

## **RELATIONSHIP BETWEEN SOCIAL CAPITAL AND ENTREPRENEURSHIP IN THE DEVELOPING COUNTRIES (A CASE STUDY, KURDISTAN PROVINCE OF IRAN)**

Parviz Kafcheh (PhD)<sup>1</sup>, Seyed Erfan Hosseini<sup>2</sup>

<sup>1</sup>Assistant Professor of Strategy & Management, Department of Business Administration, University of Kurdistan

<sup>2</sup>Master of Business Administration

***Abstract :** The focus of this paper is on the relationship between social capital and entrepreneurship in Kurdistan province industrial firms/companies. The demographic population in this research consists of the active companies in production industry with more than 10 employees. Totally, the research consists of 820 companies. Randomly, 256 companies have been selected with sampling method from a limited population.*

*The research method was based on survey. Data was collected with Likert's 5-points questionnaires. The questionnaires validity and reliability are based on conceptual method. The questionnaire permanency rate were calculated by means of Alph Coronbach (802%). The statistical methods were descriptive and deductive (Spearman Correlation Coefficient Test). The result show there is significant relationship among all the social capital dimensions (Cognitive, structural and correlation) and entrepreneurship.*

***Key words:** Social Capital, Structural Dimension, Correlation Dimension, Entrepreneurship.*

### **Introduction**

Today, in developing countries entrepreneurship and establishing small and medium entities are regarded as one of the most important economic issues. Certainly, this renewed gift regarding to the importance of the competitive spirit is the result of economic depression, severe fluctuation and unemployment high rate in the international cycle. On the other hand, the globalization, the increase of competition, customer satisfaction and innovation, etc, have encountered the country's economy with a serious challenge (Judie Payne, 2001). This condition, in various countries, inevitably, has intensified the importance of entrepreneurship in economic growth and development all around the world. Actually, from the economic authorities (persons) perspective, entrepreneurship is considered as the main source of innovation, creativity, employment, the reduction of unemployment rate, and the increase in social and economical welfare.

Regarding to entrepreneurship and entrepreneurs studies, the question imposed is that what is entrepreneurship requirement and how can it be fundamentalized in the society and how can create the foundation of its appearance in the society (Alvani, 2008).

(Batjargal, 2007) analyzed the mutual effects of public investment and human investment in entrepreneurship on the function of internet based investment in china. The results indicated that public investment interaction and the entrepreneurs western experience have positive effect on the possible survival of internet companies. However, the public

investment interaction and initiative experiences of entrepreneurs have negative effect on the function of internet based companies.

Most of the researches done on the entrepreneurship deal with determining the personal characteristics of entrepreneurs (structurally and environmentally), because paying no attention into the social relationship networks (social capital) uneconomical elements have been criticized. Investigating the entrepreneurship in the social surrounding structures framework, make smooth a way for vast standpoint regarding the entrepreneurship, as such it make one pay close attention to the entrepreneurship's vague and subtle areas, means its socio- economic aspects(Ulhoi, 2004).

Today, from the social science scholars's standpoint, entrepreneurship is regarded as a procedure located in a variable network of social relationships. So, these social relations can facilitate the entrepreneur's access to the needed resources and opportunities. It means a group of people in connection with each other through special relationships.

Therefore, entrepreneurs find, it is possible to control the unsuitable environment in transient economy through individual relationship networks, intra-network connections among networks give access to resources and information and allow the individuals to access the resources which are not accessible by themselves. In addition, these factors not only help to find investors but also they help the government and legislators (Spence et.al, 1999). Therefore, the social capital theory has made its way into entrepreneurship researches. In the all levels, entrepreneurship theoretical foundations clarify the social capital importance in order to show how individuals create and manage the networks.

Recently, authors find social capital plays an important role in the entrepreneurship. And based on its aspects -for their success- entrepreneurs must depict a specific pattern in social capital. So, one can apply social capitals' concept to analyze the social relationships' network. This capital is regarded as a new concept which plays the far more important role than physical and human capital in the organizations and societies. Today, it is applied in sociology and economics. In the recent years, its application in on small management and organizations is very notable.(Baron, 2000). This concept considers the connections among the members of a network as a valuable source. So, it would be the main causes of the members' goals actualization if it can create the norms and mutual trust.

In addition to study of entrepreneurship and its' effectiveness of social capital on small and medium entities (SMEs), it made us to investigate this issue in "Kurdistan Province", to see whether there is a correlation between social capital and its dimensions with entrepreneurship or not?

For the first time in 1916, the term "social capital" was coined by a young social reformist named Hainfan. He felt social life was going to exert its existence toward family seclusion/isolation and social inflation emphasizing the importance of social capital and commitment on social renaissance in order to preserve the democracy. In his explanation about social capital, nearly, the main elements of the dimensional interpretation terms have been applied. Apparently, his creative concept didn't attract other authorities attention and disappeared without effect (Hainfan, 1916). In 1999, social capital concept was entered the organizational and managerial literature by Leana(Leana, 1999).

Some researchers, in their conceptual models, consider the social capital as an intellectual capital element and the others discuss it as an effective factor in creating the intellectual capital (Armstrong, 2001). Regarding to social capital, one definition was offered by Coleman in 1990 as following: social capital is a set of relationships among individuals and groups with some achievements. Without these relationships, it is difficult to access them (Coleman, 1990). From Nathalie Ghoshal's standpoint social capital includes all the potential and effective resources hidden in communications and derived from the social

unites networks or individuals relationships. So, it is accessible to them (Nahapiet, J., & Ghoshal, S., 1998). For this purpose, in the social relationship network investigation, the social capital concept would be used. The capital, as a new concept, plays an important role even far more important than physical and human capital in organizations and societies. Today, it is widely used in sociology and economics and just recently places his foot on management and organizations. It refers to network intra-members communications members as a valuable source that courses the member goals actualizations by creating norms and mutual trust. In addition to the study of entrepreneurship and its' effectiveness of social capital on small and medium entities (SMEs), it made us to investigate this issue in "Kurdistan Province", to see whether there is a correlation between social capital and its dimensions with entrepreneurship or not?

The researches show social capital can play an important role in entrepreneurship, and entrepreneurs should take a special plan for social capital into account on the basis of its dimensions (Lin, et al, 2006). Batjargal (2007) investigated the mutual effect of entrepreneurs' social capital and human capital on internet investment procedure in China. The result show, the interaction of social capital and western experience of entrepreneurs causes significant effect on continuance possibility of internet firms. But, the interaction between primary experiences and social capital cause hazardous effects on internet firms performance.

Steven, et al, (2008) in his research based on reliability/trust index and data from universal/global values, has investigated the relationship between reliability/trust and economic growth. Based on some results, human capital and social capital have significant effect on the level of income.

(Kwon, et.al) researches in 2010, titled "the effects of social capital on the entrepreneurship's opportunity concept" prove a citizen lives in a country in which trust governs on the citizens make more attempt entrepreneurship opportunity than a country/place in which the level of trust/reliability is low.

## Research Model

Based on the researches, social capital dimensions and entrepreneurship, the research conceptual model has been shown in diagram 1, the entrepreneurship and social capital variables applied in this model have been briefly explained.

**The opportunity:** Entrepreneurship opportunity is considered as a situation in which new products services, raw materials, marketing and organizational methods are presented(Shane, 2000).

**The opportunity Discovery:** opportunity discovery define as imaging and understanding the probable profit through establishing and creating a new business and the considerable improvement in the existing business toward having access to information and social networks.

**Opportunity discovery:** After discovering the opportunities, one should make decision whether its exploitation is necessary or not. In this regard, in exploiting the opportunities, one can refer to four factors in this process seem help the entrepreneurs. These factors include: psychological and anthropological factors, fundamental and industrial factors.

**Resources acquisition:** Sine entrepreneurial opportunity requires achieving and combining the resources acquisition, before selling the products, entrepreneur should provide financial means whether by supplying individual financial resources supply or contracting the other investors/shareholders.

**Entrepreneurial strategy:** The strategy defines as an attempt in attaining and preserving the private value in exploiting opportunities. Entrepreneurial strategy is regarded as un-strategic actions carried out with exploiting the opportunities such as the processes depended on organizing and growing from a small scale (shane, 2000).

**Organizational process:** in exploiting the opportunities, the entrepreneur should organize it. Organizing the opportunities requires the creation policies and structures toward the entrepreneur's access. So, in this regard, he/ she should take a series of actions and processes such as planning and supervising into granted.

**Structural Dimension:** The social capital structural dimension refers to the general pattern contacts among people, that is, who is in your access and how, such as network relationships, network configuration and appropriate organization(Burt, 1997).

**Cognitive Dimension:** Cognitive dimension of social capital refers to resources that provide manifestations, interpretations, analyses, and common meanings systems among group such as common/shared codes and stories (Nahapiet, J., & Ghoshal, S., 1998).

**Relational Dimension:** Relational dimension of social capital deals with all the individual relationship type created by people during their interaction. The attention basis in social capital is based on special relationships including: respect, trust, honesty, kindness and sincerity.

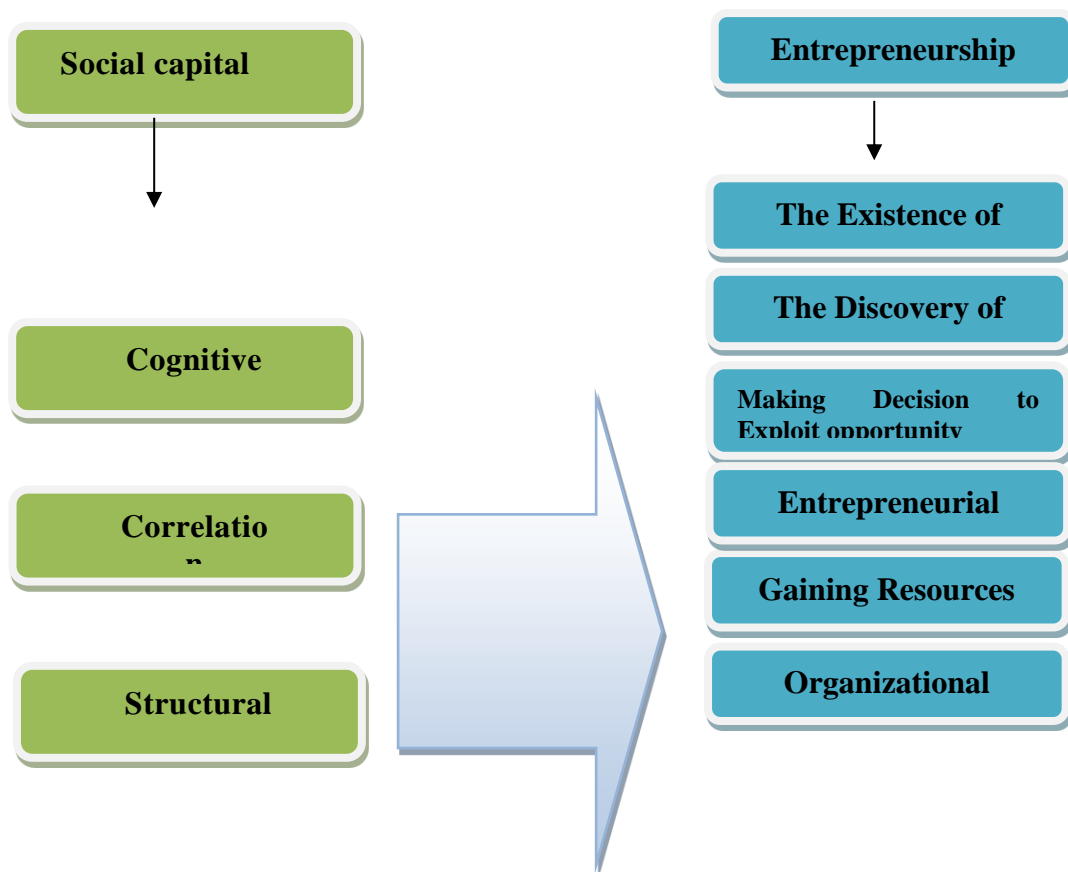


Diagram 1: Conceptual Model

## Methodology

The research method is descriptive- correlative. The study has used second source (library and other recorded observation) data and case study. Information was provided with random-sampling method.

The research demographic population included 820 industrial units in Kurdistan province industrial towns of Iran. The statistical samples of 265 units, were selected by Morgan's table in 2012. The variables included social capital dimensions, (cognitive capital, relational capital, structural capital) and entrepreneurship dimensions (opportunity dimension, opportunity discovery dimension, decision for opportunity exploitation dimension, resources acquisition, entrepreneurial strategy, organizational process dimension). In order to collect data, two self- made questionnaires were used to social capital based on Nathalie and Ghoshal's model, and to measure entrepreneurship dimensions, the Shin model was used. The questions and responses reliability/validity were confirmed by some experts. The questionnaires' duration based on primary studies, includes the distribution of pre-samples by 30 copies. Overall, Cronbach's alpha for the sample were 0.88 and 0.99 which indicate an excellent level of statistical consistency. In data analysis, SPSS software was utilized. Also, the applied statistical methods in this research included descriptive and perceptive statistics. To study the correlation between each one of the components of social capital and entrepreneurship, Spearmans' co relational co-efficient test was applied.

## Results

Hypothesis1 (H1): There is a significant correction between cognitive dimension of social capital and entrepreneurship. The Spearman correlation co efficient result in HI is shown in Table 1.

Table 1: Relation between cognitive capital and entrepreneurship

Entrepreneurial process	cognitive dimension of social capital
7.797	Spearman correlation coefficients
265	Number
0.000	(sig)
There	Significant relationship

Based on the hypothesis1 significant level is 0/000, ( $p < 0.05$ ). Also, the correlation coefficient for cognitive dimension of social capital and entrepreneurship is 7.797. The result show there is a significant correlation between social capital cognition and entrepreneurship.

Hypothesis2 (H2): There is a significant correlation between structural dimension of social capital and entrepreneurship.

The result of H2 is shown in Table 2.

Table 2: Relation between structural capital and entrepreneurship

Entrepreneurial process	The structural dimension of social capital
5.142	Spearman correlation coefficients
265	Number
0.000	(sig)
There	Significant relationship

Based on hypothesis2, the significant level is 0.000, ( $p > 0.05$ ). Also the correlation coefficient for the social capital structure and entrepreneurship is 5.142. Consequently, there is a significant correlation between social capital structure and entrepreneurship.

Hypothesis3 (H3); there is a significant correlation between social capital and entrepreneurship.

The result of H3 is shown in Table 3.

Table3: Relation between social capital and entrepreneurship

Entrepreneurial process	The A relationship dimension of social capital
7.789	Spearman correlation coefficients
265	Number
0.000	(sig)
There	Significant relationship

Based on hypothesis3 significant level is 0.000, ( $p < 0.05$ ). Also, the correlation coefficient for social capital and entrepreneurship is 7.789. The result show there is a significant correlation between social capital and entrepreneurship.

The Research's Hypothesis Analysis Based on Regression Model and Route Co-efficient Measurement: Here, the independent variable (social capital) and the dependent variable (entrepreneurship) have analyzed by means of multiple regression.

In table 4, the determination coefficient was 0.200. In the table, the more coefficient adjustment, the more independent variables change is available. In table 6, the significance of Regression has been measured by F test.

Table 4: summary of model between the variable dependent on entrepreneurship and the independent variables of social capital.

Wsc	Std	Adjusted R	R Square	R
<b>1.47</b>	<b>0.538</b>	<b>0.197</b>	<b>0.2</b>	<b>0.538</b>

Based on table 5, the measured significant level for this statistic is 0.000 and it indicates that regression is significant at 9% level (sig=0.000) the variable regression model related to entrepreneurship and the social capital independent variables are shown in table 5.

Table 5: table of analyzing the variables related to entrepreneurship and independent variables of social capital.

Sig	F	Mean-square	Degrees of freedom	Sum of squares	
<b>0.000</b>	<b>33.560</b>	<b>8.846</b>	<b>3</b>	<b>26.538</b>	Regression model
		<b>.264</b>	<b>261</b>	<b>68.798</b>	Residuals
			<b>264</b>	<b>95.336</b>	Total

Based on table 6, the independent variables direct effects become explicit in which indicate the relational and cognitive dimensions have the highest effect level on the entrepreneurship promotion.

In the analysis, the path of direct or indirect effects on independent variables toward the dependent ones would be identified. In direction analysis, the rate of the direct effect of an independent variable over the dependent variable is called the direction coefficient.

Table 6: variables Regression model related to entrepreneurship and the independent variables of social capital

Sig	t	Standardized coefficients	Non-standardized coefficients		model
		Beta	Std.error	B	
4.341	4.341		0.295	1.280	Constant
0.064	1.859	0.112	0.056	0.104	Structural
0.000	4.475	0.275	0.058	0.261	Cognitive
0.000	5.020	0.288	0.065	0.325	A relationship

Based on the results, it is clear the independent variable have direct effect over the dependent variables. So, it can be concluded it have the highest effect on opportunity discovery.

Diagram 2 show the result of these effects.

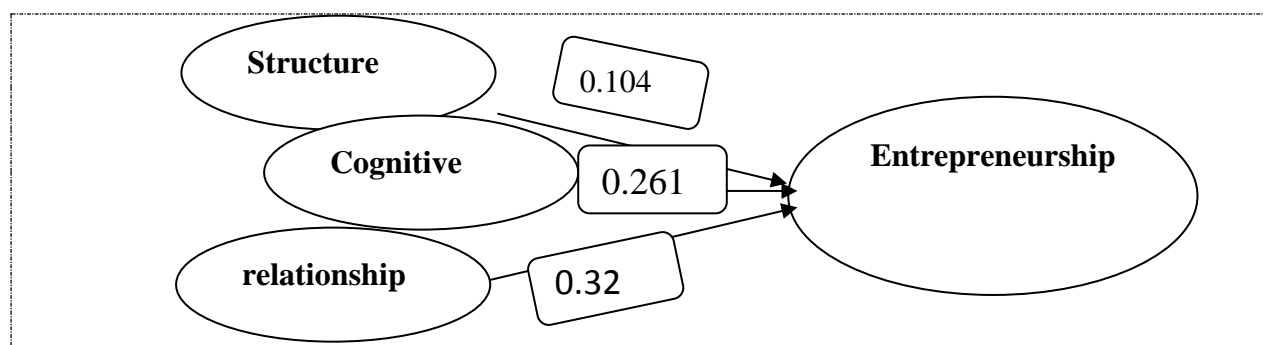


Diagram 2 : the direct effects of independent variables (social capital) on the dependent variable (entrepreneurship)

## Conclusion

Today, the need for entrepreneurship is more noticeable, so individuals and organizations must try to find suitable ways to elevate it. One of the most important and effective factors on entrepreneurship is social capital. Paying close attention in making new capitals, whether human capital or social capitals-in our challenging era- has been increasing all around, the world, including Iran. Since, in the economic criteria, industrial companies in Sanandaj city are very important, there has been an attempt to elevate the relationship between social capital and entrepreneurship based on Nahapiet and Ghoshal's model. The purpose is to find the gap between social capital and entrepreneurship and entrepreneurs, so that we can find suitable solutions to narrow or eliminate the possible gaps. Based on H1, one can say there is



a significant relationship between the social capital and entrepreneurship in Sanandaj city. Based on the research details and the theoretical framework the hypotheses were prepared. Supposed there is a correlation between the structures and the horizontal and vertical relations, in which the decision making and group work takes place, and entrepreneurship, since having proper organizational structure in decision making and working as a group is the main cause in creating the ideologies and innovations in organizations and ultimately entrepreneurship in individuals.

The hypotheses have been confirmed in the current research, because the correlation coefficient is significant (direct). Therefore, we can conclude, if the industrial units in Kurdistan province industrial town have better social capital, the more and better entrepreneurship will take place. The results are homogeneous with Alvani (2008). But, they were not homogeneous with Soundsens' researches (2010). Therefore, it is suggested that individuals in social institutions' format have a common identity and the essence of group cooperation's have a strengthening basis. Creating such institutions at the individual and group level in organizations and businesses is possible. Having the groups and professional and technical communities in the organizations can elevate social capital in organizations. Based on H2, one can say, there is a significant correlation between the cognitive dimension of social capital and entrepreneurship in the demographic population. This dimension is in contact with phenomenon such as values, views, goals that exist in the system. Those who take more advantage from the issues that were just discussed, spend less time in protecting themselves against become exploited in economic interactions. So they have solid control over the inappropriate activities of the share holders and colleagues. In this case, information exchanges takes place more often. All these make the opportunity for individuals to have more time in thinking, innovating, creating and ultimately having entrepreneurship. These theories have been proven in the current research, because the correlation coefficient is significant (direct). The hypothesis results were homogeneous with Taslimi & Alvani (2008). Therefore, it is suggested the organizations pay more attention to education, because one of the most important existing derivations in individuals, groups, institutions and organizations in creating social capital is the educational process. Going through the general education and training, plays the main role in creating the social capital. Based on H3, one can say there is a significant correlation between the social capital and entrepreneurship in the demographic population. This dimension is in relation with phenomenon such as common goals, trust, cooperation, social norms and commitment to the goals and those individuals who use the above mentioned factors in their relationships, use the relational dimension in their interaction with entrepreneurship better and more effectively. The hypothesis results are homogeneous with the researches of Batjargal (2007) and Kwon et al (2010). Therefore, HI suggests it is beneficial and suitable to provide recreational and tourism programs, because these factors increase the face to face relationships, and face-to-face relations will have significant effect towards the creation of better relationships based on trust.

## Resources

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