

Agents of structural change

The role of firms and entrepreneurs in regional diversification

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Abstract

Who introduces structural change in regional economies: Entrepreneurs or existing firms? And do local or non-local establishment founders create most novelty in a region? Using Swedish matched employer-employee data, we determine how novel the activities of new establishments are to a region. Incumbents mainly reinforce a region's current specialization. Their growth, decline and industry switching further align incumbents with the rest of the local economy. The unrelated diversification required for structural change mostly originates via new establishments, especially via those with non-local roots. Interestingly, although entrepreneurs often introduce novel activities to a local economy, when they do so, their ventures have higher failure rates compared to new subsidiaries of existing firms. Consequently, new subsidiaries manage to create longer-lasting change in regions.

Key words: Structural change, entrepreneurship, diversification, relatedness, regions, resource-based view