Chapter 4
Entrepreneur Social Capital, Knowledge Acquisition, and Start-Up Firm Performance

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ABSTRACT

Entrepreneurial social capital is founded on the basis of the environmental trust. It takes advantage of a series of social network resources which are built by a network of relationships and coordinate abilities, so as to realize knowledge acquisition which will promote network capacity of firm performance. In the transition process of Chinese economy, the social capital of entrepreneurs themselves have practical significance on newly-established firms which need to break through the resource constraint and realize rapid growth. The research theory has enriched the theoretical connotation of entrepreneurs’ social capital. It is divided into three dimensionalities; they are environmental trust, network relation, and network capacity, and then building a good model about entrepreneurial social capital, knowledge acquisition, and start-up firm performance. According to the empirical analysis of the newly established 564 companies in Yangtze delta area, the research results show that environmental trust has positive effect on the construction of network relationship and network capacity. While the knowledge acquisition was significantly and positively correlated with the start-up firm performance, it also indicates that the relation between the environmental trust and the start-up firm performance is an inverse U shape. However, the knowledge acquisition of enterprises will promote the relationship between entrepreneurial social capital and enterprise performance, as well as announcing that only having strong entrepreneurial social capitals can get the needed knowledge. Furthermore, one needs to translate knowledge into the internal ability of enterprise. Consequently, one can get a competitive advantage. This chapter explores all of this.

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1. INTRODUCTION

As China has become the second largest economy in the world and more and more integrated into the world economy, entrepreneurship has become the booster of economic development and entrepreneurial activity has been more concerned by scholars. Start-ups (in this paper, we exclude the companies as the branch company of large and medium-sized enterprises and only study on the firms that individual entrepreneurs found) need to pay attention to the resource they have, because it is the basis for the survival and development of firms. Especially, knowledge resource more and more becomes the means for enterprise to obtain the competitive advantage. Start-ups have the problems that the insufficient of resources and economic strength, so they need to make full use of the social capital and acquire needed resources with low cost. The relation network, social and environmental trust entrepreneurs have will play an important role.

How to acquire the needed knowledge with the network relation and network capability in the trust environment faced by individual entrepreneurs for start-ups and use the knowledge needed to promote and improve firm performance has become one of the urgent problems to be solved in research on Entrepreneurship Theory. The existed entrepreneur social capital theory originated from the social capital theory. Social capital theory is proposed by American scholar Granovetter (1973) and Lin Nan et al. (1978) after they studied and developed the individual social network and social resources relation theory. Later, many scholars pay attention to the effect of entrepreneur social capital on start-up performance, but pay little attention to the effect of network relationship and network capabilities on the evolution process of the firms through knowledge acquisition; in addition, the entrepreneur individual network relationship and the ability change dynamically and the past static study on entrepreneur social capital has limitations. Haiyang Li, Yan Zhang (2007) and Geng Xin (2010a) evidenced that entrepreneur social capital has promoted the domestic start-up performance, but it is lack of the study on the influencing factors to inherent evolution. The study on dynamic changed rules of entrepreneur social capital contributes to strengthen the understanding of the capacity that social capital acquires the needed knowledge so as to make up the gap in the theory. Entrepreneur social capital not only focuses on the charm the individual entrepreneur has and the environmental trust in and out of the firm, but also on the effect that network relation and network capability have on firm performance. Environmental trust is based on the affective trust, cognitive trust, institutional trust and instrumental trust that social and firm members have in it in the internal and external environment of start-ups; emotional trust and cognitive trust belongs to the interpersonal trust; institutional trust is a subjective faith the network members have and it makes the members believe that there are conditions for successful trading in the network relations; instrumental trust refers to that the network members recognize and understand each other based on the common interests. Environmental trust is a term that contributes to understanding the network environment caused by the change of internal and external environment in the entrepreneurial process. Because the trust relationship among firms will be complex, it is difficult to express the real meaning of trust among networks only through the original trust terms. Scholars generally describe the entrepreneur social capital from three angles that the resources, the relationship and the ability and define the network capability with two perspectives that resources and actions. Concerned on the current period of economic intensely changing, only is the entrepreneur social capital based on social environmental trust, it can actively use social network to obtain effective resources. Entrepreneurs who make full use of the social network perspective usually actively deploy and integrate relation resources to build their own unique network capability. While,