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Entrepreneurship, Social Capital and Community Development: The Case of the Israeli Kibbutz

by
Sibylle Heilbrunn
Center for Management Studies
Ruppin College, Israel

Abstract

Globalization, industrialization and structural changes in traditional rural employment patterns have caused rural communities such as the Israeli Kibbutz to search for development strategies in order to survive. Self development constitutes one possible approach to community development. It nurtures local entrepreneurial activities and relies basically on local resources in order to create new jobs and economic activities. These local activities of entrepreneurship generate variety and leverage resources and can therefore foster social capital development and contribute to the community's capacity. Community development requires a mix of resources including natural capital, produced economic capital, human capital and institutional capital. Social capital is the glue that holds them together, a network of social relations based upon norms of trust and reciprocity leading to outcomes of mutual benefits. Thus, social capital reflects the ability of community members to participate, cooperate, organize and interact. Since many rural communities such as the kibbutz are undergoing processes of crisis and change, innovative initiatives potentially promoting economic independence of individuals and development of the community are of major importance. Rather than assuming that entrepreneurship is primarily the outcome of social capital, this study focuses upon the interdependency of entrepreneurship and forms of capital required for community development.

Introduction

Trends such as globalization, industrialization and structural changes in traditional rural employment patterns have caused rural communities such as the Israeli Kibbutz to search for development strategies in order to survive. Self-development constitutes one possible approach to community development. It nurtures local entrepreneurial activities and relies basically on local resources in order to create new jobs and economic activities.

Community development requires a mix of resources including natural capital, produced economic capital, human capital and institutional capital. While physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals (Putnam, 2000).

While ample attention has been given to the individual characteristics of the entrepreneur as well as his venture activities, there has been less attention to the context in which he evolves. And yet, entrepreneurship is not an isolated phenomenon. On the contrary, it is embedded in a societal framework, a framework of social networks. Community's social structure has many implications but most predominantly, it is an intricate network of relationships of endless opportunities through which resources ranging from physical, cultural, human, but most importantly social, can be turned into capital.

Kibbutz communities

The kibbutz constitutes a rather unusual and complicated framework, widely discussed in the community literature.

The kibbutz is more than a production unit. Don (1995) maintains that due to the altruistic nature of social relations between kibbutz members, decisions are made on the basis of considerations that are not exclusively economic. Whether altruistic or not, relationships among kibbutz members, as well as relationships between a kibbutz and its members, are certainly not of economic nature alone, they include an inherent, structural ambivalence of the kibbutz, encompassing community as well as organizational characteristics.

The founders of the kibbutz built an "extended household" model that can be described as "a symbiosis of family and firm, or alternatively as firm-cum-family organization" (Barkai, 1977:4). The kibbutz is not, in the first instance, an economic organization and, especially not an alternative business organization in terms of a partnership or a corporation (Schanze, 1992). Spiro (1975) defines the kibbutz as a communal society and a political community characterized by the fact that maintenance of its members, rather than cash surplus, is the primary object. Economic success is only a means to achieve social goals and realize values.

The kibbutz has much of the "Gemeinschaft", described by Toennies (1887) as a cohesive social unit organized on the basis of shared values and a high degree of social solidarity. At the same time, it can be regarded as an organization dealing with cyclic processes of input-throughput-output of discernible commodities and services (Samuel, 1996).

Since these two sides of the kibbutz phenomenon ("Gemeinschaft" and organization) are interwoven, I suggest to describe it as "communal organization". It is business oriented and its various production and service lines ("branches") are income generators. In addition, it has some internal support units (such as the dining room, laundry, and maintenance services) that serve the community and its inhabitants. The organizational units serve the kibbutz community in two ways: 1) by ensuring employment of

kibbutz members; 2) by creating the income sources intended to satisfy the needs of kibbutz members and the kibbutz community. Both are necessary conditions for the life-style of the kibbutz in accordance with its ideological perspective.

Until the 1980s the kibbutz was considered an economic success, but within approximately ten years the kibbutz economy deteriorated into a crisis, the reasons for which have yet to be explored. Rosolio (1994) maintains that the crisis affected about two thirds of the kibbutzim in the two major Kibbutz Movements at the same time. Reasons for the crisis are discussed widely in the kibbutz literature and include issues such as government policy (Russell, 1996), overspending (Kroll, 1990), leadership (Lanir, 1994; Harel, 1993; Rosolio, 1994) and demographic tendencies (Maron, 1994). Whether decline in commitment of members and weakening of ideology was a trigger to, or result of, the crisis remains a controversial issue in the kibbutz literature. Following Lanir (1994) it is possible to state that the crisis is system-wise and affects single kibbutzim as well as the entire movement at all levels.

Similar to many traditional rural communities, the Kibbutz vitality depends on the stability of its infrastructure, its having access to services, enhancing economic and business opportunities (Cavaye, 2001). "Vitality also relies on communities rethinking assets, developing networks, building local cooperation and acting on local passion and motivation" (Cavaye, 2001:2).

Entrepreneurship and community development

Self-development nurtures local entrepreneurial activities and relies basically on local resources in order to create new jobs and economic activities. These entrepreneurial activities generate variety and leverage resources and can therefore foster social capital development and help economic opportunities arising from organizational innovations. Entrepreneurs exploit opportunities (inputs) and create new ventures or new corporate ventures (outputs). Generating variety presents the first ingredient of the entrepreneurial process (Tiessen, 1997). The second ingredient concerns resources. Whereas the pursuit of opportunities generates variety and makes the organization more compatible with the market, the ability of the firm to leverage its own resources lets it "pursue opportunities without regard to resources they already control" (Stevenson and Jarillo, 1990:23). Hamel and Prahalad (1993:78) call this process "creating stretch, a misfit between resources and ambition". Tiessen (1997) further maintains that entrepreneurial firms can stretch their resources by using what they have more efficiently (Hamel and Prahalad, 1993) or gaining the use of outside resources (Stevenson and Gumpert, 1985).

Tiessen (1997) presents a theoretical framework identifying how cultural orientation of individualism and collectivism affect both ingredients of the entrepreneurial process. His theoretical framework provides us with an opportunity to explore characteristics of kibbutz entrepreneurship.

In collectivist cultures variety is generated through a "continuous process of incremental change and adaptation" and not through the discovery of "big ideas"

(Reich, 1987:80-81). The type of entrepreneurship emerging is a restored equilibrium based on “alertness” to opportunities overlooked by others (Kirzner, 1985:7). In terms of the corporate venture, smaller units emerge that are allowed to act relatively free in an incubator like the environment. Important notions are pooled, like the capacity of individuals (Reich, 1987), close working relationships and teamwork (Hisrich and Peters, 1989; Kanter, 1988). In individualistic cultures variety is generated by independent start-ups and the discovery of “big ideas”, creating “new combinations” causing spontaneous and discontinuous change (Schumpeter, 1934).

In collectivistic cultures, leverage of resources is accomplished internally by adherence to implicit norms of the clan (Ouchi, 1980) based on intimate ties and shared values and goals of members (Wilkins and Ouchi, 1983). Internal transaction costs are low because “trust and commitment rather than contracts motivate individuals to serve group interests, and resources are stretched through efficient communications and the lack of need to monitor contingent agreements between workers and the organization” (Tiessen 1997:379). External leverage of resources is characterized by tight, long-run relational ties. Individualistic cultures stress preference for contingent teamwork approaches when leveraging resources internally. In order to gain access to external resources these cultures adopt a pragmatic alliance approach.

Self development is a development strategy that nurtures local entrepreneurial creativity and is often based upon local resources (Sharp *et al.*, 2002). Since social capital is supposed to be positively associated with community and regional development activities (Ostrom, 2000), and entrepreneurship might be the outcome of, or the trigger for, social capital and community development, a closer investigation of the concept of social capital is required.

Social capital

Social capital is defined by its functions. It is not a single entity but a variety of different entities with two elements in common: they all consist of some aspect of social structures and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Like physical and human capital, social capital is not completely fungible but may be specific to certain activities... [But] unlike other forms of capital, social capital inheres in the structure of relations between actors and among actors (Coleman, 2000:16).

In a more refined attempt to place the entrepreneur within a social context, recent studies have examined the theory of social capital. “One of the far reaching explanatory schemes in contemporary sociology and economics focuses on the concept of capital” (Lin, 2001:3). Lin defines capital as an “investment of resources with expected returns in the marketplace” (*ibid*). Hence, the premise behind social capital becomes rather simple; it is the “investment in social relations with expected returns

in the marketplace” (ibid). The market chosen for the analysis differs, it may be economic, political, of a community or of labor. However, on all fronts, individuals engage in interactions and networking in order to produce profit. So far neoclassical theories have expanded the idea of capital to discuss the notions of human or cultural capital. But while these differ in terms of nature of production and profit, they both address capital as a resource invested and vested in individual actors. The concept of social capital has gone a step further in its ability to approach capital as a social asset by virtue of actor’s connections and access to resources in the network or group of which they are members (Lin, 2001:19). At the macro level, social capital can affect the economic performance and the processes of economic growth and development. As a multidimensional concept, social capital is composed of the set of trust, social norms, organizations, but most importantly, it is comprised of social networks that are an asset for the individual and collective production of well-being. People engage with others through a variety of lateral associations. However, individuals who are acting on their own do not generate these associations. It depends on a propensity for sociability and a capacity to form new associations and networks.

Entrepreneurship, social capital and community development in the kibbutz

Entrepreneurship is embedded in social contexts (Aldrich and Zimmer, 1986), social networks (Carsrud and Johnson, 1989) and “can be wholly understood in terms of the different types of situations encountered, and the social group to which they relate” (Gibb and Ritchie, 1981:193). Entrepreneurs in kibbutz communities, undergoing processes of crisis and change – encounter a collective oriented organizational culture of limited resources. In such an environment even small “entrepreneurial discoveries” can be significant and foster development. Entrepreneurship then becomes a form of capital itself, with the entrepreneurs of the community, identifying the possibilities and opportunities that exist in order to enhance advancement and development (Piazza-Georgi, 2002).

Following Cavaye (2001), communities require a mix of resources: natural capital including renewable and nonrenewable biophysical resources, produced economic capital (manufactured products, built environments, infrastructure and financial resources), human capital (knowledge and skills) and institutional capital (institutional structures and mechanisms within the community). Entrepreneurship, fostered by (McGrawth, 1996) and fostering social capital, constitutes a mechanism, a strategic option to implement self-development of communities such as the kibbutz. Here it is based upon norms of trust and reciprocity, it leads to outcomes of mutual benefit of kibbutz members, it interacts between the community and its members and it takes a form adequate to the existing organizational culture.

In the kibbutz context, forms of interaction, organization and culture crystallize forms of entrepreneurship that are evolutionary rather than revolutionary (Kanter, 1988), relying on human capital and probably developing social capital.

The study

In the framework of a wider longitudinal study I gathered data on 60 kibbutzim and their ventures (Heilbrunn, 1999, 2004). In 34 of the kibbutzim, 245 entrepreneurs answered a questionnaire (154 in the year 1997 and 91 in 2004)¹, encompassing data about the ventures and the entrepreneurs themselves.

Three levels of analysis are investigated: 1) the kibbutz community constituting the institutional environment of the ongoing entrepreneurial processes; 2) the emerging ventures in their various types; 3) the entrepreneurs and their relevant demographic characteristics. By means of the questionnaire I gathered relevant data concerning the socio-demographic background of the entrepreneurs themselves – such as age, formal education, experience, etc.; characteristics of their ventures – such as size, type of activity, location, etc., and a subjective evaluation as to the profitability of the established business. In addition, the 35 host kibbutzim were investigated concerning issues such as economic strength, organizational structure, number of ventures, etc. Finally I conducted structured interviews with 20 entrepreneurs and office holders in 4 kibbutzim in order to get a better understanding of underlying processes.

The host kibbutzim

The 34 kibbutzim hosting 245 ventures and their entrepreneurs are located all over the country. The smallest of the kibbutzim has 137 residents, the largest one 885, with an average of 486 residents. Economic strength of the kibbutzim was evaluated by expert judgment of movement office holders and financial experts and includes a range from 5 (very successful economically) to 1 (not at all successful economically). The average economic strength of the kibbutzim slightly declined from an average of 3.2 in 1997 to 3.0 in 2004. While in 1997 about 18 percent of the 34 kibbutzim were evaluated as very successful economically, in 2004 only 11.8 percent fit that category. This decline in economic strength is in accordance with the general macro-economic trend to be observed in the Israeli economy during the years in question. The number of ventures per kibbutz ranges from zero to 35 with an average of 12 ventures per kibbutz. About 56 percent of the kibbutzim do not have an institutionalized venture path, but in 46 percent an entrepreneurial committee or office holder is responsible for venture activities.

¹ The dates of data gathering are taken into consideration while analyzing the data and are only mentioned specifically where it is of contextual importance.

The ventures

Table 1: Type of ventures*

	N	Percentage
Type 1		
Industrial Production	3	1.2
Type 2		
Agricultural Production	18	7.3
Type 3		
Workshops	25	10.2
Type 4		
Tourism etc.	78	32
Type 5		
Professional Services	41	17
Type 6		
Personal Services	58	24
Type 7		
Maintenance Services	22	9
Total	245	100

* includes all ventures investigated in 1997 and in 2004.

Table 1 shows the overall numbers and types of ventures. The types of ventures are categorized as follows: Type 1 includes ventures dealing with industrial product development, Type 2 includes ventures that nourish special plants and animals other than the traditional agricultural branches of the kibbutz, Type 3 includes workshops that produce arts and crafts, Type 4 includes all kinds of tourism such as accommodation, recreation and leisure services, Type 5 includes professional services, Type 6 includes personal services, and Type 7 stands for maintenance services (Samuel and Heilbrunn, 2001).

Table 2: Size of ventures in terms of employees*

Employees	N	Percentage
1-5	177	73.1
6-10	37	15.3
11-15	13	5.4
16-20	8	3.3
21 +	7	2.9
Total	242	100.0

* includes all ventures investigated in 1997 and in 2004.

Table 2 shows that more than nearly 90 percent of the ventures are small in size in terms of number of employees, with 73 percent having up to 5 employees.

Table 3: Growth tendency of ventures in terms of number of employees*

	N	Percentage
Increase in number of employees	70	29.2
Stability in number of employees	150	62.5
Decrease in number of employees	20	8.3
Total	240	100.0

* includes all ventures investigated in 1997 and in 2004.

Table three shows that the majority of ventures are stable in terms of number of employees, about 30 percent reported on in increase in employees over the last 12 month.

Table 4: Capital investment in ventures*

	N	Percentage
More than 500,000 NIS	23	9.8
250,000–500,000 NIS	24	10.3
Less than 250,000 NIS	187	79.9
Total	234	100.0

* includes all ventures investigated in 1997 and in 2004.

Table 4 shows that about 80 percent of ventures needed low capital investment.

In sum, while few of the ventures deal with industrial or agricultural product development, tourism and personal services constitute the majority of kibbutz ventures. Note the relative low percentage of knowledge intensive ventures of the professional service type. Kibbutz ventures are small in size, relatively stable and are characterized by low capital investment. Nearly 90 percent of the ventures are located within the geographic boundaries of the host kibbutzim.

The entrepreneurs

Table 5 shows the characteristics of the entrepreneurs. Note that nearly 70 percent are older than 40 years. Nearly 40 percent are academics with more than 60 percent reporting on professional experience in the field of the venture they established. On the other hand, only about 20 percent have experience in establishing a business.

Table 5: The entrepreneurs*

	N	Percentage	Total
Gender			
Male	129	52.7	
Female	109	44.5	238
Age			
20–30	7	2.9	
31–40	64	26.1	
41–50	98	40.0	
51+ years	67	27.3	236
Education			
12 years of school	53	21.6	
Technological education	89	36.3	
BA or equivalent	80	32.7	
MA +	13	5.3	235
Professional experience			
Yes	149	60.8	
No	86	35.1	235
Venturing experience			
Yes	52	21.2	
No	182	74.3	234

* refers to all ventures investigated in 1997 and in 2004.

The questionnaire examined the relation between venture’s success and such characteristics as size, location and type. Table 6 shows that size correlates significantly with success.

The ventures and their success

Although the size of the venture in terms of number of employees correlates significantly with the subjective success evaluation (Table 6), there is no additional statistical basis for stating a causal relationship between the variables. When performing crosstabulation between the types of ventures and the subjective success measure, I found that Type 4 (tourism) ventures show the highest rate of success evaluation (71 percent). Within the other 6 types of ventures, about 45 percent were evaluated as profitable and between 35 and 45 percent as stable. Overall (all types of ventures) only about 10 percent of the ventures were evaluated as financial loss, about 35 percent were evaluated as stable and 55 percent as profitable.

Table 6: Ventures characteristics and their success – correlation table

	Success evaluation		Size of venture		Location of venture		Type of Venture	
Success evaluation		1.000						
Size of venture	r	.159*		1.000				
	N	237						
Location of Venture	r	-.023	r	-.023		1.000		
	N	241	N	241				
Type of Venture	r	-.031	r	-.031	r	-.043		1.000
	N	240	N	240	N	241		

* p < .05

Whereas none of the characteristics of the 35 host kibbutzim predicted the subjective success evaluation of their ventures, a strong relationship was found between the number of ventures existing in a kibbutz and the human capital of the kibbutz in terms of number of residents. Since some of the kibbutz characteristics changed between the years 1997 and 2004, two stepwise regression models are presented.

Tables 7 and 8 show that the number of residents of a kibbutz affects the number of it's ventures, implying that the volume of existing human capital in terms of potential entrepreneurs affects the number of ventures.

Table 7: Host kibbutzim and ventures in 1997 – stepwise regression model

Depend. Variable	Independent Variables	Predictor	B	Beta	R-Square	F
Number of ventures per Kibbutz	a. Residents' number	(constant)	5.984			
	b. Economic strength					
	c. Age of kibbutz	residents' number	.017	.540	.291	*96.173
	d. Institutionalization					

** p < .05

Table 8: Host kibbutzim and ventures in 2004 – stepwise regression model

Depend. Variable	Independent Variables	Predictor	B	Beta	R-Square	F
Number of ventures per Kibbutz	a. Residents' number	(constant)	.859			
	b. Economic strength	residents' number	.028	.600	.360	*124.403
	c. Age of kibbutz					
	d. Institutionalization					

** p < .05

The kibbutzim, the ventures and their entrepreneurs – analyzing the qualitative data

With 20 entrepreneurs and 4 office holders I conducted structured interviews in 4 kibbutz communities. The main issues of the interviews concerned:

- 1) satisfaction with the work place;
- 2) level of commitment to community;
- 3) feeling of responsibility;
- 4) relation with the kibbutz establishment;
- 5) change of personal situation before and after venturing.

Table 9: Summing up of the interviews with 20 entrepreneurs in 2004

Before and after venturing	Satisfaction with work place	Level of commitment to community	Feeling of responsibility	Relation with kibbutz establishment	Change in personal situation
Increase	17	10	15	6	13
Stability	3	8	3	9	4
Decrease	0	2	2	5	3

Note the general increase in the entrepreneurs' personal attitudes towards their place and work and towards their community as expressed in satisfaction with work, community commitment and feeling of responsibility. Those 6 entrepreneurs, who reported on an improvement in their relation towards the kibbutz establishment as a result of the venture process, are members of two kibbutzim where an institutionalized committee for entrepreneurship has been established. The variable institutionalization – encompassing the incorporation of an entrepreneurial vehicle into the organizational structure – has not been of exploratory value in the quantitative data analysis. Nevertheless it

needs further investigation, since all of the interviewed entrepreneurs expressed explicit opinions concerning the issue of institutionalization. Absence or presence of organizational structural arrangements was commented in either positive or negative way by all of the interviewed entrepreneurs. None of them expressed a neutral opinion towards the issue.

Table 10: Summarize of interviews with 4 office holders

Summary of main points	
Economic manager in kibbutz A:	Due to the increasing occupational problem of the kibbutz, ventures establish an attractive alternative for many members who do not find a meaningful place to work within the kibbutz or in the immediate external environment. Although most ventures are small in scale and will not bring about major financial profit to the community, they provide a small number of members with work and add to their feeling of satisfaction and personal commitment, which both have suffered greatly during the last difficult years of crisis and change in our kibbutz.
Community manager in kibbutz B:	Since economic considerations become more important, people look for occupational alternatives. These are difficult to find especially for members in their late 40s, who have never worked outside the kibbutz. Some of them manage to establish stable, small-scale businesses, sometimes even providing a workplace for an additional member or two. I find it difficult to deal with those ventures, which are not profitable and should be closed. Social and community related considerations often prevent us from acting on financial grounds.
Treasurer in kibbutz B:	I am entirely critical towards most of the ventures, which have been established in my kibbutz during the last years. So, people “find themselves” and transform their hobbies into so-called businesses. Most of these ventures would not survive outside the kibbutz, because we do not charge realistic overhead expenses, rents and service payments. We just make some kibbutz members happier.
In charge of entrepreneurial committee in kibbutz A:	Since we have institutionalized a “venture path” for the potential entrepreneurs things work more smoothly. Less people are frustrated because we try to check out things before we start to establish the business. I help the entrepreneurs to write a business plan and to calculate exactly costs and investment. The most successful businesses in my kibbutz and in the neighboring kibbutzim which, I know, are those established upon existing infrastructure of the kibbutz. I do believe that for some members venturing is an excellent occupational alternative. Many of the new businesses add to the quality of life of the community and attract mutual clients.

Discussion and Conclusion

Kibbutz ventures are small of size, need little capital investment, are mostly located within the borders of the community, with many of them in tourism or personal services. 60 percent of kibbutz entrepreneurs are older than 40, they are rather well educated and many have professional experience. The level of human capital in terms of formal education of the entrepreneurs predicts the level of success of the business. Further research investigating success criteria and possible independent variables explaining different success levels of ventures in community setting is needed.

The only variable of the kibbutz community itself influencing the success of venturing in terms of number of ventures per kibbutz is the size of the kibbutz in terms of its residents. Although one could state that it is the simple proportional influence of the potential number of entrepreneurs, it seems that size of organization impacts structural arrangements that foster entrepreneurial activities (Heilbrunn, 1999). Further investigation is needed.

It seems that the institutional capital of the community environment poses opportunities and limits of culturally determined types to entrepreneurial activities of its members. Variety is generated through continuous processes of incremental change and adaptation – adequate to the concept of self-development. The entrepreneurial potential of the community depends upon its human resource potential, its human capital. Entrepreneurial outcomes in form of ventures create conditions for strengthening economic growth and development and thereby enhance produced economic capital. Ventures in the kibbutz community are of incubative nature, often constitute semi-autonomous sub-units, and are rather evolutionary than revolutionary. The ventures fit the community's direction and are often built upon prior resource commitments. Since many rural communities such as the kibbutz are undergoing processes of transformation, innovative practices enhancing economic independence of individuals and fostering economic development of the community are of major importance. This study shows that the entrepreneurs themselves change occupational structures of the community and develop new and various income sources. It seems that the process of venturing within the community setting increases occupational motivation and satisfaction along with commitment and sense of responsibility towards the community. It may be possible to conclude that the entrepreneurial process, generating variety and leveraging resources, is not only fostered by human and social capital of the entrepreneurs and their community. Relying mainly on local resources, the entrepreneurial process itself fosters social capital development and contributes thereby to a community's capacity.

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