



How social and human capital influence opportunity recognition and resource mobilization in India's handloom industry

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ABSTRACT

Small-scale firms in rural areas play an extremely important role in the development of any country, and especially in developing countries. To understand entrepreneurs who operate in a low-technology industry, we rely on the network perspective on entrepreneurship. In this paper, we investigate how the social and human capital of entrepreneurs (in this case master weavers in the handloom industry) influence their ability to recognize opportunities and mobilize resources. In addition to examining the direct effects, we also explore the possibilities of social capital mediating between human capital, on the one hand, and opportunity recognition and resource mobilization on the other. This paper adds to existing literature in two ways: firstly, we expand the social capital paradigm by including different cultural settings and links to existing studies regarding small enterprises. Secondly, we provide additional evidence to the ongoing debate as to what constitutes a 'good network'.

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1. Executive summary

This research attempts to understand how small entrepreneurs operating in a traditional rural industry in India utilise their social networks for business operations. It uses quantitative methods that have been developed in the network perspective of entrepreneurship. The network perspective of entrepreneurship explains why certain individuals identify opportunities, and why others do not. Most of the network-related literature has been developed in the western countries. However, networks have been found to be important for small-scale entrepreneurs in rural areas of the lesser developed countries as well. Expanding the network entrepreneurship literature to include a different cultural setting is the first contribution of this paper.

While there is some agreement on the importance of networks in successful ventures, having a good network in itself is no guarantee for success. The academic community has not yet identified what kinds of networks bring a competitive advantage to entrepreneurs. Addressing some of these debates within the network perspective will be the second contribution of the paper.

Furthermore, this study indicates that social capital (in the form of networks) or human capital in isolation cannot completely explain how entrepreneurs identify opportunities and mobilize resources. Forms of indirect interactions between these two constructs need to be explored to increase our understanding on entrepreneurship. Hence, the final contribution of this paper is to look at the path-dependent interaction effects of human and social capital of entrepreneurs on opportunity recognition and resource mobilization.

The research context to test the theory is the handloom industry in India. Entrepreneurs who operate in this industry use archaic hand-operated looms to produce traditional textiles. Production takes place entirely in the rural areas, the handloom

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markets are distributed across the country, with some products also reaching the export market. Since the social networks of the handloom entrepreneurs are an essential aid to both production and marketing, this industry provides a suitable context to study the research questions.

Primary data was collected using qualitative and quantitative methods. Information was collected from 107 master weavers in four locations in India, and the data analyzed using SPSS 11.0. Hierarchical regression models were used to test the various hypotheses that were developed. To realize the mediating effect, the method suggested by Baron and Kenny was used. Sobel's test was used to confirm the mediating effects.

It was found that the number of structural holes in an entrepreneur's network has a positive effect on opportunity recognition. However, it has a negative impact on an entrepreneur's ability to acquire resources. Thus, firms that operate in an environment that is rich in opportunities benefit more from structural holes, than firms that operate in a stable environment. It was found that structural holes have a detrimental effect on resource acquisition. In this kind of environment, closure is more important. In fact, for most firms, both recognizing opportunities and acquiring resources are important, and the former benefits from networks that are rich in structural holes, while the latter is helped most by closure. Thus firms need both forms of network configuration. A sparse network benefits opportunity recognition in the handloom industry and once opportunities are recognized, other network characteristics, such as closure, come into play to exploit them. Additionally, strong ties play an important role in resource acquisition.

Among the human capital variables it was found that experience of the entrepreneur, seems to positively influence resource mobilization but seems to have a detrimental effect on opportunity recognition. By testing for the mediation effects, we found that more experience leads to higher levels of closure which in turn has detrimental effects on opportunity. Language on the other hand has a positive influence on opportunity recognition, meaning the more languages the entrepreneur speaks, the more opportunities he will be able to identify. Finally this paper concludes with arguments on why our findings can be generalized to other craft industries as well.

2. Introduction

The importance of small enterprises in rural areas in emerging economies is recognized by many researchers and practitioners (Van Dijk, 2000). In a country like India, where about 70% of the people live in rural areas, non-farm enterprises are an important element in the country's ability to absorb potential excess to farm labor (Lanjouw and Lanjouw, 2001).

Compared to the number of non-farm studies that focus on either the macro-level (i.e. the industry) or on the intermediate level (i.e. along the sub sector or 'economic spheres'),¹ there are fewer studies that examine the level of the individual firm. Prominent among the firm level studies within the developing country content, is the study conducted by Long (1977 pg. 123). Based on Geertz (1963), Cohen (1969), Mines (1972) and Long (1968), Long identifies rural entrepreneur in any single area to be similar in their socio-economic conditions, hence, differential performance of rural entrepreneurs can be attributed to interpersonal networks. He formalizes his arguments by developing an "actor-oriented approach" and uses this approach to investigate the networks of marketing and transport entrepreneurs in the Peruvian Highlands. He finds that network structure (i.e. geographical and social span) and content (i.e. types of transactions effected between entrepreneurs) are important to the entrepreneurs in question.

A number of studies have followed in Long's footsteps (Altaf, 1983; Broehl, 1978; Owens, 1973; Owens and Nandy, 1978; Upadhy, 1997) and confirmed his findings, specifically with regard to the importance of social networks to small entrepreneurs in developing countries. Recent developments in entrepreneurship studies, especially those that adopt a network approach, provide a framework to further understand the ways small entrepreneurs in rural areas of emerging economies use their networks in their business activities (Honig, 1998; Mueller and Thomas, 2000).

Entrepreneurship as an academic field is gaining importance, as researchers try to understand why some people succeed to discover opportunities while others do not, and how these discovered opportunities are evaluated and exploited. New opportunities may involve introducing new goods and services, exploring new markets, developing new production processes and/or combining raw materials in new ways (Venkataraman, 1997; Shane and Venkataraman, 2000). In recent times, the network perspective, which investigates how the connections between entrepreneurs and their social contacts facilitate or constrain their businesses, has become a dominant concept in explaining the phenomenon of entrepreneurship (Johannisson, 2000).

Within the network perspective, there is a group of scholars who support the idea that being part of a network where all the network members know most of the other members is beneficial to an entrepreneur (Coleman, 1988). Another group of scholars (Granovetter, 1977, 1983; Burt, 1992, 2000) argue that, because information regarding opportunities and resources is distributed unevenly throughout society, if an entrepreneur is to identify opportunities, he or she will have to reach out to different parts of society; weak ties provide bridging opportunities that enable entrepreneurs to go beyond their immediate network. This school of thought argues, consequently, that weak ties, in combination with sparse networks, are beneficial to entrepreneurs.

Recent studies, however, indicate that neither sparse nor closed networks by themselves offer the optimum solution (Rowley et al., 2000; Elfring and Hulsink, 2003). The authors of these studies indicate that it is important to have the right mix of strong and weak ties, and of dense and sparse network elements. This mix is contingent upon various aspects, such as the industrial, technological and environmental conditions that surround the industry. In addition to these aspects, we would add the purpose or objective of the network (Ahuja, 2000) as another contingency factor, by drawing a distinction between the mobilization of

¹ Exploration of the sub-sectors started in the 1980s with the publication of Boomgard et al. (1983); while the concept of economic spheres was popular in the 1970s after the publication of Barth (1967).

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