

RELATIONSHIP BETWEEN SOCIAL CAPITAL AND MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) RESILIENCE: A THEORETICAL FOUNDATIONAL MODEL

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ABSTRACT

The MSMEs constitute a substantial proportion of livelihoods worldwide and the academic community need to provide policymakers and practitioners with knowledge on factors influencing their resilience development. The aim of this study is to formulate a theoretical foundational model of the relationship between social capital and organizational (MSMEs) resilience with focus on developing countries. The overriding premise of the study comprises two theories, the dynamic capability theory and the social capital theory. Resilience is a critical ability for the MSMEs to withstand and overcome obstacles by ironing out risks and uncertainties brought about by internal and external shocks. In essence, social capital acts as a catalyst for developing and leveraging dynamic capabilities, enabling firms to navigate complex and dynamic environments effectively. Social capital can leverage adaptability and flexibility of MSMEs to the uncertainties through fostering collaboration and cooperation to build strong networks, which in times of crisis, can provide the MSMEs with a safety net that bolsters their resilience, and can also increase their visibility within the industry and the market.

Keywords: *MSMEs, Shocks, Theoretical Model, Social Capital, Dynamic Capabilities, Organizational Resilience*

1. INTRODUCTION

The United Nations General Assembly designated 27 June as the “MSMEs Day” with view to highlighting the pivotal role of the MSMEs and exploring their opportunities for further advancement. The MSMEs have tremendous potential to contribute to the achievement of the UN Sustainable Development Goals (SDGs), transformation of economies through fostering job creation and promotion of equitable economic growth (United Nations, 2024). MSMEs play

crucial role in the wider eco-system of firms in various countries where start-ups and young firms are the primary source of net job creation and driving force of innovation and sustainability in the private sector. Globally, MSMEs account for 90% of businesses, 70% of employment, 50% of GDP, and contribute to the sustenance of livelihoods, particularly among the working poor, women, youth, and groups in vulnerable situations (United Nations, 2024).

The outlook of the Kenya Government is to support the growth and development of the MSMEs sector towards achievement of the national socioeconomic transformation and industrial development goal. MSMEs are pivotal in employment generation, promotion of entrepreneurship and innovation, enhancement of investments, indigenous skills and technology, and local production and exports (KIPRA, 2019). The sector contributes 85 per cent of non-farm jobs and about 34 per cent of the national output. MSMEs cut across all sectors of the Kenyan economy with the majority, at 62 per cent, falling under the services sector, 12 percent under manufacturing sector, and 3 per cent under agriculture, forestry and fishing (KIPRA, 2019). Despite the critical role they play in the Kenyan economy, MSMEs often face the triple challenge of low productivity, poor working conditions and high vulnerability to economic, political and environmental shocks, characterized by inadequate skills and poor coordination, limited access to finance, markets, and affordable infrastructure (Government of Kenya, 2023). On average, the Kenyan establishments have an age of about 4 years at closure, with about 80 per cent shutting down before their fifth year of operation, and about 46 per cent closing during their first year of establishment.

Social capital plays a crucial role in the success of MSMEs by providing access to resources, support networks, and market opportunities. According to Shan & Tian (2022), social capital enhances the ability of the MSMEs to seize opportunities, mobilize resources, gain competitive advantage and entrepreneurial resilience.

2. LITERATURE REVIEW

Theoretical review

Proponents of the concept of social capital

The concept of social capital stems from the idea that, social capital can guide economic activity, and dates as far back as 18th century during the Scottish Enlightenment, a period characterized by an outpouring of scientific accomplishments, network of parish schools and universities (Woolcock, 1998). The proponents of the social capital concept can be distinguished according to three time periods including the 18th century, the modern period (20th century), and the last three decades.

During the 18th century, the proponents of the social capital include Burke (1757), Adam Smith (1776), and Hume (1777). Burke (1757) contended that markets could not function at all without norms and moral principles, and emphasized the importance of preserving social structures, institutions, and traditions viewing them as ‘social capital’ that underpins a stable and functioning society. Adam Smith (1776) argued that while peoples’ pursuit of self-interest was tempered by an innate moral sense, there was need to regulate markets by the church and state. Though not explicitly using the term "social capital", Smith laid the groundwork for its understanding through his theories on human interaction, moral sentiments, and the role of social institutions in shaping economic and social outcomes. Hume (1777) speculated that ‘moral sense’ would emerge to guide markets, and his views on human nature and social contract provides foundational insights into

understanding social capital, emphasizing importance of social connections, trust, and cooperation for societal well-being and stability.

The modern (20th century) concept of social capital relates to Hanifan (1920) who invoked the concept to explain importance of community participation in improving school performance, and Jacobs (1961) in research on culture of urban communities based on the theory of social interaction.

In the last three decades, the concept of social capital has been popularized in prominent studies including Bourdieu (1998) on social networks and connections that provide potential support and access to resources; Coleman (1988, 1990) on social structure of families and communities helping them to achieve their objectives and interests; Putnam (1993, 1995) on social capital, a key characteristic of communities and crucial for policies of grassroots participation, community development, and empowerment; Helliwell and Putnam (1995), Helliwell (1996), Uphoff (1986), and Krishna and Uphoff (1999) on social capital as a community level public good given value by actors including individuals, institutions, and organizations who use it to further their individual or collective interests; Lietaer (2001) on social capital formation through creation of communities and community currencies emphasizing need for radical money reform; and North (1990) on trust in markets driven by social capital and institutions to reduce uncertainty by establishing stable structure for human interaction through formal rules, conventions, and informal codes of behavior. According Claridge (2018), the central proposition of the concept of social capital is two-fold that, relationships matter and that social networks are a valuable asset. Social capital is what allows humans to collaborate, coordinate, and coexist. It is the lubricating the fabric of society allowing modern economies to function efficiently. The society, economy, institutions, and political system could not exist without social capital. As such social capital has been described as a glue.

Forms and Dimensions of social capital

Social capital is broadly distinguished into two forms, the general forms and the distinct forms, which influence development when they interact (Coleman, 1988 & 1990; Grootaert & Bastelaer, 2002). The general forms of social capital include obligations, expectations, and trustworthiness of structures; information channels; norms and effective sanctions (Coleman, 1988 & 1990); and manifestations of social capital that comprise channels through which social capital affects development with units of observation being the meso, micro, and macro levels (Coleman, 1988 & 1990).

The distinct forms of social capital comprise the three popularly known dimensions including the structural dimension, relational dimension, and cognitive dimensions (Grootaert and Bastelaer, 2002b; World Bank, 2002). The structural social capital dimension is a tangible and observable construct reflected in network ties ('who knows who', roles, rules, precedents, and procedures) that facilitate accessibility to knowledge and opportunities, for instance, lower costs and improving social learning, that make it easier for people to engage in mutually beneficial collective action (Ansari, Munir, and Gregg, 2012; Upholff & Wijayaratna, 2000).

The relational social capital dimension relates to the characteristics and qualities of personal relationships that have developed through a history of interaction including trust, trustworthiness, norms, sanctions, obligations, expectations, identity, and identification with other individuals (Lefebvre et al., 2016), and encourages normative behaviour based on trust, reciprocity, obligations, expectations (Cabrera & Cabrera, 2005; Lee & Jones, 2008). A core aspect of relational social capital is associability reflected in the willingness to subordinate individual goals to collective goals (Lazarova & Taylor, 2009). Put in another way, relational social capital can be understood by the level of interconnectedness, quality and nature of these connections, and extent of the common shared vision.

The cognitive social capital dimension is a more subjective and intangible concept and relates to resources providing shared representations, interpretations, systems, narratives of meaning among parties. Cognitive social capital relates to Bourdieu's (1986) theory of habitus, i.e., a set of dispositions, reflexes, forms of behaviour people acquire through acting in society (Ansari et al., 2012). Shared understanding within a group, organization, community is cognitive, whereas trust and norms of reciprocity is relational as it describes the quality of social relationship, and structural social capital relates to connections among actors (Claridge, 2018).

Functions of social capital

Claridge (2018) distinguishes three functions of social capital as including bonding, bridging, and linking. Bonding social capital is good for "getting by", while bridging social capital is crucial for "getting ahead". Bonding social capital describes connections within a group or community and is characterized by high levels of similarity in various characteristics including demographics, attitudes, and available information. It exists between "people like us" who are "in it together", who typically have strong close relationships such as family members, close friends, neighbours, and refers to networks with high density of relationships between members because they know each other and interact frequently. Bridging social capital describes associations that "bridge" between communities, groups, and organizations and describes social relationships of exchange, associations between people with shared interest and goals but contrasting social identity (Peching & High, 2005). Linking social capital describes norms of respect and networks of trusting relationships between people who are interacting across explicit, formal, and institutionalized power and authority gradients in society (Woolcock, 2001). The key feature of linking social capital is the differences in social position and power. Linking social capital is described as "vertical" relationships and looked/viewed at as an extension of bridging social capital involving networks and ties with individuals, groups, and corporate actors represented in public, agencies, schools, business interest, legal institutions, religious, political groups (Healy, 2002).

Social capital theory (model)

The theory (model) of social capital is a relatively new innovation, focusing on incorporation of the social dimension into the development equation of capital and has been used to contest some important notions in traditional economics. Narayan (1997) contests the notion of development capital in traditional economics to determine measures of poverty and household welfare, as being

inadequate in that it ignores the social dimension. Lehto (2001) contests the notion of competitiveness in traditional economics, as being connected only in three capital types: the natural capital, the human-made capital, and the human capital, but ignores social capital, arguing that efficiency in production also is created by social capital comprising key factors such as human relationships, rules of the game in the group and society, trust and mutual support and spirit of cooperation, all of which form a mixture of social factors and economic performance. The importance of social capital has grown because of the changing structures of production systems that demand more flexibility and networking, and a working life requiring creativity, learning capacity, and social skills. According to Lehto (2001), the concept of social capital is a key factor to understanding the experience of rural development in finding solutions towards local economy competitiveness.

The term social capital includes the word ‘capital’ implying that social capital is only good. But research has shown that some features of social capital, can also be a liability in producing unwanted results. For instance, corruption and organized crime rely on high levels of social capital; gangs and mafia use social capital as the foundation of their organizational structure; cartels develop social capital in their effort to keep control over an industry so as to reap more profits than would otherwise be the case (Claridge, 2018).

The main conceptual approaches to the foundations of social capital theory (i.e., the initial theoretical development) is credited to three authors who approached social capital from different perspectives: Pierre Bourdieu (1930-2002) on the theory of capital; James Coleman (1926-1995) on rational-choice approach; and Robert Putman (1941-) on democratic and civic perspective. The key contribution by Bourdieu (1986) was the relationship between different types of capital including economic, cultural, social, and symbolic, and treating social capital as a property of the individual rather than the collective property attributes, which he called cultural capital. Like Bourdieu, Coleman (1988, 1990) was interested in different types of capital: human, physical, and social, and their interaction, where his key contribution was the connecting of sociology and social actions of individuals with the rational ideas of economists that, individuals act independently and for self-interest (Jordan, 2015). Rational theory suggests that the actor’s goal is determined by utility-maximization pursuit of his/her self-interest (Coleman, 1988). According to Putman (1993), social capital refers to features of social organizations such as network, norms, and trust that facilitate action and cooperation for mutual benefit. Putman treated social capital as a public good from his conceptualization that social capital is elevated from a feature of individuals to a feature of large population aggregates. Social capital becomes a collective trait functioning at the aggregate level (Tzanakis, 2013). Putman follows Coleman’s belief that social capital is a quality that can be a facilitator of interpersonal cooperation.

Organizational resilience theory

Dynamic capabilities theory

Dynamic capabilities theory, rooted in strategic management and organizational theory, explains how firms can achieve and sustain competitive advantage in rapidly changing environments by developing the capacity to sense, seize, and transform their resources and capabilities (Teece, Pisano, & Shuen., 1997). The theory emphasizes a firm's ability to adapt, innovate, and reconfigure its resource base (internal and external competences) to achieve sustained competitive advantage in volatile environments. Natural disasters, pandemic disease, terrorist attacks, economic recession, equipment failure, and human error can potentially pose unpredictable and severe threats to the continuity of the operations of an organization (Bhamra et al., 2011; Zolli & Healy, 2012). All organizations are susceptible to disruption from a diverse, ever changing, and uncertain environment. Under this situation, organizations should develop a capability which can resist the emergency of such an environment and in order to recover from the disruption (Xiao & Cao, 2017). Such a capability is the basis of the concept of organizational resilience popularly referred to as dynamic capabilities theory (Coutu, 2002; Hamel & Välikangas, 2003).

Organizational resilience theory explores how businesses and other organizations can adapt, recover, and thrive amidst disruptions and adversity. The theory emphasizes the capacity to anticipate threats, cope with adverse events, and effectively respond to and recover from the crises. There is no uniform definition of organizational resilience (Linneluecke, 2017). Saad et al. (2021) conclude that resilience literature is considerably varied in definition and measurements. SMEs are considered to be more vulnerable to unpredictable events compared to large firms because they lack financial, technological, and human resources compared to large firms (Pal et al., 2014; Smallbone et al., 2012; Bhamra & Dani, 2011; Arogo-Correa et al., 2008).

In the factors of organizational resilience and measurements, Tierney (2003) distinguishes the resilience construct into four dimensions including robustness, redundancy, resourcefulness and rapidity; Deniz and Arzu (2015) developed three dimensions of organizational resilience including robustness, agility and integrity; McManus (2008) categorizes resilient organization into situation awareness, management of keystone vulnerabilities, and adaptive capacity; Akgün & Keskin (2014) considered several elements including competence orientation, deep social capital, original agility, practical habits, behavioral preparedness, and broad resource networks as distinguishing organizational resilience. In psychology and organizational behavior, Weick (1993) contend that the ability to improvise, virtual role systems, organizational wisdom, respectful individual, and social interactions have great impact on organizational resilience; Lengnick-Hall et al. (2011) divided organizational resilience into cognitive dimensions, behavioral dimensions, and contextual dimensions. Cognitive resilience is a conceptual orientation that enables an organization to notice, interpret, analyze, and formulate responses in ways that go beyond simply surviving an ordeal. Behavioral resilience is the engine that moves an organization forward by enabling it to learn more about the situation and to fully use its own resources and capabilities through collaborative actions. Contextual resilience provides the setting for integrating and using cognitive resilience and

behavioral resilience, and is composed of connections and resources. Cunha et al. (2013) distinguished organizational resilience into three levels including the individual level, group level, and organizational level, where the employee is the basic element of the organization system that provides individual resilience as the main source of organizational resilience. Organizational resilience is a multi-factor and multi-level construct (Schoemaker et al., 2018; Van Der Vegt et al., 2015).

Organizational resilience relates to dynamic capabilities of organizational resources, routines, and processes passed through individuals, groups, and organizations depending on the level of interactions among different contexts (Xiao & Cao, 2017). For instance, the resilience of a start-up business is formed from a dynamic process involving cognitive, emotional, and relational aspects, enabling the organization to overcome unexpected challenges. Xiao & Cao (2017) consider it essential for an organization to become resilient at all the three levels (individual, group, and organization), and construct a multi-factors and multi-level theoretical model of organizational resilience. The factors of every level are different. At the individual level, personal character including confidence, optimism, faith and belongingness contributes to individual resilience (Luthans et al., 2006; Cunha et al., 2013). At the group level, capacity to perceive failures and imperfections as sources of learning and progress as well as a combination of psychological safety and accountability, are critical ingredients for the group level resilience (Edmonson, 2007). The key factors at the organizational level include adaptive structures, improvisation, social capital and attention to failure, as well as mutual influence between different levels.

In their theoretical model of organizational resilience, Ibrahim et al. (2015), distinguish between two approaches to understanding the concept of resilience of an organization as being the capacity for resilience approach and the mechanism of resilience approach. The capacity for resilience is contained in the internal resilience factors (IRF) and environmental contextual factors (ECF), for both the individual and the organization. The IRF of the organization supported by the EFC of the organization (i.e., IRF & ECF of the individual) form the organizational resilience capacity that ensure sustainability of the organization. Lengnick-Hall et al. (2011) identify four organizational resilience factors including flexibility, agility, adaptability, and improvisation.

The mechanism of resilience approach to understanding the concept of resilience of an organization relates to unexpected events (processes and dynamics), both internal and external, that trigger resilience reflected in cognitive, emotional, relational, and structural resources in sufficiently flexible, storable, convertible, and malleable forms that successfully enable organizations to cope with and learn from the unexpected (Ibrahim et al. (2015). Internal sources that trigger resilience include, for instance, downsizing, reorganization, and new technology, while external sources include economic downturn, natural disaster, and stiff competition. According to Ibrahim et al. (2015), six major constructs explain mechanisms of resilience including stress or challenge, ECF, IRF, outcome, influence between ECF and IRF, and choice of outcomes.

Several scholars including Taylor and Branicki (2011), Carmelli and Markan (2011), Ferron-Vilchez et al., (2017; 2023), Des Jordine et al. (2019), Ortiz-de-Mandoza and Bansal (2016)

contend that resilience can be built in organizations through the adoption of social and environmental practices (SEPs), which are management practices related to ensuring social and environmental performance of the firm. Adopting SEPs entails moving beyond the profit-maximization focus to more sustainable goals (Ibrahim et al., 2015).

The challenges of the measurement organizational resilience in prior research include partly the latency of the concept as being abstract and not directly observable, lack of consensus on resilience definitions, and nature (discrete or recurrent) of disruptions that face organizations (Otiz-de-Mandojana & Bansal, 2016; Tognazzo et al., 2016; Biggs et al., 2015).

Using a conceptual model, Pinho (2011) builds on and synthesizes the theoretical foundations of social capital (structural, relational, cognitive), dynamic capabilities, and international performance of SMEs, and conclude that SMEs need to leverage their network relationships that provide access to novel sources of information in order to build dynamic capabilities to cope with turbulent and unpredictable markets. The dynamic capabilities, in turn, may positively influence international performance. Capabilities are competencies that are built through combining resources (Grant, 1991). In the presence of turbulent environments, firms are challenged to revise and develop new routines and integrate them into their operations (Zahra et al., 2006). The term dynamic suggests that firms must constantly monitor and renew functional competencies in response to the market dynamics. The term dynamic capabilities emphasize the relevance of management in improving and maintaining those functional competencies. Zotto and Winter (2002) defined dynamic capability as a learned and stable pattern of collective activity aimed at improving effectiveness.

Lichtenthaler (2009) introduced the concept of absorptive capacity as the ability of the firm to utilize external knowledge through sequential processes of exploratory, transformative, and exploitative learning. Makadok (2001) elucidate that dynamic capabilities are constructed rather than bought in the market and are embedded in organizations. By building relation-specific assets, knowledge-shared routines, and effective relational governance mechanisms into relationships, firms can leverage their relational resources for knowledge acquisition and exploitation (Yli-Renko et al., 2001). Explorative capabilities are associated with experimentation, risk-taking, flexibility, new skills, process, and knowledge (March, 1991; Atuahene-Gima, 2005).

The degree to which firms can use external relationships for knowledge acquisition and exploitation is delimited by the amount of social capital embedded in such relationships (Yli-Renko et al., 1997). Structural dimension of social capital provides foundations for understanding the configuration of linkages, connectedness, and social interactions among actors within a specific network; relational dimension of social capital (trust, trustworthiness, norms and sanctions, obligations, and expectations) encompasses assets created and leveraged through relationships greatly enhancing opportunities of a firm; and cognitive social capital dimension refers to shared vision and values developed by network actors and embodies collective goals, interpretations, systems of meaning, and aspirations (Nahapiet & Ghoshal, 1998). The major role of cognitive social capital is to reduce uncertainty and ambiguity and increasing effectiveness in implementing

new products and markets, relational social capital enhances ability of different network actors to share resources and minimizing opportunistic behaviour to reduce transaction costs, whereas the location of one actor within a structure of a relationship may provide access to valuable resources (Nahapiet & Ghoshal, 1998).

Empirical review

Rijal and Utomo (2024) investigate the influence of social capital on the entrepreneurial success of MSMEs by examining the roles of bonding, bridging, and linking social capital using a sample survey of 300 MSMEs and regression analysis, and confirmed positive impact of bonding, bridging, and linking social capital on different aspects of entrepreneurial success. Prasetyo, Setyadharma and Kistanti (2020) investigate the role of entrepreneurial capital including human capital and social capital, in promoting economic growth and business competitiveness using a sample survey of 125 entrepreneurial households and recursive path analysis model, and found that the contribution of social capital competencies is a major determinant in enhancing entrepreneurial competitiveness, while the contribution of the human resource competencies is the main driver of quality of economic growth. Kussudyarsana, Maulana, Maimun, Santoso and Nugroho (2023) investigate the effect of innovation, resource capability, and social capital on the resilience of MSMEs in Indonesia and the relationship between company performance and resilience using sample survey of 215 MSMEs owned by families, and Partial Least Squares (PLS) data analysis techniques, and found that resource capability, innovation, and social capital positively influence the performance of MSMEs, which in turn affected the resilience of MSMEs. The findings provide a business resilience construct for grassroots business enterprises in the third-world where social and cultural factors dominate. Safii, Rahayu, Tinggi, Iimu and Cendkia (2021) analyze the influence of human capital and social capital factors on the surviving ability of Batik Bojonegoro MSME producers to survive using a sample survey of 247 MSMEs and the probit model in the data analysis, and found that social capital has a positive influence on the ability of the Bojonegoro batik MSMEs to survive.

Hojops, Odoch, and Namono (2025) investigate the influence of bonding social capital and bridging social capital on financial resilience of MSMEs in Uganda in the aftermath of the COVID-19 pandemic using a sample survey of 384 women-owned SMEs and OLS regression analysis, and found that bonding social capital provides female entrepreneurs with emotive encouragement and inspiration through personal connections and responsibility-sharing which made it easier for the women entrepreneurs to identify new financial opportunities, which ultimately led to an increase in their financial resilience. Kanini, Bula, and Muathe (2022) studied the influence of social capital on the performance of manufacturing MSMEs in Kenya using a sample survey of 384 licensed manufacturing businesses and inferential statistical analysis, and found that all the three dimensions of social capital: structural, relational, and cognitive social capital, had a positive and significant effect on performance of the MSMEs. Kirori (2011), using data of 340 rural households in Kenya (Nyeri District) and principal factor analysis (PFA) technique identified six indicators of dimensions of social capital including aggregate social capital, groups and networks, trust and

solidarity, collective action and cooperation, social cohesion and inclusion, and empowerment and political action dimensions. Kirori, Ng'ang'a, Mariara, and Mwabu (2009) investigate effects of social capital on rural livelihoods in rural Kenya using a sample of 340 households in Nyeri district and econometric methods in data analysis, and found that households with large social capital endowments are able to meet their basic needs through non-cash transactions and that social capital can enable households to increase consumption without cash expenditure.

Umoh and Amah (2013) show that key components of learning cultures including knowledge-sharing and utilization, significantly enhance organizational resilience. Xiao and Cao (2017) and Pal et al. (2014) establish that individual resilience supported by a learning-oriented culture, shared values, and adaptive systems, strengthen collective resilience at the organizational level. Using a sample of 419 SMEs in Australia and New Zealand and partial least-square structural equation modeling (PLS-SEM), Ozanne et al. (2022) found that social capital is a key resource by which SMEs can be mobilized to tap resources embedded in relationships in order to respond to disruptions, social capital show positive effect on organizational resilience. Using multiple case study methodology in 37 manufacturing SMEs across Europe, Ates & Biticti (2011), found that resilience in SMEs is enhanced by ability to embrace organizational and people-dimensions as well as operational aspects of change management. Using a sample of 112 firms, Akgun & Keskin (2014) empirically tested role of organizational resilience capacity on firm product innovativeness and performance, and found that firms can enhance their resilience through management control system that foster open communication and interactive dialogue. Ortiz-de-Mandojana & Bansal (2015) test hypotheses on relationship between social and environmental practices (SEPs) and resilience using data from 121 US-based matched pairs over a 15-year period, and found strong support for the general assertion that resilience-related benefits are possible to detect in the long-term.

Empirical evidence from several studies (Effikha et al., 2021; Yu et al., 2019; Ruiz-Benitez et al., 2018; Li et al., 2017) show that level of resilience influences firm performance. Using survey data on managerial perceptions of 259 SMEs, Ferron-Vilchez et al. (2023) analyze relation between resilience and performance (profitability) of SMEs and role of SEPs in building resilience following the bump of the COVID-19 crisis, and found that the more resilient SMEs exhibit better results in terms of business performance and that the prior adoption of SEPs is positively associated with the development of resilience in the crisis of COVID-19. The rationale is that resilient firms tend to have the resources and skills that enable them to withstand crises and improve/maintain their level of profitability. Crossley et al. (2021) performed a qualitative analysis and found that SMEs that adopt SEPs benefit from higher reputation and image, social engagement, and higher legitimacy to carry out their operations. Ahmed et al. (2019) analyzed UK firms, and found that firms committing to SEPs obtained higher valuations and lower risks arising from lower cost benefits of equity capital, i.e., better financing conditions compared with those that did not pursue sustainable practices. Using a sample of 241 Chinese firms, Yu et al. (2019) corroborated the mediating effect of resilience on relationship between disruption orientation of supply chain and financial performance.

Torestensson., Pal et al. (2014) identified several key enablers of organizational resilience in Sweden, divided into three broad assets, including resourcefulness (material resources, financial resources, social resources, network resources, and intangible resources); competitiveness (flexibility, redundancy, robustness, networking); and learning and culture (leadership and top

management rapid decision-making, collectiveness and sense-making, employees well-being). Other researchers argue that having these assets is a necessary condition but not sufficient to bolster organizational resilience because it is imperative to have a capability to orchestrate these assets in order to create organizational resilience. Hagelaer et al. (2021) categorize the diverse entrepreneurial factors (owner background, human capital, entrepreneurial orientation, and social capital), firm internal resources (physical and financial resources), business environment and their interaction (socioeconomic, cultural, and political conditions).

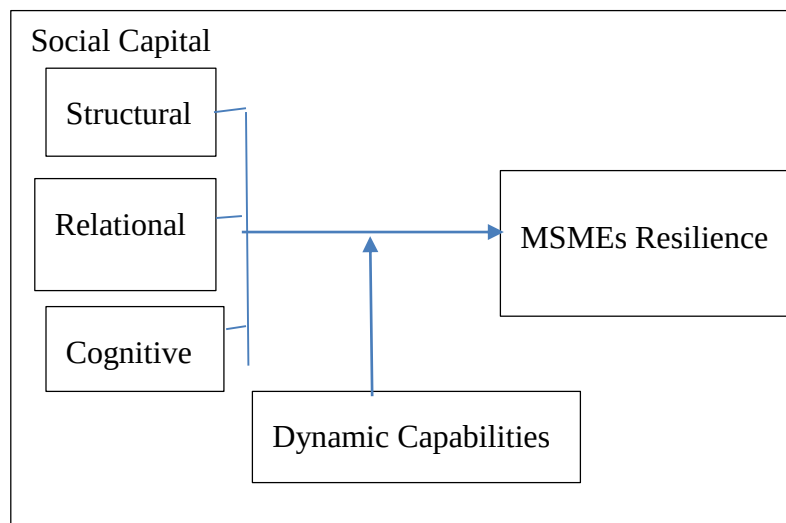
3. METHODOLOGY

The main premise used in the study is the dynamic capability theory (Teece et al., 1997), social capital theory (Bourdieu, 1968; Coleman, 1988; Putman, 1993), and rational theory (Coleman, 1988). The capability dynamics reflects organizational resource base, routines, and processes (Xiao & Cao, 2017). Social capital facilitates action and cooperation for mutual benefits (Bourdieu, 1968; Coleman, 1988; Putman, 1993). General forms of social capital affect development through the meso, micro, and macro level-channels (Coleman, 1988, 1990). From rational theory (Coleman, 1988), the objective of the MSME is maximization of self-interest pursuit. The study posits that social capital mediated by capability dynamics positively influences MSME resilience (during crisis). The rationale is that resilient firms tend to have the resources and skills that enable them to withstand crises and maintain/improve their level of profitability (Ferron-Vilchez et al., 2023).

Conceptual framework (& Hypotheses Development)

1. Theoretical framework

Figure 1: Relationship of social capital and MSMEs resilience



2. Empirical framework

Relationship between social capital and level of resilience of MSMEs

a. Hypotheses

H_{0i} : Social capital does not influence MSMEs resilience $\rightarrow i = 1$ for structural social capital, 2 for relational social capital, and 3 for cognitive social capital.

b. Model specification

MSMEs resilience, RC, is viewed as driven by social capital, SC, mediated by dynamic capabilities, DC, and other covariates, OC. Thus, the equation of model is given as: -

$$RC = \beta_0 + \beta_{1i}SC_i + \beta_2ASC*DC + \beta_{3j}OC_j + \varepsilon$$

where

RC = MSME resilience

SC = social capital dimensions (structural, relational, cognitive)

ASC*DC = moderating effect of aggregate social capital (ASC) and dynamic capabilities

(resource base, routines, processes). ASC is an index computed from the structural, relational, and cognitive social capital, using factor analysis.

OC = other covariates (firm age, size, etc)

β_0 = intercept

β_{1i} = vector of regression coefficients on variables ($SC_i \rightarrow$ structural, relational, cognitive, $i = 1, 2, 3$)

β_2 = regression coefficient on the moderating effect, ASC*DC

β_{3j} = vector of coefficients on variables ($OC_j \rightarrow j = 1, 2, \dots k$)

ε = random error term

Sample and data

Data on MSMEs (by industry) based on the World Bank criteria: micro 1-9 employees; small 10-49 employees, and medium 50-249 employees.

Use random sampling methods for sample selection to enhance generalizability of outcomes.

Data collection tools: -

Social capital (structural, relational, cognitive): apply Carey et al. (2011), Chowdhury (2020), Villena et al. (2011), Claridge (2017).

Dynamic capability (sensing, seizing, reconfiguring): apply Milkalef & Pateli (2017), Pavlon & El Sawy (2011), Welden et al. (2013).

Organizational resilience (readiness, response, recovery): apply Bode & Macdonald (2016), Jia et al. (2020), Pittit et al. (2013).

4. RESULTS

The study provides a theoretical foundational model of MSMEs resilience in developing countries. The MSMEs resilience is driven by social capital mediated by dynamic capabilities.

Discussion

MSMEs can succeed in periods of disruption if they are capable of accessing valuable resources through social network relationships and leveraging dynamic capabilities to build organizational resilience (Ozanne et al., 2022). The concept of resilience is multidimensional embracing a

portfolio of capabilities which the organization require to develop in order to overcome the complex and unfolding disruptions. Identification of key assets/enablers of resilience is a necessary condition to bolster organizational resilience, while developing a capability to orchestrate these assets in order to create organizational resilience is an imperative and sufficient condition. Empirical evidence (Effikha et al., 2021; Yu et al., 2019; Ruiz-Benitez et al., 2018; Li et al., 2017; Ferron-Vilchez et al., 2023) show that the level of resilience influences firm performance. Ozanne et al. (2022) found that social capital is a key resource by which MSMEs can be mobilized to tap resources embedded in network relationships in order to respond to disruptions. The rationale is that resilient firms tend to have resources and skills that enable them to withstand crises and improve/maintain their level of performance. The outcome of the study establishing a model to determine organizational resilience provide a business resilience construct for grassroots business enterprises in the third-world where social and cultural factors dominate.

5. RECOMMENDATIONS

MSMEs need to invest in developing dynamic capabilities to enhance their resilience and ability to respond and recover from disruptions. This can help compensate for their small size, resource constraint, and harsh policy environment they may face.

It is of vital importance for the MSMEs to build networks before crises occur since social capital can be mobilized as part of response and recovery efforts. Social capital resource is least likely to be damaged in a disaster making it paramount for business recovery (Walke et al., 2016).

Policy makers play central role in helping MSMEs build social capital. For instance, the Chamber of Commerce can help MSMEs build networks that can facilitate the exchange of ideas and resources.

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