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► **To cite this version:**

Guy Baudelle, Gerhard Krauss, Clément Marinos. How Networking and Social Embeddedness Make Entrepreneurs Successful in Medium-Sized Cities of Peripheral Areas: A Location Case-Study in Brittany (France). 57th ERSA Congress, Aug 2017, Groningen, Netherlands. hal-01583123

HAL Id: hal-01583123

<https://hal.science/hal-01583123>

Submitted on 6 Sep 2017

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How Networking and Social Embeddedness Make Entrepreneurs Successful in Medium-Sized Cities of Peripheral Areas: A Location Case-Study in Brittany (France)

Theme: G02: Regional Economic Development

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Theoretical framework

According to the mainstream literature in economic geography, agglomeration economies are so powerful drivers for polarization in the larger metro areas that a center-periphery pattern is almost inescapable, making any peripheral location clearly disadvantageous for firms (Dicken and Lloyd, 1992; Fujita and Thisse, 2003). Urban studies also support such views by demonstrating the growing, steadily trend towards metropolization.

However these statements are not fully confirmed by some empirical results. Indeed the stated entrepreneurs' locational preferences of firms localized in medium-sized (and even small) cities situated in peripheral areas do not always meet these theoretical interpretations. Innovative entrepreneurs and successful companies are usual in such locations, making necessary to explain such unexpected location choices and how they can be successful despite their so-called locational constraints due both to their remote position in badly connected peripheries (as demonstrated by population and economic potential models at the national and European scales) and to the lack of localized external economies of scale.

To enlighten such apparently irrational business location choices, we could refer to the *behavioural approach* (Pred, 1967) as the perception of the quality of location characteristics has been neglected by the literature (Eickelpasch and al., 2015). Indeed the *mental maps* of the peripheral entrepreneurs –as revealed by our survey– do not exhibit the same perception of their working-area as expected from the theoretical works that consider peripheral locations are damaging due to various backwash effects (Myrdal, 1957; Haggett, 1979). As it has often been established by numerous surveys, the first locational factor of SMEs is often the birthplace of their manager, especially for family-owned companies, considering that entrepreneurial spirit is often more common in areas dominated by small firms (Baudelle and Ollivro, 2000; Ejermo and Hansen, 2015). Therefore the rationale of their location choice does not necessarily match the requisites of profit maximization. But despite this kind of path dependency due to the faithfulness of these entrepreneurs to their native region, we need to understand how such firms can be innovative and therefore successful notwithstanding their non-optimal location in small and medium-sized cities of peripheral areas.

At this point we need another theoretical framework, namely the *institutional approach* (Granovetter, 1973). This perspective is required to explain why and how entrepreneurs can be successful in spite of their non-metropolitan location in modest cities situated far not only from the core of Europe but also from the national and sub-national metropolises. More specifically our study mobilizes the *sociology of networks* (Krauss, 2011 & 2013) to explain the paradoxical success-stories of peripheral firms. Such an approach is congruent with the *evolutionary perspective* that is paying more and more attention (but not so much) to *networks* and *institutions* as parts of complex adaptative systems to explain regional resilience (Boschma, 2015).

Therefore our theoretical assumption is the following: *professional networks and personal networking* are crucial for these companies and their managers to give them access to various kinds of resources that are necessary to run their business. This is consistent with the theory striking the need for *embeddedness* among the entrepreneurs to make them possible to run their business with success

(Granovetter, 1973; Krauss, Sternberg, 2014). The final goal of the study is to understand how the access to various informational and human resources is made possible by the construction of networks used by innovating companies to develop their business. Consequently the objective is to identify the configuration of the networks –strong or weak, local or distant, central or peripheral– of the interviewed entrepreneurs to understand their possible role in their success stories.

Empirical approach

The field-study area is a corridor along the Southern Brittany Coast (France). In this area of about 939 000 inhab., there is no large metropolis. The three main cities (Lorient, Quimper, Vannes) are simply medium-sized cities: their built-up areas have respectively 115 000, 80 000 and 75 000 inhab. only and their travel-to-work areas 180 000, 120 000 and 135 000 people. Outside them, only small cities can be found.

Moreover these cities are far from the rest of France and Europe and even from the larger metro area in Western France, Nantes (622 000 inh.), which is more than 3 hours away by car from Western Brittany and even 4 hour and a half by train. Even from the closest city (Vannes) the journey to Nantes requires more than 2 hours. Paris, the national capital-city, remains from 3h30 to 6h30 away by train. Some local domestic airports compensate this remoteness but not totally and with a high flight cost due to monopolies. As a result this area is a typical periphery, far from the metropolitan engines of the globalizing economy. The French division of labour between Paris metro area and the province even worsens the gap between the Breton Western periphery and the French World City.

To understand how the entrepreneurs overcome such a physical distance, a sample of about 20 successful business leaders were interviewed (Marinos, 2015). The selected companies (mainly SMEs) are deliberately very competitive ones: they are intensive in technology, exhibit a high level of innovation (as demonstrated by the number of patents) allowing high added values and significant export rates, they attract international investors and look for clients and suppliers all around the world.

The objective of the study was to evaluate how important the networks are to compensate the possible theoretical locational constraints due to peripheral sites (Krauss, 2009). The literature often points out the possible negative locking effects of excessive local inward-looking ties, suggesting a trade-off between immediate adaptation and later adaptability (Grabher, 1993; Boschma and Frenken, 2010; Braun and Schulz, 2012; Boschma, 2015). However our study shows clearly that such a distinction between strong local, proximate connections and weak, outward-looking networks does not fit with our empirical results, which leads to reconsider the present literature about the connectedness of entrepreneurs working in peripheries seen as so-called autarkic and poorly connected places.

First results

The survey reveals that the entrepreneurs do not ignore the drawbacks of peripheral locations. However the professionals met for the survey express great satisfaction about their business in Southern Brittany. The participation of three quarters of them in local networks (business associations, chambers of commerce, development agencies...) is presented as necessary for their business development process, and even crucial during the start-up stage. It allows them to open up to their immediate environment and to enhance their external visibility. Belonging to a network also improves their collective capacity for concerted actions. Doing so, entrepreneurs become more audible by politicians and influence local public policies.

Small and medium-sized cities are perceived as a favorable ground to confident relationships even if that kind of links rarely exceeds the TTWA boundaries. Local political staff and administration are more easily approachable and quicker to react than in bigger cities.

More surprisingly, these employers are involved in the local economic life even if their clients are not local. The more entrepreneurs operate on the globalized market, the more they express that need for local commitment: *"my company needs roots to have wings"*.

The local territory acts as a medium between stakeholders: *"partnerships, collaborations, it is first and foremost a human-based process"*. A collaborative way of working is considered essential. The importance of trusting is at the heart of networks' efficiency because it facilitates the exchanges and improves the flow of information. The information quality control is operated by network members. Immaterial resources access constitutes a favorable ground for entrepreneur's social capital. This

access opportunity participates to the process of innovation. Therefore mutual trust can be regarded as an implicit knowledge transmission accelerator that fosters innovation.

Higher education (including alumni associations) is complementarily highly structuring for entrepreneurs' networks, offering good opportunities to develop sustainable partnerships. When they exist, links with experts and academic researchers are sustainable and lead to success. These relations take time and depend on the leader's background. They vary a lot according to how long the company has been based on the territory. However most of the local research fields are different from those which are of interest to local companies to such an extent that some companies prefer working with metropolitan research organizations, particularly for those which operate in niche activities.

In terms of cooperation, employers display a very pragmatic behavior: they get to the closest companies, sometimes even at the expense of the quality of the resource. Geographic proximity fosters working together, a round trip in the afternoon being considered as the symbolic border. This is particularly true for interpersonal networks, restricted to everyday life territory. But for commercial partnerships there is no geographic border.

Eventually these networks are helpful to overcome some challenges such as hiring talented employees or getting a convenient job for their partners in small TTWAs. But they do not solve all the usual problems the peripheral entrepreneurs face to such as good air connectivity within an hour drive ("If the airport closes, I leave"). Moreover the companies operating in specialized activities or in a niche productions do suffer from the lack of dense sectorial networks, generating a feeling of isolation. This can impact the open innovation process and even inhibit the organization of events supposed to provide new interactions.

Finally the network approach helps to understand why companies located in peripheral areas do not move towards larger central metro areas despite of their locational disadvantage underlined by the neoclassic locational theory.

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