



## The Role of Business Relational Capital in Development of Small Business Communities in Peshawar

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### ABSTRACT

This paper investigates the role of social capital as business relational capital in the development of handlooms business community in Peshawar. For this purpose data has been collected from 169 handlooms firms out of total 300 manufacturing handloom weavers through purposive sampling method. The findings of the study reveals a significant role of the business relational capital in form of customer relational capital, supplier relational capital and internal network relational capital in the development of handlooms business in the area. The findings suggest that investment in business relational capital improves firm performance with a positive impact on the wellbeing (development) of overall handlooms business community. It is suggested that managers should employ a viable relational capital composition that includes building strong social relational ties with the community and government and pay attention to customers and employees in order to identify their needs and provide them with optimal values. Extending this result, to the whole small and medium enterpriser's sector in the study area, it has been maintained that entire entrepreneurial communities in the province could be developed through social capital as relational capital.

**KEY WORDS:** Social Capital, Business Relational Capital, Community Economic Development.

### 1. INTRODUCTION

Social capital is a new and missing indicator in the theory of economic and development. The twentieth century marked the significance of social institutions to economic exchange and development by a dynamic debate about social capital formations. From Simmel (1971), Weber (1969) and Polanyi (1957) to Granovetter (1973; 1985), Putnam (1993; 1995; 1998; 1999; 2000), Portes & Landolt (1996) and Woolcock (1998), argue that for economic development and entrepreneurship social relations are resources and liabilities. In their studies they expressed social capital such as trust, norms and solidarity as base for growth of entrepreneurship and economic development.

A number of studies have been undertaken in different parts of the world to investigate the role of social capitals in firm performance and development. The results from the studies show different variations between variables. For example, Robert Putnam (1993) recommended social capital as key determinant toward strong communities. Moreover to clear the meaning of social capital is a debatable issue. Usually it is clearly implicit to submit trust-based networks. Putnam argues that "high level of social capital in any community improve the performance of the community while low level of social capital in community makes political disconnection and a host of social harms". Krishna (2000) argues that the lack of relational capital is the main reasons behind poor flow of information which is negatively the affecting the initiatives of community economic development. Spence et al. (2003) find evidence that the long term performance of small and medium enterprise is based on their networking such as the ability to build relationship with stakeholders, to generate trust, authority, reciprocity and consensus. They further submitted that the small and medium enterprises are mostly a community base concept and strongly rooted into local community in which they work. Similarly Putnam (1993, 2000) again submitted that social capital is accelerating community economic development. The communities with low level of social capital suffer with backwardness and political disengagement while those with have high levels of social capital are growing. This research also attempts the arguments of Putnam in the sense that for healthy families and communities social capital is an important determinant.

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Stam, Arzlanian, & Elfring, (2014) investigated 61 small firms in Hong Kong. He observed a positive relationship between social capital and small firm development. Also Rouziès, & Hulland, (2014) studies 503 small and medium enterprises in US cities however a weak relationship has been observed between social capitals and business performance.

The World Bank (2004) also gained the importance of the notion of social capital in the development assistant through a broad work in its analysis. Meanwhile the World Bank initiated number of studies to evaluate social capital in selected countries in order to show its impact on the development outcomes. An objective of such programs is to make the valid frame work and stronger methodological technique for measuring social capital. The recent study in Tanzania of 750 household from 45 villages reported that social capital is most important to household benefit. Group membership, networking and level of trust was taken as measurement tools of social capital. Similarly multivariate regression analysis was used to recognize village level social capital. Resultantly social capital was determined the key supplier to household welfare. In several cases the village level social capital emerged to be more significance than household level social capital.

Jean M. Twenge et al. (2014) analyzed Americans institutions and different organization, they that submitted that confidence, rate of growth, and income inequality has direct relationship with trust known as social relations. Similarly Hans Westlund et al. (2016) in their book, titled "Handbook of Social Capital and Regional Development" analyzed the complex issue of social capital and development. They concluded that social capital has positive role in regional development. Recent study of Jung Hyun Song (2016) at Florida International University concluded that organizations development and performance is determined by the higher level of structural, relational, and cognitive social capital.

In Pakistan, Small Business Enterprises (SMEs) represent about 90% of the total firms contributing over 30% to the GDP and account 25% of exports of manufactured goods besides sharing 35% in manufacturing (Subhan, Mehmood, & Sattar, 2013). The role of SMEs cannot be ignored when they provide services and supplies not only to customers of a locality but also act as supplier and distributor to the big business (Perks & Oosthuizen, 2013). In SME, small businesses being the most dynamic firms, considered as the most important catalysts to the economies worldwide. Small businesses are recognized as the backbone of economies (Njoku et al., 2014). In terms of the contribution of small business to GDP in Pakistan, the contribution was gradually decrease for the period from 2007-2008 to 2010- 2011 from 3.37 % to 3.24 %. But little bit increase in 2011-2012 from 3.24% to 3.36%. Also in column fifth the percentage of small business GNP was 3.30% for the period from 2007-2008 and then decreases gradually for the period 2010-2011 it was 3.08%. If we look in column fourth the no of small business increase almost 100% from 2007-08 to 2011-12 but the contribution to the GDP and GNP is almost decreased.

**Table-1, Contribution of small business to GNP and GDP to the economy of Pakistan**

Years	GDP	GNP	Small Business	Small business as % of GDP	Small business as % of GNP
2007-08	9921584	10130500	334610	3.30	3.37
2008-09	12110462	12456743	395005	3.17	3.26
2009-10	14033629	14599876	449933	3.08	3.20
2010-11	17092903	17913128	552977	3.08	3.24
2011-12	19436825	20461935	653312	3.19	3.36

Similarly, Pakistan Economic Survey (2013-14) indicated that the manufacturing sector accounts 13.3 percent of Gross Domestic Product (GDP) and 14.2 percent of total employed labor force. Also this sector, including textiles, contributed for 13.6 and provides employment opportunities of 15.3 percent to the total labor force (Pakistan Economic Survey 2015-16).

Source: Economic Surveys of Pakistan

The declining trend of small and medium enterprise contribution to national income is due to the war and terror in the region, as especially the operations "RAHI HAQ" has been started in the sampled province in 2007. As results the norms and trust known as social capital has been diminished between individuals, organizations and communities. Now the prosperities in the region need to be restored as the war era been finished. Before restorations of norm, trust and solidarity, known as investment in social capital, it's needed to investigate the role of social relational capital in development of communities. Hence within this view, this study attempts to fill the gap in the current knowledge by focusing on those determinants of small business, such as social capital, which could assist in achieving better firm performance and healthier communities. This research attempts to build the strong mechanism to measure social capital in the development of business communities in the sample area.

### Research Gap

There is a silent literature on social capital and in fact, to many people in the World Bank, social capital has become "the missing link" in global economic development (Harriss & Renzio 1997). A very rare work has been done on the issues of social capital in Pakistan. This research seems the first study, in the sample area, which

accelerated the role of social capital as business relational capital in development of business communities. As the war and conflict been finished and prosperities and peace seem to be restored in the sampled area, hence the establishment of trust and solidarity between the communities, organizations and individual is the need of time. Hence this study is an attempt to analyze the importance of these intangible assets known as social capital in development process in an area where the residents relocated to a walk-able community. This study and its follow-up analyses can help further understand the link between community design and healthier promotion of its members. This is an important, yet understudied, area with significant implications for future planning and peace in the area.

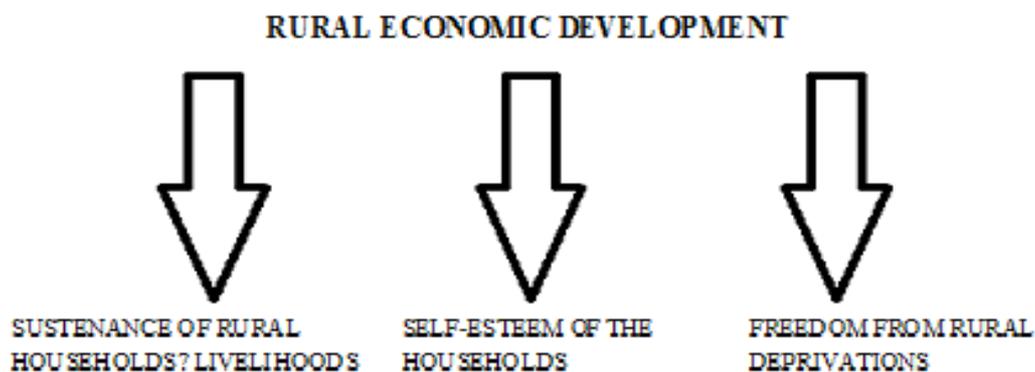
**Objectives**

- i. To investigate the effects business relational capital management on community economic development.
- ii. To outline strategy, that policy makers can use to foster healthier families and communities.

**LITERATURE REVIEW**

The concept of economic development developed by Smith (1776), he states that development is the aspiration of all communities. Societies and communities at every stage, from the smallest unit of a household to communities, nations, regions and the globe, wish to progress. Economists in common and development economists in particular, have constantly required answers to critical questions occurring from these disparities in levels of development between communities. Key among these questions is the expression question of why some societies and communities have highly developed at a faster rate than others. According to Meier (2001), economic development ought to be understood as economic growth plus economic change. This change is observed as a rescheduling of economic associations that impact on people’s wellbeing in a manner that compose them amenable to the coherent trials of those whose wellbeing they influence and is called community economic development. Sen (1999) regard as such development, of community well-being, to include of three core components, namely: sustenance (ability to meet basic needs); self-esteem (to be a person); and freedom from servitude (to be able to choose). According to Sen (1999) therefore, development is defined as advancement in the quality of life. In this analysis the Sen (1999) definition of economic development has been regarded as measurement of community well-being used by of Emunal (2009).

**Figure-1: Research Dimension of Assets-based Model of Rural (Community) Economic Development**



Source: Adapted from Pretty (2003) pp. 14

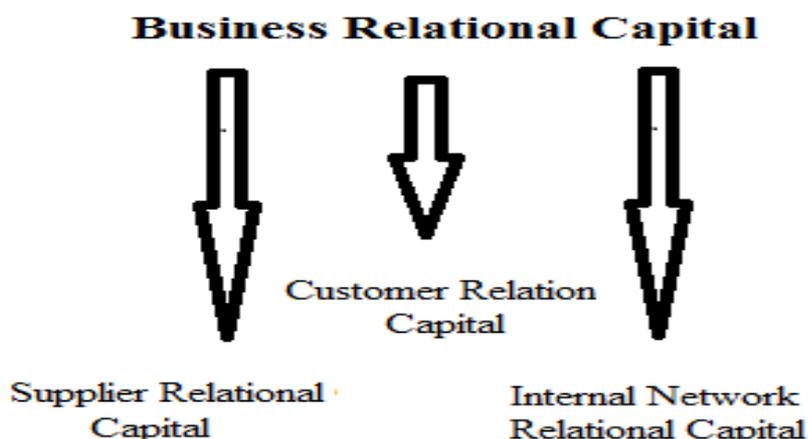
Hence Emuanal (2009) used the model for rural economic development while in this study the same technique has been used for rural community development. The main indicators are common in both community and rural development. Both maintains the quality of life of the rural or community member as well their power to attain the maximum basic need as well their freedoms.

**Relational Capital Method, Modified from the Literature of Euroform (1998)**

The role of relational capital in development process has been given focus by different scientist of the world. Kohil & Jaworski (1990) argue that in order to get feedback, the elements of relational capital such as costumer’s relationship are often referred to the market orientation concept. Market orientation is the most important aspect of performance and is related to the current and future needs of customers. Market orientation is also the

creations of market intelligence. According to Ordonez de Pablos (2003) the external and internal associations of firm with organization relation is known as relational capital. This includes customer, suppliers, employees; strategic alliance partner's stakeholders, and industry associations. Tomasz & Kijek, (2008) argues that the interactions of external and internal factors create trust and respect, the level of the friendship based on mutual understandings, which is the main focus of relational capital. The trust within the organization creates internal interconnections and environment bond for long term relationships and confidence. Thus, in the internal and external stakeholder framework, it can be argued that the relationship among employees with customers and suppliers is the concern enterprise relational capital.

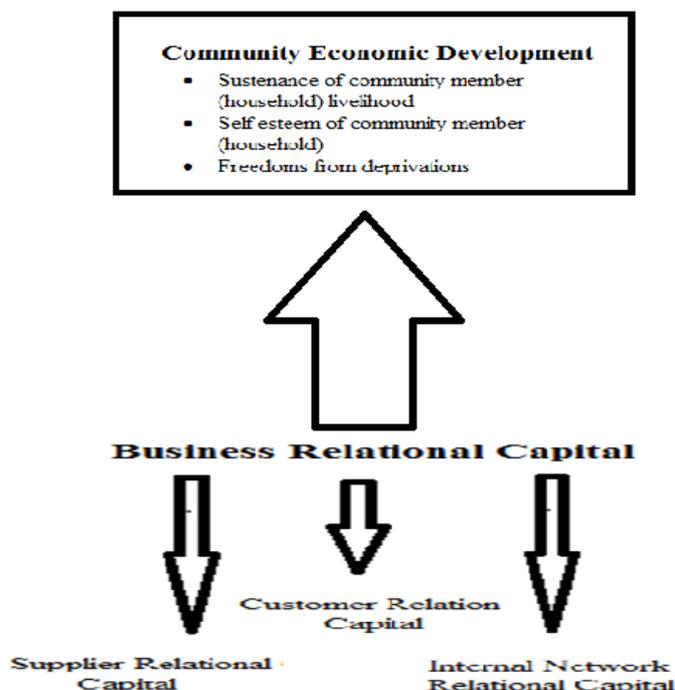
**Figure-2 Research Dimensions of Social Capital as a Business Relational Capital**



Source: Modified from the Literature of Euroform (1998), Cic (2003), Kijek (2008)

Hence as an analysis of business community economic development, this study is concerned with the use of business relational capitals assets of the firms toward their development and performance. After the important and required modifications from the literature the final framework of this research has been developed.

**Figure-3 Conceptual Framework of this Research Study**



Seungyoon Lee. et al. (2015) examined different forms of cultural capital with subjective well-being (development) and social support; they concluded that when social capital was positively associated with subjective well-being and social support. Ricardo D. et al. (2016) submitted that social capital and social network both accelerate community based opportunities.

### DATA AND METHODOLOGY

This research study is mainly based on primary data. Data has been collected through a well-designed questionnaire. Direct investigation method is used.

#### Sampled Community

Handlooms cloth community is the sampled community. They have been working in different districts of Peshawar valley but with common goals using unique method of production and producing the same commodity known as the community of practice.

#### Pilot Study

A pilot study was undertaken two months prior to the full study. Factor analysis is used and reliability of data as well as viability of the research instruments is checked. Hence the research was made reliable.

#### Selection of the Sampled Respondents in the Study Area

As the members of community have been working in different regions hence purposive sampling technique has been used to select the sampled respondents after pilot study. As an analysis of the community of practice, an eligibility criterion has been developed to shortlist the household for interview. Only those weavers were selected who have been working in different regions with same goal, using the same method of production and producing the same commodity, known as community of practice. Hence out of 300 weavers 169 small firms have been considered eligible. The entire colonies have been and spin out cloth on handlooms and power looms, sealing the places reputation for some of the best homespun cloth west of Indus (The News, 2014).

Household as a unit of analysis and data collection at household level is widely recognized in literature, similarly in this research study data has been collected at household level from the head of the clusters.

**Table-2, Variables and its implications**

Var	Definitions	Sources	Symbol
Community Development	The weighted index comprised measures of sustenance, freedom and self-esteem of members of community. The aggregate index (Devi) is given: $Devi = 0.4*(Susi) + 0.7*(Semi) + 0.8*(Frmi)$	Emmanuel o. Manyasa, 2009	Devi
Sustenance	Sustenance is one of indicator of community economic development and is defined as the ability of the community members (household) to meet its basic needs. It has proxied by the household income in this study.	Emmanuel o. Manyasa, 2009	Susi
Self Esteem	Self-esteem is defined by as measure of self-worthiness by head of household It has proxied by quality of life, which is an index computed on the basis of scores attached to various types of main house occupied by household (toh) and type of toiled facilities (toti).	Emmanuel o. Manyasa, 2009	Sifest
Freedom	Freedom is defined as the ability of household to meet its basic needs. It has been proxied by household income		FRMI
Household	The household means the supervisor of the Khaddar business unit. Household is also called the weaver, who was mixing the raw material and producing the cloth Household has been the main proxied by the earner of family using the Khaddar handlooms		Hsz

<b>Firm Performances</b>	Firm performance is the profitability, size and future viability of firm is known as firm performance. 1 Profitability and future viability has taken as a measure of firm performance. 2	1. Edward (2004) 2. (TumwineSulait, 2007).	PF
<b>Social Capital</b>	Social capital refers to the norms and networks of civil society that lubricate cooperative action among both citizens and their institutions. 1 Being a business community the business relational capitals have been taken as the main indicators of social capital. 2	1. Robert Putnam (1993 to 2000) 2. (Euroform, (1998), Cic, (2003), Kijek (2008)	SC
<b>Business Relational Capital</b>	Business relational capital is the internal network of weavers/firm within the community. It has been peroxide by supplier relation capital, Internal Network Relation Capital and Customer relation Capital.	Cousins, Handfield, Lawson & Petersen, 2006	BRC
<b>Supplier Relation Capital</b>	Is defines as the level of supply chain relational capital of the firm. It has been measured as the trust, mutual reverences and communications between handloom firms and their suppliers	Cousins, Handfield, Lawson & Petersen, 2006	SRC
<b>Internal Network Relation Capital</b>	The relationship among employees within organization based on common interest, mutual trust and collaborations. Internal Relational Capital has been measured as the relationship among employees within a handloom business unit.	Jenkins, 1994	INRC
<b>Customer Relation Capital</b>	In this study customer relational capital has characterized as the particular relationship the handloom firm has with the external surroundings.	Narver and Slater (1990)	CRC

**Model Specification**

Relational capitals are instrumental and hence enhance customer benefits. It creates value for customers through increase quality, reliability and flexibility. The instrumental relational capitals also increase production and service delivery process innovations and then customer values. Furthermore the more important is the effectiveness of such networking and which not only better identify customer’s choices but also satisfy customer needs. Relationship with supplier and customers identify the needs of marketing as well as satisfy their needs through novel solutions Kijek, (2008).

Utilizing the following multiple linear regression model, for the relational capital impact, this has been modified from the work of Kijek (2008) and Cic (2003).

$$CED = \alpha + \beta_1 CRC + \beta_2 SRC + \beta_3 INC + \varepsilon \text{-----}1$$

Where

- CED= Community Economic Development
- CRC= Customer Relation Capital
- SRC= Supplier Relation Capital
- INC= Internal Network Capital
- ε = Error term

The explanatory variables and error term (ε) will follow the least square.

**EMPIRICAL RESULTS**

The empirical results obtained are acceptable and significant on the basis of R-squared (R2) and Adjusted R-squared values. Factor analysis has been executed to spot the patterns in data and to reduce data to convenient levels (Field, 2006). In order to explore the variables contained in each component rotational Varimax method has

been used. Those factors with factor loading greater than 0.5 are computed and coefficients below 0.49 have considered being useless and hence deleted from the matrix. The composite reliability and composite extraction values are given in table-2. The factors of Business Relation Capital such as Customer Relation Capital (CRC), Supplier Relation Capital (SRC) and Internal Network Relation (IRC) Capital have been considered reliable with composite reliability of 0.85%, 0.82% and 0.70%, respectively.

**Table-3 Rotated Component Matrix**

S.No	Items	Mean	Std. Dev	Item reliability	Factor Loading	Composite reliability	Average composite extraction
1.	SRC1	.61	.216	.804	0.646416	0.82	0.61
2.	SRC2	.61	.203	.823	0.677329		
3.	SRC3	.63	.201	.777	0.603729		
4.	SRC4	.65	.196	.779	0.606841		
5.	SRC5	.65	.201	.721	0.519841		
6.	CRC1	.63	.243	0.896	0.802816	0.85	0.65
7.	CRC2	.59	.232	0.769	0.591361		
8.	CRC3	.58	.271	0.825	0.680625		
9.	CRC5	.59	.210	0.734	0.538756		
10.	CRC6	.61	.215	0.827	0.683929		
11.	CRC7	.62	.192	0.764	0.583696	0.70	0.54
12.	INRC1	.65	.199	.791	0.625681		
13.	INRC2	.63	.203	.776	0.602176		
14.	INRC3	.62	.204	.679	0.461041		
15.	INRC4	.64	.213	.700	0.49		

Source: Primary data

Table-4, the correlation coefficients indicate that there is statistically significant correlation among variables indicating there is association between variables. Hence all of these variables are kept for regression.

**Table-4 Correlation**

Variable	Development	CRC	SRC	INRC
Development	1.00			
CRC	0.7402	1.00		
SRC	0.6624	0.7521	1.0000	
INRC	0.6494	0.6809	0.7391	1.0000

From the correlation matrix, shows (table-4) co-linearity between the independent variables. Stata hereby suggest the correlations of the estimated coefficient method to check the co-linearity hence vce, corr command was used after regression to get the correlations of estimated coefficient (Richard Williams, 2015).The correlations between the pairs of coefficients are low (less than 0.80) indicating no co-linearity between the variables (Richard Williams, 2015).

**Table- 5 Correlation Matrix of Coefficients of Regress Model**

e(V)	CRC	SRC	INRC	_cons
CRC	1.0000	-	-	-
SRC	0.5044	1.0000	-	-
INRC	-0.2815	-0.4704	1.0000	-
_cons	0.0095	-0.2436	-0.4109	1.0000

Breusch-Pagan test Chi2 test has been applied and the problem of Heteroscedasticity is detected. Robust regression has been used to remove the problem, table-3.

**Table-6 Heteroscedasticity and Robust Regressions**

The Breusch-Pagan test Chi2(1)	52.71 (Prob>Chi2)
F( 3, 165)	71.04
Root MSE	15294
R-squared (Robust)	0.4713
N	169

Variant infant test (VIF) has been used and almost Multicollinearity problem has been dropped, table-4.

**Table-7 Multicollinearity**

Ind. Variable	VIF	1/VIF
CRC Customer Relational Capital	2.96	0.3382
SRC Supply Relation Capital	2.50	0.3999
INRC Internal Network Relational Capital	2.39	0.4177

The estimated regression equation of social capital indicators on community economic development is as:

$$CED = f(CRC, SRC, INRC) \text{ -----}]$$

$$CED = .0522457 + .5762555CRC + .1709332SRC + .2978695INRC$$

**Table-8 Business Relational Capital management on Community Economic Development**

Ind. Variable	Composite reliability	Average composite extraction	Coef.	t-stat	Std. Err.	P> t
Constant	-	-	.0522457	1.12	.0513475	0.310
CRC Customer Relational Capital	0.85	0.65	.5762555	6.31	.0528963	0.000
SRC Supply Relation Capital	0.82	0.61	.1709332	1.53	.0607891	0.006
INRC Internal Network Relational Capital	0.70	0.54	.2978695	2.81	.099039	0.003
R-squared (Robust)	0.4713	-	-	-	-	-

**Table-9 Implicative Analysis**

Model-1 (BRC)	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	R <sup>2</sup>	Adj- R <sup>2</sup>	Root MSE	F (1, 167)
	1.075417	.0711322	15.12	0.000	.934983 1.215851	0.5778	0.5753	.13584	228.57
Con.	.024616	.0451877	0.54	0.587	-.0645967 .1138287				
Model-2 (CRC)	.8613905	.0605474	14.23	0.000	.7418535 .9809274	0.5479	0.5452	202.40	.14057
Con.	.180447	.0373643	4.83	0.000	.1066796 .2542143				
Model-3 (SRC)	.8681602	.0759871	11.43	0.000	.7181411 1.018179	0.4387	0.4354	.15663	130.53
Con.	.1441287	.0492122	2.93	0.004	.0469705 .241287				
Model-4 (INRC)	.8962384	.0812209	11.03	0.000	.7358864 1.05659	0.4217	0.4182	.15899	121.76
Con.	.1197096	.0530453	2.26	0.025	.2244353 .0149838				

The study reveals that the firm's customer capital strength significantly influences community economic development; that a change or boost in customer capital leads to a positive change in community economic development. The results imply that firms which invest capital to strengthen their relationships with customers increase their performance, by way of building strong quality and having wider distribution channels. The increasing rate of profitability hereby increases their power to participate in the development of community.

Similarly the supplier relational capital is another element measuring business relational capital. From the study findings, it is found that the level of community economic development increased by the firm engaging in a relationship with the suppliers. The firm relationship with supplier makes things available on short demand and sometime provides the material to these poor firms in off season. The supplier can help the community by providing

raw material on mortgage when the firms are in losses or recession. According to household Mr. Abdur Rahman, when the Chinese product destroyed their business in 2005, many weavers shut downed their business. The supplier then helped the community and provided the raw material at low price and on mortgage. That was the supplier's contribution who secured this business community.

The third element of business relational capital is internal network capital. Results from the study revealed that a significant and positive associations between employees (internal networks) and community economic development. This result is supported by Tsai, Ghoshal (1998) who argued that the relationships among employees facilitate a common understanding of collective goals and proper ways of acting in a social system.

## CONCLUSIONS AND SUGGESTIONS

This research paper concentrated and explored the role of social capital as business relational capital in the development of handlooms business clusters in Peshawar. The paper concludes that social capital as business relational capital boost positive associations with community economic development by 47.13%. The findings suggest that investment in business relational capital improves firm performance with a positive impact on the wellbeing (development) of overall handlooms business community. It is suggested that managers should employ a viable relational capital composition that includes building strong social relational ties with the community and government and pay attention to customers and employees in order to identify their needs and provide them with optimal values. Extending this result, to the whole small and medium enterpriser's sector in the study area, it has been maintained that entire entrepreneurial communities in the province could be developed through social capital as relational capital. These findings are in line with the earlier made conclusions by Gratton and Ghoshal (2003), Hinge (2006). Thus, developing relationships with both internal and external stakeholders is an important necessity in the development of infant private sector in less developed countries to deliver and match stakeholder's expectations.

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