



REGIONAL ASPECTS OF ENTREPRENEURIAL CAPITAL

T. Turlakova*

Department of Agricultural Economics, University of Economics – Varna, Varna, Bulgaria

ABSTRACT

In the field of economics and management have identified five types of capital as drivers of economic growth: physical capital, human capital, intellectual capital and social capital, and soon the entrepreneurial capital. The report "entrepreneurial capital" is seen as a subset of social capital refers to those relational and social factors, forces and processes that promote or hinder the interaction of various economic agents and their ability to recruit, integrate and use physical, human capital and knowledge development of entrepreneurial capital.

Key words: entrepreneurship, rural entrepreneurship, rural areas, social capital.

INTRODUCTION

Development of rural areas, seen in the most general terms, involves the presence of processes to improve the quality of life and the economic well-being of the people living there. These processes are initiated by a large number of participants and different sectors of society. Besides the variety of participants involved, the processes of regional development are influenced by a wide range of factors, including demographic changes, trends in technology, changes in consumer preferences and lifestyle, European legislation, subsidiary policies, etc. Such a complex set of decisions, factor influences and structural changes can hardly be synthesized into a single theoretical model. This complexity of the development process and the high degree of distinctiveness of the separate rural areas are among the most likely causes for the existence of various models in the development of rural areas in Europe. Many of them focus on entrepreneurship as an engine for

regional development. In this connection the phenomenon of 'entrepreneurial capital' appears as a characteristic of regions with potential for development.

The purpose of this article is to define the term 'entrepreneurial capital' arguing spatial characteristics and its combination with the basic theories (exogenous and endogenous) for the development of rural areas.

NATURE OF ENTREPRENEURIAL CAPITAL

In recent decades, several theories support the development of rural areas in an attempt to explain the differences in the regional economic growth, as well as to make recommendations on policies for rural development. Various theories differ in terms of the described characteristics of the main participants and the performance of mechanisms for regional development.

One of the most common theories has for a conceptual basis the relationship between regional development and economic growth. Consensus, regarding the issues that regional development cannot be achieved without economic growth, has been reached (1).

*Correspondence to: TEODORINA

ZHELYAZKOVA TURLAKOVA, University of Economics - Varna, 77 Knyaz Boris I Blvd., 9002 Varna, Bulgaria, Phone: +359 888 736996, e-mail: tturlakova@abv.bg;

Economists identify three types of capital as engine of economic growth - physical capital, human capital and knowledge capital. Neoclassical tradition defines investment in physical capital as key factor for economic growth (See for example the model of Solow from 1956 (2)). The theory of endogenous growth (See for example the model of Romer(3)) focuses on the process of accumulation of knowledge, and hence the creation of knowledge capital. The concept of social capital, whose main theorists are Putnam(4) and Coleman(5), appeared later on. This theory can be seen as a further extension of the basic concepts, because it determines the social components of these factors shaping the economic growth and prosperity. According to Putnam 'Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called "civic virtue." The difference is that 'social capital' calls attention to the fact that civic virtue is most powerful when embedded in a sense network of reciprocal social relations. A society of many virtuous but isolated individuals is not necessarily rich in social capital'(4).

Putnam challenged standard neoclassical growth model, arguing that social capital is important for generating economic growth, 'By analogy with notions of physical capital and human capital, social capital refers to features of social organization, such as networks, norms, and trust, that facilitate coordination and cooperation for mutual benefit'(6).

In the literature (7) social capital is related to entrepreneurship. According to this literature, entrepreneurial activity should be strong where investment in social capital is higher.

REGIONAL DIMENSIONS

Koo and Kim (8) offer a technological model in which the level of regional economic growth (measured by the Gross Domestic Product of the region) is presented as a function of the level of economically useful local knowledge, labour and capital in the region. The amount of

economically useful local knowledge is perceived in the cited work as a function of research and development, social capital, entrepreneurship, university research and human capital. The algebraic expression of the commented factor system is as follows:

$GDP_{it} = f(L_{it}, K_{it}, EC_{it}, HC_{it}, SC_{it}, RD_{it}, FDI_{it})$, wherein:

GDP_{it} - Gross Domestic Product per capita for region i in year t ;

L_{it} - total level of employment in region i in year t ;

K_{it} - common stock of physical capital in region i in year t ;

SC_{it} - level of social capital¹ in region i in year t ;

EC_{it} - level of entrepreneurial capital, measured by the relative share of start-ups in the region i in year t ;

HC_{it} - level of human capital in region i in year t ;

RD_{it} - costs of research development in the region i in year t ;

FDI_{it} - the amount of direct foreign investment in region i in year t .

While agriculture remains a strategically important sector in terms of political impact, a major determinant of the rural environment and the dominant sector in terms of land use in rural Europe, its social and economic importance is significantly decreasing. In the European Union in 2010 the sector constituted about 6% of employment and played a secondary role in the formation of GDP in rural areas (9).

That is why economists, studying regional development and economic growth, focus on the regional factors for the development of entrepreneurship in the rural environment.

¹ In the cited work this indicator is calculated on the basis of three variables, namely - "level of trust", "membership in civic organizations" and "membership in political organizations."

Among other conditions being equal such as physical, human capital, knowledge, entrepreneurial capital is a specific factor for the development of the region.

Entrepreneurial capital of a given economy or society is understood as regional environment for entities, which is favourable for the creation of new businesses. This includes a number of aspects, such as social acceptance of entrepreneurial behavior but of course, also people who are willing to deal with the risk of creating new businesses and activities of bankers and representatives of venture capital, who are willing to share the risks and benefits from participation. Thus entrepreneurial capital reflects a number of different legal, institutional and social factors and forces. Taken together, these factors and forces are entrepreneurial capital of an economy that creates opportunities for entrepreneurial activity. Entrepreneurial capital is manifested by the creation of new enterprises.

It must be emphasized from the very beginning that entrepreneurial capital should not be confused with social capital. The main difference is that not every social capital can lead to economic benefits, unlike for example entrepreneurial activity. Some types of social capital can be more focused on maintaining the status quo, not necessarily aimed at creating a challenge to the status quo. On the other hand, entrepreneurial capital can be considered to represent a particular set of social capital. While social capital may have different influences on entrepreneurship, depending on the specific orientation, entrepreneurial capital, by its very definition, will have a positive impact on entrepreneurial activity.

Audretsch and Keilbach(10) first define the term 'entrepreneurial capital' in economy, society or the region. They define it as a regional environment of agents and institutions that foster the creation of new enterprises.

It involves many aspects such as social acceptance of entrepreneurial behavior but of course, people who are willing to deal with the risk of creating new businesses, and activities of bankers willing to share the risks and benefits.

Therefore, entrepreneurial capital reflects the different legal, institutional and social factors and individuals. According to authors regions with high levels of entrepreneurial capital provide start-ups based on uncertain and asymmetric ideas. On the other hand, regions with low levels of entrepreneurial capital impede the ability of people to start new businesses. It is believed that entrepreneurial capital promotes the distribution of knowledge by facilitating the launch of new businesses.

Feedback is also expected: the strong economic indicators of a given region will increase the entrepreneurial capital of the region, since this involves a higher level of entrepreneurial opportunities. Authors take into account the simultaneous impact of entrepreneurial capital on economic development and vice versa. One-way analysis of the relationship can lead to results that are misleading. The emergence of statistical relationship between economic indicators and entrepreneurial capital is important for scientists studying entrepreneurship and those that deal with economic development.

In this connection other studies are performed in the field of scientific literature. Some of them, for example, show how policy can affect economic performance by generating entrepreneurial activity. In this regard, there are a number of studies that attempt to identify the characteristics of different regions as a basis for inter-spatial variations of entrepreneurship.

Other studies concern the impact of entrepreneurship on economic activity in a given region. Thus for example Acs and Storey (11) argue that economic growth is systematically and positively related to the level of entrepreneurial activity in the entire geographical area.

Empirical evidence in the majority of the research shows that spatially specific entrepreneurial capital is formed by regionally specific factors. As a result, the types of entrepreneurship vary widely between technologically orientated entrepreneurship and the more general or lower technology types of entrepreneurship.

The degree of entrepreneurial capital has a direct correlation with the regional economic performance.

Entrepreneurial capital has some strong cultural and institutional aspects. Therefore, this variable cannot be measured, since some of its aspects defy measurement. Entrepreneurial capital of the region, however, certainly occurs in one way – with the initiation of start-ups. The number of new enterprises in the region in relation to the population is an index measure of entrepreneurial capital of the region.

This measure allows distinguishing between different levels of knowledge according to the orientation of entrepreneurial capital.

The presence of entrepreneurs and enterprises is built on what Audretsch and Keilbach (10) call ‘entrepreneurial capital’ of the region. ‘Entrepreneurial capital’ is the so-called endowment of the region with factors that lead to the creation of new businesses and can be added as basic capital in the production function. Entrepreneurial capital goes beyond the traditional concept of entrepreneurship as an action process and / or activity involving various agents, legal, social or institutional factors that create a favourable environment for entrepreneurial activity.

The concept of entrepreneurial capital consists of formal and informal networks, social acceptance of entrepreneurial activity, presence of regional environment that promotes the launch of activities and presence of financiers who want to share the risks. Regardless of the variety of measures, the only accepted method of determining the entrepreneurial capital is by the rank of the newly launched small businesses per unit of the region's population, which does not encompass the concept of the regional aspects of entrepreneurship.

Entrepreneurial capital is studied at different levels as each level it takes on a different function and meaning:

On regional and branch level entrepreneurial capital is associated with the factors of social capital that influence and shape the capacity of a given region or industry to generate entrepreneurial activity.

- on a firm level, we define entrepreneurial capital as those organizational factors, related to social capital, that influence and shape the organization in such a way as to be more favourable for the creation of new entrepreneurial business units (e.g. external, joint or internal enterprises).

- on a team level, we define entrepreneurial capital as interpersonal factors related to social capital that influence and shape the team in such a way that it contributes to the entry into force of the entrepreneurial behavior of separate managers and employees.

On an individual level, we define entrepreneurial capital as those personal factors related to social capital that influence and shape an individual, the individual actions of entrepreneurs, managers and employees so as to be more favourable for the discovery and creation of entrepreneurial opportunities and the active implementation of entrepreneurial opportunities.

Based on the entrepreneurial and social studies and based on the four levels of analysis, we demonstrate our thesis that researchers at different levels of analysis actually model the same basic concept: the concept of entrepreneurial capital.

ENTREPRENEUR CAPITAL AND RURAL DEVELOPMENT

An important element in the overall study of entrepreneurial capital is the question of how it fits into the traditional patterns of rural development. Since rural areas are beginning to perform other functions, the new social policies (other than policies for agriculture) are directed to address issues related to social and economic development. In the recent decades there has been a change in the policy of rural development, as the concept of endogenous development increasingly began to be seen as an alternative to the traditional exogenous model. Model of rural development in post-war Europe puts industrialization in the centre of development. Key principles of this model are related to achieving economies of scale and concentration, assuming that the primary function of rural areas is supplying food to the growing cities. In the 70s of the 20th century, this model faced serious criticism. Among the most distinguished in specialized literature

disadvantages of exogenous development is that it is dependent and guided development, subject to continuous subsidies and political decisions of distant institutions.

While the main challenge, which exogenous rural development faces, is considered to be the overcoming of rural differences and peculiarities by promoting universal technical skills and modernization of the physical infrastructure, the model of endogenous development presents the concept for the need to maintain the differences. In this model, the local resource fund and the specific characteristics of human and cultural capital provide the basic conditions for long-term agricultural development.

In literature the ideas of endogenous development sometimes meet criticism. In general, critics unite around the notion that the idea of local rural areas, which independently, without external influences (e. g. globalization, foreign trade, government and European influences) pursue socio-economic development, characterizes an ideal situation, but it is practically an impossible task for contemporary Europe. The model of neo-endogenous rural development is considered a possible entry into practice.

CONCLUSION

Summarizing the above, we believe that in terms of their development regions, placed even in relatively uniform conditions, considered in the broadest sense, create a completely different level of entrepreneurial activity. The common regulatory, economic, social and other components of the external business environment do not account for the degree of uniformity in the regional development of entrepreneurship. The reasons can be reduced to the influence of several important factors:

- Specific attractiveness, conditioned by the forms and levels of regional specialization and its commitment to the localization of industries and activities. This condition is associated with the availability of certain resources;

- Quantitative and qualitative indicators of the combination of the localized in the region industrial sectors. The multiplier effect of the

successfully growing small business in the region is taken into account here.

- The characteristics of infrastructure as a prerequisite for the effective utilization of the available resources, the normal functioning of the market and the rapid distribution of innovation in engineering, technology, organization of production, labour and management.

- The impact of the economic and social environment in the region for the creation of an entrepreneurial mindset.

The knowledge and the ability to measure structural changes in the regional entrepreneurial activity are widely used. Through them the potential advantages of the region, compared to other regions, to a large extent related to the existence and development of entrepreneurial capital, are identified. The establishment and development of entrepreneurial capital has a multiplier effect on the business development in the region, the regional economic growth and the overall regional development.

REFERENCES

1. Alan Deardorff, "Economic development," Deardorff's Glossary of International Economics (See. E); Hla Myint, Anne O. Krueger . 'Economic development'. Encyclopædia Britannica,2009
2. Solow, R.W.Growth theory,An Exposition, Oxford,1970
3. Romer, P.Growth Based on Increasing Returns Due to Specialization",American Economic Review,vol.77,2,May 1987
4. Putnam, R. Making Democracy Work. Civic Traditions in Modern Italy, Princeton, NJ, Princeton University Press, 1993.
5. Coleman, James. "Social Capital in the Creation of Human Capital". American Journal of Sociology Supplement 1988, 94: S95-S120.
6. Putnam, R. D. (1995). Bowling Alone: America's Declining Social Capital. Journal of Democracy, 6(1), pp. 65-78
7. Aldrich H. and M,Martinez, Networking strategies for entrepreneurs: balancing cohesion and diversity, 2003, International Journal of Entrepreneurial Behaviour & Research, Vol. 17 Iss: 1, pp.7 – 38;

- Thorton P., K. Flynne, Entrepreneurship, networks and geographies, In: Z.Acs and D.Audretsch(eds.) Handbook of Entrepreneurship Research.New York:2003, Springer,pp.401-437.
8. Koo, J. and Kim, T.E. (2009) When R&D matters for regional growth: A tripod approach Papers in Regional Science, Volume 88 Number 4 November 2009
 9. Galdeano-Gómez, E. José A. Aznar-Sánchez , J. C. Pérez-Mesa (2011) The Complexity of Theories on Rural Development in Europe: An Analysis of the Paradigmatic Case of Almería (South-east Spain) Sociologia Ruralis, Vol 51, Number 1, January 2011.
 10. Audretsch, D. and M.Keilbach, Entrepreneurship capital and economic performance, Regional studies, 2004,38, 949-959
 11. Acs, Z. and Storey, D.. Introduction: Entrepreneurship and Economic Development. Regional Studies, 2004 38, 871-877.