will also increase the competition for factors of production, such as labour, facilities and land making it necessary for incumbents to become more innovative to meet the increased costs. Thus, innovations launched by entrepreneurs will induce imitation and further development of production processes and products by competitors generating a dynamic competition process stimulating further regional innovation.

We may distinguish two types of entrepreneurship: exploitive and explorative (cf., Breschi & Lissoni, 2001). Exploitive entrepreneurship is strongly rooted in existing practices and routines and may even involve a direct imitation of an existing business idea, which is only placed in another context (Schmitz, 1989). Even if exploitive entrepreneurship is important not least for the spatial diffusion of innovations, its growth potential often is limited, since the product already exist in many markets. Explorative entrepreneurship, in contrast, stresses newness and a willingness to test new business ideas, i.e. innovations, and offers opportunities for rapid up scaling of production since the product is new to the market. Researchers have in recent years tried to disentangle the effects of different types of entrepreneurship on regional economic development. It seems as if in particular high-tech and knowledge-intensive start-ups contribute to regional economic growth (Audretsch & Keilbach, 2004; Mueller, 2007). Similarly, Wong, Ho & Autio (2005) stress that it is entrepreneurship based on the recognition of new business opportunities, which govern economic growth. Thus, the empirical evidences point in the direction that it in particular is explorative entrepreneurship, which has beneficial effects on regional economic development. However, exploitative entrepreneurship may also be important, not least for establishing a regional competitive advantage based on spatially confined knowledge advantages (Schmitz, 1989). Entrepreneurial exploitation of unique but temporary knowledge advantages in a region may stimulate the emergence of a cluster of firms capable of generating location economies that can sustain the temporary knowledge advantages for a longer period.

The effects of entrepreneurship on regional economic growth and be disentangled in effects on regional productivity growth and effects on regional employment growth. Starting with the effects of entrepreneurship on regional productivity growth, most studies indicate a positive relationship between entrepreneurship and regional productivity growth (Karlsson & Nyström, 2007). However, the direct short-term of entrepreneurship on regional productivity seems to be limited. This is quite natural since the economic activities generated by new entrepreneurial endeavours are only a tiny share of the total regional economy. Furthermore, most of these endeavours are built on new product ideas, rather than new process ideas (Koster, 2006). Still, entrepreneurship has indirect positive influences on regional productivity growth. Firstly, the threat of entries forces as well as actual entries forces incumbent firms to increase productivity. Secondly, new firms play an important role in the regional dissemination of knowledge, which can be of general importance for regional productivity growth (Koster & Karlsson, 2010). There are numerous studies, which analyse the connection between firm entry, firm exit and regional productivity growth.[1] Bosma & Nieuwenhuijsen (2002) analyzed the effects of market turbulence, i.e. entry and exit of firms, on total factor productivity (TFP) in Dutch regions. They found a positive relationship between turbulence and increased TFP in the service sector but no relationship in the manufacturing sector. Holtz-Eakin & Kao (2003) find a positive relationship between increased firm entry and growth of labour productivity in U.S. states but no statistically significant relationship between firm exits and growth of labour productivity. Callejón & Segarra (1999), on the other hand, find a positive relationship between market turbulence and the growth of TPF in Spain. Braunerhjelm & Borgström (2004) have studied the importance of agglomeration advantages and regional entrepreneurship for growth of regional labour productivity in Sweden and they find that both factors have a positive influence.

Policymakers are often more interested of the effects of entrepreneurship on regional employment growth than the effects of entrepreneurship on regional productivity growth. Hence, researchers have devoted substantial efforts to analyse the employment side of regional entrepreneurship. Existing research results show that the regional employment effects of entrepreneurship vary over time as well as between the US and Europe. The standard result in the US seems to be that the relationship is positive (Acs & Armington, 2004). In Europe, on the other hand some researchers, particularly for the 1980s, found a negative effect of entrepreneurship on regional employment growth (Fritsch, 1997, and Audretsch & Fritsch, 2002[2], for Germany and van Stel & Storey, 2004[3], for the UK). However, other researchers have found positive regional employment effects of entrepreneurship for Europe (Ashcroft & Love, 1996, for the UK and Klette & Mathiasen, 1996, for Norway).

In order to develop a better understanding of the impact of entrepreneurship on regional employment growth Fritsch & Mueller (2004) present a four-stage model, which is based on the idea that the regional employment effects of entrepreneurship follow a specific temporal pattern. Initially, entrepreneurship has a direct employment-generating effect. Even small firms offer employment, at least to the founder. Assuming that there exists unemployment and that at least part of the jobs previously occupied by the founders will be taken over by unemployed persons, a direct positive employment effect of entrepreneurship can be expected. However, after this initial stage, entrepreneurship might have negative effects on regional employment.

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[1] It seems as if the contribution of firm dynamics on productivity growth increases with the period studied (Scarpetta, et al., 2002).

[2] However, they find a positive relationship for the 1990s.

[3] These authors also find a positive relationship for the 1990s.

Employment in incumbent firms might be negatively affected by increased competition from new firms. This is the face of creative destruction when jobs in less efficient incumbent firms are displaced by jobs in new more efficient new firms offering products preferred by customers often to the extent that some incumbent firms have to gout of business. In addition, several new firms also will go out of business during this phase due to inferior business ideas and/or bad management. After this stage, the regional employment effects become positive again in line with the Schumpeterian idea of development through entrepreneurship, i.e. the overall efficiency of the regional economy increases leading to employment growth. In the final stage, the regional employment effect of the entrepreneurship in the base period fades away. Evidences of such a wave-like pattern have been found for many countries, such as the UK (Mueller, van Stel & Storey, 2007), Germany (Fritsch & Mueller, 2004), Portugal (Baptista, Escária & Madruga, 2008), and the Netherlands (van Stel & Suddle, 2007). These studies also indicate that it often takes 8-10 years before the full regional employment effects of entrepreneurship have matured (cf. Caves, 1998) and that the indirect employment effects can be more important than the direct employment effects. Fritsch & Mueller (2008) stress that the effect of entrepreneurship on employment can differ substantially between regions. The regional economic milieu in the form of density and regional productivity has a strong importance for the regional employment effect of regional entrepreneurship. In regions with a low productivity, the employment effects of entrepreneurship can even be negative.

Summing up the theoretical arguments and empirical evidences presented in this section, we may draw the conclusion that entrepreneurship generally is critical for regional development. However, the new products launched by entrepreneurial endeavours are often, but not always, knowledge-intensive and/or high-tech and that implies that not all regions offer a suitable economic milieu for explorative as well as exploitive entrepreneurship, including qualified customers with a high willingness to pay for new products with interesting characteristics.

To further regional economic development there is a need to foster entrepreneurship inside as well as outside existing firms. Policy makers can play a strategic role in fostering entrepreneurship by functioning as catalysts by on the one hand pulling together resources, factors of production, such as human capital and financial means and on the other hand facilitating institutional change in such a direction that entrepreneurship becomes a more interesting alternative for individuals as well as groups of individuals. However, since regions differ substantially in terms of their economic milieu, there is a substantial need to tailor the policy initiatives to fit the specific circumstances of each individual region.

3. Social capital and regional economic development

In recent years, the concept of social capital has attracted a lot of interest among researchers in different academic fields such as economics, economic geography management, political science and anthropology. This interest has been stimulated on the one hand by the big interest in the role of social capital among politicians, policymakers and journalists and on the other hand by some remarkable and path-breaking contributions by scientists such as Bourdieu (1980 & 1986), Coleman (1988 & 1990), Putnam (1988 & 1993), Portes (1998), Nahapiet & Ghoshal (1998) and Westlund (2006). These authors have connected, among other things, the effective performance of economies and democratic governance with strong norms of interpersonal trust and civic society. Building trust and consensual allocations of property rights generate norms valued by economic agents – norms, which are key factors for transactions in goods, service and labour markets (Miller, 1992). Many activities and exchanges are such that economic agents have to rely on the future performance of other economic agents. Since, it is in principle impossible to write complete contracts economic agents have to rely on other measures to secure the right performance of other economic agents to secure low transaction costs. Mutual trust is one such measure that creates an economic environment where other economic actors' commitments are taken as credible and enduring. The role of social capital and more precisely the role of networks and trust in regional economic development have been highlighted by among others Malecki (1991), Morgan (1997), Rosenfeld (1997), and Amin (1999). However, the role of social capital giving structure to regional economic development has traditionally tended to be neglected among most economists.

Social capital is a concept that has gained a growing interest as an approach to analyze the role of intangible factors, such as trust, networks and institutions in regional economic development via not only comparative advantage but also via competitive advantage (Porter, 1986). The competitive advantage approach emphasize that not only factor cost differentials are important but that also 'value factors' such as quality of life as well as human, cultural and social capital play a critical role for regional economic development. Some authors, such as e.g. Fukuyama (1995) claim that 'value factors' play an important role in the emergence of high-technology agglomerations, such as the Silicon Valley, where cooperation between small and medium-sized firms through formal and informal networks and alliances and connections with research universities generate an innovative climate through the combination of advanced R&D, entrepreneurs and venture capitalists. Similarly, Saxenian (1994) stress the role of cultural capital for the success of Silicon Valley by creating excellent opportunities for interaction with like-minded and diverse others.

Bourdieu & Wacquant (1992, 119) define social capital as "the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition." According to this definition, social capital has two components: i) a resource that is connected with group membership and social networks, and ii) a quality produced by the totality of relationships between actors. The concept has also been formally defined by Coleman (1988, S98), as the factors that "inheres in the structure of relations between actors and among actors" and according to him (a.a., S98) "Social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist in some aspect of social structures, and they facilitate certain actions of actors within the structure." Somewhat later social capital was defined by Putnam (1995, 67) defined social capital as all "features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives."[4] Social capital is linked to economic development through several different mechanisms. The critical role of trust, cooperation and credible commitment for the effective functioning of markets and thus economic development is stressed in institutional economics (North, 1990; Miller, 1992) as well as in common pool resource economics (Ostrom, 1990). Economic development can also be influenced indirectly of social capital through its influence on government performance (Knack & Keefer, 1997).

Jacobs (1969) discussed the role of social capital for regional economic development already. Many definitional extensions have been suggested in the literature but as Malecki (1998) remarks the concept is difficult to define and hence to measure and therefore to apply. Durlauf & Fafchamps (2006, 1642) make a statement in line with Malecki: "While conceptual vagueness may have promoted the use of the term [social capital] among the social sciences, it also

[4] However, non-cooperative networks may under certain conditions be a hindrance for regional economic development (Knack & Keefer, 1997).

has been an impediment to both theoretical and empirical research of phenomena in which social capital may play a role." There still exist substantial problems with the concept of social capital even if many attempts have been made to operationalize the concept and to link it to national and regional economic development. Many of these studies claim to have found that differences in social capital between regions provide one credible explanation to differences in regional economic development (Putnam, 1993; Fukuyama, 1995; Knack & Keefer, 1997; Irwin, Tolbert & Lyson, 1998; Tao & Feiock, 1999; Abel & Stough, 1999; Gulati & Gargiulo, 1999; Zak & Knack, 2001; Guiso, Sapienza & Zingales, 2004; Ostrom, 2005; Chou, 2006; Antoci, Sacco & Vanin, 2007; Bartolini & Bonatti, 2008 a & b; Akcomak & ter Weel, 2009).[5] However, the value of many of these studies is limited due to two main empirical problems (Sabatini, 2008): i) the use of macro indicators, such as crime rates, teenage pregnancy, blood donation, participation rates in tertiary education, etc., which generate confusion about what social capital is as well as its relationship to the outcomes analyzed (Durlauf, 1999), and ii) the use of aggregated data without linkages with the social and historical circumstances in which trust, networks and social capital are located (Foley & Edwards, 1999; Fine, 2001). There is also a lack in the literature of empirical studies of the effects of social capital on factors, such as human development and social cohesion, which might contribute to make economic growth sustainable in the long run. It is also unclear which types of networks, which have a positive effect on economic development. Sabatini (2008) finds that it is only "linking" social capital that has a positive effect on human development and that "bonding" and "bridging" social capital has a negative effect on human development.

The importance of social capital stems from is capacity to reduce frictions considerably in market transactions in regional economic systems, i.e. to reduce regional and local monitoring and transaction costs, by nurturing trust and shared values. Such frictions are reduced in at least three ways (Malecki, 1998, 11):

- the creation of a system of general reciprocity,
- the establishment of information channels, providing sorted and evaluated information and knowledge, so called buzz (Bathelt, Malmberg & Maskell 2004), and
- the simplification of market transactions through norms and sanctions by which economic exchanges can be facilitated, bypassing costly and legalistic institutional arrangements associated with market transactions.

By reducing frictions, social capital contributes to regional economic development by generating increasing returns in the regional economic system. Many authors view social capital as both a generator and a function of trust (Granovetter, 1985; Fukuyama, 1995). Even if trust is as difficult as social capital to define and to measure, it is viewed as a strategic component for making non-routine transactions to be done with a minimum of frictions. The capability of some regions, e.g. some so called industrial districts, to maintain global competitiveness through networks of small and medium-sized firms, rather than being dependent upon one or several large firms has in the literature in many cases been explained by high levels of trust among regional firms and organizations in the region, i.e. a high level of social capital. Hence, social capital is increasingly being viewed as a fundamental factor for regional competitiveness and thus for regional economic development, even if the evidences mainly are based on case study analyses or deductive reasoning. Existing studies indicate that regions with high levels of trust, and thus social capital tend to be more competitive due to a better ability to

[5] Some studies have found little support for a positive relationship between organizational activity and economic development (see, e.g., Jennings & Haist, 1998).

adjust to the rapidly changing conditions that characterizes the current era of global technology-led economic development (Stimson, Stough & Roberts, 2006).

The implications of the above discussion for regional policy is that preserving and developing social capital becomes one major instrument to further regional economic development. Naturally, development of social capital is in most cases not a sufficient policy to generate regional economic development. Researchers have stressed, for example, the possibility to use the inter-relation between social, environmental and cultural capital to support regional economic development (Krugman, 1995; Skott & Auerbach, 1995; Martin & Sunley, 1996; Galster, 1998). Such an approach implies that sustainable regional economic development should focus on actions that stimulate positive cumulative causation processes between the three types of capital that can generate increasing returns.

To summarize this section, we claim that is must be acknowledged that even if there are issues regarding the definition and measurement of social capital that it has developed into one of the most critical factors for regional economic development policies in the modern global society. It is strongly related to the degree of trust between firms, organizations and individuals in a region making it possible for them to reduce transaction costs both in market exchanges and in regional development projects. Regions with high social capital and trust seems to be able to initiate and execute regional economic development strategies and projects more easily and more effectively than regions with low social capital and low trust. Researchers have in recent decades tried to answer the question how regions can enhance their social capital to stimulate regional economic development. Social capital has been linked to participation in social organizations (Putnam, 1993) and to civic education, which supports the development of norms of trust and cooperation (McGinn, 1996). However, the difficulties in defining, operationalizing, identifying and measuring social capital, networks and trust imply that more theoretical and empirical research is needed to better understand and design regional development policies that develop social capital and trust.

4. Governance and Regional Economic Development

The question of governance of economic, social and political systems from the micro to the macro level has engaged researchers for centuries. In recent decades, we may observe the general contributions by Williamson (1979) and Rhodes (1996 &1997) as well as the contributions focusing specifically on the governance of regional economic development by Luger & Goldstein (1991), Amin (1999) and McLeod & Goodwin (1999). “Governance” should be understood in this connection as the act or manner or process of governing and the office or function of governing (Stimson, Stough & Roberts, 2006). The issue of governance has increased in importance in recent decades, since economies at all levels – global, national, and regional – have rapidly increased in complexity. Firms not only depend on their own capacity to cope with this increasing complexity, but also need to draw on other firms, in particular, knowledge-intensive business service firms, and on public sector organizations as providers of inputs and services and as sources of learning and innovation (Helmsing, 2001). This implies that problems of co-ordination have multiplied in both the private and the public sector, while the uncertainties about the outcomes have increased. In order to deal with or at least reduce these and associated problems (such as asymmetric information asymmetries, information paradoxes, moral hazard, free riding, lack of trust, and opportunism) governance has become a critical issue.

Governance is an issue for all regions but it is in particular critical for those regions where co-ordination (and co-operation) is weakly developed and where more or less unregulated competition prevails (Scott & Storper, 1992). Especially the last group of regions face many problems and predicaments that compromise and threatens long-run viability and development. Such regions are all the more vulnerable because, in a global world with contested markets, their firms are faced with competitors based in regions that provide more efficient governance supporting co-ordination and co-operation within the region. In other words, the long-run economic development in a region depends as much on its firms as on the regional governance system and the interaction between the firms and the governance system to secure long-term co-ordination and co-operation. Governance systems that are better at handling these problems have a greater capacity for continuous adaptation and this allows them to maintain a long-term development trajectory. As economies are becoming more complex, new forms of governance needs to be developed and implemented to secure co-ordination and cooperation both between firms and between firms and public sector organizations.

Decisions by governments, firms and individuals concerning the collective and/or private use of resources and assets are in market economies governed by institutions, i.e. commonly held principles, rules, values, etc., which define property rights and the level of transaction costs, and hence the efficiency with which different national and regional economies work. These institutions are over time slowly shaped, reinforced or changed by political decisions, custom, past experience and/or events elsewhere. The institutional framework of a society is critical since it determines its incentive structure (North, 1990, 4): "Institutions, together with the constraints of economic theory, determine the opportunities of a society."

The economic performance of a region over time is in a basic way influenced by existing institutions and the way they evolve over time, i.e., how they decrease uncertainty, how they allow firms and individuals to have access to information, and how they decrease the market and policy imperfections that increase transaction costs. Clingermayer & Feiock (2001, 3) remark that institutions "can provide the stability in collective choices that otherwise would be chaotic." The nature of the institutional framework and the degree to which it imposes constraints or facilitates actions to identify, develop and explore opportunities can be seen as conditioning the innovation, entrepreneurship and investment processes that are essential for regional economic development (Vazquez-Barquero, 2002). The reason is that the institutional frameworks can (Stimson, Stough & Roberts, 2006):

- reduce transformation and production costs;
- increase trust among economic and social actors;
- improve entrepreneurial capacity;
- increase learning and relational mechanisms; and
- reinforce networks and cooperation among actors.

The current era of globalization creates considerable challenges for governance of regional economic development including changes in institutional frameworks. We are experiencing the emergence of societies without clear borders with low frictions for the movement of information, knowledge, people, goods, services, production and money. Governments and firms in today's world must be able to handle increasingly complex matters as well as greater levels of transparency and standardization because of stronger demands from different groups of stakeholders for greater transparency and accountability in government organizations. Furthermore, the role of governments at different levels is changing.

Governments in the global era of deregulation have less influence and control over regional economic development including the investment and location decisions by firms, of which an increasing number are multinational. Thus, governments at different levels need to learn how to facilitate and manage regional economic development processes, so that they fit with the global forces that shape the patterns of investment and location of firms and households. Many governments have difficulties in accepting this situation. There are also often conflicts between governments at different levels, where not least regional governments demand greater empowerment and try to convince national governments (and supra-national governments, such as the European Union) to delegate decision power and resources as well as to execute national policies in a consultative manner. At the same time, there is a growing tendency for new partnerships between national, regional and local governments, business organizations, trade unions, NGOs, etc. to emerge with a mandate to execute many of the functions and responsibilities traditionally undertaken by government agencies.

The current globalization trends generate many paradoxes for national governments. They need on the one hand to develop national public policy and national public investments in public services, R&D and infrastructures to stimulate innovation and entrepreneurship and to facilitate the growth of firms in a global context. However, on the other hand they need to empower regions and partnerships to mobilize resources to provide and manage those public services, R&D activities and infrastructures that are critical to support regional innovation and regional economic development. Thus, governance processes and procedures are transformed generating substantial challenges for governments to design new governance institutions.

The ongoing changes in the global economy has led to a relative decline in the role of the national governments and an increasing focus on regions as the real centres for innovation, entrepreneurship and regional economic development. Regions – and in particular the large metropolitan regions – are dominating R&D, innovation, entrepreneurship and investments and have become the major creators of value added and employment growth. This implies that the functional metropolitan region to an increasing extent must become the geographic unit of both analysis and governance of regional policies, since they are the regions where most of the regional economic development is generated. However, often boundaries of the functional metropolitan region do not coincide with political and administrative boundaries generating substantial governance problems, such as free riding problems and lack of coordination in the provision of public services and infrastructures.

Many firms do not confine their economic activities to a specific region, not even in cases when they are integrated in strong industrial clusters. Instead, their economic activities in terms of production, exports, imports, etc. are spread over many regions at home as well as abroad. Globalization, technological change and restructuring of regional and national economies have induced many firms to outsource activities to become more flexible and to be able to take advantage of economies of scale among suppliers. The globalization process and the destruction of the Soviet bloc has led to the integration of many developing economies in the world economy, which have open up possibilities for firms in the developed countries to extend the outsourcing to developing economies, i.e. to offshore activities. This has led to the development of new business models, where not only manufacturing firms but also service, wholesale and retail firms take advantage of the new options and source inputs, products and services where they find the lowest production costs for a given quality level. What has emerged from this process is growing global networks of producers, suppliers, distributors and customers.

However, in the current knowledge-based, information-intensive era, regional economic development will not only be influenced by exogenous factors but increasingly by endogenous factors. We are globally moving into an age where firms and governments need to learn to anticipate and manage in a flexible manner emerging threats and opportunities and prevailing uncertainties rather than trying to determine or control future outcomes. Future economic outcomes will increasingly be managed through alliances and partnerships that combine ideas, values, information and knowledge rather than through big plans and interventionist policies. For regional policymakers this poses a great challenge to established systems of governance.

The processes discussed above have substantially changed the way firms and industries develop in a region and which location factors which are critical. Governments, which are not able to respond in the correct manner to these processes, risk to lose their position and to become unattractive for expanding industries and firms. Many firms in the global economy are characterized to a high degree by foot looseness, i.e. they are free to locate their activities to those regions that offer the right type of business climate. The conclusion for the governance of regional economic development is that regional economic development strategies and polices must be cognizant of the global context of the region and to develop regional actions in terms of provision of public services, R&D activities and infrastructures that facilitate integration with the global economy. It seems as if it is possible for many regions to create a path for the future by designing the required strategic architecture and to support a range of regional economic development possibilities, based on the competitiveness of resources, infrastructure, governance processes and core competence (Rosenberg, 1994).

Regions need to have appropriate institutional arrangements to be able to design, fund, and govern a regional development strategy and to ensure the implementation of plans and actions (Blakely, 1994). Thus, the capacity and capability of regional policymakers to govern, i.e., to initiate, undertake and carry through plans and decisions for regional economic development is critical dependent upon the institutional framework. This implies that that the development of the institutional framework is a fundamental factor in creating the right foundation for the governance of policies to further regional economic development.

5. Entrepreneurship, Social Capital, Governance and Regional Economic Development – Concluding Remarks

In the sequel, we have discussed three factors of critical importance for regional economic development, namely entrepreneurship, social capital and governance. However, we have mainly treated these three factors as three separate factors. This is of course a critical simplification. Regional entrepreneurship is certainly a function of, among other things, regional social capital and regional governance. Regional social capital, on the other hand, is, among other things, partly influenced by regional governance and the character and volume or regional entrepreneurship. Regional governance, lastly, is affected by regional social capital as well as by the character and volume of regional entrepreneurship. What must be observed in this connection is that regional social capital and regional governance structures and procedures only change slowly over time, since they are partly based on prevailing regional institutions. This implies that regional social capital and regional governance structures have the character of regional "soft" infrastructure and that it may take substantial time for regions lacking social capital and with dysfunctional governance systems to correct for this. It must also be stressed that several elements of regional social capital have such a character that they might be beyond what regional policy-makers can influence even in the long run. In addition, it might also be difficult to influence the volume of regional entrepreneurship, since there seems to be a high degree of persistence in the regional rates of entrepreneurship (Andersson & Hellerstedt, 2009). What we can conclude is firstly that the relationships between regional entrepreneurship, regional social capital, regional governance and regional economic development are complex and interdependent. Secondly, to influence these factors and the relationship between them policy-makers must have a long-term perspective and be both patient and persistent in their efforts. It is my hope that this paper provides both a somewhat better understanding of the relationships between regional entrepreneurship, regional social capital, regional governance and regional economic development and some help to national and regional policy-makers in formulating and implementing the proper long-term regional policies needed.

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