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## THE EFFECT OF SOCIAL CAPITAL OF ENTREPRENEURS IN ENTREPRENEURIAL PROCESS

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**Abstract.** *when many entrepreneurial processes framework identify the role of networking as important part at the start-up development stage, this study have extended the concept of networking and embraced it in the concept of individual social capital of entrepreneurs. However, much of literature on measuring social capital has focused on the quantity of social capital rather than quality made by it. This study will focus and seek to expand the depth and richness of social capital during new venture creation and later identifying the effect of individual social capital in entrepreneurial process. to expand and specify the richness of individual social capital during venture creation, Timmons Model of Entrepreneurial process are used. It considers opportunity, team, and resources as three components for successful new business, and later associate it with Bonding and Bridging and Linking Social Capital of Entrepreneur. The research is mainly expected to provide insight for the business founders and nascent entrepreneurs, help them facing the challenges in starting and running the business, so that they can aware the important of good network and relationship during entrepreneurial process. The focus is to describe how individual social capital of entrepreneur's networks can affect their own business. This study only considers social capital in individual level and ignore social capital on collective level. This study uses qualitative approach and conducts semi-structured interview with 10 entrepreneurs operating on various industry and various background in Bandung to enhance the Social Capital variety of this study. The Result of This Study shows that individual social capital playing major role during entrepreneurial process. having family and close friends in business, and as well encouragement from family and close friends are strongly associated with successful nascent outcomes. the good social capital of founder's will be result in better business. We also found as the company grow bigger, the result looks indicate that bridging social capital and linking social capital increasingly become more important, it reveal that bridging social capital connection of entrepreneur's link it into specific networking and knowledge which may be not available in Bonding Social Capital ties. Overall, Individual social capital exists and affecting entrepreneur's entrepreneurial process conscious or unconsciously. Suggestion for future research regarding this topic is qualitative study that including personality and environment and relationship or correlation between individual social capital in opportunity, team, and resource aspect of new venture creation.*

**Keywords:** *Individual Social Capital, Nascent Entrepreneur, Entrepreneurial Process, Start-up*

### Introduction

The trend of start-up business has been spread to the entire world including Indonesia. A start-up business is a human institution created to create a product or a new service in uncertain conditions that are classified as extreme and it has nothing to do with the size of a company, industry or economic sector (Ries, The Lean Startup, 2011). the main actor behind it, the entrepreneurs has become buzzwords that singled by many parties as the important part of the societies, since it creates job opportunity, increase economic development (Zarafshani & Rajabi, 2011) and are important drivers of economic growth, employment, innovation and productivity (Ahmad & Hoffmann, 2008). Even newspaper and television programs commonly produce themes around successful entrepreneurs. Many young men aspire and poised to become an entrepreneur and start their own company. Now we've seen some start-up unicorn

from Indonesia such as Bukalapak and Traveloka despite infrastructure and business environment challenges within the country. But in contrary There're also even many struggling start-ups and even numerous out of business start-up in Indonesia.

In the early day of start-up, a key piece of the start-up building process at starting-up and development stage are the exploiting networks by entrepreneur. And later, concept of networking has been unified into the concept of social capital. With use of social capital, the entrepreneur will be able to compensate the lack of or limited types of other capital such as human capital and financial capital, since new venture often face up to a lack of resources ( Kchaich Ep Chedli, 2014). When many frameworks of entrepreneurial processes identify the role of networking as part of their stage, with social capital the concept of networking has been extended. However, much of literature on measuring social capital has focused on the quantity level rather than quality made by it. This study will focus and seek to expand the depth and richness of social capital during start-up creation and later identifying the effect of individual social capital in entrepreneurial process. it is interesting to see how nascent entrepreneurs exert their social capital ties during their entrepreneurial process. it would indeed be influencing their business voyage as well as their business fate.

(Aldrich & Zimmer, 1986) illustrate entrepreneurs may possess some idea and skills, but the purpose of starting up a business, entrepreneur further need to obtain resources from external environment through their social networks. Founders social capital may grant access to capital, talent, and partnership. And it surely gives competitive advantages (Su, 2011) for nascent entrepreneur. Unfortunately, there is no shortcut in building a strong and meaningful network. If nascent entrepreneur only has weak relationships, it is may unlikely he/she will be able to leverage them in time in need. And it can be defining that quality of networking is important than quantity of networking (Abou-Moghli & Al-Kasasbeh, 2012). Previous study by (Jenssen & Koenig, 2002) on entrepreneurs in Norway confirms that entrepreneur's social networks are expected to influence entrepreneurial success because they give access to resources, information, and motivation. This postulation has vital allegations for entrepreneurship research and for practice use. However, it does not reveal how it is affected entrepreneurs on starting-up process, how it is affected team gathering and decision to drive further into entrepreneurial path. These verdicts also relate to the creation of new venture and entrepreneurial process (Timmons & Spinelli, 2008). By doing this study, researcher hoped the nascent entrepreneurs would be able to learn from respondents' experiences in starting-up business and during their entrepreneurial process, especially during opportunity exploitation, team building and resources gathering.

The phenomenon of high growing of start-up in Indonesia makes positive impact Since it creates job opportunity and increase economic development (Zarafshani & Rajabi, 2011). the Indonesian government also supports it by creating a start-up development program for communities. The universities also appear to have support significantly in growing start-up trends in Indonesia.

However, when growing of start-ups rise, the fact is that still many start-ups cannot survive and then closed. Many of them didn't last more than 1 year and while other are quite successful. Some question turns up to author's mind, do individuals who attempt to start new start-ups businesses begin with different level of social capital? Does this endowment affect their rate of business success?

As one owner of a new start-up, and as a researcher who wanted to help the business and start-up industry to grow, writer decided to do research on what is effect of individual social capital during entrepreneurial process. As a nascent start-up founder, writer also have some difficulties to grow its business. This research addresses strongly interest in exploring entrepreneurial process and how is individual social capital of founders can affect to them.

The purpose of this study is:

1. To understand the role of individual social capital during entrepreneurial process.
2. Providing recommendation based on individual social capital for Mada Founders as well as entrepreneurs or owners of nascent start-ups.

### **Social capital**

Social capital doesn't have a clear and acknowledged meaning (Dolfsma & Dannreuther, 2003), it directs the value embedded in the social relationship of individuals and collectives. Nahapiet and Ghoshal (1998) definite social capital as the summation of actual and potential resources embedded inside, available through and originated from the network of relationships possessed by individuals or social units. Prior studies have pointed out that social capital has encouraging effect on entrepreneurial

careers and is a key factor for entrepreneurial prospects and careers (Liao & Welsch, 2005). Acquiring and managing social capital plays a key role in entrepreneurial success, which can positively affect to newly created ventures (Baron and Tang, 2009). Despite many literature debate about the definition, scope and how to measure them, This study will use social capital as an individual attribute (Coleman, 1988), subsequently the writer wants to research the social capital side of entrepreneur during their entrepreneurial process and what is it social relationship do to them.

#### Individual Social Capital

In individuals' level, social capital has been defined as the resources that embedded in relationship with other individuals (Nieto & González-Álvarez, 2016). The prominence in this case is on the actual or potential benefits that grow from one's network of formal and informal ties with others. At this stage, social capital tends to be conceptualized as the skill or capital of individual. Claridge (2018) denotes that, the individual level of social capital will incline to make distinction between bonding social capital, bridging social capital, and linking social capital.

Bonding social capital is a type of social capital that describes connections inside a group or community. It described as the strong relationship that develop between people with similar or same interest and background. It usually characterised by high levels of similarity in demographic characteristics, attitudes, and available information and resources. It typically includes family and close friends, which provide material and emotional support. Bonding social capital refers to high-density of relationships between members and individual belonging to the network are interconnected because they usually know and interact frequently to each other.

This sort of social capital portrays social connections of trade, often of associations between people with shared interests or goals but contrasting social identity. Bridging social capital is essentially the result of networking outside normal social groupings. There is opportunity to build bridging social capital any time someone interacts with strangers. This is a type of social capital that describes connections that link people across a cleavage that typically divides society (such as class, or religion). It is associations that 'bridge' *between* communities, groups, or organisations.

Linking social capital is a type of social capital that describes norms of respect and networks of trusting relationships between people who are interacting across explicit, formal or institutionalized power or authority gradients in society. These relationships are described as 'vertical' and the key feature is differences in social position or power. An example could be relationships between a community-based organisation and government or other funders. Linking social capital may be viewed as an extension of bridging social capital involving networks and ties with individuals, groups or corporate actors represented in public agencies, schools, business interests, legal institutions and religious/political groups. Linking social capital differs from bridging social capital because the power differences between partners are a conscious part of the relationship. While bridging social capital develops horizontal trust among unlike groups, linking social capital involves classic patron/client or mentor/mentee relationships.

it refers to relations between individuals and groups in different social strata in a hierarchy where power, social status and wealth are retrieved by different groups. As such it is the extent to which individuals build relationships with institutions and individuals who have relative power over them, like government, investor. Linking relationships also involve mutuality. For example, funders expect effective, quality services for their grants and mentors hope that the people they work with will reflect well on them by doing well in their lives or providing the same assistance to others.

#### Individual social capital and nascent entrepreneur

Social capital has gained importance in the context of new venture creation (Jianwen & Welsch, 2005). In this study, we will examine individual indicators of social capital that theoretically result in bridging, bonding and linking relationships. As researcher stated above, we will focus on individual social capital and we do not attempt to examine social capital at the firm level. For instance, bonding social capital may include having parents or partners in business, being encouraging by close friends. bridging social capital may include membership of organization, or contact with community, development of friendships with other businesspeople. In linking social capital can be included connection with government, investor, or business mentor. Researcher represent the various component of social capital relevant to nascent entrepreneurial process in Table 1.

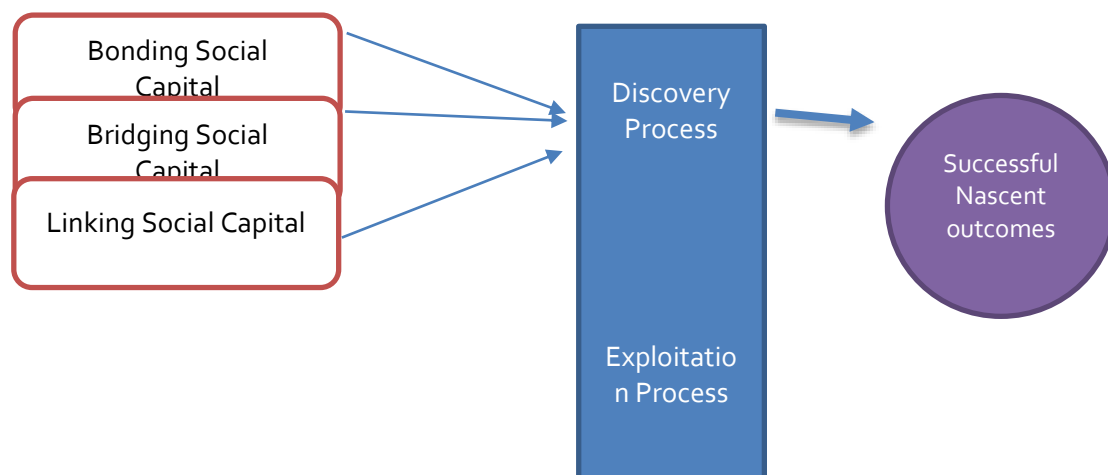


Figure 1 how individual social capital affect nascent entrepreneurs

During discovery phase social capital will assist entrepreneur with new and different ideas and world views. it will open and providing them with wider frame of reference both supportive and nurturing to the new potential idea or start-up (Davidsson & Honig, 2003). Based from previous study it can be noted that entrepreneurs frequently make decisions as a result of associations based on friendship and or advice (Davidsson & Honig, 2003). The discovery process defined by asymmetrical information between entrepreneurs and the owner of resources (Shane & Venkataraman, 2000). The discovery process will be enhanced by bridging, bonding, and linking social capital. It may enhance the flow of information to nascent entrepreneurs. The three indicators of individual social capital will actively affect the nascent entrepreneur during entrepreneurial process. For example, in bridging social capital, a person who registered with entrepreneurial organization will have more successful discovery activates than those who don't. in bonding social capital, a nascent entrepreneur with family who own business or family who encourage to self-employment will utilize their individual social capital level resulting in more successful discovery activities than those who do not.

The exploitation process also provides individuals with opportunity to leverage social capital resources. Study from Aldrich & Zimmer (1986) found out that social factors is critical resources to exploit opportunities. Both three individual social capital idea(bonding, bridging, and linking) can provides nascent entrepreneur with networks that driving to evaluation, procurement, and utilization of necessary for exploitation.

#### **Timmon's Model on Entrepreneurial Process**

Entrepreneurial process can be defined as the steps taken in order to establish a new enterprise. It is a step-by-step method; one must follow to set up an enterprise. the Timmons Model of Entrepreneurship (2008) define that, the three critical factors of a successful venture are opportunities, teams, and resources. Jeffery Timmons developed it and already used by real world practitioner and academic many times. Based on it, the mainspring forces of successful new enterprises creation are illustrated in figure 3.1. the process starts with the present of opportunity. From that, we can define the strategy, networks, team, and the business plan. In most cases, the successful ventures start with much bigger opportunity than neither resource available nor the team.

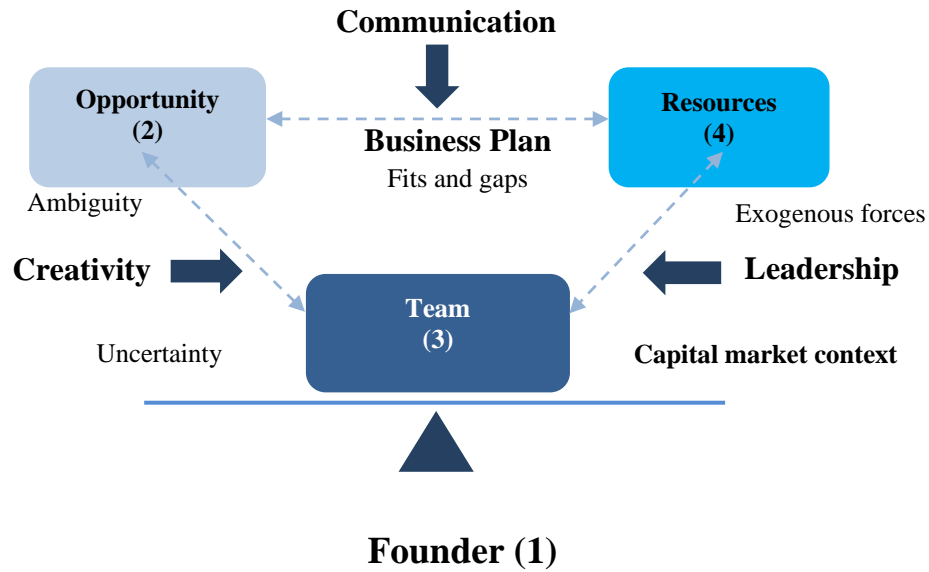


Figure 2 Timmons Model of Entrepreneurship

Opportunity is the first part of entrepreneurial process. In applied, sometimes good business have bigger opportunity than two other main factors. In practical, the unique idea doesn't necessary mean good opportunity. For every 100 ideas presented to investor in form of business plan or proposal, usually fewer than 4 get funded. The founder needs to be able evaluate whether the potential is big enough and decide how much time and effort to invest in it. In order to survive, the idea must be unique enough to define its own niche and sometimes it needs trial and error to shape it into good potential opportunity. Some opportunities are durable, they are long lasting and will grow over time. And some opportunities are short-lived, if the market lost interest and will gradually moved on to the next new thing. Some opportunities lack durability and even though demands remain high overtime. In addition, in low barriers to entry can create these situations. an observable opportunity with low barrier to enter to new competition can highly hurt opportunities. It will create overdo demand and will resulting in price war and distress all around. in order to evaluate opportunities, business founders need to identify whether the opportunities will likely to succeed and to be sustained in long time.

Many new entrepreneurs think that you need to have all resources in place to make a successful new venture, especially enough money. In Timmons's model of entrepreneurial process, thinking money as the first resort is a big mistake. in the beginning the entrepreneurs suggested to *start small and think big* by use his/her own power, in other words by bootstrapping. Bootstrapping can create a significant competitive advantage, especially in the beginning. it will help new ventures to think and act efficiently, and to minimize unnecessary funding. It will also help entrepreneurs to strengthen their capacity to use smaller resource, enhance their creative capacity, and reducing unnecessary cost. By doing more with less power, new ventures strive to minimalize and control the resources but not necessarily own them. Whether it is assets for the business, key people, business plan, or start-up and growth capital, successful entrepreneurs think cash last, and start small think big. It will encourage a discipline of leanness and will teach new founders that every money count.

After seizing opportunities and securing the necessary resources, the most important role of an entrepreneur is to bring together the best people. In Timmons model (table 2), imagine the founder, the entrepreneurial leader of venture, standing on a large ball, balancing triangle over his head. This metaphor is helpful in appreciating the constant balancing act because in applicable world, opportunity, resource and team rarely match. The Timmons model emphasizes that *none of us is as smart as all of us*, which mean even the best talent, if they can't cooperate with company mission can spoil the growth of that company. it's about found the "right" person rather than "best" person. It can be noted with no exaggeration that finding and building the champions team is the most difficult challenges new ventures can face in the early stages of venture creation. When compared to other resources, the team's most important roles are minimizing the uncertainty and ambiguity of opportunities captured through

creativity, as well as reflecting the constantly changing market trends. The team could work with external people and organizations involved in securing resources and giving them leadership to effectively manage their resources.

### Conceptual Framework

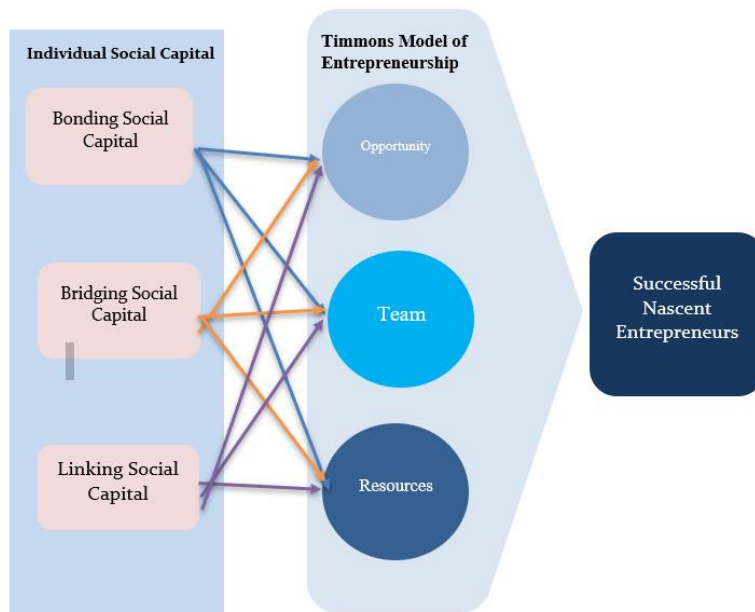


Table 3 Conceptual Framework

In this study, a research model is proposed to examine the effect of social capital in nascent entrepreneurs. As writer stated above, we will attempt to examine individual indicators of social capital that theoretically result in bridging, bonding and linking relationships and we will not attempt to examine it in firm level. Each respondent could describe their social capital roles which exist in every factor of their entrepreneurial process. Those are in (1) opportunity, (2) team, and (3) resources (Timmons & Spinelli, *New Venture Creation: Entrepreneurship for the 21st Century*, 2008). After analyzing and describing each effect of social capital effect in every entrepreneurial process point of Timmons model, the consequence of social capital will also be identified. The factors are interconnected and would eventually affecting the entrepreneurial process of the respondents. The effect of social capital in entrepreneurial process can be analyzed deeper and compared from one entrepreneur to another. The interviewees on social capital might provide new insights for other entrepreneurs in running and starting new company. It could be for making decisions in creating a new venture or for their own entrepreneurial process.

### Research Design

The very first step doing the research is by identifying the problem to be solved. The issue of this research is to explore and identify the effect of social capital in nascent entrepreneurs throughout their entrepreneurial process. Next is research question and research objective. the questions that the writer focuses on are created to make sure that the objectives are reached. The research questions are the guide in congregation data and conducting the research. Next is, to understand the depth of the problem it must be supported by the evaluation of previous studies and other sources. It also displays how important this research and will providing more insight for developing this research. Then, methodology selection. This research using qualitative research by performing semi-structured interview. After that, data gatherer will be use by performing a semi-structured interview with several informants, which entrepreneurs in Bandung. This research requires primary data which effect of individual social capital on nascent entrepreneurs in order to answer the research questions. And then, data analysis. To analyse data, we use coding process to identify the patterns in the descriptive data and categorizing the themes according to analysis procedure. At this stage the data that have been gathered will be explained more into detailed and comprehensive interpretation. Coding can be characterized as the method that can be utilized to decipher information. There is three period of coding strategies for dissecting content

information which the first phase is open coding. This phase needs to be done in analyzing qualitative data and make summarize information from data that has been gathered. The next phase is axial coding. This phase is needed to identify the relationship between the open codes, and it is all about interconnecting the coding or the categories. The third and final phase is selective coding. This phase is needed to figure out the core variable that can represent all the data. On this examination, coding is a tool used to dissect the information. By utilizing the coding technique, this examination can outline and orchestrate the issues that are found in the gathered information. Every data that has been accumulated will be gathered into open coding based on the similitudes, their gatherings of coding are required with a specific end goal to effortlessly condense the variable information. From that point onward, the following stage is to make the understanding of the coding. The translations are made utilizing the coding notes strategy and the progression of making the coding notes begun by recording notes of researcher thoughts that arise when the analyst the data. The final stage is to make conclusion and summary from the results found from this research. At this final stage, the conclusion supposed to answer the questions of this research and there is also a recommendation for further research related to this research topic and issues.

## **Methods**

This research is qualitative research conducted to explore the objective of the study. Writer used qualitative methods because it can identify and explore practices that are used in start-up companies in depth and using descriptive analysis. This research supports in-depth interviews because it allows flexibility researchers to investigate respondents answering questions about "what", "why and how". The researcher's intent is not to generalize from the sample to a population but to describe, explain, and interpret (Maxwell, 1992). "to understanding some aspects of social life, and its methods which (in general) generate the understanding in the form of words, rather than numbers, as data for analysis, Qualitative research is represented by its purposes" (Patton & Cocharn, 2002)).

## **Result and Discussion**

we can conclude that, individual social capital playing major role during entrepreneurial process. having family and close friends in business, and encouragement from family and close friends are strongly associated with successful nascent outcomes. the good social capital of founder's the better the business become.

When also found as the company grow, the result looks indicate that bridging social capital and linking social capital increasingly become more important, it reveal that bridging social capital connection of entrepreneur's link it into specific networking and knowledge which may be not available in Bonding Social Capital ties.

For government and institutional who want to help nascent entrepreneur to grow and success in their business, it would be prodigious to encourage more nascent entrepreneurs and current entrepreneurs to exploit their formal and informal network relationships. And encourage them to seek organization and institution that assist them in building their businesses. Based on data gained from the qualitative research, these are the effect of Individual Social Capital during entrepreneurial process

The Effect of Individual Social Capital in Opportunity consist of:

- Individual Social capital ties of Entrepreneur extrinsically and intrinsically affect their decision to dive into Entrepreneurial path.
- Bonding and Bridging Social Capital affect idea development of entrepreneurs conscious or unconsciously.
- Bridging social capital ties of founders show to be more important in the idea execution phase.
- Having a mentor during early stages of business development will be two-step advantage.

The Effect of Individual Social Capital in Team Consist of:

- Having Co-Founder are important during entrepreneurial process.
- Entrepreneurs tend to be partnered with people from their Bonding and Bridging Social Capital ties.

- For the ideal Co-Founder, search for people with “*similar in many ways but are also very different in actual technical skill set.*”
- for internal team, entrepreneur tend to hire person with same value and idealist, or at least believe with company value.
- good relationship within team indicates positive effect in growth and development of company.
- Keeping up good relationship outside business positively affect company growth, since its open future connection, collaboration, and improve networking.
- Good Relationship outside business also play important role when entrepreneur hits boredom. It helps them to recharge their spirit.

The Effect of Individual Social Capital in Resource Consist of:

- Having rich family during entrepreneurial process are good advantages for Nascent Entrepreneur
- As the company grow, the helps from Bridging Social Capital ties will significantly improves knowledge and networking of nascent entrepreneur. And it also open future collaboration
- Mentor role during Resource process are irreplaceable. It not only increases knowledge of nascent entrepreneur, it also improves connections, confident, and experiences.

## Recommendation

This study contributes in giving information to nascent start-up founders and entrepreneurs in building their business. they could be aware from the start about how important it is to improve and maintain good relationship. It will make them aware about how important it is to have “right” networking during building Start-up. It will bring the old business quotes “it’s not what you know, it is whom you know.” And it’s true, because business is not game of who are the most geniuses but more game of networking. Understanding the important of social capital will help them to be more careful to interact with people around them. Also, finding the right team and partner are very essential, even though it may attract friction and conflict, but the fact that we rarely seen successful business start with solely consist with one founder. And mentor part also is irreplaceable, find the right mentor as fast as possible. It will help nascent entrepreneurs to grow as a person and help their business to grow. A mentor who has experienced the highs and lows of running a business may be in the perfect position to give advice to nascent entrepreneurs. And not only do they have the right words to share, they would also have ideas to help Entrepreneurs navigate their way to success.

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