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Agglomeration economies in the neighbourhood? Evidence from German cities

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Abstract
In urban renewal policy, it has become a widespread goal to revitalise neighbourhood economies. The rationale for these measures derives, to a great extent, from the concept of regional economic clusters, and, not surprisingly, one of their key objectives is to activate local inter-firm cooperation. This article examines the neighbourhood-related requirements and commitment of small firms. It draws on the results of a case study incorporating five German cities in which the neighbourhood-oriented applicability of economic policy was put to the test. As expected, it is unlikely for most small enterprises in urban renewal areas to engage in inter-firm cooperation focusing on the transfer of highly specialised knowledge. However, many small firms in inner city quarters appreciate neighbourhood characteristics as important location factors, and willingness to support local improvement efforts is relatively high, particularly among firms which operate successfully. The study suggests that there is a case for public policy to encourage small firms to participate in neighbourhood-based initiatives.

Keywords
local economic policy, neighbourhood, networks, small firms

Introduction

In the literature on regional economic policy it is widely accepted that measures to improve business interlinkages and information flows within economic clusters are

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suitable to foster the economic performance of firms and regions. Until very recently, however, hardly any such policy focused on the local business surroundings in urban neighbourhoods. Policy in pursuit of the location-specific conditions of entrepreneurs and small firms has assumed that the relevant context factors amalgamate within wider regions. Considerable 'neighbourhood effects', on the other hand, suggest a neighbourhood focus in policy seeking to prevent (or reduce) social exclusion (cf. North and Syrett, 2008).

During the past two decades, however, urban regeneration programmes initiated by the European Commission (e.g. the URBAN Community Initiative) and various European countries (e.g. Germany, the Netherlands and the United Kingdom) have begun to incorporate business-oriented policy measures in 'integrated' strategies to revitalise urban renewal areas. These measures have remained largely the responsibility of urban planning rather than entrepreneurship, innovation, SME (small and medium enterprises) or even urban economic development policy. This raises the question whether they are indeed successful in fostering economic activity, which is not unlikely, since recent entrepreneurship research emphasises the geographical environment as a vital element of the context conditions affecting the formation and growth of businesses (Malecki, 2009). In the discussion, so far the specific requirements of a local business-oriented development strategy and the means of delivery of this policy across the relevant administrative levels (central, regional, local government) have been neglected. Thus, it remains a task of scientific policy analysis to provide a more precise guideline on the way in which measures to foster economic activity need to refer to the spatial context. Definitely, the relevance of the spatial scale for the analysis of social interaction has been a very important issue in regional research for at least two decades (Marston, 2000). Thorough consideration of the spatial dimension of economic activity may make it easier for economic policy to derive instruments, which meet the requirements of firms and entrepreneurs very precisely. It is the aim of the following analysis to point out central issues concerning local SME policy and to demonstrate which elements of regional economic policy may be applied at the neighbourhood level.

To a large extent, the development of neighbourhood-related economic policy throughout the past two decades can be attributed to high acceptance of the concept of regional economic clusters among researchers and policy makers. The resulting business-oriented policy instruments focus on activating inter-firm cooperation and local commitment among business communities. Very likely, neighbourhood-based inter-firm relations will refer to everyday concerns such as safety or neighbourhood appearance rather than innovation or research (Steyaert and Katz, 2004). For many firms, particularly those with a very local customer base, such everyday matters may be highly important. Not surprisingly, in city or neighbourhood centres, Business Improvement Districts (BID), which concentrate mainly on improving the outer appearance and 'place marketing' of retail locations, have become a well-known example of a business-oriented policy intervention at the urban neighbourhood level (Peyroux et al., 2012). With respect to other kinds of urban areas with a more heterogeneous spectrum of business activity, the goals and organisational arrangements of neighbourhood-oriented economic policy are far less obvious. In practice, a broad spectrum of policy instruments contributes to what is understood as local economic development, incorporating measures with an emphasis on social inclusion, labour market policy and those with a focus on strengthening the

competitiveness of businesses in deprived areas (Syrett and North, 2008).

This article reviews the goals and outcome of business-oriented local economic development measures, examines the desirability of such policy from the point of view of small firms and discusses what instruments of economic policy may be applicable at the neighbourhood level. It elaborates on the results of the 'neighbourhood impulses' research field of the German Experimental Housing and Urban Development (ExWoSt) programme. It was the objective of this research to implement specifically designed measures in model projects focusing on urban renewal areas of five German cities (Bayreuth, Braunschweig, Hannover, Karlsruhe and Saarbrücken), which were selected in a Germany-wide call for participation. Eligibility depended on local conditions, which were expected to signal a need of support, but also show economic potential. Furthermore, clear willingness of cooperation by municipal policy was required. Municipal authorities were responsible for selecting project areas and designing project measures, in cooperation with initiatives at the neighbourhood level. Over a period of two and a half years between 2006 and 2008, project initiatives in these cities received financial support from the federal government and professional coaching from a team of experts reporting directly to the Federal Office for Building and Planning. While the policy strategy was delivered in cooperation between administrative levels (or across 'spatial scales'), responsibility for policy implementation was assigned to the municipalities. An important impetus for the design of this local economic development measure came from European policy. The 'neighbourhood impulses' programme derives from the *Leipzig Charter for a Sustainable European City* (Ministerial Conference, 2007), which is based, among other things, on practical experience acquired during the URBACT Programme (BMVBS/BBR, 2007; URBACT, 2007). The issues for this article are:

(1) What characteristics of the neighbourhood-specific business environment affect the economic activity of small firms and what kind of local economic policy support do they require?
(2) What specific forms of inter-firm cooperation within urban neighbourhoods can strengthen the competitiveness of small firms and how can local commitment be encouraged?
(3) What neighbourhood-oriented instruments may contribute to the delivery of economic policy across the spatial scales?

The next section gives a brief outline of the relevant literature on neighbourhood-based agglomeration economies and neighbourhood-oriented economic policy. The third section provides a brief overview of the goals, delivery and outcome of policy in the case study areas. The fourth section examines what specific characteristics of the local business environment affect small firms and what kinds of neighbourhood based inter-firm cooperation are relevant. The concluding section discusses the results and policy implications.

Agglomeration economies in urban neighbourhoods?

Marshall (1920) defined proximity to customers and suppliers, the pooling of specialised labour and knowledge spillovers as regional economic agglomeration forces. However, it is difficult to measure these forces and it is unclear to what extent they favour concentration of firms within the immediate neighbourhood vicinity of each other. Porter (2003) shows that the intensity of inter-firm cooperation in innovative 'clusters' has a major impact on regional economic performance. Yet, it is unlikely

that, apart from exceptional cases (e.g. cultural production districts, cf. Evans, 2009), a comprehensive range of Marshallian agglomeration economies will emerge among the firms located within one urban neighbourhood. Nevertheless, in many urban districts, there is a multitude of economic activities, which may benefit from close local interlinkage, even though this cooperation will not be research based. For example, in a study on economic clusters in Hamburg, Läpple (2000: 40) identifies a 'local and quarter economy' consisting of businesses which are 'largely tailored to local needs relating to everyday life . . .'. In 1997, this economic segment (retail, health, catering, manufacturing and handicraft) accounted for around 16% of the Hamburg workforce. Among the determinants of successful entrepreneurship, social contacts and networks are known to be of great importance (Aulinger, 2005). Since founders of a new business are very often engaged in close area-based networks, arranging, intensifying and stimulating such networks may be a likely goal of entrepreneurship policy, alongside other forms of support such as the provision of advisory service or lease of commercial space (Neumann et al., 2011). From the point of view of neighbourhood-oriented economic policy, there are thus strong arguments in favour of focusing on project areas displaying strong local commitment. Surely, there are various reasons why firms may be willing to support community development, for example upgrading of neighbourhood surroundings in the vicinity of the enterprise location, cultivating contacts with local politicians, improvement of soft skills among the firm's employees, acquisition of new business partners (cf. Crane et al., 2008; Küpper and Pfeiffer, 2006). It may be rather difficult, however, to activate such commitment if local ties are weak. In summary, the types of economic policy which can be expected to be significant in a strategy to strengthen neighbourhood economies include:

- activation and support of local self-governed business networks to improve local information flows;
- establishment of closer associations between businesses, owners of commercial property and other stakeholders (e.g. residents) in order to upgrade neighbourhood surroundings, carry out marketing activities, reduce vacancy rates and try to develop a neighbourhood profile (e.g. a small agglomeration of businesses from a similar trade); and
- support of entrepreneurship by provision of advisory services and/or floorspace at reasonable rates, e.g. in small 'business incubators'.

This strategy combines instruments common to regional economic policy (cluster management, SME and entrepreneurship policy) and urban planning (Business Improvement Districts, see below) with new forms of regional governance, which encourage civic involvement (Fürst and Knieling, 2002). The precise outline of such policy and its relation to other levels of intervention will be discussed in the following section in greater detail. These interventions are 'whole area programmes' targeted at neighbourhoods (Bartik, 2004). They do not include direct subsidies to private business. More recently, microfinance institutions offering small loans in financially underserved areas have become an instrument of urban economic policy (Kneiding and Tracey, 2009). In selected model cities taking part in the neighbourhood impulses case study (see below), it was part of a separate policy programme to establish local microfinance institutions as public-private partnerships (BBR, 2008). Since preparation of the institutional setting required more time and microcredits were only beginning to be issued at the end

of the original project phase, the aspect of business finance needs to be left out of the discussion in this review.

Outcome of local economic policy in five German cities

Among the cities which took part in the case study from 2006 to 2008, the size of the project areas, the (main) economic focus and the policy goals varied to a considerable extent. Two model projects, Braunschweig und Saarbrücken, concentrated on peripheral areas of city centres, which have experienced decline in popularity throughout the past decades (Saarbrücken) or expect problems due to new large-scale retail developments in other parts of the city centre (Braunschweig). The project areas of Bayreuth, Hannover and Karlsruhe represent inner city neighbourhoods suffering from closures and increasing vacancy among commercial property. As a whole, the financial scope of government support for the model cities was moderate. For each city, it comprised around €100,000 for (intangible) project measures and support from an external coaching team. In Braunschweig and Saarbrücken, the main objective was to form common organisations among businesses and real estate owners, who were supposed to make a commitment to certain local profiling objectives. It is true, these organisations adopted characteristics of the concept of Business Improvement Districts (Peyroux et al., 2012). Yet, it was an essential distinction to the common notion of this policy concept that BID membership was voluntary. Clearly, it was not a particular motivation to get German cities 'BID ready' (Cook and Ward, 2012), but to establish relatively close associations incorporating both businesses and owners of commercial property. In Saarbrücken, this networking activity came to a temporary halt due to a delay of construction works in a large waterfront redevelopment scheme reshaping the model area.

In the other neighbourhoods, measures were performed to consult small businesses, intensify local information flows and inter-firm cooperation, promote start-ups, market urban areas and reduce the number of vacant commercial properties (Table 1[1]). It can be argued that the programme in these neighbourhoods adopted instruments from regional cluster and innovation policy, but combined them with more traditional tasks of neighbourhood-based business associations, e.g. place marketing, and with elements of BID policy by involving owners of commercial property.

In terms of policy delivery across the administrative scales it was important that an impetus was given by the federal government, but the precise use of (moderate) funds by municipal authorities within the action plan was flexible. As a result of the neighbourhood impulses programme, municipal economic policy in all model cities now continues to focus on the project areas.The experience gained by policy delivery in the case study areas suggests that at the very local neighbourhood level, even a business-oriented economic development approach needs to incorporate policy instruments, which target directly at urban surroundings. Since in most cases it is outside the scope of public administration to 'shape' the appearance of urban areas, these policy goals require a strategic approach to governance, involving various stakeholders. The following section focuses on the specific requirements of small businesses within this interplay of economic actors.

Neighbourhood-specific location factors and local inter-firm cooperation

In order to gain a more precise picture of the local characteristics affecting business

Table 1. Local economic policy in 'neighbourhood impulses' model cities – measures, outcome, obstacles.

Model city	Policy measures	Outcome	Obstacles
Bayreuth	training of entrepreneurs; marketing of vacant shops by publicity event, specific brokering to entrepreneurs from cultural sector; PPP for revitalisation of old industrial site in order to establish a location for events and 'creative' entrepreneurs.	establishment of a local development agency and preparation of a strategic development plan; reduction of vacancy; fostering of small business agglomeration in cultural sector (six start-ups; one medium-sized business attracted); intermediate use of reduntant factory site; acqusition of private sponsorship.	disagreement between municipality and local businesses about redevelopment measures; delay of refurbishment activity due to financial difficulty of private owners.
Braunschweig	establishment of a marketing network involving retailers, property owners and estate agents; systematic activity to reduce vacancy rates among local retail properties; acquisition of two new businesses (shop and restaurant).	cooperation between owners and estate agents within local marketing association; acquisition of two new businesses (shop and restaurant).	limited willingness of retailers and property owners to provide cofinance for neighbourhood marketing activities.
Hannover	establishment of a small business network; publishing of 'yellow pages' for local area; city marketing events incorporating local artists ('cultural summer'); web portal.	six start-ups; establishment of local network and CSR activity; participation of artists in 'neighbourhood branding' activity.	little capacity of small businesses for steady engagement in networking activity; limited willingness of local artists to participate in business network.
Karlsruhe	encouragement of an existing business network to accept new members and to intensify cooperation and 'neighbourhood marketing'; development of business linkages between firms of programme area and adjacent Karlsruhe Rhine Port.	five start-ups; establishment of internet marketing and network platform; intensification of local networking and 'neighbourhood branding' activity.	acquisition of a critical mass of users required for operation of web portal; unexpected purchase of commercial property envisaged for community use by private investor.
Saarbrücken	establishment of a marketing network involving retailers and property owners.	begin of preparation of strategic outline for Saar riverfront.	project holdup due to delay of reconstruction works at Saar riverfront.

Source: Own survey.

Table 2. Selected business characteristics and opinions (Dummy (1/0) variable, 1 = applies), in %.

	2008, all firms			2008, only firms taking part in both years of the survey		
	Model areas	Reference areas	All firms	Model areas	Reference areas	All firms
economic situation of firm: (very) good	45.6	45.0	45.3	45.8	50.0	48.0
turnover has increased during past year	27.9	30.0	29.1	29.2	38.5	34.0
satisfied with location	51.5	52.5	52.0	45.8	61.6	54.0
retail or catering trade	29.4	27.5	28.4	33.3	38.5	36.0
practices (e.g. doctors, lawyers)	35.3	31.3	33.1	33.3	23.1	28.0
other services (e.g. wholesale, transport)	23.5	16.3	19.6	23.5	19.2	25.0
handicraft/manufacturing	5.9[b]	17.5	12.2	4.2	11.5	8.0
business with < 10 employees	67.7	57.5	62.2	62.5	50.0	56.0
entrepreneur/manager with university degree	55.9	58.8	57.4	54.2	61.5	58.0
>50% of turnover generated in region	80.9[b]	65.0	72.3	83.3	76.9	80.0
member of local business association	33.8	22.5	27.7[c]	45.8	34.6	40.0
willing to participate in local initiatives	58.8	47.5	52.7	58.3	61.5	60.0
business started since 2000	35.3	31.3	33.1	29.2	34.6	32.0

Source: Own survey. – 148 observations in 2008, 68 in model, 80 in reference areas. 50 firms took part in both years of the survey, 24 in model, 26 in reference areas. [b]significantly different (5%-level or higher according to t-test) from share in reference areas. [c]significantly different (5%-level or higher according to t-test) from share among firms taking part in both years.

performance, neighbourhood-specific location factors and the intensitiy of local inter-firm cooperation were examined by surveys[2] among firms in the model cities taking part in the neighbourhood impulses study.

By comparison between project and non-supported reference areas the study aims at identifying changes in the overall performance or perspectives of firms, which may relate to measures carried out in the project areas. Reference areas are similar in size to project areas and border on the project areas immediately (assuming that due to the limited amount of financial support no direct spill-over effects would affect other districts). In Karlsruhe, a non-adjacent neighbourhood centre with similar basic characteristics to the project area was more suitable as reference area. Questionnaire surveys were carried out at two points in time, first at the beginning of 2007, i.e. before project implementation affected the survey areas, and then near to the end of the project phase in 2008.

As a whole, a response rate of over 10% of all businesses located in the project and reference areas was achieved. 207 firms took part in the survey in 2007 and 148 in 2008.[3] While the effects of non-response cannot be examined directly, the general representativeness of the population of firms taking part in the survey can be examined by comparing its basic characteristics with those of firms in Germany as a whole. According to this comparison the results suggest no particular bias among the survey population, at least with regard to the size and sectoral affiliation of firms. First, as in Germany as a whole (Federal Statistical Office 2011: 489), the majority of firms in the survey (62%) are micro-businesses employing fewer than 10 people (Table 2). Second, corresponding to the German average, some 28% of all firms (in 2008) can be allocated to retail and catering, 12% perform

Table 3. Importance of location factors. 'What is the role of the following economic conditions (important/unimportant)?'; Answer: 'important', in % (2008).

	Altogether	Model areas	Reference areas
site access/parking at firm's location	91.2	91.2	91.3
quality/price of commercial floorspace	85.8	83.8	87.5
safety at firm's location	84.5	80.9	87.5
outer appearance of neighbourhood	81.1	82.4	80.0
accessibilty by public transport	79.1	76.5	81.3
culture and leisure infrastructure	77.0	73.5	80.0
supply of qualified personnel	73.0	67.7	77.5
population structure of neighbourhood	70.3	76.5	65.0
access to market	70.3	73.5	67.3
purchasing power in region	62.8	57.4	67.5
level of municipal tax	59.5	60.3	58.8
purchasing power in neighbourhood	58.8	64.7[b]	53.8
mix of trades in neighbourhood	54.1	57.4	51.3
local inter-firm cooperation	51.4	50.0	53.0
proximity to motorway	50.7	36.8[b]	62.5
local credit availability	41.2	29.4[b]	51.3
municipal economic development	28.4	30.9	26.3
proximity to university/research facility	28.4	28.0	28.8
proximity to suppliers	27.7	23.5	31.3
proximity to service providers	18.9	17.7	20.0
observations	148	68	80

Source: Own survey.
[b]significantly different (5%-level or higher according to t-test) from share in reference area.

handicraft or manufacturing activities (17% in Germany). Of course, these basic indicators provide no information about the personal characteristics or attitudes of entrepreneurs. At any rate, since differences between the average characteristics of businesses taking part in the project areas from those in the reference areas are negligible (Table 2), no strong selection bias of policy involvement needs to be assumed.

Among a range of location characteristics thought to be important by firms taking part in the survey, those associated with premises and the immediate neighbourhood surroundings assume a prominent role (Table 3).[4]

From the point of view of small firms, a need for policy intervention arises mainly concerning general environmental and social conditions, but also regarding the mix of businesses in the local area (Figure 1).

In 2008, over a quarter of all businesses participated in business networks. Yet, out of a range of possible collaborative activities directly affecting the market position (education and training, marketing, purchasing/sales, production, innovation), only a much smaller share reports to engage in such cooperation with other firms located in the same neighbourhood (Figure 2).

So far, the most obvious motive for local inter-firm collaboration is concerned with marketing purposes. In 2008, at least some 22% of all firms reported cooperating with other firms from the local area in marketing activities. It is therefore no surprise that the majority of firms (about 53% in 2008, cf. Table 2) were willing to participate in

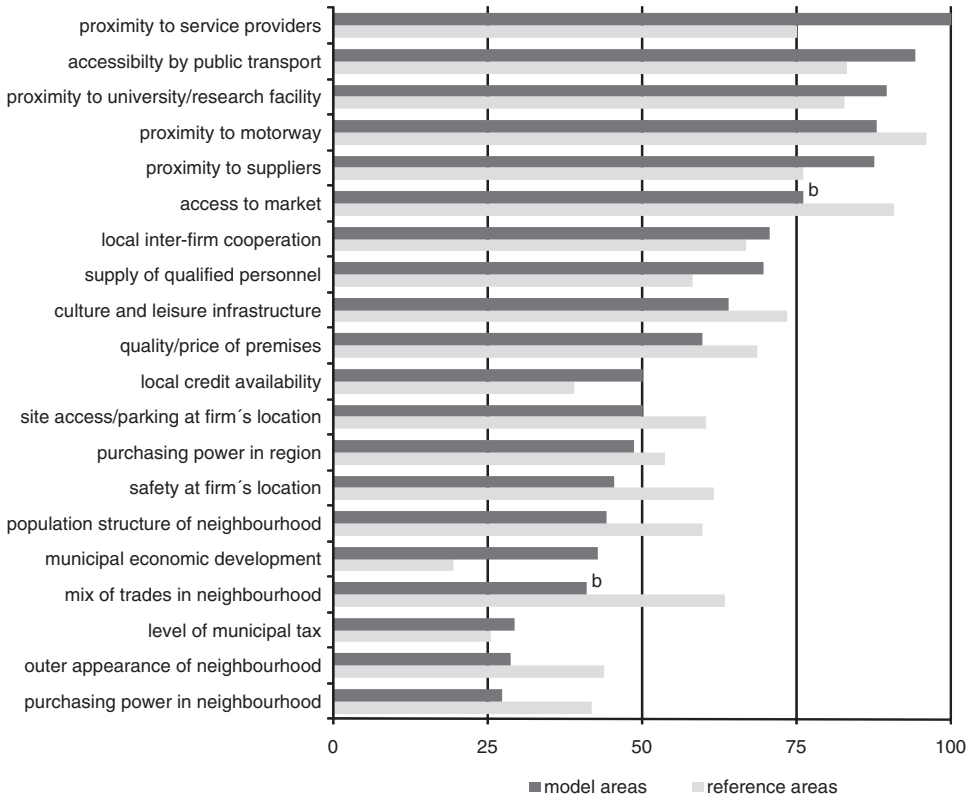

Figure 1. 'What is the role of the following economic conditions and are you satisfied with your location regarding these conditions?' Answer: 'satisfied' under the condition 'important' (2008, in %). *Source*: Own survey. 148 observations (model areas: 68; reference areas: 80). - [b]share in model areas is significantly different (5%-level or higher according to t-test) from share in reference areas

neighbourhood-oriented projects in the future. Only a very small share of firms (4%), however, cooperate locally when they introduce new technology. Selected projects implemented in the model areas, however, suggest that local networks may encourage the introduction of new technology in small firms, e.g. marketing via the Internet,[5] even if they are not engaged in highly innovative activities.

Based on regression analysis, it was examined if particular characteristics can be identified which distinguish firms engaging in neighbourhood activity from other firms and if these characteristics in combination relate to business performance. The more recent development of turnover is the indicator of economic performance in this analysis.[6]

The business features expected to interrelate with business performance (Table 4) comprise:

- basic characteristics of the firm (main economic activity, size, years in business, educational background of entrepreneur/manager);
- the degree of regional embeddedness (share of turnover generated by customers from the region);
- participation in local networks and opinions about the neighbourhood, municipal economic development and the location in general.

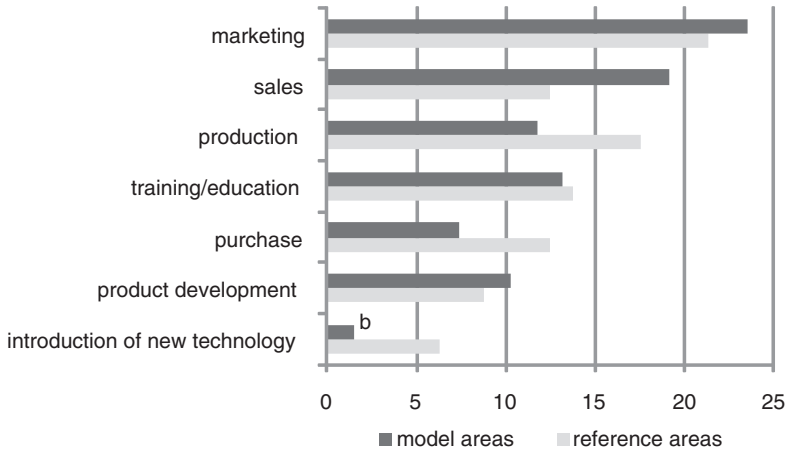

Figure 2. Modes and intensity of neighbourhood-based inter-firm cooperation. Question: 'Do you cooperate with firms from your neighbourhood in the following activities?' Answer: 'yes' (2008, in %, multiple responses possible).

Source: Own survey. 148 observations (model areas: 68; reference areas: 80). [b]share in model areas is significantly different (5%-level or higher according to t-test) from share in reference areas.

In order to examine possible changes over time, the analysis focuses on firms taking part in both years of the survey. Quite obviously, these are more inclined to participate in neighbourhood development than firms taking part in the survey only in one year or not at all. In fact, membership in business networks is higher among firms taking part in both years of the survey than among firms participating only in one year. Yet, otherwise there are only little (statistically significant) differences between this 'panel' and all firms taking part in the survey altogether (cf. Table 2).

While the analysis finds no immediate policy effect on business performance, willingness to participate in local business initiatives turns out to run parallel with a significant increase in the probability that the turnover of a business has increased (and a lower probability that it has declined) (Table 4). Also, 'young' entrepreneurs, i.e. businesses started since 2000, performed more successfully than 'older' firms. The analysis therefore shows that networking is far from being limited to businesses seeking such activity as a last resort to overcome difficulties, but rather that it turns out to be more typical of relatively successful entrepreneurs.

Apart from these characteristics, the general evaluation of the firm's location almost exclusively relates with the self-reported economic situation. For small businesses choice of a good location obviously relates to those factors determining economic success.

Conclusions and policy implications

The analysis shows that, most of all, neighbourhood characteristics such as safety and the general appearance of the local area are assessed as being very important features of the business environment, even in direct comparison with production factors such as labour, finance and transport costs. In general, many firms would confirm that there is a requirement of policy intervention to upgrade local business environments.

Only a minority of firms, however, seek local cooperation in activities like production or research. More appropriately,

Table 4. Characteristics of business performance, 2007 and 2008 (Ordered probit estimation, pooled cross-section).[1]

Dependent variable: during the past (five) year(s), the turnover of this business has . . . (Y=)	1 (declined)	3 (increased)
	dy/dx	dy/dx
satisfied with location	−0.371*** (0.115)	0.352*** (0.108)
retail or catering trade	0.0481 (0.121)	−0.0467 (0.116)
business with < 10 employees	0.0678 (0.114)	−0.0681 (0.116)
entrepreneur/manager with university degree	−0.0182 (0.118)	0.0179 (0.116)
>50% of turnover generated in region	−0.0494 (0.136)	0.0475 (0.127)
"mix of trades in neighbourhood is important"	0.0598 (0.117)	−0.0606 (0.122)
"municipal economic development is important"	−0.0743 (0.122)	0.0759 (0.129)
member of local business association	0.0948 (0.114)	−0.0906 (0.106)
willing to participate in local initiatives	−0.269** (0.112)	0.260** (0.108)
"young" entrepeneur (business started since 2000)	−0.263*** (0.0955)	0.312** (0.133)
dummy for 2008	0.161 (0.159)	−0.160 (0.158)
location in model area	0.0919 (0.155)	−0.0905 (0.153)
interaction variable model area • 2008	−0.187 (0.175)	0.210 (0.222)
Pr(Y = 1) / Pr(Y = 3)	.310	.303
observations	78	
p^2MF	0.17	
p-value	0.008	

Source: Own calculation.[1] marginal effects, standard errors in parentheses, ***/**/* = significant at 0.01/0.05/0.1-level, p^2MF = McFadden's Pseudo-R^2, Pr(Y = 1)/ Pr(Y = 3) = predicted probability of Y = 1/3 given the independent variables at their mean.

small-scale economic clustering may be part of a strategy which has been described as 'neighbourhood branding' (Zimmer-Hegmann and Fasselt, 2006), i.e. marketing of neighbourhood characteristics. In addition, it may be one of the goals of neighbourhood-based initiatives to encourage introduction of new technology or procedures among small businesses.

Concerning the incentives for firms to participate in neighbourhood-related improvement initiatives the results suggest that initially the most important step is to establish a group of motivated stakeholders willing to identify and implement promotional measures. While only a minority of businesses become members of formal networks, most seem to be willing to support specific projects related to neighbourhood improvement. It is a strong argument in favour of local economic development policy that local commitment apparently is by no means restricted to businesses in need of support, but rather is a characteristic of young entrepreneurs, who have established their business successfully and seek to benefit from local cooperation. From their point of view, there is a value added to be gained from neighbourhood-based networking.

In the light of the small number of start-ups and the limited growth prospects of the dominant activities, i.e. small retailers, caterers and household-oriented services, expectations regarding the short-term job market effects of local entrepreneurial policy should not be unrealistic. Yet, the case studies suggest that considerable progress can be made in a relatively short time and in contrast to a scenario without intervention it is likely that in the medium term, such policy can secure

jobs, foster self-employment and attract new jobs to policy areas.

Within the administrative system in Germany, the municipal level turns out to be suited as a link between regional and neighbourhood-oriented economic policy. Given that they are granted a certain degree of administrative autonomy, in other countries city authorities would also be predestined to take the main responsibility for the task of delivering neighbourhood-oriented economic policy across the hierarchical levels of public administration. At the city level, the administrative divisions responsible either for economic development or town planning may take the leading role in these measures, which are cross-departmental in nature. Since local economic development continues to be work in progress, it is advisable to support city- and neighbourhood-level efforts by intervention at the regional or central government level and by the Structural Funds (ERDF, ESF).

Certainly, strengthening the competitiveness of urban areas requires a governance approach involving local stakeholders, particularly owners of commercial property. The precise form of these associations may vary to a great extent among neighbourhoods. In some areas with a very homogeneous set of firms, for example in city or neighbourhood centres, very close BID-type arrangements may be appropriate. At other locations, businesses tend to favour more informal associations. Most likely, delivery of local economic policy at the neighbourhood scale will succeed if commitment among local businesses is strong already or if highly motivated opinion leaders are willing to participate. Lack of such kind of social capital weakens the perspectives of businesses in many deprived urban areas (Curran and Blackburn, 1994). The results of the case studies show, however, that community involvement can be activated by local moderators, if common goals for local networks can be found and promoted, even though existing ties are weak.

Table 5. Elements of a comprehensive regional economic development policy with respect to different geographical scales.

	Geographical scale		
	Region	City	Neighbourhood
Policy goals	support of knowledge transfer and business relations within economic growth poles.	binding of important segments of regional clusters to own area.	improvement of local "business environment".
measures	promotion of cooperation between firms and between firms and research facilities in economic clusters; generation of value chains within regional economic clusters; management of knowledge transfer within regional cluster.	acquisition of (private and public) cluster-related research facilities; specialisation within regional cluster, e.g. on management functions, producers, innovative small businesses; marketing of commercial real estate.	fostering of information flow; encouragement of business influx and support of start-ups; initiation of neighbourhood-related projects, e.g. festivity, web portal; "vacancy management"; initiation of self-governed networks inolving businesses, owners of commercial property and other stakeholders.
Responsibility	EU, central and regional government, research institutes, universities, business networks, regional cluster management.	municipal departments (e.g. economic development, town planning), research institutes, universities, business networks, consultants.	municipal departments (e.g. economic development, town planning), business network, network promoters.

Source: Own survey.

To a large extent, this policy will adopt its instruments from what so far has been understood as urban planning rather than economic policy. In a comprehensive regional economic development strategy (cf. Table 5), neighbourhood-oriented local initiatives may help to support the business environment in cities as a whole and increase the attractiveness of urban locations for highly mobile capital and qualified labour, even if there are no immediate links between those industries serving larger markets (cf. North, 1955) and those with a local customer base. In practice, local economic development may give rise to new forms of cooperation within and between different levels of public administration and between the public and the private sector and local communities.

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Notes

1. Table 1 shows the gross effects, i.e. policy effects are not isolated from those developments which might have taken place if no policy measures had been carried out.
2. The study also comprised in-depth interviews, group discussions and participation in network meetings throughout implementation of the model projects in the period from 2006–2008, i.e. about 40 personal visits in the model projects altogether.
3. Microdata acquired in these surveys has been made available for research purposes as scientific use file in anonymised form in the Research Data Centre Ruhr at the RWI (Internet: fdz.rwi-essen.de). The survey comprised all workplaces identified via business directories, municipal registers and site inspections in 2007 and 2008. In 2007 out of a total of 1602 enterprises, 207 took part in the survey (101 in the model- and 106 in the reference areas). In 2008, 148 out of 1493 identified businesses (after correction of the initial adress list) took part (68 in the model- and 80 in the reference areas). Among all respondents from 2008, 84% are business owners, 8% directors, 5% branch managers and 3% had some other function within the firm. Since the second survey in 2008 was completed just before the signs of the financial and economic crisis became apparent, the results from both years can be compared.
4. The possible choices were ('This location factor is…') important/unimportant and ('Concerning this location factor the current situation is…') satisfactory/unsatisfactory. Since the number of firms taking part in both waves of the survey (50) is relatively small, the analysis here focuses on the assessment of location factors among all firms taking part in 2008, i.e. comprising potential policy effects in the model areas.
5. It was part of the project measures in Hannover and Karlsruhe to introduce neighbourhood-based web portals. Promotion of Internet use for business purposes among small firms was a particular focus of the model project in Karlsruhe. By the end of 2008, 80 businesses had become (paying) members of the web portal in Karlsruhe.
6. The question was: 'Looking back at the past year (in 2008, '… at the past five years…'' in 2007), how did turnover develop at this location of the firm'? The possible categories were 'increased', 'stayed the same', 'declined', and 'volatile'. In an ordered probit regression analysis, which is suitable as a method incorporating ordinal dependent variables, decline was defined as 1, stagnation or volatile development as 2, increase as 3.

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