

SOCIAL CAPITAL AND SME PERFORMANCE

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Abstract

In this paper conceptually discussed how social capital has an effect on the performance of small and medium-sized enterprises (SME). Networks, trust, reciprocity, common norms and collaborative relationships within social capital have become an important intangible asset determining the growth and competitiveness of firms. The paper assesses the role of the bonding, bridging, and linking social capital in enhancing access to information, markets, financial resources, innovation opportunities, and strategic partnerships by using the social network theory and the resource-based view as the underlying theory. The conceptual and empirical reviews show that good interpersonal relations and network embeddedness are beneficial in increasing the capacity of the SMEs to gain knowledge, withstand uncertainty, gain legitimacy, and achieve better working and financial results. However, the article identifies some general weaknesses such as inadequate theorization of the various dimensions of social capital, inconclusive results on its direct impact on performance, and inadequate studies in resource-deprived and institutionally weak settings. The paper highlights the importance of contextual and multidimensional analysis of social capital. It ends with providing implications on SME managers and policymakers by giving their attention to how to build stronger business networks, to create highly trusted forms of collaborations, and to use institutional support systems to improve the performance of SMEs.

Keywords: *Social Capital, SME Performance, Networks, Trust, Resource-Based View, Social Networks, Collaboration, Business Growth.*

Background to the Study

Most economies, especially in the developing world, are dominated by Small and Medium-Sized Enterprises (SMEs) which form most of the enterprise activities, create a large number of jobs, are the source of innovation, and socioeconomic development. Nevertheless, SMEs continue to be faced by limitations in terms of availability of finance, poor management competency, shortage of resources, low innovation ability and volatile operating conditions despite their economic relevancy. The competitive strategic resources that SMEs depend on to thrive and survive in such environments are increasingly non-material, which are social capital the resources that are inherent in networks, relationships, and social structures (Putnam, 2021). Social capital refers to trust, norms, obligations, shared values and linkages which enable the access to information, financial support, market opportunities and exchange of knowledge. It extends past personal relations and encompasses larger structural relations like participation in associations, industry groupings, community networks and inter-firm partnerships. In the case of SMEs that tend to have little or no tangible and financial resources, social capital is an important strategic resource that determines performance outcomes (Ndofor et al., 2020).

Social capital in modern business settings, which involve competition, technological shocks and institutional uncertainty allow SMEs to manage the resource crunch problem through support, legitimacy, collaboration and resilience, which are provided by relationships (Kwon and Adler, 2022). In the case of SMEs, social networks enable the organisations to gain market intelligence, access credit, cut down the transaction cost, build reputation, acquire new customers, and secure partnerships that enhance innovation and operational efficiency.

Although its significance is admitted, the connection between social capital and the performance of SMEs is a complicated and context-related phenomenon. Various types of social capital bonding, bridging and linking- have different impact on performance. In other scenarios, over embeddedness, groupthink, or misallocation of resources can be caused by excessive bonding social capital, whereas bridging social capital can expose SMEs to external risks or problems with legitimacy (Abubakar and Bon, 2021). Besides, there is variation in the mechanisms through which social capital can be translated into performance outcomes based on the particular industries, culture and institutional settings.

The rising amount of literature on SME networks and performance highlights the necessity of an in-depth conceptual review which would combine the modern theoretical positions and more recent findings. The paper hence offers an elaborate conceptual, theoretical and empirical discussion of social capital and SME performance, which presents a solid framework that contributes to the research in this field.

Statement of the Problem

Even though social capital has been widely identified as a strategic intangible asset to SMEs, there is inconsistent and inconclusive empirical evidence on the effects of social capital on its performance. There have also been studies that indicate close positive relationships and others with weak, non-significant, and even negative impacts based on the type, strength, and setting of social relationships (Sanaullah et al., 2022). This indifference is an indicator of conceptual, methodological, and contextual gaps of the literature.

To begin with, majority of SMEs in developing economies do not have access to formalized financial systems, modern technology and skilled human capital and therefore a significant source of survival is through social networks. However the study has not clarified exactly the role of various dimensions of social capital in affecting performance in such resource-strained circumstances.

Second, most of the studies use disaggregated operationalization of social capital, paying attention to interpersonal relationships and neglecting inter-organizational relationships, institutional relationships, and digital social capital (Zhao and Burt, 2023). Consequently, the entire performance implication of social capital has not been properly investigated.

Third, the performance of the SMEs is multi-dimensional with financial performances, innovation performances, operational performance, market expansions, survivability and resiliency. Current literature normally looks at one or two aspects and come up with incomplete judgment.

Fourth, social capital is affected by cultural and institutional contexts. Bonding social capital can not only be a very strong source of trust in collectivist societies but also may limit access to external opportunities. On the contrary, bridging and linking networks can be more effective in less market-oriented setting. Such situational variations make it hard to generalize. With such challenges, there is a necessity to have an extensive conceptual investigation that incorporates the current theories, literature and the emerging empirical findings. This paper attempts to meet this requirement by offering a synthesis of social capital research based on a abundant conceptual framework and where gaps in research need to be filled out.

Literature Review

Conceptual Review

Conceptualizing Social Capital in the Context of SME

Social capital has been placed more strategically as a non-material resource that allows firms especially SMEs to harness values available through relationship structure, shared meaning, and exchanges of trust. In this sense, social capital as a thing owned by a firm is not so much related to a thing, but rather a capacity enshrined within the mechanisms of interaction which may be mobilized to provide information, legitimacy, support and access to opportunities that otherwise would be expensive or unattainable. Modern literature also highlights the fact that social capital is not always positive: it may lead to better performance due to the opportunity to access heterogeneous resources, but it may also become limiting when it involves the obligation to redundant relationships and/or expensive ties to politics (Doan et al., 2023; Sanchez-Famoso et al., 2020).

Social capital in the context of SME research is normally considered to be multidimensional. Another commonly used methodology operationalizes social capital in structural (who is linked with whom, and how often) and relational (trust, reciprocity, obligations) and cognitive (shared language, shared goals, shared interpretive frames) dimensions-enabling researchers to go beyond the simplistic proxies that are network size. These conceptually align with the bonding-bridging-linking typology applied in the research of entrepreneurship and development: bonding ties are dense and identity based, bridging ties exist between groups and markets, and linking ties exist between SMEs and resource holding institutions (e.g. regulators, banks, state agencies). The point is that the various social-capital structures may produce various performance impacts that are, at times, complementary, at times substitutive and at times mutually antagonistic.

SME Performance Multidimensional Construct.

The performance of SMEs is currently being perceived as a space of multidimensional results as opposed to a monetary endpoint. Such a change is partly practical: not all SMEs keep audited books, and their strategic plans are frequently focused on survival, expansion plans, innovation, or robustness rather than profitability in the short run. Recent research thus focuses on performance bundles e.g. (i) financial outcomes (e.g., profit, productivity, turnover), (ii) market outcomes (e.g., sales growth ambitions, customer reach), (iii) innovation outcomes (product/process innovation), and (iv) adaptive outcomes (e.g., resilience under uncertainty) (Doan et al., 2023; Shan and Tian, 2022; Tiwasing and Sawang, 2022). The

significance of fit-purpose, context-sensitive indicators is also supported by the policy-facing measurement systems, monitoring SME performance based on key macro-variables (e.g., value added, employment, firm population) and appreciated heterogeneity in sectors, as well as, shocks (European Commission, Joint Research Centre, 2024a, 2024b).

Mediating Relationships between Social Capital and SME Performance.

According to the literature, social capital has the following effects on the performance of SMEs in a variety of ways interconnected with each other:

Information and access to opportunities: Networks will lower the search costs and speed up the exposure to market information, technology choices, and customer requirements. Online business networks will be able to enhance this mechanism in digital settings due to the ability to increase reach and frequency of interactions at relatively low cost (Tiwasing & Sawang, 2022).

Resource mobilization and relief of constraints: Social relationships can occur in lieu of failed formal market institutions by providing relationship based credit, supplier flexibility and informal risk-sharing. Nevertheless, cost dependency may be formed in case of institutional embeddedness (Doan et al., 2023).

Capability building (innovation, absorptive capacity, dynamic capabilities): An emerging range of literature places social capital at the leading edge of the antecedently position of the so-called higher-order capabilities. It has been empirically demonstrated that social capital improves the capacity to innovate and, via this, performance-relevant preparedness (e.g., Industry 4.0 preparedness) (Zia et al., 2023). On the same note, the subject of dynamic capabilities can mediate the correlation between social capital and performance outcomes (Tran et al., 2024).

Advantages in the legitimacy and governance Networks-especially linking ties-can enhance legitimacy in extremely uncertain institutions and can be used to access the government support system which indirectly influences performance (Tran et al., 2024; Becheikh and Bouaddi, 2024). Resilience in the face of uncertainty: Social capital is capable of acting as both psychosocial and relational buffer, where entrepreneurs can continue to work hard, rally people around them, and make sense of uncertainty-enhancing resilience-related outcomes (Shan and Tian, 2022).

More importantly, such mechanisms depend on tie composition and contexts. Thickness of bonding relationships can lead to faster trust and coordination, more redundancy and conformity, bridging ties can lead to more novelty and market access, and linking ties can lead to access to formal resources, but to an exposure to rent-seeking behavior in weak institutions. This is among the reasons why empirical findings are frequently confounded, and why more and more recent studies are finding it necessary to test mediation, moderation, and non-linear impacts instead of assuming a constant direct impact.

Theoretical Review

Social Capital Theory

In the contemporary research on social capital, networks, trust, and shared norms are considered as productive resources that help with coordinated action and work less friction in exchange. Notably, the modern usefulness of the theory does not only lie in the mere insistence of the fact that relationships matter, but in the specification of the way the relational structure becomes economic through the channels of

information transmission, cooperative enforcement, mobilization of resources, and generation of legitimacy. Synthesis efforts in the recent past also emphasize the idea that internal social capital can be both a source of benefits (coordination, shared identity) and constraints (rigidity, exclusion, escalating obligations), making the point that both sides of the performance coin (bright and dark) need to be theorized (Sanchez-Famoso et al., 2020).

Intangible Advantage and Resource-Based View.

The resource-based view (RBV) is still a seminal perspective on understanding social capital as a strategically intangible resource-valuable in the sense that it creates access and coordination and is rare in the sense that it is relationally embedded, and hard to replicate in the sense that it is a product of path-dependent interaction histories. The modern-day RBV agenda-setting focuses on the broader conceptualization and analysis of strategic resources, i.e. relational and stakeholder embedded resources, thereby one that fits the social capital domain well (Barney et al., 2021). In the SME setting, RBV can be combined with capability views to describe not only the possible better performance with social capital, but the possible capability-forming mechanisms (Becheikh and Bouaddi, 2024; Zia et al., 2023).

Network Theory and Embeddedness.

Network theory adds accuracy in that it focuses on network structure (e.g. density, diversity and centrality) and embeddedness (depth and quality of connection). Empirical studies of SMEs are also increasingly using network embeddedness to supplement capability-based constructs of bricolage and organizational readiness to accomplish innovation performance in the face of resource constraints, which, according to an opinion, reflect that networks have the greatest influence when translated into practical capacity of recombination and execution (Li and Shafait, 2025).

Open Innovation Complementarities and Dynamic Capabilities.

Since SMEs are forced to act under volatility and resources limitation, it may be inadequate to use resource possession concepts that remain sticky. A dynamic capabilities prism views social capital as a facilitating infrastructure of sensing, seizing and reconfiguring- particularly when adaptation requires centrality of external knowledge and partner resources. Recent findings indicate that social capital has the potential to enhance dynamic capabilities and open innovation but open innovation does not necessarily directly lead to performance unless supported by complementary institutions (Tran et al., 2024).

Social Exchange Theory

The social exchange theory elucidates the micro-foundations of relationship continuity-reciprocity, perceived fairness, trust and mutual obligation-therefore providing the means of explaining why recurrence of inter-firm cooperation may still persist even in the absence of full-fledged contracts. The lens is especially applicable to the model of SMEs where formal contracting is both expensive and feebly enforced, and can be used to explain how increasing reciprocal obligations can become a source of lock-in or misallocation when relationships are preserved due to social motivation instead of strategic consideration (Doan et al., 2023; Sanchez-Famoso et al., 2020).

Empirical Review

Social Capital and Performance: Conditional, Non-Linear, and positive effects.

One key empirical point that is made is that social capital can be a predictor of better performance by SMEs, although the strength and direction of such outcomes varies with type, intensity and context. Social capital conceptualized in terms of connections with creditors and political actors shows an inverted U-shaped association with performance in evidence of the transition-economy in Vietnam: moderate levels have a positive correlation with gross profit and labor productivity, and excessive levels do not appear to have positive returns, which is consistent with diminishing marginal benefits and may have crowding-out or dependency effects (Doan et al., 2023). This result is significant since it balances out mixed results in the wider literature: social capital is not always or monotonically good.

Mediating capabilities: Innovation, Readiness, and Bricolage.

The recent research tends to prove the point that the impact of social capital is often indirect, and achieves its result in the form of intermediate capabilities.

Within the manufacturing context of developing economies, inter-organizational social capital has a positive correlation with Industry 4.0 preparedness, and innovative capacity is identified as a major mediator, and absorptive capacity enhances the transformation of relational resources into innovation products (Zia et al., 2023).

Simultaneously, SME-based evidence supports the connection between network embeddedness and innovation performance via resource bricolage and the readiness of organizations determines the moment and manner in which embeddedness is translated into innovation outcomes (Li & Shafait, 2025).

Likewise, social capital has also been found to reinforce the dynamic capabilities, which in their turn can greatly boost the business performance, again indicating that networks are more likely to be converted into the execution-based capability than they would be otherwise (Tran et al., 2024).

All these streams allude to the position that it is not enough to have networks but the critical point is how well the SME can recombine the knowledge and resource provided by the network into innovation, operational enhancement and market action.

Digital Social Capital and Digital Business Networks.

A growing boundary is about digital social capital and online platforms are infrastructures of networks that have the potential to reduce the cost of bridging the ties and the rate of diffusion of knowledge. Performance indicators (e.g., turnover differences, sales-growth intention, and innovation outcomes) among family-owned SMEs engaged in social media business networks are depicted to be significantly stronger than among non-participants based on large-sample evidence within the UK (propensity score matching is used to reduce selection bias) (Tiwasang & Sawang, 2022). Specifically, the methodological value of this work is especially high in the sense that it challenges the widely held criticism of the fact that a firm that performs better happens to be in a better position to join a network.

Institutions, Government Support and Social Capital.

International social capital in institutionally bound contexts is more appropriately linked, yet is more ambiguous. The existing evidence on the context of developing countries shows that the performance outcomes are dependent on the interaction between social capital and institutional support

tools, as well as innovation strategies (Becheikh and Bouaddi, 2024). Relatedly, the open-access material on the topic of Vietnam may indicate that social capital does reinforce open innovation, but the innovation-performance channel may be necessitated by government backing, and performance channel that operates through dynamic capabilities may be the most dependable instead of open innovation (Tran et al., 2024). Such findings have been found to support a contingency perspective: in weak or changing institutional settings, the state may be either a substitute (facilitating access to support) or a threat of distortion (enticing non-productive relational investment), a factor in inconsistent empirical evidence.

Social Capital and Resilience-Oriented Outcomes.

In addition to financial and innovation performance, it has also introduced resilience-based performance. In China, the social capital of entrepreneurs has been identified to create direct and indirect impacts on entrepreneurial resilience by motivational and cultural-cognitive effects (Shan and Tian, 2022). This expands the performance prism: social capital might be important not just due to the resource provision, but even due to how it influences interpretation, persistence as well as adaptive behavior in uncertainty-dimensions progressively becoming pivotal in unstable markets.

Literature Gaps and Future Research Directions.

Lack of multidimensional measurement and construct clarity: It is common in many studies that partial proxies (e.g., a network size) are used, which are unable to differentiate structural access and trust quality or shared cognition. The area would gain verified and context-arking measurement models that can project bonding, bridging, and linking organizations onto the structural-relational-cognitive dimensions (Sanchez-Famoso et al., 2020; Zia et al., 2023).

Causality, endogeneity, and selection effects There is no random distribution of social capital. Stronger networks can be attracted to better firms, and network involvement can both be an effect and cause of performance. Even as such studies as the one by Tiwasing and Sawang (2022) show a productive way to go, stronger longitudinal designs, quasi-experiments, and matching/instrument strategies are still needed.

The dark side and non-linearities are not thoroughly tested: There are indications of inverted U-shaped effects that lead to the conclusion that more social capital can be costly. In the future, the negative outcomes would have to be systematically modeled as saturation, lock-in, and misallocation risks, instead of being considered as outliers (Doan et al., 2023; Sanchez-Famoso et al., 2020).

Resource sensitivity in institutional weak and resource-constrained environments: One of the gaps is that there has been a dearth of cumulative evidence in environments where SMEs depend on informal coordination, and where institutions are institutionally weak. A intercountry comparative analysis (e.g., between developing areas) is required to factor out what institutional factors enhance or reduce the value of the relationship between ties and government support (Becheikh and Bouaddi, 2024; Tran et al., 2024).

Connection with capability frameworks: Capabilities-dynamic capabilities, absorptive capacity, bricolage, readiness has grown as the most potent empirical findings of the inductors of transformation that can convert a social capital into results. Further studies need to theorize these conversion mechanisms in greater detail and investigate alternative pathways (e.g., in case social capital replaces capability, or in case it complements it) (Li and Shafait, 2025; Zia et al., 2023).

Conclusions and Implications.

Social capital is critical towards increasing the performance of the SMEs through access to information, resources, legitimacy and innovation opportunities. Nevertheless, SMEs have to strike a balance between bonding and bridging networks to prevent over embeddedness and increase their openness to new opportunities. Policymakers ought to encourage networking of the SMEs in the form of clusters, associations and government business partnerships. The future research should be conducted on the issue of digital social capital, cross-cultural differences, and longitudinal impacts.

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