

## INDUSTRY CLUSTERS: THE IMPORTANCE OF 'SPIN-OFF ENTREPRENEURS'

Clustering of economic activity – as in Silicon Valley or the Akron tyre industry – is driven not by public policy but by successful firms spawning 'spin-off entrepreneurs' as former employees set up new businesses close to their roots. Once a region attracts a few successful early entrants in an industry, it becomes a breeding ground for further success in that industry.

These are the conclusions of research by **Guido Buenstorf** and **Steven Klepper**, published in the April 2009 *Economic Journal*, which recounts the history of Akron, Ohio, the centre of the US tyre industry, and shows that most Akron tyre firms had local roots.

According to these authors, Akron is just one example of a widespread pattern of spin-off entrepreneurship:

- Successful firms are involuntary training grounds for future entrepreneurs. Often these entrepreneurs quit because they disagree with some element of their parent firm's strategy. At the same time, they are able to use relevant knowledge acquired on the job for the benefit of their start-up.
- Spin-off founders, like all entrepreneurs, tend to locate close to their roots. So more and better spin-offs are started in regions with more and better existing firms in the respective industry.
- Thus, once a region is able to attract a few successful early entrants in an industry, it becomes a breeding ground for more successful firms in the industry.

In the case of Akron, at one point two-thirds of all US tyre production was located there, which is similar to what occurred in the automobile industry around Detroit and in modern times the semiconductor and other high-tech industries around Silicon Valley.

Why are economic activities often so concentrated geographically? The standard answer given by economists is that firms benefit from being located close to other firms doing similar things. Skilled workers and specialised suppliers are easier to find in regions where industries cluster, and valuable knowledge can be shared among producers.

As a consequence of such benefits of agglomeration, firms in industry centres are expected to be more successful than isolated producers. This has motivated policy-makers across the globe to support emerging industry clusters, in the hope of creating the next Silicon Valley.

Buenstorf and Klepper argue that the case for agglomeration economies has been overstated, and that geographical concentration is caused primarily by what they call 'organisational reproduction through spin-off entrepreneurship'.

Their analysis of the history of the Akron tyre industry shows that most Akron tyre firms had local roots. Besides diversifying rubber producers such as B.F. Goodrich, they were mostly spin-offs started by entrepreneurs like Harvey Firestone, who left their jobs at existing tyre producers to start their own tyre firms.

The leading tyre firms spawned the largest number of these spin-offs, and these firms were in turn the most successful among the new entrants. In fact, those Akron firms that were not started by industry insiders did not perform any better than entrants in other, less concentrated regions.

Buenstorf and Klepper conclude:

‘For economists, the spin-off process raises fundamental questions about how firms develop capabilities and why having the right heritage can provide a firm with a long-term competitive advantage.

‘For policy-makers, the findings on Akron and other clusters suggest that clusters cannot on their own be manufactured.

‘But once a region gets a head start in an industry, policies to facilitate spin-offs may be critical to the region’s future success.’

ENDS

**Notes for editors:** ‘Heritage and Agglomeration: The Akron Tire Cluster Revisited’ by Guido Buenstorf and Steven Klepper is published in the April 2009 issue of the *Economic Journal*.

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