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Entrepreneurial governance in Swedish municipalities: effects on population and employment

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Abstract

This article describes a study of local development policies and programs instituted by Swedish municipalities with various spatial, demographic and economic characteristics and their effects on population and employment growth. Based on a web survey to municipal managers in all Swedish municipalities, we test the relationship between reported participation in a range of local development initiatives (entrepreneurial governance) and local growth. We find that rural municipalities with a higher propensity to engage in learning and benchmarking activities have higher rates of population and employment growth. While these findings are preliminary, they suggest that rural communities that emphasize feedback and benchmarking may be better able to position themselves competitively in Swedish regions.

1. Introduction

Though local development is largely a function of economic forces at the regional, national and global levels, we find ample evidence that local governments address not only local service provision but also local development in their policies and activities. Within a labor market region, individual municipalities are often in close competition for households and firms.

Some have described the phenomenon of local government efforts to actively foster expansion and economic development as entrepreneurial behavior (Wilks-Heeg et al. 2003.)¹ However, the insights from the literature on entrepreneurship have not been brought to bear in the planning and governance literature. This paper therefore explores the concept of entrepreneurship as applied to the development initiatives undertaken by Swedish municipalities. The purpose of this exercise is twofold:

1. To test whether local development initiatives actually affect population and employment growth rates, when controlling for the factors normally associated with these types of growth.
2. To discuss the applicability of insights from entrepreneurship research in the context of local development initiatives.

To address these questions, we used a questionnaire including both standard questions and ample opportunity for spontaneous responses. This helped us characterize what we call “entrepreneurial governance” and begin to identify similarities and differences between this collective form of entrepreneurship and other forms of entrepreneurship.

We are interested in whether we can identify any impact of this type of entrepreneurial governance on population and employment growth in various types of municipalities in Sweden. If entrepreneurial governance is effective in promoting local economic development, we should see higher population and employment growth in (otherwise similar) municipalities with higher entrepreneurial governance index values.

The remainder of this introductory section introduces existing conceptualizations of entrepreneurship as well as the relationship between entrepreneurship and various spatial and contextual factors. Section 1 discusses definitions and earlier attempts to measure policy oriented entrepreneurship. Section 2 discusses our survey of Swedish municipalities. Section 3 presents our method, data and model. Results are presented in Section 4 and analyzed and interpreted in Section 5. Section 6 concludes.

¹This reference refers primarily to urban municipalities and “urban entrepreneurialism.” We share with Wilks-Heeg *et al.* (2003) an interest in the way in which local public authorities now engage actively in development oriented initiatives, though our survey sample includes a large number of rural municipalities.

Policy oriented entrepreneurship

Even if the concept of entrepreneurship predominantly is understood as starting up new businesses, it has increasingly been used as a concept for activities that discovers new opportunities and exploits them in other ways than starting new firms. “We are all entrepreneurs now”, was the provocative title of an article by Pozen (2008) which contained an overview of the literature of these “new fields” of entrepreneurship. Westlund (2010, 2012) has coined the term “multidimensional entrepreneurship” for this broader use of the concept.

We have chosen to describe municipal efforts to promote local development using new types of initiatives, partnerships and institutions as “entrepreneurial governance”, a type of policy oriented entrepreneurship. The literature on this phenomenon of entrepreneurship, sometimes called policy entrepreneurship, municipal entrepreneurship or political entrepreneurship employs such diverse definitions of the term that comparisons are difficult. Nevertheless, they often have the same starting point: they seek to describe individuals, organizations or communities that are able to capitalize on opportunities to use the political system to effect change. Most authors describe policy oriented entrepreneurship in relation to other concepts and types of entrepreneurship. Political entrepreneurs, for example, share with other types of entrepreneurs such as social or economic entrepreneurs the ability to gather relevant information, cooperate with others to reach political goals, and translate knowledge and capacity to action (Casson, 2003). Like economic entrepreneurs, political entrepreneurs recognize opportunities and use various strategies to profit from them, either personally or on behalf of the constituencies they represent (see e.g. Holcombe 2002, Sheingate 2003). Unlike economic entrepreneurs, political entrepreneurs must act within often rigid institutions of governance that require various forms of collective decisionmaking (Schneider and Teske 1992, Thornton 1999, Sheingate 2003).

From there, definitions and studies diverge depending on the research question of interest. The literature is dominated by discussions of policy oriented entrepreneurship as a theoretical concept, often complemented by anecdotal evidence supporting various theories of the political or policy entrepreneur. This includes discussion of what motivates this type of entrepreneurship and the types of behavior or activities that can be associated it.

The political dimension of entrepreneurial activity

Pozen (2008) point out that political/policy entrepreneurship (here excluding rent-seeking activities) in much of the literature is considered to contribute to innovation and renewal of the public sector. Björkman & Sundgren (2005) describe the concept of political entrepreneurship in contrast to the traditional (economic) view of entrepreneurship of exploiting market opportunities and consider political entrepreneurship as mainly concentrated on exploiting opportunities within an organization. This organization-internal view on entrepreneurship makes it strongly connected to the literature on intrapreneurship (Pinchot & Pinchot 1978, Pinchot 1985, etc). Stough and Haynes (2009) discuss public sector entrepreneurship in terms of intrapreneurship, but they underscore that modern public sector bodies often subscribe to a highly interactive model of governance which consists of multiple stakeholders. “This means that an intrapreneurship model for the public sector may be more complex than simply creating a subsidiary or parallel organization to undertake or test innovative approaches or models” (Stough and Haynes 2009, p. 127). Other definitions of political entrepreneurship focus even more explicitly on political entrepreneurship as creating new

organizations or new institutions (norms and rules) or working outside the boundaries of existing institutions (Thornton 1999, Kropp and Zolin 2008). These can be compared with definitions and studies of institutional entrepreneurship which has been defined as “the endogenous transformation of institutional environments” (Pacheco et al, 2010, McMullen 2010).

Sheingate (1998) offers a definition of political entrepreneurship as entrepreneurial innovation: “a speculative act of creative recombination that, when successful, transforms the institutional boundaries of authority” that can include non-market relations with external actors. This perspective is developed in Chatterjee and Lakshmanan (2009) who describe political entrepreneurs as nodes, linking social and economic entrepreneurs. These authors, and many others, underscore that instable institutional frameworks or local conditions (such as economic downturns) can create opportunities for political entrepreneurs to develop new institutions for collective action. This highlights a third distinction in the literature: the question of *who* is a political entrepreneur. Some reserve the term for actors such as politicians and bureaucrats working within governmental organizations (see i.e. Buchanan & Badham 1999, Casson 2003) while others define political entrepreneurs as including lobbyists and political organizations (i.e. Sobel 2008).

Entrepreneurship, innovation and agglomeration

The entrepreneurship literature that addresses spatial aspects tends to describe the benefits of agglomeration in terms of the degree to which agglomerations foster economic innovation. In other words, it focuses on innovative entrepreneurs. Agglomerations offer high accessibility to the resources and markets that entrepreneurs need: customers, suppliers, knowledge, labor, transportation, capital, technology, and information as well as better access to other agglomerations. Urban agglomerations also typically offer a diversity of expertise, goods and services that increases the potential for new combinations of production factors. These advantages attract all types of firms, but are particularly critical for startups and innovation firms (knowledge-intensive firms).

An emerging body of literature is investigating the phenomenon of entrepreneurship in rural areas, which generally lack the benefits associated with agglomeration. Perhaps surprisingly, some empirical studies show that self-employment and new businesses start-ups are more common in the countryside than urban areas, see for example a study of the self-employed in Sweden (Eliasson and Westlund 2013). However, their study highlights important differences between self-employment and startups in urban and rural areas. In rural areas, self-employment as well as startups are concentrated in declining sectors, while in urban areas startups are more focused on innovative sectors. In other words, entrepreneurship is a phenomenon seen equally in rural and urban areas, but innovative entrepreneurship is more often associated with urban agglomerations.

The advantages of larger agglomerations such as cities for economic entrepreneurship are well documented, but the relationship between entrepreneurial behavior in local governments and agglomeration is less clear. On the one hand, we might expect to see an increased incidence of entrepreneurial governance in larger agglomerations, because the richness of opportunities and actors in urban areas ought to foster new institutions such as partnerships for policy implementation, investment and governance. On the other hand, in capitalist democracies policy innovation and political entrepreneurship can be argued to reflect (real or perceived) market failures. In other

words, urban areas may have thick, well connected markets that do not require or motivate policy intervention. Then we should see lower incidence of entrepreneurial governance in urban areas.

2. Defining and measuring entrepreneurial governance

This study considers entrepreneurial governance to be the creation of new institutions and the new initiatives they make possible. We measure activities designed to be productive or developmental in character rather than activities designed to influence policies for the purpose of rent seeking. Following Björkman and Sundgren (2005) and similar perspectives described above that focus on entrepreneurship as exploiting opportunities within an organization, we define entrepreneurial governance as related to the creation of new institutions for collective action or learning within a municipal governance structure. This is not to claim that rent seeking is not part of local political processes, only that these activities are not the subject of our research. We have chosen to focus on the local (municipal) level of government; a scale we argue has been largely ignored in the literature (but see Schneider and Teske, 1992). One reason for this focus is that in Sweden, a large share of income taxes accrue to municipalities² and are responsible for many local services that have the potential to benefit from innovative service provision initiatives. Likewise, this study is more interested in municipal capacity for entrepreneurial behavior related to local economic development than in identifying individual political or policy entrepreneurs.

Few studies address the issue of how to measure policy-related entrepreneurship. The few studies that do, develop metrics of rather different character. For example, Sobel and Garrett (2003) compare pairs of state capitals and similar non-capital cities in the United States. This reveals, as would be expected, that capital cities have a larger share of political organizations, but also a higher share of things like restaurants and golf courses than would have been expected solely based on agglomeration or diversification economies. This is used to identify industries whose revenues can help describe investments in rent seeking activity. Some of these are used in a later paper to develop indices of “unproductive political entrepreneurship” (Sobel, 2008). This reflects the more or less explicit assumption by the authors that much of the business of government is to reallocate or exploit existing resources rather than to contribute to production or development.

Schneider and Teske (1992) take a rather different approach, though their starting point is also the motivation of the political entrepreneur—an individual working within a municipal governance structure-- to affect the direction of local policy. They classify local government expenditures in the U.S. as allocational (“housekeeping” expenditures such as overheads related to government administration but also public safety), redistributive (welfare, urban renewal and hospitals) or developmental (generally related to the provision of infrastructure such as transport, sewage, water and energy). Using Peterson’s contention that allocational expenditures are those least subject to political limits and other rigid institutional structures, they argue that allocational expenditures offer

² The local municipal revenue base is comprised of income from municipal income taxes (roughly 20-25 percent) plus/minus redistributive contributions to other municipalities, as well as local fees for some services. The municipal level has among others responsibility and authority for child care, schools, elderly care, local land use planning and local sector development (environment, energy etc).

political entrepreneurs the greatest opportunity for profit. They then test this hypothesis by comparing the share of allocational expenditures to the number of observed political entrepreneurs, based on a survey of municipal clerks who were asked to identify individuals with various entrepreneurial characteristics. Political entrepreneurs identified were mostly mayors or politicians (almost 70 percent) but also city managers, bureau chiefs and private businessmen. Probit estimates of the likelihood of finding a political entrepreneur based on the levels of various types of expenditures (as well as other local conditions) show that allocational expenditures have a significant and positive effect on the probability of finding local political entrepreneurs, while redistributive and developmental expenditures are associated with a somewhat reduced likelihood of finding political entrepreneurs.

While the results of Schneider and Teske's analysis are compelling, their reliance on a rather simple taxonomy of budget expenditures raises some questions. Welfare expenditures, defined here as "redistributive", could include innovative social welfare initiatives that involve new partnerships with other public or private actors (which we would define as entrepreneurial activity). Likewise, allocative expenditures may well be tied to very rigid municipal charters that restrain innovation in governance and public administration. For example, many municipal charters in the U.S. require that the community maintain its own fire or police department, which restrains local governments from entering into partnerships with other communities to achieve scale economies.

We offer a third approach that is more focused on observing entrepreneurial communities than on finding and measuring the incidence of individual political entrepreneurs. Therefore, we are interested in measuring various types of activities that can be described as entrepreneurial. Compared to the aforementioned studies, our survey is measuring something different; not the incidence of political entrepreneurs who can profit individually from opportunities offered different institutional and environmental contexts, but rather entrepreneurial municipal governments that exhibit a capacity for experimentation and innovation in the pursuit of developmental goals. We seek to measure *collective capacity* for exploiting opportunities for innovation in local government activity rather than *individual capacity* for exploiting opportunities for personal gain within the constraints of local government activity. In other words, we are investigating the role of local government in promoting and shaping an "entrepreneurial social capital" (Westlund and Bolton 2003) in the local community.

Our approach follows the emphasis in the literature on policy-oriented entrepreneurship as the creation of new institutions, and also the definition of institutional entrepreneurship as endogenous institutional change. Indeed, this is what makes entrepreneurial behavior among municipalities somewhat unique. Municipal governments are highly constrained by their embeddedness in a range of higher-level institutions such as regional or national regulations. Just as important, local municipal charters often imply significant constraints to innovative behavior due to procedural institutions. Municipalities with twelve year land use planning horizons—and a host of other interdependent policymaking institutions based on this time frame—may find it difficult to capitalize on an opportunity to cooperate with municipalities with shorter or longer planning horizons. It may be nearly impossible to quickly mobilize local budget resources required to co-finance capital investments due to municipal institutions demanding local referenda, harmonization with budget cycles, etc. Therefore, we describe political entrepreneurship as involving the creation of new

institutions for development, without necessarily changing or reforming existing institutions. Rather, political entrepreneurship—in our study—is defined as new institutions layered onto an existing institutional structure. As such, our definition of political entrepreneurship closely follows Sheingate (1998) in its emphasis on “creative recombination that, when successful, transforms the institutional boundaries of authority” but we underscore that these new institutions may be temporary and may not imply transformation of the underlying institutional framework governing municipal behavior.

3. Method, data and model

Method

Our study uses new empirical data from a survey of Swedish municipalities who responded to open ended and multiple choice questions about various types of activities (described in more detail below). Survey responses for each municipality were used as the basis for constructing an *entrepreneurial governance score (EG score)* as well as six index values describing more specific entrepreneurship activities.

The EG scores and index values were reported and descriptive statistics created for municipalities of various types and conditions. Correlations were produced describing relationships between and among the EG score and index values, as well as in relation to the variable economic entrepreneurship, represented by the average annual number of new firms per 10 000 population between 2000 and 2008, indexed to the Swedish national average. Finally, ordinary least squares analysis was used to test for effects of entrepreneurial governance on population and employment growth.

Survey data

To capture municipal activities that can be described in terms of entrepreneurial governance, we developed a questionnaire addressed to municipal directors. The rationale for using municipal directors as respondents is similar to that of Schneider and Teske (1992), namely that local civil servants possess an overview of local political and governance activities that makes them credible respondents.³ In our case, however, the municipal directors were asked to describe activities rather than nominate individuals. The web survey was sent in June 2009 to all 290 municipal directors in Sweden and was followed up by telephone interviews. The response rate was 83%. The survey was comprised of over thirty questions regarding a range of activities generally outside the scope of “everyday” municipal business. Such activities include new forms of cooperation with business and with other municipalities to attract new business or new residents, participation in marketing, tourism and benchmarking initiatives, and participation in European Union projects related to local development. These questions capture and measure the (essentially positive) initiatives of communities that seek to experiment with new ways of working to achieve local development goals.

³ Schneider and Teske use municipal clerks as respondents, while we used city managers/city directors. Both types of respondents possess a good overview of municipal policy and are closely involved in the creation of new agreements, contracts and other innovative institutions for partnership.

The survey comprised over thirty questions in seven categories/indicators as well as additional information from text boxes that could be used for further explanation and the follow-up telephone interviews. These measured the following types of activities:

- Cooperation with local industry
- Measures for strengthening local business climate
- Co-financing of development projects with local industry
- Cooperation with other municipalities
- Development projects (co-financed by EU and national agencies)
- Benchmarking, learning and competence development activities
- Marketing

A difficulty in assessing responses to these questions is that the same activity can be related to several goals or phases and similar answers can relate to very different activities. For example, when asked to elaborate on the types of activities municipalities do to strengthen the local business climate, replies range from producing information brochures to the forming of business councils to discuss local land use plans, to municipal administrative reforms to speed the approval of business related permits. Also, respondents were not asked to relate activities to phases in entrepreneurial processes. Therefore we looked at which answer types were highly correlated. Correlations among answers reveal highly significant and substantial degrees of correlation (at the 0.01 level (2-tailed)) between benchmarking and marketing activities (.633), which were also highly correlated with the existence of development projects financed by the EU and other agencies (over .4 each) . Measures for strengthening the business climate were highly correlated with “cooperating with local industry” (.509). Cooperation with other municipalities was most highly correlated with marketing activities (.435) and the text answers support this; municipalities often cooperate on common marketing of the region.

Entrepreneurial governance scores

In the first stage, responses in each category were scored and tabulated. Taken together, the seven indicators produced a potential score range of 0-58 points, an average of 31 points, and a maximum and minimum of 50 and 11 points respectively. In other words, the 244 responding municipalities represent a wide range of observed entrepreneurship activities.

Results were documented for each individual municipality but also by spatial type, using a division of geographic types developed by the Swedish Board of Agriculture.⁴ Metropolitan areas have the

⁴ Municipalities in Sweden are classified into four different groups, municipality type (MT) 1, 2, 3, and 4. (MT 1) metropolitan areas, (MT 2) urban areas, (MT 3) rural areas/countryside, and (MT 4) sparse populated rural areas. The four types of areas are defined as follows: Metropolitan areas (MT 1): Includes municipalities where 100 percent of the population lives within cities or within a 30 km distance from the cities. Using this definition, there are three metropolitan areas in Sweden: Stockholm, Gothenburg and Malmo. Urban areas (MT 2): Municipalities with a population of at least 30 000 inhabitants and where the largest city has a population of 25 000 people or more. Smaller municipalities that are neighbours to these urban municipalities will be included in a local urban area if more than 50 percent of the labour force in the smaller municipality commutes to a neighbour municipality. In this way, a functional-region perspective is adopted. Rural areas/countryside (MT 3): Municipalities that are not included in the metropolitan areas and urban areas are

lowest scores for entrepreneurial governance but the highest rankings for economic entrepreneurship, here measured as startup firms per 10 000 population. Sparse rural and rural municipalities have high scores for entrepreneurial governance and lower rates of startup firms (economic entrepreneurship).⁵

Table 1: Economic and political entrepreneurship scores, indexed to national averages

Municipality type	Economic Entrepreneurship (annual rate of new firms per 10 000 population)	Entrepreneurial Governance index
Metropolitan	132	90
Urban	100	105
Rural	91	100
Sparse rural	99	105
National average	100	100

4. Qualitative survey results

This section summarizes results from the survey questions and interviews. As noted, respondents were invited to provide additional comments to their answers given to standard questions and were also contacted for follow-up interviews by telephone. These results provide a deeper understanding of the character and motivation for various types of EG activity.

Cooperation with local industry

Municipalities cooperate with local industry on a wide range of initiatives. Almost all municipalities meet with industry representatives in the context of information meetings, industry breakfasts and the like—and indeed, the extent to which such activities in and of themselves represent entrepreneurship can be debated. More interesting is the high incidence (over 80 percent) of municipalities that report common projects with industry, including developing new infrastructure such as district heating systems, startup firm incubators and science parks. Many of these projects have necessitated the creation of new organizations and institutions of governance such as commonly owned business development corporations. Admittedly, few of these initiatives are radical in the sense that they are “new to the world”, to use a distinction often used in the literature on entrepreneurship, (see for example Baumol’s (2010) distinction between innovative and replicative entrepreneurship) but they are often new to the local political context. Half of the responding

classified as rural areas/countryside, given they have a population density of at least 5 people per square kilometre. Sparse populated rural areas (MT 4): Municipalities that are not included in the three categories above and have less than 5 people per square kilometre.

⁵However some studies have found equally high startup rates in rural and urban areas when they are defined in another way than in this paper, see e.g. Eliasson and Westlund (2013).

municipalities noted that local business policies are developed in close dialogue with industrial leaders and that this has led to the creation of new networks between the municipality and businesses, but also among businesses and among municipalities.

Measures for strengthening the local business climate

Measures and activities for strengthening the local business climate include sponsoring projects supporting new startups for specific groups such as immigrants or women (84%), support for education and cluster development (65%) and marketing activities to attract new business (76%). Almost half report investing in business incubators and a quarter invest in science parks. Other measures include investments in infrastructure to improve accessibility to the municipality by supporting transport infrastructure, including owning or co-financing railroads and airports. Here again, detailed responses reveal a high incidence of informal meetings and offering arenas for general dialogue but also the creation of new companies and organizations for business development, marketing, logistics and goods handling, or to guide the implementation of large projects such as new housing developments. Several also note initiatives within local government to offer training programs for civil servants in “customer-oriented” public service.

Co-financing of projects with local industry

Municipal representatives were asked how many projects the local government had co-financed with industry in the three year period between 2006 and 2009. Almost half (45%) reported 2-4 projects and over a quarter had 5-9 projects. About thirteen percent had no projects or one project, and roughly the same number had more than ten. Notably, seven percent reported more than 15 unique projects co-financed with local industry during the three year period. Detailed responses, however, reveal a wide range of responses including single events (such as commonly produced meetings or congresses, or producing a brochure) but also major multi-year initiatives for urban development or training. The latter include the creation of new institutes and in some cases new infrastructure, such as a new motorsports stadium, biofuel facility or training center. Many of the larger projects and associated investments are linked to development projects co-funded through national development programs or the European Union’s structural funds.

Cooperation with other municipalities

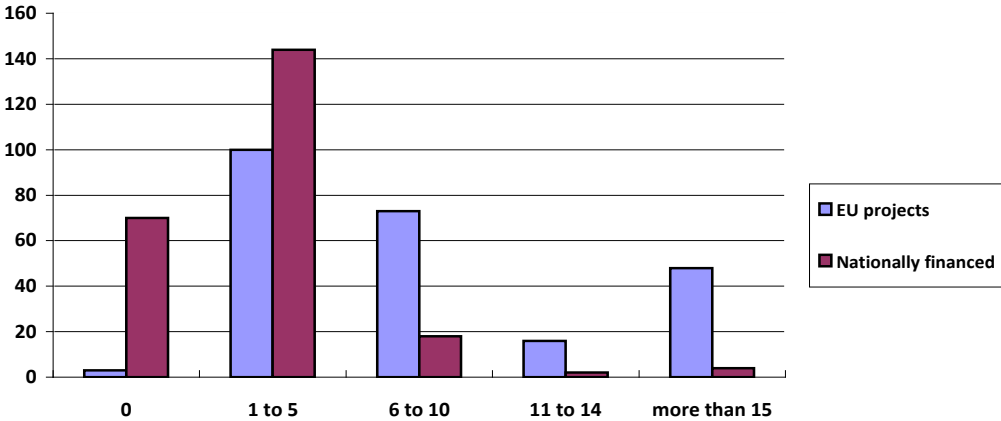
Three quarters of responding municipalities reported cooperating with other municipalities to attract new residents and companies and almost all municipalities (94%) cooperate with neighboring communities to attract visitors. It bears noting that in Sweden, income taxes accrue to local governments but business taxes do not, so communities profit directly from new residents whereas businesses are valuable if they create jobs for local residents or provide goods and services that attract or retain residents. Municipalities in the same region often compete for residents (and, less often, businesses), but can also pool resources to try to attract more residents or companies to the entire region. The latter strategy is clear from the survey; fully 96 percent of municipalities report cooperating with other local governments in the same county, about one quarter with local governments in nearby counties, and only 3.4 percent with other Swedish communities. However, 9.5 percent report cooperating with local governments in other countries to attract new residents, and 5.6 percent to attract new business, which may be an effect of EU structural funds providing resources for cross-border cooperation. While this share is modest, these types of cooperation often involve significant effort to harmonize institutions for the taxation of housing or income in adjacent

countries that share (or could share) a common labor pool. As such they may represent instances where political entrepreneurship was necessary to produce institutional change.

Development projects (co-financed by EU and national agencies)

Survey respondents reported frequent participation in development projects co-financed by the European Union and national development agencies. The highest share (41.7%) participated in 1-5 European projects in the period between 2006 and 1009, and almost a third (30.4%) participated in between 6 and ten projects. Also notable is that one fifth (20%) participated in more than 15 development projects co-financed from sources external to the community. About 60% participated in 1-5 projects co-financed by national development agencies during the same period, but almost a third (29.4%) had no nationally financed projects.

Figure 3: Number of municipalities and number of development projects funded or co-funded by national or international agencies, 2006-2009, responding Swedish municipalities



These projects represented a total contribution to the local community that ranged from a few million kronor (about 200 000 Euro) to 4.5 million Euro. This is a significant increase of local development resources to municipal coffers and can be said to represent a profit from political entrepreneurship, though these contributions often require co-financing from local authorities; most had contributed about 20 000- 80 000 Euro. A particular source of development funds for Swedish municipalities is the EU LEADER+ program for small business development in rural areas. Although detailed responses to questions regarding the benefits of LEADER+ are rather vague, (“LEADER+ benefits rural development,”) several responses note that experience with LEADER+ projects help mobilize resources for other projects, both from within the community and from other EU programs. Several municipal respondents also note that LEADER projects created networks and other institutions for cooperation among local businesses and between small business startups and the local government authorities. In this sense they fit the criteria for political entrepreneurship as

related to institutional change and activity outside of traditional institutional boundaries. LEADER and other European programs have also led to institutional change within local authorities: 57% of municipalities report having a dedicated coordinator for European proposals and programs.

Benchmarking, learning and competence development activities

Three quarters (75.6%) of municipalities invest in surveys and related activities that measure local opinion among residents or businesses and/or benchmark results against that of other communities. 67.6% report participating in formal benchmarking studies such as the “municipal compass”, a benchmarking tool offered by the Swedish Society of Municipalities and County Councils since 2002. Almost as many (66.4%) also produce surveys among municipal staff or develop other forms for stimulating and implementing “bottom-up” ideas for new development initiatives or increasing efficiency in public administration. Such activities can be important starting points for entrepreneurial activities representing the phases in which background material is gathered and opportunities recognized. In this sense, a high score in this category can highlight a municipality with a greater openness to new ideas and innovations in administration and governance and continuous improvement in local service provision.

Marketing

Municipal representatives were asked to what extent the local government, alone or in association with other actors, had tried to create or strengthen an identity or image for the municipality. A majority responded that they had engaged in this type of city marketing, “to a very great extent” or “to a relatively great extent.” About one quarter (27%) responded that they had used city/municipality marketing programs relatively little and 8.4% had not used marketing programs at all. A review of the descriptions of the profiles and images used to market local communities reveals striking similarities. About one third include an “entrepreneurial attitude,” a “land of opportunity” or a community that is in general friendly to business. At least as many underscore the community’s responsiveness to residents’ concerns and a “customer focus”. Others highlight specific sectors or business profiles for which the community is (or could be) known such as tourism, lean production techniques or small business. A good quality of life and a safe or clean environment is a common theme.

Over 90 percent had taken specific initiatives to enhance the attractiveness of the municipality between 2006 and 2009, and one third report having established a marketing company to produce ongoing programs (alone or in partnership with other actors). Examples of marketing initiatives include producing citizen and employee panels, targeted marketing campaigns to attract tourists and property buyers from specific countries such as the Netherlands and Germany, or participation in international congresses. Many initiatives are related to new or improved/refurbished infrastructure such as retail centers, central area redevelopment, specialized schools or new housing developments. Many report initiatives to make attractive parcels of land available to developers, which may require changes in formal and informal institutions governing zoning or permitting processes. In some cases improving attractiveness has meant adding staff, such as tourist managers, and in other cases reducing staff to cut administrative cost.

Although the scope and ambition level of local marketing initiatives varies widely, it is in this context that many respondents noted the creation of cooperative initiatives with other actors. These include

neighboring communities, communities along a major transport corridor, regional market development companies, and a range of business partners including developers. Some, though not all, of these initiatives have created new institutions for partnership.

5. Model specification and results

Two equations were tested to estimate the effect of political entrepreneurship in Swedish municipalities on population and employment growth. The equations use population growth and employment (average annual 2006-2010) as the respective dependent variables as a function of entrepreneurial governance and the control variables: new firm formation (startup rates), human capital (share population with a higher education degree 2001), share employed (2002), intramunicipal and intraregional accessibility (2002, logged values), dummies for municipalities with a high share of raw material and tourism industries, and population change and employment change respectively 2000-05 (logged values). In the final model, the four municipality types were reduced to two, to provide sufficiently large samples for the analysis. Metropolitan and urban municipalities were aggregated to a single “urban” category, and rural and sparse rural municipalities to a “rural” category.

Results for all equations were specified by municipal type (urban or rural).

The first tests of this model showed no significance of the entrepreneurial governance (EG) index on population or employment growth in Swedish municipalities. Therefore, the models were run separately for the seven index categories described above: (Cooperation with local industry, Measures for strengthening local business climate, Co-financing of development projects with local industry, Cooperation with other municipalities, Development projects co-financed by EU and national agencies, Benchmarking, learning and competence development activities, and Marketing. One category produced highly significant results: benchmarking, learning and competence development were found to have a highly significant *positive* ($p < 0.05$) effect on (ln) employment and population change in rural communities and a significant *negative* ($p < 0.10$) effect on (ln) population change in urban areas.

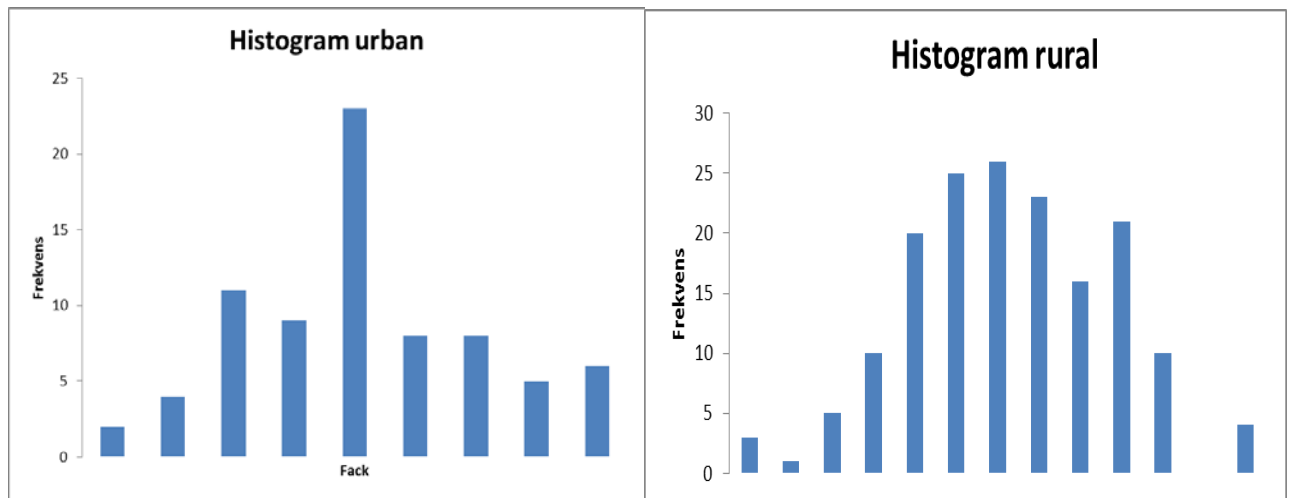
Table 2: OLS model of the influence of benchmarking, learning and competency on population growth in Swedish municipalities, 2006-2010, reported by municipal type

	(ln) employment change	(ln) population change	(ln) employment change	(ln) population change	(ln) employment change	(ln) population change
VARIABLES	ALL	ALL	urban	urban	rural	rural
Benchmarking, learning and competence index	0.00122 (0.00146)	1.32e-05 (0.000558)	-0.00368 (0.00250)	-0.00194* (0.00106)	0.00429** (0.00174)	0.00142** (0.000578)
Startups	0.000153*** (4.27e-05)	4.00e-05** (1.71e-05)	1.38e-05 (7.37e-05)	-4.40e-05 (3.43e-05)	0.000191*** (5.45e-05)	6.47e-05*** (1.95e-05)
Share university educated	0.314** (0.126)	0.106** (0.0471)	0.0804 (0.181)	0.0776 (0.0799)	0.421** (0.200)	0.0454 (0.0645)
Employment 2002	0.285*** (0.0941)	0.152*** (0.0367)	0.520*** (0.176)	0.129* (0.0762)	0.124 (0.127)	0.133*** (0.0413)
Intramunicipal accessibility	0.00339 (0.00468)	0.00743*** (0.00180)	0.0191** (0.00751)	0.0114*** (0.00322)	0.000353 (0.00685)	0.00697*** (0.00224)
Intraregional accessibility	-0.00170 (0.00371)	0.00421*** (0.00150)	0.00481 (0.00740)	0.0121*** (0.00312)	-0.00535 (0.00432)	-0.000261 (0.00164)
Raw material industry dominated	0.0578** (0.0242)	0.000106 (0.00912)	0.0208 (0.0550)	-0.00160 (0.0235)	0.0716*** (0.0259)	-0.000171 (0.00839)
Tourism industry dominated	0.0211 (0.0136)	0.00557 (0.00509)	0.0167 (0.0293)	0.0220* (0.0124)	0.0174 (0.0149)	-0.00161 (0.00477)
Incomplete answers	0.00595 (0.00806)	-8.59e-05 (0.00304)	-0.00280 (0.0156)	-0.00632 (0.00655)	0.0102 (0.00915)	0.00392 (0.00296)
In employment change	0.115* (0.0585)		0.247** (0.111)		0.0595 (0.0676)	
In population change		0.491*** (0.0611)		0.446*** (0.124)		0.521*** (0.0715)
Constant	-0.296*** (0.102)	-0.355*** (0.0479)	-0.780*** (0.238)	-0.546*** (0.100)	-0.119 (0.132)	-0.253*** (0.0564)
Observations	240	240	76	76	164	164
R-squared	0.420	0.802	0.375	0.627	0.296	0.727
Standard errors in parentheses						

*** p<0.01, ** p<0.05, * p<0.1

Notably, the benchmarking variable scores were roughly similar in urban and rural municipalities, with urban area scores actually slightly higher (mean score for urban areas 9.07, for rural areas 8.81 out of a possible 15.)

The scores in both categories ranged from 2 to 15 and the distributions reveal that urban areas were more likely to have an “average” score while rural area scores were more distributed along a more normal curve.



6. Analysis and discussion

As noted above, much of the literature on policy related entrepreneurship is interested in explaining why political or policy entrepreneurs might emerge in various types of contexts. We have chosen to focus on the opposite causal relationship, asking whether or not higher rates of policy related entrepreneurship can be used to explain higher population growth or employment growth in Swedish municipalities. We are also, as noted above, interested in entrepreneurial activities in municipalities, which although they may have been initiated by individuals that can be described as political entrepreneurs, have effects played out in collective institutions of local governance. Put more simply, can we see any effect of an entrepreneurial approach to local governance on the development goals these new initiatives are meant to support? By focusing on the effect of EG on municipal conditions, we hope to shed light on this understudied causal link. In fact, the causal relationship may well be recursive; EG affects employment and population growth (if not, it is a waste of municipal resources) but propensity to engage in EG activities is a function of municipal conditions such as population and employment growth as well as demographic and spatial factors.

As noted, we found a highly significant positive effect of one aspect of EG on population growth and employment growth in rural municipalities: benchmarking, learning and competency development activities. However, the effect of the benchmarking variable in urban areas was significant and negative for population and not significant for employment growth. The significant negative connection between the benchmarking variable and population growth in urban municipalities is probably a reflection of the fact that these areas are growing mainly thanks to their geographical location in regions that are expanding for reasons better explained by traditional regional economic development theory. In rural municipalities benchmarking seems to play a positive role for population development. This suggests that public policies in general and political entrepreneurship in particular play a positive role in that they compensate for market driven development. This is a result that gives additional support to the interpretation that local politics can play a role in promoting local development outside the metropolitan areas.

Suppose we return to new economic geography theory, which underscores the advantages of larger and denser agglomerations for entrepreneurship and innovation. At the heart of this theory is the idea that the communication and interaction critical to new initiatives, among firms and within local innovation systems involving public authorities, universities, firms etc, is more easily achieved in urban areas. Many studies have explained the higher incidence of innovative entrepreneurship in firms located in urban areas with lower costs for collecting new information and accessing new ideas through contact with like firms (a location externality) or diverse firms (an urbanization externality). Put another way, dense agglomerations can promote learning within an organization and increase openness to new ideas. For example, in their study of manufacturing firms Harrison et al (1996) find that larger agglomerations are also those in which interorganizational learning is most evident. In their study of manufacturing firms, they found that geographic proximity, and the social capital networks it facilitates, is associated with a higher propensity to accept new ideas:

“This proximity may create an environment in which skilled workers, engineers, and managers are more likely to communicate with nearby individuals in the same or related industries who are facing similar production problems. The intent of such communication (when it is not simply serendipitous) is to learn what those in similar organizational settings are doing and to acquire information about new technological and product developments in the industry. Reliable information from trustworthy individuals and organizations is thought to be an important ingredient in the acceptability of an innovation and in the willingness of followers to adopt it.” (Harrison et al, 1996 p 62)

If we turn our attention to local governments, there is reason to suggest that a similar phenomenon is at work. In urban areas, neighboring municipalities are more densely settled and more importantly, more functionally interrelated. Urban local governments may by this logic have more opportunities to interact with a large number of local firms and with other governments, and these interactions can generate new ideas and help governments understand the implications of their implementation.

In rural areas the costs for accessing developmental information and ideas is higher, both for firms and for governments. In a rural community, active government learning and benchmarking activity may to some extent substitute for these agglomeration advantages. In other words, rural communities need to actively invest in development-relevant communication and information gathering activities that urban communities enjoy by virtue of their close physical proximity and daily interaction. If this is the case, then active local government investment in accessing ideas, feedbacks and innovations can indirectly contribute to the local knowledge networks that in turn support population and growth. The fairly high correlation between the benchmarking/learning variable and the variable describing development projects co-financed by EU and national agencies is logical in this context, since these projects tend to focus on sharing experience and best practice regarding development policy innovations.

7. Concluding Remarks

This study is a contribution to the very limited literature on policy related entrepreneurship and offers new empirical data regarding the ways in which Swedish municipalities reflect an entrepreneurial attitude towards development policy. The survey results support the notion that what we define as entrepreneurial is occurring in a wide variety of municipalities; it is not a phenomenon exclusive to only urban or high-growth municipalities. While our survey employed a fairly broad definition of entrepreneurial governance, a close examination of results reveals a high incidence of new institutions created to support development at the municipal level. These include

formal agreements such as public-private partnerships or co-financing agreements with other municipalities, but also new forums for informal exchanges of knowledge and dialogue. Municipalities are immobile and as representative governments cannot decide to radically transform their own institutions without significant transaction cost. This may well be why our survey noted many instances of municipalities creating space for innovation by participating in cooperative projects (which often can be governed by institutions that don't need to follow municipal procedures).

Importantly, most of these new institutions were created to govern specific projects or studies. Many were of a temporary character or created new organizations not under the direct authority of any one municipality. This type of temporary partnering with other public and private authorities—often in the context of planning new strategic development investments—may have afforded individual municipalities a degree of freedom to experiment with new ideas and approaches without fear of reprisal and without hindrance from procedural institutions. This implies that partnering and other forms of cooperation between municipalities and other public and private actors may not only reflect resource constraints or recognition that the relevant economic geography comprised an area larger than the municipal borders. Rather, collaboration and cooperation may be an efficient strategy to experiment with new ideas without the transaction costs—and risk—involved in reforming municipal institutions. In sum, we find that municipal development initiatives can be described as a form of political entrepreneurship because they involve seizing opportunities for reaching political goals by creating new institutions that can steward new ideas and encourage experimentation. On the other hand, they may be distinguished from other types of social, civil, or political entrepreneurship in that they tend to layer temporary or limited collaborative institutions onto existing municipal institutions of governance rather than transforming existing institutions. We conclude that the types of municipal development initiatives we studied can be studied as a form of entrepreneurial governance and compared to other types of entrepreneurship.

Our definition of entrepreneurial governance—and the metrics used to define it—are still at an exploratory stage. We also offer one of the few attempts to study the effect of policy related entrepreneurship on the types of local development it is intended to promote, such as population growth and employment growth. Perhaps most intriguing is the indication that there is a distinction to be made between urban and rural communities regarding the effect of benchmarking and learning activities on development, despite the fact that mean scores were similar in urban and rural areas.

Our study has focused on the observation of municipal (organizational) entrepreneurship in various spatial and economic contexts as opposed to the incidence of individual political entrepreneurs. Where others study the capacity of governance institutions to foster individual entrepreneurs, we have instead studied the capacity of local governance institutions to reinvent themselves and to contribute to an entrepreneurial social capital at the community level. It would be very interesting to investigate whether or not the incidence of political entrepreneurs is positively or negatively related to observations of entrepreneurial municipalities, as we have defined them. It may be that municipalities with a higher propensity to foster political entrepreneurs are also those in which entrepreneurial capacity—as a community—is actually lower. Consider for example that our results indicate that high growth rates are negatively associated with new initiatives to partner with local industry, whereas Schneider and Teske (1992) find that high growth rates increase the probability of

finding political entrepreneurs because “rapid growth can strain existing services, increase pressure on taxes and mobilize local citizens who see the quality of life in the community changing.”

The results of this study have also highlighted some issues regarding the way in which statistics are collected for various types of municipalities. Growing interest in functional relationships as a determining factor in defining municipalities as urban or rural has led to the development of new taxonomies that still offer only crude divisions between e.g. urban and rural municipalities. It may be that for the purposes of this type of analysis, using municipal statistics grouped by labor market region would yield better results – but on the other hand, a labor market region is not a governmental organization that can take decisions whose outcomes result in entrepreneurial governance...

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