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Social capital of entrepreneurs and small firm performance: A meta-analysis of contextual and methodological moderators

Wouter Stam [a,*], Souren Arzlanian [b,1], Tom Elfring [b,1]

[a] Hong Kong University of Science and Technology, Department of Management, Clear Water Bay, Kowloon, Hong Kong
[b] VU University Amsterdam, De Boelelaan 1105, 1081 HV, Amsterdam, The Netherlands

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ABSTRACT

Despite a surge of studies examining the role of social capital in the entrepreneurial process, no quantitative assessments exist of the empirical evidence to date. To resolve seemingly conflicting results, we conducted a meta-analysis of the link between entrepreneurs' personal networks and small firm performance and identify new moderators affecting this relationship. Analyses of 61 independent samples indicated that the social capital–performance link was positive and significant ($r_c = .211$). Effect sizes of weak ties were smaller than those of structural holes, while network diversity had the largest positive effect on performance. Results also showed that the social capital–performance link depends on the age of small firms, the industry and institutional contexts in which they operate, and on the specific network or performance measures used. Based on these findings, we develop recommendations for future research on the contingent value of social capital for small firms.

1. Executive summary

There is wide agreement that social capital, or the resources embedded in entrepreneurs' personal networks, is critical for the performance of small firms. For instance, network connections enable entrepreneurs to identify new business opportunities, obtain resources below the market price, and secure legitimacy from external stakeholders. Despite these potential benefits, however, cultivating social capital entails substantial opportunity costs, raising the question: what configuration of entrepreneurs' personal network ties is most beneficial in the small firm context? So far, however, little consensus exists about when certain forms of social capital lead to enhanced business performance. This confusion continues to persist due to marked differences in construct definitions, research designs, and sampling contexts across prior studies. Clarifying what exactly is known about the relationship between social capital and small firm performance therefore seems both timely and important.

In this study, we employ meta-analytic methods to synthesize empirical findings from 59 studies (N = 13,263) on the performance effects of entrepreneurs' social capital. By controlling for sampling and measurement error, meta-analysis enables us to obtain a more precise estimate of the relationship between social capital and small firm performance and identify how this link depends on contextual and methodological moderators. Accordingly, we contrast the forms of social capital that are most valuable for new and old small firms, and for firms that operate in high- or low-technology industries and emerging or established economies. We also clarify how methodological choices may influence research findings by comparing effect sizes between cross-sectional and longitudinal studies, and across different network and performance measures.

* Corresponding author. Tel.: +852 2358 6172.
E-mail addresses: wstam@ust.hk (W. Stam), s.arzlanian@vu.nl (S. Arzlanian), t.elfring@vu.nl (T. Elfring).
[1] Tel.: +31 20 598 6174; fax: +31 20 598 6005.

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Our findings indicated that, on average, social capital was significantly and positively related to small firm performance (r_c = .211). Effect sizes of weak ties were smaller than those of structural holes, while network diversity had the strongest relationship with performance. Both bivariate moderator analyses and meta-regressions revealed that the strength of the social capital–performance link depended on the age of small firms and firms' industry and institutional contexts. We found that weak ties, structural holes, and network diversity were more valuable for new firms, whereas network size and strong ties were more positively related to the performance of older firms. The result emphasizes the need to understand how entrepreneurs may adapt their social capital over time to accommodate their firms' evolving resource needs. Findings also indicated that, compared to low-technology industries, structural holes and network diversity were more strongly related to performance in high-technology industries. This result highlights that the process by which social capital influences entrepreneurs' alertness to changing industry conditions, and their ability to respond to these changes, must be better understood. Finally, we found that weak ties and network diversity yielded stronger effect sizes in established economies, while strong ties were more strongly related to the performance of small firms active in emerging economies. This finding underscores the need to further examine how entrepreneurs' networking strategies transform, and are influenced by, their firms' institutional environments.

Analyses of methodological moderators indicated that cross-sectional studies yielded somewhat larger effect sizes than longitudinal studies, although the difference was not statistically significant. We also found that, compared to growth and profit measures, the social capital–performance relationship was stronger for nonfinancial performance outcomes. Scale and tie-based measures of social capital, however, yielded similar results. By contrast, we found that when studies used more specific measures of entrepreneurs' network content, they produced stronger effect sizes. Based on these findings we develop several methodological recommendations for future research.

Collectively, these findings have important theoretical and practical implications. By synthesizing research results across a large number of studies and uncovering new moderators, this meta-analysis enhances understanding of the contingent value of social capital for small firms and reveals how sampling, study design, and construct measurement may influence research findings. For entrepreneurs, our results clearly indicate the value of cultivating diverse personal networks that are rich in structural holes but also show that distinct networking strategies are needed at different points in time and in different industries and countries. For researchers, our study certainly supports the increasingly prominent role that social capital theory assumes in the literature but raises new questions about its temporal and contextual boundary conditions.

2. Introduction

Researchers increasingly acknowledge that entrepreneurial activity is embedded in network relationships that direct resource flows to entrepreneurs who are somehow better connected (Aldrich and Zimmer, 1986; Hoang and Antoncic, 2003). The literature clearly indicates that social capital, or the resources that entrepreneurs may access through their personal networks (Adler and Kwon, 2002), allows entrepreneurs to identify opportunities (Bhagavatula et al., 2010), mobilize resources (Batjargal, 2003), and build legitimacy for their firms (Elfring and Hulsink, 2003). Yet despite this surge of interest, little consensus exists concerning what exactly is known about the social capital–performance link in the small firm context (Maurer and Ebers, 2006; Stuart and Sorensen, 2007). Unresolved debates, fueled by ambiguous research findings, have surfaced about three key issues.

First, conflicting perspectives exist regarding the specific network properties that constitute social capital. Whereas some have focused on network structure (Stam, 2010), others have considered the strength of entrepreneurs' network relationships (McEvily and Zaheer, 1999) or the resources held by their network contacts (Batjargal, 2003). Disagreement therefore persists about the relative value of sparse and cohesive network structures (Batjargal, 2010), weak and strong ties (Patel and Terjesen, 2011), and diverse versus homogeneous networks (Renzulli et al., 2000). Accordingly, extant empirical evidence remains inconclusive, with some even arguing that 'studies have rarely come up with significant results' (Witt, 2004: 391). The dimensions of entrepreneurs' social capital that enhance small firm performance thus remains an open question.

Second, ambiguity exists about the temporal contingencies that govern when certain forms of social capital are most beneficial for small firm performance. Despite the recognition that entrepreneurs might need to adapt their personal networks to accommodate firms' evolving resource needs (Martinez and Aldrich, 2011), researchers disagree about the precise way in which firm age alters the value of different networking strategies. While some have argued that cohesive, strong-tie networks are conducive for new firms (Hite and Hesterly, 2001), others have contended that diverse, weak-tie networks are favorable at the early stages of firm development (Elfring and Hulsink, 2007). A systematic analysis of how the optimal configuration of entrepreneurs' social capital changes as small firms mature thus seems warranted.

Third, although researchers have begun to probe the generalizability of network effects (Burt, 2000), it is still unclear what contextual contingencies might condition the value of entrepreneurs' social capital. So far, most studies have focused on small firms in particular industries even though there is reason to believe that industry conditions may amplify network effects on firm performance (Koka and Prescott, 2008). Similarly, despite initial evidence that social capital might operate differently in different institutional environments (Batjargal, 2010), past research has typically focused on small firms in either established or emerging economies. Thus, to resolve conflicting findings, research is needed that can reveal how small firms operating in different environmental contexts might benefit from distinct forms of social capital.

In sum, we find broad agreement that entrepreneurs' social capital constitutes a key asset for small firms, but no consensus about the conditions under which certain network properties lead to enhanced business performance. To help reconcile these theoretical debates, this study employs meta-analytic methods to quantitatively evaluate existing empirical evidence. Meta-analysis enables researchers to synthesize cumulative research findings, correct these findings for sampling and measurement error, and

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