

## ENTREPRENEURS & SOCIAL CAPITAL: STRATEGIC LEADERSHIP IN THE 21ST CENTURY FIRMS

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### ABSTRACT

This paper explores the relationships among entrepreneurship, leadership and social capital and its impact on the new face of business. The main hypothesis of this paper is that the rapid absence of well amalgamated aspects of social capital, and entrepreneurship within a society is more likely to produce a lack of leadership and thus, dysfunctional aspects of business.

We first reviewed the extant literature in entrepreneurship, social capital and leadership. A more philosophical approach is undertaken to determine what entrepreneurship truly means and how social capital impacts on the natural creation of leadership.

The focal point of the argument is that entrepreneurship is the process of the creation of a new business or a growing existing business through an exploration of new opportunities within or outside the existing market space. In order to achieve this objective, nations and institutions have to invest in the overall development of social capital. Thus we argue that social capital is one of the primary resources which need to be developed in order to achieve success of entrepreneurs and therefore leaders.

Preliminary findings seem to suggest that a coherence of indicated factors: entrepreneurship and social capital, result in greater leadership ability, thus progress of the business and the overall economy. In addition the study seems to highlight that the dynamism of social capital serves as foundation for entrepreneurship and leadership advancements. We propose a conceptual framework that links entrepreneurship and social capital serving as the main drive for business viability, enhancing progress and a deeper understanding of business feasibility.

### INTRODUCTION

Veritable entrepreneurs are leaders who are, adaptive, innovative and undertake risks. They stimulate vibrancy within communities, which take charge in identifying and creating new opportunities (Busenitz et al., 2003; Mitchell, 2002; Stevenson & Jarillo, 1990). Entrepreneurs gain easier access to financial resources, accumulate wealth and power only to the extent that their own aspiration is aligned with those of their stakeholders and to the extent that their imagination is fertile enough to sculpt a vision of the contemporary world (Fiet, Busenitz, Moesel, and Barney, 1997). One should also note that various scholars portrayed Leadership and Entrepreneurship differently (Burnes, 1996; Lakshman, 2006; Mintzberg 1973; Parry 1996; Pye 2005). In order to understand the concepts one should consider

an amalgamation of both their social and cultural beliefs (Sarros and Santora, 2001; Parry 2001; Thomas 2001).

Leadership flourishes due to openness and human relations compared with management which is based on formal authority (Burnes 1996; Cope and Waddell 2001; Gray 1995; Karpin 1995; Sarros and Santora 2001; Vines 1999). Leaders, who by definition set a vision and then mobilize the organization in its pursuit, include in their vision a mandate to utilize entrepreneurial skills and thinking to invent the future and organize to bring the best opportunities to realization. Leaders combine internal social capital as well as that residing outside their firm.

It is needless to state that it was only in the late eighties and early nineties that eminent scholars such as Pierre Bourdieu and James Coleman introduced the term social capital as a new form of wealth (Bourdieu 1985; Coleman 1988). Social capital refers to the internal social and cultural coherence of society that facilitates action and creates value (Adler & Kwon 2002; Cohen, & Prusak, 2001). The norms and values espoused by society govern interactions among people and institutions. Social capital is thus the cohesive energy which holds societies together, enhancing individuals to act and to lead, and facilitating economic outcomes and goals that otherwise would not be possible.

According to Rose (1999) without the integrated structure of social capital many societies would become dysfunctional and less productive creating human and social misery. Krzyszkowski, (2000) asserts that social capital is one of the prime catalysts in economic progress. One may state that integrating entrepreneurial spirit, strength of social capital, and true leadership galvanizes people's conviction that there is a better way of creating, maintaining and advancing with business of the 21<sup>st</sup> century (Strang, 2005; Daft 1999).

Several authors argue that the winners of economic change are those who passionately cultivate the harmony between the political and cultural capital of a nation (Eyal, Szelényi & Townsley, 1998; Hanley, Matějů, Vlachová, Krejčí 1998). The essence of harmony between cultural and political dimensions is largely dependent on the nature of human capital which has superior cognitive abilities and high level of entrepreneurial skills.

The entrepreneurial process as a means to economic development becomes explicit within a web of social relationships that facilitate, binds, provides access to resources and more importantly unrestricted emotional support and natural creation of leadership (Aldrich, 1999; Aldrich & Zimmer, 1986; Bourdieu, 1986; Birley, 1985; Burt, 1992; Coleman, 1988, 1990; Gartner, 1988; Granovetter, 1985; Lin, 2001; Nonaka, 1991; Nahapiet & Ghoshal, 1998; Paldram, 2000; Rose, 1999; Yli Renko, Autio & Sapienza, 2001). The nature and strength of social relationships and social harmony is argued to be affected by the cognitive and behavioral dispositions of the society. Thus, cognitive and behavioral strength of a society forms as a platform for social capital.

## PURPOSE AND METHODOLOGY

The main purpose of this paper is to examine the extent to which social capital influences entrepreneurship and thus the development of leadership. Specifically, the cognitive and behavioural aspects were closely examined. We argue that cognitive and behavioural strength is an integral part of the social capital as cognitive strength enhances problem solving skills as well as greater self-awareness and a better understanding of the external environment.

We first reviewed the extant literature in entrepreneurship, social capital, leadership and management understanding in order to establish a theoretical framework. A clear approach is undertaken to determine the true meaning of entrepreneurship, leadership and social capital from the perspective of the countries being researched. The data for this research was compiled utilising the public domain of recent OECD Fact book and European Union Statistical Office and other official EU organizational publications. Further, the World Bank's publications, were also utilised. The data comprises of i) Rate of self-employment - entrepreneurial business activities, ii) Employment and unemployment rates iii) Education investment rates. Empirical analysis was conducted on selected secondary data along with content analysis of some relevant documents available in the public domain. We argue that accrue of all creates desirable progress.

## LITERATURE REVIEW

### *Entrepreneurship*

Schumpeter (1912) was the first one to assert that entrepreneurship is an important factor that spurs economic growth (Blaug, 1994). Venkatraman (1999) argues that entrepreneurship occurs when lucrative opportunities exist within the economy and enterprising individuals are poised to take advantage of those opportunities. When entrepreneurs create new businesses they create new jobs, products, and often, a creative work environment (Kao, 1991). Moreover, entrepreneurship serves as a catalyst in the development of economies as without the participation of risk takers economic growth can be limited thus preventing from a higher standard of living (Acs, Audretsch, Braunerhjelm and Carlsson, 2005; Baumol, 1990; Carree and Thurik, 2003; Wennekers and Thurik, 1999).

Since the early 1980s, entrepreneurship has emerged as an important focus for practitioners and academia across the world (Kao, 1991; Shane & Venkatraman 1997) resulting in a wide spectrum of theories and explanations (Arenius and Minniti, 2005; Blanchflower, 2000; Brock and Evans, 1989; Gavron, Cowling, Holtham and Westall, 1998; OECD, 1998; Uhlaner, Wennekers and Thurik, 2002) and a broad array of definitions and measures (Bull and Willard, 1993; Hébert and Link, 1989; Lumpkin and Dess, 1996; OECD, 1998; Praag van, 1999). While, some scholars have attempted to list the qualities of entrepreneurs, there seems to be limited research on the uniqueness of social capital and its impact on entrepreneurial growth and leadership standing.

### *Entrepreneurs and Social Structure*

One may note that it is increasingly recognized that entrepreneurs embed their business decisions in social structures (Borch, 1994; Hansen, 1995; Larson & Starr, 1993; Reynolds, 1991; Starr & MacMillan, 1990). Granovetter, (1985, 1992) employ a structural approach to study how entrepreneurs use social capital relations to get advice and resources to launch a business and note that establishing a business requires different contacts and resources in different phases. The structural approach further implies that entrepreneurs in diverse cultural settings access their social relations in similar ways to get these resources.

Entrepreneurs require information, capital, skills, and labour to start business activities. While they hold some of these resources themselves, they often complement their resources by accessing their contacts (Aldrich & Zimmer, 1986; Aldrich, et al., 1991; Cooper, Folta, & Woo, 1995; Hansen, 1995). The contacts that lead to successful outcomes are based on their social capital and are a key component of entrepreneurial networks (Burt, 1992). Gabbay & Leenders (1999) define social capital as the set of tangible or virtual resources that accrue to actors through the social structure which facilitates the attainment of their goals (Portes, 1999). When the entrepreneurs' contacts contribute to their entrepreneurial goals it becomes their social capital resources (Burt, 1992). The contacts are often informal work and non-work connections, and may extend across professional networks, friends, and colleagues from earlier jobs. Based on social network analysis the relationships between entrepreneurs and others provide resources that are important in establishing and running a business, and advance with the overall countries economy (Johannisson, 1988; Larson, 1991).

Entrepreneurs and leaders have ideas, knowledge, and competence to run the business and inspire others to embark on a set path (Teece, 1987). They get support, knowledge, and access to distribution channels through their social networks. Entrepreneurs are also linked to people and organizations that interact among themselves which tends to widen the availability of resources needed to sustain a new firm (Hansen, 1995). Social networks are embedded in the social context of businesses and are activated in response to different needs (Granovetter, 1985; Burt, 1992).

Entrepreneurs draw on kin and non-kin to different degrees and are likely to take advantage of this distinct pool of knowledge in developing a new business (Dyer & Handler, 1994). It may be stated that entrepreneurs can relatively easily tap kin for initial feedback and input about a business idea (Rosenblatt, et al., 1985; Aldrich, Reese, & Dubini, 1990).

### ***Entrepreneurial Cognition***

Entrepreneurial Cognition has been defined as processes (Estes, 1975), the knowledge structures that people use to make assessments and judgements relating to evaluation, creation and growth. Further, it is about understanding how entrepreneurs combine previously unconnected information to a tangible and resourceful means of progress (Neisser, 1967). As psychology scholars began to recognize the limitations of the earlier behaviourist approach (Skinner, 1953; Watson, 1924), cognitive psychology emerged to help explain the mental processes that occur within individuals as they interact with other people and the environment around them.

Social cognition theory considers that individuals exist within a total situation or configuration of forces described by two pairs of factors: one being cognition and motivation, and the other being the person in the situation (Fiske & Taylor, 1984). Social cognition theory, for example, introduces the idea of knowledge structures: mental models (*cognitions*) that are ordered in such a way as to optimize personal effectiveness within a given situation. Thus, where entrepreneurship consists of individuals and teams creating works for other persons within the market environment, the concepts developed in cognitive psychology are increasingly being found to be useful tools to help probe entrepreneurial-related phenomena.

### ***The Present Context***

It was in the early to mid 1990s that the terms entrepreneurial cognition (Busenitz & Lau, 1996) began to gain currency, and entrepreneurial cognition research emerged. One may note that some of the first direct work in entrepreneurial cognition was conducted in the areas of cognitive biases and heuristics in strategic decision making, and feasibility and desirability perception, planned behaviour, and self-efficiency (Krueger, 1993; Krueger & Carsrud, 1993; Krueger & Dickson, 1994). Near this same time, entrepreneurial cognition-based constructs were first used to distinguish entrepreneurs from non-entrepreneurs then Palich and Bagby (1995) used cognitive theory to explain entrepreneurial risk taking, and Mitchell and Chesteen (1995) demonstrated how a cognition-based entrepreneurial instruction pedagogy was superior to the traditional 'business plan only' approach to teach entrepreneurial expertise.

The next wave of entrepreneurial cognition research was led by Baron (1998), who argued that a consideration of several cognitive mechanisms such as counterfactual thinking, attribution style, the planning fallacy and self-justification, might have significant usefulness in explaining why entrepreneurs do the things that they do. Than McGrath (1999), and Simon, Houghton and Aquino (2000) provided an analysis of how cognitive errors, such as overconfidence, illusion of control, and misguided belief in the law of small numbers, shape such phenomena as the creation of real options for entrepreneurs. Busenitz and colleagues (Wright et al., 2000; Alvarez & Busenitz, 2001) have now utilized cognitive models to explain how entrepreneurs think and make strategic decisions; and Mitchell et al., (2000) have utilized entrepreneurial cognition constructs to explain the venture creation decision in the cross cultural setting. Most recently, the use of cognitive constructs has been further extended to explain cognitive complexity in economic development and in family business (Mitchell & Morse, 2002).

### ***Education and kingship***

Some view education as a platform from which to advocate the preservation of basic values of a society while others place higher emphasis on such virtues as intellectual growth and self-enlightenment. Moreover, education is considered a basic human right which increases the cognitive capital of the society that leads to better economic and intellectual growth. Furthermore, education serves as the foundation for prosperous leadership within any given society and creates strength and value for future leaders.

Sociologists argue that the main emphasis is on the kingship aspects of the social capital. For example, three basic strategies have been identified to mobilize the family resources namely; i) family capital accumulation – assistance to start entrepreneurial ventures to build collective family wealth. ii) The development corrective strategy to assist family members tend to vary, and is used to uplift less successful members of the family - the emphasis here is in creating collective harmony and the well-being of the whole clan. iii) The strategy of sharing during shortages creating more harmonious natural exchange of goods and services. This tends to reflect greater emphasis on collective gains and a more

pluralistic society (Giza-Poleszczuk, 2000). Consequently, the increased cognitive ability of a population results in a deeper understanding of the environment and a broader world-view. Moreover, strong leadership abilities are created naturally and in the early years of human life.

### ***Trust***

It is to be stated that trust allows for efficient trade to take place in the face of uncertainty and constraining opportunistic behaviour. It also reduces the cost of rule enforcement through supporting collective action. In times of uncertainty trust reduces competitive pressures on entrepreneurs and their newly created ventures. A key challenge for successful progress is to have confidence in government providing minimum level of barriers which in effect lowers the risk for breaking out of existing networks in search of new economic opportunities. Other determinants of trust are moral leadership by the government, constitutional safeguards provided to facilitate an open and democratic government along with redistributive policies which lowers social distance among all groups in society.

Entrepreneurship cannot flourish in an environment of distrust since many economical opportunities are closed off. It is argued that every commercial transaction has within itself an element of trust (Arrow 1975). It can be plausibly argued that much of the economic backwardness in the world can be explained by a lack of mutual confidence and trust in social and legal institutions (Humphrey and Schmitz, 1996; Johnson, McMillan, 1998; McMillan and Woodruff, 1998; Raiser, 1997). We argue that true entrepreneurship is based and is stimulated by trust-worthy institutions within any society. Societies which are nurtured on the basis of mutual trust are more likely to have a higher entrepreneurial and economic development compared to societies which are largely governed by institutions that are self-centred and devoid of public good policies. It is our assertion that such publicly trusted institutions often emerge in societies which possess cognitive coherence through education and has a platform of societal values. Further, it is difficult to refute that such qualities reflect positive behaviour even under adverse circumstances.

### ***Social Capital***

The concept of social capital originates from Bourdieu (1972) and Loury (1977) where they argued that while each individual embarks on a journey of life based on his /her competence, it is seldom that the journey is travelled alone. The social context within which the individual acquires maturity comes from human interaction and socialization between people. Bourdieu (1986) further developed the concept of social capital by arguing that it is the sum of the resources, actual or virtual that is accrued through durable networks of institutionalised relationships of mutual acquaintance and recognition.

Social Capital serves as undisputable foundation for societal progress by supporting human strength, leadership values, networks, trust, engagement, communication, shared values, aspirations and interconnectedness. Edgar (2001) points out that a strong social capital creates successful entrepreneurs and leaders. Furthermore, a more civil society, where tolerance, mutual respect and meaningful relationships prevent social disintegration in the form of family breakdown, delinquency, crime, interest-group conflict and ethnic violence, and where business can thrive. It may be stated that without strong social capital nations would be exposed to totalitarian state control, both based on fear, distrust and deceit, both yielding highest gains to those with power – physical, economic or educational (Edgar, 2001).

Coleman (1988; 1994) argued that economic goals are achieved by the collective action and expectations of members of society even if individual goals are not necessarily focused towards economic rewards. Other authors who have supported this notion are (Paxton, 1999; Putnam, 2000; Knack and Keefer, 1997). These authors suggest that: i) interpersonal trust, ii) institutional trust, iii) formal and informal participation in civic society, and iv) trust-worthiness of the respondents themselves, may be added to greatly enhance the measurement model for social capital. Thus, the cognitive and behavioural dimension of the social capital emerges from such collective inter and intra action among groups through structural embeddedness, opportunity accessibility, and action oriented use of resources, all of which tend to intersect and interact with each other.

Similarly, other authors have argued that social capital is the process and conditions that energises people and organisations to achieve mutual social benefit (Pennings, Lee & van

Witteloostuijn, 1998; Miles, Miles Perrone & Edvinsson 1998, Paldram, 2000, Putnam, 1995; 2000). Such processes comprise of four interrelated constructs namely; trust, social engagement, civic participation, and reciprocity. Štulhofer (2000) divided social capital into three dimensions: *trust* denotes an initial motivation for cooperation, *associatedness* provides a training ground for the creation of trust and cooperation, and *civiness* shows the respect for social norms. He defines social capital as a cluster of cultural characteristics, which create and maintain mutual trust and cooperation within a society. Each individual within a society embarks on a journey of life based on his /her competence; the cognitive and behavioural aspects tend to develop through collective interaction.

The social context within which the individual acquires maturity comes from human interaction and socialization between people. Social capital is the process and conditions that energize people and organizations to achieve mutual social benefit (Jackman & Miller, 1998; Pennings, Lee & van Witteloostuijn, 1998; Portes & Sensenbrenner, 1993; Miles, Miles Perrone & Edvinsson 1998, Paldram, 2000, Putnam, 1995; 2000, Woolcock, 1998).

The more contemporary economist view is represented by Stiglitz (2000) who views social capital from a knowledge perspective that includes tacit knowledge, a number of networks, and an accumulation of reputation used as a social means to tackle moral hazards and incentive issues. In support of Stiglitz one would argue that knowledge resides in human capital while cognition and behavioural aspects impact on human action. Thus, cognitive and behavioural dimensions tend to drive and enhance the social capital of the society (Lynch, Due, Muntaner, Davey Smith, 2000; Woolcock, 2001).

Social capital is an umbrella under which cognitive and behavioural aspects of the populace reside, and new ventures as well as overall entrepreneurial knowledge development is largely driven by the nature and cognitive strength of the individual within a society (Aldrich, 1999; Aldrich & Zimmer, 1986; Bourdieu, 1986; Birley, 1985; Burt, 1992; Coleman, 1988, 1990; Gartner, 1988; Granovetter, 1985; Lin, 2001; Nonaka, 1991; Nahapiet & Ghoshal, 1998; Paldram, 2000; Yli Renko, Autio & Sapienza, 2001).

One may state that a rapid growth process is contingent on the nature and structure of society and its social strength. Consequently, a society with strong social capital is capable to support leadership and encourage and recognize entrepreneurial progress better than the one with weaker social capital. The entrepreneurial process as a means of economic development becomes explicit within a web of social relationships that facilitate, bind, and provide access to resources and most importantly unrestricted emotional support (Venkataraman, 1997).

### **Leadership**

*“Leaders establish the vision for the future and set the strategy for getting there; they cause change. They motivate and inspire others to go in the right direction and they, along with everyone else, sacrifice to get there, more so they motivate large groups of individuals to improve the human condition.”*

*Professor John Kotter*

One may trace the concept of leadership back to the ancient times, with leader traits, behaviors, and processes discussed in ancient writings of China, Egypt, Greece, India, Israel, and Italy (Rindova & Starbuck, 1997a,b; Wren, Hicks et al. 2004). However, systematic study is much more recent. The leadership field has faced conflicts over definitional issues (Avolio, Sosik, & Jung, 2003; Bennis, 1959; Yukl, 2002), theoretical adequacy (Schriesheim, Castro, & Cogliser, 1999; Wheatley, 1999), measurement problems (Antonakis, Avolio, & Sivasubramaniam, 2003; Schriesheim & Kerr, 1977), levels-of-analysis confusion model specification (Jarvis, MacKenzie, & Podsakoff, 2003; Villa, Howell, Dorfman, & Daniel, 2003), legitimacy (Liebersohn & O’Connor, 1972; Salancik & Pfeffer, 1977), infighting (Koontz, 1961), and academic amnesia (Sayles & Stewart, 1995). Such has been the confusion and inconsistency in the conceptualization and eventual practical application of leadership theory over the years (Tosi (1982).

Various authors state today that leadership although the most researched concept at the same time is the least known. Rost (1991) criticized the state where academics write about leadership without precise understanding of the concept especially that approaches and theories on leadership are immense and relate to numerous scientific areas (Yammarino, Dionne et al. 2005). It is the twentieth

century when the scientific study of the concept together with its application in business instigated and developed (Yukl, 1989; 2002). Furthermore, leadership commenced to be studied from diverse perspectives including (i) input, (ii) output, (iii) different level of analysis and/or (iv) impact it creates (Strang, 2005).

### ***Existing approaches and management***

With some authors attempting to classify and summarise the existing approaches to leadership (Yukl, 1989; Yammarino, Dionne et al. 2005), the task seems complicated as evidenced by the study of Yammarino, Dionne and colleagues (2005). After reviewing, the 348 most influential leadership articles created 17 approaches and concluded that authors lacked diversified views. Consequently, one may not refute to state that authors lacked a consensus on any kind of order in the research. At the same time however, the only widely accepted, and at times criticized, path of development of the leadership study seems to include trait, behavioural and situational approaches and most recently the transactional/transformational approach (Rost, 1991; Northouse, 2004; Yukl, 2002).

A vast spectrum of these approaches and theories results in an immense quantity of definitions of the phenomenon (Rost, 1991; Yukl, 1989, 2002; Antonakis, Cianciolo et al. 2004), with the influence process perceived as the only platform shared by a number of definitions (Yukl, 1989). According to Yukl (2002) this creates disagreement between researchers on the identification of leadership processes as the majority of the definitions describe leadership with a very narrow focus. Consequently, quite often conflicting findings of the studies are propagated. Thus, one may not refute that such a state of affairs often prevents proliferation of links between entrepreneurs and leaders (Yukl, 1989, 2002).

The confusion has been also further enhanced by the existence of diverse opinions on the differences between leadership and management, and lack of consensus on which notion is broader (Burnes 1996; Lakshman 2006; Mintzberg, 1973; Parry, 1996; Pye, 2005; Yukl, 1989). It seems to appear as some agreement between authors that leadership is seen as a human relation process based *on* personal influence, while in management the basis of relationship is only a formal authority (Daft, 1999; Sarros and Santora, 2001; Strang, 2005; Yukl, 1989). It is needless to state that the use of power, establishing and communicating the vision seems to constitute the two main differences widely recognized.

### ***Leadership and entrepreneurship***

Leadership studies seems to have its origins in sociology, however already in the first years of the twentieth century the links between leadership and economy, psychology, or political, religious and business conduct are visible together with the complexity of leadership itself (Mumford, 1906; Chapin, 1924). Moreover, at the beginning of the twentieth century Mumford (1906) argues that leadership is present in every type of interaction between individuals. He makes special reference to the case of economic activity where he admits the presence of leadership in all kind of associations from the smallest groups to the largest corporations. With no difficulty one can find in this argument similarity to the necessity for leadership to be embedded within the vast spectrum of life including organizations and society itself (Karpin, 1995; Yukl and Lepsinger, 2004).

It also seems evident that influencing others in order to make them follow is the core concept of leadership (Mumford, 1906) as suggested by Yukl (1989) after revision of a series of various definitions of the term. One may note that the articles from the turn of the nineteen/twentieth centuries suggest the existence of a link between the concepts of leadership and entrepreneurship and more so incline that entrepreneurs are the natural leaders created by the wealth of its societal background. Other authors supported this view outlining that leadership and high spirit is present in activities undertaken by entrepreneurs (Mumford, 1906; Osgood, 1896).

## **DISCUSSION**

The idea that leaders are created by a society and that they depict them, and that leaders work within social networks and are influenced by those networks is not new (Bass, 1990). According to Bass (1990) Leadership depends on interaction. Interaction depends on physical proximity, social and organizational propinquity, and networks of open communication. One may therefore note that it is not

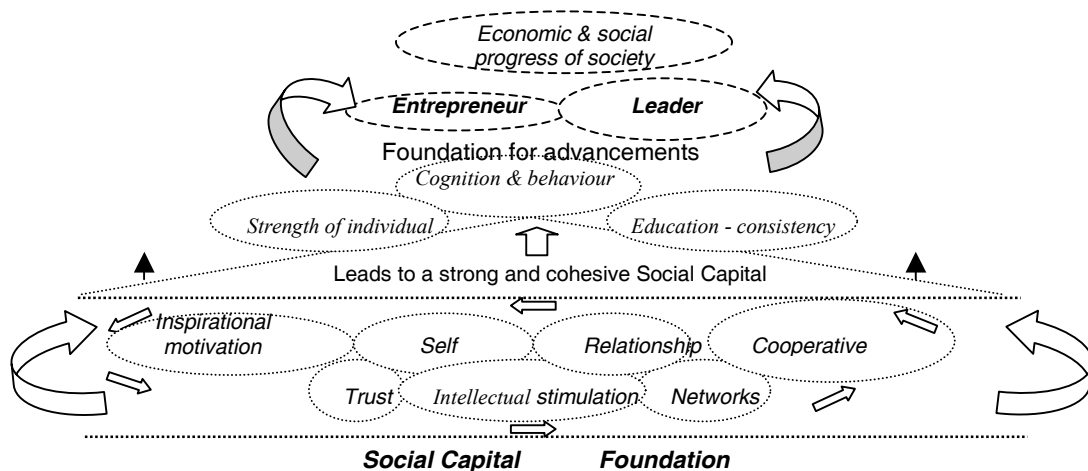
surprising that the emergence and success of leadership depends predominantly on such physical and social arrangements. Leaders like entrepreneurs build and foster social networks. In turn networks enable them to get their work done, create new ventures, transact with others, transfer knowledge, innovate, and create economical and social value.

The importance of social networks to leadership is emphasized in the McKinsey Leadership Research Project, *“Leadership in the Context of Emerging Worlds: Illuminating the Blind Spot,”* (Arthur et al, 2000; Sidle, Warzynski, 2003). In this ongoing research project prominent thought leaders from academe and business share their insights on the challenges facing leaders. They note that the “value-constellation” of business in today’s world is embedded in and generated through dynamic “web-shaped patterns of social relationships,” and that the task of leaders is to recognize these patterns and to position themselves within this “generative domain of relationships” to reshape the world. It is needless to state that the social capital structure plays an important role in the development of the cognitive assets of leaders and entrepreneurs resulting in progress of the overall societal economic development (Sidle, Warzynski, 2003)

It is also interesting to note that the findings of this study are supported by extensive research indicating that networks and their attendant product of social capital are strongly related to business performance of leaders and entrepreneurs. For example, it has been found that social capital facilitates the flow of information and knowledge, improves relationships, teamwork, and coordination of business activities, increases individual commitment and flexibility, enhances innovation, increases efficiency and reduces transaction costs, and improves economic performance (Adler, & Kwan, 2002; Bolino, Turnley, & Bloodgood, 2002; Kostava, & Roth, 2003; Nhapiet, J., & Ghoshal, S. 1998; Sidle, Warzynski, 2003). Additional studies on globalization (Castells, 1996) and multi-national corporations (Nohria and Ghoshal, 1998), as well as company-based networks (Charan, 1991; Cohen, & Prusak, 2001), also point to the social capital as essential in understanding and explaining entrepreneurial leadership and their business performance. Leadership and entrepreneurship flourishes due to openness and human relation (Burnes 1996; Cope and Waddell 2001; Gray 1995; Karpin 1995; Sarros and Santora 2001; Vines 1999).

Entrepreneurs require various resources to commence economic activity and while they hold some of these resources themselves they often complement their resources true web of social relationship (Aldrich & Zimmer, 1986; Aldrich, et al., 1991; Cooper, Folta, & Woo, 1995; Hansen, 1995). The contacts that lead to successful outcomes are based on their social capital and are a key component of entrepreneurial networks (Burt, 1992). It is also interesting to note that leaders, who by definition set a vision and then mobilize the organization in its pursuit, include in their vision a mandate to utilize entrepreneurial skills and thinking to invent the future and organize to bring the best opportunities to realization. In order to progress, leaders draw combining internal social capital as well as residing outside their firm.

**Figure 1 – Conceptual Model**



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It needs to be stated that the four essential elements of leadership are (i) integrity, (ii) humility, (iii) compassion and, (iv) courage. For the Greek philosophers, courage was one of the cardinal virtues.



It depends on justice and has two subsets (i) physical and (ii) moral. It is moral courage that we appropriately address in the business context. Courage in business leadership and entrepreneurship is expressed in many ways. It can be changing a vision, strategy, and/or maintaining an ethical stance in the face of personal or societal risks. Courage is caring enough about one value that one upholds these in the face of risks. Leadership is about change and it takes real courage, at times, to maintain one resolve when the real risks of change become blindingly apparent. Entrepreneurs are the natural leaders who are, adaptive, innovative, undertake risks and have courage. They stimulate vibrancy within communities, resulting in economic and social progress of a given society (Busenitz et al., 2003; Mitchell, 2002).

Figure 1 indicates a conceptual framework for the research study. As can be noted, the framework stipulates that the dynamism and wealth of the vibrancy of trust, networks, education and kinship just to name a few improves the overall wealth of the social capital. Consequently, social capital becomes enhanced and serves as the foundation for entrepreneurship and leadership advancements improving well-being of the economy and society.

The role of social capital in association with the entrepreneurial and leadership undertakings and specifically the cognitive and behavioural aspects of the society seem to have received limited attention. It is argued that cognitive and behavioural aspects are vital components of social capital and act as a catalyst for cultural and social coherence. Economists define capital as any wealth-producing asset. Bourdieu (1986) believes that in order to understand the structure and functioning of the social world, it is necessary to discuss capital in all its forms and not solely in the one form that is recognized by economic theory. In particular, the exchanges that economic theory considers non-economic are those that do not directly contribute to maximize profits however, they ensure the transformation. The most material type of capital in a restricted economic sense presents itself in the immaterial form of either cultural or social capital. Bourdieu contends that the different types of capital can be distinguished according to how easily they are transmitted or exchanged. Economic capital is immediately and directly convertible into money. Cultural capital may also be convertible under certain conditions into economic capital and may be institutionalized in the form of educational qualification while social capital is convertible into economic capital and may be institutionalized in the form of a title or nobility. It seems that the main thrust of Bourdieu's arguments are essentially focused on the cognitive and behavioural dimension of the social capital. It is argued that the economic transformation of social capital to a more material form is largely dependent on the understanding of the complexity of the process as well as being able to make decisions in accordance to a particular environment. It is hard to refute that these attributes are cognitive and behavioural in nature and is an integral part of the social capital domain. Both entrepreneurs and leaders draw on social capital to advance with their economic directions.

Social capital assists in the explanation of entrepreneurial and leaders success, as they can utilise their contacts and connections and the resources that they bring for a set gain (Adler and Kwon, 2002; Leana and Van Buren, 1999). Indeed, the entrepreneurship and leadership (Aldrich and Zimmer, 1986; Birley, 1985; Uzzi, 1996; Walker *et al.*, 1997) and social capital literatures (Adler and Kwon, 2002; Burt, 1992; Knack and Keefer 1997; Nahapiet and Ghoshal, 1998; Paxton, 1999; Putnam, 2000; Tsai and Ghoshal, 1998; Yukl, 1989, 2002) have emphasised the importance of connections and networks to the establishment of new ventures and innovation in general.

When integrity, honesty and trust are coupled with vision, stability, and an empowering style, leadership occurs. It takes courage, flexibility, and commitment to be an entrepreneur and leader. It is hard to refute that keeping one word builds respect and trust. Furthermore, in order to operate as the entrepreneur or a leader one would need to be passionate, educated, have the ability to adapt to change, have vision, be trustworthy, and operate in a web of social relationships. Thus it is not to be refuted that social capital utilizes all this attributes enhancing entrepreneurs and leaders in their pursuit to success.

## Results

Table 1 delineates that investment in social capital is highest in Sweden followed by Poland and United Kingdom exceeding OECD average. This suggests that Public social investment is considered to be an important part of government policy. This data however does not discriminate among various factors of the social capital. It however provides some evidence of selected OECD countries with respect to other nations.

**TABLE 1 - PUBLIC SOCIAL SPENDING**

<b>Public social expenditure As a percentage of GDP.</b>			
	1999	2000	2001
Australia	17.47	18.56	<b>18.00</b>
Czech Republic	19.80	20.32	<b>20.09</b>
Hungary	20.82	20.04	20.07
<b>Mexico OECD MIN</b>	4.96	4.97	<b>5.10</b>
Poland	22.18	21.94	<b>23.03</b>
<b>Sweden OECD MAX</b>	30.60	29.48	<b>29.78</b>
United Kingdom	21.25	21.69	<b>21.82</b>
United States	14.19	14.19	<b>14.73</b>
EU15 average	24.04	23.59	<b>23.86</b>
OECD average <sup>1</sup>	20.82	20.48	20.77

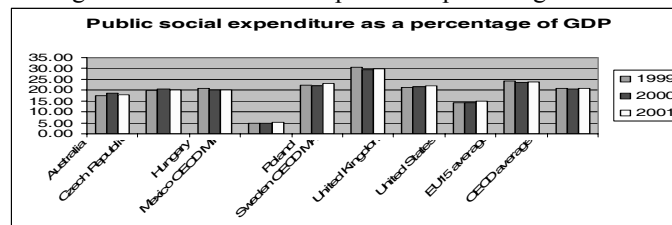
Source: OECD Factbook 2006: Economic, Environmental and Social Statistics - ISBN 92-64-03561-3 - © OECD 2006. Public finance - public expenditure and aid - social expenditure  
Please note: table excludes Hungary and Slovak Republic. Spending for Turkey is assumed constant from 1999

**TABLE 2 – OECD SOCIAL INDICATORS – SELECTED COUNTRIES**

Country	Public social spending 2001	
	Public social expenditure by broad social policy area, in percentage of GDP, <b>Total public social expenditure</b>	Public social expenditure by broad social policy area, in percentage of GDP
Australia	18.0	4.3
Austria	26.0	12.9
Canada	17.8	5.3
Czech Rep.	20.1	7.6
Denmark	29.2	6.5
France	28.5	11.9
Germany	27.4	11.2
Hungary	20.1	7.7
New Zealand	18.5	4.9
Poland	23.0	10.6
Slovak Rep.	17.9	6.6
Spain	19.6	8.7
Sweden	28.9	7.4
Switzerland	26.4	13.1
United Kingdom	21.8	8.3
United States	14.8	6.1

Source: OECD – Social spending (2005) Edition

Figure 2 – Public social expenditure percentage of GDP



It is interesting to note from table 1 and 2 and Figure 2 that investment in Public Social Expenditure is relatively high in OECD countries with Poland higher than the average of OECD. The continuous development of social capital and education seems to be in a growth phase which is reflected by a high proportion of the population being self employed, therefore, entrepreneurs as shown in Table 2 and Figure 4. One can look at the figures mainly from two perspectives. First it seems obvious that countries such as Turkey, Poland, Czech Republic, and Hungary have a higher percentage of self-employed. This may perhaps be due to a higher level of unemployment resulting in a need-based entrepreneurship. This argument seems to be supported when one observes that the USA has only 7.6 percent of its population in self-employment.

There are substantial differences between particular OECD countries. The maximum public social expenditure in OECD declined from 36.77 in 1993 to 28.48 but still during all the time Sweden persist the country with largest public social expenditure. Pensions (on average 8% of GDP), health (6%) and income transfers to the working-age population (5%) are the three largest groups of social transfers.

The overall employment rate has had a tendency to decrease. However there are substantial differences among particular countries. It is also to be noted that the tendency to incorporate women to labour market is observed. It is interesting to observe that the country with minimum employment rate is at the same time the one with maximum self employment

**TABLE 3 – LABOUR MARKET – SELF EMPLOYMENT**

Self-employment rates: total - As a percentage of total civilian employment

Labour market - employment  
self-employment

	2000	2001	2002	2003	2004
Australia	14.5	14.2	14.3	13.4	14.0
USA	7.4	7.4	7.2	7.6	7.6
EU 15	15.7	15.6	15.4	15.5	15.7
Poland	27.4	28.0	28.1	27.3	<b>26.7</b>
Hungary	15.2	14.5	13.9	13.5	14.3
Czech Republic	15.2	15.2	16.1	17.3	<b>16.9</b>
Luxembourg OECD MIN	7.3	7.0	6.9	6.8	..
Turkey OECD MAX	51.4	52.8	50.2	49.4	<b>49.2</b>
UK	12.3	12.2	12.1	12.7	13.6
OECD total	17.7	17.6	17.4	17.3	<b>17.4</b>

Source: OECD Factbook 2006: Economic, Environmental and Social Statistics - ISBN 92-64-03561-3 - © OECD 2006

*Please note that the overall tendency to fall can be observed in self employment rate. The rate tends to be higher in low per capita in commonwealth countries*

When one examines countries like UK, USA, Australia it may also be argued that entrepreneurship in these countries may be largely stimulated through innovation rather than a need which reflects the second aspect of self employment rates. Poland, Czech Republic, Hungary also suffered a huge upsurge of unemployment during transition, which may have resulted in high participation rates in entrepreneurship. Nevertheless, its relationship between social capital and entrepreneurship deserves more detailed attention. However, for the purpose of this paper we limit it to show a descriptive perspective of this relationship rather than statistical inferences. This will be the focus of a future more detailed study, which is currently being conducted.

**TABLE 6 – PUBLIC AND PRIVATE EDUCATION EXPENDITURE – SELECTED COUNTRIES**

	1995			2001		
	Public	Private	Total	Public	Private	Total
Australia	4.5	1.2	5.7	4.5	1.4	<b>6.0</b>
Denmark	6.1	0.2	6.3	6.8	0.3	<b>7.1</b>
Korea	..	..	..	4.8	3.4	<b>8.2</b>
Poland	5.7	..	..	5.6	5.8	<b>6.2</b>
Sweden	6.1	0.1	6.2	6.3	0.2	<b>6.5</b>
Turkey	2.3	0.0	2.3	3.5	0.0	<b>3.5</b>
United Kingdom	4.8	0.7	5.5	4.7	0.8	5.5
United States	5.0	2.2	7.2	5.1	2.3	<b>7.3</b>
OECD total	..	..	..	4.8	1.4	<b>6.2</b>

Source: OECD Factbook 2005 – ISBN 92-64-01869-7– © OECD (2005)

As can be seen from Table 7, OECD countries are well placed in terms of expenditures on education including USA, Denmark and Korea. Furthermore, it is interesting to observe the new EU entrant including Poland whose expenditure on education seems to continuously increase suggesting that cognitive aspects of social capital appear to be growing. This may well be due to the transitional processes which stimulate demand for new skills and a high level of dynamism among the populace. Education is the only vehicle that nurtures cognition necessary to face new challenges as well as provide new skills. The increase in educational expenditure in OECD countries would support this assertion.

### CONCLUDING REMARKS

The aim of this study was to explore the relationships among entrepreneurship, leadership and social capital and its impact on the new face of 21st century businesses. Our findings seem to suggest that the absence of well amalgamated aspects of social capital within society will result in a lack of entrepreneurship and leadership, thus producing dysfunctional aspects of business. Further, the descriptive analysis provides a suggestion that some of the OECD countries expenditure on enhancing the strength of social capital has continuously increased along with the expenditure on education. It is interesting to note that self-employment rates in Poland Czech Republic, Hungary was depicted as being much higher than in the USA. We conclude that radical change in society often stimulates high dynamism which prepares society to face any given challenges.

Social capital increases entrepreneurial and leadership performance, and at the same time entrepreneurship and leadership increases richness in social capital. Further, social capital serves as a

primary resource which needs to be developed and nurtured in order to achieve success with business initiatives of entrepreneurship and leadership. Social capital shapes the knowledge performance quality and the quantity of interaction facilitating both the individual and the progress of a nation. More specifically, it is the impetus necessary to enhance the ability and the motivation of the individuals, at the same time developing a cultural ethos of cooperation and sharing to achieve a greater degree of benefit for themselves and society. Cultural capital is formed through human endeavours that include accumulated talents, skills, training and exposure to both culture and diversity (Cooper *et al.*, 1999; Gould, 2001; Healey, 2001; Matarasso, 1999). Entrepreneurial Cognition is needed to make assessments and judgments relating to evaluation, creation and growth (Estes, 1975).

It is believed that the strength of education allows for formation of strong cognitive skills enriching entrepreneurs and leaders and the overall social capital of the nation. Furthermore, the well-educated are likely to become more open to societal and business interaction. Consequently, this creates strength of trust facilitating progress, lowers social distance among all groups in society and creates more natural business interaction. Entrepreneurship and leadership cannot flourish in an environment of distrust since many economical opportunities are closed off. It is argued that every commercial transaction has within itself an element of trust (Arrow 1975).

It is not difficult to argue that entrepreneurs and leaders require some of these important attributes in order to create a successful business venture that is not only beneficial for the individual entrepreneur but also contributes towards the growth and welfare of society. Social capital is thus the cohesive energy which holds societies together. It is logical to conclude that without social capital the likelihood of economic progress in the 21<sup>st</sup> century businesses is relatively remote, as economic and other resources may not be effectively utilised. According to Rose (1999), the absence of an integrated social capital structure within a society may lead to a dysfunctional and less productive environment and may create human and social misery.

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