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Nations of entrepreneurs: A social capital perspective☆

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ABSTRACT

This research examined the effects of social capital on entrepreneurial opportunity perception and weak tie investment using individual-level data from the Global Entrepreneurship Monitor linked with national-level data on social capital. Consistent with a social capital perspective, this study found that a resident of a country with higher generalized trust and breadth of formal organizational memberships was more likely to perceive entrepreneurial opportunities. A resident of a country with higher generalized trust was also more likely to invest in an entrepreneur with whom he or she had a weak personal tie than was a resident of a country with lesser generalized trust.

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1. Executive summary

Current research on entrepreneurship clearly documents the importance of social capital, stressing the ways in which individuals take advantage of their own social affiliations and network strategies in pursuit of their entrepreneurial goals (for a review, see Hoang and Antoncic, 2003). While this focus on personal networks of individual entrepreneurs has yielded valuable insights for understanding entrepreneurship at the individual level, we know relatively little about whether social capital at the societal level contributes to entrepreneurial activities in different countries.

To address this gap, we pose these research questions: Do features of social capital at the country level explain cross-national variation in (1) entrepreneurial opportunity perception and (2) weak tie investment (i.e., investment in an entrepreneur with a weak personal tie to the investor)? We define national social capital as a resource reflecting the character of social relations within the nation, expressed in residents' levels of generalized trust and breadth of formal organization memberships (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Paxton, 1999).

We explored the influence of national social capital on entrepreneurial activities using data from the Global Entrepreneurship Monitor (GEM) project linked with social capital data from the World Values Survey (WVS) and other country-level data from multiple sources. Multi-level modeling that included country-level control variables (e.g., GDP, ethnic and cultural diversity, and availability of institutional loans) as well as individual-level variables (e.g., demographic and person-specific attributes) was used for this study.

Our study found that individual-level attributes influenced opportunity perception and weak tie investment significantly. This suggested that people who perceive entrepreneurial opportunities or invest in a weak tie share common personal attributes that are distinct from those who do not, regardless of their national context. At the same time, though, we also found that the

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magnitude of the effects of social capital at the country level was nontrivial: even after controlling for individual- and other country-level attributes, national social capital increased opportunity perception and weak tie investment.

The findings have an important implication for theories of entrepreneurship. To date, major theories have focused on the role of individual entrepreneurs in discovering or recognizing opportunities. While this study also found individual-level effects, it extends these individual-level theories by suggesting that the social context in which an entrepreneur is embedded, especially social capital at the country level, is an additional and important contributor to entrepreneurship.

2. Introduction

There is a growing literature suggesting that social capital at the national level is positively associated with investment and growth at the country level. Knack and Keefer (1997), for example, show that an increase of one standard deviation in country-level trust predicts an increase in economic growth of more than one-half of a standard deviation for a sample of 29 countries. Using a bigger sample of 41 countries, Zak and Knack (2001) show that, controlling for other influences, national growth rises by nearly 1% for each 15 percentage point increase in trust. La Porta et al. (1997) also find that, holding per capita GNP constant, an increase in trust raises large firms' share of the economy for a sample of 40 countries.

If social capital influences the economic development of a country significantly, it seems reasonable to expect that social capital would have some influence on the entrepreneurial activities of a country as well: We suggest this because economic activities are also significantly driven by a high level of entrepreneurial activities in a country (Schumpeter, 1942). However, social capital research has not adequately addressed this causal link at the country level—for an early exception to this claim, see Tocqueville and Reeve (1835)—and, instead, tends to focus on a micro perspective at the individual level. Thus, an extensive body of theoretical and empirical research now exists which links personal networks of individuals with opportunity recognition (Arenius and De Clercq, 2005; Davidsson and Honig, 2003), resource acquisition (Aldrich and Zimmer, 1986; Shane and Cable, 2002), the creation of new ventures (Johannisson and Ramirez-Pasillas, 2001), and venture performance (Honig, 1998; Ruef, 2002).

However, the question of whether and how social capital at the societal level encourages entrepreneurial activities in a country has been overlooked by entrepreneurship researchers. This is unfortunate since there is growing evidence that social networks of individual entrepreneurs are embedded in the broader societal context (e.g., Dodd and Patra, 2002; Staber and Aldrich, 1995) and that actions and outcomes of individual actors are influenced not just by their dyadic relationships with network contacts but also by social environments at large (Granovetter, 1992). For those reasons, the previous research that focuses only on the dyadic network ties of individuals runs the risk of neglecting contextual factors that can significantly facilitate or constrain individual social capital (Adler and Kwon, 2002). This risk is even greater in international entrepreneurship research, given that researchers have empirically documented a large cross-national variation in social capital at the societal level (e.g., Paxton, 2002; Schofer and Fourcade-Gourinchas, 2001).

To address this gap in the extant research on the relationship between entrepreneurship and social capital at the societal level, we pose these research questions: Do features of social capital at the country level explain cross-national variation in (1) entrepreneurial opportunity perception and (2) weak tie investment (i.e., investment in an entrepreneur with a weak personal tie to the investor)? We focus on these entrepreneurial phenomena first, because much of entrepreneurship involves seeking new opportunities and investments (Shane and Venkataraman, 2000), and second, because recognizing such entrepreneurial and investment opportunities is conditioned by the entrepreneur's social context (Jack and Anderson, 2002). While we acknowledge that opportunity perception and weak tie investment are individual-level phenomena, we argue that they are embedded in the societal context and, thus, shaped by its social capital. In the following sections, we formulate hypotheses on the above question and test these hypotheses with unique datasets that permit cross-level modeling.

3. Theoretical framework and hypotheses

Our focus here is on social capital as an attribute of a nation. We define national social capital as a resource reflecting the character of social relations within the nation, expressed in residents' levels of generalized trust and breadth of formal organization memberships (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Paxton, 1999). We believe that each element is necessary for a country to have strong national social capital and that generalized trust and organizational memberships form a “virtuous circle”:

> “The more that citizens participate in their communities, the more they learn to trust others; the greater the trust that citizens hold for one another, the more likely they are to participate” (Brehm and Rahn, 1997: 1002).

Our view of national social capital thus shares a key assumption with a national culture concept (e.g., Almond and Verba, 1963; Hofstede, 1980) in that both views are fundamentally concerned with the prevalence of coherent value clusters within societies and how these value clusters influence such societal outcomes as economic and political performances. However, the social capital view is divergent from the national culture concept in some significant ways. First, the national culture concept has been conceptualized typically as a “given” and thus exogenous in its influence on such outcomes as economic development (Guiso et al., 2006), whereas social capital is often conceptualized as endogeneous, meaning that cultural and institutional features can influence the levels of social capital in a given society (for an elaboration of this view, see Jackman and Miller, 1998). Thus, while the national culture argument has been used often as an ultimate causal determinant of societal outcomes, social capital is