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Regional social capital and the entrepreneurial process

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Summary

The entrepreneurial process does not take place in a vacuum but is deeply embedded in its context, such as where a would-be entrepreneur lives. We analyse how regional social capital influences the entrepreneurial process. Our analysis of more than 22,000 individuals living in 110 regions across 22 European countries suggests that regional social capital is positively associated with entrepreneurship, but at different stages to different degrees. Regional social capital helps would-be entrepreneurs formally launch their venture, but it is not associated with initial interest, nor with venture survival after establishment.

Many people would like to become entrepreneurs, yet few try, and even fewer manage to start a business or become self-employed. For example, while as many as one-third of Bavarians and one-quarter of North Rhine-Westphalians would rather be self-employed than employees, only one in ten actually achieves this goal.

Given that entrepreneurship is an important driver of innovation, job creation, well-being, and growth, these differences may have far-reaching consequences for individuals and economies alike. Therefore, understanding the drivers of the pronounced and persistent differences in entrepreneurship is of critical importance.

Dynamic process

In a recent [paper](#), we looked at entrepreneurship as a dynamic multi-staged process (Kleinhempel et al., 2022). The stages of the entrepreneurial process –never-considered entrepreneurship, pre-establishment, young entrepreneur, and established entrepreneur– capture the different underlying situational characteristics –e.g., goals, needs, available resources, and constraints– entrepreneurs face as they transition through the process. Treating entrepreneurship as a multi-staged process matters because it may expose when bottlenecks in the venture creation process arise.

Social context

The entrepreneurial process does not take place in a vacuum but is deeply embedded in its context, such as where a would-be entrepreneur lives. We argue that one particularly important contextual driver of entrepreneurship is regional social capital (see also Putnam, 1993, 2000). Regional social capital arises from repeated interactions within voluntary associations (e.g., sports clubs, environmental groups, and professional associations).

Regional social capital helps would-be entrepreneurs gain access to resources and knowledge. Associational networks facilitate repeated interactions among heterogeneous individuals –e.g., of different education,

occupation, and background– who otherwise likely would not have interacted. These interactions foster the emergence of norms of cooperation, generalized trust, and generalized reciprocity which help would-be entrepreneurs mobilize externally held resources and knowledge. Moreover, while relationships are initially formed for a specific purpose, such as sports, once they exist, they can also be used in a different context, such as to obtain advice or leads. This is important because structurally different individuals have access to different –and thus non-redundant– resources and knowledge. Regional social capital generally facilitates entrepreneurial endeavours.

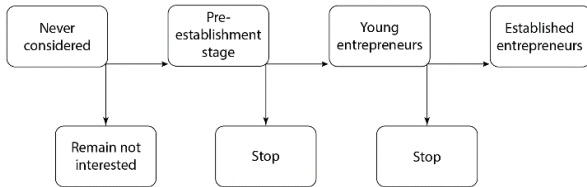
Recognising that (potential) entrepreneurs' goals, needs, and constraints change throughout the entrepreneurial process, we argue that the positive effect of regional social capital should change over the course of the process. Entrepreneurs are most resource-constrained –and thus dependent on the ability to mobilize externally-held resources– prior to formal venture establishment. Therefore, we expect the positive effect of regional social capital to be particularly pronounced in the early stages of the venture creation process: the more severe the nature and extent of constraints, the higher the value of regional social capital for entrepreneurship. We posit that regional social capital is most beneficial for individuals who want to become entrepreneurs and are trying to mobilise the knowledge and resources required to launch their venture formally.

Analysis and findings

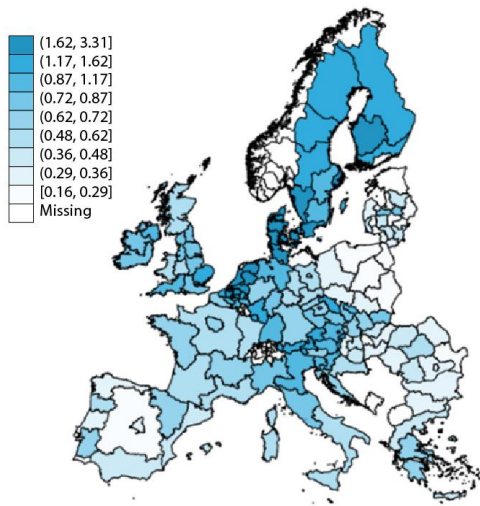
To test our hypotheses, we analysed information on levels of entrepreneurial engagement and regional social capital for more than 22,000 individuals who live in 110 regions across Europe. Regional social capital is measured as average membership in voluntary associations. We find that regional social capital influences the entrepreneurial process positively, and at different stages to different degrees. Regional social capital is most relevant for the likelihood that individuals who want to start a business manage to do so, but regional

social capital does not affect the likelihood that individuals become interested in entrepreneurship or that young ventures, once started, survive.

The multi-staged entrepreneurial process



Regional social capital across the European regions



Policy relevance

Why entrepreneurial activity is more common in some contexts than in others is a pressing question. Many governments and international organisations have developed entrepreneurship promotion programmes that try to facilitate entrepreneurship by making structural adjustments. For instance, they do this by improving the institutional conditions or by equipping individuals with the skills, networks, and self-efficacy to launch ventures. However, these programmes pay typically little attention to socio-cultural conditions.

Our findings, therefore, offer potentially important implications for practitioners and policymakers by highlighting that entrepreneurship is embedded in its socio-cultural context.

Regional social capital originating from voluntary associations generates positive spillover effects that facilitate entrepreneurship. Regional social capital may be strengthened by enhancing the conditions for member-

ship and participation in voluntary associations. For example, the provision of physical meeting spaces, shared by multiple associations, could enhance membership in voluntary associations, foster the creation of cross-cutting ties, and facilitate the emergence of regional social capital.

Vice versa, policy changes that influence membership in voluntary associations negatively either directly or indirectly –such as reducing financial support for associations– may be associated with unintended large negative externalities. Short-term public savings could be more than offset by the loss of positive spillover effects generated from membership in voluntary associations.

Conclusion

The study advances our understanding of entrepreneurship as a dynamic process in which the social context exerts a profound and changing influence. This calls into question an implicit assumption in comparative entrepreneurship research, namely that of a uniform impact of contextual factors on the different stages of the venture creation process. Instead, we need to be looking at the variability of contextual effects. Our fresh perspective underlines the critical importance of regional social capital and the changing role of contextual conditions over the course of the entrepreneurial process.

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See also the LSE Business Review and University of Manchester blog posts [here](#) and [here](#) and coverage by Forbes [here](#).

Imprint

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