

CORPORATIONS, ENTREPRENEURS AND URBAN DEVELOPMENT

Abstract

The state, local administration, corporations (private/ joint ventures/ multinational corporations), banks and syndicates represent the most important actors in urban management. Following the financial crisis, governments seek to attract and maintain high-growth firms that will fuel job growth after the recession. Still a lot of governments have failed in their roles to assure a sustainable level of foreign direct investments, to boost venture capital and entrepreneurship. The main reasons for this failure are the poor expertise and lack of understanding for the financing process, the incapacity or unwillingness to assure a competitive economic environment for entrepreneurs and the lack of interest to create attractive conditions for foreign investors. An important key to success is also the legal framework and the institutional process, which creates the reputation of a market in terms of transparency of information and flexibility for business development. In this paper I investigated the importance of corporations, entrepreneurs and legal framework in order to create urban growth. I also analyzed the case of Dacia Pitesti plant and the positive effects that the automotive activity has for the Romanian economy, local employment, staff skills and technical competences development, local suppliers and entrepreneur's growth.

Keywords: entrepreneurship, venture capital, foreign investors, monopoly, clusters

JEL CODES: A10, H72, J20, L62, N90, O15

CORPORAȚII, ANTREPRENORI ȘI DEZVOLTARE URBANĂ

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Rezumat

Statul, administrațiile locale, corporațiile, băncile și sindicatele reprezintă cei mai importanți actori în managementul urban. Ca urmare a crizei financiare, guvernele caută să atragă și să susțină firme cu potențial mare de creștere, care va alimenta crearea de locuri de muncă după recesiune. Din păcate multe guverne nu au reușit să asigure un nivel bun al investițiilor straine directe și să susțină antreprenorii. Principalele motive sunt expertiza slabă și lipsa de înțelegere a proceselor, incapacitatea sau refuzul de a asigura un mediu economic competitiv pentru antreprenori și lipsa de interes pentru a crea condiții atractive pentru investitorii străini. Un aspect important pentru obținerea succesului este, de asemenea, cadrul juridic și instituțional, care creează reputația unei piețe în termeni de transparență a informațiilor și de flexibilitate pentru dezvoltarea afacerilor. În această lucrare am investigat importanța corporațiilor, antreprenorilor și cadrului instituțional pentru a asigura o creștere urbană sănătoasă. Am analizat, de asemenea, povestea uzinei de automobile Dacia Pitești și efectele pozitive ale activității de afaceri la nivel de economie românească, ocuparea forței de muncă locale, dezvoltarea competențelor tehnice, dezvoltarea economică a furnizorilor și antreprenorilor locali.

Cuvinte cheie: antreprenoriat, capital de risc, investitori străini, monopol, grupuri.



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1. INTRODUCTION

Entrepreneurs are an important pillar for the local economies. Real world examples abound of entrepreneurs who have helped their cities economically and also the other way around: they have been influenced by the features of the region. Can the economic history of Detroit be told without Henry Ford? Would Ford have achieved the same success if he had worked in Huston? (Glaeser, Rosental and Strange, 2009).

Economic research didn't pay too much attention to entrepreneurs. The general economic models that came to dominate economics had little room for the idiosyncrasies of the individuals who started the firms. The primary role has been assigned to entrepreneurs by Schumpeter (1934). Over the past decade, entrepreneurship has become an increasingly established field that has tried to understand business innovators.

The most well known example of success regarding how a corporate venturing boosts new entrepreneurial clusters and assists governments in their role to stimulate economic growth is the Silicon Valley's venture capital success¹. It is therefore important to understand the ingredients that made the Valley what it is today: growth and commercialization of research and development activities by Stanford University and its graduates; development of applicable, market-relevant and innovative technologies; legal industry: contribution of local law firms to institutionalization of venture capital.

Considering the markets turmoil and the subsequent economic downturn, governments are set to play a new role in the evolution of the venture capital industry. We already see that governments, aware of the fact that the financial crisis offers new opportunities, increased partnerships with corporations to kick-start entrepreneurship. The financial crisis encourages large corporations to get more creative in their efforts of attracting and integrating outside innovations, thereby looking more closely to young companies (McCahery and Vermeulen, 2010).

There are certain steps that governments need to take in order to design an infrastructure supportive to the development of capital markets. The best market to be taken as example is US, where the flexible legal and economic framework contributed to the Silicon Valley venture capital performance. But the success couldn't be replicated at the same level in Europe and Asia, where the regulatory constraints limited the early-stage investments.

¹ A lot of studies have been published regarding Silicon Valley success: Josh Lerner, *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – and What to do about it*, Princeton University Press, 2009. See also John Armour and Douglas Cumming, *The Legislative Road to Silicon Valley*, Oxford Economic Papers, Vol. 58.

We also have the recent example of Facebook IPO, where huge success expectations transformed in broken dreams and a big scandal. The company evaluated at 104 billion dollars succeeded to raise 16 billion in IPO, but the stock price fell from 38\$ to 32\$ in only 2 day, investors losing over \$ 2.5 billion. Many have complained that the offer price was too high, there was no room left for growth and investment banks have misjudged the relationship between supply and demand. Moreover, the decision to increase the number of shares sold in the offer by 25%, with only one day before the closing bid, emphasized the imbalance between supply and demand. Many investment funds have complained that they received more shares than they had planned and thus were forced to sell important packages in the early days to reach the desired position. Two U.S. law firms specializing in processes of capital market abuses announced that they will go to trial court against Facebook and Morgan Stanley for the huge losses caused.

2. ENTREPRENEURSHIP – DEFINITION

Over the past several decades entrepreneurship has attracted increasing attention for its contribution to new products and services, employment, and the economy more generally. Both individuals and large firms are seeking to become more entrepreneurial. And yet there is another side to the story. Though there are many examples of the benefits of entrepreneurship, there are also abundant examples of its misuse. Some employees of Enron engaged in a number of entrepreneurial undertakings that were illegal and unethical.

The opinions are well divided: “On the one hand, entrepreneurs, who are regarded as creative innovators, are praised for their contribution to the development of society by creating new products, employment opportunities and thus opening new possibilities for all of us. On the other hand, entrepreneurs are often criticized for a one-sided pursuit of business success and being willing to compromise moral values if needed” (Fisscher et al., 2005).

Entrepreneurs are defined by two specific characteristics: influencing others and exploiting opportunities. Efforts to influence others and gain advantage from opportunities can be justifiably aligned with the established areas of leadership and interpersonal influence. Hence, the essence of entrepreneurship’s potential uniqueness stems from its focus on small-business ownership or firm start-up. Of course, this represents merely a narrow, specific context for studying the manifestation of social influence.

There are a few special characteristics considered to define the entrepreneur spirit, named by Vecchio (2003) the entrepreneurship’s “Big Five”:

- Risk-taking propensity

A decision-making orientation toward accepting greater likelihood of loss in exchange for greater potential reward can reasonably be expected to be included in any profile of what might make entrepreneurs distinctly different. However, research on risk-taking propensity has not yielded clear evidence of a relationship. Palich and Bagby (1995) used a cognitive based approach to argue that entrepreneurs may not perceive or accept risk more than non entrepreneurial counterparts, but rather that they are merely predisposed to access categories that suggest greater potential within business scenarios: entrepreneurs may tend to view some situations as opportunities, when others perceive similar circumstances as having low potential.

- Need for achievement

Stewart et al. (1998) also reported that entrepreneurs were higher in achievement motivation than both corporate managers and small-business owners–managers. Nonetheless, the results have not been uniformly supportive (Brockhaus & Horwitz, 1986; Johnson, 1990). Alternative interpretations of achievement motivation and entrepreneurship that rely on configurable notions (i.e., that high, moderate, or low levels of need for achievement should be examined in conjunction with levels of other needs, such as power and affiliation) have not yet been convincingly linked to entrepreneurial activity or success.

- Need for autonomy

As with need for achievement, need for autonomy has often been assumed to be related to entrepreneurial motivation. Definable as the desire to be independent and self-directing, need for autonomy has been offered as (a) an underlying motive for why some MBA students may be interested in working for smaller firms and (b) a predictor of the successful “fit” of an individual with an entrepreneurial position (Harrell & Alpert, 1979). These arguments are based on the premise that larger firms suppress personal freedom and the potential for entrepreneurial initiative.

- Self-efficacy

Borrowing from Bandura’s work on social learning theory (Bandura, 1982; Wood & Bandura, 1989), we can expect that individuals will prefer situations in which they anticipate high personal control, but avoid situations in which low control is anticipated. Following this logic, individual career paths should reflect personal assessments of capabilities for various occupations. Extending these ideas to entrepreneurial activity suggests that those individuals who believe they are capable of performing the roles and tasks

of an entrepreneur (i.e., who have strong beliefs in their entrepreneurial self-efficacy) will engage in activities associated with firm start-ups.

- Control

The concept is referring to one's sense of task-specific efficacy. The studies yielded a mixed pattern of results suggesting that female potential entrepreneurs held more internal/stable attributions (e.g., "I have always wanted to be my own boss"), while male potential entrepreneurs held more external/stable attributions (e.g., "I had identified a market need"). Although these results were statistically significant, the moderating role of gender is not easily interpretable, as the items for internal/stable attributions (e.g., "I want the autonomy and independence to do what I like through self-employment") seem closer to the aforementioned construct of need for autonomy than internal locus of control.

Audretsch and Keilbach (2004) have used an alternative measure of entrepreneurship—the rate of new start-ups. This variable is strongly correlated with the economic output of West German Counties. The start-up rate in the high tech sector is particularly associated with success. Another aspect of entrepreneurship is the independence of entrepreneurs.

Kolko and Neumark (2009) present an alternative means of assessing the benefits of different forms of entrepreneurship. Instead of looking at economic growth or level of output, they focus on the behavior of firms in response to shocks. Many local leaders would like firms that keep employment steady even during a downturn, and in principle, local entrepreneurship could provide a cushion against recession. Indeed, many communities have specifically tried to protect locally owned businesses from externally owned competitors, with the idea that locally owned businesses are more likely to provide stable employment for local workers. Kolko and Neumark find mixed evidence for this claim. Company headquarters are more stable than other establishments. Locally owned single establishment firms are actually more sensitive to downward industry shocks, but less sensitive to downward regional shocks.

3. THE RELATIONSHIP ENTREPRENEURS – MULTINATIONAL CORPORATIONS

There have been studies that looked specifically at the geography of the venture capital industry. Chen et al. (2009) released a study for the US market, concluding that this industry is overwhelmingly located in three cities: New York, San Francisco and Boston. This might seem to give a great advantage to entrepreneurs working in those locations. However, they also find that these firms frequently invest outside of their cities and actually earn higher returns from spatially distant investments. In any case,

venture capitalists seem to be capable of making wise investments away from their home towns, which suggests that the availability of capital might not be as geographically concentrated as the venture capitalists.

However, these findings still continue to suggest that the agglomerations of venture capitalists help create agglomerations of entrepreneurs. If investors only bother to invest far away if they can get higher returns by doing so, then firms in Silicon Valley can obtain venture capital for worse projects than firms in Idaho, and the Silicon Valley firms consequently enjoy an advantage. Somewhat paradoxically, the presence of high returns elsewhere actually supports the idea that entrepreneurs enjoy an advantage from being close to the clusters of venture capital (Glaeser, Rosental and Strange, 2009).

Agrawal et al has a totally different opinion in examining the geography of innovation by looking at the advantage of competition vs. Monopoly (Agrawal, Cockburn and Rosell, 2009). Agrawal looks at the patenting activity of firms in "company towns" that are dominated by a single large enterprise and compares that activity with innovation in more competitive environments. The main conclusion of Agrawal et al is that the dominant firms in company towns are, indeed, more inward looking. The patents invented in these company towns have just as much impact as patents invented elsewhere. These findings could be interpreted as evidence that the creative myopia associated with the presence of large firms in company towns does not necessarily determine productivity and innovation.

A different perspective on the interaction between large and small firms is provided by Haltiwanger et al. They examine the degree to which big-chain stores – both retailers and restaurants – displace employment at local smaller stores. They find that the presence of big chain stores adversely affects employment at smaller firms, primarily by causing smaller firms to exit. Importantly, this effect is concentrated among small firms that are in the same industry as the big-chain competitor. In addition, this effect attenuates sharply with distance, and is much less pronounced just a few miles away. The theory debates previous researches showing that the agglomerations of venture capitalists help create agglomerations of entrepreneurs.

4. INSTITUTIONS AND THE MOBILITY OF ENTREPRENEURS

Institutions represent the system of formal rules and unwritten norms that guide human behavior, and as such they play a key role in terms of the allocation of resources in an economy (North, 1990). In models of entrepreneurship that focus on the allocation of talent (Baumol, 1990; Murphy, Shleifer, & Vishny, 1991) the allocation of entrepreneurial effort to productive or unproductive (or destructive) activities depends critically on the specific sets of incentives agents face; i.e. on the existing institutional

environment. A poor institutional setup may end up leading agents to abandon the realization of (productive) entrepreneurial activities in their community; they may decide to work as dependent employees, to undertake unproductive entrepreneurial activities, or they may even decide to migrate to another community where their entrepreneurial effort is better rewarded. This latter possibility, the prospect of exit (assuming that entrepreneurial quality remains the same), represents a point that, to our knowledge, has not been considered in standard models of the allocation of talent. In this context it seems important to explain how, precisely, institutional quality is expected to affect entrepreneurial returns (Couyoumdjian, 2011).

In countries where institutional quality is better one will also tend to find that the costs of capital are lower; this should allow entrepreneurs who may have faced liquidity constraints elsewhere to be able to realize the net present value of their entrepreneurial projects. To the extent that entrepreneurship is a fundamental source of economic growth, societies with a weak institutional matrix will be poorer.

Assuming that all agents have, in differing degrees, some inborn entrepreneurial disposition, and that this trait is distributed uniformly within societies, the mechanism is simple: as agents find it less profitable to engage in entrepreneurial activities we will observe a lower overall level of entrepreneurship and, thus, lower economic growth (Baumol et al., 2007). Furthermore, the fact that entrepreneurship is less productive (in terms of generating economic value) in countries where the institutional environment is poor will also negatively affect the growth prospects of these nations. To the extent that we consider that entrepreneurial activities are not homogeneous, and that depending on institutional quality agents can decide to allocate their talent to productive, unproductive or destructive activities, we can also resort to this additional factor in explaining differences in economic growth across countries (Baumol, 1990). Entrepreneurs can “exit” from societies where the institutional setup is deficient. In other words, entrepreneurs can simply migrate to societies where their efforts are better rewarded in terms of their expected returns. At the same time it also includes different types of costs of liquidating fixed assets as well as the fact that some agents may face liquidity constraints to migrating (Adams & Page, 2003). The possibility that the human capital that talented agents have may be specific to their country of birth is also important to consider when talking about the transactions costs of migration; language may be viewed as another type of specificity, and the knowledge of local customs may also be important in this sense. These effects may, however, be offset by the existence of different network relations among migrants that reduce the costs of migrating. In the context at hand this may correspond to a sense of patriotism and concern for the future of their home country. As a result, even if it is economically profitable to migrate, we may observe the unexpected result that some entrepreneurs may decide not to do so out of a sense of national loyalty or patriotism. In many instances, however, this

effect can interact with some straightforward economic considerations; for example, agricultural businessmen claim to be less likely to migrate because they display a special interest and even a fascination for rural and national traditions.

5. STUDY – DACIA PITESTI AND THE IMPACT FOR ROMANIAN ECONOMY

Dacia, the first Romanian car manufacturer is a success story for the Romanian economy. Automotive sector (referring to the constructors Dacia and Ford, but also the components producers like Continental and Bosch) is one of the few sectors that continued employment and investments during the financial crisis. Dacia only holds 10% of the total Romanian exports, having a network of 800 suppliers with 100,000 employees. Any modification in the company's activity could have direct influences on the Mioveni/Pitesti region (where the plant is situated) but also on the overall Romanian economy.

Dacia was established in 1966. In 1999 Renault France purchased 51% of the company capital in the privatisation process of state owned companies. Renault currently holds 99,45% of Dacia stocks. In the meantime Dacia-Mioveni is the biggest car assembly plant in the Renault Group and Romania is the second country of the Renault world, after France.

Dacia, an international brand

Dacia's objective is to manufacture a robust, reliable and accessible car range which is to meet Renault's high quality standards. Dacia is the second brand of the Renault Group, contributing significantly to the improvement of Romania's image worldwide. The Logan project was a national Romanian challenge, but Dacia proved that it had the potential of an international brand. Dacia's sales increased from 52.500 units in 2000 to nearly 350.000 in 2010. France and Germany are the two main export destinations with 110.000 and respectively 40.500 cars, followed by Italy, Spain and Turkey (Kramer, 2011).

Dacia key player for Romania's economy

Dacia represented 2.7% of Romania's GDP in 2010. On the Mioveni industrial site there are 3 important entities: 1) the car assembly plant manufactures Dacia, Logan, Sandero and Duster cars. 90% of the plant production is exported. This plant is also manufacturing parts for other Renault's plants which assemble Dacia cars. 2) the mechanical and chassis plant manufactures engines, gearboxes, transfer modules, front and rear axles and powertrain frames. These products are delivered to Dacia assembly plant and to other plants within the Renault-Nissan Alliance. There is also an aluminium smelting unit, the biggest in the Renault group. 3) the logistics direction is in charge with the transport of cars and

parts. The direction exports sets of parts to plants within the Renault Group where Dacia, Logan, Sandero and Duster cars are assembled, in Russia, Morocco, Columbia, India, Iran, Brazil and South Africa.

Renault investments in Mioveni plant: effects on local employment and suppliers

Renault invested in the Mioveni plant more than €1.5 billion in the period 2000-2010. But these investments made to enlarge and modernise the industrial system would not have been enough without a new and modern production system. Improvement in the industrial performance of the Dacia site was possible only after the introduction of the Renault Manufacturing System (SPR).

Renault Romania currently has 17,500 employees and includes the platform Dacia Pitesti, Renault Technologic Romanian Engineering Center (including Testing Centre at Titu and Design Center Renault Design Central Europe), RIR-ILN Logistics Center and the Commercial Direction Renault. Renault has invested in the last 12 years, over 35 million EUR for training of employees in Romania accounting for 5.5 million training hours. The Group has implemented a comprehensive training device: 520 internal trainers, two training centers, 13 schools and 11 spaces dexterity DOJO (space "training" in safety, quality and environment). Training is done both for new employees and those experienced in the company. In 2011, 520,000 hours of training were performed for 15,200 employees. 69% of these trainings were conducted with trainers from the company, specialists in various professions. The Group also has partnerships with 36 training providers in the country. The foreign language trainings for employees are also very important: 80,000 hours of training conducted in French and English for 2098 employees were performed in 2011. Dacia Pitesti suppliers of the plant engineering were also trained in order to learn the last generation of production techniques applied in Japan: Thyssen Krupp, Continental and Bosch in Sibiu are only a few examples.

There is also a good impact for the Romanian suppliers that Renault developed a plant in Tanger. The GM of Automobile Dacia, Jerome Olive, said in an exclusive interview that the factory in Tanger should not be considered a threat to the future plant in Romania. Furthermore, it should be seen as an opportunity for Romania and for providers here who will deliver components to Moroccans (Stoica, 2012).

6. CONCLUSIONS

The presented case of Dacia Pitesti plant is definitely one important success story for the Romanian economy. Renault conquered the European market with low cost cars, covering a perfect niche during

financial crisis. In the meantime, Renault investments had positive effects for the regional development and Romanian economy in general: jobs creation, export of know-how, employee's development, related business growth (entrepreneur's development), GDP growth and exports increase.

As regarding the impact of entrepreneurship at local level, still lack a lot of data and variables in order to demonstrate if the success is independent of other sources. Economic research is still very poor and a lot of questions remain unanswered: To what extent the interaction with a corporation create premises for the entrepreneur's success? At what geographic scale the spatial mechanisms of entrepreneurs operate? How does entrepreneurial activity impact key urban issues? Do they have political and social influences?

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