

# Social Capital and Small Medium Enterprise (SME) Performance: An Exploratory Study

<sup>1</sup>Dr. Mohammad Ziaul Hoq, <sup>2</sup>Dr. Asan Vernyuy Wirba, <sup>3</sup>Dr. Asif Baig

<sup>1</sup>Course Director, M.I.T., Jubail Industrial College (JIC), Kingdom of Saudi Arabia

<sup>2,3</sup>Asst. Professor, M.I.T., Jubail Industrial College (JIC), Kingdom of Saudi Arabia

---

**Abstract:** The objective of this research is to explore the association between social capital and organizational performance in the context of Small and Medium Enterprises (SMEs). The pertinent academic literatures have been reviewed. After the in depth exploration, it was established that there is a positive relationship between social capital and SMEs performance in the both developed as well as in the developing world.

**Keywords:** Small and Medium Enterprises (SMEs), organizational performance.

---

## 1. INTRODUCTION

The manifestation social capital (SC) has gradually revolved out to be a view with pledge for treating numerous social apprehensions in societies. The central theory of SC depends on the simple notion that social links can be substantial bases of assets as well as support for individuals and groups. While the conception of SC date back to 1916 (Hanifan, 1916), its reputation originated in the late 90s as an indispensable policy alternative for inspecting civic commitment (Putnam, 1993). Subsequently, the phases that followed perceived a rising attention by civic strategy researchers, predominantly at the World Bank and elsewhere who have been keenly alarmed in suggestion due to its pledge to suggest greater procedures to identify how community assets can be devoted to escalate development.

In addition, in the beginning, SC endured a study concept in the parts of economics and sociology. On the other hand, recently SC has flooded various disciplines and accomplished broad admiration in disciplines such as management, information systems, computer science etc.

## 2. STUDIES ON SOCIAL CAPITAL

Social capital was exploited profoundly to tackle with social matters in terrestrial societies. For example, social capital has been used like an arrangement to tackle with challenge of insufficient communal assurance (Putnam, 1993), objective of social capital as well as public resources (Putnam, 2000), entree to monetary accomplishments (Sobel, 2002). Social capital has also presented theoretical alignment for examining organizational advancement (Cohen & Prusak, 2001), misery intervention (Preece, 2002) and education (Falk & Harrison, 2000).

### Defining Social Capital:

Though social capital is a somewhat contemporary notion, it has produced different types of definitions, been analyzed at various different phases of study and has created several vital conceptualizations that have seized the theoretical and applied literature. SC is an ambiguous variable which has appeared from a rather gloomy swamp of jargons; yet this is useful for inspecting customs, communities and social networks (Daniel, Schwier & McCalla, 2003).

Moreover, irrespective of disciplinary focus, building a trustworthy principle of social capital continues to be obstructed by existence of two diverse, yet evenly supportive conceptual methods. The primary method tends to label social capital

**International Journal of Novel Research in Marketing Management and Economics**  
 Vol. 4, Issue 1, pp: (33-39), Month: January - April 2017, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

predominantly as a feature of an individual (Bourdieu, 1996). In this context, social capital retains the features of private good that individuals made as well as apply to accomplish their individual purposes.

Similarly, the successive technique distinguishes social capital similar to a feature of a society, like a value of linkages and relations permitting individuals to cooperate as well as take actions together (Putnam, 2000). The foundation of social capital is the level of interpersonal trust, with reliability of public and political institutions that establish as well as endure the rule of law. For these reasons, SC retains the features of public good supporting accomplishment of higher phases of efficiency and competences. Table 1 displays an abstract of various clarifications applied in study of SC by the scholars.

**Table 1: General characterization of social capital as well as main variables**

<b>Author (s)</b>	<b>Characterization</b>	<b>Main variables</b>
Hannifin(1916)	Physical substances [that] add up for most in the day by day lives of individuals.	assets, reputation, partnership, compassion, social connections
Putnam (2000)	The links amongst individuals as well as social networks.	associates, linkages, customs/social etiquettes, interchange, trust
Cohen and Prusak (2001)	The accumulation of active dealings among people: the trust, mutual consideration as well as collective principles and conducts.	acquaintances, conviction, common indulgent, joint purposes .
Bourdieu(1996)	The overall of the actual or probable resources that are related to possession of a healthy network.	connections, capitals, linkages
OECD (2001)	The relationship, jointly with mutual customs, values and understandings that supports cooperation inside and between clusters.	linkage, customs, collective understanding, cooperation
Resnick (2004)	Energetic properties that inhere in social relations.	properties, social interactions
Rafaeli, Ravid and Soroka (2004)	An accumulation of features of the social linkage formed as a result of virtual communal activities that escort to development of shared social customs.	social linkage, social etiquettes, teamwork, joint advantage

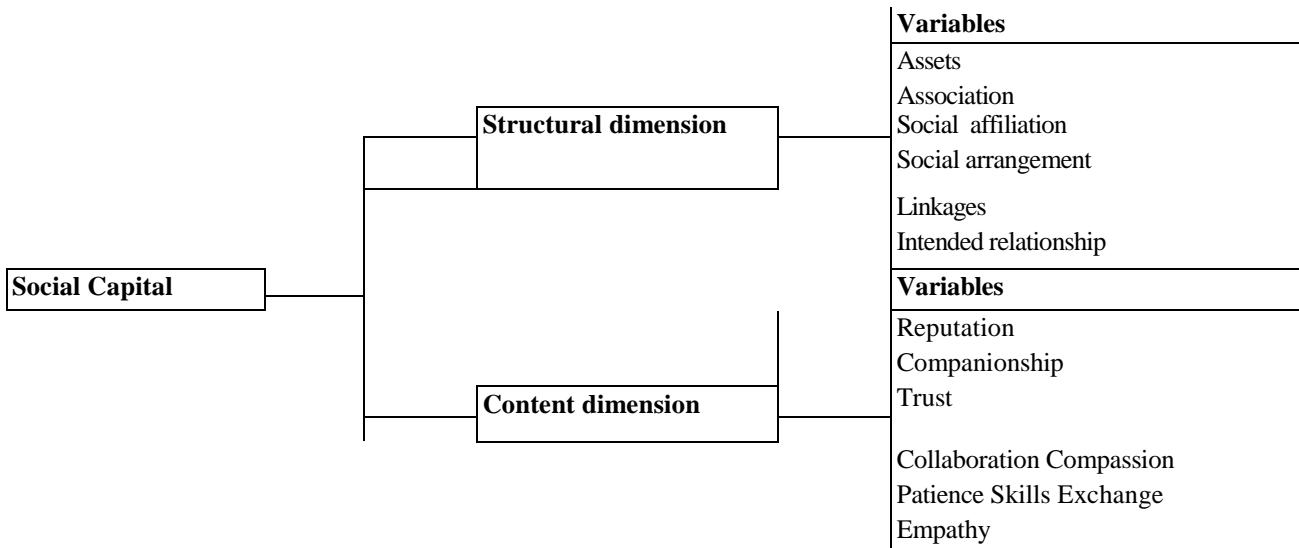
### **Structural Dimensions of Social Capital:**

The structural dimension is recognized in researches of numerous researchers (e.g. Woolcock, 1998; World Bank, 1999). It denotes the principal mechanisms of the social network of a group or society. It is neither held with considering social capital at a isolated single phase nor at the group phase, though, it is concerned in links among individuals and groups (Phillipson et al., 2004).

In this relationship, Franke (2005) has directed that exploiting social network examination to scrutinize social capital endorses that at the phase of individual, we may inspect interpersonal relations, as well as ties among individuals and groups. Social capital in this judgement can be perceived as an individual's competency to produce delicate as well as prevailing ties to others inside a community.

### **Content Dimensions of Social Capital:**

The content dimension of SC contains of types of customs, trust, common consideration and mutual practices, which regulate community associates' behaviours (Cohen & Prusak, 2001; Putnam, 2000). Trust is one of the regularly cited elements of content dimension of social capital (e.g. Putnam, 2000; Grootaert and Bastelaer, 2002). Trust, in relationship to content dimension of SC, notes SC as an examination of the proficiency of persons to work conjointly for common goals in groups (Widen-Wulff & Ginman, 2004). After analysing the related literature a summary of the structural as well as content dimensions of SC with their interrelated variables is revealed in Figure 1.



**Figure 1: Dimensions of social capital and its individual variables**

#### **Kinds of Social Capital:**

There are varied categories of SC known in the previous studies. These may be characterized as bonding, bridging as well as associating or linking. Bonding social capital denotes to parallel, tightly joined ties among individuals and groups with comparable demographic characteristics. Putnam (2000) refers to bonding SC as "social glue", which is revealed in standardized groups like links, families, ethnic as well as psychic groups. In addition, bonding SC can be exclusionary and may not work to produce communal extensive benefits. It is strongly attached with structural and content characteristics of social capital.

On the other hand, bridging SC refers to links with distant associates, contacts and colleagues. Bridging SC is renowned by weaker, less powerful but upper cross-cutting ties. This might be found in trade relations, knowledge clusters, contacts and acquaintances. These ties have a trend to be weaker and vastly dissimilar yet exceptionally commanding to "getting ahead" in groups (Putnam, 2000).

On the contrary, linking social capital is a third sort of social capital (Woolcock, 2001). This category of SC indicates the associations among individuals and groups across different mutual levels of a hierarchy in the society (Cote & Healy, 2001; Woolcock, 2001). Involving this type of SC might indicate the capacity to regulate resources from renowned establishments (Woolcock, 2001).

In spite of the hypothetical worth of these divergences of SC, it might be debated whether these dissimilarities hold experimentally in support of every categories of society (Szreter, 2002). The theme noted in the studies is that social capital is relative to situation in which it is examined. Besides, the influence of variables differs according to sort of society under scrutiny.

#### **Benefits of Social Capital:**

Scholars in social sciences and humanities have persistently indicated the impact of concept of SC in physical communities. Putnam (2000) has endorsed that SC licences persons to decide difficulties straightforwardly and predominantly while they work jointly on problem resolving. Procedures such as communal sanctions are applied for dealing with violations of communal practices. He has also observed that while persons are trusting and trustworthy, as well as endure persistent communication, daily commerce turns out to be uncomplicated and more enjoyable.

Furthermore, Putnam (2000) has injected that networks also function like a passage for the dissemination of helpful information adds to fulfilment of individual and group purposes. For instance, persons who are well committed largely achieve valuable data first. This acclaims that SC might help to safeguard social norms in the society and reduce incorrect or self-centred actions.

**International Journal of Novel Research in Marketing Management and Economics**  
Vol. 4, Issue 1, pp: (33-39), Month: January - April 2017, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

In addition, SC can tie traditional divergences by assembling a broad uniqueness and common view (Daniel, Schwier & McCalla, 2003). Likewise, from the perspective of management, Cohen & Prusak (2001) affirmed that SC can boost greater information sharing due to acknowledged trust relationships.

**Limitations of Social Capital:**

In spite of rewards of SC in societies, there is correspondingly a sum of probable drawbacks. One vibrant discrepancy in both the academic and industry studies on social capital is that one group scrutinise social capital as a single character where as other group scrutinize this as a belonging of cluster (Ichiro, Kim, Coutts & Subramanian, 2004).

Additional shortcomings challenge proposals that SC is mostly a public benefit. Halpern (2001) has revealed that planned violations or groups involve in a community network, whose associates share rules; still they do not comprise a shared good. This refers to situations in which group unity is strengthened through a prevalent understanding of difficulty and discrepancy of the traditional society.

Furthermore, the bulk of the studies on SC do not identify the multivariate feature of SC (Daniel, Schwier & McCalla, 2003). For example, Putnam (2000) mentioned that a decrease in social life leads to a lack of public commitment. He also considers deterioration in trusting behaviour in a society is like direct proof of decay in SC. Though these relations exist, the vital links among these variables and how they are linked are maybe a lot more challenging than simple cause and effect.

### 3. MEASUREMENT ISSUES

There is no broadly assumed consensus on how to calculate social capital. It is possible to instinctively differentiate magnitude of social capital in a group, while measuring this quantitatively is somewhat complex. It has established in development of varied metrics for varied tasks.

In addition, deteriorating the dissatisfaction to achieve settlement on a standard clarification and measurement metrics for SC, roughly everyone propose a fresh explanation instead of accommodating an existing explanation. Aforementioned studies have shown that the measurement of SC is considerably multifaceted due to the fact that the majority of the metrics in the educational periodicals have depended upon procedures of outcomes as well as benefits of SC in broad-spectrum rather than traditional indicators of SC (Daniel, Schwier & McCalla, 2003; Daniel, McCalla & Schwier, 2005).

Furthermore, SC is ordinarily acknowledged to be the belongings of cluster rather than belongings of the individual. For example, Putnam (2000) has utilized study methods intended to observe sponsorship in groups (Schuller, 2001). Similarly, Cote and Healy (2001) have commended that procedures of SC should be as broad as possible in their experience of vigorous scales (links, values, and customs).

Correspondingly, a number of investigators have focused on evaluating purely sole or several of the characteristics of SC, like trust (i.e. Putnam, 2000). The exploitation of trust like an alternative for measuring SC is not appropriate in various societies as trust is an ambiguous perception in itself and this contains various constructs (Daniel, Schwier & McCalla, 2005).

### 4. SMALL AND MEDIUM ENTERPRISE (SME) AND SOCIAL CAPITAL

There is no common description of Small and Medium Enterprise (SME). Definitions diverge from nation to nation. In Australia, for instance, SMEs are defined as firms engaging among five and 199 staffs (Kotey & Folker, 2007). In Indonesia, they are business firms with 5-99 staffs (Mira, 2006). The World Bank (2002) has also defined SMEs. Micro firms have 1 – 9 staffs; small scale enterprises have 10 – 49 staffs and medium have 50 – 249 staffs. Nonetheless, in the most of nations, this explanation did not match the homegrown definition, in which circumstances the native definition took preference.

In one hand, SMEs have inadequate assets, predominantly financial asset, which constrains their opportunity for becoming imaginative, original and economical, on the other hand, it is claimed that they might make up for this shortage, through the establishment of social capital. This could augment SMEs' capacity to invent by networking, hence expediting their collaborations with other organizations. Social capital undertakings surge the benefits SMEs may ensure

**International Journal of Novel Research in Marketing Management and Economics**  
Vol. 4, Issue 1, pp: (33-39), Month: January - April 2017, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

in terms of entree to funds and know-how from numerous bases including backing from government organizations as well as entree to markets.

On the other hand, the sociology of SMEs in emerging nations is mostly accustomed by the geographical dissemination of social capital to the extent that the market for SMEs is restricted to precise geographically and even culturally or traditionally confined areas. Similarly, the social capital base of SME actions may be endorsed to the structural associations within the SMEs as well as to the SMEs' market relationships. The trust level within the SMEs, predominantly in the incident of family companies, would largely be projected to be extraordinary, yet such trust and the social capital endured by it is possibly to be information - constrained in view of the inadequate magnitude of market relationships. Accordingly, there would be tiny or no space for creativeness and invention.

**Social Capital and SME Performance:**

In one hand social capital boosts communal trust among SMEs, and on the other hand, it reduces the production costs of SMEs. Social capital could be regarded similar to the linkage that connects trades and consequently it supports to accomplish competitive advantages (Batjargal, 2003; Florin, Lubatkin & Schulze, 2003).

In addition, social capital plays important role in differentiating entrepreneurial circumstances in the context of SMEs. Aldrich and Zimmer (1986) comprehend that social capital is imperative to identify the prospects, proposal inspection as well as resource attainment for SMEs. Innovative SMEs are probable to have twinkling attitudes if they dynamically create their social capital at their initial stage of business. Likewise, preceding researches display the the significance of social capital on organizational improvement (Hansen, 1998). The social network among SMEs and venture capital establishments assist the SMEs to progress their performance (Lee & Pennings, 2001).

Subsequently, the features of social capital, to be specific, communication openness, shared vision and trusting culture, support SMEs to accomplish resources and information to shrink the business costs as well as to retain positive effect on performance. As a result, one may theorize that the stronger the social capital of SMEs will be the superior the performance will be.

## 5. CONCLUSION

The notion of social capital suggests that individuals and organizations are associated to others based on trust in some others. Likewise, social capital was examined by entities and groups for their own benefits. In this research, we have established that social capital plays a key function within SMEs to achieve their business goals. Moreover, it was discovered that social capital has a substantial relationship with SMEs performance. As a result, this research endorses that SMEs undertake a preemptive attitude to encourage, construct and uphold viable social networks in order to develop higher profit from it. Forthcoming scholars might scrutinize the magnitude of effect exerted by the factors of social capital on SMEs performance.

## REFERENCES

- [1] Aldrich, H. & Zimmer, C. (1986). 'Entrepreneurship through social networks'. In Sexton D & Smilor R (eds) *The Art and Science of Entrepreneurship*, pp.3-23. Cambridge, Mass: Ballinger.
- [2] Batjargal, B.(2003). Social capital and entrepreneurial performance in Russia: A longitudinal study *Organization Studies*, 24 (3), 535-556.
- [3] Bourdieu, P. (1986). The forms of capital, in J. RICHARDSON (Ed.) *Handbook of Theory and Research for the Sociology of Education* (Westport, CT, Greenwood Press).
- [4] Bourdieu, P., and Wacquant, L. (1996). *An imitation to reflexive sociology*. Chicago, IL: University of Chicago Press.
- [5] Cohen, W., & Prusak, D. (2001). Absorptive capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, 35 (3), 128– 152.

**International Journal of Novel Research in Marketing Management and Economics**Vol. 4, Issue 1, pp: (33-39), Month: January - April 2017, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

- [6] Cote, P. & Healy, M.(2001). Finance and Small and Medium-Sized Enterprise in Developing Countries. *Journal of Developmental Entrepreneurship*, 6 (1), 45-49
- [7] Daniel, B., Schwier, R. A., & McCalla, G. (2003). Social Capital in Virtual Learning Communities and Distributed Communities of Practice. *Canadian Journal of Learning and Technology* , 29 (3), 113–139.
- [8] Daniel, B.K., McCalla, G.I. and Schwier, R.A. (2005). ‘Data mining and modelling social capital in virtual learning communities’, *The Proceedings of the 12th International Conference on Artificial Intelligence in Education*, Amsterdam, 18–22 July, pp.2003–2008.
- [9] Falk, I. & Kilpatrick, S. (2000). What is social capital? A study of a rural community, *Sociologia Ruralis* 40 (1), 87–110.
- [10] Florin, J., Lubatkin, M., & Schulze, W. (2003). A social capital model of high growth ventures. *Academy of Management Journal*, 46 (5), 374–384.
- [11] Franke, S. (2005). Measurement of social capital: Reference document for public policy research, development and evaluation. Policy research initiative. Retrieved from: [http://policyresearch.gc.ca/doclib/Measurement\\_E.pdf](http://policyresearch.gc.ca/doclib/Measurement_E.pdf).
- [12] Grootaert, C. and Van Bastelaer T. (eds) (2002). Understanding and Measuring Social Capital: A Multidisciplinary Tool for Practitioners. Washington,DC: The World Bank
- [13] Hansen, M. (1998). The search-transfer problem: The role of weak ties in sharing knowledge across organizational subunits. *Administrative Science Quarterly*, 44 (1), 82-111.
- [14] Hanifan, L. J. (1916). The Rural School Community Centre. *Annals of the American Academy of Political and Social Sciences* 67 (4), 130-38.
- [15] Halpern, D. (2001). Moral values, social trust and inequality: can values explain crime? *British Journal of Criminology*, 5(1), 102-115
- [16] Ichiro, K., Kim, D., Coutts, A. and Subramanian, S. (2004). “Commentary: Reconciling the three accounts of social capital”. *International Journal of Epidemiology*, 33(4),682-690.
- [17] Kotey, B. and C. Folker 2007. Employee Training in SMEs: Effect of size and firm type – family and non-family. *Journal of Small Business Management*, 45 (3), 214-238.
- [18] Lee, C., & Pennings, J.M. (2001). Internal capabilities, external networks, and performance: a work on technology-based ventures. *Strategic Management Journal*, 22 (5), 615-640.
- [19] Mira, K. (2006). Case studies of e-commerce adoption in Indonesian SMEs. The evaluation of strategic use. *Australasian Journal of Information Systems*, 14(1), 69-80.
- [20] OECD (2001). Well-being of Nations: the role of human and social capital (Paris, OECD).
- [21] Putnam, R. (1993). Making democracy work: civic tradition in modern Italy Princeton: Princeton University Press.
- [22] Putnam, R. D. (2000). Bowling alone: The collapse and revival of American community. *New York: Simon and Schuster*.
- [23] Preece, J. (2002). Supporting community and building social capital. *Communications of the ACM*, 45 (4), 37-39.
- [24] Phillipson, C., Graham, A., and David M. eds (2004). Social Networks and Social Exclusion: Sociological and Social Policy Perspectives. Hampshire, England: Ashgate.
- [25] Rafaeli, S.; Ravid, G.; and Soroka, V. (2004). De-lurking in virtual communities: a social communication network approach to measuring the effects of social and cultural capital. In *Proceedings of the HICSS*.
- [26] Resnick, P. (2002). Beyond bowling together: Sociotechnical capital. In J. M.Carroll (Ed.), *Human-computer interaction in the new millennium* (pp. 247–272). Reading, MA: Addison-Wesley.

**International Journal of Novel Research in Marketing Management and Economics**Vol. 4, Issue 1, pp: (33-39), Month: January - April 2017, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

- [27] Sobel, J. (2002). Can We Trust Social Capital? *Journal of Economic Literature*, 40 (1), 139–54.
- [28] Sreter, S. (2000) ‘Social capital, the economy and education in historical perspective, in S.
- [29] Baron, J. Field and T. Schuller (eds) *Social Capital: Critical Perspectives*, Oxford: Oxford University Press.
- [30] Widen-Wulff, G. & Ginman, M. (2004).Explaining knowledge sharing in organizations through the dimensions of social capital. *Journal of Information Science*, 30 (5), 448-458
- [31] Woolcock , M. (1998). Managing Risk, Shocks, and Opportunity in Developing Economies. The Role of Social Capital, in Gustav Ranis, ed. *Dimensions of Development*. New Haven, CT: Yale Center for International and Area Studies, 197- 212.
- [32] Woolcock, Michael (2001). *Using Social Capital: Getting the Social Relations Right in the Theory and Practice of Economic Development* (Princeton, NJ: Princeton University Press)
- [33] World Bank (2002), *The Small and Medium Enterprise (SME) and Developing Counties*. Washington DC.