

# The Relationship between Social Capital and Inter-organizational Entrepreneurship in Rasht Industrial City, Iran

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# ABSTRACT

In the changing and developing world today those societies and organizations are considered prosper which establish a meaningful relationship between their rare resources and management capabilities and human resource entrepreneurship (as the social capital or invest). In other words, a society or organization can have a forwarding and rapid move toward development that equips its human resources with generative entrepreneurship skill. On the other hand our country faces a great deal of economic problems such as high inflation and unemployment rates, and needs brave, creative, innovative and risk-taking entrepreneurs to try to create new plans along with their society and organization's development to get rid of these problems in public and private sectors. The present research, also, tries to identify and specify the relationship between social capital and inter-organizational entrepreneurship in private companies of Rasht Industrial City. Thus, social capital is divided into 3 categories: communicative aspect, cognitive aspect and structural aspect. This paper uses analytical – descriptive method and it is of applied type considering the objective. After calculating the abundances, statistical tests concerning hypotheses were accomplished using deductive analysis methods and correlation coefficient was applied to evaluate the relationship between these three aspects and the effect of social capital (as the independent variable) on inter-organizational entrepreneurship (as the dependent variable). Linear Regression Equation is also used to predict the effect of each component and to assess the entrepreneurship of companies in Rasht Industrial City. The population of the present research includes all active industries in Rasht Industrial City. According to available data from Guilan's Industrial Cities database about 150 industrial unites are active in Rasht of which 76 units are introduced as entrepreneurs. Questionnaires are used for all 76 units. Finally, analyzing all questionnaires the researcher concludes that communicative, structural and cognitive aspects have the highest impact on (and the highest relationship with) interorganizational entrepreneurship in Rasht Industrial City, respectively. Accordingly, results are presented in the form of a total pattern to be able to show the effectiveness and efficiency of this pattern practically. Finally, some executive suggestions and topics for future plans are presented.

**KEYWORDS**: social capital, the communicative aspect of social capital, the structural aspect of social capital, the cognitive aspect of social capital, inter-organizational entrepreneurship, Rasht Industrial City.

## **1. INTRODUCTION**

Study of entrepreneurship in the framework of surrounding social structures flattens the way to achieve a wide perspective about entrepreneurship so that attracts the attention toward those ambiguous points which are not considered yet, namely the social aspect of a socioeconomic phenomenon such as inter-organizational entrepreneurship.

Most studies on entrepreneurship were of determining personality traits of entrepreneurs and of structural and environmental conditions type which were criticized because of not considering the network of social relationships (social capital), namely non-economic factors. Today, entrepreneurship, from the viewpoint of social sciences experts, is a process in a variable network of social relationships these can facilitate or restrict the relationship between the entrepreneur and resources and opportunities (Ahmadpour, 2001, p57). The network is a set of individuals who are linked together by certain relations. The present research seeks a way to survey social aspects of entrepreneurship. Thus, the concept of social capital is used to achieve this goal and to study the network of social relationships. This capital is a modern concept which plays a more important role in organizations and societies than human and physical capital and today, in sociology and economics, and recently in organization and management, is widely being used. This concept points to relationships available between members of a network as a valuable resource which results in realization of members' goals through creating norms and mutual trust (Azarhoush, et al, 2006, p56).

In this regard, (the definitions of inter-organizational entrepreneurship and social capital that both have stressed on communications and interactions among individuals), this paper answered this question that "is there

\*Corresponding Author: Mehrdad Goudarzvand Chegini, Asscoiate Professor of Management Faculty, Islamic Azad University of Rasht, Iran. a significant relationship between social capital and inter-organizational entrepreneurship at private sector companies in Rasht industrial city? ". This article has explained the relationship between social capitals and inter-organizational entrepreneurship.

#### 2. History of research

Social capital is the ability of individuals to work together to achieve common goals at groups and organizations (fukuyama, 1995, p. 73). Based on another definition, social capital is a collection of potential and actual sources obtained through membership in a stable network or by mutual recognition (bourdieu 1990, p. 124).

Social capital can be considered as the results of such phenomena as mutual reliance, mutual social interactions, social groups, the feeling of individual and group identity, feeling the existence of a common image of future and group work in a social system. Because of having different features from other types of capitals this type of capital separates itself from them. Paying attention to these features by organizations, thus, affects their competitive advantage and their success.

Nowadays, the role of social capital in organizations and societies is more important than that of physical and human ones and networks of group and collective relationships integrate the relation of people with one another and with organizations. With lack of social capital, other types of capitals will lose their efficiency and it becomes difficult to pass the path of development and cultural and economic evolution (Baker, 2003, p20). Despite other types of capital, this type is not available physically but it's the result of group and social interactions and norms.

Coleman proposes social capital as the final goal and states it as a tool to achieve human capital. According to Coleman, social capital is the value of social structure that is available to members to achieve their goals.

Putnam believes that social capital is a set of concepts such as trust, norms and networks that leads to a connection between members of a community and provides them with their interests. According to Putnam, trust and reciprocity of members in the network are resources available in interactions of community members. Putnam believes that social capital is a device to achieve political and social development in different political systems. He emphasizes on the concept of trust and believes that this factor can lead to a political development by attracting the reliance between people and politicians.

### 3. The importance of social capital in discussions of organization and management

Since past times, considering organizations as social actors and also the attention paid by scholars to social needs and issues related to an organization has provided a favorable background to extend the concept of social capital.

From one perspective, social capital is a management phenomenon and a variety of features, including trust (norms), values and common behaviors, communications, cooperation, mutual commitment, mutual recognition and networking, are defined for it (Vulanva and Jesa, 2003, p. 30).

Organizations with higher levels of social capital are likely to be more successful than organizations with low social capital (Nahapit& Gushal, 1998, p. 250).

Social capital or communications between individuals in social networking can lead to the development of human resources capabilities in such away in which people access to one another's knowledge and skills through mutual interaction and in this way, their capability increases (2010,182 Oorschot).

On the other hand, there is a positive and significant relationship between social capital and employee commitment, organizational flexibility, proper management of collective actions and developing high levels of conceptual capital. Therefore, social capital can enhance organizational performance. (Bolyno et al, 2002, 507). Organizational social capital is a useful asset for both the organization (through the creation of value) and for members of the organization (through raising the skills of employees) (Lina and Von Bern, 1999, p. 538). Finally, social capital can:

- Affect professional success;
- Help workers to find a job and create a better portfolio of employees for the organization
- Facilitate the exchange of resources between units
- Motivate novelty, intellectual capital creation and efficiency of multifunctional teams.
- Reduce employees' job changes
- Strengthen the relationship with suppliers, regional production networks, and organizational learning.

#### 4. Organizational Entrepreneurship

Intense and close competition between companies, loss of traditional management efficiency and the rapid growth of small companies led organizations to attach particular importance to novelty. Because novelty is only survive tool in the competition. Hence, organizations tried to encourage creative and entrepreneur people, who were the main developers of new products and services in that organization, to remain in the organization and realize their ideas. Pinkat called them organizational entrepreneur. In 1985, combined "Entrepreneurship" and "corporate" and "Intra" words and obtained "Intrapreneurship" word. He described organizational entrepreneur

as an individual in a large organization who behaves like an independent entrepreneur and his duty and activity is to create new units in the organization, presenting new products, services and processes that lead the organization toward improvement and profitability.

Pinkat's definition is similar to independent entrepreneur; the only difference is that it takes place within an organization that was already created.

Entrepreneurship, also, is a complicated process that, with the soak of administrative processes and bureaucracy in firms' culture in 1960s and 1970s was increasingly considered by senior managers of big organizations and they became able to consider invent, innovation and trading their new products and services. (Colum, 2009, 26).

Schumpeter believed that main activities of organizational entrepreneurs include developing new products and services, introducing new production methods, finding new resources, improvement and development of the organization (Samad Aghaei, 1999, p. 20). Organizational entrepreneurs caused fundamental transformation in the organization through innovation. They are leading the development of new products and services and are usually responsible for innovation process from the formation of the basic idea to creation of new products and services or a modification in the production structure and are supervisor or executor in all processes.

Finally, the organizational entrepreneurship means that organizations can develop profitable innovations through encouraging employees to think, like independent entrepreneurs, and give them enough freedom and flexibility to follow their plans without providing them with a bureaucratic marsh (Stoner et al, 1995, p. 170). Organizational entrepreneurship is essential to increase capacity and innovation in a dynamic environment

(Akulus and nick, 1995, p. 2).

Fry believes that organizational entrepreneurship is a process through which new products (or services) or innovative processes are developed in an organization by creating entrepreneurial culture in an organization (fry, 1993, p. 370). Krunval and Perlman believe that principles of organizational entrepreneurship are not solely limited to private organizations, but also same principles can be used for non-governmental organizations (Krunval and Perman, 1990, p. 217).

# 5. The relationship between social capital and organizational entrepreneurship

According to researchers, entrepreneurship is a social – economic phenomenon that is placed in a variable network of social relations.

Viklen believes that, besides economic factors such as capital and market advantages, non-economic factors such as social networks could affect entrepreneurship.

As a social indicator social capital causes creativity and novel ideas, facilitates creative and risk-taking behaviors and is an entrepreneurial indicator (Coleman, 1990, p. 100).

This type of capital plays an important role in entrepreneurial activities; since entrepreneurship is a social economic process which depends on social conditions in two ways: first, entrepreneurs arise from their social environment; and second, entrepreneurship is a social activity and as a result the presence or absence of social links and relations affects the nature of business (Alistair and Anderson, 2002, p. 32).

People who have higher social capital can access more resources and information and thus can affect the process of formation and improvement of a business and acquiring new markets. Hence, social capital has a special importance for entrepreneurs. Additionally, entrepreneurs in independent social groups who have more social capital are more likely to be placed in better conditions in social networks. Therefore, they can easily recognize business opportunities benefit from them (Alistair and Anderson, 2002, P.32).

Lack of access to information for making decision about dealing with a new business is one important point for entrepreneurs. Since people have limited capability to attract and collect information and evaluation of decision-making options they need to external connections to depend on to achieve necessary information for decision-making.

Roof (2002) examined the role of social bonding in creation of innovative ideas. He concluded that people in social networks are expected to present valuable ideas and have enough innovation. Totally, innovation is a function of social relations in which entrepreneurs are located.

Also, experimental and theoretic studies are done on the relationship between social interactions and risk-taking (which is another aspect of entrepreneurship. (Naput and Gushal, 1996, p. 250).

On the other hand, social communication and relationships lead to leadership by identification and detection of environmental threats and try to counteract the environmental uncertainty. (Kelly and Chavrosky, 1999, p. 300).

Applying social interaction in organizations not only benefits to participants in these communications but also organizations themselves achieve some advantages through reducing expenditures and time of meeting need and responding to environmental threats.

Recent studies indicate the relation between network size (the number of interactions and bonds) and innovation, self-regenerating and entrepreneurship. The role of networks on strengthening innovation and development of new ideas has been the subject of some recent research and the results of them support this theory (beret, 2000, p. 42).

Generally, scientists have different opinions about the relationship between social capital and corporate entrepreneurship. Most of them emphasize that the social capital provides a good platform for potential entrepreneurs. In other words, researchers believe that social capital in entrepreneurship activities and the positive effect of social bond and communication on entrepreneurship indicators.

This research paper examines the relationship between social capitals (as independent variables) and interorganizational entrepreneurship (as the dependent variable). Social capital has three structural, cognitive and communication aspects. This article reviews the factors effective on social capital and its dimensions and the effect of these three components on entrepreneurship within the organization.

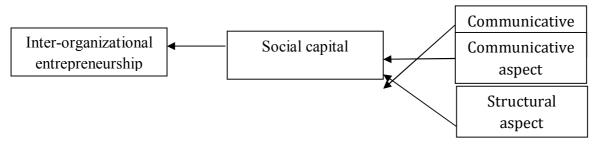


Chart 1-1: Theoretical framework or analytical model of the research (Proposed model of the research)

# 6. Research hypotheses

The main hypothesis of this article is: "there is a significant relationship between aspects of social capital and entrepreneurship within the organization". This hypothesis is divided into three side hypotheses as follows:

1 - There is a significant relationship between structural aspect of social capital and entrepreneurship within the organization in private companies of Rasht industrial city.

2 - There is a significant relationship between the cognitive aspect of social capital and entrepreneurship within the organization in private companies of Rasht industrial city.

3 - There is a significant relationship between the communicative aspects of social capital and entrepreneurship within the organization in private companies of Rasht industrial city.

For these hypotheses, a major question and three sub questions are proposed to determine and evaluate the effect and the contribution of each independent variable on inter-organizational entrepreneurship of industrial city of Rasht.

## 7. RESEARCH METHODOLOGY

The present paper is of applied type, data collection method is descriptive (non-experimental) and it is a field study. The research is applied due to applicability of its results for different groups of planners and managers of public and private sector. And we call it descriptive because it is accomplished without modification of variables and components. The field of this study is entrepreneur companies in industrial city of Rasht.

According to statistics and information of industrial cities of Guilan province, 150 companies are active in Rasht industrial city that 76 companies, based on indexes of this public agency, are entrepreneurs. Researcher distributed the questionnaire in all 76 companies. Some indexes of these companies include: high employment, stimulating economic and social development in community, transfer of new technologies from developed countries, creation pf new industries, recognition and creation of new markets, etc. Almost all 76 private companies possessed these features relatively.

# 8. RESULTS

## The first side hypothesis:

There is a significant relationship between structural aspect of social capital and entrepreneurship within the organization for private companies in the industrial city of Rasht.

To what extent the variable of structural aspect of the social capital contributes to inter-organizational entrepreneurship?

Table1: Model summary for variable of structural aspect of social capital and inter-organizational entrepreneurship.

Dependent variable	Independent variable	Correlation coefficient	Squared correlation coefficient	Significance level	The independent coefficient	Fixed number
Inter-organizational entrepreneurship	structural dimensions of social capital	0.751	0.546	0.00	0.797	2.4

According to this table, the variable of structural aspect of social capital has 1.75 percent direct relationship on variable of inter-organizational entrepreneurship in considered companies in the industrial city of Rasht. Consequently, the first side hypothesis of this study, there is a significant relationship between structural aspect of social capital and entrepreneurship within the organization in private companies of Rasht industrial city, is approved. Also, based on the square of R, it can be expressed that in this study, 56.4 % of changes of the variable of inter-organizational entrepreneurship in companies in the industrial city of Rasht can be described by the variable of structural aspect of social capital. Also, the following equation is true to assess inter-organizational entrepreneurship based on the variable of structural aspect of social capital.

Inter-organizational entrepreneurship =  $0.797 \times \text{structural aspect of social capital} + 2.4$ 

#### The second side hypothesis:

There is a significant relationship between cognitive aspect of social capital and inter-organizational entrepreneurship in private companies of Rasht industrial city.

To what extent the variable of cognitive aspect of the social capital contributes to inter-organizational entrepreneurship?

Table2: Model summary for variable of cognitive aspect of social capital and inter-organizational entrepreneurship.

Dependent variable	Independent variable	Correlation coefficient	Squared correlation coefficient	Significance level	The independent coefficient	Fixed number
Inter-organizational entrepreneurship	Cognitive aspect of social capital	0.726	0.527	0.00	0.544	3.08

According to the above, cognitive aspect variable of social capital has a direct relationship of 6 / 72 percent on the variable of inter-organizational entrepreneurship in companies considered in this study, in industrial city of Rasht. Consequently, the second side hypothesis, namely, there is a significant relationship between the cognitive aspect of social capital and inter-organizational entrepreneurship in private companies of Rasht industrial city, is confirmed. Also, based on the square of R, it can be expressed that in this study, 52.7 % of changes of the variable of inter-organizational entrepreneurship in companies in the industrial city of Rasht can be described by the variable of cognitive aspect of social capital. Also, the following equation is true to assess inter-organizational entrepreneurship based on the variable of cognitive aspect of social capital:

Inter-organizational entrepreneurship =  $0.544 \times \text{cognitive aspect of social capital} + 3.08$ 

#### The third side hypothesis:

There is a significant relationship between the communicative aspect of social capital and interorganizational entrepreneurship in private companies in the industrial city of Rasht.

To what extent the variable of communicative aspect of the social capital contributes to inter-organizational entrepreneurship?

Table3: Model summary for variable of communicative aspect of social capital and inter-organizational entrepreneurship.

Dependent variable	Independent variable	Correlation coefficient	Squared correlation coefficient	Significance level	The independent coefficient	Fixed number
Inter-organizational entrepreneurship	Communicative aspect of social capital	0.804	0.646	0.00	0.506	2.5

According to the above, the communicative aspect variable of social capital has a direct relationship of 80.4 percent on variable of internal entrepreneurship in considered companies of this study in industrial city of Rasht. Consequently, the third side hypothesis of this study, namely, there is a significant relationship between the communicative aspect of social capital and inter-organizational entrepreneurship in private companies in the industrial city of Rasht, is confirmed. Also, based on the square of R, it can be expressed that in this study, 64.6 % of changes of the variable of inter-organizational entrepreneurship in companies in the industrial city of Rasht can be described by the variable of communicative aspect ofsocial capital. Also, the following equation is true to assess inter-organizational entrepreneurship based on the variable of communicative aspect of social capital:

Inter-organizational entrepreneurship =  $0.506 \times$  communicative aspect of social capital +2.5

## Main Hypothesis

There is a significant relationship between social capital and inter-organizational entrepreneurship in private companies of Rasht industrial city.

To what extent the variable of social capital contributes to inter-organizational entrepreneurship?

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Dependent variable	Independent variable	Correlation coefficient	Squared correlation coefficient	Significance level	The independent coefficient	Fixed number
Inter-organizational entrepreneurship	social capital	0.807	0.651	0.00	0.862	2.4

Table 4: Model summary for the variable of social capital and inter-organizational entrepreneurship.

According to the above, the variable of social capital has a direct relationship of 80.7 percent on variable of internal entrepreneurship in considered companies of this study in industrial city of Rasht. Consequently, the main hypothesis of this study, namely, there is a significant relationship between social capital and interorganizational entrepreneurship in private companies in the industrial city of Rasht, is confirmed. Also, based on the square of R, it can be expressed that in this study, 65.1 % of changes of the variable of inter-organizational entrepreneurship in companies in the industrial city of Rasht can be described by the variable of social capital. Also, the following equation is true to assess inter-organizational entrepreneurship based on the variable of social capital:

Inter-organizational entrepreneurship =  $0.862 \times$  social capital +2.4

## 9. DISCUSSION AND CONCLUSION

According to results, it can be found out that the independent variable of social capital has a high relationship of 80.7%, that is, this variable has a positive and significant relationship with the dependent variable of inter-organizational entrepreneurship in private companies in the industrial city of Rasht. Also, the effect of this variable is 0.661% on inter-organizational entrepreneurship that indicates 66.1 percent of changes of inter-organizational entrepreneurship in private companies in the industrial city of Rasht are affected by the variable of social capital.

According to results, it can be found that the communicative aspect of social capital has the highest relationship of 80.4%, that is, this variable has a positive and significant relationship with the dependent variable of inter-organizational entrepreneurship in private companies in the industrial city of Rasht. Also, the effect of this variable is 0.646% on inter-organizational entrepreneurship that indicates 64.6 percent of changes of inter-organizational entrepreneurship in private companies in the industrial city of Rasht are affected by the variable of communicative aspect.

According to results, it can be found that the structural aspect of social capital has the relationship of 75.1%, that is, this variable has a positive and significant relationship with the dependent variable of interorganizational entrepreneurship in private companies in the industrial city of Rasht. Also, the effect of this variable is 0.564% on inter-organizational entrepreneurship that indicates 56.4 percent of changes of interorganizational entrepreneurship in private companies in the industrial city of Rasht are affected by the variable of structural aspect.

According to results, it can be found that the cognitive aspect of social capital has the relationship of 72.6%, that is, this variable has a positive and significant relationship with the dependent variable of interorganizational entrepreneurship in private companies in the industrial city of Rasht. Also, the effect of this variable is 0.527% on inter-organizational entrepreneurship that indicates 52.7 percent of changes of interorganizational entrepreneurship in private companies in the industrial city of Rasht are affected by the variable of cognitivel aspect.

Based on the results, it is observed that the maximum relationship and effect of social capital aspects on entrepreneurship within the organization, in this thesis, are as following, respectively:

- 1- Communicative aspect
- 2- Structural aspect
- 3- Cognitive aspect

Table5: Regression of three independent variables of social capital aspects on inter-organizational entrepreneurship

Dependent variable	Independent variable	Index independent variable	Fixed number	Level of significant
· · · · · · · · ·	structural cognitive	0.610	2.3	0.00
Inter-organizational entrepreneurship	relationship	0.455 0.656		

So, 3 social capital variables are added in multiple regression model. Y = C + B1X1 + B2X2 + B3X3y = dependent variable of entrepreneurship within the organization x1 = independent variable of communicative aspect x2= independent variable of structural aspect x3 = independent variable of cognitive aspect Obtained model is: Y = 2.3 + 0.61X1 + 0.45X2 + 0.56X3

 $\overline{R}^2 = 0.680$   $R^2 = 0.825$ 

1- The estimated R2, 68% of changes in dependent variable of inter-organizational entrepreneurship in Rasht industrial city will be explained by considering social capital aspects in this study and other remained 32 % is affected by other factors and variables.

2- Considering the fact that coefficients of independent variables are positive, there is a direct relationship between changes in social capital variables and inter-organizational entrepreneurship in Rasht industrial city (consistent with the results of test of hypotheses).

Suggestions

One of the important government strategies for promoting entrepreneurship is holding exhibition of achievements of entrepreneurs. According to statistics published by the ministry of industries and mines, in 1388, the average of variables for exhibition of achievements is 3.85%. Introduction of achievements of entrepreneurs in the entire country, by holding provincial, national and external exhibitions, is a proper way and tool to develop culture and deliver information about entrepreneurship. Entrepreneurs can introduce their work experiences to others in a social institution.

Entrepreneurship training courses with the government assist is necessary train and generate future and potential entrepreneurs and to form a link between industry and university. All about entrepreneurial activity in Iran, which is partly presented in the history of this study, show that entrepreneurship training will encourage graduates to start a business and this training is effective in upgrading and promoting the country-level entrepreneurship.

Based on the results, it is recommended first to develop the culture of entrepreneurship in order to achieve the correct implementation of entrepreneurship. Then, some plans are needed to systematically encourage entrepreneurial movements. In this stage one can proceed to design the overall structure of entrepreneurial firms and finally, having precise planning and having divided working units into entrepreneur teams, and, also, through considering the status of each company, every working unit can be organized entrepreneurially.

Norm of trust is a main constituent of the communicative aspect of social capital. This norm is formed in social relations and is the prerequisite to participate and cooperation among members. Data transfer and knowledge between people and organizations in macro and micro level depends on those organizations and people that start and facilitate this transition. Consequently, all things that impede the relations between individuals (or those which encourage these relations) affect knowledge transfer. Therefore, trust is highly emphasized. Trust is especially important when relations are complicated.. Therefore, trust will be important in contributing the knowledge, that is, high levels of risks and lack of trust can be minimized through a high level of reliance and this point is of great importance for operations effective on knowledge economics. In fact, whenever individuals in an organization become confident that the management is responsible for them and is sensitive to be responsive to the community, they obtain a positive perspective toward that organization and, hence, confidence level increases.

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