

Social Innovation, Entrepreneurial Governance and Social Capital: Keys to Rural Development?

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Outline

- The changing role of countryside
- Policies for rural development – efficient and inefficient policies
- Results from research the last 6-7 years:
- Social Innovation and entrepreneurial governance for rural development – research and results
- What type of social capital promotes rural development? Research and results
- Conclusions

From being the heart to being an appendix...

- 1800, 97% of the world population was living in the countryside – today less than 50%
- Most cities were small, dependent on the countryside for food, firewood and materials
- Today, cities dominate everything – rural areas that don't meet cities demands cease to exist
- The traditional rural sector, agriculture is dependent on support to survive

Reurbanization

- Growth of bigger cities (in most countries) and “deurbanization” of smaller cities and towns →
- Places in the lower ranks of the urban hierarchy, on distance from the growing cities are becoming “ruralized”
- Two new (?) countrysides:
 - The peri-urban around growing cities
 - A countryside of rural and smaller urban places, outside the positive influence of growing cities

Rural policy

- By tradition: Agricultural policy = rural policy
- New feature: train farmers for other activities, diversify farmers' activities
- But are farmers the future of the countryside?
(in Sweden around 5% of the rural population are farmers...)
- We cannot and should not abolish CAP but *rural policy is much more than CAP and must mainly be a policy for developing non-agricultural industries!*

Entrepreneurship and innovation – the remedy for most rural problems?

- Mainly starting up new firms (a new firm is an innovation) but increasingly also other aspects
- *Discover/create an opportunity, evaluate, collect resources, exploit the opportunity*
- GEM: E-ship by opportunity or by necessity? The latter a response on bad times, the former has a growth potential
- Many studies: positive relation between entrepreneurship and local growth, but in bad times it can be a countercyclical phenomenon

A multidimensional perspective on entrepreneurship

- Economic entrepreneurship – starting new firms
- Innovative entrepreneurship – patents, etc.
- Social Entrepreneurship – social enterprises
- Civil entrepreneurship – civil/civic engagement
- (Policy) Governance entrepreneurship – new forms of governance, decisionmaking, citizen influence, management and planning – that is: types of social innovation
- Academic entrepreneurship – most often academic startups

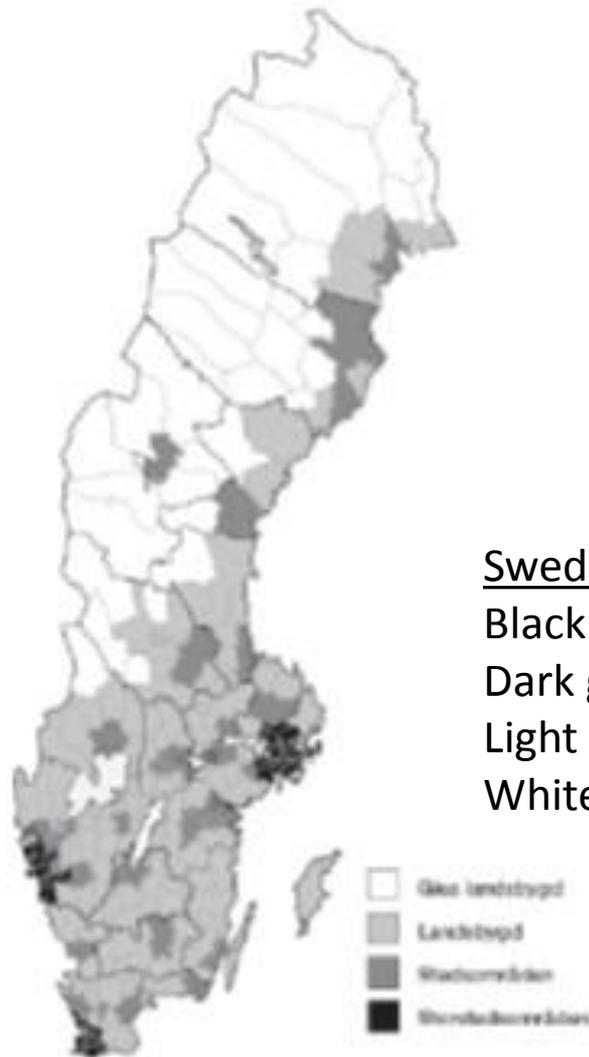
Social Innovation

- “It is about the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations, i.e. using a more participatory approach.” (Invitation to this workshop)
- That is: Close to “entrepreneurial governance”
- I will mainly talk about entrepreneurial governance but the connections to social innovation are obvious

An empirical study of local political/policy entrepreneurial governance in Sweden

- Survey to all 290 municipal directors in Sweden (83% response rate!) Questions about:
- Cooperation with local industry
- Measures for strengthening local business climate
- Co-financing of development projects with local industry
- Cooperation with other municipalities
- Development projects (co-financed by EU and national agencies)
- Benchmarking, learning and competence development activities (in the municipality organization)
- Marketing

Municipality types



Swedish Board of Agriculture:

Black: Metropolitan municipalities

Dark grey: Regional centers

Light grey: Rural Municipalities

White: Sparse rural municipalities

Municipal population growth 1999-2009 and determinants

	ALL	Metro	Reg. centers	Rural	Sparse rur.
Economic Ent.	0.117***	0.08567**	0.142***	0.111***	0.065**
Academic Ent.	0.0730***	0.078*	0.002	0.037	0.316
Civil Ent.	0.001	-0.012	0.030*	0.006	-0.009
Patents	-0.005	0.040	0.163	0.007	-0.010
Social Ent.	-0.232**	-1.022*	-1.00***	-0.189	0.068
Municip Pol E-ship	0.032	-0.455***	-0.090	0.0815*	0.234*
Population 1998	0.000	0.000	0.000	0.0002***	0.000
Access. earnings	2.875***	-4.976**	0.991	2.119***	0.695
Constant	-82.85***	151.4**	-51.91*	-73.41***	-34.77
Observations	239	35	40	139	25
R-squared	0.705	0.490	0.634	0.559	0.620

*** p<0.01, ** p<0.05, * p<0.1

Employment growth 1999-2009 and determinants

	ALL	Metro	Reg. center	Rural	Sparse rur.
Economic Ent.	0.840***	0.689	1.083***	0.901***	0.870**
Academic Ent.	0.499**	0.343	0.137	0.438	-0.006
Civil Ent.	0.004	0.229	0.162	-0.016	0.0861
Innovative Ent.	-0.284*	-0.905	-0.422	-0.118	-1.272
Social Ent.	-0.252	2.529	-6.244*	0.177	1.048
Municip. Pol E-ship	1.135***	-1.095	0.852	1.172**	0.437
Employment level	-1.841**	-6.190*	-2.872	-1.231	-6.183
Access. earnings	6.490*	-38.25	-0.245	7.523	26.78
Constant	-91.43	1.334*	68.32	-161.3	-252.5
Observations	238	35	40	138	25
R-squared	0.312	0.282	0.415	0.208	0.509

*** p<0.01, ** p<0.05,

* p<0.1

Correlation, yes but...

- Possible cumulative causation?
Endogeneity?
- A more rigorous test, in which all the determinant variables precedes the dependent variable, and with more control variables:

Impact on employment change 2009-11

VARIABLES	Dependent variable: Change in employment		
	ALL	Cities	Rural municips.
Entrepren Governance (benchmarking/learning)	0.00203 (0.00208)	-0.00372 (0.00413)	0.00483** (0.00234)
Startups	0.000168*** (4.28e-05)	5.69e-05 (7.73e-05)	0.000192*** (5.42e-05)
Human capital (Univ. Edu.)	0.286** (0.127)	0.0886 (0.192)	0.416** (0.197)
Intramunicip. Acc. To incomes	0.00300 (0.00469)	0.00878 (0.00730)	0.00165 (0.00647)
Extramunicip. Acc. To incomes	0.00510* (0.00298)	0.0124* (0.00736)	-0.00268 (0.00365)
Mining municip.	0.0690*** (0.0242)	0.0355 (0.0578)	0.0757*** (0.0255)
Tourism municip.	0.0249* (0.0137)	0.0445 (0.0290)	0.0186 (0.0150)
Emp.change 2000-05	0.127** (0.0591)	0.224* (0.115)	0.0755 (0.0670)
Constant	-0.281*** (0.103)	-0.454* (0.233)	-0.123 (0.128)
Observations	240	75	165
R-squared	0.389	0.275	0.279
Standard errors in parentheses			
*** p<0.01, ** p<0.05, * p<0.1			

Preliminary conclusions

- Start-ups positively connected to municipal growth
- In metro regions, municipal entrepreneurial governance does not seem to be of importance. Growth is market-led
- In rural municipalities it seems to matter whether local government acts entrepreneurial to promote social innovation
- This ought to be of interest for rural policy...

Social capital and its effects

- Social networks and the norms and values of these networks
- In the tradition of Putnam (1993): a) how much people trust each other and b) how much they engage in civil associations
- Putnam forgot the social capital of firms and business life (Westlund 2006)
- Putnam's SC has negative correlations with growth in Sweden and many other countries

Entrepreneurial Social Capital

- Saxenian (1994), Markusen (1996) and Johannisson (2000): entrepreneurship is a (spatial) collective phenomenon
- Spacebound *Entrepreneurial Social Capital, ESC* (Westlund & Bolton 2003) should contribute to variations in the rate of startups of regions and other spatial units

This analysis

- Analyzes the impact of entrepreneurial social capital (ESC) in 1999 and 2001 on startups per capita in the Swedish municipalities 2002-08.
- Performed for all startups and with startups divided in six industry groups/sectors.
- Conducted for all municipalities and with the municipalities divided in *urban and rural ones*

Westlund & Adam (2010)

- Meta-analysis of 65 studies of social capital's impact on economic performance (mainly measured by GDP/GRP)
- Mixed, contradictory results
- Conclusion: Trust and associational activity in civil society are not good measures of the SC that influences *economic growth*
- Instead, measures of networks, relations and trust connected to the *business sphere* should be developed

Same argument when studying startups?

- Not necessarily! Opinions in local, civil society affects entrepreneurship: “...the reaction of the social environment against one who wishes to do something new...”
(Schumpeter)
- But, local entrepreneurial traditions – local values among firms and actors of other sectors, and these values’ expressions in action – are of course also having an impact

What is (Local) Entrepreneurial Social Capital (ESC)?

- Social networks and values/norms *having an impact on (local) entrepreneurship*
- ESC exist in varying degree in all societal sectors
- Examples:
 1. Local public opinion on e-ship
 2. Particular actors' opinions on e-ship
 3. Local entrepreneurial traditions
 4. Local business networks

Here, data for example 1 and 3 at municipality level

- 1. *Confederation of Swedish Enterprise's* surveys on local business climate. Q: “How do you perceive the public's attitude to entrepreneurship?”
- 3. Local small business traditions: the share of firms having < 50 employees of the total number of firms. A more *business related* measure of ESC

Data – dependent variable

Startups 2002-08 at municipality level, in total and divided in six branch groups:

1. manufacturing
2. construction
3. trade, hotels and restaurants
4. transportation and communications
5. financial and business services (excl. real estate service)
6. education, health and medical service, other public and personal service

Control variables

- Market's strength: Accessibility to purchasing power (Also a proxy for density in general and access to private & public service, infrastructure, public transportation) +
- Human capital +
- Share of small firms +
- Employment share of labor force -

Table 2. OLS-Model of variables' influence on startups, all municipalities and divided in four categories

	ALL	METRO/CITIES	RURAL
Entrep. Social capital (ESC)	101.6***	101.9**	94.91***
	(5.089)	(2.149)	(4.598)
In access. Purchasing power	19.03***	44.70***	4.189
	(3.055)	(3.006)	(0.579)
Share Univ. Educated	1344***	1234***	938.0***
	(9.081)	(4.946)	(4.084)
Share small firms	5358***	4845***	4669***
	(9.249)	(3.477)	(7.299)
Employment share	-389.0***	-89.83	-408.6**
	(-2.598)	(-0.275)	(-2.348)
Constant	-5511***	-5830***	-4436***
	(-9.577)	(-4.661)	(-6.666)
Observations	287	92	195
R-squared	0.617	0.593	0.350
t-statistics in parentheses			
*** p<0.01, ** p<0.05, * p<0.1			

Summary, urban and rural municipalities

- “ESC civil” pos. sig. for *all sectors in the rural group* but only for two sectors in the city group – supports earlier results
- Share of small firms sig. for *all sectors in rural group* and four in the urban group
- Acc. to purchasing power mainly sig. in urban areas
- Human capital sig for. knowledge intense sectors in both groups

Interpretations and conclusions

- Trust and associational activity (as measures of SC) may be good for democracy, but is hardly connected to growth in developed countries
- Entrepreneurial social capital (ESC) has an impact on local growth in Sweden
- ESC's impact is more comprehensive in rural municipalities than in urban (earlier Swedish study: SC impact increases with diminishing municipality size)

Summary

- Strong need for a new European rural policy, focusing on (social) entrepreneurship and innovation
- The social capital that promote start-ups is *business-related* social capital (public's opinion on entrepreneurship, and entrepreneurial traditions)
- *Social innovation* in the form of *entrepreneurial governance* contributes to local growth in rural municipalities.
- Local policy in rural areas can make a difference!

Tack för att ni orkat vänta på
mig! 😊

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