

SOCIAL CAPITAL FRAMEWORK AND ITS INFLUENCE ON THE ENTREPRENEURIAL ACTIVITY

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Abstract: *The aim of this article is to understand the theoretical framework of the social capital concept, based on different approaches identified in the literature and highlight the direct influence social capital has on the entrepreneurial personality characteristics of individuals and organizations. The objectives of the paper focus first on conceptualizing the notion of social capital, by acknowledging the social capital structure and components, the sources of social capital and its role in building social economy; further on, the article explores the influence of social capital in the creation of innovation and economic growth, its dimensions in the entrepreneurial process and the definition of the instruments of measurement, including indicators of trust-generalized and institutional, number of social networks, associational activities-passive and active membership and civic norms. The paper gathers some of the outcomes of different researches conducted in the literature with respect to the positive relationship between social capital dimensions and entrepreneurship, through attracting the right potential of human capital and the required level of financial capital, reducing the transaction costs, identifying new market opportunities and leveraging the social networks, transfer and knowledge overflow and information channels, enabling the launch and the survival of business venture and help gain competitive advantage that would ensure sustainability and success. The case studies referenced in this article use various approaches of highlighting the social capital as a key enabler and not necessarily a generator of entrepreneurial activity, by analyzing the likelihood to launch new ventures based on the interactions with key partners and exchange of information, the sustainability and success of a start up or push/pull factors that determine an entrepreneur to enter the new ventures environment. The article is concluded by a high level introspection on how social capital is created in large corporations, what are the dimensions and the structure of this new "must have" capital form.*

Keywords: *Social capital; entrepreneurship; social networks; innovation; corporation*

JEL classification: *M10; M13; M14; M19.*

General Introduction

In the context of a global, knowledge driven economy, the competitive advantage for becoming the leader in the organization, company or industry is not provided anymore by the level of physical capital possessed, but it is determined by strategic elements such as the individuals' knowledge; the goodwill and intellectual property and the number of social networks (Lakshmanan, 1994; Castells, 1998; Miller, 2005; Westlund, 2006). The mixture of these key ingredients becomes the recipe for success in the acceptance of Smilor and Wakelin (1990) who refer to it as the "smart infrastructure"; this connects the human resources and market potential, technology, capital and know how into one single element, similarly as pieces of a puzzle. The paper is focused exclusively on discovering the first and the third element of this "smart infrastructure", namely the concept of individual knowledge- in this context how this can be shared and transferred through information channel and the one of

social networks and how can these be leveraged, in order to accelerate all the right components that enable an organization, either a new start up or a mature firm to perform entrepreneurial activities.

Since the framework of social capital is the one that covers both elements- the knowledge and information transfer and overflow and the social networks, I will begin by conceptualizing the notion of social capital, based on how this is defined in the literature, by identifying its structure and dimensions and its role in building social economy; further on, the article explores the influence of social capital in the creation of innovation and economic growth, its dimensions in the entrepreneurial process and the definition of key boosters, such as number of social networks, trust-generalized and institutional, associational activities-passive and active membership and civic norms. In order to highlight how social capital is given birth among the members of a community, the paper includes the outcomes of two researches conducted in the literature with respect to the positive relationship between social capital dimensions and entrepreneurship, through engaging the right potential of human capital, identifying new market opportunities and leveraging the social networks, transfer of knowledge overflow and information channel. The second part of the paper represents a high level introspection on how social capital is included in corporations' strategy, strongly connected with the three dimensions of social capital: structural, relational and cognitive. The last part of the paper covers the conclusions and the personal beliefs of the research conducted.

Methodology

The methodology applied for writing the current paper is the literature review, by extracting some of the available studies and information that cover the influence of social capital on the entrepreneurial activity and the dimensions of social capital in organizations. As I am trying to put in place the general framework for social capital and its impacts on the entrepreneurship in general, in order to identify the most relevant articles, I looked for the papers having in the subject name key terms related to the topic of my paper, such as "entrepreneurship" "new start ups", innovation", "new business", all of them in correlation with the social capital concept. Even if references for social capital framework include writings from the 90's, most of the studies covering the roles of social capital in organizations and its influence on the entrepreneurship were conducted after year 2000, reason for which I chose to include outcomes of two studies performed in 2008, consequently 2011, that I found relevant for the topic selected. The general scope of the paper is to understand the background of social capital concept, in relationship with all the key terms that define the entrepreneurship starting with the definition of the term in the acceptance of important scholars in the field, such as Coleman and Putnam, understanding the entrepreneurial process and ending with concrete results of two studies conducted in business private environment and academic field. Even if the two models analyzed are targeting a different audience and materialize into different situational approaches, the outcome leads eventually to a similar conclusion, positioning social capital as an accelerator of innovation and new opportunities, but also as a connector among existent and potential entrepreneurs.

The Influence of Social Capital and its Components in the Entrepreneurial Activity

In order to understand the correlation between the social capital and entrepreneurship, one key stage is to frame the conditions that the later one addresses. In the modern approach (Shane 2004) entrepreneurship is related to recognizing windows of opportunities within or outside the firm, market or industry through innovation and growth, by leveraging these opportunities to a large scale in order to satisfy people's unmet needs, by attracting the right human and financial resources and by partnering with strategic stakeholders, assuming in the same time a certain level of risks and uncertainty. In order to be able to identify the areas that an entrepreneur can penetrate, one of the strategies he or she needs to implement is to always remain externally connected with stakeholders, key influencers, actual or desired partners. Considering Putnam's concepts of bonding and bridging social capital (Putnam, 2000), an entrepreneur can actually seize business opportunities by direct or indirect networking with partners or clients activating in the same business environment or by interacting with individuals or entities belonging to a different field or market. However in order to be successful, one needs to be inclusive and remain linked to both communities, by encouraging the interpersonal connections, in order to create wealth for the company and for the society. In one of his lectures, Putnam who previously acknowledged that "Social networks have value...social contacts affect the productivity of individuals and groups" (Putnam, 2000), reiterates this idea in one of the lectures held at Manchester Metropolitan University. His speech contains one real business example where Business School in Chicago computed the dollar value of the address book for the average America, giving this way to the social network a financial dimension. (Putnam, 2007). In the context of a new start up, the networks and the social relations a, as well as the existence of string ties with actors playing in the business can ensure the attraction of funds from venture capitalists. (Cable and Shane, 1997).

Another component of social capital, besides the social networking that brings added value in the entrepreneurial activity is related to the information channels and its broadcast in a free cost environment. A similar dimension is recognized by Coleman who refers in his study to those actors interested to acquire some degree of knowledge in a certain domain, without being willing to pay for the information, reason for which they make use of the social relations, so that social capital becomes a public good.(Coleman, 1994) Similarly, the opportunities seekers can collect information from different communities they belong, from associational activities they are involved in, that eventually might materialize into serious business propositions. The process of decision making becomes dependent on the information collected from suppliers, distributors, clients and even competitors (Bruderl and Preisendorfer, 1998; Bosma et al., 2004). Therefore in order to take advantage of this information, the providing sources of information need to be reliable; this way the presence of trust, as component of social capital becomes mandatory. Considering the classification of trust provided by Dakhli and de Clercq (2004), the trust can be of two types: generalized and institutionalized. This differentiation becomes extremely important when understanding that an entrepreneurial activity is not a standalone activity, but this is performed in a highly complex environment, ruled by governmental laws and business policies. In order to be successful, an entrepreneurial organization must embrace both the general trust, invested and

expected at individual level and institutional trust, invested and expected from the relationship with the other organizations and institutions.

Based on the above considerations, social capital remains a very attractive intangible asset (Adler & Kwon, 2002) as it reduces the transaction costs between the individuals and entities, the negotiation costs, the information and knowledge cost and the ones of the decision (Maskell, 2001; Landry et al., 2002).

By analyzing the current literature, we can identify a variety of different studies conducted in the industry that acknowledge the significant economical value that social capital has. This is highly contributing to the entrepreneurial process through its components, such as social contacts, social networks, trust, associational activities or civic norms. These studies use various approaches of highlighting the correlation between social capital and entrepreneurial activity, by analyzing the likelihood to launch new ventures based on the interactions with key partners and exchange of information, the sustainability and success of a start up or push/pull factors that determine an entrepreneur to enter the new ventures environment. For this article I chose two of these focused studies to reflect the strong relationship between social capital exploit and the success entrepreneurial outcome. However there are more similar researches conducted in different regions, business sectors, involving diverse actors, while centralizing them will make the object of future article. One example of these case studies is the Emerging Entrepreneurship Workshop conducted by Stanford University (Audretsch, Aldridge and Sanders, 2011), focused on building connections between investors, academicians and potential employees that would be leveraged at a later stage as innovation accelerators in creating a start up in the medical area. The study is based on a parallel between groups that had previous connections before their interaction at the workshop and the ones that met for the first time in the meeting facilitated by the University. The study is conducted on a period of three years after organizing the event, analyzing the baseline level of social capital and how this acts as an enabler for the interaction among potential partners that share and exchange information for creating new ventures. Based on the survey conducted at Stanford, three years after the conference, the outcome reveals an increase with thirty percent of the number of startups created by attendees of the conference. The results of the survey rely on a response rate of 46% of the individuals with prior connections and relations in the participating audience, The figures published by the University demonstrates the hypothesis according to which the social capital empowers the actors in materializing innovative ideas and accept challenges and uncertainty, after sharing opinions and asking for guidance from trusted counselors and advisors. Another important achievement of this study is the series of qualitative feedbacks collected from the participants to the conference that acknowledge the importance of interacting with actors from the same business area: "I've built more relationships as a results of the Emerging Entrepreneurship Conference than through other means by at least an order of magnitude" (Audretsch, Aldridge and Sanders, 2011:161). Such statements provide important reason to believe for the future sessions of this conference, encouraging current or potential entrepreneurs to join and benefit of their ratio of social capital.

Professor Nalan Yetin conducted a research on 304 female entrepreneurs in Mersin, Turkey with the objective of understanding the degree of influence of social capital and sociocultural characteristics on the business success of the respondents (Yetin 2008). She references the push and pull factors in order to clearly differentiate between the two contexts that determine the females to start up their own ventures.

In her study, the professor considers also the demographic factors such as the age and social capital dimensions, such as the capability to build strong, weak or mixed ties in order to succeed. Professor Yetin introduces as input variables the status of migrant versus non migrant and the social class the females belong to, in order to understand the interdependency between the high usage level of the interpersonal relations and the entrepreneurial personality characteristics. Being a citizen of Mersin, or on the contrary, being relocated from outside the city was closely connected to the factors that determined their choice of becoming an entrepreneur and also contributed significantly to their ability of using social networks to their best advantage. Based on the outcome revealed by the research, the migrant women, belonging to the lower social class start up small businesses, in order to provide material support to their families, overcome difficult business conditions or gender discrimination (push factors). The same research reveal that non-migrant female, members of the middle and upper class use these opportunities to demonstrate their financial independence and autonomy in front of the other family members, to reach a superior level condition or establish an equilibrium between the personal and professional life (pull factors). Closely connected to the females' social status and consequently to the level of roadblocks to be prevailed, is also the usage of the social ties, of the strong ones or of the weak ones. The migrant women tend to maintain strong relationship with their family, relatives and the communities they belong to in order to entrust in their full support in achieving the desired goals, registering a high level of social capital. On the contrary, the non migrant female entrepreneurs prove a lower level of social capital, as they are not focused anymore on bonding or bridging new relations, but they are concentrated more on risk taking and reach a certain level of self-esteem.

These are two of the diverse spectrum of studies that were initiated on analyzing the relationship between social capital under different forms and components and entrepreneurial activity, with particular emphasis on the new ventures and start ups. However the entrepreneurial characteristics are not exclusively related the small-medium start ups, but also to large corporations. Considering Shane's perspective on the entrepreneurship (2004), the main characteristics of this activity which include recognizing innovation solution for unsolved problems or unsatisfied needs within or outside the firm, markets or industry, leveraging these opportunities to a large scale and assuming unknown risks and uncertainties, are applicable also in large corporations and multinational companies. Creating new business model, launching subsidiaries in emerging markets, simplify or eliminate existing processes by innovation and benchmarking are just few of the approaches that a corporation can undertake in order to classify itself as an entrepreneurial organization.

The following section of the article will approach how social capital is perceived in the large corporations, its structure and dimensions in strong connection with the entrepreneurial activity of these organizations.

High Level Introspection of Social Capital In Corporation

Nowadays, the corporations acknowledge the difference between knowledge capital, human capital and social capital and the importance of each of these three dimensions has on the overall performance of the employees, materialized in the level of innovation and entrepreneurial spirit of each individual. If the human capital and knowledge capital have been accepted by now as main success drivers for the entrepreneurship and included in the speciality literature as prompters for innovation

and economic growth (Lucas, 1988; Romer, 1986; 1990), the previous case studies presented in this article are designed to bring the social capital in the spotlight, as main competitive advantage enabler and innovation generator for new ventures and start ups, wherever the level of human capital and knowledge capital are comparable.

Similarly as in the new start ups, the social capital created, maintained, pursued and implemented in a corporation can be defined as an intangible form of capital, resulted from the cumulus of the networks that are created within or outside the company, based on a relationship of trust and affiliation to a certain set of shared norms, values and principles which are generated collectively, but can be used individually in order to innovate, grow, add value to the overall entrepreneurial activity of a corporation. Social capital is rooted in the strong and weak ties, internal and external connections created at individual level by each employee in the organization, at corporation level through the interactions of the headquarters with different divisions and at company level, through the interaction with stakeholders and shareholders. Given the global dimension of a corporation, one special characteristic is the possibility to create social capital outside the boundaries of the company's headquarters, in each market and location where a subsidiary is present or the services/ products of the company are available.

Related to the above definition and considering some of the highlights existent in the literature (Hazelton & Kennan, 2000; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998), there are three dimensions social capital can take within an organization: structural, relational and cognitive. The structural dimension defines the actors' capability to build powerful or vulnerable bridges with the other individuals within a common system of reference, but it also refers to the individual self equity. Hazelton and Kennan (2000) add four key enablers to the structural dimension: availability of the network channels, the timing and the fast reaction implementation of the information that is being shared, the frame of reference indicating the availability and accessibility of resources and leveraging the information and resources for additional objectives and goals than the ones initially proposed. Considering the corporation's presence in different markets, countries and even continents, the variety of social capital –which is dependent on the number of employees and teams within the organization is greater than in the new start ups; similarly the number of potential networks and communities that can be created is significantly higher. The size of the social capital is also determined by the external ties that are created outside a corporation; therefore when considering the number of strategic stakeholders that a corporation can partner with, including the suppliers, distributors, clients, consumers and even competitors, the number of social relations and networks given birth from these interactions is significantly greater. Also from the timing perspective, the creation of these social relations is encouraged to take place as soon as an individual is joining the company, as soon as a new team is being created or right after a partnership is being signed, as this is frequently included in the corporation's set of principles, values and policies. Moreover, the resources that enable the creation of social capital are available on the spot, encouraging the actors to embrace them immediately, but also pass them over when transferring a certain activity or area of knowledge to new members in the company or to new partners in the external relations.

The relational dimension focuses on the type of connections that are established within the individuals and the level of trust that is created, as well as the entire set of

other beliefs that serve as a connector between the members of the community they belong. The set of beliefs refer to the identification-the perception of the actors related to how connected they feel with the others and the degree of social system closure and also to the implementation of civic norms which trigger sanction for those members, part of the system of social capital which don't respect the common values anymore (Hazelton and Kennan 2000). The relational dimension is very well reflected by Yoshio Maruta, Kao's chairman: "if anything goes wrong in one department, those in the other parts of the organization should... help without being asked." (Ghoshal & Barlett, 1995), highlighting this way the high level of trust that is expected and unquestioned by the leader of an organization. Actually trust is the milestone based on which the success of any company is built: it's the trust invested in each employee that assumes the ownership of their work, the trust in the leadership of the company to manage successfully the entire organization, the trust in the stakeholders which will play as advocate for the company's value, the trust of the investors that will provide ongoing support for the company's activity. The affiliation to the same set of norms and values is also important both for the actors within the company and the partners from outside, as this is also contributing to the creation of social capital. The cognitive or the content dimension defines the shared level of information and knowledge leveraged within one or several groups. According to the same Hazelton and Kennan (2000), from the content dimension, there are four sources that create social capital: information exchange, problem identification, behaviour regulation and conflict management. Given the large number of networks and communities built and the volume of information flow within a corporation, the cognitive dimension can reach high limits.

Conclusion

Social capital is a valuable key enabler for entrepreneurship, regardless it's created as a base for the newly start-ups or within the premises of a corporation. The objective of the paper was to introduce the theoretical concept into the entrepreneurial framework and compare the outcomes of previous researches in the field, in order to highlight its positive influence on innovation, transaction costs between the individuals and entities, the negotiation costs, the information and knowledge cost and the ones of making decisions (Maskell, 2001; Landry et al., 2002). Additionally, starting from the idea that the corporations are also entrepreneurial organizations and the concept of social capital is also present at this level, I tried to identify the structure and dimensions, based on the theoretical concepts available in the literature. The review of different studies and the interactions I had with the entrepreneurial environment determine me to believe that nowadays there is particular focus of the companies on the social dimension of their activities, especially in the large corporations, when it comes to the level of social capital created within and outside of their premises. Regardless if we are considering social networks, trust, shared norms, shared values or principles, all these components are being perceived and generally recognized as significant differentiators for the organization's success and long term sustainability and this is also highlighted by the two case studies presented in the paper. In the context of entrepreneurship, whenever considering newly starts ups or mature organizations that are still focusing on identifying the right window of opportunity, I believe that innovation is the key. How to boost the sources of innovation, such that the breakthrough on the market is imminent represents a challenge that almost every

leader is facing. I strongly consider that social capital is one factor that can be leveraged in order to address this strategy and build a culture of innovation, such that each individual in the organization proposes an idea for simplification or digitization, considering in the same time the internal rules and policies to be respected. This behaviour can only be encouraged, by inspiring trust, confidence in the leadership, organization and the company's values and principles, but also by the care for the community where the company is activating. Another key component that is positively influencing the culture of innovation is the free flow of information and this can only be achieved through networking, bridging and bonding interactions. The networking can be enabled at different levels: interactions among the employees, interactions with different peer companies, part of the same group, interactions with the community, interactions with suppliers, customers, but in the end the outcome can only be a positive one- having access to free information that eventually might translate into innovative ideas, fast decision making, on spot implementation and increase in the customers' satisfaction.

However how much social capital the multinational companies actually create, compared to what exactly they claim to and how this level of social capital influences the overall performance of the organization represent the object of future researches and articles.

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