

**GDN / CERGE-EI Regional Research Competition  
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**GROWTH ASPIRATIONS AND SOCIAL CAPITAL:  
YOUNG FIRMS IN A POST-CONFLICT ENVIRONMENT**

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**Non-Technical Summary**

The paper explores multiple dimensions of social capital on entrepreneurial growth aspirations. The examined indicators of social capital include: ethnic diversity, institutional and generalised trust, business network composition and size, and the interactive effects between generalised trust and network size. The research focuses on a post-conflict context - an environment where social capital is fragile yet where it also matters greatly (Bosnia and Herzegovina). The key empirical results obtained from the cross-section ordinary least squares methodology and survey data imply that:

- *Growth aspirations of young businesses are stronger in areas with more ethnic variation.* In the post-conflict context, where ethnic diversity was preserved, it may be thanks to relatively more tolerant and cooperative local environment, hence, greater social capital, and this is the underlying culture which is conducive to entrepreneurial dynamism.
- *More confidence in formal institutions is generally associated with stronger business aspirations.* A micro perspective on formal institutions is important, as in a post-conflict context, an individual experience of formal institutions may vary. The paper demonstrates a significant variance in individual experience of formal institutions, and better experience is associated with more entrepreneurial dynamism.
- *Generalised trust does not report a significant direct effect but acts as a moderator for the effect of network size on business aspirations.* Generalised trust and size of networks become complements at the individual level; hence, the generalised trust amplifies the beneficial effects of personal business networks. The individuals who find reasons to trust people in general are able to obtain more benefits from their business networks, so synergy not substitution follows.
- *The proportion of strong ties rather than weak ties is positively related to business aspirations.* While networks based on strong ties provide young businesses with limited amount of new knowledge, network based on external weak ties may potentially offer more valuable resources, yet, in a weak trust environment, these will not be utilised effectively, unless the external ties become considerably strengthened.

The key policy implication might be summarized as follows:

- In post-conflict regions where social capital is grater, business aspirations are stronger. In particular, ethnic diversity is an opportunity not a threat to growth ambitions!

**Keywords:** Growth aspirations, ethnic diversity, networks, institutions, social capital, trust, post-conflict environment