

# European Entrepreneurship in the Globalizing Economy

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EUROPEAN RESEARCH IN ENTREPRENEURSHIP

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### 3. Sustainable transborder business cooperation in the European regions: the importance of social entrepreneurship

**Raymond Saner and Lichia Yiu**

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#### 1 INTRODUCTION

##### **1.1 Importance of Sustainable Transborder Cooperation for European Integration**

Studying regions requires an interdisciplinary approach consisting of, among other things, microeconomics (competitive firm behaviour, local labour markets), spatial economics (rural and urban planning and architecture), policy analysis (regulatory function of government), urban geography (migration patterns), institutional sociology (administrative culture), social psychology (social cohesion) and cultural anthropology (comparative religion and values).<sup>1</sup>

Regional economics, the precursor of today's spatial economics or economic geography, goes back to the nineteenth century with major contributions from continental European theorists like Thünen, Weber, Christaller and Lösch (Arnott, 1996). Some of their studies focused on the causes for variance in regional development in the newly unified Germany at the time of the creation of the German Zollverein (customs union). The main impact of the Zollverein was the creation of new market boundaries offering economies of scale, which previously did not exist in the earlier era of multiple German kingdoms and city-states. Some of the German regions thrived with the creation of a larger internal market; others stagnated or decreased in importance. The cause for growth and decline of these German regions was one of the research interests of the above-cited continental European spatial economists.

In a similar way, a growing number of today's researchers in the field of regional development focus on the impact of enlarged market boundaries;

this time, however, not within a national context but rather at the level of the global economy. Liberalization of trade through continuous tariff reductions has resulted in a broadening of market scope from national to global levels. Within this enlarged context of a liberalizing and globalizing world economy, some countries have been more successful than others in making use of the new opportunities. However, successful competition in globalized markets is not evenly spread across a nation but is rather concentrated in some of its regions that have prospered more, while others stagnated or even declined. The quest for understanding why some regions succeed while others fail to meet the challenges of globalization has led to a renewed interest in regional development theory, spatial economics and economic geography, particularly in North-America and Western Europe.

## **1.2 National Competitiveness Cluster**

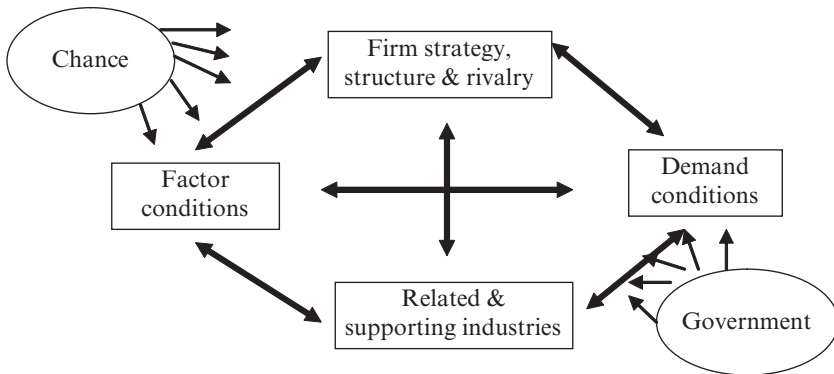
Porter (1990) has conducted an extensive comparative research of ten countries and has come up with reasons why some nations succeed in some industries but fail in others. According to Porter, the home base plays a critical role in that firms tend to build up competitive advantage in industries for which the local environment is the most dynamic and challenging. He has conceptualized his findings in his analytical 'diamond' frame, which consists of: a) factor conditions (for example, labour, capital, land); b) demand conditions; c) dynamism of related and supporting industries; and d) firm strategy, structure and rivalry. In addition to the four factors, chance (such as inventions and war, etc.) and government also play an important role in supporting a nation's aim to achieve economic success (see Figure 3.1).

Concretely, a successful region according to Porter's diamond would show the following features:

- several competing companies belonging to the same regional key industry or industries
- a large dynamic and sophisticated internal market (demand conditions)
- suppliers specialized in the activities of the regional key industry/industries
- qualified and highly qualified manpower specialized in the activities of the regional key industry/industries; educational and research institutes (factor conditions) (Borner, et al., 1991, p. 62).

### **Role of government**

Porter's original concept consisted only of the four diamond conditions. In later publications, Porter added more factors to his diamond model,



Source: Porter (1990).

Figure 3.1 Successful factors of national competitiveness

namely: 1) chance and 2) government. Concerning the role of government and chance in Porter's model, Oez (1999) interprets Porter's findings as follows:

The proper role of the government should be reinforcing the underlying determinants of national advantage rather than trying to create the advantage itself. It is necessary to note that Porter anticipates a more direct but still partial role for the government in the early stage of development of a country since 'the tools at its disposal, such as capital, subsidies and temporary protection are most powerful at these stages in a nation's competitive development' (p.4).

The role of government, and by extension the mandate and discretionary power of its civil servants, might hence vary according to the level of economic development of each country. Role adjustments are necessary to help a country move up the developmental ladder as, for instance, has been the case in Singapore since independence in 1965. This in return would imply that a country needs to know how to shift gear, so to speak, and to change policy and governmental behaviour according to levels of economic development. The question might hence be asked: what is the right policy mix for what kind of stage of economic development?

Commenting on the differences between general macroeconomic principles pertaining to, for example, the competent application of inflation or monetary policy instruments, Frey (1998) points out that:

Regional Clusters and well functioning Centers are pre-conditions to ensure the following: international competitiveness; the protection of the natural environment, transport and energy; agriculture and tourism; elimination of

regional disparities between the mountainous areas and the cities and between the periphery and the center, sustainable spatial planning and utilization of land. All these issues are incompatible with economic reasoning of the type: 'wonderland of no dimension' (p. 177).

### 1.3 Social Dimension of Economic Competitiveness

There is more to regional competitiveness than the assumed rational economic behaviour of firms and the equally assumed efficient allocation of resources through assumed perfect and transparent market mechanisms as postulated by neo-classical and neo-liberal economic theory. These unsubstantiated claims have been refuted by institutional economics whose economic models offer a more interdisciplinary and holistic picture of human behaviour. Regional development consists of different, at times contradictory and conflictual factors of human behaviour which together create a mix which makes regions so uniquely different from each other.

In recent publications, Porter and Sölvell (1998) offer a more holistic explanation of regional competitiveness. Discussing innovation and sustainable competitive advantage of firms, Porter states: 'While some knowledge is embedded in materials, components, products and machinery, other knowledge is embedded in human capital, part of which is tacit' (p. 447).

Expanding on some aspects of his previous work on competitive advantage in the 1980s (Porter, 1985), Porter suggests that:

clusters are characterised by a specific set of tangible (firms, infrastructure), intangible (knowledge, know-how) and institutional (authorities, legal framework) elements. These elements make up a complex web of *relations* that tie firms, customers, research institutions, schools and local authorities to each other. The interaction between economic, sociocultural, political and institutional actors in a given location triggers learning and enhances the ability of actors to modify their behavior and find new solutions in response to competitive changes (Porter, 1990, p. 443, emphasis added).

With this more complete multifactor and multidisciplinary point of view, Porter joins the existing school of institutional economists and sociologists and political scientists who have been studying the non-economic factors of regional competitiveness for quite some time and who see, for example, the emergence of new industries from the framework of a social system (Van de Ven and Garud, 1988), and from the perspective of social capital theory (Hollingsworth & Boyer, 1997; Putnam, 1993; 2000).

Van de Ven and Garud (1989, 1993) define the industrial social system as a structure which contains three key components, namely institutional, resource endowments and instrumental subsystems. These three

subsystems interact in reciprocal relations, depending on an industry's conditions and development.

In particular, when looking at the non-economic contribution of a social system to competitiveness, Van de Ven and Garud (1988) suggest a framework based on the accumulation theory of change applied in the study of the social system. This framework allows the study of the process of industry emergence, as well as the role individual firms may play in this process, from a social system perspective. Putnam (1993, 2000) further elaborated on the theory of social capital by drawing a distinctive line between social and human capital. He argues that human capital relates to inherent properties of the individual, whilst social capital refers to the linkages among these individuals that create social networks. A critical distinction exists between 'bonding' social capital – connections with others 'like us' – and 'bridging' social capital connections with those 'not like us' (Gittel and Vidal, 1998). Far from being mutually exclusive, bonding and bridging ties often interact to support the healthy function of a social system (Putnam, 2000).

If we link these contributions to Porter and Sölvell's (1998) more recent conceptualization, it becomes evident that developing social capital, be it at an individual, firm or industry level, is instrumental to the competitiveness and economic development of a firm, industry, region or nation.

#### **1.4 Regional Competitiveness Cluster**

Summarizing the results of a cross-regional survey covering 20 regions in Europe and North America, Koellreuter (1997) identified 50 factors that have an influence on a region's economic advantage. The most decisive factors are listed in Table 3.1.

Many of the factors listed in Koellreuter's chart fall into the sphere of responsibility of the respective regional government (development of highly skilled labour force, efficient tax system and issuing of permits and so on). Creating the right mix of efficient economic factor conditions, effective (consistent and predictable) regulatory framework, transparent and efficient administrative services, and high quality social and cultural institutions and services all combined obviously constitutes the right ingredients for a truly competitive region.

The table is even more significant in light of globalization. Foreign companies investing in other regions of the world make investment decisions based on most of the factors listed in Table 3.1. In other words, the ability of respective governments to design and sustain an appropriate policy environment is crucial. Equally crucial is the ability of the civil servants to apply the rules in a transparent, non-discriminatory manner to local as well as foreign investors. All this results in an increase of challenges to a

*Table 3.1 Factors with the most decisive influence on comparative advantages of a region with a future*

Ranking	Factors
1	Availability of highly skilled labour
2	Price/performance of highly skilled labour
3	Permits (legislation, processing)
4	Corporate tax system
5	Price/performance of skilled labour
6	Availability of skilled labour
7	Work permits of transnational labour
8	Telecommunication
9	Quality of life
10	Access to EEA (EU) market
10	Working hours
11	Predictability of the politico-legal environment
∴	∴
24	Energy supply
25	Price/performance of unskilled labour

region's government and civil servants, who have to honour the increasingly global requirements of good governance, meaning transparency, accessibility, non-discrimination, customer orientation and predictability. Without these requirements, foreign direct investment will go to more promising pastures and local investors might 'vote with their feet' and invest elsewhere.

### **1.5 Competitive Advantage and Transborder Regional Development**

From a European integration perspective, it would be useful to add to the existing literature on competitiveness of national regions a new focus on the specificities of transborder regional competitiveness. Since existing insights on competitiveness of national regions are mostly nation-specific, they are not directly transferable to the complexities of transborder cooperation and integration in the larger EU context. Hence, the discussion on competitiveness needs to be broadened in order to tackle the inter-cultural and inter-institutional aspects of transborder regional integration.

Data covering transborder regional cooperation in Europe are either scarce, incomplete or non-existent. A most useful comparative source of information on regional comparative data covering most of Europe and North America is the International Benchmark Report published annually by the BAK research group in Basle since 1998.

Collecting information concerning transborder regions (for example, the Upper Rhine Valley) has been difficult because cross-border data are not easily comparable and hence cannot easily be aggregated due to different practices of national statistical data processing. Lack of regional aggregate data, such as transborder investment flows, cross-border joint ventures and ownership patterns or comparative cross-border migration flows, makes it impossible to apply Porter's diamond concept as a means to assess competitiveness of a given European transborder region.

A second source of information which provides very illustrative insights on the importance of cross-border initiatives in the context of regional development is the Economic Reconstruction and Development in South East Europe (ERDSEE), a programme under the auspices of two joint institutions (European Commission and World Bank) and several donor institutions (European Investment Bank, European Bank for Reconstruction and Development, and so on). Among the many efforts of the ERDSEE, there are several infrastructural programmes (World Bank, 2001) and environmental projects (European Commission, 2000) destined to support economic growth and regional integration, as well as cross-border projects which focus on the promotion of networks and exchanges among the South Eastern Europe (SEE) countries.

It is important to stress that economic development is not the only focal point of all these efforts. There is also a strong emphasis on the importance of developing social capital as a pre-condition for regional and transborder development. For example, the infrastructure programmes define from the outset that '*Building large infrastructure without sound policies and institutions for private sector development and social cohesion and inclusion, means wasting large amounts of resources without achieving the objective of sustainable economic growth and prosperity for the region*' (World Bank, 2001, emphasis added)

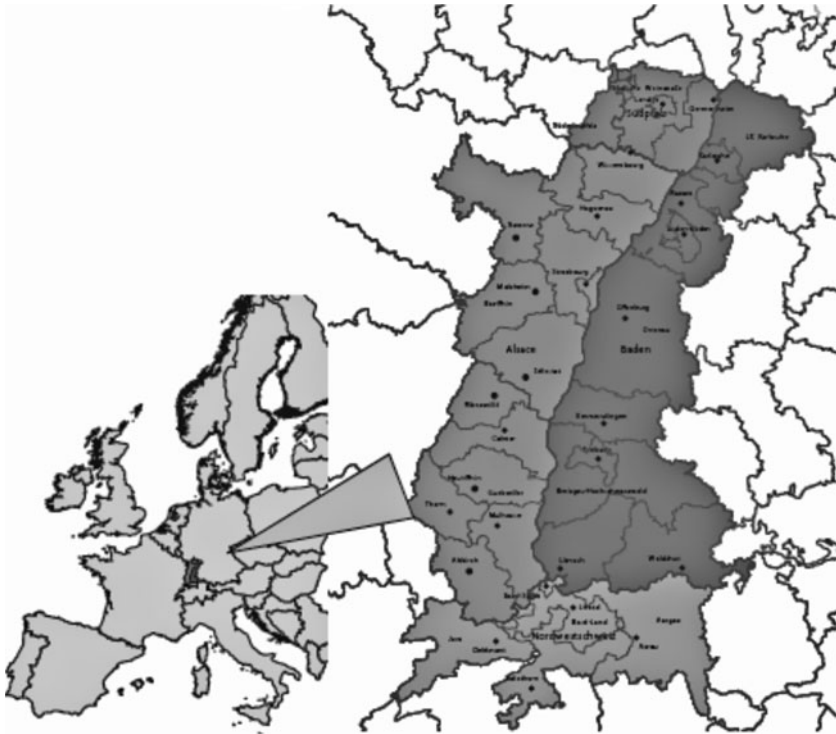
The current efforts demonstrate the recognition that regional development in a politically and religiously fragmented region cannot solely be achieved through economic conditioning. It needs to be streamlined with the improvement of social cohesion and social capital, if sustainable economic competitiveness at transborder and regional level is sought.

## 2 CASE STUDY OF A TRANSBORDER REGION: UPPER RHINE VALLEY

Making use of a concrete example of a transborder region, challenges will be described and analysed which local businessmen, government officials and social society representatives have to face when they attempt to create

transborder competitiveness. The case in point is the Upper Rhine Valley region consisting of adjacent sub-regions from Switzerland (Province of Basle), France (Province of Alsace) and Germany (Province of Baden and Southern Palatine).

Transborder cooperation in the Upper Rhine Valley has been in existence for centuries, and movement of goods and people across the three borders were very common practice dating back to the late Middle Ages. In addition, parts of this transborder region have been politically connected in the past, and economic exchanges have only been restricted during the last two World Wars when the German and French provinces were drawn into war which opposed France and Germany and left Switzerland in an isolated position of neutrality. Today, the transborder cooperation has been formalized within the framework of a tri-national convention and organization called *Conférence du Rhin Supérieur (CRS)*



Source: EURES-Rhin Supérieur, Strasbourg (2005).

Figure 3.2 Tri-national Upper Rhine region

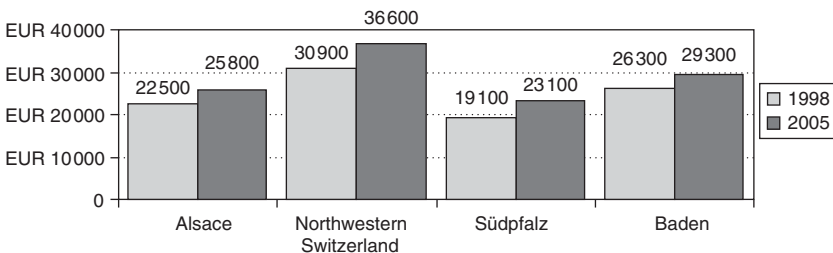
which was established in 1975 by the respective three country governments (France, Germany, and Switzerland) as depicted in Figure 3.2.

The territorial dimension of the CRS is 21 500 km<sup>2</sup> of which 38.5 per cent is French (Alsace), 44.8 per cent German (Baden and Southern Palatine), and 16.7 per cent Swiss (Basle and Northwest Switzerland). The total population in 2003 amounted to 5.813 million people who live and work in one of Europe's most densely populated territorial regions. The CRS transborder region has four main universities (Basle, Freiburg, Strasbourg and Karlsruhe), several world-renowned multinational companies (such as Novartis, Hofmann-LaRoche, UBS, Schlumberger SA) and houses the seat of the Council of Europe, the EU Parliament, European Court of Human Rights and Eurocorps (Strasbourg). The estimated per capita GNP for 2005 as compared to 1998 showed the following progression: namely, 25 800 (22 500) euros for Alsace province, 36 600 (30 900) euros for Basle and Northwest Switzerland province, 29 300 (26 300) euros for province of Baden, and 23 100 (19 100) euros for the Province of Southern Palatine (see Figure 3.3).

Many inhabitants of the transborder region speak or understand Allemanisch, a German dialect spoken around the Upper Rhine Valley region. The common roots in terms of language and history make it easier for people to move across the border, and 94 000 people cross the respective three borders both ways every day on the way to work (see Figure 3.4).

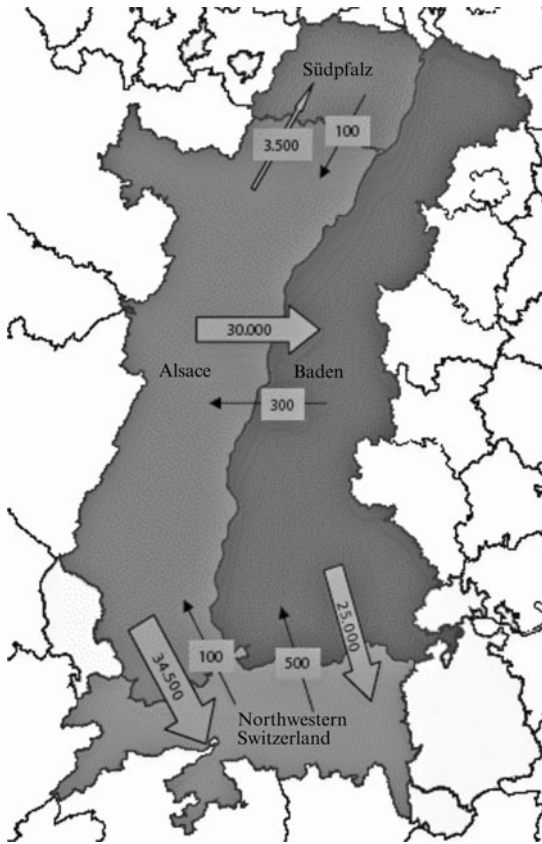
Due to a mix of economic development and historical openness to immigration, all three parts of the tri-national region show relatively high levels of foreign populations living in the three cross-border regions, with Basle city showing the highest percentage of foreigners living within its territory (see Figure 3.5).

While all three subregions benefit from common historical and linguistic roots, the situation is not as simple as it might sound at first sight. Due to



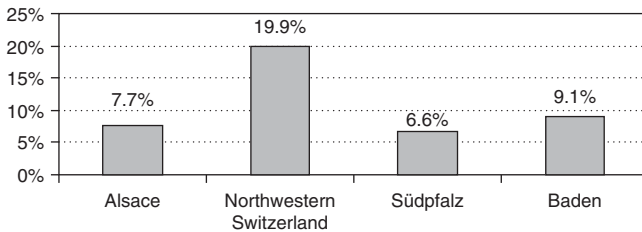
Source: *Rhin Supérieur: Faits et chiffres*, No. 8, Strasbourg (2008).

Figure 3.3 GDP per capita in 1998 and 2005



Source: EURES – Rhin Supérieur, Strasbourg (2005).

Figure 3.4 Daily cross-border movement of workforce



Source: Rhin Supérieur: Faits et chiffres, No. 8, Strasbourg (2008).

Figure 3.5 Foreigners living in region

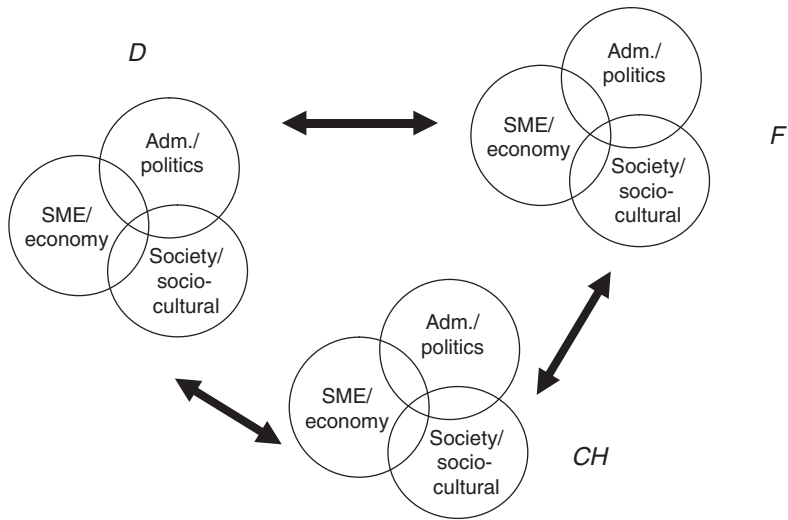


Figure 3.6 Reality of transborder cooperation for local enterprises

mandatory and exclusive use of French in the Alsatian province, French has become the preferred language of many Alsatians living in larger urban agglomerations like Strasbourg, Mulhouse or Colmar. Also, with regard to the official language to be used for legal, political and contractual transactions, French and German are the two official and mandatory languages.

## 2.1 Complexity of Cross-border Cooperation

Cross-border regional cooperation between companies, governments and social society requires the management of more interfaces than is the case within national regions. To take the example of small enterprises of one country conducting business across the two borders, this would imply managing multiple interfaces: namely, dealing with three national administrations (e.g. concerning business licences), three national labour markets (e.g. recruitment of employees) and three national markets (e.g. potential buyers–sellers) (see Figure 3.6).

Taking this example further and imagining a Basle-based enterprise conducting business in Alsace/France and Baden/Germany, the complexity of interfaces would include dealing with German and French national and provincial administrations (e.g. in order to obtain business licences), German and French national and provincial labour organizations (e.g. in order to employ people), French and German local and sometimes national associations (e.g. in order to become a member of a professional

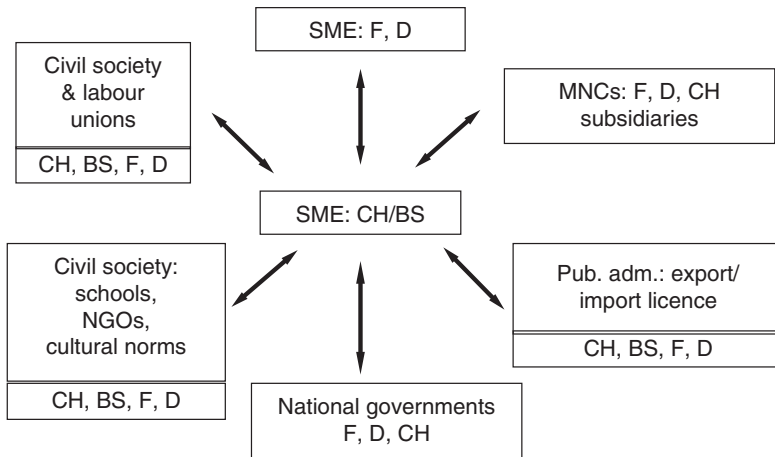


Figure 3.7 *Reality of transborder socio-economic cooperation: managing business and non-business stakeholders*

organization, religious group or neighbourhood organization). This complexity of multiple interfaces would further increase with a change of personal residence or the opening of companies on the other side of the national borders. Figure 3.7 visualizes some of these interfaces mentioned above.

In addition, the hypothetical Swiss entrepreneur domiciled in Basle would also have to interface with Swiss administration officials (e.g. concerning customs declarations for goods exported or imported into Swiss territory), provincial and national authorities (e.g. federal, cantonal and municipal tax declarations and payments). The interfaces are multiple and to each cross-border interface one has to add the inevitable difficulties that would arise due to difference in national laws, administrative practices, local values and customs, including the mandatory use of the French language if business or administrative transactions involve official exchanges between Alsace and Basle.

The difficulties encountered by this hypothetical Basle entrepreneur illustrate the current limitations to the creation of competitiveness within the CRS transborder region. Transaction costs remain high, administrative obstacles substantial and the influence of the respective three national governments cannot be ignored despite all the official pronouncements of pan-European integration. All these could make it prohibitive for small to medium-sized companies to benefit from growth potential of such transborder cooperation.

## **2.2 Need for Additional Boundary Spanners**

Realizing the limits of existing cooperation mechanisms, different think-tanks have come up with suggestions regarding how the CRS transborder region could deepen cooperation mechanisms by creating common physical and social infrastructures and by further increasing the existing, albeit still lightweight, cooperation in areas such as education, joint marketing, joint venturing and so on.

Taking into account the existing competitiveness in all three sub-regions with regard to financial resources, highly educated and skilled workforces, world-class research institutes and large companies, successful SMEs and established cultural affinities, such efforts at transborder cooperation should succeed, provided the people involved in these cross-border development actions are cultural and professional boundary spanners who can be at home in different professional and cultural milieux, thus being instrumental in fostering bonding and bridging social capital for transborder cooperation.

The need for boundary spanners becomes clear when one considers the actions which have been proposed to create a CRS Technology Valley. Detailed proposals have been tabled to strengthen economic integration across the three national borders. However, as long as the three borders with their separate legal and administrative realities exist, it will be difficult to see either full economic integration or leveraging of the potential synergy from combined resources and competitive advantages.

What follows is a selected list of the economic initiatives that have been proposed by CRS planners. Specifically, six of the 22 proposals are identified here to illustrate the competencies needed to meet these challenges.

### **Unbundling the existing proposals from a social capital perspective**

The six initiatives have been grouped into three categories according to the presumed role competencies required of the experts who might be selected to implement some of them in the near future (Table 3.2). The three boundary-spanning roles are: a) Business Diplomat (Saner et al., 2000); b) Entrepreneurial Politician (Saner, 2001); and c) Cultural Ambassador (Bassand and Hainard, 1985).

The three roles suggested above should be seen as competencies which would complement or expand the expertise of traditional actors. They are entrepreneurs, government officials and politicians and representatives of civil society and cultural institutions. Together, they form the team to accumulate the social capital in support of the CRS regional development strategy.

Figure 3.8 highlights the complementary social roles as discussed above,

Table 3.2 *Transborder initiatives and role competencies requirements*

Proposed transborder initiatives	Suggested competencies required of experts
<b>A.</b>	<b>Business Diplomats</b>
Promote regional economic market structures and networks. Develop inter-municipal energy grids and telecommunication services (groupings of municipalities as 'market partners').	Ability to develop and discuss business plans with business partners and non-business stakeholders (e.g. communes, schools, associations), understanding different national laws and practices governing employment, creation of companies and foundations, being familiar with different national management and leadership styles dominant in French, German and Swiss businesses.
<b>B.</b>	<b>Entrepreneurial Politicians</b>
Put in place legal and financial inter-municipal structures in order to better respond to entrepreneurial needs. Establish the coordination mechanism and/or define specializations once the location of sites on the Upper Rhine Valley has been attributed. Establish collaboration among the training and research centres and between them and the enterprises of the region.	Ability to initiate projects spanning German, Swiss and French legal and administrative laws, creating efficient cross-border administrative procedures, involving private and public sector actors to create new ventures, knowing how to mobilize financing for cross-border physical and social infrastructure projects.
<b>C.</b>	<b>Cultural Ambassadors</b>
Develop the project titled 'Cultural roadmap of the region'. Create a joint offer for the regional tourism sector. Develop an administration which can manage the transborder region in a competent and effective manner.	Ability to appreciate German, French and Swiss contemporary and classical art and culture, creating cultural events offering participation and benefits to existing cultural institutions of all three sub-regions, understanding processes of budgeting and approval of new initiatives in the domain of culture and tourism in all three sub-regions and respective national governments.

Small & medium-sized enterprises	<p data-bbox="538 202 797 234">'Business Diplomat'</p> <p data-bbox="538 273 946 340">Leader in transborder business sphere</p>
Public administrations	<p data-bbox="538 388 836 419">'Political Entrepreneur'</p> <p data-bbox="538 458 824 525">Leader in transborder political sphere</p>
Society at large	<p data-bbox="538 573 827 605">'Cultural Ambassador'</p> <p data-bbox="538 643 824 710">Leader in transborder socio-cultural sphere</p>

*Figure 3.8 The transborder social roles and corresponding linkages to main domain of activities and constituencies*

namely the Business Diplomat, the Entrepreneurial Politician and the Cultural Ambassador.

### 3 CONCLUSION

The goal of this chapter was to describe the importance of social entrepreneurship for sustainable cross-border business cooperation in the European Region. Successful transborder cooperation requires an expanding social role repertoire of the entrepreneurs, politicians and community leaders who play a leading role in the respective transborder regions.

Creating competitiveness for transborder regions requires different inputs and personal competencies than in the case for regional development at national level. This is partially due to the fact that the number of cross-border interfaces is greater and partially because specific competencies are needed to manage these inter-cultural (administrative, entrepreneurial, individual) interfaces (Gmür and Rakotobarison, 1997). Specific competencies would include for instance:

1. foreign language proficiency (for example, French and German for the CRS region)

2. 'global-regional' mindset and a natural curiosity which enables the transborder actor to remain open for continuous learning
3. basic knowledge regarding administrative law and regulations of all three member countries
4. basic knowledge regarding policy-making procedures and framework in all three member countries
5. cross-culturally effective negotiation and communication skills
6. skills in leading and working with temporary and project task teams from one, two or all three member countries
7. networking skills suitable for different cultural contexts.

Transborder regional development requires political will, business acumen and, most importantly, the bridging roles of the Business Diplomat, Political Entrepreneur and Cultural Ambassador. These social, economic and political actors could span the social and institutional boundaries and generate social capitals to support new business development and regional dynamism.

Future research will help identify differences in achieving competitiveness in different transborder regions of Europe. It will also help deepen the understanding of the formation of bridging and bonding social capitals required for different transborder regions of Europe. It is further hypothesized that knowing more about how to create transborder competitiveness will further strengthen European competitiveness and strengthen the process of European integration. Insights gained through further research in the European region concerning the integrative dynamics and social capital formation might also be useful for sustainable transborder cooperation in other parts of the world.

## NOTE

1. This chapter builds on a previously published article by both authors (Saner and Yiu, 2000). This chapter also appears in Alain Fayolle and Harry Matlay (eds) (2010), *Handbook of Research on Social Entrepreneurship*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar, pp. 125–41.

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