

## Entrepreneurship at the Border

*Fernanda M. Bizarro Policarpo<sup>1</sup>, Ricardo M. Hernández Mogollón<sup>2</sup>*

*(1. Polytechnic Institute of Portalegre, Portalegre, Portugal; 2. Universidad of Extremadura, Cáceres, Spain)*

**Abstract:** This paper aims to examine entrepreneurship at the border, more specifically in the Portugal-Spain border, particularly the Alentejo-Extremadura, since this is one of the regions with the worst socio-economic indicators of the whole European Union. As part of a major investigation, this paper has as main objective the description of a model developed to evaluate the frontier effect in the entrepreneurial initiatives of the region under study. To justify and validate the proposed model, were performed: literature revision; analysis of regional indicators; case studies with interviews to the managers, employees and customers. The main contributions are to assist all those involved in the process of entrepreneurship, to assess the real conditions of the different border territories, as well as assisting academics in the study and creation of scientific knowledge on the promotion of entrepreneurship in peripheral and low-density areas as a way of developing regional and territorial cohesion.

**Key words:** entrepreneurship; border effect; regional development; territorial cohesion

**JEL codes:** L26, Q51, Q56, R11, R58

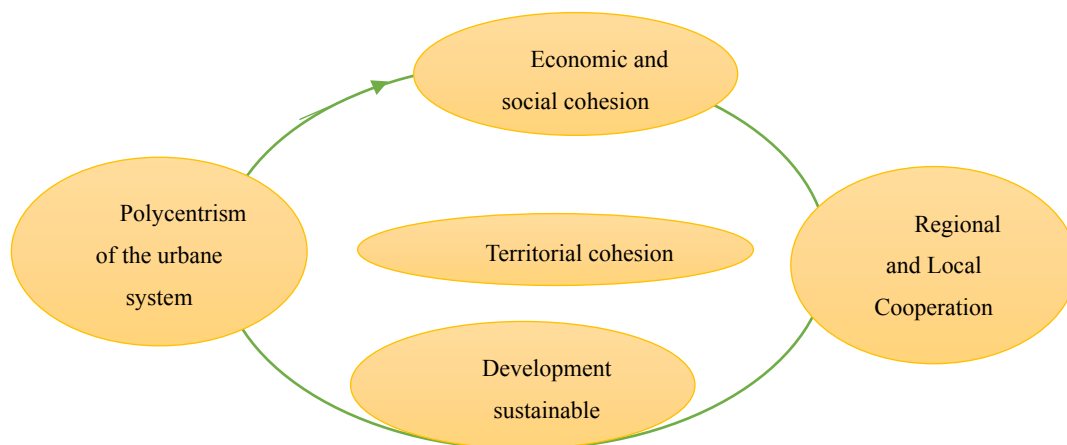
### 1. Introduction

The role of entrepreneurship in terms of economic development has been recognized by a number of theorists over time, including Acs, Audretsch, Braunerhjelm & Carlsson (2004), Baumol (2002), Kirzner (1997), Leibenstein (1968), Schumpeter (1934). Considered by the European Union (EU) as a powerful engine of economic growth, creating competitiveness and innovation, something that results in the creation of new businesses, and thus jobs, as well as opening up to new markets and development of new skills and capacities at different sectoral levels, becomes essential for regional development (European Commission, 2012). On the other hand, transforming a border which divides in a border which unites and ensures a balanced and sustainable economic and social development, throughout the territory, without lines of discontinuity, fostering greater territorial cohesion, have been and continue to be the major objectives of European territorial cooperation (Soeiro, Beltrán, Cabanas, Lange, Mao, & Masarova, 2016), hence the need to understand the border effect and the way to abolish it.

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Fernanda M. Bizarro Policarpo, MSc. in Management with specialization in Finance, Professor, Department of Economic Sciences and Organization, Instituto Politécnico de Portalegre; research areas/interests: entrepreneurship, development economics, border effect. E-mail: [policarpo@ipportalegre.pt](mailto:policarpo@ipportalegre.pt).

Ricardo M. Hernández Mogollón, Ph.D. in Management, Professor, Facultad de Estudios Empresariales y Turismo, Extremadura University; research areas/interests: entrepreneurship, international finance, development economics. E-mail: [rhernand@unex.es](mailto:rhernand@unex.es).



**Figure 1 Structural Components of Territorial Cohesion**

As the authors themselves refer, the EU seeks to exploit the growth potential of all territories, not with a welfare policy, but with a transversal policy that reconciles solidarity and equity in the allocation of resources, with competitiveness and efficiency in their allocation (Soeiro et al., 2016). Thus, in order to promote the development of these regions are important the processes of cross-border cooperation, strengthening the potential synergies and also the common goals for sustainable development. The main objective of this work is to present a model that, identifying the factors that affect the entrepreneurial creation process, permits, the various stakeholders act directly on these regional particularities in order to maximize their development and cohesion.

## 2. Literature Review

### 2.1 Border Effect

The border creating a specific influence on the surroundings, which diverges, in intensity and type, from territory to territory, depending on the processes of interaction and integration between the various stakeholders and local agents, led to developments as distinct or spatial discontinuities (difficult access), physical (rivers, mountains, seas), cultural, linguistic (different languages), demographic, social and economic factors that result in barriers, which reduce opportunities for cooperation, affect the growth and development of these regions (CE, 2016).

Although the border line is no more than human artificialit, indeed, in the border regions the barrier effect encompasses obstacles and discontinuities of important accessibilities, which favor the fragmentation of market areas and the duplication of services, which is materialized in scale economy or scale diseconomy (Suárez-Villa, 1991). In this sense, it is important to increase transaction costs, on linguistic barriers, on the division of areas of influence, on customs costs and on potential political and military conflicts (Anderson & O'Dwod, 1999).

On the other hand, these regions, in a situation of geographic, economic and political periphery, in general, are a marginal space very distanced from the centers of national decision, regional and also from the centers of consumption (Carrera Hernández, 2000, p. 17). This leads to the fact that this frontier separates two economically and socially depressed regions, resulting in substantial cooperation possibilities and reduced capacities (Reigado, 2013).

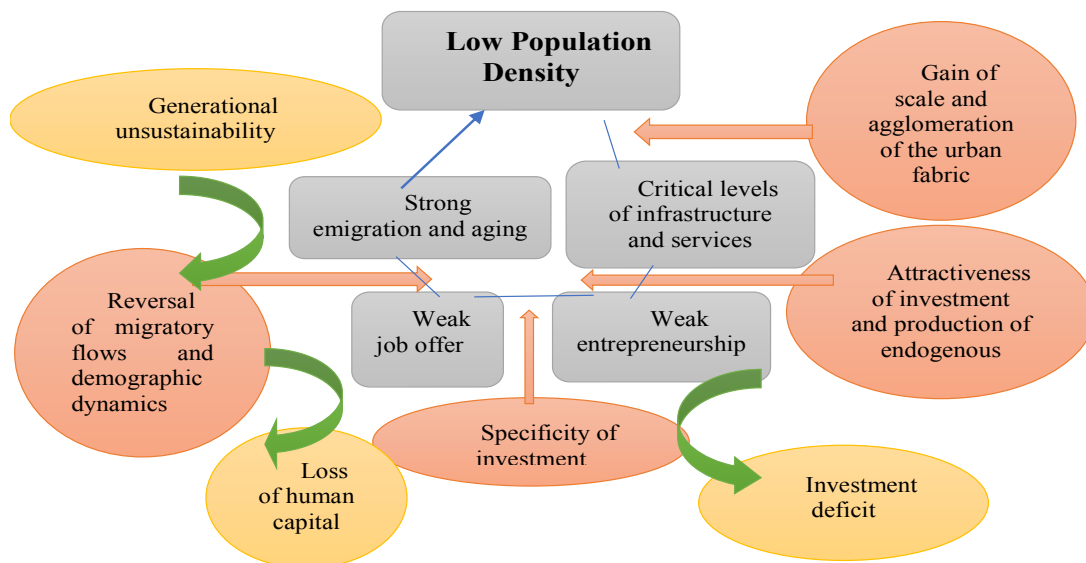


Figure 2 Breaking the Vicious Cycle of Low Density Territories

Therefore, they are not priority areas in terms of development policies and social cohesion (Castro, 2013), presenting, usually poor resources, what makes them repulsive and their development and economic growth despicable, comparing with the national whole. Thus, it is not invested because the demographic load does not justify it, and there is no investment (state or private) no living conditions (employment, diversity of services, etc) causing, consequently, an abandonment of the population with the accentuation of the demographic reduction, entering a continuous cycle of economic disinvestment, with repercussions in all other fields. On the other hand, the permanent population and economic loss, of these regions with social and economic structural delays compared to the average of the other regions, contend small and medium-sized urban centers and low population density leads them to continue to present difficulties in establishing themselves as regional centers.

Even because being territories of interior, constitute a territorial entity with a unique character which, by its characteristics, vocation and endogenous specificities represent a greater challenge in the breakdown of its low-density vicious cycle and in the construction of an inverse trajectory, either by the recognition of these specificities or through the search and implementation of positive discrimination measures capable of producing this inversion.

Therefore, the frontier being studied in this work, being a vast territory is characterized by low demographic density, dispersion of the settlement system and lack of qualified human resources (Reigado & Fernandes de Matos, 2001, p. 344).

Analyzing Figure 3 and comparing both situations, is more problematic in the Alentejo region with a population density of 19 individuals per km<sup>2</sup> and Extremadura with 26 individuals per km<sup>2</sup>. Presenting levels considerably close, the highest density is presented by Badajoz and the lowest, in the studied regions, is the Baixo Alentejo. This phenomenon is very characteristic of the border areas because they are regions located inside their countries, more peripheral and far from the decision centers, which contributes much to their increasing desertification.

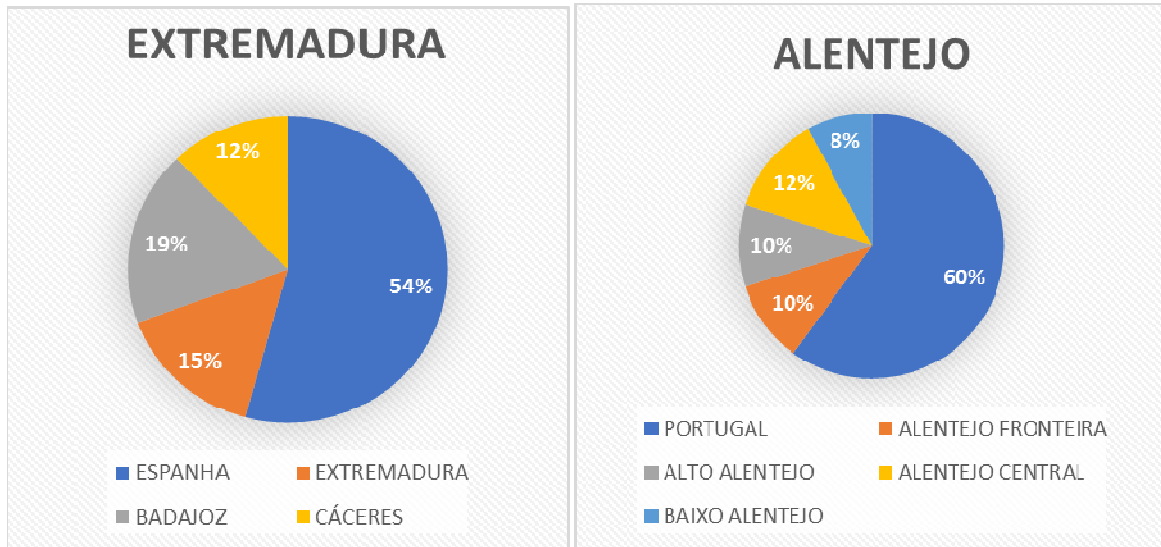


Figure 3 Population Density in the Regions under Study and in the Countries

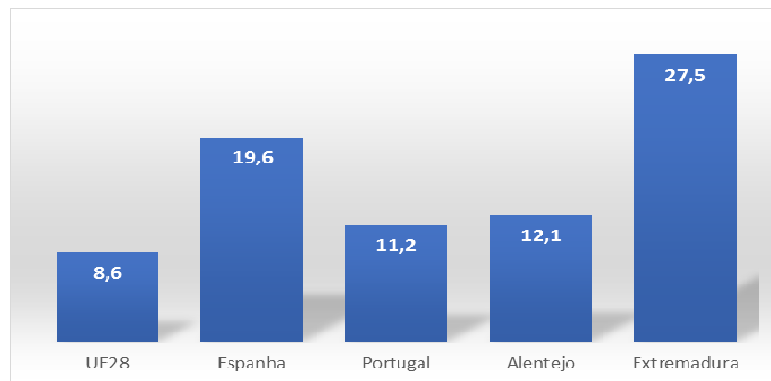


Figure 4 Unemployment Rate

When analyzing the unemployment rate (Figure 4) in the region, we find that, despite the fact that there are less and less inhabitants in these regions, their unemployment rate is higher than the respective country, since the entrepreneurial initiatives are reduced, as we shall see in the following paragraph. On the other hand, since endogenous development largely depends on the demographic structure and behavior of a territory, regressive social indicators are an obstacle to the creation of a minimum dynamism from which local development is possible. In a recent study, Castanho, Loures, Cabezas & Fernandes (2017) identified as critical factors for the territorial success of these regions: political commitment and transparency; break cultural barriers (extreme sense of belonging); standards of living; strong territorial cohesion; appropriate use of EU funds; common objectives. However, the following aspects are pointed out as enhancers of the frontier effect:

- 1) different levels of development that mark the sense of mobility, can potentiate countercurrent in situations of intersectoral imbalances (e.g., different prices);
- 2) barriers to the mobility of factors, such as language, culture, legislation and different social protection systems;
- 3) poor circulation of information (e.g., trade unions and employers);
- 4) intensity and direction of capital mobility due to legislation on investment and credit policy;

- 5) level of technological development and efficiency of public administration services;
- 6) competing offers of goods and services arising from the similarity of resources and economic structures on both sides of the border (Reigado, 2013).

For its part, and looking at the core of our study the entrepreneurial activity, the executive report refers 2014/15 (p. 60) of GEM for the region EUROACE, that what seems to further undermine this activity on this frontier is the political, social and institutional context, population characteristics, government policies, financial support, costs, labor access and regulation, barriers to market opening, as well as access to physical, commercial and professional infrastructures. It is, therefore, necessary to work to eliminate the disadvantages, which are the so-called context costs. For this, it is necessary to homogenize the political, social and institutional context between the two countries, with government policies and programs that favor real market opening so that companies can internationalize themselves, access physical, commercial and professional infrastructures with a guarantee of an adequate cost and with financial support.

### 2.2 Entrepreneurship Activity

The entrepreneurial dynamic that presupposes the creation of new entrepreneurial projects is fundamental for economic growth, employment and innovation. Being important, therefore, *Cada vez más, el crecimiento económico, la generación de nuevos puestos de trabajo y la innovación empresarial, preocupan a la sociedad y a los distintos gobiernos y administraciones públicas. La creación de empresas se está manifestando como una de las opciones que incide en la solución de los tres problemas* (Díaz Casero, Urbano Pulido, Hernández Mogollón, 2005, p. 1). Thus, innovation and entrepreneurship are the key ingredients for a modern economy, socially and sustainably, welfare guarantees. For the EU, entrepreneurship concerns the individual capacity to transform ideas into action, involving creativity, innovation and risk-taking, as well as project planning and management, in order to achieve objectives (European Commission, 2012).

Thus, entrepreneurship, being fundamental in the introduction of innovations in the economy is also the mechanism that leads society to evolve and to progress (Gaspar, 2009), since it fosters job creation and social development, contributing to increase the competitiveness of regions (GEM-EUROACE, 2014, p. 7).

This means that there is no society capable of progressing in the various parameters of well-being if it is not sufficiently competitive (Figure 5), hence the need to be innovative as a whole and to have entrepreneurs.

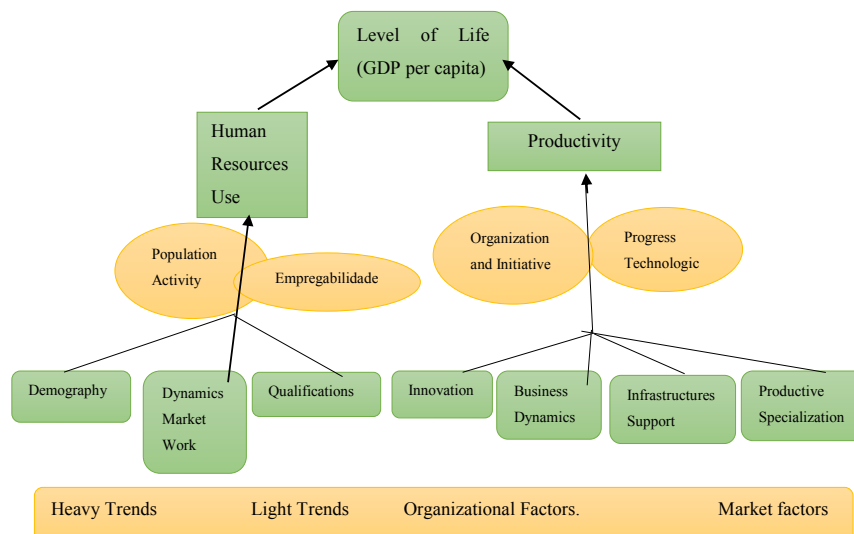


Figure 5 Pyramid of Territorial Competitiveness

However, the development of the entrepreneurial ecosystem requires a series of resources and a new educational and cultural model that favors and encourages the entrepreneurial spirit.

If the main engines of growth are the knowledge base, culture and innovative actions, and public infrastructure, entrepreneurship is deeply rooted in the conditions of support for geographical location, not in the spatial dimension alone (Nikjamp, 2013).

Given the above, and considering that environmental factors are the raw material of opportunities, the mentality of the person, his creative and original perceptions guided by his intentions are also fundamental in this process (Krueger, 2000), high are the catalysts that transform environmental factors into sources of value (Venkataraman, Hameling, & Harting, 2005).

The existence of an entrepreneurial mentality and culture in the region is fundamental to its renewal and to the advancement of its local industries (Arbuthnott & von Friedrichs, 2013) essential to stimulate regional innovation dynamics (Natário et al., 2010).

For its part, local culture is one of the critical aspects for building an environment that promotes entrepreneurship, influencing the willingness to cooperate, which can strengthen personal reputation and trust, leading to a reduction in transaction costs (Roberts, 1991). This cooperation to function requires rules and trust, and trust is based on the emotion and economic rationality of the transaction mechanisms (Dasgupta, 1988; Granovetter, 1985; Linders et al., 2005). Mechanisms that depend on the political issue, which should create instruments to strengthen confidence and esteem in the environment, either through adequate administrative support, less bureaucratic systems, flexible and adapted to the needs of different business initiatives (Nikjamp, 2013).

Likewise, the existence of adequate education and training systems (permitindo a gestão do saber Figure 1.6.), intelligent infrastructures, resource availability, coupled with close interaction between the business world and the public sector are critical success factors (Stough, 2003) in business activity. These education and training systems should, from an educational-formative perspective, enable human resources to be able to turn potential resources into real resources (Reigado & Fernandes de Matos, 2001, p. 343).

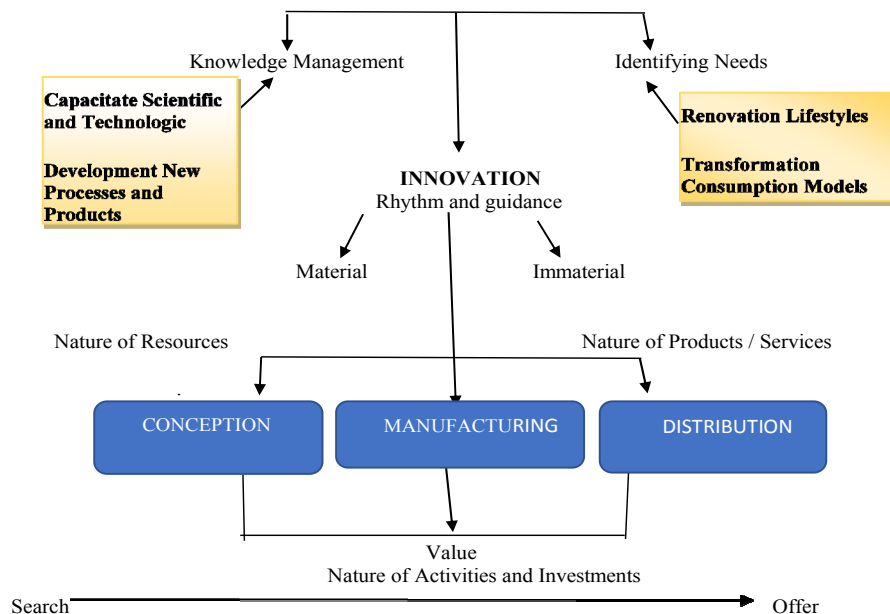


Figure 6 Articulation between Competitiveness and Innovation

Thus, the business activity promoting regional competitiveness, hence the need to undertake in depressed and little innovative contexts, in order to increase employment and improve the income of citizens (Barata, 2013), creation of jobs and wealth, creating social value (GEM Espanha, 2014).

In other action, the competitiveness of a long-term economic space presupposes improve the standard of living of its population, is directly linked to innovation through research and manufacture of new or improved products and services, thus gaining market shares (Gaspar, 1996).

Thus, regional competitiveness is seen as the ability of regions to simultaneously provide conditions of business success (as measured by the participation of firms in the global market) and a high standard of living for the population (Fagerberg et al., 2004).

In conclusion, entrepreneurship is a key feature in today’s society, relating to the capacity for innovation, initiative (Drucker, 2003) and creativity (Collins, Locke & Shane, 2003; Drucker, 2003), as a driver of employment and economic growth (Commission of the European Communities, 2006 and 2003, Sociedade Portuguesa de Inovação, 2004; Redford, 2007). Its benefits to local economies are to increase employment, better job skills, better competitiveness and better application of innovation (Global Entrepreneurship Monitor, 2007).

Based on the Report on Entrepreneurship at EUROACE 2014-15, Extremadura is the region with the most initiatives based on opportunity and less on need (73.9% vs. 23.2%). On the other hand, the Alentejo, compared to Extremadura, focuses less on opportunity (69.2%) and more on need (30.8%).

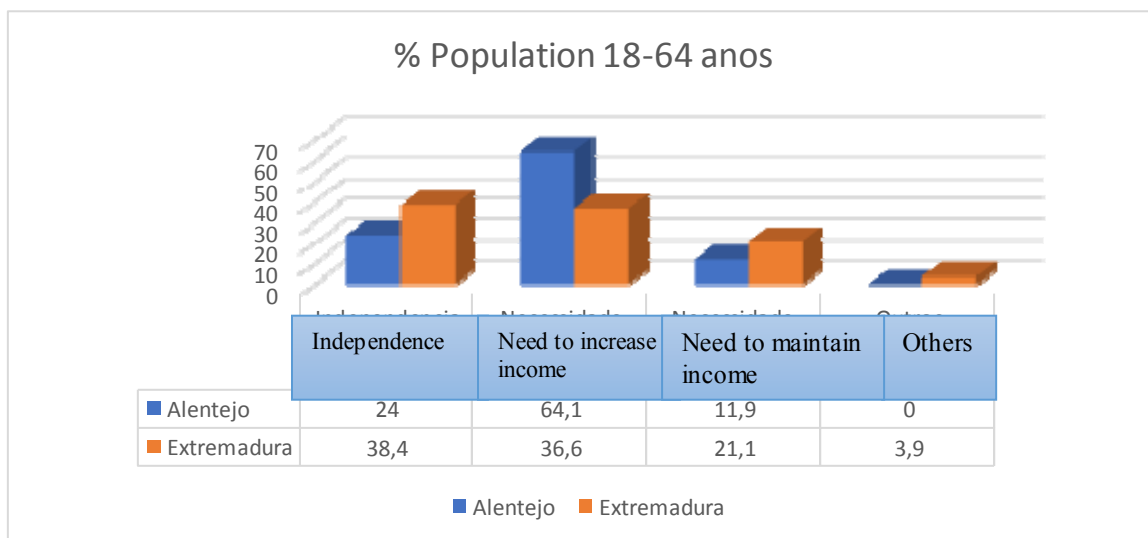


Figure 7 Motivation to Take on Opportunity in the Region

We can verify that the Alentejo region presented a rate of entrepreneurial initiatives (TEA - that is to say the number of people between 18 and 64 that carried out a business activity that has not yet completed three and a half years) of 7.1% while Extremadura presented 7.4%, very similar values in the two regions. As their countries presented respectively 10 and 5.5, which places the two regions in the middle of this interval.

In addition, people who left a business during the last year represent 2.6% of the adult population in Extremadura and 1.2% in Alentejo. In the case of the Alentejo with an average age of 41.4 years, this entrepreneurial opportunity arose essentially to maintain or increase its income (76%), while in Extremadura, with an average age of 39.7 years, (38.4%), and in Alentejo, the increase of incomes with 64.1%, dominates the preferences.

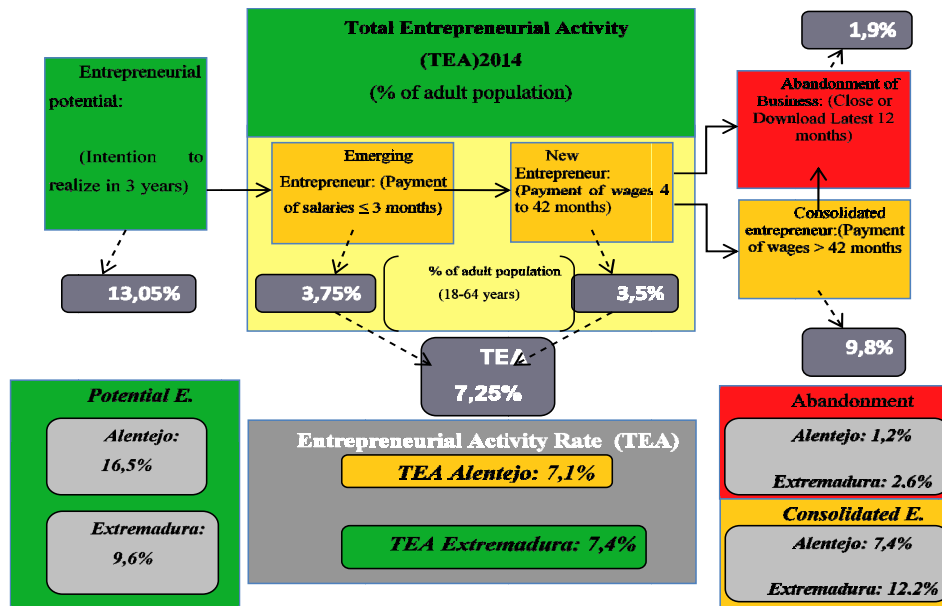


Figure 8 Business Process in the Alentejo and Extremadura Region



Figure 9 Profile Entrepreneur of the Alentejo and Extremadura Region

Almost three out of four initiatives in the region are carried out by entrepreneurs with at least secondary education. Just over a third (33.3%) have secondary education, almost a quarter (26.1%) higher education, and about 8.8% have studies at the level of the baccalaureate/higher or primary. There is also a minimal percentage of entrepreneurs, without any type of studies. In Alentejo, 68.3% of entrepreneurs have at least secondary education, while in Extremadura this group reaches 5.6%.

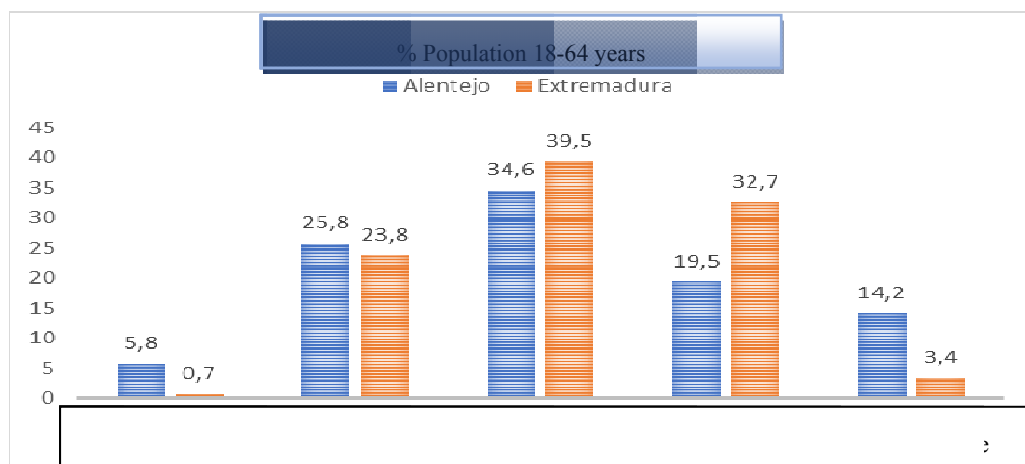


Figure 10 Education Level



Extremadura, with the highest proportion of entrepreneurs with secondary education, representing 75.6% of the total number of entrepreneurs in the region, also has the largest number (36.1%) of entrepreneurs with university education in both regions. Alentejo has the highest percentage of postgraduates (14.2%).

### 2.3 Theory of Endogenous Regional Development

Regional development is a dynamic process that provides and guarantees equal opportunities and social and economic well-being to communities, particularly the less developed ones (Fisher & Nijkamp, 2009).

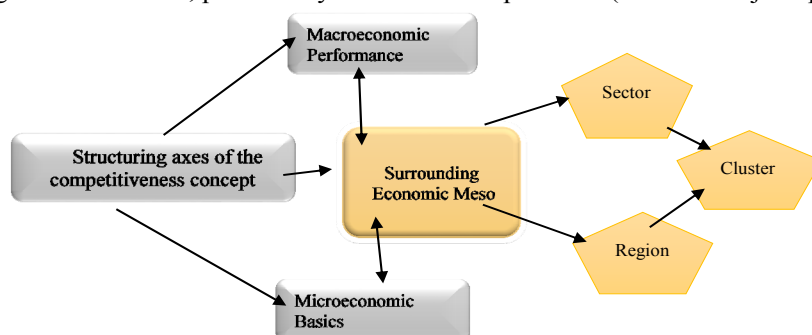


Figure 11 The Structuring Axes of the Concept of Competitiveness

Being important for their development as a region as well as for the country that integrates the relationship between these regions and in a context of rapid technological change and the globalization of economies, while at the same time increasing local their competitiveness requires a strong commitment in terms of entrepreneurship and innovation so that these regions exploit synergies resulting from their location (Figure 11).

Entendendo que as estratégias e ações a promover devem reconhecer as especificidades territoriais com que os atores económicos e sociais se debatem, a valorização dos recursos, produções e saber-fazer locais, numa visão de internacionalização e cooperação a uma escala transnacional (Fernandes, Natário & Braga, 2016, p. 3).

On the other hand, o padrão de livre circulação de pessoas, bens, ideias e capitais que adotámos na área da União Europeia impõe que cada região se estruture através da valorização das suas especificidades, sejam elas baseadas em facilidades locativas, em particularidades geográficas, em dotações tácitas de conhecimento ou em capacidades empreendedoras de carácter singular impostas pela história e pela personalidade de cada uma das comunidades. O percurso estratégico de cada região faz-se associando todas aquelas características, umas mais expressivas que outras, e convocando a energia dos agentes que nela desenvolvem as suas atividades, sejam privados ou públicos, sejam individuais ou familiares, sejam regionais ou forâneos (Guerreiro, 2009, p. 5).

Thus, the existence of an entrepreneurial culture and mentality in the region is fundamental to its renewal and to the advancement of its local industries (Arbuthnott & von Friedrichs, 2013), and essential to stimulate regional innovation dynamics (Natário et al., 2010).

In this sense, knowledge propagates through organizations and communities, for social and business networks (Vázquez Barquero, 1999), in a formal and informal way, in which organizations, the community and its individual components (knowledge ecology, Snowden 2000), within a framework defined by certain institutions (North, 1990). In this paper, we present the results of a study of the development of new firms (Porter, 1990; Reynolds et al., 2004) and the growth of existing organizations and networks in the environment, resulting in the transfer of activity resources (Figure 5), the use of external economies and the introduction of innovations, thus generating an increase in the well-being of the population of a city or region (Vázquez Barquero, 1999; Schumpeter, 1942).

On the other hand A mellora da produtividade (Figure 11) é condição necessária para a sustentabilidade do

proceso de crecemento económico, xa que pon de manifesto a eficiencia no uso dos factores de produción, isto é, o capital, o traballo e o coñecemento. Ademais, unha produtividade baixa fai o territorio menos atractivo para o investimento. A mellor maneira de incidir sobre a produtividade é o desenvolvemento conxunto dos factores produtivos, que teñen o seu principal resultado na innovación. Así, compre fomentar o investimento empresarial, a calidade como factor transversal, o emprego de calidade, a iniciativa empresarial, a I+D, o uso das TIC e, sobre todo e como resumo dos anteriores factores, a aposta polo coñecemento (Xunta de Galicia, 2006, pp. 13-14).

Thus, the processes of growth and structural transformation arise as a consequence of the transfer of resources from traditional to modern activities, the use of external economies and the introduction of innovations, aiming to increase the welfare of the region that generates it (Garofoli, 1983; Maillat, 1995; D’Arcy & Giussani, 1996). It is understood that growth is organized around the expansion and transformation of pre-existing activities, using the potential resources and innovation available in the territory, conditioned by the social and cultural structure and codes of conduct of the human community of certain territories, which favor or limit it and, in any case, give it its singular format. Classified as peripheral, these regions should increase the competitiveness of their value chain which implies the existence of competitive markets suppliers and buyers, as well as their production, processing and distribution with increasing added value. To this end, in addition to boosting research and development at the level of high added value products, it is important to reduce the marketing of undifferentiated products and promote the factors that facilitate the entry of new companies, particularly in the area of traditional products (Reigado, 2013).

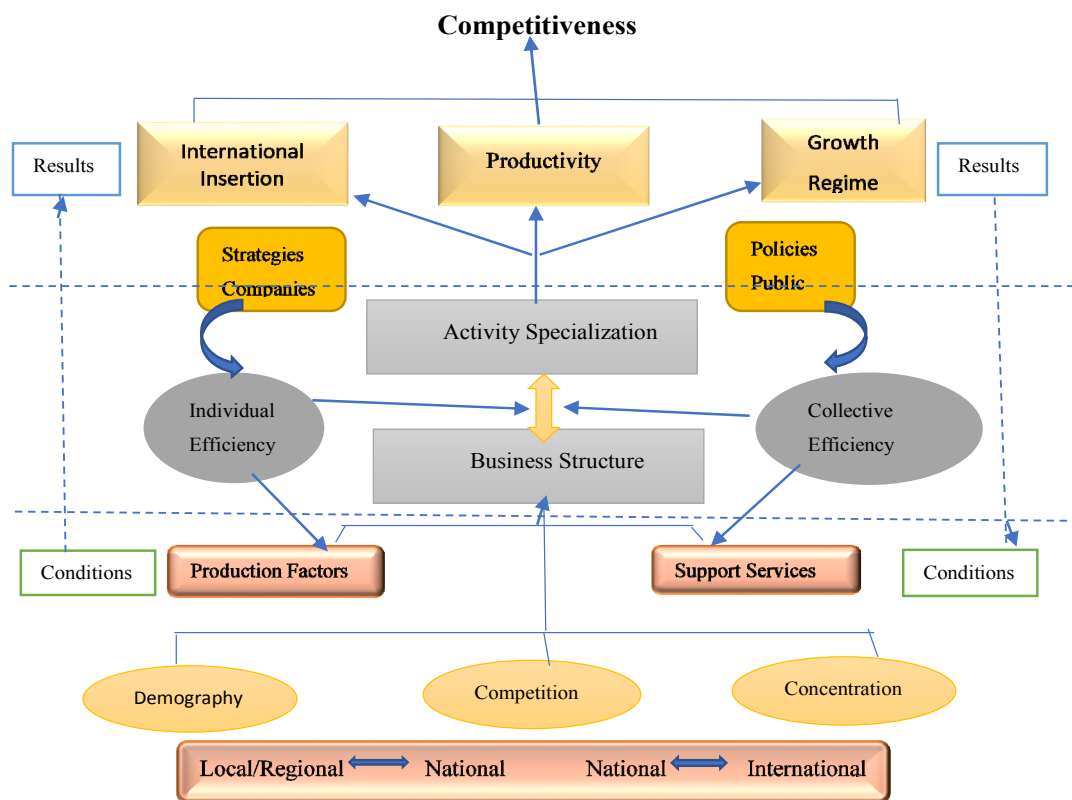


Figure 12 Competitiveness as an Articulation of Collective and Individual Efficiency

For its part, the European Commission (2016), in keeping with our idea, refers as the main types of potential in these regions, with a view to their development and elimination of the frontier effect, regional competitiveness related to product innovation, industrial and cultural attractiveness, market integration, including labor market, available human and social capital, integrated provision and development of public services in urban areas and shared management of natural resources.

### 3. The Created Model

The importance of entrepreneurship for economic growth has become unchallenged, possibly fostered by the crisis and as part of the solution, contributing to increasing the competitiveness of the various economic sectors as well as to job creation and social development. For their part, territories can act as barriers or provide favorable conditions for the creation of entrepreneurship (Malecki, 1994). The term entrepreneurship, understood as the emergence and growth of new businesses and businesses, emerges from another perspective, allowing for structural and regional development changes and, above all, job creation in market economies (Laukkanen, 2000). Thus, on the demand side, economic development and demographic and supply side characteristics, capabilities and interests determine the opportunity and affect the behavior of the nascent entrepreneur (Thurik et al., 2002). Thus, regional factors can affect individuals in the initial phase of the entrepreneurial process (Mueller, 2006; Acs et al., 2008; Bosma & Schutjens, 2011; Kibler, 2013).

From the perspective of not only the soundness of the processes of economic affirmation, but also from the point of view of the capacity to internalize the wealth generated, policy initiatives should take advantage of the network of local solidarity and the existing capacity for consultation, economic, social and political decision-makers. This solidarity is attainable if it is built from the subjective identity of the territorial community and the policies are perceived as having the same community as the final actors and addressees (Bruger, 1984, Cardoso & Cadima Ribeiro, 2002).

In this context, the role of the State within the new paradigms of local/regional development must be geared towards the local State, since it has a greater advantage over the central State, its proximity to the end users of goods and services, and can better capture information and maintain real-time interaction with producers and consumers. Trying to create a more favorable environment for the regions, so that they can meet the challenges of competition and technological advances, and leave aside tax incentives and indiscriminate subsidies for industries or companies, governments play a preponderant role in creating a policy regional innovation, learning and sharing (Gaspar, 1996; Bramanti, 1999).

If metropolitan regions can offer favorable conditions for the incubation of the entrepreneurial spirit, namely by the conditions of recruitment and management of human resources (Thompson, 1968; Leoa & Struyck, 1976; Pred, 1977; Davelaar, 1991; Lagendijk & Oinas, 2005), the non-metropolitan ones, in some cases, also present favorable conditions. In these cases, the information/training conditions, based on a territorial dynamic of interaction between the different actors, are fulfilled in order to foster a local culture of experience and tradition (Camagni, 1991; Storper, 1992, 1993). regions doing business is survival strategy, verifying a vertical disintegration and a fixed location based on flexible specialization.

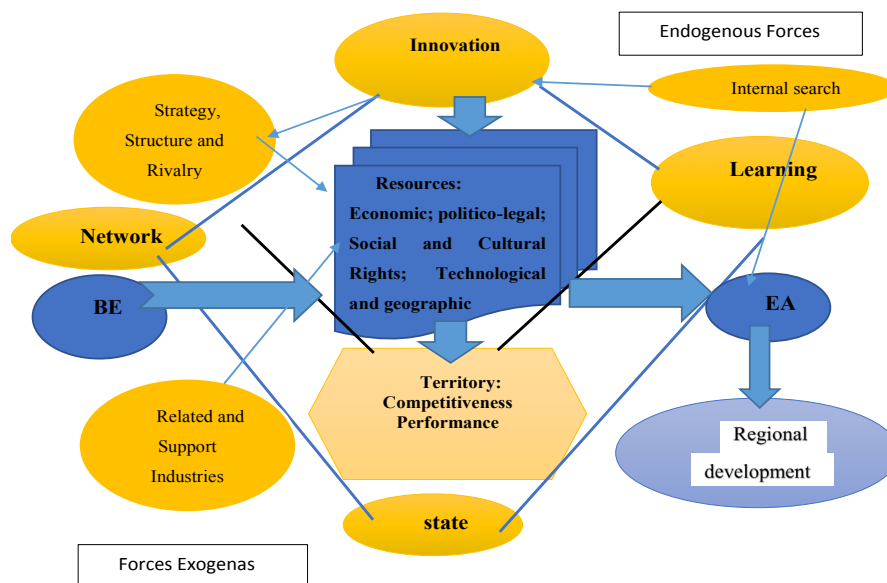


Figure 13 Evaluation Model

#### 4. Conclusion

The application of a model to understand the different constraints of the creation of entrepreneurial activity in this depressed region of the Portugal-Spain border can help in the application/design of the different community measures aiming at a greater development and cohesion of this territory, entrepreneurs and entrepreneurs to share experiences and knowledge, with the goal of increasing knowledge and the region.

Its usefulness came to be tested through the application to different companies, located at this border, and it is possible to identify the existence of an invisible barrier created by legal, fiscal, political, cultural and economic causes that blocks the sharing of knowledge and the creation of synergies.

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