Chapter 11

Universities and Human Capital as Regional Determinants for High-Growth Firms

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ABSTRACT

Universities have been increasingly asked to play a core role in the growth of the region where they locate as they hold valuable resources for innovation and growth. This study addresses the role of Universities as a location determinant for firms’ high growth, in addition to other location and firm level variables. Indeed, academia diverted increasing attention to high growth firms (HGFs), but an important aspect that has been relatively absent from HGFs research is the ‘geography’ and location aspects of where these firms grow. The study is conducted in Portugal, and draws upon firm-level information from IES (Inquérito Empresarial Simplificado), which contains detailed balance sheet and income statement information for firms in all sectors of activity in Portugal, covering a time span of 9 years, from 2006 to 2014. Knowing the regional factors that drive growth at the firm level helps to implement more effective enterprise policies.

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INTRODUCTION

To understand the sources of firm high growth is a central aspect for today’s economies since it is known that a small number of high-growth firms are responsible for a great share of job and income creation (Acs et al., 2008; Coad et al., 2014; Anyadike-Danes et al., 2015; Anyadike-Danes and Hart, 2015). Fast growing firms have been therefore hailed as a vital source of economic competitiveness and embraced as swords for alleviating unemployment and promoting economic growth (Henrekson and Johansson, 2010; OECD, 2010).

The challenge for economies lies in boosting growth, not just by fostering new entrepreneurial activities, but also by improving the growth potential of existing firms. This study explores whether Universities can play a role on this regard. Indeed, universities have been increasingly asked to play a core role in the growth of the region where they locate. They hold valuable resources for innovation and growth (Etzkowitz and Leydesdorff, 2000; Leydesdorff, 2003). Yet, we could not find empirical studies exploring the role of Universities as determinants of firm high growth. Indeed, academia diverted increasing attention to HGFs, but an important aspect that has been relatively absent from HGFs research is the ‘geography’ and location aspects of where these firms grow. Despite the overwhelming research in the field, little is known about location specific issues related to HGFs (Henrekson and Johansson, 2010; Bogas and Barbosa, 2013; Coad et al., 2014; Giner et al., 2017).

Within this background, this study explores the role of universities as a location determinant of firms’ growth at regional level. Doing so, the authors bring to the literature new insights. First, they explore a special type of firm growth, high growth. The authors provide new evidence about the influence of universities through their direct and indirect impact upon human capital in the region, on the probability of firms obtaining high-growth rates and, therefore, being high growth firms (HGFs). In addition to test the relevance of the presence of universities in the region, through their contribution to capital augmentation in a region, the authors explore other regional / location characteristics. Results on the importance of location attributes for firm performance are rather important from the economic policy perspective. Knowing the regional factors that drive growth at the firm level would help to implement effective innovation policies.

The study is conducted in Portugal, and draws upon firm-level information from IES (Inquérito Empresarial Simplificado), which contains detailed balance sheet and income statement information for firms in all sectors of activity in Portugal. The edition at our disposal covers a time span of 9 years, from 2006 to 2014. Additional data was gathered from INE and DGES.

Results show that the presence of Universities in the region is positive but not significant as determinant for firms’ high growth. Human capital reveals negative and significant. The results signal the effect that competition for scarce resources is likely to have upon firms’ high growth. Otherwise, our results signal that firms may benefit from being located in geographic agglomerations, especially with high population density. Companies in dynamic locations can have access to a larger local market and to an existing pool of employees, thereby lowering their search and transaction costs in recruiting.

The chapter is structured as follows. The next section addresses the theoretical background. Then, the authors describe the data underlying this study, as well as the methodology used. The empirical results are presented in section 4. Section 5 concludes and derives implications from our study.
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