



# Effect of Social Capital on Firm Performance: The Role of Entrepreneurial Orientation and Dynamic Capability

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## ABSTRACT

Social capital is a concept that describes good quality social relations that can lead to mutual benefits. The social capital theory thrives on relationships in networks to gain access to resources, especially information benefits not available to non-members of the network. The study reports the effects of social capital on firm performance. The study further examines the moderating role of entrepreneurial orientation in the relationship between social capital and firm performance; and the mediating role of dynamic capabilities in the relationship between social capital and firm performance. Using SmartPLS software 3.2.8 to analyze primary data collected from 787 small and medium-sized enterprises (SMEs) operating in Ghana, the results show that social capital has a positive and direct relationship with firm performance in Ghana. The findings suggest that EO moderates the relationship between social capital and firm performance. Again, dynamic capabilities mediate the relationship between social capital and firm performance. The study also provides managers with practical ways of building relationships within their networks for achieving competitive advantage in the current business environment.

**Keywords:** Social Capital, Entrepreneurial Orientation, Dynamic Capabilities and Firm Performance

**JEL Classifications:** L31, M1

## 1. INTRODUCTION

Small and Medium Scale Enterprises (SMEs) are key indispensable elements of most economies in the world. OECD defines SMEs as the firms, employing up to 249 persons, with the following breakdown: Micro (1-9), small (10-49) and medium (50-249). In a similar token, the Ghana Statistical Service (2013), considers firms with fewer than ten (10) employees as small-scale enterprises and their counterparts with more than ten (10) employees as medium and large-sized enterprises. OECD (2017), reports that, SMEs account for approximately 99% of all firms, accounting for about 70% of jobs and very much integral to value creation, generating between 50% and 60% of value added on average. In Europe, SMEs account for 99% of non-financial businesses, which provide about 70% of employment opportunities (Nieto and Santamaría, 2010).

SMEs account for over 90% clean technology businesses in the United Kingdom (OECD, 2017), in China SMEs according to China Statistical Yearbook (2015), account for about 97.9% of all registered companies, contributing nearly 58% of GDP, 82% of total employment and 75% of new jobs every year. Furthermore, in the United States of America, SMEs constitute about 99.9% of businesses which employ about 47.5% of the private sector workforce in 2015 (US Small Business Administration, 2018). Abor and Quartey (2010) have noted that SMEs in Ghana constitute 85% of the manufacturing sector's employment. They are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. Notwithstanding the recognition of the important roles SMEs play, their development is largely constrained by a number of factors, such as lack of access to appropriate technology; limited access to international markets; the existence of laws; regulations and rules that impede

the development of the sector; weak institutional capacity; lack of management skills and training; and most importantly, access to finance.

There is a growing body of literature that recognizes the importance of social capital theory in recent decades, showing the values derived from the firm's position in a social network (Acheampong et al., 2018; Agyapong, et al., 2017; Barr, 2000; Boohene, 2018; Ofori and Sackey, 2010). Central to the entire concept of social capital is that value is provided to the network members, allowing them to take advantage of the resources established in their relationships and to leverage on to create competitive advantage over their rivals (Tsai and Ghoshal, 1998). Firms are in an incessant route of searching for strategies that would offer them with competitive edge. The extant literature recommends that firms' capability to absorb knowledge has turned out to be a major driver for competition. Core competence in business environment is attained through well designed procedures, division of labor and managerial style (Grant, 2007). On the other hand, current ups and downs in the business environment have forced firms to look for new approaches for competitive edge as the orthodox techniques have become obsolete (Chirico and Salvato, 2008).

Again, the dynamics in the world of business have progressed to a point that now businesses need leaders or owners who think creatively, innovatively, critically and independently and have the ability to connect/network because collaboration is key instead of competition. Quite a number of studies have recounted the importance of SMEs to the economy of Ghana (Abor and Biekpe, 2006, 2009; Abor and Quartey, 2010), social capital (Acheampong et al., 2018; Agyapong et al., 2017; Barr, 2000; Boohene, 2018; Ofori and Sackey, 2010), entrepreneurial orientation and firm performance (Adomako, 2018; Boso et al., 2013). It is surprising that so little (if any) empirical research has been conducted on the integration of social capital, entrepreneurial orientation, dynamic capabilities and firm performance in the SMEs in Ghana. To fill this gap, the current study investigates the complementary relationship among social capital, entrepreneurial orientation, dynamic capability and firm performance. The study also seeks to examine the moderating role of EO in the relationship between social capital and firm performance. Furthermore, the current research examines the mediating role of dynamic capability in the relationship between social capital and firm performance.

## 2. LITERATURE REVIEW

### 2.1. Resource-based View

There is a growing body of literature that recognizes the importance of resource-based view (Barney, 1991; Collis and Montgomery, 1995; Dicksen, 1996; Wernerfelt, 1984). Dicksen (1996) shows how, in the past, research into resource-based view was mainly concerned with an "inside-out" view or firm-specific competencies on why firms succeed or fail in this current turbulent market place. To Barney (1991), resource-based view comprises of resources that are valuable, rare, inimitable and non-substitutable. A number of researchers have reported that attributes of resource-based view make it possible for businesses to develop and maintain competitive advantages, to utilize these resources and competitive

advantages for superior performance (Barney, 1991; Collis and Montgomery, 1995; Wernerfelt, 1984). In essence, the resource-based view is contingent on the philosophy that efficient and effective utilization of resources by a firm can lead to competitive advantage. Thus, the central idea of resource-based view states that firms possess resources, a subset of which enable them to achieve competitive advantage, and a subset of those that lead to superior long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage (Barney, 1991, 2001; Barney, et al., 2011).

### 2.2. Social Capital and Firm Performance

Social Capital has generated high interest among academics and practitioners over the last two decades. In the new global economy, social capital has become a central issue and is an increasingly important area in the formulation of strategies in business settings. Social capital is believed to have emanated from sociology (Salehuddin, 2009). The central theme of social capital is that individuals can get access to wealth/resources possessed by others through social ties/relationships with the owners (Burt, 2009; Lin, 1999). Previous studies have reported that social capital thrives on social structures and relationships that facilitate individuals access to certain resources owned by other people (Salehuddin, 2009) such as information, social control, and social support and solidarity (Coleman, 1988). In a recent paper by (Rodrigo-Alarcón et al., 2018) social capital is seen as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit."

On their part, Nahapiet and Ghoshal (1998) defined social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit." Traditionally, it has been argued by Bourdieu (1986); and Burt (2009) that social capital encompasses the network and the resources that may be gathered through network ties. According to Nahapiet and Ghoshal (1998), social capital comprises of three clusters: Structural, relational, and cognitive social capital.

In an analysis of social capital, trust, and firm performance during the 2008-2009 financial crisis, Lins et al. (2017) found that the creation of a firm-specific social capital can be seen as an insurance policy that pays off when investors and the overall economy face a severe crisis of confidence. The most important clinically relevant finding was found by Lins et al. (2017) by analyzing the value of corporate social responsibility during the financial crisis showed that social capital and financial capital are very critical to firm performance, and identifies circumstances under which CSR can be beneficial for firm value. Similarly, Rass et al. (2013) found social capital to positively related to firm performance Datoon et al. (2018), in their study, found social capital to provide innovation support to small firms, which consequently translates into improved firm performance. Le Van et al. (2018), using a control function method in a quantile regression framework, established the causal impact of social capital on firm performance. Clopton (2011) analyze the value of social networks, or social capital, within the group process towards the group and team

performance by exploring the explicit contribution of social capital towards a group or team's performance. The result revealed that there is a significant connection between social capital and team performance (Clopton, 2011).

H<sub>1</sub>: Social capital has significant positive effect on firm performance

### 2.3. Social Capital and Dynamic Capabilities

Social capital considers how actors benefit by way of social ties (Burt, 2009; Coleman, 1988). Portes (1998) holds the view that social capital is that knack actors have to enjoy benefits because of their association in social networks. On the other hand, dynamic capability refers to processes of the firm to combine, reconfigure, release and increase resources according to market change (Eisenhardt and Martin, 2000). This enables the firm to generate rent as a core competency for competitive advantage (Teece et al., 1997).

Blyler and Coff (2003) studied and synthesize existing literature on social capital as well as dynamic capabilities, a conceptual model offering a new and deeper comprehension of international performance by combining a relational standpoint. They concluded that, there exists a clear link between social capital and dynamic capabilities according to (Blyler and Coff, 2003). They also suggested that social capital is crucial for dynamic capabilities when it comes to integrating, acquiring, facilitating and releasing of resources. Social capital, they believe, is a vital element of dynamic capability because it helps in managing resources which is a defining part of capability. Eisenhardt and Martin (2000) identify the main tasks of integrating, recombination and release of resources as some of the duties social capital enables the individual firms to do. They also conclude on existing research that social capital is connected to components of resource management.

For instance, Grant (2007) postulated that social capital is bedrock of knowledge integration. Nahapiet and Ghoshal (1998) also agree that social capital helps in the growth of intellectual capital through the creation of conditions essential for exchange and consistency in information flow from various sources. Current studies deem social networks and dynamic capabilities as very essential in the explanation of the factors of a firm's success procedures (Monteiro et al., 2010; Prange and Verdier, 2011). Again, social capital serves as a catalyst for resource acquisition by offering access to consistent and various sources of information (Blyler and Coff, 2003; Shane and Cable, 2002; Shane and Stuart, 2002). Capability enables firms to digest and fuse information for better understanding of its significance (Atuahene-Gima and Murray, 2007). Most SMEs management teams who usually show a sensing capability are capable of leveraging social capital to recognize valuable, recent and precise market information to deal with the difficulties of a dynamic environment (Blyler and Coff, 2003; Zhang and Wu, 2013). Reconfiguration becomes a vital feature of dynamic capabilities in environments like that. This enables the companies to preserve their competitive edge as they even adapt to latest contexts (Coleman, 1988).

H<sub>2</sub>: Social capital has direct and significant positive relationship with dynamic capabilities

### 2.4. Entrepreneurial Orientation and Firm Performance

In the past two decades a number of researchers have sought to determine that entrepreneurial orientation, stands for business tactics/strategies which reflect the invention or innovation of ideas, products or services which can solve societal problems, created within the firm, touching or shaping decision making process, and influencing firm performance (Fadda, 2018; Lumpkin and Dess, 2006). Surveys such as that conducted by Miles et al. (1978); (Lumpkin and Dess, 1996); and (Fadda, 2018) indicate that EO positively influences firm performance through the adaptation of external environment. Thus, several empirical studies have found a positive relationship between EO measures and performance among firms from different industries and national cultural contexts (Gupta and Dutta, 2016; Rauch et al., 2009; Wales et al., 2013).

EO represents one construct that is connected to firm's success (Palmer et al., 2019; Semrau et al., 2016; Wales et al., 2013). The EO appears to be focal construct in entrepreneurship and strategic management fields in recent years (Morris and Kuratko, 2002; Palmer et al., 2019). Knight et al. (2003) posit that EO is seen as a cultural construct consisting of a firm's level of risk-taking, innovativeness and proactiveness (Covin and Slevin, 1989; Miller, 1983). In recent years, scholarly works have reported the importance of EO in terms of impacting the success rate of firms. Of particular interest to the management scholars has been the relationship between EO and firm performance (Lumpkin and Dess, 1996). Empirically, a positive correlation was found between export entrepreneurial-oriented behaviour and export market-oriented behavior in terms of driving export product innovation success (Boso et al., 2013). EO has significant influence on sales performance (Covin et al., 2006). In a meta-analysis of the link between EO and firm performance, EO was found to impact positively on business performance (Rauch et al., 2009). Boso et al. (2013), EO is able to predict or influence firm non-financial performance. Along the same lines, EO appears to have a higher impact on firm performance for micro enterprises (Cohen, 1988).

H<sub>3</sub>: Entrepreneurial orientation has significant positive effect on firm performance

### 2.5. Entrepreneurial Orientation as a Moderator in the Relationship between Social Capital and Performance

Entrepreneurial firms have the capacity to focus on recognized opportunities aggressively and rapidly. Wiklund and Shepherd (2003) postulated that an entrepreneurial orientation guides the utilization of a firm's knowledge-based assets towards pursuing new product-market opportunities. Entrepreneurial firms have the enablement to bring about behaviors that utilize absorptive capabilities for creating corporate entrepreneurship (Huang, 2016). There is an unambiguous relationship between social capital and EO (Huang, 2016), as social exchanges are found in both social capital and EO, which guide the utilization of resources towards the establishment of competitive advantage in the current business environment.

In the history of management literature, EO has been discussed to have three different models-independent variable in terms



of construct model and the emphasis here is on finding its antecedents (Holt et al., 2007; Lekmat et al., 2018). Lumpkin and Dess (1996) see EO as a strategic model which can be applied to variety of strategies. Recent evidence suggests that EO is seen as a performance model which links it with organizational success by considering the moderating and mediating variables related to the external and/or organizational environment. Previous studies have reported that entrepreneurial orientation moderates the effect of business, and institutional network on international opportunity recognition (Ahmadian and Abdolmaleki, 2018).

EO has been found to moderate the relationship between knowledge based resources and performance (Wiklund and Shepherd, 2003). Ibrahim and Masud (2016) also discovered that EO moderates the relationship between entrepreneurial skill and entrepreneurial intention. Hernández-Perlines and Ibarra Cisneros (2017) analyzes the entrepreneurial orientation's moderating effect on the influence of social responsibility on the performance of family companies in Mexico and found that entrepreneurial orientation as a positive moderator on the effect of social responsibility on the performance of family businesses.

H<sub>4</sub>: EO moderates the relationship between social capital and performance

## 2.6. Dynamic Capabilities and Firm Performance

A considerable amount of literature has been published on dynamic capability (Easterby-Smith et al., 2009; Prange and Verdier, 2011; Teece et al., 1997). Traditionally, it has been argued that dynamic capability stands for competences that help in adapting, integrating, and reconfiguring internal and external resources as well as skills to the changing environment (Teece et al., 1997). According to Baker and Chasalow (2015) dynamic capabilities are progressively highlighted and valued by most SMEs because of its ability in bringing about corporate social responsibility implementation under the influence of external pressure.

In a study which set out to determine dynamic capability, Eisenhardt and Martin (2000) referred to dynamic capability as the firm's "processes to integrate, reconfigure, gain and release resources-to match and even create market change." In the same vein, Eisenhardt and Martin (2000) note that dynamic capability entails firm's competence level to rapidly integrate and reconfigure resources to match dynamic and turbulent business field. Helfat (2007) points out that firms' deliberately leverage on dynamic capabilities to generate, extend and modify their resource base, including external resources available in partnerships, to effectively and rapidly cope with market changes. As noted by (Katkalo et al., 2010) dynamic capabilities diversify/develop the resource base of the firm. The diversification can be in different forms, such as obtaining new resources through acquisitions and partnerships, innovation and entrepreneurial activities, growth in an ongoing business or a change of a new business.

As Teece et al. (1997) argue: "Dynamic capabilities are central to the success and/or failure of the firm." Wang and Ahmed (2007) defined dynamic capabilities as a firm's behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources

and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage. Pitelis and Teece (2009) assert that, dynamic capabilities propel businesses to constantly sustain competitive edge by harmonizing and refreshing their resource base, thereby helping firms avoid development of core rigidities that inhibit development and result in innovation inertia. Dynamic capability comprises of 3 dimension: Sensing, seizing and reconfiguring. Sensing: Prior studies have noted the importance of sensing capability as a firm's ability to identify and capitalize on emerging market opportunities (Chakravarthy, 1982; Hooley et al., 1992).

Seizing: On their part (Cohen and Levinthal, 1990) see seizing capability as "the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends ... the ability to evaluate and utilize outside knowledge is largely a function of the level of prior knowledge." Transforming: Moreover, Wang and Ahmed (2007) refer to transforming capability as a firm's ability to develop new products and/or markets, through aligning strategic innovative orientation with innovative behaviors and processes. Thus, the emphasis is on the significance of continued renewal.

In the assessment of empirical research on the relationship between dynamic capabilities and performance, Pezeshkan (2015) found an overall support for the link between dynamic capabilities and firm performance. Dynamic capabilities have been found as the foundational aspects of firm's competitive advantage in changing environments (Teece et al., 1997). In an analysis of the impact of dynamic capabilities on organizational performance, taking organizational competencies as moderating variable, (Rehman and Saeed, 2015) found dynamic capabilities to have a direct impact on the organizational performance of the firm. Dynamic capabilities mediate the relationship between intellectual capital and performance (Aminu and Mahmood, 2015). Again, (Zhou et al., 2017), investigated the mediating role of dynamic capabilities on the relationship between intellectual capital and manufacturing firm and found that dynamic capabilities improve firm performance.

H<sub>5a</sub>: There is a significant positive relationship between dynamic capabilities and firm performance

H<sub>5b</sub>: Dynamic capabilities mediates the relationship between social capital and performance

## 3. METHODOLOGY

### 3.1. Contextual Background of the Study

This study sampled SMEs operating in Ghana, a developing Sub-Saharan African country context. In Ghana, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment (Abor and Quartey, 2010). Previous studies have referred to Ghana as an emerging market in sub-Saharan Africa (Anning-Dorson, 2018; Boso et al., 2013; Sheth and Sinha, 2015). Ghana's growth rate reached its peak of

15% in 2011 on the back of the commencement of commercial production of oil, making it one of the fastest growing economies globally during that year (Aryeetey and Baah-Boateng, 2015), and has a robust private sector that accounts for the growth of GDP and the ability to reduce poverty (Anning-Dorson, 2018). This makes Ghana an important example of an emerging Sub-Saharan African market.

### 3.2. Sample and Data Collection

The sampling frame for this study was gathered from Ghana's company register database, which is hosted by Registrar General's Department, and the Ghana Business Directory (Acquaah, 2007; Appiah-Adu, 1998). In all, 1250 SMEs listed in the Ghana's company register database totaling 52, 000 firms and Ghana business directory with a totaling 3460 were randomly selected and contacted by telephone to elicit their participation in the study. The firms selected were those that met the following requirement. According to Adomako (2018), firm with more than 5 employees and a maximum of 250 employees (Ghana Statistical Service, 2013), companies that were owned and controlled by individual (or a team of) entrepreneurs with majority ownership (Goedhuys and Sleuwaegen, 2010), and firms with a minimum of 5 years' operating experience (Morgan et al., 2004).

1250 firms with valid addresses were contacted by telephone to confirm their participation. 950 firms eventually responded to the questionnaire administered by local research firm with highly trained researchers (Boso et al., 2013); (Hinson and Sorensen, 2006). Questionnaires were then sent to these firms and were filled by employees whose work was related to operations, innovation and/or business development. 787 complete responses were received and were subsequently used in the study. The participating SMEs represented a variety of industries, such as processed food and beverages (10%), crafts (15%), agro-processing (17%), textiles and garment (18%), security services (12%), financial services (5%), wholesalers or retail (20%) and engineering (3%). The firms are mostly SMEs that employ an average of 52 people, with an average turnover of US\$1.8 million (Adomako, 2018).

### 3.3. Variables and Measures

This study used established measuring scale from the literature (Acquaah, 2007). All the items were measured on five-point Likert scales, ranging from "1" (strongly disagree) to "5" (strongly agree). Entrepreneurial orientation: To assess entrepreneurial orientation, we followed the proposal by Lumpkin and Dess (2006). Entrepreneurial orientation was analyzed through five dimensions: Innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy. For entrepreneurial orientation, measuring scales were derived from previous literature by (Covin and Slevin, 1989; Lumpkin et al., 2009; Lumpkin and Dess, 2001). We relied on the measuring scales proposed by Covin and Slevin (1989) to measure innovativeness, proactiveness and risk-taking.

To measure competitive aggressiveness, we used established scales proposed by (Lumpkin and Dess, 2001) and the scales proposed by Lumpkin et al. (2009) to measure autonomy. We tend to agree with Covin and Wales (2012) who posit that researchers are free to decide on the measuring technique suitable for their purposes.

We took inspiration from Covin et al. (2006) method, we analyzed entrepreneurial orientation as an aggregate construct that includes the five dimensions that are correlated and converge in a single construct of entrepreneurial orientation.

Social capital: We relied on established scales from literature to measure social capital. We measured social capital by using trust, shared norm, shared culture and network density. Trust was measured by adopting scales developed by (Kale et al., 2000); shared norm was measured by using items developed by Tsai and Ghoshal (1998) and Yli-Renko et al. (2001), shared culture was measured by adopting an existing scale developed by Simonin (1999) and finally, network density was also measured by adopting scales developed by (Morales and Vázquez, 2007).

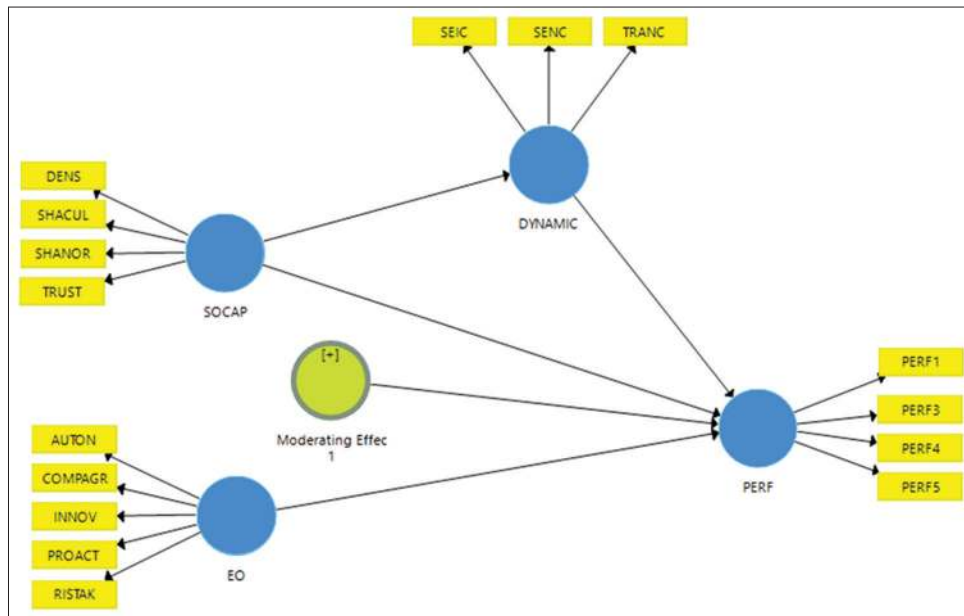
Dynamic capabilities: To assess dynamic capabilities, we followed the proposal by (Wang and Ahmed, 2007). We measured dynamic capability through three dimensions, which is closely related to Teece et al. (1997) classification: Adaptive, absorptive, and innovative. We relied on established scale proposed by Gibson and Birkinshaw (2004) to assess adaptive capacity. To measure absorptive capacity, we adopted the scale proposed by Flatten et al., (2011). Finally, we used the scale developed by Akman and Yilmaz (2008) to measure innovative capacity.

Firm performance: Numerous studies have measured firm performance in both financial and non-financial terms (Adomako, 2018; Anning-Dorson, 2018; Boso et al., 2013; Rodrigo-Alarcón et al., 2018). In his seminal paper of 2018, Anning-Dorson argues that privately owned firms posed difficulty for obtaining an objective measure of performance. Based on this assertion, we employed established convention to measure performance objectively (Anning-Dorson, 2018; Bello, et al., 2016). We measured performance by using existing scales from prior studies such as (Anning-Dorson, 2018; Li and Zhang, 2007). We adopted four items covering overall profit levels achieved, profit margins achieved, return on investment and return on assets (Li and Zhang, 2007; Luk et al., 2008). Financial performance scale included the evaluation of the firm's overall profit levels achieved, return on investment, and profit margins achieved. Research model is presented in Figure 1.

## 4. ANALYSIS

Partial least squares (PLS) with SmartPLS software 3.2.8 (Ringle et al., 2015) was used to test the hypothesized relationships among the constructs-social capital, entrepreneurial orientation, dynamic capabilities and firm performance. One advantage of the structural equation analysis is that it has some advantages over traditional multivariate analysis (Haenlein and Kaplan, 2004). This technique is appropriate for data analysis during the early stages of theory development when the theoretical model is not definitively determined. We considered PLS to be a suitable analysis technique for our study because it establishes minimum requirements on the sample, on the measurement scale (nominal, ordinal, interval, or ratios), and on the distribution of observable variables; also, it does not need the normality of the data and is more suitable for small and large samples (Falk and Miller, 1992).

Figure 1: Research model



PLS path modeling is a standard algorithm which first assesses measurement model including internal consistency (composite reliability), convergent validity (indicator reliability and average variance extracted), and discriminant validity (Wong, 2013). The next phase comprises the estimation of the structural model and requires testing collinearity among constructs, and assessing the significance and relevance of hypothesized relationships.

4.1. Measurement (outer) Model

All the constructs, were measured through the PLS bootstrapping method. The guiding principles recommended by Hair et al. (2014) for determining the significance and relative importance of the factor loadings of each item was implemented, which suggests that only items with loadings of 0.5 or greater are significant. Thus, only these items were included in the final measurement model. The minimum acceptable threshold for composite reliability is 0.7 (Hulland, 1999) and 0.4 for average variance extracted (Magner et al., 1996). Table 1 summarizes results for the items loadings.

As seen in Table 2. The composite reliability coefficients of the constructs ranged from 0.912 and 0.977, and Cronbach’s alpha (CA) ranged from 0.877 to 0.967. These thresholds exceed the minimum standard level of 0.70, hence internal consistency reliability is achieved. The AVE values exceed the threshold of 0.5 (Hair et al., 2014). Again, the VIF values are clearly below the threshold of 5, which indicates that collinearity does not reach critical levels in any of the constructs (Hair et al., 2011).

The results presented in the correlation matrix in Table 3 include correlations between constructs in the off-diagonal cells and the square root of AVE in the diagonal cells. For adequate discriminant validity, the diagonal values should be significantly greater than the off-diagonal values in the corresponding rows and columns. The diagonal values (the square root of AVE) in Table 3 are all greater than their respective off-diagonal values, indicating adequate discriminant validity. In other words, for each construct, the root

Table 1: Measurement model analysis

| Constructs | Items   | Loadings |
|------------|---------|----------|
| SOCAP      | DENS    | 0.967    |
|            | SHACUL  | 0.912    |
|            | SHANOR  | 0.956    |
|            | TRUST   | 0.970    |
| DYNAMIC    | SEIC    | 0.959    |
|            | SENC    | 0.959    |
|            | TRANC   | 0.980    |
| EO         | AUTON   | 0.897    |
|            | COMPAGR | 0.815    |
|            | INNOV   | 0.660    |
|            | PROACT  | 0.825    |
|            | RISTAK  | 0.891    |
| PERF       | PERF1   | 0.848    |
|            | PERF3   | 0.933    |
|            | PERF4   | 0.905    |
|            | PERF5   | 0.901    |

Table 2: Tests of construct reliability and validity

| Constructs | Cronbach alpha | Composite reliability | AVE  | R <sup>2</sup> | VIF   |
|------------|----------------|-----------------------|------|----------------|-------|
| Dynamic    | 0.964          | 0.977                 | 0.72 | 0.909          | 1.250 |
| EO         | 0.877          | 0.912                 | 0.63 |                | 1.932 |
| Moderating | 0.958          | 0.962                 | 0.64 |                | 2.429 |
| PERF       | 0.919          | 0.943                 | 0.68 | 0.979          | 1.305 |
| SOCAP      | 0.967          | 0.976                 | 0.70 |                | 1.035 |

Table 3: Discriminant validity

|            | Dynamic      | EO           | Moderating  | PERF         | SOCAP        |
|------------|--------------|--------------|-------------|--------------|--------------|
| Dynamic    | <b>0.850</b> |              |             |              |              |
| EO         | 0.372        | <b>0.793</b> |             |              |              |
| Moderating | 0.469        | 0.418        | <b>0.80</b> |              |              |
| PERF       | 0.358        | 0.461        | 0.464       | <b>0.824</b> |              |
| SOCAP      | 0.223        | 0.246        | 0.439       | 0.283        | <b>0.840</b> |

of the AVE measures is significantly larger than the latent variable correlation. This demonstrates that, the final revised measurement model for all the constructs had adequate discriminant validity.

The test of the structural model includes estimating the path coefficients, t-statistics and R<sup>2</sup>. These statistics evaluate the proportion of the variance in the endogenous variable that can be explained by the exogenous variables. The bootstrapping technique was employed to test for the effects of social capital on performance.

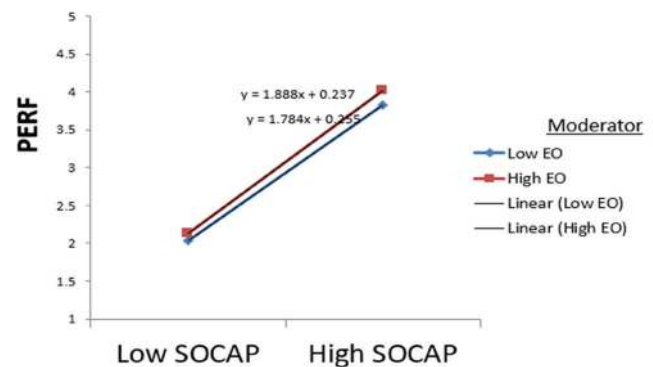
In addition, all the variables were modeled as reflective measures, since they were believed to influence the dependent variable, which, in this research, was firm performance. Figure 2 demonstrates the PLS graph of the relationships between the variables, with EO moderating the relationships between social capital and firm performance while dynamic capabilities mediating the relationship between social capital and firm performance. The path coefficients and significant levels for the various relationships are discussed in the ensuing paragraphs.

### 4.2. Testing of Direct Effect

The current study sought to assess the effect of social capital on firm performance among the SMEs in Ghana. As shown in Figure 2 and Table 4, we assess the direct effects of SOCAP and firm performance. We found significant positive relationship between SOCAP and PERF ( $\beta = 0.919, t = 71.253, P = 0.000$ ). EO is found to have direct and positive relationship with firm performance

( $\beta = 0.068, t = 4.914, P = 0.000$ ). Again, EO positively moderates the relationship between SOCAP AND PERF ( $\beta = 0.026, t = 4.652, P = 0.000$ ). Similarly, the study found SOCAP to have direct and positive relationship with DYNAMIC CAPABILITIES ( $\beta = 0.953, t = 162.129, P = 0.000$ ). Moreover, DYNAMIC CAPABILITIES significantly impacts firm PERF ( $\beta = 0.150, t = 6.987, P = 0.000$ ).

This study employed bootstrapping method in Smart-PLS (Hair et al., 2014) to test for mediation. A mediation effect is considered statistically significant when  $P < 0.05$ . The result in Table 5 shows the mediating effect of dynamic capability in the relationship between SOCAP and PERF ( $\beta = 0.143, t = 6.939, P = 0.000$ ).



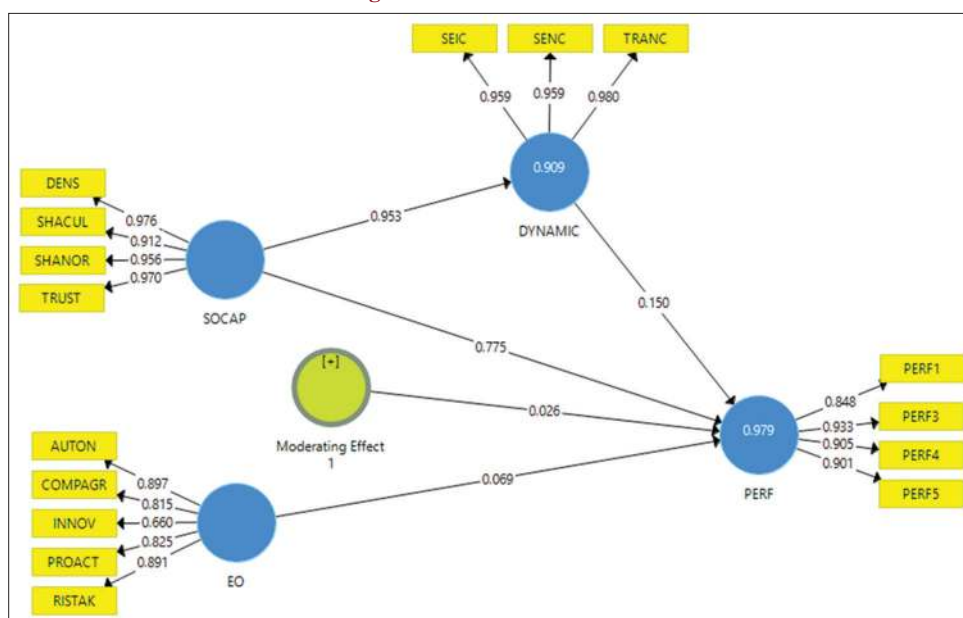
**Table 4: Structural model results**

| Hypotheses                  | Original sample (O) | Sample mean (M) | Standard deviation | T-statistics | P-value |
|-----------------------------|---------------------|-----------------|--------------------|--------------|---------|
| Dynamic -> PERF             | 0.150               | 0.150           | 0.022              | 6.987        | 0.000   |
| EO -> PERF                  | 0.069               | 0.068           | 0.014              | 4.914        | 0.000   |
| Moderating effect 1 -> PERF | 0.026               | 0.026           | 0.006              | 4.652        | 0.000   |
| SOCAP -> Dynamic            | 0.953               | 0.953           | 0.006              | 162.129      | 0.000   |
| SOCAP -> PERF               | 0.918               | 0.919           | 0.013              | 71.253       | 0.000   |

**Table 5: Specific indirect effect**

| Hypothesis               | Original sample (O) | Sample mean (M) | Standard deviation | T-statistics | P-value |
|--------------------------|---------------------|-----------------|--------------------|--------------|---------|
| SOCAP -> Dynamic -> PERF | 0.143               | 0.143           | 0.021              | 6.939        | 0.000   |

**Figure 2: Measurement model results**





### 4.3. Discussion of Study Results

In recent decades, social capital has emerged as a business strategy which thrives on the resources embedded in a group or networks to facilitate the flow of information. A fundamental acumen that we garner from the current empirical results is that firms whose managers have built strong social capital also possess superior connection and dynamic capabilities are able to perform better than low social capital firms. This study contributes to previous work on the role of social capital, such as Adler and Kwon (2002), and Nahapiet and Ghoshal (1998), by investigating the relationship among social capital and dynamic capabilities, entrepreneurial orientation and firm performance. The invaluable contribution of social capital to both individual and firm performance has been recognized in previous studies. Social capital is a business strategy that leads to greater efficiency.

The study found significant positive relationship between social capital and firm performance ( $\beta = 0.919$ ,  $t = 71.253$ ,  $P = 0.000$ ,  $<0.05$ ). The finding is consistent with previous studies by (Lins et al., 2017), who analyzing the value of corporate social responsibility during the financial crisis showed that, social capital is very critical to firm performance and identifies circumstances under which CSR can be beneficial for firm value.

Similarly, this finding is in tandem with previous studies by (Le Van et al., 2018), and Rass et al. (2013) found social capital to be positively related to firm performance. The results indicate that EO has a significant impact on the firm performance ( $\beta = 0.068$ ,  $t = 4.914$ ,  $P = 0.000$ ,  $<0.05$ ). This is in harmony with previous research which found positive correlation between export entrepreneurial-oriented behaviour and export market-oriented behavior in terms of driving export product innovation success (Boso et al., 2013).

EO has significant influence on sales performance (Covin et al., 2006). In a meta-analysis of the link between EO and firm performance, EO was found to impact positively on business performance (Rauch et al., 2009). (Boso et al., 2013), EO is able to predict or influence firm non-financial performance. Along the same lines, EO appears to have a higher impact on firm performance for micro enterprises (Cohen and Levinthal, 1990). Moreover, EO was found to moderate the relationship between social capital and firm performance ( $\beta = 0.026$ ,  $t = 4.652$ ,  $P = 0.000$ ). This finding is consistent with previous studies which reported that entrepreneurial orientation moderates the effect of business, and institutional network on international opportunity recognition (Ahmadian and Abdolmaleki, 2018; Wiklund and Shepherd, 2003). In a similar fashion, dynamic capabilities was found to mediate the relationship between social capital and firm performance ( $\beta = 0.143$ ,  $t = 6.939$ ,  $P = 0.000$ ,  $<0.05$ ). This is consistent with previous study by Aminu and Mahmood (2015) who found that dynamic capabilities mediating between intellectual capital and performance. Again, Zhou et al., (2017), investigated the mediating role of dynamic capabilities on the relationship between intellectual capital and manufacturing firm and found that dynamic capabilities improve firm performance.

The results indicate that there is a significant positive relationship between social capital and dynamic capabilities ( $\beta = 0.953$ ,

$t = 162.129$ ,  $P = 0.000$ ,  $<0.05$ ). The findings support the work of Blyler and Coff (2003) who found social capital to serve as a catalyst for resource acquisition by offering access to consistent and various sources of information. Again, this finding in harmony with Atuahene-Gima and Murray (2007) who found capability to enables firms to digest and fuse information for better understanding of its significance (Atuahene-Gima and Murray, 2007). Most SMEs management teams who usually show a sensing capability are capable of leveraging social capital to recognize valuable and precise market information. This enables the companies to preserve their competitive edge as they even adapt to latest contexts (Coleman, 1988).

### 4.4. Practical Implication

Managers must place a lot more emphasis on the building and maintenance of valued relationships. Managers of SMEs should be encouraged to the building of stronger relationships within their social networks as social capital thrives on relationships within network ties in order to access available resources. Thus, the study suggests that managers attempt to build ties beyond their immediate ties to form relationships that require little investment in networking. This will offer managers the advantage of gaining global influence in the network that can aid their access to critical resources, and from the perspective of this study, which is mainly informational.

Managers should therefore seek to cultivate relationships with a wide array of external stakeholders to ensure access to crucial information and resources. They should further promote the importance of trust and solidarity among network members by providing opportunities for social interactions and by striving for a shared vision. A firm's training activities should focus not only on extending their employees' functional or specific technological knowledge and skills but also on developing their abilities to network, collaborate, and share information and knowledge.

Furthermore, our research suggests that managers should give thoughtful consideration to the market environment their firm operates in. Managers must also put in place measures that will lead to winning customer trust and confidence. It is, therefore, incumbent on the SMEs to create social networks which foster closer collaboration with and among network members. The study recommend that SMEs in emerging market context such as Ghana become more entrepreneurial oriented by developing strong network ties among their social ties to get access to resources within their circles to stay competitive in the current business environment.

The study recommends that managers of SMEs build and increase their human and social capital to get access to resources from their association or network groupings to stay competitive. Managers must also improve their dynamic capabilities in the area of job training and benchmarking industry standards and business planning to enhance their performance. SMEs should ensure effective communication with their network. Effective communication channels must be established to provide reliable, prompt and timely information in accessing the needed resources to stay competitive in the current business environment.



## 5. CONCLUSIONS

The study sought to find out the relationships among social capital, entrepreneurial orientation, dynamic capabilities and firm performance in Ghana. The findings reveal that social capital, entrepreneurial orientation and dynamic capabilities are very important to SMEs survival. The findings also reveal that EO positively and significantly moderates the relationship between social capital and performance. In a similar fashion, dynamic capabilities was found to mediate the relationship between social capital and firm performance.

The study was conducted in the SMEs sub-sector in Ghana and there should be caution in the interpretation of the results. There could be extension of the research to include other sectors of the economy. Again, replication of the research in other geographical locations would provide confirmation for the research findings. Future studies should investigate the moderating role of gender, education in building social capital and dynamic capabilities. Future studies should include network capabilities and organizational learning to access their impacts on firm performance.

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