

## The interplay of social aspects of entrepreneurship, absorptive capacity and innovation performance: a conceptual framework

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**Abstract**— The aim of this article is to contribute to the existing knowledge in the field of entrepreneurship through the use of social capital and its link to some other important factors which have an effect on this issue. This paper investigates the vital link among five main theoretical areas including the entrepreneurship process, social capital, social competence, absorptive capacity and innovation performance. A conceptual framework synthesized from a review of the literature is offered. With the help of the proposed model these links can be viewed graphically.

**Keywords**— component; entrepreneurship process; social capital; social competence; absorptive capacity; innovation performance

### I. INTRODUCTION

Entrepreneurship represents a fundamental part of the society and the economy since entrepreneurs are a major source of economic growth. Entrepreneurship has gained a lot of attention from both politicians and researchers across several fields [3],[24]. Previous entrepreneurship research has shown that networks are of great importance when discovering and exploiting business opportunities, i.e. in the start-up process of new venture (e.g. Davidsson and Honig 2003; Ewald, Klyver, and Svendsen 2006; Klyver, Hindle, and Meyer forthcoming). The value of a network is referred to as social capital, which refers to the amount of resources, both tangible and intangible, that an entrepreneur might have access to through the members of their network [29]. Social capital is the product of social interactions [1], implying that a person's social abilities, i.e. social competence, can influence the creation of social capital [4],[5]. In addition, the ability to effectively read, understand, and control social interactions is referred to as social effectiveness or social competence and has gained a lot of attention from scholars over the last century, mainly within behavioral science. Yet, how social capital and personal factors influence each other have gained little attention among scholars [12], especially within business and entrepreneurship research. These findings indicate

that social competence also is a factor that entrepreneurs should think of or take into consideration when deciding to start a new venture. Another important factor that entrepreneurs must think of is absorptive capacity. In this competitive world knowledge is the most powerful engine of production [28]. To gain access and fully utilize knowledge in a productive manner, a firm must develop and

sustain its absorptive capacity or its ability to value, assimilate, and apply knowledge received from external sources, such as suppliers, customers, competitors, and alliance partners [6].

Furthermore, entrepreneurs in the context of firm competitiveness, should consider innovation performance of firms as an attempt to create competitive advantage by perceiving or discovering new and better ways of competing in an industry and bringing them to the market.

Also there are several theoretical arguments supporting the link between social capital and a firm's absorptive capacity and innovation performance [13]. The first part of the proposed model is based on Shane's (2003) entrepreneurial process model which is divided into seven stages. The second part covers Nahapiet and Ghoshal's (1998) model of social capital and describes theories explaining factors influence social capital embedded within a person's network relationships. The third part discusses social competence and the abilities that constitute this concept. The fourth part is based on five dimensions of social competence, i.e. social astuteness, interpersonal influence, networking ability, apparent sincerity, and social manipulation [4],[5],[18],[19],[31]. Furthermore, the dimensions of potential and realized absorptive capacity are based on the work of Zahra and George (2002), which has also been applied to other studies [30],[34].

This paper presents discussions of the following: 1) the link between social capital and social competence and their effect on the entrepreneurship process; 2) the link between social capital and absorptive capacity; and 3) the link between absorptive capacity and innovation performance of firms. The paper concludes by offering insights and directions for further research.

### II. REVIEW AND FRAMEWORK

#### A. The entrepreneurship process

In general, the entrepreneurial process involves three activities; discovery, evaluation, and exploitation. The entrepreneurial process presented by Shane (2003) is divided into seven stages; he explains the stages and the order of them as follows:

“Before opportunities are identified, sources of opportunities must lead them to exist. To be evaluated and decision made to exploit opportunities, these opportunities must be identified. For resources to be assembled, the

decision must have been made to exploit the opportunity. For the resource, there are no sources in the current documents to be recombined into a new form (the organizing process), the resources must have been assembled. For the entrepreneur's approach to exploitation to be organized into a new entity, the entrepreneur must have a strategy, either implicit or explicit, to exploit the opportunity. For performance to occur, the effort to exploit the opportunity must have been organized into a new entity." [32]

Shane's (2003) statement above suggests that entrepreneurs do not create business opportunities, they only discover them, i.e. opportunities exist and it is up to the entrepreneurs to discover them. Consequently, the start-up phase comprises stages two to six, i.e. the discovery of an opportunity, the exploitation decision, and the resource acquisition.

Access to information is one important factor and a common way for people to obtain useful information about business opportunities is through their social ties and networks. The entrepreneur's network or social capital is important also in the third and fourth stages of the entrepreneurial process, since it might provide them with various important benefits or resources, such as financial and emotional support, legitimacy, and knowledge [32]. This indicates that the entrepreneur's network and social relationships are important factor in the start-up phase of the entrepreneurial process. Numerous studies have focused how entrepreneurs use their network in the start-up phase and what types of relationships they utilize (e.g. Davidsson and Honig 2003); but little research has focused on the types of social capital the entrepreneurs utilize.

### B. Social capital

Social capital is the product of social interactions [1], implying that a person's social abilities, i.e. social competence, can influence the creation of social capital [4],[5]. Social capital the factor that helps the entrepreneur "get through the door, while the entrepreneur's social abilities determine the outcome of that interaction [4].

The central idea of social capital is that a person's relationships, irrespective of their nature, may provide that person with resources that might be valuable when being or becoming an entrepreneur [29]. In this paper, social capital is viewed as a phenomenon existing in all social relationships a person possesses, no matter if the connections are direct and indirect. The following definition encompasses this view and is used in this study to define social capital. Social capital is: "... the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit" [29].

This paper will apply Nahapiet and Ghoshal's model of social capital as the base of discussion since it offers a more comprehensive picture of social capital in our opinion and identifies a number of factors affecting the social capital divided into three dimensions. Structural capital or social interaction and ties refer to network ties that provide access to resources and information [26],[29]. Relational capital concerns the kinds of personal relationships people have developed through a history of interaction [26],[29]. Finally,

cognitive capital refers to shared representations, interpretations, and systems of meaning among parties within a social network [29]. Westlund and Bolton (2003) argue that social capital facilitates or inhibits the kind of innovative, risk-taking behavior that is part and parcel of entrepreneurship [37].

### C. Social competence

Herlitz (2001) argues that to be socially competent could in simple terms be explained as being wise [22].

According to him, a wise person is somebody that learns from his or her experiences both emotionally and intellectually and uses those experiences when meeting new people [22]. This statement corresponds with one of the first definitions of social intelligence provide [17]. In this paper five dimensions of social competence will be adopted to examine the entrepreneurs' social competence. These are social astuteness, interpersonal influence, networking ability, apparent sincerity, and social manipulation. The first four dimensions have in previous research been used to study political skill [18] and the last one originates from Riggio's (1986) study on social skills. Ferris (2002) contended that there were four dimensions underlying structure of the political skill construct. These are:

1) *Self and social astuteness*: Individuals possessing political skill are astute observers of others and keenly attuned to diverse social situations.

2) *Interpersonal influence/control*: Politically skilled individuals have a strong and convincing personal style that tends to exert a powerful influence on those around them.

3) *Network building/social capital*: Individuals with strong political skills are adept at using diverse networks of people by easily developing friendships and building strong and beneficial alliances and coalitions.

4) *Genuineness/sincerity*: Tactics of politically skilled individuals are seen as subtle and their motives do not appear self-serving. They appear to others to be congruent, sincere, and genuine.

Riggio (1986) suggests that social manipulation, besides being a social ability, it is also an attitude or an orientation that people might possess. Persons with a high level of social manipulation believe that manipulation might be necessary in some social contexts and are "willing and able to affect the outcomes of social interactions" [31].

### D. Social competence

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#### E. Absorptive capacity

Knowledge is the most powerful engine of production [28]. To gain access and fully utilize knowledge in a productive manner, a firm must develop and sustain its absorptive capacity or its ability to value, assimilate, and apply knowledge received from external sources, such as suppliers, customers, competitors, and alliance partners [6]. The concept "absorptive capacity" is used to describe the firm's ability to use its prior knowledge and diverse background to identify the value of new information and to develop this into something creative. Absorptive capacity is therefore considered to be a dynamic capability pertaining to knowledge creation and utilization that enhances a firm's ability to gain and sustain a competitive advantage [38].

The theory of organizational learning provides the framework that supports the theoretical importance of absorptive capacity [2]. This theory explains that organizations survive because they actively create, capture, transfer, and mobilizes knowledge (i.e., organization's learn) to enable it to adapt to a changing environment. This study adopts the framework developed by Zahra and George (2002), which categories absorptive capacity as either potential or realized. Potential absorptive capacity makes the firm receptive to acquiring and assimilating external knowledge [38]. Potential absorptive capacity entails two major processes: knowledge acquisition and knowledge assimilation. Knowledge acquisition refers to the firm's ability to identify and acquire externally generated knowledge critical to its operation [38]. Knowledge assimilation, on the other hand, refers to the firm's routines and processes that allow it to analyze process, interpret, and understand the information obtained from external sources [38]. Realized absorptive capacity is a function of the transformation and exploitation capabilities of the firm [38].

Transformation refers to the ability to develop and refine the routines that facilitate the combination of existing knowledge and the newly acquired and assimilated knowledge. Exploitation refers to the routines that allow firms to refine, extend, and leverage existing competencies or to create new competencies by incorporating acquired and transformed knowledge into its operations [38].

#### F. Innovation performance

Innovation has been traditionally viewed as a creative process involving the application of existing ideas to create unique solutions to problems [14]. However, innovation also entails the creation of new ideas for new purposes. Hence, innovation performance may refer to the process of generating and using any idea, practice, or object that the adopting organisation regards as new [10],[20],[39]. As a discrete event, innovation performance may refer to the first successful application of a product or process. As a process, innovation performance involves the generation, development, and implementation of new ideas or behaviors [9].

In his thesis on creative destruction, Schumpeter (1934) identified two fundamental forms of innovation performance through which entrepreneurship is exercised: process innovations and product innovations. Process innovations include a new method of production or a new source of raw material, whilst product innovations include new goods, new quality of goods, opening a new market, or a new industry structure as the creation of a destruction of a monopoly position [33]. Innovation performance may also be characterized in terms of the degree of strategic and structural change that the firm must undergo to accommodate innovation [39]. In this context, innovation performance may be considered radical if the advances are so significant that revolutionary alteration of the organisation and its support networks must occur to accommodate and implement change [39],[8]. Incremental innovation performance, on the other hand, enhances and extends the underlying technology and thus reinforces the established technical order [39],[8].

Furthermore, innovation, as performed by the firm, may be classified according to the proximity of the change in relation to the organization's operating core [27].

In this context, two forms of innovation performance are identified: *a*) technological innovation performance, which involves the adoption of an idea that directly influences direct output processes [27]; and *b*) administrative innovation performance, which refers to changes that affect policies, allocation of resources, and other factors associated with the social structure of the organization [21],[27]. Hence, in this paper, the innovation performance is characterized using a multi-dimensional model in which innovation has varying degrees of change (incremental or radical), scope or domains of change (administrative or technological), and outputs (product or process innovation).

#### G. Conceptual framework

Previous research has found that networks and social relations are of great importance in the entrepreneurial

process and especially in the start-up phase since it might provide the entrepreneur with access to various resources important in this phase (e.g. Davidsson and Honig 2003; Evald et al. 2006; Klyver et al. forthcoming; Larsson and

Starr 1993). However, once that connection is made or that access is obtained the entrepreneurs' social competence will

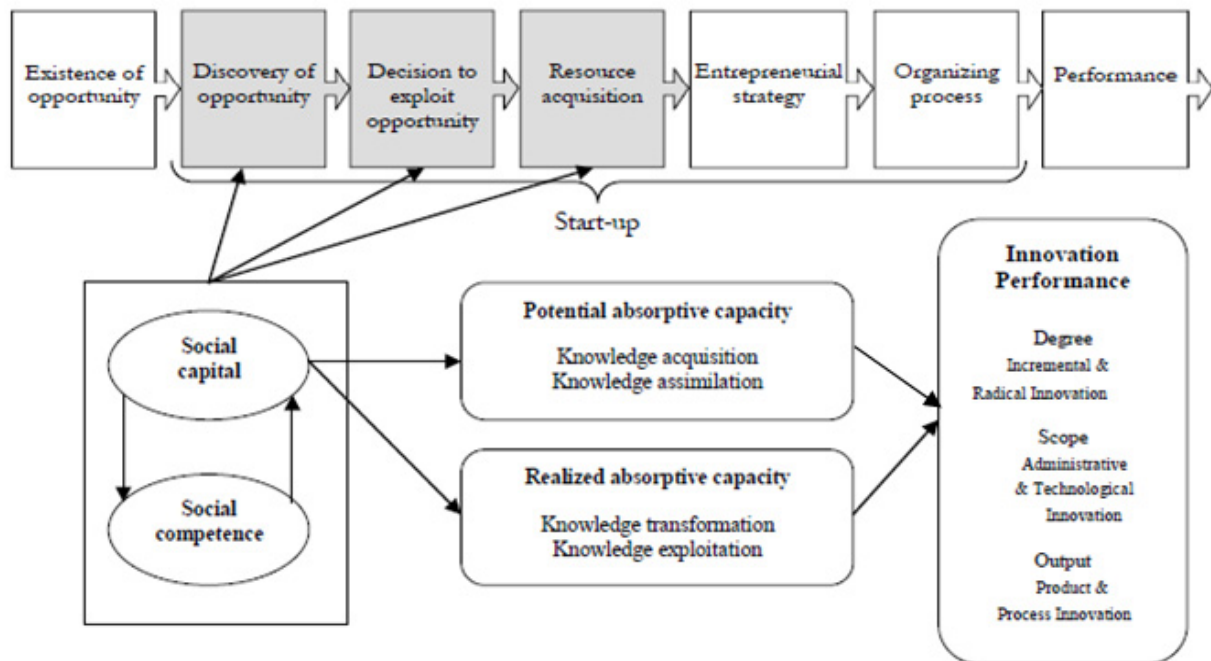


Figure1. Conceptual framework

influence the outcomes of that relationship [5]. Hoehn-Weiss et al. (2004) conclude that “social competence matters”, meaning that entrepreneurs who are more socially competent are more likely to create a larger network and, thereby, obtain a more social capital [23]. This indicates that social capital and social competence might have some influential power on the entrepreneurial process.

Coleman (1988) point out that social capital is an important factor in the creation of human capital by stating that: “Human capital is created by changes in persons that bring about skills and capabilities that make them able to act in new ways. Social capital, however, comes about through changes in the relation among persons that facilitate action.” [7]. This statement indicates that both social capital and human capital may be created within these interactions or relationships, which make them able to act in new ways. This statement also point out that the human capital consist of the skills and capabilities possessed by a person, which implies that social competence is part of the human capital.

Therefore, social capital might be considered as influencing the creation or improvement of a person's social competence. Consequently, the relationship between social capital and social competence might be circular, by influencing the creation of each other, which is illustrated by arrows between these concepts in Fig1 below. There are several theoretical arguments supporting the link between social capital and a

firm's absorptive capacity and innovation performance. The fundamental thesis is that firms do not innovate in isolation [13]. Theories of organisational learning also provide theoretical support to social capital and absorptive capacity/innovation. Organisational learning is a process of knowledge acquisition, assimilation, and exploitation (Argyris & Schon, 1996; Renko, Autio, & Sapienza, 2001). Social capital facilitates knowledge acquisition and exploitation by affecting the conditions necessary for the creation of value through the exchange and combination of existing intellectual resources (Renko et al., 2001). In the high technology sector, for instance, that the constant replenishment of knowledge, because it is a scarce resource, is imperative. Social capital becomes critical in this regard because knowledge acquisition and exploitation are essentially social processes [30]. Social capital provides the necessary networks that facilitate the discovery of opportunities and the identification, collection, and allocation of these scarce resources [11]. Social links to local suppliers, customers, and other research and development partners provide faster access to information and knowledge, lower information and knowledge costs, increased supply of information and knowledge, and improved quality of information [36]. All these are expected to the result in faster innovation process, higher quality of innovations, or increased innovation potential [36].

## H. Conclusion

The purpose of this study was divided into three parts; first, to explore the link between social capital and social competence and their effect on the start-up phase of entrepreneurial process; second, to clarify the link between social capital, absorptive capacity; and innovation performance; third, to illustrate all these links in one comprehensive model in order to help practitioners and researchers to better understand the links between them.

Theoretical explanations and empirical evidence were presented to substantiate the relationships between the constructs used in the framework. To conclude, the results can be summarized in the following points;

- First, the study indicates a circular relation between social capital and social competence, i.e. that social capital embedded within a relationship influence the amount of social competence that entrepreneurs might need to utilize to achieve their goals. On the other hand, the results of this study show that the types of social capital are utilized differently in the different stages of the start-up phase. The relational dimension seems to be the dimension utilized the most during these stages of the entrepreneurial process. Also, the perceived role of social capital and social competence in the start-up phase, according to Shane (2003) indicates, that these are, influential factors in the second, third and fourth stages of the entrepreneurial process illustrated by the grey boxes in Fig1; the discovery of opportunities, the exploitation decision, and the resource acquisition.

- Second, the proposed framework highlights the direct relationship between the various dimensions of social capital and absorptive capacity (both potential and realized). Social capital does not only provide access to knowledge (potential absorptive capacity), but it also nurtures the processes and capabilities necessary to exercise absorptive capacity. The knowledge generated and available to the firm becomes valuable only when it is acted upon by the firm through the exercise of realized absorptive capacity. This, in turn, influences the degree, scope, and result of innovation performance of firms.

The study shows that the links between social capital, absorptive capacity, and innovation performance may not be as straightforward as they appear. The link may be moderated by human capital and existing organizational variables like size, structure, and existing stock of resources [6],[35].

Furthermore, studies examining the social capital of urban versus rural communities and their influence on SME innovation performance will definitely enrich the understanding of the concept. On the other hand, absorptive capacity and innovation may differ across industries and sectors, so considering it is a major undertaking worth pursuing in the near future.

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