The Effect of Social Capital Dimensions on Entrepreneurial Performances of MSME’s

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Abstract
Since the early 2000s, the phrase "social capital" has been widely explored. The origin of social capital can be traced back to 1867 and 1900, when Karl Marx and John Dewey adapted it to fit into a societal context. In today’s world, there is an increased appreciation for the importance of social capital and entrepreneurship. The commercial diversification that India possesses, in particular, makes it accountable to utilize social capital. As a result, this research focuses on how social capital influences MSME entrepreneurial performance, taking into account several dimensions of social capital as well as MSME performance. Data was obtained from 390 MSME’s in South India using structured questionnaires and analyzed using SPSS and the Structural Equation Modelling (Amos) approach, and it was discovered that social capital dimensions and entrepreneurial performance have a strong association.

Keyword: Social Capital, Structural Dimension, Relational Dimension, Cognitive Dimension & Entrepreneurial Performance

I. Introduction
Entrepreneurship isn’t a single entity which is confined to an individual organization, it exists in an environment where there are large number of social factors that are reassembled together to achieve goals for the prosperity of enterprise as well as the economy. This social factor includes social mobility, ethics, cross cultural communication, social capital and so on, which not only works in benefit of the organization but also helps the organization to place its position in domestic and international context by developing new relationship. Social capital is a term that has been collectively discussing since 2000’s onwards. The origin of social capital can be traced back to 1867 and 1900, when Karl Marx and John Dewey adapted it to fit into a societal context. The definition offered by(Coleman, 1988) is indicated as important in the field which defines social capital as a set of relationship among individual and group in order achieve some benefit, without which it would be difficult to access.(Tsai & Ghoshal, 1998) considered more comprehensive view of social capital on an organizational context based on three dimensions,
taking into account how creation of intellectual capital and social capital and their combined effect helps firms to attain a better competitive edge in the market. The 3 dimensions of social capital as discussed (Tsai & Ghoshal, 1998) includes,

a) Structural dimensions  
b) Relational dimensions  
c) Cognitive dimensions  

Structural Dimensions are concerned with the characteristics of being a member of a societal unit as well as the network of relationships that exist inside that unit. Relational Dimensions are concerned with the kind of personal relationships that players in a network have built with one another through time, with a particular focus on trust and related dimensions. Cognitive Dimensions, on the other hand, include shared norm and representation, as well as resources or benefits obtained through social ties and social involvement.  

(Lawson, Tyler, & Cousins, 2008) social capital benefits in the process of value creation between buyers and suppliers for improving buyer performance.”. Robert D Putnam best seller book: bowling alone; the collapse and revival of American community, explained social capital helps in coordination and cooperation between the actors of the network through norms, social and trust indulged in the network. Another remarkable contribution given to social capital was by (Burt, 2016) elucidating social capital as “the brokerage opportunities in a network”.  

Micro, Small and Medium enterprises (MSMEs) are the driving forces of economies which contributes a lot to development of a nation. MSMEs are the pillars of economy that uplifts the growth and development activities.Many countries around the world rely on them as economic cornerstones. General trade (wholesale and retail services), manufacturing, and associated services are just a few of the industries in which these companies operate. For the fiscal year ending in 2019-2020, the MSME sector contributed 30% to GDP in total. MSME's have contributed significantly to the nation's GDP, industrial production and export, and job creation. the Indian's capability. In 2019-20 and 2020-21, the share of Indian MSME's in the international market was 49.8% and 49.5 percent, respectively.The MSME contributes more to international trade in sectors such as readymade clothing, leather and associated products, processed food, and engineering items. India has highlighted small-scale export promotion as critical to the country's economic development and self-sustainability. To encourage export, policies such as simplification and specification of export procedures, incentives for increased export output, preferential treatment for MSME's in the market development fund, and simplification of duty drawback laws have been implemented.MSME's, in comparison to larger enterprises, lack access to a variety of resources. As a result, MSME's will rely on interpersonal relationships and professional contacts to create their place in the worldwide market as well as the local market, which they can access through social capital. This aids them in recovering from their weakness
of being small, as well as recovering from a lack of resources that allows them to get by or get ahead in the market.

II. Review of literature

Social capital significance in describing economic and social issues has grown in the past several years. The idea of social capital is based on social relations, & it includes social networks, civic participation, reciprocity standards, and generalized trust, of and all other factors that can be directly related to a relationship. Social capital is a multidimensional notion with several dimensions, kinds, and measurement levels. Structure, relational and cognitive; bonding, bridging, and linking; strong and weak; and horizontal and vertical are all examples of dimensions and types of social capital. (Hanifan, 1916) used the term "social capital" to describe the necessity of community participation in improving school performance. (Bourdieu, 1986) explained Social capital as the sum of actual or potential resources that are related to possession of a network and characterized by institutionalized mutual relationship and recognition which helps the member of a group to perceive it as collectively owned capital. (Bourdieu, 1986) the definition highlights the value of a social network, i.e. the opportunities and benefits that come with belongingness to a group. Bourdieu sees social capital as a jointly possessed asset that provides members of a group with credits, while (Coleman, 1988) sees it as a function. (Coleman, 1988) social capital helps in the creation of human capital by the way structuralizing the relationship between family and community. (Fukuyama, 2000) presented social capital as a set of norms in an informal structure that enhance cooperation among the individuals in a group. (OECD, 2000) emphasizing social capital as a groups cooperation through shared norms, values, and understandings., and when addressing the notion of social capital most definitions have one thing in common: they emphasize relationships as a base which further results in positive outcomes. Social capital is mainly a collection of two distinct components where one becomes part of social structure and how they facilitate their behavior in that structure. Obligations, expectations, trust, and information flow, reciprocity, exchanges all are part of these particular entities. (Tsai & Ghoshal, 1998) made asignificant contribution to the organizational context by presenting three dimensions that can be utilized to measure social capital which includes , structural dimension, relational dimension, and cognitive dimension. (Adler & Kwon, 2002) explained social capital on the basis of relationship and the kind of exchanges happening between the internal and external ties in the relationship.

(Hsiao, Lee, & Chen, 2016) explained how social resources are converted into social capital, which can then be utilized for development. The concept that social capital provides is base for two people to trust and influence one other. (Dar & Mishra, 2020) studied the effect of different dimensions of social capital on the financial performance of SME’s. (Nasip et al., 2017) identified social capital as a set of intangible values or asset that is derived from personal and organizational ties, such as norms, orientation, values, networks, and social relationships, all of which influence behavior and interactions between people. Trust, social bonds, social
interactions, and reciprocity will all be studied using social capital theory (Akintimehin et al., 2019)

(Lee, 2015) discussed how social capital might benefit female entrepreneurs as a source of competitive advantage while also improving market performance by fostering social ties and boosting social capital. (Prakasa, 2019) demonstrated how social capital has a substantial impact on entrepreneurial orientation as well as a business success by mediating the relationship between entrepreneurial orientation and social capital. (Doh & Zolnik, 2011) explained how trust might be used to characterize social capital and entrepreneurship and Associational activities and civic norms influence entrepreneurship at both the individual and national levels, indicating that social capital and entrepreneurship have a beneficial relationship.

(Wu, 2008) looked at the relation between dimensions of social capital competitiveness improvement and information sharing as a mediating factor. New businesses lack access to critical resources such as well-established products, long-standing customer relationships, experienced management teams, adequate money, and a solid reputation. Social capital, particularly in the form of social networks, could become a key resource for gaining access to these resources. (Sengupta, 2010) measured entrepreneurial social capital by taking into account how three different forms such as support, reference & goodwill, and analyzed how forms of social capital is beneficial for entrepreneurs in the Indian information and communication industry.

(Diana Sari, Quanrul Alam, 2008) intended to uncover the elements that drive Indonesian SMEs to internationalize, specifically taking into account the idea of human capital and social capital. By combining a mix of qualitative and quantitate using a random sample of 100 people. For the internationalization dependent variable, international business skills, international orientation, managerial competencies, risk perception, and structural, relational, cognitive aspects of social capital are used as independent variables. The conceptual framework of the internationalization process of SMEs in Indonesia suggests that human and social capital may influence SMEs to internationalize. The framework offers some implications for policy makers, SME managers or owners and researchers.

(Tsai & Ghoshal, 1998) attempted to investigate the association between structural, relational, and cognitive dimensions of social capital, as well as the pattern of resource exchange within an organization and product innovation. The study was carried out in a multinational electronics company, and data was collected via a postal questionnaire from 15 units of the company's management team from each business unit. The questionnaire was created to collect both relational and non-relational data, and the data was analyzed using sociometric approaches. Social contact, trust and trustworthiness, shared vision, resource exchange, and product innovation are among the criteria. The extent of inter-unit exchange was highly related to social contact, an indicator of social capital's structural dimension, and trust, an indicator of its relational dimension, and had an important effect on product innovation.
(Rose & Iskander, 2014) There is mounting evidence that social capital plays a favorable effect in helping SMEs' internationalization. For SMEs, social capital is a critical platform for gaining access to resources & abilities that they lack. The fact to be known is that how social capital interacts with SMEs global expansion and survival. This study intends to close these gaps by examining internationalization patterns, network social capital development, and how these two influence over time, as well as comparing well-established SMEs from two different national settings (UK and Egypt) which contrast in their cultures and levels of institutional development. (Kiprotich, 2014) studied trust, culture, and civic management which forms the part of social capital help in improving the growth of SME’s in Kenya. (Batjargal, 2003) examined how social capital effect the firm performance by the effect of structural embeddedness, relational embeddedness, and resource embeddedness and putting some valuable impact of positive effect relational and resource embeddedness. (Hoq, Wirba, & Baig, 2017) identified there is a significant positive relationship between the structural and content dimension of social capital with that of performance of SME’s. (Ha, 2021) made an association between social capital dimension & SME’s operational performance, adding a mediator Sharing of knowledge to the association and describing the effect of a mediator.

Objective of the study

The objective of the study is to find out the effect of social capital on the entrepreneurial performance of MSME’s.

III. Research Methodology

The data for the particular study is collected from different clusters from three different states Kerala, Karnataka, and Tamil Nadu which accounted for 390 Micro small & medium enterprises. The structured questionnaire has been used for collecting the data including the major constructs. The paper uses Structural equation modeling for data analysis in order to find the effect of a predictor variables on the outcome variables. SPSS 25 and AMOS 20 are the software used for
data analysis. SEM are relatively simple and easy to interpret mathematical formula that can generate predictions. In this particular study it is studied that how social capital help to predict the entrepreneurial performance of MSME’s. Here the dependent variable is the performance of MSME’s and the independent variable is the social capital dimensions. The use of social capital is measured in three different constructs (Tsai & Ghoshal, 1998) (Turner, 2011) under each construct, there are certain number of items included.

Structural capital dimension – 4 variables
Relational capital dimension – 4 variables
Cognitive capital dimension – 4 variables

Other than this the dependent variable that is the outcome variable entrepreneurial performance (Kaplan & Norton, 1992) (Huo, 2012) is an important construct that includes 8 variables.

The Hypothesis to be tested

$H_{1a}$: Structural dimensions of social capital have a significant effect on the entrepreneurial performance of MSME’s.

$H_{1b}$: Relational dimensions of social capital have a significant effect on the entrepreneurial performance of MSME’s.

$H_{1c}$: Cognitive dimensions of social capital has a significant effect on the entrepreneurial performance of MSME’s.

IV. Analysis & Discussion

Structural equation modelling (SEM) is a statistical method of analyzing structural relationships. This technique combines factor analysis and multiple regression. It's a technique for examining the structural relationships between measurable and latent variables. On the basis of the criteria listed below, the measurement quality is determined.

Table 1.a

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
<th>factor loadings</th>
<th>CR</th>
<th>AVE</th>
<th>MSV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social capital</td>
<td>SC1</td>
<td>.906</td>
<td>.947</td>
<td>.817</td>
<td>.733</td>
</tr>
<tr>
<td></td>
<td>SC2</td>
<td>.927</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>SC3</td>
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<tr>
<td></td>
<td>SC4</td>
<td>.889</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>RC1</td>
<td>.877</td>
<td>.934</td>
<td>.781</td>
<td>.733</td>
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</table>


Table 1.a represents that the criteria for validity and reliability are met. Factor loading shows the variance explained by an item on a particular factor. The rule of thumb for variance extraction of items from factors is 0.7 or greater. In short, it shows that how many variables are related to the particular construct in which they are included. Here in the table every items in 2 constructs i.e., the social capital dimensions and performance have a factor loading greater than .7, which is acceptable.

Construct reliability or composite reliability of items depicts the internal consistency or item reliability while using CFA. It is a measure of internal consistency that determines how items in a group are interrelated. If the composite reliability for the construct is greater than .6 it shows there is a measure of internal consistency, that is, items in the groups are closely related. Intable 1.a the composite reliability of 4 constructs, that is Structural dimension, relational dimension, cognitive dimension and entrepreneurial performance are having a high construct reliability which is greater than 0.6 showing a great context of internal consistency.

The average variance extracted (AVE) also called as convergent validity, while checking AVE it is to be noted that all the items should be related with construct and also items should be related with each other. A value greater than .5 indicates the convergent validity is achieved and there is higher convergence of items and the constructs. AVE is a contribution by a specific group and it should be greater than that of correlation square. It is an indicator of discriminant validity in table 1.a all of the 4 constructs have an average variance extracted greater than .5 which shows the greater convergence between the items and the construct.

Discriminant validity shows that the factors must be discriminant or different to each other but they must be related. This is measured on the basis of AVE. the square root of average variance
extracted must be greater than that of inter construct correlation and as of the rule the discernment validity is also achieved.

Figure 1.a shows the path diagram of the entrepreneurial performance and social capital dimensions. The average of structural dimension, relational dimension, and cognitive dimension (Tsai & Ghoshal, 1998) are taken into consideration for the explanation of social capital construct. The following indicators are taken for assessing entrepreneurial performance which includes labor productivity, sales performance, financial performance, customer satisfaction, market share, profitability position, competitive edge, and innovation (Huo, 2012) (Kaplan & Norton, 1992). There is a unidirectional relationship between entrepreneurial performance and social capital. Here the figure shows that 77% of entrepreneurial performance is impacted by social capital, the remaining effect may because of other factors which are not confined to the study area. This influence may be due to the right type of identification of business clients that the firm adopts and shows how well they are able to access to the resources that can be part and parcel of the relationship they possess.

The table 1.b shows the standardized regression weights of the variables that are explained in relation with the entrepreneurial performance and social capital dimension. PER is the entrepreneurial performance whereas SOC stands for social capital. ASD, ARD & ACD accounts for the extraction of an average of three social capital dimension. As already stated, 77% of entrepreneurial performance is impacted by social capital, remaining effect may because of other factors which are not confined to the study area. These social capital aspects included the interpersonal relationship between the parties that is the firms and their customers, their trust and mutual respect that aroused out of their relationship, and the shared values, norms and cultural they followed in the relationship, and the sort of reciprocity maintained in the relationship. So,
the main content of the social capital theory is reflected through this aspect where social relationship or ties can be contributed to human capital development and accumulation.

Table 1.b

**Standardized Regression Weights: (Group number 1 - Default model)**

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
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</thead>
<tbody>
<tr>
<td>PER</td>
<td>.766</td>
</tr>
<tr>
<td>ACD</td>
<td>.766</td>
</tr>
<tr>
<td>ARD</td>
<td>.901</td>
</tr>
<tr>
<td>ASD</td>
<td>.890</td>
</tr>
<tr>
<td>PF1</td>
<td>.901</td>
</tr>
<tr>
<td>PF2</td>
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</tr>
<tr>
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<tr>
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<td>PF7</td>
<td>.841</td>
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</table>

<table>
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<tr>
<th><strong>CMIN</strong></th>
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<tr>
<td><strong>CMIN/F</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>PF8</td>
<td>.860</td>
</tr>
</tbody>
</table>

Table 1.c Model Fit Index
Table 1. c shows the model fit index of the conceptual model satisfies the basic condition of a model fit as all the value pertaining to the specified limit. Model fit shows how well the theoretical model satisfies empirically and the above table validated the model fit and all the value are pertaining to the threshold limits.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NFI</td>
<td>.964</td>
</tr>
<tr>
<td>CFI</td>
<td>.973</td>
</tr>
<tr>
<td>IFI</td>
<td>.973</td>
</tr>
<tr>
<td>RMSEA</td>
<td>.084</td>
</tr>
<tr>
<td>PCFI</td>
<td>.761</td>
</tr>
</tbody>
</table>

Figure 2.a represent the individual effect of the structural dimension of social capital on the entrepreneurial performance of MSME’s. and it shows there is a significant relationship between entrepreneurial performance and social capital dimensions as it loads .70 towards performance. Here it indicates structural social capital provides a significant contribution to the performance of MSME’s. and also, it reflects on how well the firms are able to contact to their customer, their level of interaction with the customer, and their interpersonal relationship that helps in achieving the goal.
Figure 2. The figure 2. b shows the influence relational dimension of social capital on the entrepreneurial performance of MSME’s and there is a significant relationship between entrepreneurial performance and social capital as it loads .70 towards performance. It is also evident that relational capital also contributes to entrepreneurial performance of MSME’s as Trust and mutual cooperation plays an important role between the firm and its clients in order to promote the business to sustain in the long run. In figure 2. c the cognitive dimension of social capital reveals that entrepreneurial performance is affected by .63 of social capital which is being affected as a result of the shared values and culture that forms and is shared between a group. Another important factor that cognitive capital reflects upon is the reciprocity that is being exchanged between the firms. It also enhances how well these shared values and norms and cultures can create a notion of trust within the group.
V. Conclusion

The paper summarizes that the independent variables such as dimensions of social capital structural, relational, and cognitive dimension are having a significant effect on entrepreneurial performance of Micro, Small and Medium Enterprises (MSMEs) and the social capital dimensions are directly correlated to the entrepreneurial performance. The result showed that the, if predictors are taken all together, they are significant and fit for the model. But taking into consideration the hypothesis that is used for the study the structural capital is highly influencing and significant to the entrepreneurial performance of MSME’s, although the relational and cognitive capital influences social capital. So, it is evident from the result that the enterprises must concentrate more on strengthening the relationship with their clients or business partners, in terms of trust, respect, interpersonal relationship, shared values and norms etc. so that the firms would be able to get access to resources in an easy manner and at a higher speed which would ultimately result in the successful accomplishment of goals and aims. It also enhances coordination the inter firm relations or transactions in effective manner. Not only that they will also be able to gain a greater number of customer contact if they are having a higher level of social capital which will help them for expansion and diversification and hence creating a sole competitive edge in their area. As Nahapiet & Ghoshal (1998) thoroughly pointed out structural, relational and cognitive dimensions of social capital have a significant impact on the organizational performance of firms which can be inferred from the study. The study pointed out how social capital directly effects entrepreneurial performances through a different dimension, there are other variables that significantly effect this direct relationship which can be formed part of future studies.

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https://doi.org/10.1108/13598541211269210


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