An Investigation of the Impact of Social Capital for the Entrepreneurial Intentions

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ABSTRACT

It is reported that individuals have less willingness to start their own business. Lack of entrepreneurial intentions impact adversely for the economic development of the country as entrepreneurship is a major source of employment generation and economic development. Thus, scholars emphasize on investigating the factors stimulating the interest of undergraduates to become an entrepreneur. Among the factors, social capital of individuals plays a vital role. On the above backdrop, present study was undertaken to understand the impact of social capital affecting the entrepreneurial intentions of the undergraduates involved in Business Administration and Entrepreneurship courses in Sri Lankan Universities. Findings of the study suggests that the number of social ties, trustworthy relationships and the social norms shared among the undergraduates within their community affect their willingness to start a new business. Thus, the study provides significant insights for the university administrators highlighting importance of facilitating a platform for the undergraduates to network with the fellow undergraduates.

KEYWORDS: entrepreneurship, entrepreneurial intention, social capital, structural capital, relational capital, cognitive capital

INTRODUCTION

Entrepreneurship has been viewed as a way of life and something which helps in the thinking process when overcoming threats and taking up challenges and opportunities (Tessema, 2012).

The significance of entrepreneurship stems from its imperative contribution to the national economy by increasing economic efficiencies, introducing innovations, creating new jobs and sustaining employment levels (Hindle and Rushworth, 2000; Shane and Venkataraman, 2000; Carree and Thurik, 2005; Praag and Versloot, 2007; Wu and Wu, 2008 as cited in Pretheeba, 2014). The role of entrepreneurs in generation of new ideas, the subsequent conversion of these ideas to profitable businesses, the innovation of processes or methods and the generation of mass employment have attracted the scholars and policy makers (Turker and Selcuk, 2009).

Even though entrepreneurship is important for a country, people are lacking entrepreneurial intentions. Lack of entrepreneurial intentions has become a global phenomenon. Particularly among the undergraduates. In the global context it is reported that only few graduates tend to engage in entrepreneurial activities. Minks (1998) found that only 7% of the graduates in Germany were self-employed four years after their graduation. Similar numbers were reported for Austria and Switzerland (Franke and Luthje, 2004). Not just in the global context, less entrepreneurial intentions reported among the undergraduates in Sri Lanka when compared to other employment (Jayaratna, Perera and Gunaratna, 2011; Mayuran, 2017). Due to this university system in Sri Lanka does not contribute by even producing five percent of entrepreneurs to the economy (Mayuran, 2017). Therefore, it is important to investigate why the undergraduates in Sri Lankan universities demonstrate less intentions to engage in entrepreneurial activities.

When entrepreneurship is considered it is stated that, entrepreneurship is inseparable from social interaction (Cope and Rose, 2007). Social interactions lead to social capital. Social capital is made up of the relationships, either formal or informal, generated by individuals in their interaction with other individuals trying to obtain an expected reward in the market (Lin 2003). Since economic activity is embedded in society, the innovative entrepreneur develops social capital through building networks which provide external sources of information, support, finance and expertise allowing mutual learning and boundary crossing (Cope et al., 2007). Thus, the presence or absence of social capital is likely to influence the very nature of the entrepreneurial venture (Anderson and Miller, 2002; Cope, Jack, and Rose, 2007).

Although entrepreneurs are increasingly recognized to be an important element of modern economies, understanding of how they operate, and the very nature of entrepreneurship remains relatively limited (Cope et al, 2007). Further, there is a lacuna in the extant literature which explains the reasons...
why young entrepreneurs, under the age of 25, decides to take up new ventures (Turker and Selcuk, 2009; Gelaidan and Abdullah, 2017). Much of the existing literature on entrepreneurship focuses attention on adult entrepreneurs (Gelaidan and Abdullah, 2017). Studies which focus on adult entrepreneurs have ignored the fact that the future working environment will largely depend on the comportment, agility, and creativity of the youth, so the need to study the reasons why these generations venture into entrepreneurship is highly necessary (Henderson and Robertson, 2000). Recent scholars emphasize the need for investigating what factors are stimulating the interest of people to become an entrepreneur (Gelaidan and Abdullah, 2017). Thus, the present study contributes by addressing this lacuna in the extant body of literature regarding the entrepreneurial intentions of undergraduates.

Further understanding the specific social processes that may enhance the ability of the entrepreneur to recognize or exploit opportunities is fairly limited (Davidsson and Honig, 2003). Yet, understanding the impact of the social context on the entrepreneur is important (Aldrich and Zimmer, 1986; Granovetter, 1985; Young, 1998). Cope et al. (2007) emphasized the emerging importance of social capital to the understanding of entrepreneurship. Therefore, present study contributes to the extant literature by investigating the impact of social capital for undergraduate’s entrepreneurial intention as it is not sufficiently explored in the literature.

On this backdrop, the present paper investigates the impact of social capital for entrepreneurial intentions of undergraduates to provide a better understanding of the factors influencing undergraduate’s entrepreneurial intentions. More specifically, this paper investigates the impact of the dimensions of social capital (structural capital, relational capital and cognitive capital) on the entrepreneurial intentions based on extant literature.

Literature review
Entrepreneurial intentions
A long tradition of research is devoted to the question of why some people choose to be self-employed and start their own businesses and others are rather inclined to seek traditional wage or salary employment. A number of conceptual models structure the various factors that affect this process (e.g. Bygrave, 1989; Moore, 1986). Although not specifically developed for students, they might explain their entrepreneurial intentions as well as the intentions of any other population (Franke and Luthje, 2004).

Entrepreneurship is an intentional activity (Henle, 2007) and the single best predictor of entrepreneurial behavior (Mazzarol, Volery, Doss and Thein, 1999). Extant literature has asserted that intentions are an important consequence of planned behaviour (Ajzen, 1991; Krueger, 2002; Shook et al., 2003; Edelman et al., 2010). Intention to start a business is driven from a propensity to act upon opportunities and from perceptions of desirability and feasibility (Mayur, 2017). Entrepreneurial intention is a reflection of the state of the mind and prompts people to take up self-employment instead of being employed (Tessema, 2012; Karimi et al., 2016). This can be defined as the engagement in or the intention of an individual to start a new business (Dinis et al., 2013). Entrepreneurial intention also relates to the behaviour and commitment of the individual who is motivated or driven towards starting a new venture (Tessema, 2012). According to the previous studies people will not become entrepreneurs all of a sudden without certain triggers and most importantly, the intention (Krueger, Reilly and Carsrud, 2000). The intention is formed at least a year in advance of the new venture creation (Henle, 2007).

Factors affecting entrepreneurial intentions
Several conceptual models of entrepreneurial intentions have been developed to identify the factors that have an impact on entrepreneurial intention of starting a new business (Bird, 1988; Davidsson, 2006; Autio 1997; Bolton and Lane, 2012). Much of this literature has explored the reasons why students at universities and other higher institutions are taking up the challenges of entrepreneurship. Wang and Wong (2004) studied the entrepreneurship interest of Singaporean students based on their personal backgrounds and discovered that gender, education level and experience from a family business are the significant factors that explain entrepreneurship interest among the students (Gelaidan and Abdullah, 2017). Lee et al. (2005), in a cross-cultural research of four countries, found that young university students will go into entrepreneurship if each country can provide customized entrepreneurship education.

Until relatively recently, the study of entrepreneurship focused primarily upon the individual. Analysis of traits, cognitive models of behaviour and start-up were firmly individualistic (Bolton and Thompson, 2000; Brockhaus and Horowitz, 1986; Kets de Vries, 1977). Recent scholars paid attention on the impact of social capital on entrepreneurship. However, the understanding of the impact of social capital on entrepreneurship is still emerging (Cope et al., 2007).

Social capital
The concept of social capital is widely agreed to be ambiguous. It has many different connotations, so the scope for confusion is considerable (Anderson and Jack, 2002). Social capital is centrally concerned with the significance of relationships as a resource for social action (Baker, 1990; Burt, 1992; Coleman, 1988, 1990). Social capital is made up of the relationships, either formal or informal, generated by individuals in their interaction with other individuals trying to obtain an expected reward in the market. That is, social capital could be defined as capital captured in the form of social relationships (Lin, 2003). Several scholars define social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individual or social units" (Nahapiet and Ghoshal, 1998, p. 243). Certain studies introduced social capital, including not only social relationships, but also the norms and values associated with them (e.g., Coleman, 1990; Putman, 1993). The term social capital has been traditionally conceptualized as a set of social resources embedded in relationships (e.g., Burt, 1992; Loury, 1977). Thus, social capital can be identified as an asset embedded in relationships of individuals, communities, networks or societies (Burt, 1997; Nahapiet and Ghoshal, 1998; Walker, Kogut, and Shan, 1997).

Individuals develop social capital from a process of investment in human relationships, which requires resources and time (Lin, 2003). Which makes it easier to access information, reduce transaction costs by allowing the coordination of activities, and facilitate collective decision-making (Grootaert and van Bastelaer, 2001). Empirical
evidence suggests that social capital is positively related to firm performance (Baker, 1990), product innovation (Tsai and Ghoshal, 1998), and industry-wide network formation (Walker et al., 1997). Similarly, social capital of individuals facilitates job and status attainment (Lin, Ensel, and Vaughn, 1981), enhances individual’s power (Krackhardt, 1989), career mobility (Podolny and Baron, 1997) economic performance of firms (Baker, 1990), and affects CEO compensation as well (Belliveau, O’Reilly, and Wade, 1996). Research on personal networks of entrepreneurs revealed that entrepreneurs seek information, advice and social support from network alters (Aldrich and Zimmer 1986; Birley 1985; Nohria 1992), control and manage exchange structures through network dyads (Larson 1992), access financial capital (Shane and Cable 2002; Uzzi, 1999) and get endorsement from prestigious players to influence perceptions of the quality of their ventures (Stuart et al., 1999). On the other hand, there is growing empirical evidence that the social embeddedness has a negative aspect: tightly controlled relationships reinforce social obligations and expectations that may interrupt the freedom of economic agents to recognize and exploit new opportunities (Light and Isralowitz 1997; Podolny and Page 1998; Uzzi 1997)

Social capital consists multidimensional level (Grootaert and van Bastelaer 2001). Among them, the macro or social level focuses on the potential benefits for the society of individuals’ and organizations’ social networks, such as improved income levels (Fukuyama 1995; Knack and Keefer 1997; Dakhlil and de Clerq 2004). The micro or individual level focuses on the potential benefits of network relations for the person, such as the entrepreneurial start-up or firm success (Lin, 2003; Davidsson and Honig, 2003). The meso organizational level focuses on the potential benefits of network relations for the organization, such as a higher efficiency (Putnam, 1993). Further, sociologists identified three dimensions of an individual’s social capital: structural capital, the structure of the overall network of relations; relational capital, the quality of actor’s personal relations (Granovetter, 1992); cognitive capital, the degree to which an individual share a common code and systems of meaning within a community (Nahapiet and Ghoshal, 1998).

Structural capital
Structural capital is the size of an entrepreneur’s network (Batjargal, 2003). Structural capital refers to the overall pattern of connections between actors that is, whom you reach (Burt, 1992). This means the presence or absence of network ties between actors (Scott, 1991; Wasserman and Faust, 1994) and network configuration (Krackhardt, 1989).

It is stated in the extant literature that structural social capital would encourage cooperative behavior, thereby facilitating the development of new forms of association and innovativeness (Putnam, 1993). This is because an extensive social ties and interactions may increase entrepreneurs’ accessibility to productive elements, reduce costs in renting space, and obtain cheaper interest rates on loans among others. Extensive social networks also increase the likelihood of locating clients for their products and services and suppliers to their new ventures (Liao and Welsch, 2003).

Relational capital
Trust is the precursor to resource acquisition and knowledge combination and exchange. Therefore, someone who develops a high degree of trust and trustfulness will be more likely to appropriate the knowledge, information, and other forms of resources available in his / her social network (Liao and Welsch, 2003). Empirical studies demonstrate, when trust is built up between parties, they are more willing to engage in cooperative activity through which further trust can be generated (Fukuyama, 1995; Tyler and Kramer, 1996). Thus, relational capital has been interpreted as relational content (Burt, 1992, 1997), tie strength and relational trust (Galunic and Moran, 1999; Tsai and Ghoshal, 1998). It focuses on the particular relationships people have such as respect, trust, and trustfulness and friendliness. For example, two entrepreneurs may occupy equivalent positions in similar network configurations. However, if their personal relations to other network members differ, their actions and results are likely to differ. The entrepreneur with more trust and trustfulness is more likely to leverage such relationships to his / her advantage (Liao and Welsch, 2003).

Cognitive capital
Cognitive capital refers to the resources which provide “shared representations, interpretations, and systems of meaning among parties” (Nahapiet and Ghoshal, 1998: p.243). Cognitive capital explains that the behaviors of entrepreneurs are shaped by the normative and mimic forces that exist in their network environments (Liao and Welsch, 2003). Thus, cognitive capital plays a critical role by providing social support, a safety net which allows the entrepreneur to break social norms in the process of risk-taking. A community emphasizing entrepreneurial spirit is willing to accept failure, thereby opening up access to parties for the exchange of information and resources. As suggested by Liao & Welsch (2003) cognitive dimension of social capital would not only increase entrepreneurs’ resource accessibility but also appropriability, as well as their ability to enterprise. However, cognitive capital has not been discussed in the mainstream literature of social capital (Liao and Welsch, 2003).

Following conceptual framework has been developed based on the extant review of literature.

![Diagram showing Social capital affecting the entrepreneurial intention of undergraduates](image)

**Methodology**
Present study is governed by the positivistic research philosophy and follows quantitative method. The impact of social capital for entrepreneurial intentions of management undergraduates was investigated to proceed towards a conclusion by adapting the survey strategy. Complying with the rule of thumb of Roscoe’s a sample size larger than 30 and fewer than 500 was considered appropriate in the present study. Based on that 213 was determined as the sample size. The unit of analysis selected in the present study is the individual. Following Gelaied and Abdulateef, (2017) systematic sampling technique was used to select the Management undergraduates who took entrepreneurship and small business courses.
The measurement instrument for this study is divided into two sections. First section measuring demographic factors and second section measuring other variables. The measures for the three dimensions of social capital were constructed using 10 items taken from a previously validated standard questionnaire used by Liao and Welsch (2003). These were operationalized using the four items, four items and two items respectively. All continuous variables were measured using five point Likert scale (1= strongly disagree; 5= strongly agree).

Data analysis
The data was analysed by using the structural equation modeling approach to examine the model and test the hypothesised relationships with AMOS. Goodness of measures was performed to test the validity of measurement instruments, and a structural model was analysed to empirically establish the relationships between the constructs and test the model fit of the hypotheses. Construct validity, convergent validity and discriminant validity was assessed and assured in the present study to ensure the goodness of measures. Cronbach’s alpha for all the variables were between 0.720 and 0.857, exceeding the suggested value of 0.70 (Hair et al., 2010), thereby the reliability of the measures used were ensured. Statistics of reliability and validity are given in the below table.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of Items</th>
<th>Std Factor Loadings (Min-Max)</th>
<th>AVE</th>
<th>CR</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural capital</td>
<td>4</td>
<td>0.910-0.982</td>
<td>.960</td>
<td>0.867</td>
<td>0.857</td>
</tr>
<tr>
<td>Relational Capital</td>
<td>4</td>
<td>0.728-0.993</td>
<td>.893</td>
<td>0.823</td>
<td>0.769</td>
</tr>
<tr>
<td>Cognitive capital</td>
<td>2</td>
<td>0.745-0.849</td>
<td>.893</td>
<td>0.870</td>
<td>0.720</td>
</tr>
</tbody>
</table>

The indices of GOF were met satisfactorily as recommended by Hair et al., (2010) (CMIN/DF=2.312, GFI=.807, RMSEA=.089, TLI=.832, IFI=.814, CFI=.878, PRATIO=.811)

Findings
Based on the results, 56.1% of the respondents were males while 43.9% were females. In terms of the age, all were under 25 years. Only 1.8% owned small businesses before joining university and majority did not own any business before they joined university. 97.1% of the respondents reported that they attended an Entrepreneurship or Business Administration course.

The findings of this study revealed that all the hypotheses have a positive impact on the entrepreneurship intention. From the three dimensions structural capital has a positive impact on entrepreneurial intention ($\beta = 0.452, p < 0.05$). It was found that the greater the structural capital, the higher the entrepreneurial intention. This finding is in line with Liao and Welsch, (2003) and Galunic and Moran (1999). Findings further revealed that relational capital has a positive impact on entrepreneurial intention ($\beta = 0.376, p < 0.05$). This confirmed the previous empirical finding which is related to entrepreneurial growth aspirations by Liao and Welsch, (2003), Coleman (1988) and Larson (1991). Cognitive capital also showed a positive impact on entrepreneurial intentions ($\beta = 0.272, p < 0.05$), which confirmed the previous empirical evidence of Liao and Welsch (2003). The outcome has also revealed that structural capital has the strongest effect on a student’s entrepreneurial intention.

Findings suggests that structural social capital would encourage cooperative behavior, thereby facilitating the development of new forms of association and innovativeness (Putman, 1993). Which means when undergraduates have more social ties they would be more willing to engage in entrepreneurial activities. This suggests that presence of extensive social ties is a pre-condition to form willingness to start a new venture. This is because an extensive social ties and interactions may increase entrepreneurs’ accessibility to productive elements, reduce costs in renting space, and obtain cheaper interest rates on loans among others (Liao and Welsch, 2003).

Further, findings revealed that respect, trust, and trustfulness embedded in relationships would cause to form higher willingness to engage in entrepreneurship. Which means when undergraduates have trust in their social ties, they are more willing to start new ventures. Social ties, trust and trustfulness between actors is an important factor which facilitates to initiate a new venture. This can be reasoned out based on the fact that the entrepreneurs with a higher degree of trust and trustfulness is more likely to leverage such relationships to his/her advantage (Liao and Welsch, 2003).

Moreover, the findings related to the cognitive capital revealed that it provides a safety net which allows the entrepreneur to break social norms in order to take up risk. Which means when undergraduates have strong social norms they are more willing to start new ventures. This suggests that the strong shared norms and values define acceptable behavior and sanctions against opportunistic behaviors. It contributes to entrepreneurial growth aspiration by improving access to external sources of learning, by increasing the willingness of exchange partners to engage in two-way interaction, and by improving the efficiency of the transfer and assimilation of knowledge (Liao and Welsch, 2003). This is because cognitive dimension of social capital would not only increase entrepreneurs’ resource accessibility but also appropriability, as well as their ability to enterprise.

Discussion and Recommendation for Future Research
Entrepreneurship plays a major role in Sri Lanka’s economic development (Mayuran, 2017). Particularly, lack of entrepreneurial intentions has become a major cause for increasing unemployment in Sri Lanka (Mayuran, 2017). Since entrepreneurial activities of undergraduates play a key role in generating employment opportunities, the findings of the present study provide valuable insights for the policy makers in order to promote the entrepreneurial intentions among the undergraduates. Further, according to Gelaidan...
and Abdullah (2017), this area of entrepreneurial intentions among the undergraduates is not sufficiently investigated. Thus, this study has important practical implications particularly for university administrators.

In the present study it was revealed that the presence of extensive social ties among undergraduates cause for higher willingness to start up new ventures. Thus, it provides valuable insights to the university administrators to facilitate an environment which is conducive to form social networks. Facilitating with latest technology, forum or any common platform which enable undergraduates to form networks is important. It is suggested for academics to give group assignments which facilitates them to work with fellow undergraduates and the industry. Further, it is vital that university administrators maintain healthy relationships with entrepreneurs to link the undergraduates to such entrepreneurs who can extend support in starting new ventures.

Further, just having relationships would not work as the trust inbuilt in the relationships matters for forming new ventures. In establishing trust mutual benefit is an important factor. Thus, the undergraduates need to be convinced about the mutual benefit of maintaining a trustworthy relationship. They need to be emphasized in helping each other in the network and keeping their word. Moreover, undergraduates need to be convinced on developing healthy social norms which provides an acceptable behavior within the social network. Thus, it is important to have discussions among the undergraduates in order to decide the socially acceptable behavior within their community.

Thus, the present study provides significant insights to the university administrators and the academics that just having a curriculum to provide entrepreneurial education would not be enough to increase the willingness of undergraduates to start their own businesses. It is vital to have social capital with social ties, trustworthy networks and shared social norms which induce them to start new ventures.

Since this study investigated only the intention of entrepreneurship it is suggested for future researchers to investigate how the social capital would impact for the actual behavior of starting new ventures.

**Conclusion**

The findings of the study shed lights on the impact of social capital on the entrepreneurial intention of undergraduates. Accordingly, it can be concluded undergraduate’s decision to start a business in future is affected by the number of social ties they have, the trustworthiness embedded in such social relationships and the shared social norms which explains the acceptable behavior within their community. The findings of this study are much significant as the entrepreneurial intentions among the undergraduates have not been sufficiently investigated, even though lack of entrepreneurial intention among undergraduates is a pertinent issue in Sri Lanka. This study has significant managerial implications particularly, for the university administrators in paying their attention on facilitating for a platform to form more social networks within the university among the undergraduates rather than entirely focusing on the entrepreneurship curriculum.

**References**


