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Local Entrepreneurship Policy – Organizing across Contexts

Abstract

Organizing entrepreneurship policy efforts is not an easy task. Often there are several different actors involved, and their joint efforts towards improving conditions for entrepreneurs may be more or less organized. This paper investigates the organizational archetypes of local entrepreneurship policy, across a number of design parameters. The study is based on a survey of 86 Danish municipalities and their entrepreneurship policy structures. A cluster analyses has been performed to identify taxonomies of entrepreneurship political organizations, and the findings reveal five different clusters, or archetypes. Moreover the study reveals a link between these archetypes and their immediate environment. Hence, urban and rural municipalities seem to organize their efforts in different ways. The study contributes in two ways. First of all it shifts the focus from policy formulation to organization, assuming an importance of organizing according to context. Second of all the paper draws our attention towards these new taxonomies, which are of value both to academia but also to the political world.

Introduction

In this study, the organizational archetypes of entrepreneurship policy organization are identified based on three primary factors of organizational design: financial configuration, structural governance and collaboration. Further the frequency of the archetypes and more importantly their dependency on the context is investigated.

Entrepreneurship policy has long been seen as a tool to improve conditions for nascent and new start-ups (Gilbert et al. 2004). Politicians and researchers proceed under the assumption that entrepreneurship policy is effective, however very little research has actually been able to prove a direct positive effect of entrepreneurship policy on entrepreneurial activity. In this paper I argue that there are two possible reasons for these difficulties, 1) a lack of concern for context, and 2) a lack of consideration for the organizational design of the political efforts.

From organizational theory it has long been established that an organization's performance is directly contingent upon the fit between context and organizational design (Lawrence & Lorsch 1967; Burton & Obel 2004; Scott & Davis 2007). Hence, the design of an organization must be adjusted to the surrounding environment, in order for the organization to perform its best. This is a theory which may very well be applicable in entrepreneurship policy as well. Entrepreneurship policy is "delivered" through implementation structures (Hjern & Porter, 1981; O'Toole Jr, 1993) existing of a number of different public and private organizations that are all connected via their role in entrepreneurship policy. In practice these are incubators, business development agencies, schools and educational institutions, unemployment agencies, advisory services etc. What distinguishes these implementation structures from conventional organizations is that they are not hierarchically tied together – they are networks of different organizations working towards a shared goal.

This paper explores the different organizational archetypes of local entrepreneurship policy. This is done under the assumption that the effects of entrepreneurship policy are contingent upon the organizational design of the implementation structure and that this design is locally anchored and thus varies across contexts. The study is grounded in a previous qualitative

investigation of the design parameters of implementation structures, revealing a total of five parameters specific to entrepreneurship policy organization: 1) central actor financial configuration, 2) central actor governance, 3) system-level cooperation and complexity, 4) system-level initiative portfolio, and 5) system-level governance. This paper focuses on four out of these five.

Organizing Entrepreneurship Policy

Entrepreneurship policy research has long been characterized by investigating the contents (Hoffmann 2007; Lundstrom & Stevenson 2005) and effects of political initiatives (Storey & Potter 2007; Storey 2000). Much of the research on entrepreneurship policy evaluation has been done at country level or at the individual program level (Lundstrom & Stevenson 2005; DJ Storey & Potter 2007; D Storey 2002; Turok 1997). While these investigations have proven highly valuable, this paper takes the investigation to the local/regional level, to take into account the idiosyncrasies between contexts. Recent research has shown how entrepreneurship is locally anchored (Mueller, 2006; Wagner & Sternberg, 2004), and how local contexts differ in their entrepreneurial "gearing" (Hindle 2010; Welter 2011), and these differences in context needs to be taken into consideration, not only when formulating entrepreneurship policy but also when organizing it. Across regions, differences in start-up rates, differences in entrepreneurial attitudes and differences in success rates of new ventures indicates that there is a relationship between entrepreneurial activity and locality (Fritsch & Schmude 2006), leading to this new focus on regional and local entrepreneurship policy.

As mentioned in the introduction, an even more central topic to look into is the actual organization of entrepreneurship policy – situated somewhere inbetween contents and evaluation. Organization can be viewed from two perspectives, management theory and political science. Political science sees organization as part of the implementation process, whereas management theory sees organization as a strategic process. Starting out with the political science perspective, implementation of policy has been on the research agenda in political science the seminal work of Pressman and Wildavsky (1973), focusing our attention on how implementation is a direct cause of success or failure of a political program (Pressman & Wildavsky 1973). Structures for the implementation of policy take many names. Policy networks (Berardo & Scholz 2010; Börzel 1998), delivery structures (Lundstrom & Stevenson 2005; Schofield 2001) and implementation structures (Hjern & Porter 1981) are commonly used to describe the network of organizations and institutions that are involved in implementing a specific political program. The actors in these networks may also be units or divisions of organizations, or individuals. Hence, it is a network of actors, individuals, units or organizations, working towards a shared purpose; to implement a specific political program.

While these actors do have a shared purpose and are driven by what is called a program rationale (the pursuit of the goal of implementation), they are also driven by an organizational rationale, i.e. the goals of their own individual organization. This "split personality" makes implementation structures very complex, since they are lacking a hierarchical tie.

During more recent years, organization studies have found their way into policy, as being part of the implementation process (Börzel 1998). In management theory, organizations are defined and characterized in many different ways, from a bounded organizational perspective, where organizations are hierarchical entities with set boundaries to more loosely coupled systems with several actors and structures.

The strategic management field and more specifically, organizational theory, has dealt with organizations from many different angels. This paper takes an open-systems approach where organizations are considered self-maintaining based on throughput of resources from the environment (Scott & Davis 2007). Essentially this means that organizations, although defined by legal structures and organizational hierarchies, are open structures that are constantly interacting with the outside world, and directly dependent on input from the environment.

Open-systems theorists Pfeffer and Salancik (1978, p.36) define the organizations as "... a coalition of groups and interests, each attempting to obtain something from the collectivity by interacting with others, and each with its own preferences and objectives". While Pfeffer and Salancik distance themselves from what they term the bureaucratic model, i.e. a more rational-choice approach to organizing, Burton and Obel (2004), in their work on developing a multi-contingency model of organizational design, take a much more rational approach to open systems design. They define the organization as a social entity that has activities, boundaries, and that is deliberately constructed, and thus focus on the deliberate design of organizations. Lawrence and Lorch (1967) were the first to introduce contingency theory in the management field. Specifically, scholars in contingency theory propose and test models where the organizational design of an entity, e.g. a firm or a unit, is adjusted to the surrounding environment in order to optimize organizational performance.

How does this relate to implementation structures? As mentioned, the purpose of this paper is to investigate the organization of entrepreneurship policy, specifically the organization of the implementation structures of entrepreneurship policy. This is done, based on organizational theory and contingency theory, however the unit of analysis is a little different. Instead of focusing on the conventional bounded organization, this paper looks at implementation structures, that are more comparable to more contemporary organizational types such as networks, collaborative communities and communities of practice.

Organizational archtypes

Organizational configurations are defined by Meyer et al (1993, p. 1175) as " any multidimensional constellation of conceptually distinct characteristics that commonly occur together". Hence, a configuration is an archetype of organization, related to typologies and taxonomies. Typologies and taxonomies are used in many different fields of research. Biology and the natural sciences are frequent users, however also management researchers have leaned towards identifying different archetypes of organizational configurations. Minzberg's 5 organizational structures are probably the best known: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy (Mintzberg 1980). Also Miles and Snow (1978) have developed a typology, dividing organizations into three strategic types: Defenders, Prospectors and Analyzers, with a fourth "default" type, called Reactors. Their types are formed based on strategy, technology, structure and process(Miles et al. 1978).

This paper looks into the organizational configuration of entrepreneurship policy implementation structures. Specifically it explores the different organizational archetypes of local entrepreneurship policy. While organizations theorists have identified design parameters that are applicable across organizations, implementation structures look different and therefore needs differen operationalizations of different mechanisms. From a previous case study of 8 Danish municipalities and their entrepreneurship policy organization, 5 factors have emerged as potentially important design factors in entrepreneurship policy. These are 1) central actor financial structure, 2) central actor governance structure, 3) system collaboration

and complexity, 4) initiative portfolio, and 5) non-hierarchical governance. Four out of these five factors are included in this study. Central actor financial structure and central actor governance structure relates to the central actor, defined as the organization in charge of delivering the basic entrepreneurship support services, as prescribed by the local government. The central actor is a sort of hub in the implementation structure. The remaining three are system-level factors, and thus characterize the implementation structure as a whole. The model thus becomes multi-leveled. The four factors investigated in this paper all relate to coordination and control in one way or the other:

Central Actor Financial Structure
Usually, financial structure is not at the centre of organizational design, even though there are different ways of financing an organization. Within entrepreneurship policy, the case is a little different. Municipalities may chose to keep CA activities in-house, or outsource them, and if they outsource they may decide to only finance some of the activities in that organization, depending on the agreement. Moreover, several local governments may chose to co-finance a CA. Central actor financial structure thus becomes a distinct characteristic that varies from implementation structure to implementation structure.

Central Actor Governance Structure
From organizational theory it is known, that control mechanisms are central to the organization of an organization. This is the case in implementation structures as well. Just like parent companies need to control the activities in a subsidiary (Kumar & Seth 1998), local governments need to control the activities in the central actor. The control system thus also characterizes an implementation structure.

Structural Governance
Structural governance is also a control mechanism; however this time at the system level. Provan and Kenis (2008) argue how network governance is crucial from an principal-agent theory perspective, however, relatively little research has actually been done on the subject. Structural governance, or network governance, relates to whether and how the activities in the implementation structure is monitored and controlled.

Collaboration
As known from network theory and organizational theory, the units and their relations define the system. While there may be a structural governance system to control the activities in the system, collaboration between actors within the structure is a central characteristic of an implementation structure, that takes part in defining the archtype. Collaboration relates to coordination, as units in an implementation structure collaborate in different ways to coordinate their activities.

Methodology
Cluster analysis will be used to develop a taxonomy of organizational archetypes in entrepreneurship policy. Cluster analysis is to a great extent dependent on the researcher's evaluation and selection of clusters, however cluster analysis is also a very suitable way to conduct this type of semi-exploratory research, looking for patterns in the data. Yes, clusters will probably look different when done by different researchers, but the point here is to learn and develop theories for further testing.

Data collection
The study is based on a survey of the Danish municipalities and their entrepreneurship policy organization. Entrepreneurship policy in Denmark is separated into three levels: national,

regional and local. At the local level it is up to the local governments themselves whether they chose to invest in entrepreneurship, and which initiatives and structures they wish to finance. This freedom to design their own individual policies and support systems makes the Danish municipalities a unique unit of analysis for this type of study.

The study was carried out during the summer 2012. The questionnaire was sent out via email to 178 policymakers and business development agencies across the 98 municipalities. Out of these, 116 responded to the questionnaire. The 116 respondents represent 86 municipalities. The collapsed dataset has been created based on mean-values in the cases with more than one respondent. There are examples of categorical variables where respondents from the same municipality have answered differently, and where it does not make sense to use the mean value. In these cases it is necessary to evaluate which of the types of respondents are most likely to have answered the question correctly for that specific question.

Variables

Central Actor Financial Structure is a computation of two variables – one describing the structure of the CA (in-house or outsourced), and one describing the geographical scope (within or between municipalities). The categories of the variable are illustrated below:

	Between	Within
In-house	1	2
outsourced	3	4

The first question asked is: "Most municipalities have a central unit which, with support from the municipality, performs services for entrepreneurs, for example a business council, a business development department a private consultant or the like. Who performs services for entrepreneurs in your area?" The question is rather long, however it has been important that the respondent understands exactly what the unit is that is being asked about. The variable is categorical with 4 possible answers: 1: "municipal business department", 2: "External actor", 4: "there are no services offered to entrepreneurs", 5: "other". Just as the question, the answers are very specific. For reasons unknown, a high number of the 116 respondents have answered "other" to the question (29 of 116). These respondents were given the possibility to explain this answer in detail, and based on an investigation of their answers, the two categories "external actor" and "other" have been merged, representing all other structures than in-house structures. In two cases, the respondents did not answer the same – in these cases the value has been coded as missing.

The geographical scope is asked about in the following way: "does this unit [the CA] provide services in other municipalities?". This is a dichotomous variable, with the possibility to answer yes or no.

Central Actor Governance Structure is a matter of the level of control the municipality keeps with the central actor. The variable is a multi-item measure consisting of two items: 1) the extent to which specific objectives are formulated in the contract between the municipality and the central actor, and 2) the frequency by which, the contract is re-negotiated. Since the items are measured on different scales, they have been standardized when generating the index. Cronbach's alpha of the measure is 0.689.

Collaboration is a multi-item measure consisting of four variables. The four items were all measured on a 5-point scale from "not at all" to "very much". The four statements are a) there

is a high level of cooperation between the local government and the central actor, b) there is a high level of cooperation between the central actor and the other local actors, c) there is a high level of cooperation between the other local actors in general, and d) to which extent are activities and initiatives for entrepreneurs coordinated in the local area? Cronbachs alpha for the multi-item measure is 0.83, which is well above the recommended levels.

Non-hierarchical Governance is a categorical variable based on the question "who coordinates entrepreneurship activities between the local actors? The variable consists of 5 categories describing who (if any) coordinates activities 1: central actor 2: joint coordination between local actors 3: coordination via e.g. a council 4: no coordination, 5: other. In 10 of the cases with more than one respondent, the respondents had provided different answers. One possibility in such a case is to record them as missing values. However, taking into account that the dataset is quite small, it seems more reasonable to keep the data from one of the respondents – in this case from the business development managers. Business development managers are considered to be "closer" to the implementation structure and daily operations, and therefore his/her answer is chosen over the city managers.

Urbanization is adapted from a categorization of the Danish Municipalities, suggested by Søgaard (2011). This categorization is inspired by OECDs categorizations of regions and should be comparable to other countries. Urbanization is measured at municipality-level across three categories: urban, heterogeneous and rural. Heterogeneous municipalities represent municipalities that have both urban and rural areas within them.

Two-step cluster analysis

A two-step cluster analysis is used to develop the taxonomy of organizational arch types. There are several reasons for the choice of a two-step model. Traditional cluster analyses are based on e.g. euclidean distances between objects, however when the variables are categorical, this is no longer possible. The variables in the analysis are a mixture of categorical and ordinal variables, and in such cases, a two-step cluster analysis is used. The two-step cluster analysis is carried out in SPSS, which is one of the only

Two-step cluster analysis starts out with a pre clustering of the observations, followed by a hierarchical cluster analysis. The analysis itself identifies the optimal number of clusters (as opposed to hierarchical or K-means clustering). As mentioned, euclidean distances cannot be used on categorical data, and therefore log-likelyhood is used as indicator of distance. Cases are assigned to a cluster if the log-likelyhood ratio is high (representing a short distance).

Findings

The two-step cluster analysis generates five clusters across three variables. A three cluster solution was proposed by the model itself (possible only in two-step cluster analysis), however comparing solutions with four and five clusters specified, generated more logic results with the same average silhouette measure. The quality of the cluster analysis is fair with a silhouette coefficient of 0.5. A positive silhouette coefficient indicates that the average distance between the cases is smaller within clusters than between clusters. Thus the closer the coefficient is to 1, the better. A coefficient of 0.5 is not optimal, however it is within the range of a fair to good quality of analysis. The ratio between the largest and smallest cluster is 2.57, indicating that the largest cluster is 2.57 times as large as the smallest.

Table 1 provides an overview of the five clusters, sorted by size. The three clustering variables are listed, and each cluster has been given a suitable name.

Table 1 – Cluster overview

Cluster	Proportion of total	Governance Structure	CA Financial Structure	Collaboration
Outsourced centralization	36.7% (18)	Central actor (100%)	4 (100%)	3.69
Arm's length coordination	18.4% (9)	Joint coordination (100%)	4 (55.6%)	3.74
Decoupled disintegration	16.3% (8)	No governance (75%)	4 (50.0%)	3.24
Internal centralization, external collaboration	14.3% (7)	Central actor (100%)	3 (71.4%)	4.14
In-house centralization	14.3% (7)	Central actor (100%)	2 (100%)	3.86

Cluster 1 – Outsourced centralization

This type of implementation structure is the most prevalent among the cases. It is characterized by being governed through centralization, i.e. the central actor coordinates the activities in the structure across all cases. The collaboration between actors in the cluster is at a medium level compared to the other clusters. The central actors across the cases are all type four, meaning that in all cases within this cluster, the local government has chosen to outsource their central entrepreneurship activities to an organization outside the public administration, and that this organization focuses their activities within that one municipality.

Cluster 2 – Arm's length coordination

This type of structure is characterized by a governance structure that is based on joint governance between the local actors. In the majority of the cases, the central actor is outsourced to a unit outside the local administration, and working within the same municipality. All four types of financial structures are however represented in this cluster. The collaboration level in the structure is medium, despite the joint coordination.

Cluster 3 – Decoupled disintegration

This cluster is characterized by the lowest level of collaboration among the actors, which may be related to the lack of coordination among some of the cases. As with the first two clusters, the most prevalent CA financial structure is the outsourced unit that supports entrepreneurs within only one municipality. All other types, except type 1 (in-house, across municipalities) are however present. With regards to governance, 75% of the cases in this cluster reports that no governance is taking place across the structure, and in the remainin 25%, they have answered "other". An investigation into this category reveals that "other" primarily represents governance by the local government. This may suggest that unless the local government chooses to coordinate the activities in the structure itself, there will not be any governance at all.

Cluster 4 – internal centralization, external collaboration

This cluster of implementation structures is characterized by a centralized governance structure where the central actor coordinates activities between local entrepreneurship policy actors. All cases in the cluster are characterized by a central actor that works across municipal boundaries – 71% of which are external to the public administration and 29% of which are internal entities. The central actor plays a major role in these structures while they are

facilitating internal collaborations, while at the same time providing services to entrepreneurs in more than one municipality.

Cluster 5 – In-house centralization

The implementation structures in the final cluster is characterized by a central-actor driven governance structure along with a type 2 financial structure, representing the in-house central actor operating only within one municipality. The collaboration level in the implementation structure is average, suggesting that an in-house, CA coordinated structure does not necessarily compromise above-average levels of collaboration across the structure.

Table 2 adds a few contextual variables to the clusters: CA governance and urbanization. CA governance was first included in the cluster analysis, however since that did not generate any strong results the variable was taken out of the model, and is instead added to the final model for comparison. CA governance represents the level of governance that the local government exerts on the central actor. Urbanization is separated into three categories: rural, heterogeneous and urban.

Tabel 2 – Clusters

	Outsourced Centralzation	**Arm's length coordination**	**Decoupled disintegration**	**Internal centralization, external collaboration**	**In-house centralization**
Govern.struct. Finan. struct. Collaboration	CA govern. Type 4 3.69	Joint govern. Type 4 3.74	No govern. Type 4 3.24	CA govern. Type 3 (and 1) 4.14	CA govern. Type 2 2.82
Urbanization	Heterogeneous (55.6%)	Rural (44.4%)	Heterogeneous (50%)	Heterogeneous (85,7%)	Urban (42.9%)
Central Actor governance	4.12	3.44	4.28	3.68	2.82

Cluster 1: Municipalities in this cluster are predominantly so called heterogeneous areas, characterized by both rural and urban attributes (e.g. rural areas with a larger town or city). The remaining cases all represents rural areas. CA governance is in the higher end of the scale. Being characterized by all outsourced central actors, this may be the reason for the high levels of CA governance. Lacking the hierarchical tie to the central actor, the local government may be more inclined to exercise higher levels of governance.

Cluster 2: While rural areas are most prevalent in this cluster, all three urbanization-levels are represented in this cluster. Also the CA governance level is at a medium level compared to the other clusters. All this suggests that joint coordination happens across structures, collaboration levels, types of areas and CA governance structures, and more investigation is needed to fully understand this group of structures.

Cluster 3: Homogenous and rural municipalities are represented in this cluster and this cluster experiences the highest level of central actor governance out of all the clusters. There may be a link between the lack of governance within in implementation structure and the high level of CA governance. Local governments may chose to impose more control over the central actor due to the lack of coordination and collaboration in the structure. It may also be that there are few actors in a the structures and the need for coordination and collaboration is lower

Cluster 4: This engagement of the central actor seems to be reflected in the general level of collaboration among implementation structure actors, since this cluster demonstrates the highest level of collaboration of all five clusters. This type is represented mostly in heterogeneous municipalities, and for the rest in urban municipalities, suggesting that there might be a tendency here worth looking further into.

Cluster 5: Urban areas have a high representation in the cluster, suggesting that these areas may have a preference towards keeping the central actor activities within the public administration. Heterogeneous and rural areas are represented in the cluster as well. This cluster has the lowest level of CA governance, which makes sense since the central actor is an integrated part of the public administration and thus hierarchically tied to the local government. There is thus no need for further governance, since the formal structures are already in place.

Conclusions

The purpose of this study is to identify archetypes of organizational arrangements within local entrepreneurship policy. Scholars in entrepreneurship policy research have done a great deal of work, identifying attributes and characteristics of entrepreneurship policies, the effects of policy has been examined, and lately, context has been brought into the picture as well. There still, however, seems to be a missing link between context, policy and performance, and what this paper suggests is that this missing link may be found in the organizational configuration of the implementation structure.

Implementation structures are defined as the network of organizations, institutions, units, and other actors involved in the implementation of a political program. In local entrepreneurship policy these are e.g. business development agencies, incubators and educational institutions – all of which owns a share in local entrepreneurship policy.

This paper seeks to understand how the local government chooses to organize their central entrepreneurship activities, and how the different actor in the implementation structure work together under different circumstances. The cluster analysis identifies five archtypes across 49 cases: 1) Outsourced Centralization, 2) Arm's Length Coordination, 3) Decoupled disintegration, 4) Internal centralization, external collaboration, and 5) In-house centralization. The clusters are identified across three factors: governance structure, financial structure and collaboration, and evaluated based on urbanization and central actor governance. The clusters vary across these factors, and there are a few tendencies that are interesting to point out at this stage.

The study reveals an interesting link between urbanization and financial structure. The 5th cluster, "In-house centralization", suggests that there may be a link between urban areas and a more centralized structure, where local governments choose to keep the central entrepreneurship support within the local administration. Conversely, the fourth cluster "Internal centralization, external collaboration", suggests that there may be a tendency among heterogeneous areas to internalize their central activities within local administration (type 1 and 3), whereas rural areas seem to be more likely to outsource their activities.

The contribution of this study to policy is clear. Learning more about the organizational archetypes of entrepreneurship policy provides policymakers with a broader knowledge-base on which to make informed decisions. Policy organization may not be a purely top-down, rational process, however this study proposes an approach to policy which allows for some strategic design to take place.

Limitations

As with all other types of research, there are limitations to this study that needs to be taken into consideration.

First of all, cluster analysis is exploratory in nature, and a cluster analysis performed by another researcher may have looked different. The results are nevertheless interesting to observe, and are a firm basis for the development of hypotheses for further testing. Cluster analysis should not be compared to statistical inference, and with that in mind, the analysis provides valuable exploratory findings in itself. It is however necessary to investigate the clusters further.

While the dataset represents 86 municipalities and their implementation structures, only 49 of these are included in the cluster analysis. This is because of missing values in the dataset. There are different ways of correcting for this, and these possibilities needs to be investigated further.

Suggestions for further research

More research within the area of entrepreneurship policy organization is needed, and this is only a step down the road. As already mentioned, more analysis into the clusters needs to be made.

Also, it is crucial to include a performance measure into the analysis. There are different success factor that may be taken into consideration, e.g. entrepreneurship rates, start-up rates, employment rates, policy-makers' perception of success, entreprenurs' perception of success etc. There are many measures to consider, however investigating the success of different types of organizations is a natural next step.

Finally, investigating the organization of entrepreneurship policy in other countries would be an interesting road to follow. Building a sound theory of the organization of entrepreneurship policy must be done across countries to be of a greater impact to the academic and political societies.

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