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Navigating the Entrepreneurial Ecosystem: The Role of Social Capital and Dynamic Capabilities in Resource Acquisition

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Abstract

Entrepreneurial Ecosystems (EE) have piqued the interest of both scholars and practitioners. While evidence shows EE positive impact on new venture formation and functioning, the specific mechanisms which these nascent entrepreneurs adopt to acquire resources remain unclear. To address this issue, we build on social capital and dynamic capabilities theory to establish a conceptual framework that explores how entrepreneurs in EE are able to identify and acquire resources. We propose that entrepreneurs sense and seize opportunities by utilising various forms of social capital; and in doing so, we contribute to the EE literature by potentially characterising what constitutes a successful entrepreneurial ecosystem that fosters entrepreneurial activity. This study lays the groundwork for further research in the field of entrepreneurial ecosystems and has significant policy and practice implications.

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1. Introduction

Research on Entrepreneurial Ecosystems (EE) has attracted quite an attention in the last few years as the number of articles being published on EEs has risen largely driven by different attributes of EEs and policy research (Stam, 2015; Brown and Mason, 2017; Roundy et al., 2018). However, less focus has been on the interaction of the entrepreneurs within EEs with its different elements (Spigel, 2016; Alvedalen and Boschma, 2017) and subsequently, how they acquire resources for their ventures.

To address this gap in EE research, we build on social capital theory through the lens of dynamic capabilities to posit how entrepreneurs in EE are able to access and acquire resources. We conceptualise that firms with dynamic capabilities manage to acquire resources through their networks. In doing so, we contribute to conceptualization of EE where the flow of resources is reliant on networks overlapping the dynamic capabilities of firms and shed light on the interdependencies and interactions among actors of EE.

Therefore, this article contributes in two ways. First, we establish a role of social capital in EE by linking it to DC that has not been fully explored previously. Second, we advance the EE literature by potentially describing what makes an ecosystem a successful entrepreneurial ecosystem that allows an entrepreneurial activity to flourish.

The article is structured as follows. First, research on EEs, dynamic capabilities and social capital is reviewed. We then propose a conceptual model that explicates how social capital in EE facilitates firms with DC in opportunity discovery (sensing) and resource acquisition (seizing).

2. Entrepreneurial Ecosystems and Resource Acquisition

Ecosystems are a conceptual phenomenon that comprises a coherent, often regional, network of entrepreneurs and their associated groups that offer opportunities and resources to enterprises facilitating their survival and growth. Stam and Spigel (2017, p.1) defines EE as “*a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory*”. The EE viewpoint emphasises the social nature of entrepreneurship (Thornton, 1999). Entrepreneurs' ability to get support from people and gain access to a bigger pool of resources - resources that they do not own - is frequently a determining factor in how successful they are (Hanlon and Saunders, 2007). A substantial body of research indicates that new enterprises have a poor survival rate (Geroski, 1995) and extremely restricted growth (Davidsson, Achtenhagen, and Naldi, 2006), which many would ascribe to their (resource-related) liabilities (Aldrich and Auster, 1986; Stinchcombe, 1965). To put it in another way, entrepreneurs do not see or discover opportunities in isolation; they rely on a complex and interrelated network of resource suppliers, customers, social and cultural factors, and infrastructure to recognise and exploit possibilities (Ramachandran and Ray, 2006; Roundy, Brockman and Bradshaw, 2017). It can be argued that the entrepreneur's ties to the entrepreneurial ecosystem are crucial for identifying resources facilitating entrepreneurial activity. Not only must entrepreneurial resources exist in the ecosystem, but they must also be developed, disseminated, and recombined for an entrepreneurial activity to be sustained. For such a resource flow, social capital (structure, cognitive, relational) is a crucial conduit.

2.1 Social capital

Social capital is a fundamental component of entrepreneurial pursuits; and access to entrepreneurial networks is influenced by firm's social capital (Kanini and Muathe, 2019). Anderson and Miller (2002) suggest that the prevalence or absence of social capital can affect the nature of an entrepreneurial endeavour. Social capital consists of social interactions and is reliant on relationships with others. It can be thought of as "networking capital" because it refers to the social connections' entrepreneurs employ to gain access to resources; they would otherwise acquire by utilising their human or financial capital. Aldrich and Martinez (2001), Anderson and Jack (2002), and Kim and Aldrich (2005) all emphasize that social capital is a relational phenomenon, highlighting the significance of social networks in entrepreneurship.

Mainstream literature has been focusing more and more on how social networks are important to understanding entrepreneurship (Aldrich and Zimmer, 1986; Casson and Della Giusta, 2007; Greve and Salaff, 2003). Social networks are regarded as critical at every stage of the entrepreneurial process (Amezcuca et al., 2013; Davidsson and Honig, 2003; Hite and Hesterly, 2001; Slotte-Kock and Coviello, 2010) because they connect entrepreneurs with important resources, opportunities, information, labour, skills, and contacts required to build entrepreneurial social capital (Greve and Salaff, 2003). In this aspect, social networks serve as a method for entrepreneurs to acquire social capital and expand their businesses (Baum et al., 2000; Maurer and Ebers, 2006).

The concept of social capital is acquiring an ever-increasing level of significance within the context of entrepreneurial ecosystems where the term 'ecosystem' has evolved to represent the network of actors in or supporting entrepreneurial activity (Ozkazanc-Pan and Clark Muntean, 2021). These entrepreneurial ecosystems are viewed as communities of diverse actors, including entrepreneurs, support organisations, investors, and universities, that collaborate to foster entrepreneurship by exchanging resources (Spigel, 2017; Spigel and Harrison, 2018). Networks, capital, and trust are crucial components of this ecosystem, enabling the exchange of valuable knowledge, insights, and the evolution of thriving entrepreneurial communities (Malecki, 2018). Thus, social capital as a relational mechanism for the acquisition of resources and the exchange of information is an important focal point for understanding how entrepreneurs in EE engage with other actors within networks and how social capital influences access to resources.

1.1 Dynamic Capabilities

Dynamic capabilities were first characterised by Teece et al. (1997: p. 516) in their seminal article as the firm's capacity to integrate, create, and reconfigure internal and external skills. The concept of dynamic capacities relates to the capacity for environment adaptation. Eisenhardt and Martin (2000) and Zahra, Sapienza, and Davidsson (2006), among others, have discussed the significance of dynamic capacities in achieving competitive advantage. Dynamic capabilities enable businesses to recognise and capture opportunities through the acquisition and reallocation of resources, which is achieved by enhancing current competences or developing new ones (Harreld, O'Reilly and Tushman, 2007).

Scholars are more and more aware that developing dynamic capacities frequently involves external partners with diverse resource sets and goes beyond the confines of a single organisation (Forkmann et al., 2018). Resources by themselves are insufficient for a firm to

generate value, especially in dynamic environments (Easterby-Smith, Lyles and Peteraf, 2009); their full value can only be realised through a firm's unique dynamic capabilities (Newbert, 2007; Teece, 2007; Zahra, Sapienza and Davidsson, 2006).

2. Conceptual Model

Dynamic capabilities are theoretically divided into three sub-capabilities : (a) identifying and assessing opportunities (i.e., sensing); (b) mobilising resources to pursue opportunities and capture value (i.e., seizing); and (c) continuously renewing, reconfiguring, and redeploying in order to pursue future opportunities (i.e., transforming) (Teece, 2007; 2012). This study is primarily concerned with two of the three dimensions of dynamic capabilities – sensing and seizing – looking at how entrepreneurs initially access resources and further develop it. The sensing dimension indicates a firm's ability to search and explore for opportunities and the seizing dimension reflects a firm's capability to address these opportunities and capture value from it. Teece identifies sensing and seizing as being “fundamental” to dynamic capabilities (p. 1343) and defines dynamic capabilities as “*the ability to sense and then seize opportunities quickly and proficiently*” (Teece 2000, p. 35). These two competence categories are especially important for understanding how organisations become aware of and capitalise on possibilities in their external contexts.

Tsai and Ghoshal (1998), citing Nahapiet and Ghoshal (1998), underlined that social capital is a multifaceted concept that incorporates three dimensions: structural, relational, and cognitive. Though these are theorised as three distinct concepts, they are intrinsically related. Due to the limited internal resources accessible to entrepreneurial firms, external ties are crucial to their capacity to sense and seize resources. So, we propose that the three dimensions of social capital of firms play a key role in sensing and seizing opportunities in the early phase of new ventures in entrepreneurial ecosystems.

2.1 Sensing for Resource Acquisition in Successful EE

Sensing (dynamic) capabilities, essentially refer to acquiring pertinent market intelligence. These capabilities are predicated on recognising and being alert to new opportunities (Roundy, Harrison, Khavul, Perez-Nordtvedt and McGee, 2017; Krizner, 1979). This entails being attentive to the business environment, comprehending markets and competitors, (possible) consumers, and other actors in the ecosystem, i.e., finding new opportunities (Teece, 2007). Successful EEs exhibit factors that raise the propensity for entrepreneurial search and enhance search abilities. These skills are essential in coming up with new value propositions; include scanning, understanding, learning, and producing of opportunities (Teece, 2007).

In order to see possibilities, anticipate risks, and comprehend untapped demand, the enterprise must continually search, scan, and analyse the complete spectrum of markets and technology (Helfat et al., 2009). According to Ozgen and Baron (2007) and Bygrave and Hofer (1991), social relationships with others are an essential source of information for opportunity discovery. However, the search is useless if the ties of the networks in the entrepreneurial ecosystem are redundant (Burt, 2000; Stam et al., 2014) or do not generate opportunities for social capital transactions (Adler and Kwon, 2002).

Moreover, Coleman suggested that network cohesiveness promotes timely and precise retrieval of information (Coleman, 1988). Following Coleman's reasoning, networks with a high degree of cohesion are more successful in terms of the development of new information and ideas. Individuals who are part of networks that are both dense and diverse are more likely to gain access to valuable information, diverse knowledge, and a range of perspectives (Burt, 2005; Uzzi, 1996). In such networks, there is a heightened efficiency in the flow of information and resources, which facilitates the identification and exploitation of opportunities by entrepreneurs. Granovetter's (1973) research demonstrate that the presence of strong connections within a network facilitates access to local resources and knowledge, whereas weak connections serve as a bridge between distinct clusters and offer access to novel and varied information. In other words, people who are a part of more dense, diverse and cohesive networks are more likely to identify and create possibilities for new businesses than those who are a part of less dense, diverse and cohesive networks. Hence, the structural dimension of social capital lays the way to access new information and ideas when sensing opportunities in an entrepreneurial ecosystem.

2.2 Seizing for Resource Acquisition in Successful EE

Social capital is also crucial in seizing new business opportunities once they have been identified in a network by entrepreneurs. Entrepreneurial success, according to Teece (2010), is contingent on capitalising on possibilities created by environmental changes. Alvarez and Barney's (2007) research corroborates Teece's assertion, proving that entrepreneurs who effectively seize opportunities typically possess a unique blend of knowledge, abilities, and social capital. While structural social capital refers to the formation of network ties and 'who you reach' (Nahapiet and Ghosh, 1998, p. 244), it can be argues that relational and cognitive social capital relate to the capability for resource exchange.

Relation social capital refers to: trust, customs, obligations and commitments and a sense of common identity (Nahapiet and Ghoshal, 1998). The process of identifying entrepreneurial opportunities is inherently associated with risk. However, it has been observed that the presence of high-trust social relations can help in reducing uncertainty and the costs associated with information search (Dakhli and DeClercq, 2004; Kwon and Arenius 2010; Kwon, Heflin, and Ruef 2013) and ultimately in capitalizing on opportunities.

Cognitive social capital pertains to the presence of mutual objectives and the existence of a collective culture, language, and set of codes (Inkpen and Tsang 2005; Tötterman and Sten 2005), bringing parallels in network actor's perceptions and interpretations (Simsek et al., 2003). Given the presence of strong ties and high level of trust, shared customs, language, and protocols enhance an entrepreneur's ability to seize business opportunities. In other words, when the relational or cognitive dimension of the networks in the entrepreneurial ecosystem is underdeveloped, the values, beliefs, attitudes, behavior or social norms do not allow the entrepreneur to have access to the resources available. Therefore, relational and cognitive social capital are needed while seizing resources in an Entrepreneurial Ecosystem.

3. Conclusion

In conclusion, this article proposed a theoretical framework by shedding light on the interplay of social capital and dynamic capabilities in resource acquisition in entrepreneurial ecosystems. The paper specifically contends that structural social capital is significant in

aiding entrepreneurs in sensing possibilities, while relational and cognitive social capital are critical in enabling entrepreneurs in seizing these opportunities in the early-stage enterprises. The theory developed suggests implications for policymakers and practitioners in comprehending successful and not so successful entrepreneurial ecosystems.

Developing Questions: I would like to find a broad range of literature in EE, DC and Networks theory to support our statements in order to make a strong contribution to practice and theory.

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