

## Improvement of Organizational Entrepreneurship by Using Social Capital

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**Abstract:** During the past few decades, organizations and managers have been faced with lots of challenges. In early 1980, when organizations were faced with dynamic and unpredicted environment, decided to pay attention to creativity and innovation. However, it is impossible without pay attention to all capitals of organization. One of the more and more important capitals for every organization is social capital. In the present age, all organizations must be creative and innovative for surviving. Therefore the best way for encouraging the creative people are make an appropriate environment then the organization become entrepreneurship that one way to this work uses social capital as instrument to support people toward entrepreneurship. The purpose of this study is the relationship between organizational entrepreneurship and social capital and its dimensions. For this work, three of the best organizations of East-Azerbaijan-Iran have been selected. The data of this study were collected by questionnaires of social capital and organizational entrepreneurship separately and they analyzed by SPSS 17.0, Amos SPSS 16.0 and Lisrel 8.54. The results of data analysis were showed that there is the appropriate interaction among all the items, which has studied here and the structural equations for the conceptual framework of the present study are goodness of fit and also as be said that social capital as social characteristic is caused to improving creativity and to facilitate innovative behaviors and risk taking that it is considering as one of the most important factors of entrepreneurship.

**Key words:** Social capital · Entrepreneurship · Dimensions of OI · Structural equations · Goodness of fit

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### INTRODUCTION

Although the entrepreneurship activities are the result of social interactions, but in the many studies about entrepreneurship paid attention to personality characteristics and environmental positions as the most important factor instead of social capital [1]. While nowadays entrepreneurship from the perspective of social scientists is a process that is located in the network of social relations and these relations can facilitate or limit the relationship between entrepreneur and resources and opportunities. Social capital has caused to facilitate the innovative behaviors and taking risk and improving creativity and ideas of entrepreneurship as a social phenomenon [2-3] and it has important roles in the entrepreneurship activities, because the entrepreneurship is a social-economic process that it relies to social fabric and condition in two ways: firstly, must be accept that

entrepreneurs are the product of social environment themselves and secondly it is a social activity and finally presence and absence of social links and communications have effect on nature of business [4].

Considering the introduction, the researcher tends to study the relationship between social capital and organizational entrepreneurship and the effect of social capital on improving organizational entrepreneurship.

**Social Capital:** social capital is a sociological concept, which refers to connections within and between social networks. Social capital is the abilities of people for working together in order to achieve to common aims of groups or organizations [5] in the other words, It is the collection of actual and potential resources that obtaining by Join to the institutionalized network of relationships and interactive recognitions [6].

Paldam [7] describes social capital as “the glue that holds societies together.” He divides the theoretical approaches into three families of social capital, namely trust, cooperation and network. The presence of social capital determines how easily people can work together as transaction costs are lowered - informal self-enforcement of contracts is now possible without third party enforcement. In this way, the presence of social capital may lubricate collective action and diminish the incentive to free ride on any contract or collective good provided. The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development. Social capital, however, is not simply the sum of the institutions which underpin society; it is also the glue that holds them together. It includes the shared values and rules for social conduct expressed in personal relationships, trust and a common sense of “civic” responsibility that makes society more than a collection of individuals. Without a degree of common identification with forms of governance, cultural norms and social rules, it is difficult to imagine a functioning society. The analysis of social capital into three alternative approaches:

- Situational theory: Social capital is defined in situational and instrumental terms, i.e. it varies from a person to a person and from the situation to the situation.
- Social psychological approach: Social capital is a set of cultural beliefs and norms [8].
- Culture theory: Culture is the source of trust and cooperation. Social capital is homogeneous among individuals belonging to the same culture (society), as well as consistent with the situation to the situation [5]. These three concepts of social capital should not be seen as alternatives, but rather as different manifestations of the social capital present in a society. Horizontal and hierarchical associations and macro-institutions can and should co-exist in order to maximize the impact of social capital on economic and social outcomes [9]. Olson [9] was indicated that the institutions, relationships and norms have interaction effect on social. The rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society’s institutional arrangements, which enable members to achieve their individual and community objectives

[10] Uphoff [11] distinguishes between structural and cognitive social capital. Structural social capital involves various forms of social organization, including roles, rules, precedents and procedures as well as a variety of networks that contribute to cooperation. Cognitive social capital includes norms, values, attitudes and beliefs. Structural and cognitive social capital is complimentary: structures help translate norms and beliefs into well co-ordinate goal-orientated behavior.

Nahapiet and Ghoshal [12] were explained that there are three elements that are proposed as encompassing social capital, as follows: cognitive capital, relation capital and structural capital. The cognitive aspect of social capital can be description as share of language and stories that there are in organization and society. The relation capital refers to trust, norms, religions, obligations and exceptions and identity that exciting or current in the organization. The structural capital of social capital can be defined as network relation between people, formulated of network and adopt an organization.

**Organizational Entrepreneurship:** Organizational entrepreneurship is consisted of activities that aim to create new business, products and market development. Organizational entrepreneurship has three main concepts: renewal of strategies (Renovation of strategies or restructuring the organization structure), innovation (offering something new to the market) and business within the company (entrepreneurial company activities that have led to new business and work in the mother company). Tendency has increased towards responding to such rapid entrepreneurship competitor, lack of confidence in traditional methods of business, many smart people creating small independent businesses, international competition and productivity [13].

The concept of organizational entrepreneurship has been evolving over the last twenty-five years [14]. Sathe [15] defined it as a process of organizational renewal. Other researchers have conceptualized corporate entrepreneurship as embodying entrepreneurial efforts that require organizational sanctions and resource commitments for carrying out innovative activities in the form of product, process and organizational innovations. Damanpour [16] who pointed out that corporate innovation is a very broad concept which includes the generation, development and implementation of new ideas or behaviors.

Corporate entrepreneurship activities can be internally or externally oriented. Internal activities are typified as the development within a large organization of internal markets and relatively small and independent units designed to create internal test-markets or expand improved or innovative staff services, technologies, or production methods within the organization. These activities may cover product, process and administrative innovations at various levels of the firm. External entrepreneurship can be defined as the first phenomenon that consists of the process of combining resources dispersed in the environment by individual entrepreneurs with his unique resources to create a new resource combination independent of all others. External efforts entail mergers, joint ventures, corporate venture, venture nurturing, venture spin-off and others.

Nowadays, many companies have understood the importance of organizational entrepreneurship and in fact, such change in strategy is the response to three needs, which have been imposed on companies: Rapid increase of new competitors, creating a sense of distrust in companies towards traditional management methods, the best work forces getting out of companies and establishing their own individual and independent entrepreneurship.

These factors have challenged every single company and have even caused industries with advanced technology to face numerous problems. The speed of innovation, rapid environmental changes and their tendency toward more complexity and lack of environmental sustainability and market has forced organizations to change their approach and previous strategies. Thus, many organizations have no choice but to follow organizational entrepreneurship to survive in the current dynamic environment. This section also introduced organizational entrepreneurship and both its public and private sectors.

To measure organizational entrepreneurship, Antonic and Hisrich, [17] were presented a model that to include the following dimensions:

- New Business and Create an independent unit;
- Innovation in products and services;
- Innovation in the process;
- Self-Renewal;
- Leadership;
- Risk Taking;
- Aggressive competition.

According to above context about social capital and organizational entrepreneurship and its dimensions can present the conceptual framework of the present study in the Figure 1 that as following:

**Social Capital and Organizational Entrepreneurship:**

According to the perspective of researchers about entrepreneurship can be said that it is a social-economic phenomenon that is located in the variable network of social relations. Social capital as social characteristic is caused to improving creativity and to facilitate innovative behaviors and risk taking that it is considering as one of the most important factors of entrepreneurship. People with high social capital can obtain resources and information more than others and they can be prosperous in the processes of formation and development of business and accessing to new markets. Therefore, social capital is particularly important for entrepreneurs. Furthermore, in the empirical and theoretical studies about the relationship between social capital and risk taking were illustrated that these items of entrepreneurship are affected from social capital. On other hands, the social relations cause to appearing leadership by identify and explore environmental threats and opportunities and

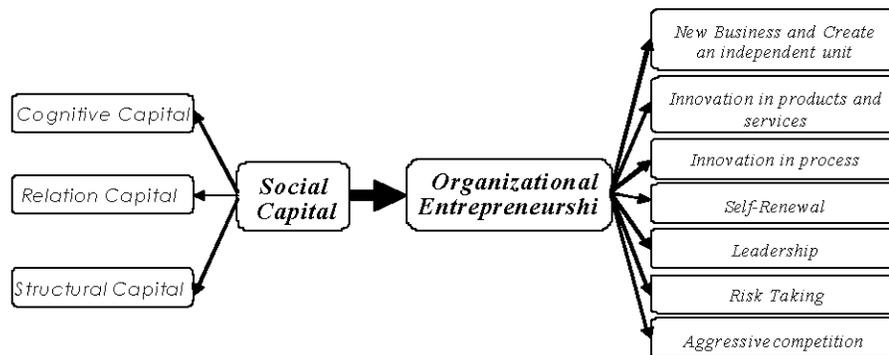


Fig. 1: The conceptual framework of present study

applying actions to neutralizing uncertainties. Recent researches illustrated that there is the relationship between network (numbers of interactions and links) and innovation, self-renewal and entrepreneurship. The roles of networks in strengthening innovation and developing the new idea was the subjects of recent studies and the findings of these researches support these theories. Overall, about subjects of social capital and organizational entrepreneurship, there are different opinions among researchers, but the most of them have emphasized that social capital makes suitable position for appearing the entrepreneurship, in other words; many of the researchers believe that social capital is one of most important factors for promoting the entrepreneurship.

Chen *et al.* [18] were studied about the relationship among social capital, entrepreneurial orientation, organizational resources and entrepreneurial performance for new ventures, the results of their study were illustrated that there are significant relationships between social capital and entrepreneurial performance and organizational resources for new ventures. Likewise, there are strong correlations between organizational resources and entrepreneurial orientation. And latest result of their study was explained that autonomy, innovation and proactively positively influence new ventures' growth. Similarly, innovation and proactively have positive impact on new ventures' profit.

For new ventures, their internal organizational resources are limited. It is necessary to interact with external environment more to gain reinforcement. Social capital could be viewed the network connected businesses. Limited social capital means inadequate interactions with external firms and will cause negative impacts on entrepreneurial orientation. For example, entrepreneurial orientated companies tend to achieve organizational visions and goals independently. However, without adequate resources, all strategic intentions and plans are going to fail and it is disapproving to innovation, which is the keystone for entrepreneurial orientation. Therefore, social capital can have positive effects on entrepreneurial orientation.

Entrepreneurial orientation can also have constructive influence on social capital. Higher entrepreneurial-oriented companies have more abilities to gain valuable resources and economic opportunities through their social network and then create more value for customers and businesses. It is difficult for non-entrepreneurial-oriented companies to obtain precious resources from their social capital. Therefore, for new

ventures, one can expect a mutual relationship between social capital and entrepreneurial orientation.

Liao and Welsch [19] were studied about Social capital and entrepreneurial growth aspiration: a comparison of technology- and non-technology-based nascent entrepreneurs, the findings of their study was suggested that there are significant variations in the degree of transferability between different dimensions of social capital across samples of technology- and non-technology-based nascent entrepreneurs. Also, there are a few reasons that lead us to believe that technology-based entrepreneurs are more capable of transferring other types of social capital into relational capital.

**Research Methodology and Hypotheses:** Whereas, present study was going to review the relationship between organizational entrepreneurship and social capital and how to promote it by social capital, so according to above context and subject of this study, the hypotheses of present study are as follows:

- There is the significant relationship between organizational entrepreneurship and social capital and its dimensions.
- The regression equation of organizational entrepreneurship on dimensions of social capital is significant.
- The model used in this article according to the data collected is goodness of fit.

The sample size of the present study is 383 that selected from four of the largest organizations in East Azerbaijan-Iran, namely: Soozan Industrial Group, East Azerbaijan corporative organization, East Azerbaijan Documents and realty organization and East Azerbaijan biographic organization during 2010.

Social capital questionnaire was designed by Nahapiet and Ghoshal [12]. It contains 35 items and it has three dimensions namely: cognitive capital, relation capital and structural capital. Its reliability of this questionnaire was reported 0.873 that was obtained by Cronbach's alpha.

Organizational entrepreneurship was assessed by Fox [20] organizational entrepreneurship questionnaire that was published with 33 items to measure organizational entrepreneurship in organizations. Its reliability was reported 0.906 that was obtained by Cronbach's alpha, both are in 5 points Likert-type scale ranging from "strongly disagree" to "strongly agree". Data analyzed by

Table 1: Pearson correlation coefficient between social capital and organizational entrepreneurship

|   | Correlations      |                  |                    |                |
|---|-------------------|------------------|--------------------|----------------|
|   | Cognitive Capital | Relation Capital | Structural Capital | Social Capital |
| New Business and Create an independent unit | 0.402**           | 0.462**          | 0.489**            | 0.509**        |
| Innovation in products and services         | 0.219**           | 0.118*           | 0.149**            | 0.175**        |
| Innovation in process                       | 0.358**           | 0.488**          | 0.414**            | 0.460**        |
| Self-Renewal                                | 0.439**           | 0.572**          | 0.571**            | 0.599**        |
| Leadership                                  | 0.429**           | 0.398**          | 0.412**            | 0.469**        |
| Risk Taking                                 | 0.147**           | 0.422**          | 0.327**            | 0.350**        |
| Aggressive competition                      | 0.248**           | 0.271**          | 0.267**            | 0.295**        |
| Organizational Entrepreneurship             | 0.433**           | 0.517**          | 0.507**            | 0.549**        |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 2: Model summary of regression of social capital and organizational entrepreneurship

| R      | R Square | Adjusted R Square | Std. Error of the Estimate |
|--------|----------|-------------------|----------------------------|
| 0.558* | 0.331    | 0.306             | 0.42730                    |

a. Predictors: (Constant), Cognitive, Relation and Structural Capitals

Table 3: ANOVA of social capital and its dimension on the organizational entrepreneurship

| Model      | Sum of Squares | Df  | Mean Square | F      | Sig.  |
|------------|----------------|-----|-------------|--------|-------|
| Regression | 31.255         | 3   | 0.183       | 57.060 | 0.000 |
| Residual   | 69.199         | 379 | 10.418      | -      | -     |
| Total      | 100.454        | 382 | -           | -      | -     |

a. Predictors: (Constant), Cognitive, Relation and Structural Capitals

b. Dependent Variable: Mental Health

Table 4: Regression analysis to predict social capital and its dimension on the organizational entrepreneurship

| Predictor Variable | B      | Std. Error | Beta   | T      | Sig.  |
|--------------------|--------|------------|--------|--------|-------|
| (Constant)         | 1.149  | 0.173      | -      | 6.658  | .000  |
| Cognitive Capital  | 0.327  | 0.074      | 0.252  | 4.419  | .000  |
| Relation Capital   | 0.424  | 0.099      | 0.445  | 4.285  | .000  |
| Structural Capital | -0.056 | 0.118      | -0.056 | -0.474 | 0.635 |

using SPSS 17.0, Amos 16.0.1 and Lisrel 8.54. Tests used for data analysis are Pearson Correlation test, Linear Regression, Factor Analysis and Path Analysis. Also, the model of this article according to figure (1) is as follows, that X, Y and Z are item's coefficient and when can be entered in the equation that be significant.

$$\text{Organizational entrepreneurship} = X (\text{Relation Capital}) + Y (\text{Cognitive Capital}) + Z (\text{Structural Capital}).$$

**Results of the study:** The Pearson correlation for the study variables is given in Table 2. Social capital and its dimensions were correlated with organizational entrepreneurship dimensions of social capital and itself were significantly related to organizational entrepreneurship and its dimensions. The results of Table 1 illustrate that there is the positive relationship between all items.

As seen in the Table 2. the significant predictor (cognitive, relative and structural capitals) has determined 33.1% of the variance of organizational entrepreneurship as, it was expected to predict creating depending on social capital and its dimensions, P-variable regression was applied, social capital as predictor variable and organizational entrepreneurship as depended variable were analyzed.

Data of Tables 3 and 4 illustrated that social capital and its dimensions predicts on the organizational entrepreneurship eventually, each increase or decrease in dimensions of social capital reason same change in organizational entrepreneurship.

As seen, relation capital has satisfied the entrance criterion of the regression and entered as a first important predictor (Beta= 0.445). In second step cognitive capital has satisfied the entrance criterion of the regression and entered as a second important predictor (Beta= 0.252).

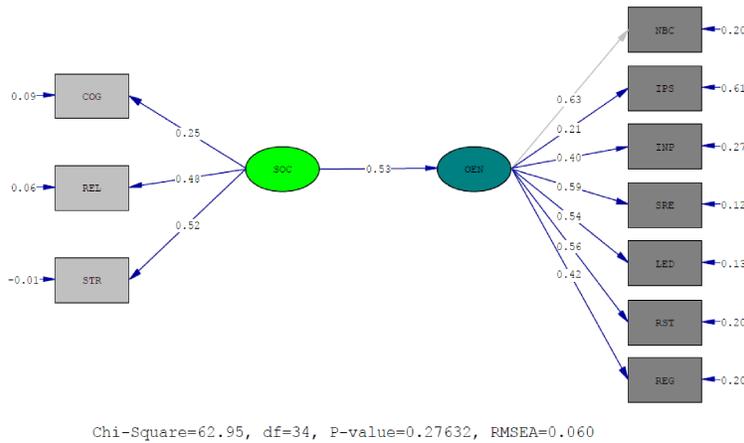


Fig. 2: Structural equation modeling of social capital and organizational entrepreneurship

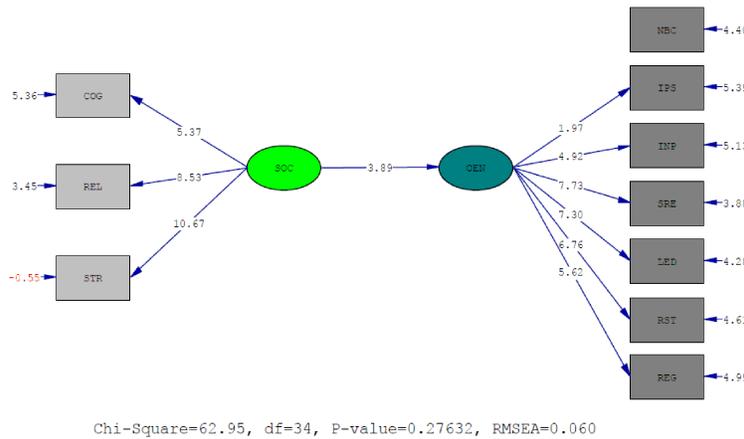


Fig. 3: Structural equation modeling of social capital and organizational entrepreneurship

Table 5: Model summary of goodness of fit statistics

| Chi-square | DF | RMSEA | GFI  | AGFI | NFI  | NNFI | CFI  | IFI  | RMR  |
|------------|----|-------|------|------|------|------|------|------|------|
| 62.95      | 34 | 0.060 | 0.94 | 0.89 | 0.95 | 0.95 | 0.96 | 0.96 | .029 |

However, other dimensions of social capital namely structural capital could not satisfy the entrance criterion of the regression, then regression equation of the regression of organizational entrepreneurship on social capital and its dimensions is as follow:

$$\text{Organizational entrepreneurship} = 0.445 (\text{Relation Capital}) + 0.252 (\text{Cognitive Capital}).$$

In accordance with Byrne (1998), a ratio of  $P^2$  to DF of less than 3 was generally considered an indicator of good model fit and a ratio of less than 5 was considered acceptable. An adjusted goodness-of-fit index (AGFI) of more than 0.90, a root-mean-square error of approximation (RMSEA) of less than 0.08 and Root Mean Square Residual (RMR) of less than 0.045 and a normal fit index

(NFI), Non-Normed Fit Index (NNFI), Comparative Fit Index (CFI) and Incremental Fit Index (IFI) of more than 0.90 were considered indicators of "good fit" Given their complementary features all four indexes were used to evaluate the path model. In this model, we use an abbreviation of both of criteria's dimensions (NBC = New Business and Create an independent unit; IPS = Innovation in products and services; INP = Innovation in a process; SRN = Self-Renewal; LED = Leadership; RST = Risk Taking; COG = Cognitive Capital; REL= Relation Capital; STR= Structure Capital; OEN= Organizational Entrepreneurship; SOC= Social Capita.

The data of figures (2), (3) and table (5) are illustrated that the exploratory model, including all hypothesized variables provided an adequate fit ( $P^2 = 62.95$ ;  $DF = 34$ ;  $p = 0.27632$ ; a ratio of  $P^2$  to  $DF$  of less than 3; goodness of

fit index [GFI] = 0.94; adjusted goodness-of-fit index [AGFI] = 0.89; root-mean-square error of approximation [RMSEA] = 0.060 and [RMR] = 0.029) for the data and indicated that the relationship between social capital and organizational entrepreneurship because of the strong direct effects of social capital on organizational entrepreneurship upon figures are respectively structural equation modeling (estimate state and T-value) and the model summary of goodness of fit statistics.

## CONCLUSION AND DISCUSSION

The results of study are illustrated that there is the positive and significant relationship between social capital and organizational entrepreneurship, hence it can be concluded that there is the direct relationship between these two items and increases or decrease in social capital have direct effect on organizational entrepreneurship.

Increases in organizational entrepreneurship require to use some strategies such as paying attention to the research and development unit, create a new department in the organizational level to produce and deliver new products and services [21], educated people who are interested in entrepreneurship, forming the independent teams and workgroups for pursuing the new ideas and, etc., also can be by increasing the horizontal and vertical relations between units of organization and preparing backgrounds for improving trust among people of organization and management, creating close communication between managers and staffs by preventing the heterogeneity and not preventing the informal networks' growth, so to be improved social capital for entrepreneurship in the organization.

The results of data analysis in the present study are proving hypotheses theoretically, because any organization, which has high social capital, it can cause to grow on the new ideas of their employees, of course, by using informational transaction among of people in the organization and these new ideas will cause to be creativity and this creativity lead to innovations and entrepreneurship in the organization.

Finally, the results of analysis were shown there is the significant coloration between all of dimensions and The Regression Equation of organizational entrepreneurship on dimensions of Social Capital is significant. The model used in this article according to the data collected is goodness of fit. So, all hypotheses of present study are true and acceptable. The findings of all hypothesis of present study are in conformity with researches of Coleman [2], Alistair and Anderson [4] and Liao and Welsch [19]. Therefore, all of organizations, both

generally and specially, enhance the level of social capital, because with higher it, social correlation, social commitment and consequently, entrepreneurship manners in people increase too. Thus, if the present organization and even other organizations want to achieve creativity and innovation for doing their duties, they should invest as acceptable social capital in their organization.

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