

A REVIEW ON “THE INTERNAL MECHANISMS OF ENTREPRENEURS’ SOCIAL CAPITAL: A MULTI-NETWORK ANALYSIS”

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ABSTRACT

This contribution conducts a mini review of the paper: “The internal mechanisms of entrepreneurs’ social capital: A multi-network analysis”, written by Hernández-Carrión, Camarero-Izquierdo & Gutiérrez-Cillán (2020) and published in Business Research Quarterly.

The article in question evidences the existence of two social capital mechanisms which link the features of the entrepreneur’s social networks (in terms of size, diversity, cohesion and relational quality) with the strategic resources the entrepreneur has obtained through them (social capital resource exploitation).

Based on a separate individual analysis of the personal and professional networks of 958 Spanish entrepreneurs, two mechanisms are shown to exist: the resource mechanism (based on the size and diversity of networks) and the exchange mechanism (based on cohesion and relational quality). Depending on the type of network considered (personal or professional), one mechanism or another will prevail.

Keywords: Social capital mechanism, Small entrepreneur, Networks, Resources.

INTRODUCTION: NEED FOR THE STUDY AND NOVELTIES

From a resource-based approach, company access to strategic resources and capabilities is the key to obtaining sustainable competitive advantages. These resources and capabilities can be purchased in the market, generated internally, or accessed through firms’ relationship networks. Due precisely to their size and location, small local entrepreneurs normally have fewer opportunities than other larger and multi-located firms to access resource markets or to develop new

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capabilities internally (Stam et al., 2014; Zhao et al., 2010). In this way, being well-connected is very often the only way they have to endow themselves with the resources and capabilities that are required to compete in markets.

The social capital approach specifically analyses what role relations play as a valuable asset. In this work, the authors define entrepreneurs' social capital as both their relationship networks (Gulati et al., 2011; Hoang & Antonic, 2003; Nahapiet & Ghoshal, 1998) and the resources they are able to access through them (Batjargal, 2003). This definition enables the networks versus resources dilemma to be overcome when describing social capital (Payne et al., 2011). The aim is to abandon the dimensional approach to social capital and adopt a functioning-oriented view (Burt, 2000) so as to clarify how the different network features combine when accessing resources.

One of the small local entrepreneurs' distinguishing features is the lack of any separation between ownership and management of the business. Entrepreneurs therefore use their firm's business relations (professional networks) as well as their informal relations (personal networks) to access strategic resources (Gedajlovic & Carney, 2010; Carrión et al., 2017; Stam et al., 2014).

As a result, the novelties the article presents involve: (1) using the integrating notion of social capital (networks plus resources), (2) analysing the dimensions which describe social capital as parts in a mechanism designed to obtain resources and (3) comparing how this mechanism works in the entrepreneur's personal and professional networks.

THE TWO MECHANISMS OF SOCIAL CAPITAL

There are many ways to describe networks and social capital and these often prove to be contradictory (Burt, 2000). Nevertheless, there is agreement that two kinds of social capital exist linked to two kinds of resources: bonding social capital (a close-knit network based on strong ties and containing relatively homogenous resources), and bridging social capital (not so dense but more diverse networks, based on weak ties and containing heterogeneous resources) (Adler & Kwon, 2002; Chetty & Agndal, 2007; Davidsson & Honig, 2003; Putnam, 2000). Based on this categorical classification, the article proposes two different mechanisms through which social capital provides an individual who is involved in a network of relations with resources:

1. The resource mechanism, which enriches the network in terms of quantity and variety of resources. This mechanism is made up of two components: (1) the size of the network (the greater the number of individuals there are in a network, the more resources the network will contain and the greater the likelihood of finding diversity amongst those individuals, and (2) the diversity of the network (the greater the diversity amongst the network members, the greater the likelihood that the resources they possess will also be different).
2. The exchange mechanism, which enables network members to be willing to yield or exchange resources with one another, whilst avoiding opportunistic behaviour. This mechanism comprises two components: (1) network cohesion (the more intensely and closely the network members are interrelated, the greater the likelihood they will exchange resources, and the more that the quality of the

relationships amongst them will be fostered), and (2) relational quality (aspects such as mutual respect, trust, help, cooperation and functional conflict resolution create the right atmosphere for individuals to exchange resources with one another).

The resource mechanism promotes the quantity and quality of the resources present in a network, whilst the exchange mechanism favours the interchange ability of such resources. The quantity, quality and interchange ability of a network's resources will determine to what extent entrepreneurs will use their social capital to access resources (social capital resource exploitation).

Yet not all networks display the same characteristics. Bonding social capital is normally associated with networks that have high levels of cohesion and relational quality, as occurs in entrepreneurs' personal relations with family members, friends or close neighbours. For its part, bridging social capital is associated with extensive networks that display diversity, as occurs in entrepreneurs' professional relations with suppliers, distributors, clients, or competitors.

The empirical study is grounded on the idea that although the two mechanisms provide local entrepreneurs with resources, one will prevail over the other depending on the kind of network considered. The resource mechanism will thus favour entrepreneurs who have wide and diverse personal networks, whereas the exchange mechanism will favour entrepreneurs who have close-knit professional networks that exhibit substantial relational quality.

METHODOLOGY

Judgement samplings were used to select the most representative entrepreneurs of each territory. With the cooperation of 92 local development agencies in 24 out of 50 Spanish provinces, a sample of 958 Spanish entrepreneurs who were both owner and manager of a business employing no more than 50 workers was used to test the model. The questionnaire measured personal and professional networks separately in terms of network size, cohesion, diversity, relational quality, and entrepreneurial exploitation of social capital resources (to what extent the entrepreneur obtained each type of strategic resources from a given network) (See Appendix). Five control variables were included: gender, years of experience within the sector, business size, location, and sector of activity. To estimate the model, the partial least square technique (PLS) was used. PLS multi-group analysis was employed to compare personal and professional networks.

RESULTS

The study proves the existence of the two mechanisms and their usefulness when accessing strategic resources. It also evidences that each mechanism centres around a mediating variable: Diversity (in the resource mechanism) and relational quality (in the exchange mechanism).

As regards the resource mechanism, network size directly favours the exploitation of social capital resources by the entrepreneur only in personal networks. Network diversity is seen to have a positive effect on social capital resource exploitation in both networks. Moreover, diversity acts as a mediating variable between size and resource exploitation in both networks.

Regarding the exchange mechanism, network cohesion favours social capital resource exploitation directly only in professional networks. Cohesion favours relational quality in both kinds of network. Furthermore, relational quality acts in both networks as a mediating variable between cohesion and resource exploitation.

When comparing the two networks, results show that the resource mechanism plays a more key role in personal networks. Nevertheless, and contrary to what was expected, there was no evidence to suggest that the exchange mechanism was more relevant in professional networks.

CONCLUSION: IMPLICATIONS FOR ENTREPRENEURSHIP AND TOURISM PRACTICES

Small local entrepreneurs use both their personal and professional networks to access strategic resources. Personal networks are particularly relevant for smaller businesses.

Network size does not guarantee a network's richness in terms of resources unless accompanied by diversity. Diversity emerges as a key variable for accessing resources, whatever the kind of network involved. As a result, both the entrepreneurs themselves as well as the institutions responsible for supporting them should seek to foster such diversity through fairs, supra-local exchange with other entrepreneurs, by attracting outside residents or by making tourism a part of local life. It is important to highlight that diversity was measured not only by the heterogeneity (socio-economic, ethnical, or cultural) of network contacts, but also by their capacity to embrace what is "different".

Cohesion is important if entrepreneurs are to access resources, both through their personal as well as professional networks. While network diversity is the key to the resource mechanism, relational quality is the key to the exchange mechanism. Local environments often display the necessary features required to generate close-knit networks that offer relational quality. Aspects such as knowledge and practice in local traditions, urban designs based on common areas and, in sum, entrepreneurs' integration in their local communities (embeddedness) help toward the correct functioning of the exchange mechanism and facilitate entrepreneurial access to the resources available in the environment.

Tourist establishments might prove to be an excellent linkage point between local and extra-local networks insofar as they can develop good practices in terms of sustainability. Tourists are sources of diversity for the local community and vice versa. Yet only if both groups co-exist and forge links will their social capital benefit. Hospitality establishments and tour operators can, for instance, play a decisive role in promoting local businesses as a point of tourist interest to visit and so create links between entrepreneur and outside visitor.

The capacity of the tourist industry to enrich local entrepreneurs' social capital provides an excellent starting point for future lines of research.

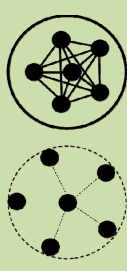
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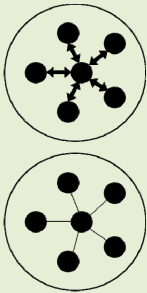
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Appendix: Variables and measures of the entrepreneur's social capital

VARIABLE / CONCEPT	Original scale	Code: Proposed items for personal (**) / professional network (***)
- ← SIZE → +  N° of members of a network	Stone and Hughes (2002): • N° of relatives (count) • N° of in-laws (count) • N° of neighbors known personally • N° of work mates/associates keep in contact with (count)	S1: Regarding your personal/professional network, how many people do you frequently keep in contact with? ("Count" ratio scale transformed into 5-point scale)
- ← DIVERSITY → +  Network's heterogeneity	Stone and Hughes (2002): • Do group members have high, average or low levels of education, or are their educational backgrounds mostly mixed? (High/Medium/Low/Mixed) • Do group members have mostly the same ethnic or cultural background or mostly mixed backgrounds? (Mostly mixed / Somewhat mixed / Mostly same) • People around here share the same values (11-point inverse scale) Australian Institute of Family Studies (2001): • Tolerance of diversity (interval scale) Onyx and Bullen (2000): • Do you feel free to speak out? (Yes / No)	D1: Within this personal/professional network is easy to find different people in terms of socio-economic level, educational background or occupation. D2: My personal/professional network is very heterogeneous, as it includes people from different countries, people with different mother-languages, and people with different ideology or religion. D3: In my personal/professional relationships, there are opportunities to express opinions freely even though they might differ from those of the majority. (5-point Likert scales)
- ← COHESION → +  Density and capacity to act as a group	Stone and Hughes (2002): • Extent to which family members know each other's close friends (11-point scale) • Are your friends also friends with each other? (Yes/Mostly/Some/A few/No) Cousins et al. (2006): • There is close, personal interaction between the supply partners at multiple levels (7-point scale) Narayan and Cassidy (2001): • How would you rate the togetherness or feeling of belonging in your neighbourhood/village/community? (5-point scale)	C1: People within my personal/professional network know each other. C2: Among people of my personal/professional network, there is a close and personal interaction. C3: Among people of my personal/professional network, there is a sense of pride in belonging to the sector or professional field (/family, group of friends or neighborhood). (5-point Likert scale)

SOCIAL CAPITAL RESOURCE EXPLOITATION Effective access to strategic resources through entrepreneur's networks	Rules and principles governing the relational behavior	- ← RELATIONAL QUALITY → + 
<i>Ad hoc scale</i> Resources suggested by several authors (Coviello and Cox, 2006; Greene et al., 1997; Yiu et al., 2005) which generate competitive advantages for entrepreneurs.	Kale et al. (2000) : 7 points Likert scale regarding : • Relational capital (mutual trust, respect, friendship, close interaction) between the members of an alliance • Conflict management resolution between the members of an alliance Cousins et al. (2006): • The relationship is characterized by mutual respect between the supply partners at multiple levels (7-point scale) • The relationship is characterized by mutual trust between the supply partners at multiple levels (7-point scale) Grootaert et al. (2003): • Most people in this village/neighbourhood are willing to help if you need it (5-point Likert scale) • If there was a problem in this community, how likely is it that people will cooperate to try to solve the problem? (7-point inverse scale) Lawson et al. (2007): • In this relationship, the parties work together to solve problems (7-point scale)	Q1: The relationships between people of my personal/professional network are characterized by mutual respect. Q2: The relationships between people of my personal/professional network are characterized by mutual trust. Q3: People of my personal/professional network are always willing to help each other, instead of looking exclusively for themselves. Q4: People of my personal/professional network frequently collaborate with each other to achieve common goals. RQ5: When a conflict arises between people of my personal/professional network, it is usually solved within the frame of a dialogue, instead of imposing the strongest. (5-point Likert scales)
In what extent your personal/professional network has contributed to access to... (R1) ... quality management skills? (R2) ... commercial resources and marketing skills? (R3) ... financial resources? (R4) ... human resources / human capital? (R5) ... organizational skills? (R6) ... technological resources and innovation skills? (5-point scale)		

Source: Hernández-Carrión et al. (2020).

(*) **PERSONAL NETWORK:** includes people from your personal environment (such as relatives, friends, acquaintances or neighbors) whom you frequently (at least monthly) keep in contact with.

(**) **PROFESSIONAL NETWORK:** includes people from your past and present professional environment (such as colleagues, workmates, associates, suppliers or clients) whom you frequently (at least monthly) keep in contact with.