

The liability of rurality and new venture viability

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ABSTRACT

This paper integrates imprinting theory and insights from rural/spatial entrepreneurship research to develop the concept “liability of rurality”. In the paper I argue why increasing rurality of geographical space should be considered a penalty for entrepreneurs. Further, I propose how rurality – as a liability - may influence the emergence, survival and growth prospects of new ventures. This includes a theoretical integration between the liability of rurality and the universal liabilities of newness and smallness. The paper ends with a research agenda discussing how the liability of rurality can add to and rejuvenate spatial and rural entrepreneurship research.

1. Introduction

It has been increasingly emphasized that the dynamics of new venture creation and entrepreneurship are fundamentally influenced by context (Welter, 2011; Welter et al., 2018) and that differences in contextual variables need to be included in entrepreneurship theories (Zahra, 2007, 2008). Spatial conditions and the rurality of geographical space represent a crucial contextual influence on entrepreneurship in this regard (Florida et al., 2017; Stuetzer et al., 2016; Westlund et al., 2014; Audretsch et al., 2017; Patterson and Anderson, 2003). This is reflected in burgeoning empirical research showing that new venture creation, entrepreneurial activities and behaviors are not evenly distributed across space but are fundamentally shaped by it (e.g., Armington and Acs, 2002; Müller, 2016; Baumgartner et al., 2013; Pato and Teixeira, 2016; Trettin and Welter, 2011; Bečicová and Blažek, 2015).

However, empirical findings on this topic are often not supported by an appropriate theoretical foundation (Bosma and Sternberg, 2014; Korsgaard et al., 2015; Freire-Gibb and Nielsen, 2014). This is particularly the case if one takes a disaggregated perspective, looks below (indicators of) regional start-up rates, and focus on how regional factors at various spatial levels influence entrepreneurship, understood as the process whereby individual recognize and attempt to exploit an economically lucrative business opportunity by starting a new venture (e.g. Shane and Venkataraman, 2000; Short et al., 2010).

Several scholars therefore argue that theory is underdeveloped or even lacking with regard to how entrepreneurship is influenced by regional factors and rurality of the founding context. For instance, Pato and Teixeira (2016) argue in a recent literature review of rural entrepreneurship that “theory building has not attracted much research over the period in analysis, which suggests that the theoretical body of

rural entrepreneurship is still incipient, hindering the establishment of its boundaries and of a suitable research agenda” (Pato and Teixeira, 2016, p. 3). In a similar vein, Bosma and Sternberg (2014) criticize spatial and regional entrepreneurship research for not developing specific theories about the unique aspects of how entrepreneurial processes are influenced by differences across local spaces and places. Furthermore, Korsgaard et al. (2015) argue that, “The dearth of research on the role of spatial context is particularly precarious in relation to rural entrepreneurship on the *conceptual* as well as the practical level” (p.578, emphasis added).

Taking a step forward in this regard, this paper combines imprinting theory and insights from rural/spatial entrepreneurship research to develop a new concept called “liability of rurality”. As the name indicates, this concept views increasing rurality of the geographical founding context as a penalty for entrepreneurs. To help coin this concept I draw on the idea in imprinting theory that new organizations acquire their characteristics from their founding environment (Stinchcombe, 1965; see Marquis and Tilcsik, 2013; Simsek et al., 2015 for recent reviews). Extending Stinchcombe (1965) argument that environments differ in their availability of updated social technology (see also Marquis, 2003), I suggest that (prospective) new ventures born in increasingly rural spaces will have *less access* to updated social technology, which is broadly understood as access to state-of-the-art resources for productive entrepreneurship. I use insights from studies on spatial and rural entrepreneurship research to conceptualize why (prospective) entrepreneurs may be penalized from being located in increasingly rural contexts. This is done to clarify what constitutes the conceptual domain of rurality as a liability for entrepreneurs.

As such I adopt a specific view of rurality as context where context is understood as: “those variables that shape the characteristics of a setting and the behavior of different actors within that setting” (Zahra,

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2008, p:248). Thus, I argue that rurality is a type of setting, and that there is a need to better articulate the variables that shape rurality as a setting, and by doing so, what influence entrepreneurship in that setting. What these variables are, however, is less known. Therefore I actively source key variables from prior literature and synthesize how these variables shape the characteristics of the rural setting relevant for understanding entrepreneurship in that setting. Thus, whereas each rural place is unique in its own way, and will influence entrepreneurship distinctively, this approach argues for the need to move beyond this, to simplify by theorizing, to identify what rural spaces may have in common and learn more about how such communalities influence entrepreneurship. Pressing further, I combine imprinting theory and spatial/rural entrepreneurship research (e.g., Bosma and Sternberg, 2014; Freire-Gibb and Nielsen, 2014; Nikolaev and Wood, 2018), to develop conceptual propositions about how rurality of the founding context may influence the economic viability of new ventures, especially their emergence, survival and growth prospects. The following research question has guided the nature of this conceptual paper:

How may increasing rurality influence the emergence, survival and growth prospects of new ventures?

How does the paper add to the literature? Korsgaard et al. (2015) argue in a recent paper that “rural entrepreneurs, in addition to universal liabilities of newness and smallness, face particular challenges related to the spatial setting (p.579, emphasis added). This paper theorizes about these challenges, as called for by a range of scholars (Müller, 2016; Baumgartner et al, 2013; Pato and Teixeira, 2016; Trettin and Welter, 2011), and proposes a new concept called the liability of rurality. Moreover, I integrate “liability of rurality” with the extant literature on the liabilities of newness (Stinchcombe, 1965) and smallness (Aldrich and Auster, 1986), which are concepts that are crucial in research on new ventures within entrepreneurship and management (Lohrke and Landström, 2016; Amankwah-Amoah, 2016). Thus, I respond to a key challenge for spatial entrepreneurship research “to integrate entrepreneurship concepts with theoretical approaches from neighbouring disciplines” (Trettin and Welter, 2011, p.576). Finally, I help extend research on the “dark side of the rural idyll” (Somerville et al., 2015) and suggest how rurality may be a penalty for productive entrepreneurship and may even turn potentially productive entrepreneurship into unproductive (Baumol, 1990).

1.1. A note on boundary conditions and theory development

Importantly, the boundary conditions of the theoretical conjectures developed in this paper (especially its propositions) are entrepreneurs starting ventures to exploit a lucrative economic opportunity that may be profitable. Thus, other types of entrepreneurship, not primarily motivated by economically lucrative business opportunities, is outside the scope of this paper. As such, I adopt an economics and business perspective where key advantages with new venture creation and productive entrepreneurship is generation of jobs, income and taxes. Further, the conceptual argument in this paper is of the “*ceteris paribus* type”. In other words, I propose, based on theory and prior research, how otherwise identical ventures are influenced by alternate levels of rurality of their geographical founding environment. Furthermore, the paper follows imprinting theory’s long term interest in how *stable* aspects of social structure that are *independent* of new ventures influence their evolution (Stinchcombe, 1965; Simsek et al., 2015; Marquis and Tilcsik, 2013). Reflecting this, I adopt an understanding of rurality where its influence is manifest spatially and is tied to a firm’s location (e.g. Galloway et al., 2011; Bosworth, 2012).

By arguing how rurality can be a penalty for productive entrepreneurship, by developing a new concept (liability of rurality) and by integrating this concept with other key entrepreneurship concepts (e.g. liabilities of newness and smallness), the paper seeks to add to theorizing about rural and spatial entrepreneurship. However, this

paper does not represent a new theory of rural entrepreneurship. In situations where such theory is lacking, theorizing is a step on the way (Weick, 1995). It is in this spirit that this paper has been undertaken.

2. Imprinting and rurality as a liability

Before new ventures are born, they do not possess any real form, resources or structure (Chen et al., 2012). Imprinting theory therefore argues that new firms source their characteristics to a substantial degree from their founding environment, an idea that was first articulated by Stinchcombe (1965), but which now constitutes a central tenant of imprinting theory (see Simsek et al., 2015; Marquis and Tilcsik, 2013 for recent reviews). Importantly, such imprints from the environment is found to be persistent and hard-to-change, and to yield an important influence on the evolution and success of new ventures (Simsek et al., 2015).

The “imprinting from the environment” hypotheses rests to substantial degree on Stinchcombe (1965) argument that new organizations born at the same time will reflect the best available social technology in society at that time. Thus, by reflecting the best available social technology at a particular moment in time, new organizations are imprinted with characteristics (such as their practices, routines and structure) by their environment (Stinchcombe, 1965; Carroll and Hannan, 2000). However, new organizations, even those within the same industry but established in different geographical spaces, will have uneven access to updated social technology in society (Marquis, 2003; Müller and Korsgaard, 2018).

I argue that such geographical differences in access to updated social technology at birth will have a dominant and lasting influence on the structure of new firms and their evolution. I propose that (prospective) founders and their emerging ventures “born” in increasingly rural spaces will have *less access* to updated social technology, which is broadly understood as access to state-of-the-art resources for productive entrepreneurship. This will constitute a structural penalty and an impediment for entrepreneurs and their new ventures that I conceptualize as “the liability of rurality”. To learn more about the conceptual content of this liability and how it may manifest, I source insight from studies on spatial and rural entrepreneurship research and combine this insight with imprinting theory.

2.1. Resources enabling productive entrepreneurship

While geographical spaces differ in many respects and in idiosyncratic ways (e.g., Feldman, 2001), an overarching structural difference between them is that they can be situated on a continuum from rural to urban spaces (e.g., Pato and Teixeira, 2016; Bosma and Sternberg, 2014). The urban-rural distinction captures important differences between geographical spaces highly correlated with regional development (e.g., Frenken et al., 2007; Glaeser et al., 2010), cluster effects (Delgado et al., 2010, 2014) and the systemic provision of relevant resources to aid and promote entrepreneurial initiatives (Spigel and Harrison (2018); Autio et al, 2018; Foray et al., 2011.)

Empirical studies have shown that entrepreneurial processes are supported by urbanization economics and location advantages (e.g., Armington and Acs, 2002; Müller, 2016). Space is inherently linked to the flow of resources, labor, capital, information and knowledge (Korsgaard et al., 2015), and therefore is crucial to entrepreneurship. One defining difference between urban-rural spaces is that rural regions are geographically dispersed. They are characterized by the absence of key institutions (such as universities) and longer distances to the (lead) users, suppliers, consultants, governmental agencies and other knowledge and resource providers (Delgado et al., 2010; 2014). Key external resources are simply scarcer in increasingly rural locations, such as access to a well-functioning labor market with available heterogeneous skills (Bosma and Sternberg, 2014). Compared to entrepreneurs in rural areas, entrepreneurs in more urban areas can also benefit from an

increasingly diversified and heterogeneous economy (Frenken et al., 2007) and access to better developed entrepreneurial ecosystems (e.g. Spigel and Harrison, 2018; Alvedalen and Boschma, 2017).

Furthermore, the availability of a greater pool of skills and resources may make more novel and innovative business ideas feasible in urban but not in rural spaces (Helsley and Strange, 2011). Moreover, entrepreneurs in increasingly urban spaces can benefit from the presence of other actors in their vicinity, such as resource providers and actors with diverse and complementary skills, and consequently benefit from a greater supply of ideas (Glaeser et al., 2010). Urban areas typically have more face-to-face contact and interactions with different types of individuals and actors, dynamics that is essential to clustering of economic activity enhancing regional economic development (Delgado et al., 2010, 2014). Such dynamics have the potential to stimulate community level learning and are an important foundation for the generation of knowledge spillovers. However, positive entrepreneurial community dynamics and the creation of spill-overs and mutually reinforcing patterns of learning are less likely to occur in increasingly rural areas (e.g., Feldman, 2001; Armington and Acs, 2002). Therefore, entrepreneurs in increasingly rural locations are less likely to benefit from positive externalities and the generation of novel and high-growth start-up opportunities typically created when people with different skills, competencies and ideas meet and interact (Freire-Gibb and Nielsen, 2014).

While some could argue that new digital technologies and digitization more broadly could potentially help mitigate under-provision of resources to entrepreneurs in increasingly rural areas, as it represents a force that enables entrepreneurship (von Briel et al., 2018) and in principle is unrelated to geographical space, recent research show that rural areas are late adopters of new technology (Alam et al., 2018; Salemink et al., 2017). Therefore, lacking adoption of digital new technologies in rural spaces may even reinforce the resource gaps relevant to enable entrepreneurship between urban areas and rural spaces in the coming years.

In sum, the above suggests that increasing rurality of geographical space will dampen regional processes of entrepreneurial discovery (Foray et al., 2011; McCann and Ortega-Argilés, 2015), is associated with weaker entrepreneurial ecosystems (e.g. Spigel and Harrison, 2018; Autio et al, 2018) and lacking presence of complementary economic dynamics (e.g. Delgado et al., 2010, 2014). Thus, entrepreneurs in increasingly rural spaces can to a far lesser extent tap into systemic forces that enable productive entrepreneurship with resulting negative implications for the viability of their business idea and new venture development. Fig. 1 is an attempt to synthesize how these insights from spatial and rural entrepreneurship research relates to my

conceptualization of the liability of rurality and to delineate why rurality represents a penalty. Fig. 1 argues that three broad types of dimensions are relevant for understanding why increasing rurality represents a liability for entrepreneurs: “lacking resource provision”, “lacking community dynamics” and “lacking economic dynamics”. The next section discusses how these broad classes of variables manifest as a liability for entrepreneurs in increasingly rural settings.

2.2. Manifestation of the liability of rurality

Departing from Fig. 1, I suggest that new ventures in rural spaces are less likely to be born in a context with the best available social technology for productive entrepreneurship. This environmental influence will be “stamped” upon them in the form of an imprint that will not only affect their formation, but also their evolution. The reason is that the rurality of geographical space makes the processes of resource mobilization, legitimation and opportunity development (Wang et al., 2017; Tocher et al., 2015; Snihur et al., 2017) structurally more difficult for new ventures and their founders.

Entrepreneurship research has documented that one of the most important tasks for nascent entrepreneurs is to source resources for their emerging firms (Aldrich, 1999; Snihur et al., 2017; Wang et al., 2017). Typically, most early-stage firms have access to few resources apart from their founders, what they know, and whom they know (e.g., Sarasvathy, 2001; Marquis, 2003). Therefore, founders’ resource mobilization will typically occur within the vicinity of where they live, and they will acquire most resources from their local space (Feldman, 2001; Fritsch and Storey, 2014). Therefore, founders in increasingly rural spaces will find it increasingly difficult to mobilize resources for their firm, and to develop the full potential of their business idea and venture due to underprovision of resources and lacking community and economic dynamics.

Hence, a key premise in this paper is that even though new ventures may have the (exact) same age, size, industry affiliation and so on, they will have differential access to the most relevant social technology to enable productive entrepreneurship in society if they are born in geographical spaces that differ in their rurality. This idea is supported by Fritsch and Storey (2014), who argue that, “people with identical characteristics may act differently when located in different places; equally, ‘identical’ firms can be more successful in some regions than in others” (p. 946). Reflecting this, I argue that the liability of rurality is a concept that may help explain why otherwise similar entrepreneurs and entrepreneurial ventures that are located in environments with alternate levels of rurality will have different hardships and fortunes. Furthermore, the liability of rurality may manifest itself across different

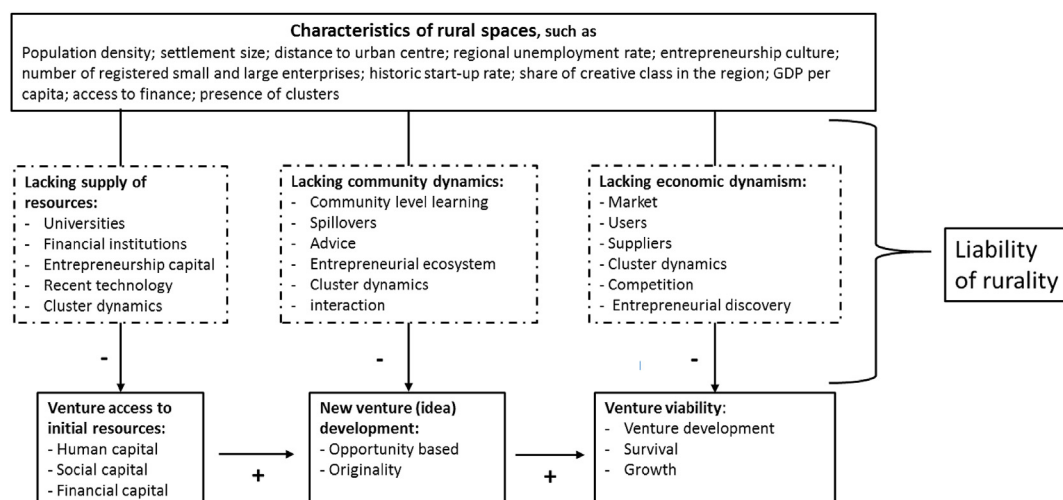


Fig. 1. A stylized model of the liability of rurality.

stages of the entrepreneurial process of new venture creation, from its emergence to (potential) new venture growth. Indeed, it is important to take the totality of this into account when understanding how spatial and rural factors influence the dynamics of entrepreneurship and new venture creation.

2.3. Rurality and firm emergence

Fig. 1 suggests that emerging ventures and their founders will have less access to resources and relevant social technology for entrepreneurship in increasingly rural founding environments. This represents a specific view of rurality where rural contexts are “associated with general resource scarcity, in particular high quality and standardized resources” (Müller and Korsgaard, 2018p. 243). Simply put, businesses in increasingly rural spaces are likely to be started by founders with access to fewer resources than can enable productive entrepreneurship (Bečičová and Blažek, 2015). Reflecting imprinting theory, I therefore propose a correlation between the resource scarcity of the rural setting and the resource scarcity of ventures within that setting. Reflecting this, I propose that:

Proposition 1. *Emerging ventures in increasingly rural spaces will have higher levels of initial resource scarcity*

Moreover, differences in the rurality of the environment will have important implications for the founding process of otherwise identical new firms (Fritsch and Storey, 2014). The reason is that new ventures born in increasingly rural spaces need to devote more time and energy to secure external resources for their emerging firm (e.g. Helsley and Strange, 2011), since they are founded in a setting with less resources than can enable productive entrepreneurship. Furthermore, obtaining legitimacy from external stakeholders (if possible at all in increasingly local rural environments) will be more difficult. However, resource scarcity and hardships are key ingredients in most start-up processes, that entrepreneurs may overcome through their agency and decision-making. It is, after all, individuals that actively decide to embark on entrepreneurial journeys, and not environments that start new ventures.

Yet, it would be to romanticize entrepreneurship to argue that founders can overcome challenges and hardships by sheer willpower alone. Resource constraints matter, and when their severity increase, they matter more. Since nascent entrepreneurs in rural spaces are more likely to face higher resource constraints, one active choice for them is to terminate the process. Indeed, many nascent entrepreneurs disband their attempt to start a new venture because they learn during the process that the business idea is not viable (Aldrich, 1999). Arguably, most business ideas are not viable. However, such insight is mainly knowable ex post, and seldom ex ante, and is often accumulated as entrepreneurs develop their business opportunity and nascent venture. Such development, however, requires resources, which entrepreneurs in increasingly rural environments typically lack. Therefore, I argue that entrepreneurs in increasingly rural regions are more likely to decide to abandon the business idea and disband their nascent venture prematurely, before they have had the chance to really learn whether or not their venture idea have decent prospects for reaching economic viability. Reflecting this, I suggest that:

Proposition 2. *Founders in increasingly rural spaces are more likely to prematurely abandon their business idea and disband the nascent venture*

Many nascent entrepreneurs, however, do not choose to abandon their efforts to develop a nascent venture (Aldrich, 1999). A choice to pursue the venture idea does not, however, suggest that entrepreneurs can escape the resource constraints from being located in increasingly rural spaces. Imprinting theory suggests that initial imprints will be both highly influential and persistent (Stinchcombe, 1965; Simsek et al., 2015). Thus, structural imprinting from increasingly rural spaces at the time when new ventures are born may be hard to undo and

overcome. Indeed, research suggest that entrepreneurial projects are harder to finish in rural areas and that their completion time is higher in urban spaces (Helsley and Strange, 2011). Thus, founders of emerging firms in increasingly rural environments will face the liability of rurality with full force that, ceteris paribus, will make it more difficult to overcome initial obstacles and hardships. I therefore propose that:

Proposition 3. *Entrepreneurs in increasingly rural environments are less likely to transit from the nascent stages of new firm development*

2.4. Rurality and new venture evolution

While rurality represents a penalty for emerging firms, research nevertheless shows that new firms ready to compete are established in rural spaces. However, this does not necessarily suggest that such ventures have overcome the liability of rurality, even though they have managed to overcome its influence in the earlier stages of the entrepreneurial process (as discussed above). Arguably, they have yet to face some of the toughest challenges that the liability of rurality has to offer along the three dimensions highlighted in Fig. 1: First, they are more likely to enter the competition with a “resource handicap”, second, they are less likely to benefit from “community learning and knowledge spillovers”, and third, more likely to face severe obstacles to reach economic viability from “lacking economic dynamics” in their rural setting.

The reason is that the rurality of a geographical space will have a negative imprinting influence on the “quality” and “potential” of businesses and a negative influence on idea/new venture development (e.g., Stuetzer et al., 2014; Sohns and Revilla Diez, 2018). This represents a view of rurality, nicely summarized by Müller and Korsgaard (2018) as: “The finite set of resources afforded by the spatial context of the entrepreneurial activities may limit an entrepreneur’s freedom to create any type of venture imaginable” (p.247). Simply put, the resource scarcity of increasingly rural spaces will pose a greater strain on entrepreneurs to develop their imagined ventures (Snihur et al., 2017; Wang et al., 2017; Tocher et al., 2015). Fig. 1 illustrates that this is an important way in which rurality, as a liability, may manifest itself as a force of imprinting, resulting in uneven odds of developing an economically viable venture in increasingly rural spaces.

2.4.1. Liabilities of rurality, newness and smallness

Thinking about Fig. 1 in imprinting theory terms suggests that the liability of rurality will aggravate the liability of newness (Stinchcombe, 1965) and the liability of smallness (Aldrich and Auster, 1986), two liabilities that figure prominently in extant theories and empirical research on new venture survival (Carroll and Hannan, 2000; Amankwah-Amoah, 2016; Mellahi and Wilkinson, 2004; Lohrke and Landström, 2016).

The liability of newness, first introduced by Stinchcombe (1965) in conjunction with his theorizing on imprinting, has been a very important concept in organization, management and entrepreneurship research (e.g., Carroll and Hannan, 2000; Lohrke and Landström, 2016). Arguably, the starting point for this research was Stinchcombe’s (1965, p148) observation that “As a general rule, a higher proportion of new organizations fail than old”. Among the reasons for the increased failure rate of new organizations, he was particularly concerned with new ventures’ lack of legitimacy and resources. Aldrich and Auster (1986) then introduced the liability of smallness, the idea that smaller organizations have lower chances of success, particularly due to lack of financial resources.

Adding to the extant theories, we argue that the liability of rurality will aggravate the liabilities of newness and smallness. While new and small ventures in general find it difficult to obtain resources from their external environment (Aldrich, 1999; Wang et al., 2017; Tocher et al., 2015), I suggest that external resource mobilization will be particularly difficult for new and small firms located in increasingly rural

environments. The reason is simply that there are fewer stakeholders to interact with and fewer resources to mobilize externally. Hence, the liability of rurality will make it increasingly difficult for small and new firms to overcome the liabilities of newness and smallness. I therefore propose that:

Proposition 4. *Increasing rurality aggravates the liability of newness so that younger ventures in increasingly rural environments will be more likely to fail*

Proposition 5. *Increasing rurality aggravates the liability of smallness so that smaller ventures in increasingly rural environments will be more likely to fail*

2.5. Rurality and growth prospects

Recent theories on business failure argue that although a firm is a “survivor” in the technical meaning of the term (i.e., it is still registered as a separate entity, even as an operating entity), it may nevertheless be conceptualized as a failing firm, particularly in economic terms. Concepts like the “living dead”, firms that operate at a “sub-optimal scale”, and “persistently under-performing firms” have been used to describe this phenomenon (Kehll, 2016; DeTienne, 2010).

Arguably, such outcomes are worse than a clean failure where the firm ceases to exist as a separate entity. In the latter case, founders are free to pursue other careers and/or start new firms, and resources are released back into society and the economy (Aldrich, 1999). In contrast, living-dead firms and the like that are operating at a sub-optimal scale may actually be instances of un-productive entrepreneurship and may be counterproductive to economic growth and development (Baumol, 1990). We argue that this is more likely to occur to new and small ventures in increasingly rural environments post-entry. The reason is that as new ventures grow, they need access to a broader range of complementary resources. Not only may increasing rural spaces lack the necessary resources for growth-oriented new ventures (Helsley and Strange, 2011), they may also lack a culture, atmosphere or tradition for growth-oriented entrepreneurship, and entrepreneurs may even lack access to a market that can sustain growth (Freire-Gibb and Nielsen, 2014). Thus, while new ventures may be able to overcome the liability of rurality at the initial stages of venture emergence, they may still be less likely to grow their business further. Thus, the hardships imposed by increasing rurality will constitute a stricter penalty for organizations as they (try to) grow. Reflecting this insight, I propose that:

Proposition 6. *Increasing rurality aggravates the liabilities of newness and smallness, so that new ventures in increasingly rural spaces are less likely to grow beyond their initial size*

Prior research has shown that entrepreneurship in increasingly rural environments is more likely to be necessity based and not opportunity based (Bosma and Sternberg, 2014; Stuetzer et al., 2014). Hence, new firms in increasingly rural spaces are more likely to be established because their founders lack better employment options. I consider this a prime example of the liability of rurality. Firms started out of necessity are less likely to generate employment for others (such as non-founders) and more likely to persistently underperform. Furthermore, such firms may not be able to provide enough income for the founder(s) to sustain a living. Merging empirical insights with the idea that rurality represents a penalty suggests that:

Proposition 7. *Increasing rurality aggravates the liabilities of newness and smallness, so that new firms in increasingly rural spaces are more likely to persistently underperform.*

Fig. 2 summarizes the propositions in the form of a stylized graph with two important properties. First, that the liability of rurality will manifest itself early, resulting in uneven odds of reaching economic viability across different stages of new venture creation in increasingly

rural spaces. Second, rurality will be an increasingly stricter penalty and liability for entrepreneurs as they (attempt to) transit from different stages of new venture development, particularly due to lacking resource provision and lacking community/economic dynamics in rural spaces illustrated in Fig. 1. Thus, the penalty introduced by the liability of rurality at start-up will accumulate over time and constitute an imprint that may be hard to undo for ventures, including their founders.

3. Towards a research agenda on rurality as a liability for entrepreneurship

The liability of rurality is a new perspective on rural entrepreneurship and a new concept minted in this paper. Below I discuss how this concept has the promise to rejuvenate research within spatial and rural entrepreneurship when it comes to the effect that rurality of geographical space has on entrepreneurship.

3.1. Towards better measurement and empirical testing

Empirical measurement and testing is a vital part of theory development. A central aspect of a research agenda on rural entrepreneurship and the liability of rurality is therefore to construct sound empirical measurement of rurality, and to examine whether and if so, how, rurality is a penalty for entrepreneurs.

3.1.1. Measuring rurality (in quantitative research)

Sound empirical testing requires proper measurement of key concepts. Therefore, a highly promising avenue for future research is to construct theoretical measurement models that empirically measure rurality as a latent concept. A latent concept/variable is not observed directly, but rather inferred from the existence of empirically observable indicators. As stated in the introduction, this paper adopts a view of context where rurality is a setting, shaped by certain variables, which influence entrepreneurial thinking and action in that setting (Zahra, 2008). Therefore, there is a need to pinpoint what these variables are and examine whether and to what extent they define rurality of a geographical space as a setting influencing entrepreneurship.

Moreover, more theoretically derived measures of rurality may contrast with single item measures of rurality typically used in rural/spatial entrepreneurship research, like population density. While population density continues to be a widely used indicator of rurality, a range of other spatial indicators have been used either alone or together with population density in empirical research such as “settlement structure”, “start-up rates”, “higher share of creative class”, “share of small firms” “travel distance to marketplace”, “travel distance to nearest provincial capital”, “number of large enterprises”, “share of business owners”, “access to finance” etc. (e.g., Sohns and Revilla Diez, 2018; Stuetzer et al., 2014; Mickiewicz et al., 2017;” see Müller, 2016 for a review and comprehensive list). Therefore, I argue that rurality (and the inherent liability it represents) for entrepreneurship may be best viewed as a latent concept. It may even be best measured as a multi-dimensional latent concept, where the influence of its underlying dimensions may manifest differently across the stages of the new venture development process. Fig. 1 is intended to capture some of this, as I have argued that the three broad dimensions of “under-provision of resources”, lacking “community” and “economics dynamics” are key ways in which rurality as a liability may manifest itself across stages of new venture development, leading to the prediction in Fig. 2 that rurality as a liability will not only be manifest at birth, but will increase over time. Therefore, these three broad dimensions may constitute a point of departure for sourcing indicators at an appropriate spatial level that can be used to measure rurality as a latent – and possibly – multidimensional concept.

Thinking about rurality as a latent concept suggest a few promising research questions that we need better answers to: (How) should we measure rurality as a latent construct? What are the spatial indicators

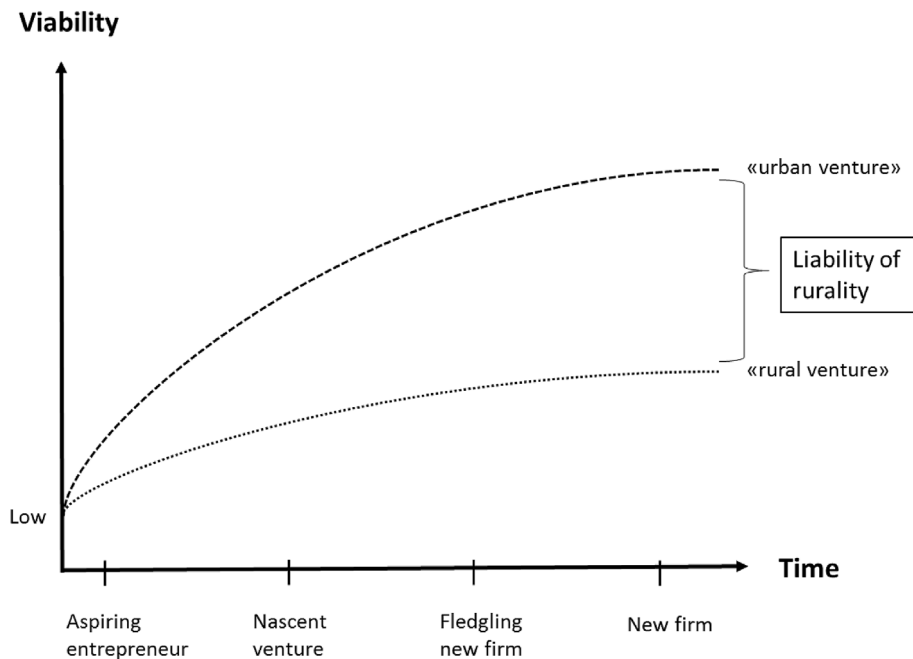


Fig. 2. A stylized illustration of how rurality constitutes a penalty across stages of new venture creation.

we should use to measure rurality? In addition, is rurality a unidimensional or multidimensional concept? Discussing and answering these questions should be high on a research agenda on liability of rurality and rural/spatial entrepreneurship research. Such research will make it clearer and help delineate “what rurality is, and what rurality is not”. This is a question about theoretical validity, ensuring that there is a good fit between the theoretical construct of rurality and how it is measured empirically. Such theoretical validity is of the utmost importance in empirical research on the liability of rurality. However, it should be of equal importance in research within spatial and rural entrepreneurship research more generally as well.

Moreover, thinking about rurality as a latent concept may make it easier to integrate research findings across quantitative and qualitative rural entrepreneurship research. The reason is that most qualitative research on rural entrepreneurship seems to operate with a broader understanding of rurality compared to single-item measures often used in quantitative research. Therefore, adopting a theoretically valid, and empirically more reliable, latent measure of rurality in quantitative research will be more in line with how rurality is conceptualized in qualitative research, and may make it easier to bridge research insights across these two methodologies.

3.2. Reanalyzing the effect of rurality on entrepreneurship

Reflecting the above section, I argue that there is a strong need to reexamine and re-estimate empirically how rurality of geographical space influence entrepreneurship. Thinking of rurality as a latent concept suggests that the effect of rurality can be much more pervasive than first thought. One major reason why is that quantitative research within spatial and rural entrepreneurship research has had a tendency to include everything “but the kitchen sink” in the attempt to analyze how various indicators at a regional level correlate with (measures of) entrepreneurship at various levels of analysis. I argue that such research can return an imprecise estimate of how rurality influence entrepreneurship. This is not only because such research seldom discuss theoretically how rurality should be measured, and often use single-item indicators to measure rurality, but also because such research typically control for different spatial indicators that potentially could be used to measure rurality as a latent construct. A latent approach to

measure rurality, as argued for in this paper, can help to correct this because in such analysis different indicators which reflect the same theoretical construct (i.e. rurality) will not control away each other's influence on entrepreneurship. Instead, they will form a latent measure of rurality whose influence of entrepreneurship may be more pervasive and negative than first thought. Therefore, there is a need to re-estimate how rurality – as a latent concept – influence entrepreneurship and report the strength on such relationships. Such analysis has the potential to reopen the issue of how rurality influence entrepreneurship from a new angle, a type of research that will also have important policy implications.

Moreover, the conceptual propositions of this paper constitutes a starting point for empirically testing to what extent rurality is a liability for entrepreneurs and new ventures. Thus, developing the conceptual propositions into hypotheses that can be tested against appropriate empirical data is a highly promising avenue for further research.

3.3. Towards a stronger theoretical integration

Another promising avenue for future research is to integrate the liability of rurality with the universal liabilities of newness and smallness. Stronger integration between these concepts hold the promise to connect rural entrepreneurship with key concepts in the general entrepreneurship literature. While this paper has offered a few propositions about this that can spur further research, such integration can also spur new additional questions that we have no answer to at the present stage. For instance, how strong is the effect of rurality on entrepreneurship compared to newness and smallness? Across stages of new venture development? Further, how do rurality exacerbate the liabilities of newness and smallness? How should this be modeled empirically? Can the liabilities of rurality, newness and smallness be interlinked in other ways? Thinking about this theoretically, and analyzing it empirically, represents another promising direction for future research.

3.4. Overcoming the liability of rurality

Yet another interesting avenue for further research is to examine “whether, to what extent, and how” entrepreneurs in rural settings are

able to overcome the liability of rurality. Rural spaces are, after all, not a “wasteland” and void of entrepreneurial success cases (Müller and Korsgaard, 2018; Korsgaard et al., 2015). The argument in this paper is that increasing rurality will - as a general tendency - constitute an increasing penalty that will prematurely eliminate many attempts at productive entrepreneurial activities, both early and later in the new venture creation process and may even turn productive entrepreneurship into unproductive and unnecessarily prolong unproductive entrepreneurship. However, ventures and entrepreneurs that defy this general prediction are highly interesting. They hold important information, knowledge and insight that can be used to further develop theory about how founders overcome the liability of rurality, and how the combined liabilities of rurality, newness and smallness can be mitigated.

Moreover, research and theorizing on how new and small ventures can overcome the liabilities of newness and smallness has been a theoretical cornerstone in entrepreneurship and management studies (Lohrke and Landström, 2016). The liability of rurality as a concept has the potential to spur similar development within rural entrepreneurship and be a central bridge between rural and more general entrepreneurship studies (Trettin and Welter, 2011). Therefore, future research should not only work to measure rurality and seek new ways to estimate the effect of rurality on entrepreneurship, as I discussed above, but it is also of the utmost importance for future research to further develop the liability of rurality concept theoretically and to integrate it firmly with other central entrepreneurship concepts.

3.5. Agency and the liability of rurality

Imprinting theory argue that new ventures come to reflect characteristics of their (rural) founding environment. Still, this does not happen automatically, although it remains a black box how new ventures are stamped with the characteristics of their (rural) environment (Simsek et al., 2015). It is widely agreed that more research on this issue is needed to further develop imprint theory. Future research related to the liability of rurality should not only follow this important stream of research within imprinting theory more generally, but also seek to add to it. For instance, one mechanism through which (rural) environment imprints ventures with their characteristics is through individuals that (try to) start new ventures. Founders, however, have agency, and how does this agency interplay with rurality in shaping new venture characteristics in the rural setting? Simply put, founders' perception of rurality of their geographical space may influence how they think and act when starting a new venture and developing it. To paraphrase Fritsch and Storey (2014) cited earlier, two founders in the same region, with identical business ideas, may think and act differently to constraints imposed upon them by the same rural environment. Such insight raises a series of important questions related to whether, to what extent and how founders' agency can moderate - or even - mediate the effect of the liability of rurality. Theory development and empirical research on the intersection between the liability of rurality and founders' agency represent a highly promising avenue for further research with important implications for imprinting theory more generally.

Moreover, while some scholars may be quite optimistic and think that entrepreneurs can overcome the liability of rurality through their agency, entrepreneurial agency may be a double-edged sword in the sense that entrepreneurs may decide to escape the liability of rurality by migrating to another region higher in resource munificence. Founders' agency can therefore tap entrepreneurial talent from rural regions. Thus, more research on how entrepreneurs perceive and respond to the liability of rurality is needed to understand such dynamics that is vital to rural development through entrepreneurship.

3.6. Challenging key assumptions

Towards the end of this paper, it is important to highlight key

assumptions (that I am aware of) and welcome future research to challenge them. First, the paper rests on the assumption that although entrepreneurs themselves may perceive their rural environment as an enabler (and not as a constraint) (Korsgaard et al., 2015; Müller and Korsgaard, 2018), the argument is still that rurality, as a stable aspect of social structure, has a negative influence on new ventures that is independent of how entrepreneurs perceive the rurality of their geographical space. However, and as discussed above, theoretical and empirical research that challenge this by incorporating how agency may moderate or mediate the liability of rurality have high prospects to break new ground, theoretically as well as empirically.

Another central assumption is that the very first business ideas that entrepreneurs act on have the same prospects for economic viability in rural and urban spaces, but that increasing rurality make these ideas harder to develop and exploit. This can be challenged, firstly, with the argument that ideas in rural spaces have lower initial prospects for economic viability. Such an argument could draw on imprinting theory and argue that there is a correlation between resource scarcity of rural regions and the viability of entrepreneurs' initial business ideas. Second, it may be argued that ideas in rural spaces are qualitatively different in ways that positively influence their economic viability. However, until proven otherwise, the best agnostic starting point is to assume that individuals in urban and rural spaces are equally capable of coming up with initial ideas with the same prospects for economic viability. Note that such reasoning does not invalidate the argument that entrepreneurs and in rural and urban spaces are motivated by different business ideas. The assumption is simply that these business ideas have the same initial prospects for economic viability, as illustrated in Fig. 2.

4. Conclusion

Recently, Bosma & Sternberg (2014) concluded that “there is still a long way to go to generate an adequate theory (or at least a concept) to explain regional entrepreneurship processes, causes and effects” (p.1018, emphasis added). The purpose of this paper has been to help remedy this situation by proposing a new concept called the liability of rurality that can help explain how geographical spaces and their rurality influence the emergence, survival/failure and outcomes of new venture creation processes.

The key argument of this paper is that the liability of rurality, including its integration with the universal liabilities of newness and smallness, provides a novel lens through which one may better understand why rurality of geographical space represents a liability and how it may manifest. Pressing further, the paper has offered propositions about how rurality represents a penalty for entrepreneurs along the different stages of new venture creation. I hope that the paper has introduced some elements and ideas that may be used to further sketch a more fully developed theory that can be used to explain and understand how rurality shape entrepreneurial processes.

Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jrurstud.2019.12.005>.

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