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STRUCTURAL SOCIAL CAPITAL AND THE COST OF RAISING RESOURCES FOR ENTREPRENEURS: THE MODERATING ROLE OF SHARED IDENTITY (SUMMARY)

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SUMMARY

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Principal Topic

Entrepreneurship research on social capital has largely focused on the benefits of social capital. Studies have for instance examined the way social capital is utilized by entrepreneurs to acquire resources such as information (Burt, 1997), knowledge (Yli-Renko, Autio and Sapienza, 2001), personnel (Fernandez, Castilla and Moore, 2000), human capital (Coleman, 1988) and finance (Uzzi, 1999). What is less examined are the costs and risks associated with social capital. The most that exists in literature is the acknowledgement that social capital has costs (Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002). This paper addresses this gap by examining the aggregate cost of social capital incurred by an entrepreneur when acquiring resources from his/her network. We address the following main question: in what ways does shared identity affect an entrepreneur’s effort to acquire resource from the network, particularly the quantity of resources raised, the diversity of resources raised and the aggregate cost of raising resources?

Method

We conducted interviews with 242 entrepreneurs belonging to different ethnic groups, including those of Asian origin, in Kampala, Uganda. We selected entrepreneurs from the garment making, and Information and Communication Technology industries. We used hierarchical multiple regression analysis to determine the relative contribution of different network characteristics to the quantity of resources raised, the diversity of resources raised and the aggregate cost of raising resources, as well as the conditions under which costs may outweigh resource benefits.

Results and Implications

The results show that network size positively contributes to quantity as well as diversity of resources raised while network composition has a negative relationship to quantity of resources raised. The results also show that network size enhances the aggregate cost of raising resources while having a greater proportion of kin who provide business inputs helps to lower the aggregate cost of raising resources from the network. This study proposes the reconfiguration of greater shared identity, network size and network composition in order to maximize the quantity and diversity of resources, while minimizing the aggregate cost of raising resources through the network. Such a combination may yield overall increased net resource benefits to entrepreneurs.

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