

## **Where Should I Be Located? Entrepreneurial Clustering in Mexico City and Sao Paulo**

Juliette Rault and Gilberto Sarfati  
Institute of FGV-EAESP, Sao Paulo, Brazil

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**Abstract:** This study investigates the criteria in which entrepreneurs base their decisions when selecting the localization of their venture. The research follows the method of a comparative case study based on the exploration of two neighborhoods: Vila Leopoldina in Sao Paulo and the Colonia Roma Norte in Mexico City. The consolidated results based on the qualitative interviews carried out in both neighborhoods first reveal that the urban place, defined as the local ties as well as the general atmosphere of the environment, remains important for the actors despite the increasing use of high-speed communications that generate more interactivity within regions. Furthermore, the relation between the entrepreneurs and their local environment is highly dependent on the stage of development and the nature of the activity of their ventures; informal networks prove to be instrumental in identifying the business opportunities before progressively being replaced through institutionalized relations with venture capital firms or incubators.

**Key words:** Entrepreneurs, place, clustering, urban economics, spatial concentration, venture capital, network

### **INTRODUCTION**

Entrepreneurs have been classified as agents of change for their economies (Audretsch and Keilbach, 2002). Their economic impact can be perceived at two levels: It is transnational in terms of generating new jobs and creating extra output for the economy of a country and it is also local by reinvigorating the activities of a region. The rise of clusters of companies within a same geographic area has given birth to an extensive literature (Porter, 1998; Saxenian, 1994; Markusen, 1996) on the advantages of certain locations and the subsequent phenomenon of value creation.

Brazil and Mexico, emerging economies of Latin America are regularly compared to one another due to their large domestic market and future growth potential. Both countries are nurturing dynamic entrepreneurial environments through technological clusters, incubators and academic incentive programs.

The main objective of this research is to explore how entrepreneurs located in two urban clustering in Sao Paulo (Vila Leopoldina) and Mexico City (Colonia Roma Norte) took the decision to locate their business in those neighborhoods. This study examine the meaningful resources for an entrepreneur's business venture as well as the meaning of the urban setting as a potential source of inspiration for entrepreneurs. In fact, a significant body of research has begun to refer to the entrepreneur as an

embedded (Granovetter, 1985) agent who is deeply influenced by his or her environment and where socio-economic factors are instrumental in shaping the process of business creation.

The theoretical framework for this study is provided by a retrospective on theories of urban economics. The inherent amenities, resources and available networks make urban centers natural hotbeds for entrepreneurship. In fact, cities are prime sources of economic growth as the diversity of activities encourages cross-fertilization (Jacobs, 1969) which is a primary indicator of innovation. In order to provide answers to the questions at hand, this study follows the method of the case study. The neighborhood is the selected unit of analysis the neighborhood as an ensemble of urban activities within administrative geographic limit. The research was conducted in Colonia Roma Norte in Mexico City and Vila Leopoldina in Sao Paulo, two neighborhoods that are undergoing significant transformations within two fast-growing cities of the Latin American continent. Through qualitative interviews of entrepreneurs and field observation, the research intends to unravel the specific characteristics of clusters in these cities and renew the traditional perspective of the issue at stake.

The research is structured in literature review based on the interdisciplinary approach of urban studies and urban economics. Methodology presents the essential tools in order to analyze both samples, then we present

the results of the field research and of the interviews carried in both cities and precedes the main findings discusses the possible limitations and further recommendations from this research.

**Literature review:** An entrepreneur has nearly total control over the initial process of his new venture; however as an embedded agent, he is also influenced by his surrounding ecosystem which exerts considerable influence on his budding enterprise. The localization decision is important in shaping the future firm's growth (Audretsch, 2007) and cannot be solely apprehended by an analysis of the individual's personality, abilities and aptitudes. Thus, localization matters for two reasons: it helps entrepreneurs to identify opportunities and to leverage resources and knowledge in order to attain performance (Shane and Venkataraman, 2000). Given the effects that "place" the "black box of geographic space" (Feldman and Audretsch, 1998) can have on a startup's results, this study will look into the motivations behind the entrepreneurs' decision. Urban economics theories, through the dynamic between economic activity and urban agglomeration, aim to grasp the origin of cities, the reasons underlying the existence of industrial clusters and the uneven distribution of population across places (Strange, 2008).

In neoclassical theories, the entrepreneur has been integrated into the factors of production being labor force and material inputs which drive cities' growth (Glaeser, 2007). Metropolitan areas emerge and expand because their network of activities is associated with job expectancy (Armington and Acs, 2002). Therefore, economic activities are concentrated in cities, instead of being spread out across a country because the economic output is maximized thanks to economies of scale (Glaeser, 2007), influencing positively the levels of productivity. Rational individuals accept to pay higher rates by living in large cities because the environment enables them to benefit from amenities also called inputs and from the flow of ideas.

Entrepreneurs balance their decisions using the same basis. The supply function of entrepreneurs relies on "a spatial equilibrium" according to which advantages of localization is offset by negative attributes (such as housing prices). According to this economic approach to cities, individual decisions respond to incentives and the myriad of isolated decisions translates into a collective trend towards a similar place. Under such analyses, spatial differences are due to higher returns in certain areas, stimulating higher rates of business creation. The development of the Silicon Valley would be correlated with higher return in this area in the computer sector than in the rest of the country, attracting waves of new entrepreneurs (Duranton, 2007).

Under previously examined sources of profitability, similar firms tend to cluster within a same area. The phenomenon of clusters has been popularized by Porter (1998) also known as "co-agglomeration", "geographic concentration", "networks", "ecosystems" but has been widely studied by urban economics theories (Saxenian, 1994; Markusen, 1996; Pitelis, 2012). The concentration of specialized industries in a same localization area has been identified as a factor of competitiveness even for regions as confined as a street (Wall street for financial services) to an entire region (the Silicon Valley). The source of their advantage lays in the Inter-Firm Cooperation (IFC) that the geographic proximity permits.

Starting with Marshall, the MAR model (Marshall, Arrow, Romer), later updated by Krugman (1991), points out that clusters originate from the mutual benefit that similar firms bring to each other. Numerous reasons have characterized the emergence of industrial clusters; they have been labeled under the notion of externalities also called "economies of agglomeration". The local inter-firm mobility of an already trained and experienced labor force (Rotemberg and Saloner, 1990), the proximity with suppliers, the circulation of knowledge through direct contacts (Saxenian, 1994) or the possibility to outsource certain activities to similar firms (Angel, 1990) are reasons for same sector firms to hold together within a same perimeter. Mature clusters encompass four characteristics according to Pitelis (2012) that are the "geographical agglomeration, linkages, embeddedness and competition with cooperation".

At the individual level, the degree of uncertainty that each entrepreneur associates with his or her venture affects his or her decision-making, along with the assumptions he or she formulates about a certain place. Aspiring entrepreneurs exert their human agency through an understanding of the dynamics of the internal resources of the firm and the external conditions of its environment.

The geographic concentration of firms tends to increase overtime because many entrepreneurs foresee the opportunities of such places (Sorenson and Audia, 2000). The comparison between the concentration of footwear companies in the US in the 1940s and in 1989 shows nearly the same results, proving the permanent high rates of firm creation within the clusters. Clusters are maintained throughout time under the influence of two phenomena: lower failure rates of the companies within the cluster and a higher founding rate of new ventures (Sorenson and Audia, 2000). Recognizing the role of human decisions in triggering creation, the evolution and the development of clusters, emphasizes the role of entrepreneurial action and efforts to reap the advantages of a particular location, a role that was largely left behind by the early theories of clusters (Pitelis, 2012).

Yet, the well-known cases of startup clusters (such as Silicon Valley, the Taiwan Hsinchu cluster or the high tech pool in Israel) must not overshadow the cases of entrepreneurs that choose a location of their own. Microsoft launched its venture in Seattle to take only this example. Furthermore, urban areas are a favorable field for new startups because they hold complementary and diverse activities altogether.

Studies have illustrated the inherent benefits of a diverse and dynamic small-size firms urban network over a specialized large companies economic landscape. The decline of Pittsburg is due to its inability to stimulate firms creation while by contrast, NYC “created a culture of entrepreneurship” (Glaeser, 2007; Hansen *et al.*, 2003). The constant interactions between heterogeneous groups of people (or firms) constitute a springboard for new ideas. Moreover, innovation lies in local competition which improves productivity and stimulates growth. Maintaining vernacular culture a rooted culture created by people who live in such places is a key asset for urban neighborhoods to ensure innovation (Carr and Servon, 2009).

The main obstacle encountered by certain cities when developing and attracting new activities is not size but the absence of reaction towards urban functional problems, engendering stagnation (Jacobs, 1969).

Integrating to their analysis, both the existence of clusters and of diverse urban setting, Duranton and Puga (2001) assume that the nature of externalities changes and evolves throughout the product development. A young firm will tend to settle in an environment favorable to experimentation, a melting pot of complementary activities which enables it to access a wide range of components and heterogeneous competences (Feldman and Audretsch, 1998). Thus, “location in a diversified city during a firm’s learning stage can be seen as an investment” (Duranton and Puga, 2001) as the entrepreneur accepts higher production costs in the early development stage. Higher production costs derive from the relatively more expensive housing (and cost of living in general) in larger cities.

These urban areas act as “nursery” (Duranton and Puga, 2003) because they offer the capacities to find the ideal opportunity, the appropriate positioning and the adequate production process for the young startups. This theoretical framework has based itself on empirical evidences: A study which collected data for six science based-sectors in the US, did not find any link between specialization of a region and the innovative outputs (Feldman and Audretsch, 1998). NYC is a suitable laboratory for many entrepreneurs because of its size and diversity, especially for creative industries (fashion, design, artists, etc.).

In past literature, the reasons behind the attraction of certain places to entrepreneurial ventures were first, the presence or abundance of a natural resource. In the late 19th century, the oil industry settled in Texas or Ohio where the oil was last-discovered. The necessity to easily dispose from inputs raw material and labor force avoiding major transport costs was then a major argument in the localization of new ventures.

The New Technology-Based Firms (NTBF) heavily rely on a highly specialized and educated human capital (Dahl and Sorenson, 2009) and the venture’s performance is positively correlated to the level of specific knowledge in economic and management fields of its founders (Colombo and Grilli, 2005). Becker (1964) defines human capital as “the knowledge and skills acquired through formal and informal learning that resides within individuals”; each individual has a “stock” of knowledge that is correlated to his future earnings.

At the early stage of the venture, the recruitment will primarily rely on networks, therefore the presence of highly specialized human capital, already trained in similar firms, is a strong incentive for entrepreneurs to settle in certain regions as they do not have to undertake this investment (e.g., training). Quigley and Huffman (2002) observes that students are very likely to settle after graduation where they have been educated and where they have built their first personal network.

In fact, human capital is not only composed of the education of the employees but also their experience (Mondragon-Velez, 2007). Thus, new startups might be attracted by established firms of the same sectors in order to benefit from their knowledge (Jaffe *et al.*, 1993). Launching a new venture within the same perimeter of other similar businesses also increases the chance for ‘a better matching’ with the labor force. The formation of a group of business advisors with sophisticated expertise is a strong argument to attract innovative entrepreneurs. Also, neoclassic theories have observed that people who live in more educated areas tend to earn more, their productivity being higher probably through the exchange of ideas. Proximity is not just a way to reduce costs of transportation but also to facilitate more direct interactions.

The advantages produced by direct and constant communication between people or between firms have been identified as knowledge spillovers. The literature about knowledge spillovers is abundant and their effects seldom disputed. Researchers have intended to answer this question: How do small startups with no R&D, obtain the pre-requisite knowledge to their venture? They observed that these small enterprises benefited from third-party firms or institutions (universities or

laboratories) own knowledge. Communication between people and between firms is more frequent; rapid inter-firm mobility allows knowledge and savoir-faire to move fluidly between economic agents. Also, fierce local competition generates faster innovation and is an essential vector to knowledge transmission (Jacobs, 1969). The ways undergone by the diffusion of knowledge are plural and range from formal alliances between firms to information conversation (Scott, 2006).

The knowledge spillovers have proved to be geographically bounded (Jaffe *et al.*, 1993; Zucker *et al.*, 1998) and tend to stay in the region where this knowledge first initiated. Therefore, finding the localization which fosters knowledge is fundamental for a startup.

According to recent literature, no input is more important for entrepreneurs than the availability of financial capital. Financial resources raise the chance for the startup to survive as it provides a security net in case of an unexpected turn that hinders its capacity to innovate. Therefore, the access to a primary source of capitalization is of primary importance for entrepreneurs.

Liquidity constraints generate negative effects on the decision to start a new business; the wealth of household is therefore positively correlated to the rate of business ownership (Holtz-Eakin *et al.*, 1993). It holds true, especially in the case of young businesses that are denied access to external sources of financing such as loan credits through banks.

Entrepreneurs heavily rely on external sources of financing other than banks. It exists a multitude of actors with different investment's objectives: The Business Angels (BAs), the Venture Capital firms (VC) and the Private Equity firms (PE).

Human and financial capital have been identified as key resources for knowledge-based sectors that is why, entrepreneurs look to settle near these two sources. However, physical proximity does not guarantee the entrepreneur will benefit from them; therefore, social professional networks are key in the process of knowledge transmission (Sorenson and Audia, 2000).

Culture has gained relevance in the post-industrial economy as key determinant to the economic growth of certain region. The notion of regional identity refers to the social image of a specific place that is shared both by the insiders and the outsiders which influence the investment decisions of agents (Romanelli and Khessina, 2005). The face-to-face interactions and regular contacts are helping to build a comprehensive place identity. Certain places benefit from positive image that are the products of the diffusion of its success.

Not only is the "endowment of human capital" (Audretsch, 1998) relevant but the interactions between individuals are also salient. In a study comparing both Silicon Valley and the Route 128 near Boston, Saxenian (1990) observes that Silicon Valley was able to overcome its stagnation (firms were hit by Japanese competition in the early 1980s) through a "decentralized productive system" (Saxenian, 1990) favoring flexible manufacturing (the "mini-fabs") in order to quickly response to demand changes. The region promoted a culture of fluid and informal communication as well as collaboration conducive to collective learning and attracting new firm creation.

Social proximity reinforces trust and reciprocity and facilitates knowledge transmission (Agrawal *et al.*, 2008). Thus, the ongoing diffusion of learning in Silicon Valley contributes to the good performance of startups: 90% of Silicon Valley manufacturing startups survive their first 6 years of experience where nation-wide, results show that 75% of startups survive their first 2 years. Entrepreneurs benefit from a network of complementary sources of knowledge; Stanford University, consulting firm as well as strong social networks family, alumni, ethnic groups which provides "technical, financial and networking services" (Saxenian, 1990). The sense of community allowed by inter-sectoral mobility is a strong argument to explain the capacity of attraction that exerts Silicon Valley on entrepreneurs.

The spatial localization of entrepreneurs remains partly dependent on the image conveyed by certain places. The reference of something is "in the air" is not recent. Launching a new business is always a risk-taking venture, thus, entrepreneurs are in search of legitimacy in order to control the uprising uncertainty. For instance, an entrepreneur entering the entertainment industry might seem more legitimate to potential investors or future customers if the entrepreneur is based in Los Angeles. In order to counterbalance the risks of new venture, entrepreneurs leverage their social capital "the pre-established relationships and reputations with resource holders" (Stuart and Sorenson, 2003) in order to overcome the uncertainty and reassure their future partners (employees or investors). The role played by informal contacts is even more preeminent in the early-stage of firm creation as it helps identifying opportunities, leveraging resources and expertise (Elfring and Hulsink, 2001). The previous connections tend to be geographically bounded. "The amenity-based development" (Carr and Servon, 2009) of a place is not sufficient in explaining the attraction of certain economic activities over others; the local culture and its projected image are also important factors to take into account.

The “reputation effect” produces the risk (Sorenson and Audia, 2000) that it will discourage individuals to consider the past performance of local firms because entrepreneurs assume that “if so many similar businesses are settled there, it must be a good place” (Carroll and Harrison, 1994).

The previous determinants that drive the entrepreneur’s choice, center on his analysis and perception of the market and environment as a base for his decision. Nevertheless, thinking of entrepreneurs as “embedded” agents also implies to envisage their social attachment to certain locations. The entrepreneur can decide to favor his personal and affective social life and therefore choose a region, a city or a neighborhood that is close from his/her relatives. Based on a Danish database of entrepreneurs, Dahl and Sorenson (2009) distinguish two sets of priorities; either the entrepreneur favors the localization because of its proximity to friends and family or they prioritize according to the externalities of a given economy that can directly benefit their ventures. Their results explicitly prove that entrepreneurs are even more inclined than employees to stay within familiar environment (Michelacci and Silva, 2007), even when these environments prove to be less favorable economically than other places. In such a study, the maximization of performance for their future venture is not a primary determinant of choice.

Jackson (1994) notes that “certain localities have an attraction which gives us a certain indefinable sense of well-being”; the attraction that San Francisco exerts on high-tech companies confirms that entrepreneurs are sensitive to the lifestyle. Indeed, the city gathers 1,700 tech firms (employing 44,000 people). The main entrepreneurs of the most important digital startups (Yelp, Yammer, Autodesk and Zendesk among others) have explained their localization (preferred to Palo Alto) because of the atmosphere of the city, the agreeable amenities that the city has to offer.

## **MATERIALS AND METHODS**

**Participants:** The literature review has revealed the hegemony of studies carried through the scope of the US and Western Europe experience. Urban economics theorists all support their analysis by studies carried out in American or less often European cities or regions (Silicon Valley, New York City, Berlin to cite only these three). Leading emerging economies have recognized the importance of entrepreneurship for their development to encourage innovation and boost economic growth.

Thus, Latin American countries are maturing startup ecosystems with tailored activity suitable with the

growing demand of their respective rising middle class. Leading the trend, Mexico, Brazil and Chile are experiencing “a technology boom” with high penetration internet rates. The scope to improve urban structures’ quality to procure regulatory incentives and to attract VC financing are commonly shared objectives among Latin American economies. Beyond the ecosystem of large companies, both countries are nurturing young and innovative entrepreneurs, through incubators, non-profit organizations and events that gather the professionals of the sector.

In many aspects, Mexico City and Sao Paulo resemble each other. Although, their contribution to the national GDP decreased in the last decade Sao Paulo’s growth was 66% of Brazil’s GDP while Mexico City still maintain a level similar to the national GDP but by not much 106% (McKinsey, 2011), they polarize new economic activities of higher productivity which even reinforced their status in the network of global cities. The tertiarization of both cities visible through the increasing participation of services (financial sector, communication, real estate, etc.) in the national GDP reinforces their role as main economic driver. Mexico City and Sao Paulo were losing their control over factories which move to minor cities, other activities substituted as growth drivers.

Another common characteristic of both cities is that they face severe infrastructure inadequacy and environmental problems as their peripheries continue to expand. Sao Paulo’s vigorous demographic development of 5% yearly growth was accompanied by waves of immigrations that reinforced the national rural exodus. Mexico is also severely extended with 16 delegations along with another 59 smaller towns which constitute the State of Mexico DF.

Sao Paulo is characterized by a high degree of segregation with wealth concentration in the central areas and impoverishment of distant zones, directly dependent on the center. Mexico City’s urban organization is even more fragmented but is equally segregated. The coexistence of wealthy areas comparable to gated communities along with really destitute areas represents the common urbanization pattern (Guerrien, 2004).

Studying the trends that move entrepreneurs to certain localizations at the scale of the entire city is an impossible task due to time and knowledge constraints. In order to enclose the field of possibilities, this research concentrates its effort in two neighborhoods, one in each city. The neighborhoods have been selected according to certain criteria: First, both neighborhoods have been experiencing recent and rapid mutations with the transition towards new economic activities. Vila Leopoldina and the Colonia Roma Norte represent good

laboratories in which the author was able to collect and dissect extended information about the constitution of each neighborhood but also about the perceptions and interactions of the entrepreneur towards his work environment.

Vila Leopoldina, predominantly industrialized in the 1980 and 1990s is rapidly attracting third sector and creative activities (advertisement agencies and fashion brands). Its convenient localization near main arteries of traffic and its connection to public transportation infrastructure have completed the development of real estate projects. In lieu of the industrial factories, emerged several condominiums and more commercial offices. More people are attracted by the business opportunities such as a restaurant owner interviewed in the neighborhood that has seen in the few months more and more firms coming to settle in the neighborhood (field research, June 2012).

According to Herzog Real Estate, rental prices are the lowest in the central zones of Sao Paulo. Vila Leopoldina belongs to the “intermediary ring” which is characterized by its proximity to central areas with medium densities and vacant spaces.

The local government of the neighborhood of Lapa has also shown the desire to accelerate the development of the region, characterized by its denomination “Zona Industrial em Reestruturação” (ZIR) due to the presence of numerous warehouses witnessed of the industrial activity of the region. The valorization of the neighborhood would pass by the creation of green spaces and public infrastructures. The neighborhood increasingly attracts commercial activities and new residents due to its good accessibility relatively to other peripheral regions. The presence of the CEAGESP, a wide market of primary products organizing the commercialization for the state of Sao Paulo of goods coming from all parts of the country, has provoked some critics as it occupies most of the neighborhood with its 15, 000 daily vehicles and the flow of “black market” employees. It is located between the central areas (organized around Avenida Paulista and Avenida Faria Lima) with high incomes housing and the peripheral ring suffering from the lack of infrastructures and efficient public transports.

The Colonia Roma Norte in Mexico City belongs to the historical part of the city and is part of the Cuautehmoc Delegation. The urban setting of Mexico City today is largely dependent on the Earthquake of 1985. It accentuated a movement observed, since 1970s of disaffection of the central historical zones because of criminality and pollution, disaffection visible in the deterioration of the buildings and their surroundings. The

emergence of “satellite neighborhoods” (such as the modern area of Santa Fe) is displacing many economic activities into islands of urban development where high-income families settle. This trend mainly concerns the South-West part of the city (Guerrien, 2004).

Since, the 1990s however, local governments have launched several plans in order to address the needs of the central neighborhood and preserve the numerous historical landmarks. The Cuautehmoc Delegation represents 40% of cultural assets of the Federal District. The Programa the Rescate (the Rescue program) is meant to rehabilitate the historical center of the Mexico City that has progressively been abandoned by higher and middle class residents. The program, launched in 2001, intends to revitalize the economic activities of the center, attract more residents and in general seeks to revive the feeling of security in this area.

Roma Norte, considered an artist neighborhood due to its buoying cultural life (galleries, design stores and independent designers, restaurants and open-air markets) is also undergoing an economic revival. The inauguration of metrobus line in 2005 and the public-private partnership to implement bikes, Ecobici in 2010 in the central areas have contributed to revive the neighborhood.

**Research design and data collection:** The research design provides a pathway from the initial research question to the tangible proves and instruments that will lead to the final results (Yin, 2008). The “triangulation” defined as “the combination of methods” (Jonsen and Jehn, 2009) helps to avoid personal interpretations. Since, the case study is built as a qualitative research, it encloses essential literature both theories and empirical readings on the context field and direct observations, individual interviews. In essence, the definition of the case study implies the necessity to browse a variety of sources of evidence in order to enlighten the decision-making process of the entrepreneurs.

The role of theory in the case study process is important as to help build your own direction, based on existing research (Sutton and Staw, 1995). The existing theories help in “defining the appropriate research design and data collection” (Yin, 2008) but must in the end, apply to extend the knowledge.

Once the geographic area has been delimited, the research process consists in finding and interviewing the key actors. As the research process must be “replicated” (Yin, 2008) from one case to another, this research looked for similar sources of data.

First, key institutions, Endeavor and VC managers have been contacted in both cities. Endeavor is a non-profit organization that promotes high-impact

entrepreneurship which it believes to transform emerging economies by encouraging innovative ideas. Founded in the US in 1998, the organization has expanded around the world, opening offices in Mexico and Brazil among others. Endeavor builds a network of consultants and investors (“the mentors”) around the entrepreneurs in order to help them professionalize and accelerate their growth potential.

Contacting Endeavor was useful in many regards. First, the presence of the organization in both cities guaranteed that the research could be supported by comparable quality of information. Endeavor provided this research with equal access to entrepreneurs as well as their broad database in both cities between 80 and 100 entrepreneurs (Interview with Endeavor consultants, 2012). In Sao Paulo, Amisha Miller, policy and research manager and Luiz Manzano, Search and Selection Manager at Endeavor Brazil were determinant in drafting a comprehensive view of the entrepreneurial clustering in Sao Paulo, In Mexico City, Alonso Navarro, a search and selection manager, provided insights on dynamic neighborhoods for knowledge-based entrepreneurs.

Case studies can be coupled with a field experiment. In this case, the investigator settled in both cities in order to fully exert her role of “participant-observer” (Jonsen and Jehn, 2009). From this vantage point, the researcher was able to conduct interviews, gather visual evidence and proceed to observations. Direct observations were conducted during two extensive neighborhood visits in Vila Leopoldina, Sao Paulo and Roma, Mexico City. Apart from the general urban planning of the neighborhood, the majority of the entrepreneurs’ offices was visited to grasp the reality of the conditions and of the environment.

In this research, the unit of analysis is the individual entrepreneur. In order to gather a consistent body of interviewees, the following criteria have been followed.

Entrepreneurial ventures are selected to match the definition of knowledge-based entrepreneurs and most specifically of the high-technology sector. Limiting the heterogeneity in the nature of the activity allows a better comparison as comparing young technology-based startups with industrial firms would undoubtedly lead to really different needs and therefore, different variables.

Also, entrepreneurs must be installed in the selected neighborhood for a maximum period of three years as this research is focused on a recent trend of decision-making, therefore before this period, the information is of decreasing relevance. Eligible entrepreneurs could have started their ventures before this time period but in

another neighborhood and have moved their main offices in the last 3 years. The localization of the headquarters and not a factory or other secondary offices is regarded. Any type of offices within the chosen neighborhoods from shared-offices to independent ones are regarded as relevant.

One of the most important sources of evidence for a case study is the interview. The focused interviews (Merton *et al.*, 1990) imitate guided conversations as the interviewer follows an anticipated structure. As a case study differs from experiment (carried on laboratories for instance), the interviewer must adapt to the interviewee in order to capture answers in a real context (Yin, 2008). The “open interview” is the most efficient method to get access to the results. Without being passive, the interviewer must not be directive and must prefer flexibility in the prepared protocol. In order to respect this condition, the investigator will proceed to the interviews in the entrepreneurs’ offices whenever, it is possible.

Each interview lasted between 30-45 min. All Mexican entrepreneurs were interviewed at their office in the Colonia Roma in November 2012 as well as one Brazilian entrepreneur (Rennan Fortes, Payleven) at his office in Vila Leopoldina in July 2012. The remaining Brazilian entrepreneurs (iFood and TerraCycle) were interviewed through a Skype conference in November 2012 but the investigator had visited their offices at warehouse Investimentos, Vila Leopoldina before. The interviews with the Brazilian entrepreneurs were carried in portuguese while three out of four interviews with the Mexican entrepreneurs were carried in English and the remaining one took place in Spanish. In total, seven founders or co-founders were interviewed, corresponding to seven distinct startups: Four Mexican entrepreneurs who work at Roma Norte and one seed capital fund and three Brazilian entrepreneurs who work at Vila Leopoldina. All Mexican entrepreneurs are owners of a small enterprise with <10 full-time employees. Two out of three entrepreneurs in Sao Paulo had >20 employees while the remaining one had <10 full-time workers.

The multiple-case study is justified by the means of comparison. When comparing two sets of cases, the logic underlying the choice of such a method is either to predict similar results or opposing conclusions. It is likely that the contrasted development of the two neighborhoods of the sample influences the perception of the place for entrepreneurs.

## **RESULTS AND DISCUSSION**

From the interviews, two main distinct profiles of entrepreneurs have emerged, although, certain

homogeneity is found within each cluster. The sample of Mexican entrepreneurs is almost negligibly younger than the Brazilian one; all Mexican entrepreneurs (interviewed) are under 30 years old with an average around 26-27 years old while the Brazilian entrepreneurs' average age hovers around 30 years old. All entrepreneurs, regardless of the country have an undergraduate or graduate diploma. The majority of Mexican entrepreneurs (three out of four) have become entrepreneurs right after finishing university (Cirklo and CitiVox), some as they were still students (Arto) but none appear >2 years after obtaining their diploma (Aventones). In Sao Paulo, only Renann Fortes (Payleven) has had previous experience as an entrepreneur and falls into the category of "serial entrepreneur" as he has been at the origin of several businesses. The founders of TerraCycle and iFood were previously employed in larger companies.

None of the entrepreneurs interviewed has grown up in the neighborhood-cluster studied but the majority of the Brazilian entrepreneurs are from Sao Paulo. Mexican entrepreneurs generally, display wider international experience than their Brazilian counterparts: The co-founder of Cirklo, Julio Salazar, holds a US undergraduate degree, while the co-founder of Aventones, Cristina Palacios has lived in several countries while growing up. Finally, both the co-founders of CitiVox and Arto have spent extensive time in the US and Europe. However, the investors interviewed for this research share similar backgrounds: Rodrigo Baer (Sao Paulo) and Roberto Charvel (Mexico City) are both MBAs graduates at major Business School in the US. Only Cesar Salazar, co-founder at Mexican VC is a former 'serial entrepreneur'.

In representing, all the actors met and interviewed during the second phase of the research in Mexico City within a single figure, a primary observation arises: The entrepreneurs working in the Colonia Roma Norte are relatively well-connected to the wider ecosystem of Mexico City and even beyond the Mexican frontiers. First, two startups (Aventones and CitiVox) belong to the community of Endeavor entrepreneurs which means that they are labeled as "high impact entrepreneurs" and serve as examples for the Mexican entrepreneurial ecosystem. Then, Mexican VC whose founding team is composed of 50% Mexican and 50% American investors has merged in the Summer of 2012 with 500 Startups, "the most active seed capital fund in the world" (Cesar Salazar) and is based in San Francisco's area. Through Mexican VC, the neighborhood of Roma Norte and its entrepreneurs have an open window to an international network of actors in the entrepreneurship field.

In fact, Aventones and Arto are sharing their offices with Mexican VC, although, they are not receiving investments from the VC. Cirklo is presented in this figure as being geographically close to the shared-office of Aventones-Arto-Mexican VC because the team has opened its first offices in the same street and regularly spends time with their fellow neighbors/entrepreneurs. While doing research in Mexico City and after a month in the field (without previous acquaintance with the city), the researcher was able to benefit from the fluidity and rapidity of the informational flows between all the actors represented which allowed the field research (including the interviews) to be carried out in a month and half.

Due to the significant size of the neighborhood of Vila Leopoldina, the offices of the entrepreneurs are not as close geographically (separated by 3 km) as the Mexican entrepreneurs (<1.5 km). Each of the two institutions, Warehouse Investimentos and Rocket Internet, occupies a different part of the neighborhood and no contact or relatively small exists between the entities, although some employees are acquainted. Here, represented in the bubble, the two VC and their respective "incubated" startups function as isolated islands in a neighborhood. Both warehouse investimentos and rocket internet benefit from large and functional spaces that were renovated in order to host several young startups leaving extra space in order to expand more in the future. The surroundings of each office building have kept their industrial features. This makes it difficult to contribute to the development of spontaneous meetings and informal gatherings as very few places are accessible to pedestrians. Endeavor in Sao Paulo has no entrepreneurs in its pool that worked in Vila Leopoldina at the time of the research in June 2012.

**The main factors of decision:** When considering a neighborhood for their operations, entrepreneurs scrutinize the general setting along with its specific features as they search for the optimal combination of attributes that can support their specific activity and the expected results. Following the resource-based approach for this research, the neighborhood's structure has been deconstructed into five categories: Transportation (accessibility), culture (presence of urban amenities and of a vernacular culture), human capital (networking and interactions among peers), feeling of security.

All entrepreneurs were concerned with the accessibility of the work place through public transportation. In Brazil, both work offices in the sample are in walking distance from subway which allows employees to rapidly get in central areas. Also, the Marginal Pinheiros (a main transit artery) permits easy



access to the area and potentially to the warehouses located outside of Sao Paulo when the activity requires it. However, the majority of the entrepreneurs was using his or her own car and would drive between 30 min to one hour between their home and their office. Compared to other areas, main arteries at Vila Leopoldina do not get as congested with traffic jams as more traditional business areas (Vila Olimpia, Morumbi, Itaim Bibi). These previous aspects have been listed as very positive by the entrepreneurs as all mentioned that proximity to public transportation is an important pre-requisite in order to be able to recruit employees as their venture was developing. One entrepreneur mentioned that they had dismissed another neighborhood (Alphaville) for its lack of proximity or access to public transportation as this would make it impossible to recruit employees, especially young graduates.

Mexican entrepreneurs were equally assertive on the importance of the proximity to public transportation, although, a majority of them lives within walking distance (between 10 and 20 min) in the neighborhood of their offices or in a nearby one. Using bikes made possible through the public system of bikes, EcoBici to come to the office is common practice among the entrepreneurs which is an indicator that entrepreneurs chose the Colonia Roma Norte for its better quality of life.

Mexico City and Sao Paulo are affected by their endemic lack of public transportation, being further problematic as peripheries keep sprawling outward. Entrepreneurs in both neighborhoods try to rationalize their location according to this parameter. Both areas are relatively well connected to the rest of the city compared to other comparable neighborhoods.

The attachment of the entrepreneurs towards the neighborhood is closely related to their feeling of security. Part of the disaffection of the entrepreneurs for Vila Leopoldina is due to the lack of security; several assaults were reported around the offices of rocket internet as they share a surrounding wall with a favela. The co-founder of payleven reports that no one walks outside of the secure walls surrounding the condominiums of the offices and employees use their cars during lunch break.

Other entrepreneurs in Sao Paulo report similar problems as the streets are dark at night and there are very few pedestrians. Despite the rapid changes that the neighborhood is undergoing, entrepreneurs are still witnessing a tension between "pockets" of modern offices and poor housing (favelas). This tension was palpable as the investigator was conducting the field research: While walking for 3-4 h in the neighborhood, the investigator's presence was clearly identified as a

stranger by the few pedestrians while the same feeling was never noticeable in more central areas of the city. Nevertheless, this problem was not decisive in the decision of the location and most entrepreneurs are confident that the issue of security will improve in near future.

In the Colonia Roma, a majority of entrepreneurs feels comfortable walking during the day and night to their home and the neighborhood is a preferred place for social life after work, especially for its nightlife activities: A plethora of bars and restaurants attracts the youth of Mexico City. Although, two female entrepreneurs have reported that they do not walk alone to their cars at night, they also acknowledged that they are feeling progressively safer and that security was an essential element in the location choice for them. The first office of Aventones entrepreneur was located in an unfriendly and unsafe neighborhood; the team decided to change despite the free rent they benefited as they would mainly work from home with the induce lack of communication between the members of the team.

Entrepreneurs, more than established firms are on tight budgets as the average time to generate profits can take months or years. Therefore, traditional business areas are often too expensive for young firms (if they do not launch their venture from a university incubator). In Sao Paulo, costs are closely associated with the need of large space as the firms were rapidly growing; Vila Leopoldina was in none of the cases, the neighborhood of the initial offices but rather the neighborhood of growth phase enterprises. An entrepreneur estimates that the difference of rental costs is about five times higher in central areas such as Itaim Bibi. A comparison of rental price of offices between Vila Leopoldina and other business areas show a difference of 75% in favor of Vila Leopoldina. Considering that more and more employees would be recruited, the choice of a neighborhood that would offer cheaper meal options was also valued. However, entrepreneurs perceive a general lack of choice when it comes to meal options that are easily accessible by foot. To compensate for the scarcity of options, all three firms cover part of the cost by providing a food stipend to their employees (covering up to 80% of the lunch costs) (Interview, November 2012).

According to all interviewees, costs are not the motive behind the shared-office spaces. In Sao Paulo, the structure offered by the VC provides "ready-to-use" services such as accounting and legal services that allow focusing on the core of the business. In Mexico as well as in rocket internet Brazil, the possibility to share best practices and learn from the know-how of more experienced startups is the main driver. An entrepreneur

refers to the extreme focus on costs as an “overrated” practice (interview, November 2012). Instead of exclusively representing a cost-effective solution, shared office space emerges as an advantageous opportunity to be in close proximity to peers, especially considering the long hours dedicated to building the new venture. One entrepreneur in Brazil even admits that their current situation is not the cheapest solution that exists in the neighborhood.

A comparison of the rental prices by neighborhood in Sao Paulo and Mexico City show that the new areas of development remain remarkably cheaper than the common commercial areas by 75% in Sao Paulo and in the same observed proportions in Mexico City.

Vila Leopoldina because of its peripheral location, is ideally set near the University of Sao Paulo (one of the best universities in LA) where it is possible to recruit high-qualified interns, especially because the Brazilian system encourages students to acquire long and continuous professional experience before graduating. As the fast-growing incubator of rocket internet is primarily involved with new technology ventures, the choice of the neighborhood is influenced by the need to attract young and qualified professionals. While, proximity and accessibility is certainly a condition to recruit talent, the authenticity or atmosphere of the neighborhood is never reported as being a determinant.

In the Colonia Roma Norte, the majority of entrepreneurs indicate that they had been previously connected to the people they recruited. One founder notes: “We thought it was lame practices (to be previously acquainted to the person) that it didn’t happen anymore but actually, we realized it did add a higher value”. All the founding teams are composed of family members, friends and people from the entrepreneurial ecosystem that already know each other. Remarkably, the dynamic environment of the neighborhood is closely associated to the capacity to attract new talent. The regained centrality of the neighborhood as a place of cultural events and vibrant nightlife is definitely an argument advanced by entrepreneurs. Some of the most prestigious universities in Mexico City are located in “satellite” modern neighborhoods such as Santa Fe but the size of the startups interviewed did not require hiring many interns.

As the majority of the Mexican entrepreneurs rely on founders’ money and therefore, they did not express the need to have easy access to external sources of financing. Their model of development put emphasis on generating income through its activity rather than depending on leveraging alternative sources of financing. Brazilian entrepreneurs are on the contrary following their

investors and are geographically settled in the same offices than them. The Brazilian startups have experienced higher rates of growth than the Mexicans in general.

Inside the micro entrepreneurial clustering of la Colonia Roma Norte, the relations among entrepreneurs are often based on friendship. One of the founders of a startup accelerator notes that “this working place was found by a friend and he invited other friends to come share this space” (interview, November 2012). As previously said, all startups are composed of already connected people. The physical proximity of the startups’ offices reinforces the bonds among entrepreneurs through informal contacts. After working for several months in cafes, the founders of Cirklo chose their first office on the same street as the shared-office space studied and they also share a space with another startup. The choice of the office location was driven by the desire to revive the experience of impromptu meetings with their peers that they had experienced at the initial steps of their venture.

Also observed is the pivotal role of some more experienced entrepreneurs that are assisting the new ventures through advice and the provision of access to services or rentals. For instance, Aventones the carpooling company’s first offices were lent to them for free by another entrepreneur (interview, November 2012). The culture of mutual aid is apparent among the entrepreneurs while in Brazil, the relationships are more contractual and codified. “There is a desire to interact more” but “most of the communication is through emails” (interview, November 2012) notes one entrepreneur in Sao Paulo.

The Brazilian VC assists the firms in which they invest, pushing them to become more professionalized while Mexican VC refuses to endorse the traditional role of investors and claims to base its relationship uniquely on mutual commitment: “Trust allows us to do very crazy stuff” (interview, November 2012).

Despite the international mobility and increasing connections with a large variety of actors in different places of the world, entrepreneurs still expressed the importance of “feeling good” about the place they are settling in.

The decision to launch a new venture is in time, often closely intertwined with the choice of the location. The substantial literature review on the subject has revealed that the “territorial dimension” (Pitelis, 2012) of the firm is the result of an audit of the resources essential to the future performance of the firm and the perceived or imagined vision that the founding team has formulated towards a specific region.

During the interviews, all entrepreneurs expressed an opinion if not strong feelings towards their working environment. Whether the entrepreneurs had consciously chosen the neighborhood in which they would open offices (the Mexican entrepreneurs in the Colonia Roma) or whether they responded to a business opportunity and therefore, would not have the control over the choice of the location (the Brazilian entrepreneurs in Vila Leopoldina in this research), only one entrepreneur out of seven expressed a certain neutrality towards the neighborhood.

The pool of Mexican entrepreneurs was unanimously enthusiastic about the Colonia Roma Norte. The laudatory terms “young”, “dynamic”, “vibrant” used to describe the vernacular culture of the neighborhood revealed a real affective attachment to the place. The identity of the neighborhood resonated vividly for them which ultimately created a sense of place, identified by Carr and Servonas the preservation of the local assets an area. Roma Norte seems to constitute a real source of inspiration for Mexican entrepreneurs (“the neighborhood is a mixture of historical buildings with amazing architecture and a new generation” (interview, November 2012)) while Brazilian entrepreneurs would speak about Vila Leopoldina in terms of “economic development” and “rehabilitation” (interviews, November 2012) rather than in terms of identity or vernacular culture. The attractiveness of Vila Leopoldina lays on a rational balance of the advantages and the disadvantages in terms of business opportunities rather than on unique attributes. The interviewees differ in their assessment of the decision they made to settle or move their ventures to Roma Norte/Vila Leopoldina. Contrary to Brazilian entrepreneurs, the Mexican entrepreneurs would always mention the “young”, “less mainstream” and “open” character of the Colonia Roma.

Among the interviewees all but one gave real importance to their office space. In both neighborhoods, entrepreneurs were concerned in creating a space comfortable to work in and one which could strengthen their corporate image. All the Mexican entrepreneurs dedicated some time to the setting of their offices, opening collective spaces for instance or working the weekend on some design improvements. In the case of the shared-office between Mexican VC, Aventones and Arto (and the remaining startups), the choice of design-decor was left to street artists. The office serves as a communication tool in order to “bring people from the outside” (interview, November 2012) that is to say, attract more entrepreneurs. Vila Leopoldina’s offices were never the initial offices of the firms and in the case of TerraCycle and iFood, they moved to the modern glassed space and “ready-to-use” offices of warehouse investmentos.

The appropriation process of the working space was therefore very different; all Mexican entrepreneurs and Payleven in Brazil put more emphasis on the importance of “creating” and “building” the space for themselves as part of the entrepreneurial process while the firms in the warehouse considered their office as a great showcase for their company and for their clients. For all three entrepreneurs, Vila Leopoldina was not the location of their first office but the rapid growth of the firm in the 1st year or 2 years prompted the entrepreneurs to leave their first offices originally in more central neighborhoods (Vila Madalena and Vila Olimpia) for peripheral neighborhoods to take advantage of larger spaces. The offices in Roma Norte appear as more integrated into their direct surroundings: “Our clients like to come see the neighborhood” and the exterior facade of the office was painted in bright colors “to indicate that something is happening here” (interview, November 2012).

The results from the interviews with the four Mexican entrepreneurs echo the research about creative clusters which convincingly concluded the intangible, yet positive effect of the local environment on creative activities (Heebels and Van Aalst, 2010). Indeed, the perception that the Mexican entrepreneurs conceive about the Colonia Roma recalls the expression of “something in the air” coined by Marshall. In fact, a review of newspaper articles reveals that the neighborhood knows along with other historical colonia, a trend of gentrification which allows to conclude to a rapid reformulation of the neighborhood’s main activities.

The entrepreneurs have established social ties, defined as the personal and daily interactions of the entrepreneurs and its local environment. Many of them affirm working in cafes for some hours and meetings often happen outside the offices (interview, November 2012). The impression of “village” or “community” resonates the singular attachment of the entrepreneurs. From discussions with the entrepreneurs emerged the identity of a lively and constantly changing neighborhood (“young”, “intellectual”, “fast”, “open-minded”, “authentic”). Aware of the ongoing gentrification, they also perceive the numerous opportunities that the unexplored part of the neighborhood represents.

The colonia Roma crystallizes a deeper attraction also for its architectural magnificence that is being rediscovered. Entrepreneurs find the environment in line with their own values of experimentation, tolerance and openness. The reference to the Silicon Valley as a model revolves around the culture of openness, open data and sharing of ideas of the American ecosystem. Most people interviewed are proactive in promoting the entrepreneurial culture in Mexico City: they regularly meet at networking events or act as advisors during startup competitions.

This global vision and consciousness of the neighborhood's particularities is not shared among entrepreneurs in Vila Leopoldina. Contrary to their Mexican peers, the pool of Brazilian entrepreneurs never mentioned to be aware of the existence of other startups in the neighborhood. Because of the mainly industrial landscape and lack of security, few of them walk in the neighborhood or have established local contacts. Several Brazilian entrepreneurs mentioned the inconvenience that the neighborhood represents in terms of leisure and social activities such as a restaurant and bar options that were available in the previous neighborhood where they had started their venture.

**The rational thinking:** The case studies based on interviews show that the final decision of entrepreneurs to settle in a particular area is the product of a combination of rational thinking and intuitive decision. Brazilian entrepreneurs underline their need for a higher degree of professionalization and resources such as the availability of qualified employees as well as the accessibility of the office place to public transportation. Despite their discourse based on sensible arguments for the venture's development, most of the Brazilian entrepreneurs regret the lack of informal contacts with their peers as well as the scarcity of leisure places easily accessible by foot. Mexican entrepreneurs have displayed their attachment to the neighborhood as a "land of possibility" where creativity is encouraged and regular contacts with their peers are essential. Often cited in studies on Silicon Valley, the presence of highly successful entrepreneurs within the region or the expectation of high profits was never mentioned by the entrepreneurs in Mexico City or Sao Paulo.

This research demonstrates significant differences among entrepreneurs in the relations they establish with their local environment. It also exemplifies that the decision to move and settle in certain locations affect the opportunities, the development of the business venture as well as the quality of life of its founders. Compared to other highly structured clusters (mainly the Silicon Valley in California or the high tech valley in Israel), the Colonia Roma Norte and Vila Leopoldina do not display a strongly integrated web of actors even if they share some of the traits that characterize more established entrepreneurial areas. In the Colonia Roma Norte, entrepreneurs engage with the urban amenities of the neighborhood which are in line with the culture of openness and the experience of collaboration alongside their peers. Entrepreneurs in Vila Leopoldina (Sao Paulo) are driven by the presence of solid structure offered by a higher degree of institutionalization.

According to the results previously discussed, entrepreneurs base their geographic choice on specific grounds and distinct feelings. The multiple necessities that are part of a firm's development tend to orient how the entrepreneur interprets "place."

Once the ventures are more established, leaving the initial phase of launching as it was the case for the Brazilian firms in the sample entrepreneurs become less and less dependent on networks embedded within the neighborhood. They tend to progressively replace the informal contacts established throughout the experimental phase with more institutionalized relations enforced through contracts (such as the relations with a VC for instance). This is confirmed by the results (where Brazilian entrepreneurs' choice is determined by an opportunity of moving to a new place following an agreement with a VC).

The same observation holds true for two of the Mexican entrepreneurs that are currently in the process of negotiating with financial institutions. The VC's investment attests to a certain level of maturity of the firm and in both cases, the entrepreneurs prove to be self-supported in terms of networking (one of them is opening a second office in NYC). This finding falls in line with the research about creative clusters in Berlin (Heebels and Van Aalst, 2010) where entrepreneurs rely less on their peers than on an outside network as they develop their venture: The 'local' dimension is not as much a prevalent need for the entrepreneur. As a result, the entrepreneur's degree of socialization with his or her peers has more to do with his or her own initiative than on his or her business obligations.

Rationalizing the costs or making the office accessible to public transportation become more of a priority as the firm grows. In the sample, Brazilian firms are larger on average approximately, 20 employees than Mexican startups which employ on average five people. Once the firm enters the growth stage, entrepreneurs have to tackle more practical questions such as attracting highly qualified employees, therefore the location does not only depend on the founders' preferences in terms of neighborhood. As mentioned in the literature, the development of high-tech startups requires the skills of highly qualified employees; therefore, a convenient location such as being accessible and within proximity of universities becomes an imperative. Furthermore, the pursuit of a corporate image, visible through the office environment, supplants the original desire for an authentic entrepreneurial experience with self-made and self-appropriated offices.

The initial phase of ‘launching’ a new venture requires (and even validates) more time allotted to experimentation to engage in informal discussion with peers and learn from their best practices while the growth phase gives priority to practical issues. The nature of the learning process is directly influenced by the stage of development which in return, impacts the interactions of the entrepreneur with his environment. The subsequent findings echo Duranton and Puga (2001)’s analysis on nursery cities. The beginning of a business venture, according to the specific set of needs they require, ideally seeks a diverse and open environment to validate the business model and sharpen the learning process.

In Vila Leopoldina (Sao Paulo), two out of three entrepreneurs have a “hybrid status”: They are entrepreneurs and at the same time, they are employed by a larger structure such as an accelerator of startups (Rocket internet in the present case). One would refer to this situation as “light entrepreneurship” as the risk assumed by the entrepreneur is lower than in traditional ventures. As the idea has already been experimented in other markets, the execution is the aspect entrepreneurs need to focus on. Their status does not necessarily affect them in terms of workload (although, they still consider themselves entrepreneurs) but it does have an impact in terms of the choice of localization, a decision that is often not for them to make.

The proximity with their peers is undeniably the main decision driver before the existence of organized institutions. The feeling of “being part of it” encourages the entrepreneurs to pursue a higher degree of collaboration. These pre-established social connections are instrumental in leveraging the relevant expertise and resources as Stuart and Sorenson (2003) pointed out. The projected reputation of a place tends to be self-supporting (Sorenson and Audia, 2000) as more aspiring entrepreneurs will assume that this particular area is flourishing in business opportunities.

The neighborhood appears as a land of opportunity in itself. The initiatives taken by the Mexican entrepreneurs are contributing to the expanding culture of entrepreneurship in the neighborhood.

According to Dahl and Sorenson (2009), entrepreneurs tend to choose their geographic localization to be accommodate their private life being close to friends and family or being in a place in which they feel good has an important weight in their decision.

As previously mentioned, the majority of the Mexican entrepreneurs and their business partners/employees live in the same perimeter as their office. Mexican entrepreneurs have a close relation to the neighborhood in which they work, a relation that goes beyond a mere

calculation of costs and advantages for their venture. The time dedicated to work is often closely intertwined with the time reserved for their private lives; the entrepreneurs’ interactions with the Colonia Roma is not restricted to work as they also experience it at nighttime with friends as a part of leisure activity. The urban recreational properties of the neighborhood and the liberal culture are attracting creative new companies, the same way San Francisco is in a much larger proportion, home to many technology-based firms.

The image of the neighborhood of being a place revitalized by young people bringing together cultural and recreational activities instigates a movement of gentrification. Nevertheless, young entrepreneurs still benefit from low real estate prices, compared to comparable neighborhoods where businesses are established.

Beyond the anticipated specificities of an entrepreneurial clustering in two developing Latin American urban centers, the juxtaposition of the Colonia Roma Norte (Mexico City) and Vila Leopoldina (Sao Paulo) have resulted in many similarities with other mature entrepreneurial environments in developed countries: Entrepreneurs in the high tech sector tend to see themselves to these more advanced ecosystems as role models. Both neighborhoods of the sample appear in a state of infancy. Although, they possess some elements in common with other urban clusters, the dynamics between the different actors and institutions are still at their inception and not fully integrated. Access to financial capital remains difficult and governments have only recently realized the need to spur an entrepreneurial culture and to offer an adapted regulation framework.

The breakdown of each neighborhood in terms of access to amenities as well as urban, cultural and social features has enhanced some fruitful conclusions in the understanding of the agglomeration of entrepreneurs in common locations. This has also highlighted the need to embrace the myriad of urban phenomena that emerge in developing cities.

The main findings draw sharp differences between both clusters and the entrepreneurs’ relations with their urban surroundings, first noticed in terms of maturity of the firms. According to a company’s stage of development, the dependence on the informal network and the spontaneous meetings present within the geographic surroundings of a firm will vary. In fact when a startup leaves the initial phase of development and entrepreneurs get more experience, they will feel the need to reach out to higher levels of networks and more specific ones such as investors. Also, the imperative of cost rationalization increases as the firm expands such an

imperative will take over the personal inclination and preferences of the entrepreneur in the choice of the localization. These results arose after a comparison between Vila Leopoldina's industrial and functional setting and the Colonia Roma Norte's artistic and young neighborhood.

While Vila Leopoldina appears as a node of relations where the neighborhood is one microelement of a more global network, the Colonia Roma Norte's cluster in Mexico City in contrast has an intense internal activity visible through the frequent exchanges between entrepreneurs. For that matter, the Colonia Roma shares similar patterns with the development of the Silicon Valley whose culture is primarily based on collaboration between entrepreneurs and the fluid and open-source transmission of knowledge among them. The ensuing trust that emerges contributes to the identity and the sense of community of entrepreneurs. Entrepreneurs feel like actors of their ecosystem and generally do not depend on public aid or programs.

However, the neighborhood studied in Sao Paulo, offers more solid support for the entrepreneurs to scale their companies and fully deploy their potential. The availability of the financial capital represents a higher degree of professionalization as the investors play a dual role of money lender and business advisor. Moreover as the majority of the Mexican entrepreneurs in the sample depend on the founders' own funds.

The limited size of the sample in both cities has to be considered when reviewing the findings. It is difficult to generalize the findings on the basis of individual cases, which taken individually constitute a certain reality of the entrepreneurial activity of both cities. In this respect, generalizations based on these findings are not the intention of the author. Also at the time of the study, both clusters were analyzed at their stage of infancy and the relationship between the entrepreneurs and their environment is continuously evolving and expanding. These evolutions are modifying in real-time while the relations among the existent actors and new agents are regenerating constantly.

As the present research focuses on the decision of early-stage startups with <3 years of existence to open their offices in a particular environment, the influence of the urban environment on the performance of the firm cannot be the object of a deep analysis because of the lack of sufficient perspective and track record.

Isenberg (2010) notes that the efforts in creating an entrepreneurial culture are vain if these efforts are directed towards the goal of replicating the Silicon Valley's success. Entrepreneurial clustering are blossoming in very different parts of the world, constantly adapting to the

particularities of their legal, economic, cultural and human environment. The present analysis of two up and coming clusters in two different cities, Sao Paulo and Mexico City, reveals that entrepreneurs respond to different stimuli when it comes to taking the initial decision of the localization of their first offices.

## **CONCLUSION**

This study did not delve into the specific role and actions of governments in fostering favorable conditions for entrepreneurship. The comparative analysis which is the object of this research, proves that governments must tailor their policies to the existing entrepreneurial networks in order to leverage the main strengths of their economies.

## **IMPLICATIONS**

Also, this research intends to show that the methodological implications of qualitative research can bring relevant elements to the research on entrepreneurship even if this method has often been disregarded by this field. By centering his or her analysis on the individuals, one can create a bridge between several disciplines and offer a renewed perspective of this continuously evolving phenomenon that is the emergence of hubs of entrepreneurial ventures.

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