SOCIAL CAPITAL AND STRATEGY EFFECTIVENESS: AN EMPIRICAL STUDY OF ENTREPRENEURIAL VENTURES IN A TRANSITION ECONOMY¹

Although new ventures’ competitive positioning and their founders’ social networks are both recognized as important in the context of transition economies, not much is known about their multiplicative effect on performance. We build on the strategic management literature and social network theory to develop theoretical predictions about the role of competitive strategies and social capital for entrepreneurial performance. These are tested with survey data from Bulgaria. We find that both the venture’s competitive strategic positioning and the founder’s networking positively influence performance. The hypothesized moderating effect of networking for the relationship between differentiation strategy and performance received only tentative support. Contrary to expectations, we find a negative moderating effect of networking for the relationship of cost leadership with performance. These results suggest that the entrepreneur’s network plays a role in shaping how strategies influence performance by possibly upholding differentiation and de-emphasizing cost leadership strategy. Implications for managerial practice and public policy are discussed.

Key words: entrepreneurial strategy, social capital, transition economies.

Introduction

Entrepreneurial new ventures are key contributors to the continued growth of the transition economies in Central and Eastern Europe. Countries in transition are these countries that, after the collapse of their communist regimes in the late 1980’s, committed to political democratization, market liberalization, stabilization, and the encouragement of private enterprise (Hoskisson, Eden, Lau, & Wright, 2000). According to the 2011 Global Entrepreneurship Monitor report (Kelley, Singer, & Herrrington, 2011), between 3.7% (in Slovenia) and 14.2% (in Slovakia) of the population aged 18–64 in these countries is currently involved in early or later-stage entrepreneurial activity. The contribution of the private sector to GDP (Gross domestic product) skyrocketed from as low as 5–10% in 1990 to over 60% (over 80% in most countries) in 2005 (Svejnar, 2006).

Entrepreneurs add value to the economic growth and market transformation of transition economies by countervailing the loss of jobs