Social Capital and Organizational Sustainability: Case of Malaysian SMEs

Chaudhry Shoaib Akhtar, Kamariah Ismail and Jawad Hussain

Abstract—SMEs due to their size and resources are vulnerable to sudden economic changes. Large numbers of SMEs disappear within first five years of their operations and to remain operational these small enterprises need to position themselves in such a way to cater for the needs of the ever changing customer demands. The present study is an attempt to investigate the relationship and influence of social capital and its three dimensions on the sustainability of SMEs in Malaysia. The results indicate that social capital as a construct has a significant relationship and influence on sustainability of SMEs. However, multiple regression results indicate that structural and relational social capital have significant influence on sustainability but cognitive social capital is insignificant. The results are significant for the owners/managers of SMEs and how they operate their enterprises. Future recommendations are also provided for researchers interested in the subject area.

Keywords—Malaysia, SMEs, Social capital, Sustainability.

I. INTRODUCTION

In today’s complex business environment, organizations are in pursuit of sustainability. Where this race has created challenges, organizational apprehensions are also increasing. With the economy becoming more and more knowledge oriented it is becoming difficult for small and medium enterprises (SMEs) to remain competitive and sustain over a longer period of time. SMEs need to position themselves in such a way so as to cater for the changing needs and expectations of their customers for new and improved products. To achieve these ends, it is imperative that SMEs start strategizing in a way as to make them sustainable in the wake of changing business environment.

SMEs due to their smaller size and resource portfolio are vulnerable to sudden economic changes [1] that results in the failure of the small enterprises. Large number of studies indicate that majority of the small firms disappear within the first five years of their operation [2][3][4][5], mainly because of factors like in-competencies of the owner/manager [6][7][8][9]; lack of personal contacts and network with the customers [10][11][12]; lack of financial resources [8][13][14], to name a few.

Malaysia being a fast developing country relies heavily on SMEs. SMEs account for 97.3% of total business establishments with GDP contribution of 32.5% [1]. Despite Malaysian government’s focus on developing SMEs, the failure rate is approximately 42%. Ahmed and Seet [10] have cited a figure of 60% for failure among Malaysian SMEs. They further point out that the major reason for such a high failure is lack of personal contacts and failure to maintain close relationships with customers.

For sustainability, three interacting aspects are necessary: social, economic and environmental [15][16]. These three aspects, though independent are interrelated with each other. Malaysia, being fast developing country and aspiring to be in high income group of nations by 2020, is aware of the impact of these three aspects of sustainability. The Malaysian government has embarked on various initiatives and has allocated sizeable funds for promotion of sustainability for economic development of the country and achieving 2020 vision in its 10th Malaysia Plan. However, researchers have highlighted that despite Malaysian government’s efforts, SMEs are still facing many problems such as lack of financing, low productivity, lack of managerial capabilities, low skilled workforce, inability to adopt technology, lack of information on potential markets and customers and global competition [17][18][19][20][21][22].

One of the important factors in the sustainability of organizations is the social capital. Social capital is the intangible asset of an organization that comprises of networks, trust and reciprocity that exist between employees as well as between organizations [23][24][25]. Research suggests that entrepreneurs should be trained on developing the heterogeneous business linkages and government should also provide a platform where collaboration between these linkages can take place [26]. A strong social capital with its heterogeneous linkages is deemed necessary for the growth, innovativeness and sustainability of small and medium enterprises in this competitive world [27][28][26]. Researchers are of the view that the success of organizations depend on the networks that may simultaneously be competitive as well as cooperative, which enable and sustain beneficial creative activity [29] and helps in innovation to attain competitive position [30] that ultimately leads to sustainability of organizations. Furthermore, research highlights that industry-academic linkage has a strong influence on the innovative capabilities of organizations, the greater and stronger these linkages and ties are the greater the growth potential of SMEs [31].

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The present study is an attempt to highlight the influential role of social capital in the sustainability of small and medium enterprises.

II. LITERATURE REVIEW

Social capital (SC) is a multi-dimensional concept [25] as such various researchers have defined it differently. The concept has been in vogue since 1916 when Hanifan first coined the phrase. According to Hanifan [32] SC is reflected by goodwill, fellowship, mutual sympathy and social intercourse. Putnam [33] a well known scholar in the field of SC reflects it in terms of norms, networks and trust, whereas, Nahapiet and Ghoshal [24] define SC in terms of networks, relationships and norms. According to them networks of employees reside within structural social capital of the organization; relationships are viewed within the context of relational social capital and norms and values of an organization are embedded within the cognitive social capital. Fukuyama [23] relates SC with norms of reciprocity that exists between two or more individuals. Coleman [34] views social capital as an asset stemming from access to resources made available through social relationships. Whichever definition researchers use the overall theme that emerges is that SC is reflected by trust, reciprocity, network of relationships, norms and values that exist between individuals and organizations within any society.

The concept of sustainability has been associated with Wes Jackson’s work on agriculture [35] and later on incorporated by Brundtland Commission Report under the auspices of the United Nations Commission on Environment and Development (WCED). The report defined sustainability in terms of development of the human ecology as ‘development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs’ [36]. This report encompassed the holistic concept of sustainability from social to economic to environmental as we know it today.

In terms of business organizations, sustainability refers to as the meeting the needs of an organization’s direct and indirect stakeholders such as shareholders, employees, clients, communities etc, without compromising its ability to meet the needs of future stakeholders as well. To attain this organizations have to maintain and grow their economic, social and environmental capital base while actively contributing to sustainability in the political domain [37].

Lee [38] is of the opinion that organizational sustainability can be achieved if strong inter-organizational linkages are present. These linkages provide complementary strengths and create value for the organizations to achieve sustainable advantage. These linkages not only help the employees and organizations alike to share knowledge but also help in the development of competencies that are necessary for the sustainability [39].

With the globalization and the advent and impact of information technologies, organizations under the changing and uncertain environment, develop interactional activities at three levels or dimensions: the global interaction, a local interaction at a given geographic zone and a space of influence covering interaction of the organization the other organizations through two information networks: formal information network between internal and external entities through data circulation and explicit knowledge exchange and informal information network between employees favoring information sharing and tacit knowledge sharing. These networks help employees not only to enhance their competencies but also help them to take decisions and actions under uncertain situations and circumstances [40].

The development of domestic SMEs is crucial for overall economic development, which can be achieved by promoting entrepreneurship and reducing risk by facilitating access to finance, skills, business development services, appropriate technologies, and market information and helping SMEs to forge effective linkages with larger and foreign enterprises which dominate regional and global value chains and production networks [41]. Gronum, et al., [28] are of the view that unless networks are utilized optimally efforts to create and maintain these networks would be useless. Therefore, SME owners and managers should utilize their limited resources in establishing diverse and strong network links that could help them grow. These strong networks would establish trust [34][42] that would enable SMEs to obtain advantages of larger size [28][43]. Furthermore, networks provide SMEs with more access to resources, complementary skills, capabilities and knowledge that are not internally available and are deemed necessary for sustained growth [44].

Research highlights that quality of personal relationships with customers and business partners is critical for SMEs as they rely on their personal networks and reputation to attract customers in the absence of large marketing budgets [45]. Loucks, et al., [45] further point out that SMEs especially older firms and family businesses can benefit from large amounts of social capital for their sustainability. Putnam [33][46] argues in support for larger social capital that helps in decreasing the cost of doing business in communities. The lower costs are attributed to strong sense of community among stakeholders that leads to a greater level of trust.

Networks are helpful and play a vital role in ensuring success of SMEs [47]. Halila [47] further highlights that networks can provide SMEs with expertise and resources that can help them to take risks and implement sustainable practices they might otherwise have not considered. These networks further provide support to SMEs in generating and developing new ideas and implementing strategies. These networks should be key element for development of sustainability strategies and acquisition of information and knowledge regarding sustainability practices by the SMEs [45].

III. METHODOLOGY

For the study sample consists of enterprises registered with the Malaysian Federation of Manufacturers (FMM). The sample size of the study was 335 consisted of both service and manufacturing SMEs in Malaysia. The unit of analysis was organization because normally social capital for an organization emerges from the interactions of individuals representing their organizations. Furthermore, sustainability is
The survey data was collected through two sources: web based questionnaire and face to face submission of questionnaire. The collected questionnaires that were finally used in the analysis were 171, depicting a response rate of 51 percent. The instrument was subjected to factor analysis using PCA in SPSS 21. The factor loadings for the items measuring the variables of the study indicated that the instrument was valid and reliable for further statistical analysis. The analysis was conducted using Pearson correlation and regression. Before subjecting the data to regression, assumptions of regression analysis were satisfied.

IV. RESULTS AND DISCUSSION

Pearson correlation was used to ascertain the relationship between social capital and its dimensions with sustainability. The results are shown in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>SC</th>
<th>SSC</th>
<th>CSC</th>
<th>RSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>0.622**</td>
<td>0.564**</td>
<td>0.547**</td>
<td>0.545**</td>
</tr>
</tbody>
</table>

**Correlation significant at 0.01 level

The correlation result indicates that there is a strong and positive relationship between sustainability and social capital. Furthermore, the results also show that dimensions of social capital: structural, cognitive and relational social capital have strong and positive relationship with sustainability.

To investigate the influence of social capital and its dimensions on sustainability, regression analysis was performed. For social capital simple linear regression analysis indicated that social capital has a significant influence on sustainability of organization (β = 0.545, p < 0.05). Similarly, to check the influence of each dimension of social capital on sustainability, multiple regression was applied. The results indicate that structural social capital (β = 0.273, p < 0.05) and relational social capital ((β = 0.189, p < 0.05) are having strong and statistically significant influence on sustainability. However, cognitive social capital (β = 0.109, p > 0.05) is found to be insignificant. The regression results are shown in Table 2.

Table 2. Regression for SC and Sustainability Model

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adj. R²</th>
<th>β</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC</td>
<td>.622</td>
<td>.387</td>
<td>.383</td>
<td>.545</td>
<td>10.797</td>
<td>.000</td>
</tr>
<tr>
<td>F 116.570, p&lt;0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSC</td>
<td>.627</td>
<td>.393</td>
<td>.383</td>
<td>.109</td>
<td>1.625</td>
<td>.106</td>
</tr>
<tr>
<td>CSC</td>
<td>.189</td>
<td>.2995</td>
<td>.003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RSC</td>
<td>F 39.432, p&lt;0.01</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

The results of the study signify the importance of social capital in the sustainability of small and medium enterprises. Literature also highlights that strong networks not only help organizations to sustain themselves but also provide them with resources that are much needed by the smaller organizations and are not available internally [28][38][42][43][44].

Structural social capital relates to the pattern of relationships that exist within and outside of the organization [24][48][49] and are considered to be assets of an organization as they provide access to resources and information [34]. Relational social capital relates to the trust and reciprocity that exists within and outside of the organization. This trust is important for organizations to access resources and competences available in other organizations and not present internally. Thus, relationships built over a period of time are not only strong but also help in the adaptability to changing environment [48][51][52][53][54].

The regression results indicate that the quality of network and its configuration is important for organizational sustainability. If the network quality is strong it will not only provide much needed resources but would also provide information and knowledge that can be crucial for the sustainability of an organization. The results further indicate that the organizations have strong relationships with other organizations, which are based on trust and reciprocity.

However, regression result related to cognitive social capital is telling another story. Cognitive social capital relates to sharing of resources through communication and dialogue [49]. Isaac [50] highlights that dialogue can create an environment where people continuously interact with each other to create shared meaning. This shared meaning develops common understandings and collective ideologies for mutual benefits [55]. Inkpen and Tsang [56] are of the view that cognitive social capital is composed of shared culture and
congruent goals. Explaining these shared culture and goals, [51] highlights that shared culture is the norms of behavior that govern the relationship; while congruent goals represents common understanding to achieve common tasks and objectives. Goal congruence is more important for a longer term association between relationships [57], without which there may be conflicts [56] and lack of organizational development [58]. The regression result indicates that cognitive social capital is insignificant, indicating that there is low level of goal sharing among the organizations, which is making cognitive aspect insignificant. Furthermore, the result indicates that organizations do not consider cognitive aspect to be important in their sustainability efforts.

V. CONCLUSION

The study is important for small and medium organizations because of the resource constraints they have in terms of human resources, competencies, knowledge & information. Developing networks within their circles can not only help them bridge the gaps in terms of resources but would also help them to develop and sustain themselves for longer period of time. However, organizations need to develop strong social capital along with its dimensions. The study results indicate that structural and relational social capitals are more valued by organizations in relation to cognitive social capital, without realizing that cognitive aspect plays more important role by identifying common threads for building stronger relations along with developing trust. Thus, if organizations want to develop stronger relations with others, they need to have and develop common goals, which can bring them closer together. Such relationship would not only help them grow but would also help in their sustainability.

Organizational sustainability is an important issue especially for smaller organizations. The increased rate of failure among smaller organizations stresses the need for further studies. There are a number of studies that have taken into account management perspectives related to strategies, marketing, finance, economics, but limited numbers of studies go beyond these aspects. Social capital is one area which can be explored further in detail to evaluate its relevance in sustainability. Social capital is a well researched area in community development but in organizational science it needs to make its mark. Future studies can go further into detail and investigate the relationship of individual dimension of social capital with individual dimension of sustainability. Linking individual social capital dimension with social, economic and environmental sustainability would definitely help us in understanding the nature and role of social capital in organizational sustainability. Furthermore, comparative researches can be done between sectors or cross cultural/country comparisons can yield more information and knowledge regarding the constructs. Other factors such as leadership, culture, HR practices and policies etc that can influence social capital or sustainability may also be studied along with the study constructs.