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THE BREEDING-GROUND HYPOTHESIS: SOCIAL CAPITAL, ENTREPRENEURIAL NETWORKS AND LOCAL INDUSTRIAL CLUSTERS: AN EVOLUTIONARY VIEW

Sean Patrick Sassmannshausen

Institute for Research on Entrepreneurship and Innovation, University of Wuppertal, Germany

Principal Topic / Key Propositions

Networks are solid parts of the economic environment. The network success hypothesis predicts a positive relation between the networking activities of entrepreneurs and their economic success (Witt 2004, see Burt 2000). Surprisingly, at first glance, empirical research on networks and clusters offers quiet varying answers to the question if and why networks or clusters influence the development of start-ups positively. The motivation behind this paper is the question if and how cognitive phenomena should be taken under consideration analysing entrepreneurial networks and clusters. Therefore a general model of the interplay between single entrepreneurs and their networks will be developed. The model shall create a general understanding of the processes and interactions, which take place in a non-neoclassical market where social aspects play a certain role, and hypothesis will derive from the following assumptions:

From the viewpoint of an evolutionary market model, it seems as if cognitive phenomena could play a major role explaining variance in network success. In the context of networks, under certain conditions external effects are expected to arise more often. The higher the rate of division of labour, the level of product sub-diversity, the rate of interrelation and interaction, the more intense the communication, and the more spatial concentrated various actions take place, the more external effects will be observed (following Hesse 1979). Consistently the emergence of perceptible external effects will be a lot higher within regional organised networks and industrial focused clusters (H_1). Therefore the internalisation of positive external effects and the regulation of negative external effects within regional entrepreneurial networks can be seen as a major task of social interaction, creating great demands on the configuration of informal or formal institutions and property rights (H_2).

Another offspring of the higher demand for an specific institutional framework within networks is the utilization of social capital: Those resources that in principle are under the control of a partner but utilized by the entrepreneur are named social capital. Whereas in general, well-defined property rights can be identified in the case of the three common forms of capital (financial, tangible and human capital), only vague property rights can be associated with social capital, depending on the social ties representing the origin of supply. By this, social capital does not become a new kind of capital; it merely is a *collective term* dissimilar from the *generic terms* of financial, tangible and human capital. Thus in this paper, networks are regarded not as a part of social capital but as an institutional instrument to stabilise fragile property rights on social capital. It is expected that informal rules on the utilization of social capital will be created among network partners (H_3).

The internalisation of positive external effects in the network and the utilization of social capital do not come into existence just by them self. They are in no way a determined mechanism conducted by an aboulitic homo economicus. It needs active transmitters: human beings. Especially

the entrepreneur, who is embedded in his network, is seen as such a transmitter. The dissimilar (or even contrary) empirical results regarding the entrepreneurial network success hypothesis could then be explained by differences in the functionality of single transmitters in the network.

Following this attempt, several features on the transmitter level are regarded to be the basis or the breeding ground of achieving what is discussed to be factors for success. These features are the acceptance and fulfilment of at least ones networks' members' role as a promoter, the development of a regional (business) culture, a common belief, informal regional rules of conduct, and a common perception of aims, tasks, and problems (following Koch 1996b). That is in total a common inter-subjective shared perception of reality. To explain why collective perceptions are important, cognitive communication sciences have to be taken into account (see e.g. Habermas 1981). Following and amplifying v. Hayek's (1971, 1979, 1988) institutional theory of group selection, it is argued that networks which are build on a shared cognitive basis will create efficient rules of conduct with less effort, resulting in a capable institutional framework and thus being comparatively fitter systems (H_4). In networks fulfilling these conditions, a common perception of new problems caused by external effects or by utilization of social capital can be expected. This common perception is needed to pick the issue and discuss it in the circle of the network partners. This is important, since only solutions to already identified problems will be found. Unfortunately, common economic theories as well as management science offer many answers to the question how to handle various well-defined challenges, but only little contribution to the questions how relevant tasks are perceived and identified by organisation members (see Fallgatter / Koch 1998, 2000). This paper tries to make a contribution to this area of interest.

Methodology

A longitudinal qualitative study, carried out in 2000/01 and 2004/05 in more than 200 semi-structured interviews among almost 100 entrepreneurs using e.g. the critical-incident method, tests the hypotheses about the role of communication and cognition in networks located in eight different industrial clusters. In addition the entrepreneurs' companies and their networks had been under surveillance over a five-year period of time.

Results

The results show the influence of communication patterns and cognitive phenomenon on the development of single networks in detail. The postponed hypotheses were tested positively. But new questions arose from the findings.

CONTACT: Sean Patrick Sassmannshausen. Institute for Research on Entrepreneurship and Innovation, University of Wuppertal, Germany, Gausstrasse 20, D- 42097 Wuppertal, Germany. Tel: 0049 202 439-3904, Email: sassmannshausen@wiwi.uni-wuppertal.de