



# **The Impact of Local Economic Development Policies on Entrepreneurial Activity: Evidence from Southern California Cities**

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# Overview

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Purpose and significance of research

Literature review

Data

Methods

Preliminary findings

Discussion and conclusion

# Purpose and Significance of Research

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Economic growth

Entrepreneurial activity has an impact on economic output/growth

Government (i.e., public institutions) can play a role in stimulating entrepreneurial activity

Research investigating the impact of government on entrepreneurial activity remains underdeveloped

Thus, this study seeks to address this gap by answering this question: what is the impact of government ED policies on entrepreneurial activity?

Significance of research

# Literature Review

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## Government entrepreneurship

Risk-taking, innovativeness, and proactiveness (Kim, 2010)

Governments take risks, innovate, and are proactive when they develop and implement ED policies (Bernier, 2014)

## Factors that influence government entrepreneurship

### Organizational/structural

Management support, work discretion, rewards, reinforcement, and resource availability (Meynhardt & Diefenbach, 2012)

Leadership style, goal clarity, network management, performance rewards, information sharing, and learning culture (Kim & Chang, 2009)

Org. hierarchy, formalization, horizontal complexity, manager's trust in employees, ethical culture, mission clarity (Moon, 1999)

### Environmental

Service need, diversity of service need, changes in social, political, economic context, political disposition, leadership (Walker, 2006)

Resource publicness and degree of local constraints (Moon, 1999)

# Literature Review cont.

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## Entrepreneurial activity

Capacity of economic agents to create new firms (Audretsch & Keilbach, 2004)

It serves as a mechanism to transfer knowledge across firms and individuals; it enhances competition; and it increases the variety of firms in a jurisdiction (Audretsch & Keilbach 2004)

Number of startups and new firms (Decker et al., 2014)

## Entrepreneurial activity and economic performance

Entrepreneurial activity increases economic output and productivity (e.g., Audretsch & Keilbach 2004; Baumol, 1968; Decker et al., Miranda 2014; Wennekers and Thurik 1999)

# Literature Review cont.

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Empirical research linking these two bodies of literature (i.e. 1. Government culture/programs, and 2. Entrepreneurial activity) remains underdeveloped

Thus, this study investigates the influence that government entrepreneurship (i.e., ED policies) has in stimulating the development of new firms

# Data

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Sample: 215 cities in Southern California

## Quantitative Data

- Web-based search on cities' ED programs
- Dates: November 2017-March 2018
- Other sources: U.S. census data

## Qualitative Data

- Structured phone/email interviews with ED professionals, city managers, etc.
- Questions asked: city ED programs, redevelopment funds
- Dates: November 2017-April 2018 (ongoing)
- 30 interviews completed
- Conference held at CSUDH – in-depth discussions around important topic areas



# Methods

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## Variables

- DV: Entrepreneurial Activity
  - Minority businesses
  - Self-employed businesses
  - Female-owned businesses
- IV: ED Programming Index
- CVs: % young people, % white population, % owner-occupied housing, % self-employed, etc.

## Analytical Procedure

- OLS regression
- Instrumental variable estimation



# Findings

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| Cities in Southern California with...  |     | YES   |     | NO    |
|--|-----|-------|-----|-------|
| Economic Development Departments       | 131 | 60.9% | 84  | 39.1% |
| Economic Development Office culture    | 167 | 77.7% | 48  | 22.3% |
| Relationships with non-profits, others | 212 | 98.6% | 3   | 1.4%  |
| Information on unique local events     | 206 | 95.8% | 9   | 4.2%  |
| Tax incentives and subsidies promotion | 101 | 47.0% | 114 | 53.0% |

# Findings cont.

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| <b>Cities in Southern California with...</b>                 |     | <b>YES</b> |     | <b>NO</b> |  |
|--|-----|------------|-----|-----------|--|
| Promotional and info websites (e.g. downtown areas, tourism) | 155 | 72.1%      | 60  | 27.9%     |  |
| SME incubators or accelerators                               | 81  | 37.7%      | 134 | 62.3%     |  |
| Downtown and business redevelopment information and projects | 176 | 81.9%      | 39  | 18.1%     |  |
| New, small business or niche business programs               | 133 | 61.9%      | 82  | 38.1%     |  |
| Programs for minority and foreign/international businesses   | 40  | 18.6%      | 175 | 81.4%     |  |

# Findings cont.

Table 1: OLS Regression Results: ED Programming

|  | City economic development programs |
|--|------------------------------------|
| Occupation - Management, business, science (%) | 0.02<br>(0.52)                     |
| Occupation - Sales and office (%)              | 0.07<br>(1.42)                     |
| Occupation - Services (%)                      | 0.1***<br>(2.85)                   |
| Class of worker - Government workers (%)       | 0.01<br>(0.36)                     |
| Class of worker - Self-employed (%)            | -0.2***<br>(-3.21)                 |
| Population                                     | 0.00000182***<br>(4.06)            |
| Whites (%)                                     | 3.4***<br>(2.71)                   |
| Youth (%)                                      | -1.1<br>(-0.18)                    |
| Owner-occupied (%)                             | -1.5<br>(-1.27)                    |
| Constant                                       | 6.4**<br>(2.38)                    |
| N  | 198                                |
| Adj. R-squared                                 | 0.232                              |

t statistics in parentheses

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

# Findings cont.

t statistics in parentheses

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Table 2: OLS Regression Results: Entrepreneurial Activity

|   | Sales per firm | Minority-owned firms % | Female-owned firms % | Self-employed firms % |
|---|----------------|------------------------|----------------------|-----------------------|
| City economic development programs                            | (1.18)         | (-0.37)                | (-1.68)              | (1.33)                |
| Occupation - Natural resources, construction, maintenance (%) | (-0.23)        | (-2.19)                | (-1.12)              | (1.78)                |
| Occupation - Production, transportation, material moving (%)  | (-0.79)        | (2.22)                 | (0.57)               | (0.39)                |
| Occupation - Sales and office (%)                             | (1.68)         | (0.21)                 | (-3.50)              | (1.47)                |
| Occupation - Services (%)                                     | (-3.31)        | (1.71)                 | (0.02)               | (1.29)                |
| Class of worker - Government workers (%)                      | (-1.00)        | (0.03)                 | (2.74)               | (0.50)                |
| Class of worker - Self-employed (%)                           | (-2.26)        | (1.73)                 | (-1.023)             | (0.59)                |
| Population  | (-0.23)        | (-1.01)                | (0.56)               | (-0.06)               |
| Whites (%)  | (-0.32)        | (-17.69)               | (-0.62)              | (0.95)                |
| Youth (%)   | (-0.88)        | (-1.70)                | (1.80)               | (-1.32)               |
| Owner-occupied (%)  | (-1.60)        | (0.64)                 | (-0.29)              | (-1.34)               |
| Constant  | 3324.9*        | 0.7***                 | 0.5***               | -5.8                  |

# Findings cont.

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Qualitative analysis findings

Four “themes” emerging:

Changing environments (economy, availability of capital alters the ability of cities to lead vs facilitate)

Collaboration (SoCal cities often collaborate because of spillovers; real competition is with cities from other regions)

Creativity (branding is critical; creative problem solving is common)

Balance (negotiate between competing interests; blend sector mix)

# Discussion & Conclusion

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Theoretical implications

Policy implications

Limitations

Future research



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# Acknowledgements & Questions

# Descriptive Statistics

|   | N   | Minimum | Maximum     | Mean      | Std. Deviation |
|---|-----|---------|-------------|-----------|----------------|
| City economic development programs                            | 198 | 1.0     | 11.0        | 6.96      | 2.06           |
| Youth (%)   | 215 | 0.0     | 0.3         | 0.10      | 0.03           |
| Whites (%)  | 215 | 0.0     | 0.9         | 0.29      | 0.19           |
| Owner occupied (%)  | 215 | 0.1     | 1.0         | 0.58      | 0.16           |
| Minority-owned businesses (%)                                 | 208 | 0.1     | 0.9         | 0.50      | 0.24           |
| Female-owned businesses (%)                                   | 209 | 0.2     | 0.8         | 0.37      | 0.07           |
| Self-employed businesses (%)                                  | 209 | 0.0     | 161.3       | 2.76      | 12.17          |
| Sales per firm  | 201 | 96.3    | 14,299.8    | 1,063.69  | 1,699.09       |
| Class of worker - Government (%)                              | 215 | 4.3     | 43.6        | 13.50     | 5.18           |
| Class of worker - Self-employed (%)                           | 215 | 0.9     | 25.7        | 8.13      | 3.62           |
| Families below poverty level (%)                              | 215 | 2.0     | 42.2        | 14.31     | 7.90           |
| Total population  | 215 | 101.0   | 3,918,872.0 | 91,088.55 | 284,935.99     |
| Occupation - Management, business, science (%)                | 215 | 9.7     | 72.7        | 36.78     | 15.42          |
| Occupation - Natural resources, construction, maintenance (%) | 215 | 0.4     | 32.6        | 8.45      | 4.94           |
| Occupation - Production, transportation, material moving (%)  | 215 | 0.0     | 34.0        | 11.42     | 7.02           |
| Occupation - Sales and office (%)                             | 215 | 16.9    | 38.6        | 25.10     | 3.19           |
| Occupation - Services (%)                                     | 215 | 2.5     | 38.0        | 18.25     | 6.46           |