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How Social Capital Facilitates Absorptive Capacity in a High-Growth Environment

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Abstract

As High Growth Firms (HGFs) are considered to be main contributors to job creation, researches have tried to uncover factors that contribute to high growth. Although a number of relevant antecedents were identified, a holistic perspective on the growth process is lacking. Hence, this research in progress aims to construct an integrated conceptual model on high growth in order to better understand the growth process and also to provide valuable insights and guidelines on how organizations can realize high growth. The conceptual model will be based on Social Capital theory and Absorptive Capacity theory, as existing research has shown that both social capital and absorptive capacity seem to play an important role in overcoming challenges during phases of growth. The initial conceptual model and corresponding propositions to be tested are presented in this paper. The proposed research methodology, a mixed method approach consisting of an extended literature review combined with a multiple case study, is provided as well.

Keywords: absorptive capacity, high growth, knowledge, social capital

1. Introduction

For years researchers have been focusing on the growth of organizations, especially High Growth Firms (HGFs). HGFs are organizations that realize an annual growth of 20% for at least three years and have started their business with at least ten employees (Eurostat-OECD, 2007). Since HGFs are main contributors to job creation all over the world (Henrekson & Johansson, 2010), researchers have tried to determine the main factors that contribute to high growth. Previous research on growth identified different growth antecedents such as growth orientation, availability of resources and advantageous macro-economic circumstances (Župič & Giudici, 2017). Other research relates more to the growth *process* and possible consequences of growth (Phelps, Adams, & Bessant, 2007). However, despite academic interest in high growth, researchers are struggling to conceptualize growth, the interaction between growth antecedents and the growth process in general (Župič & Giudici, 2017).

The variety of measures used to conceptualize growth leads to fragmentation of research, resulting in conflicting findings and low generalizability (Coad, Daunfeldt, Holzl, Johansson, & Nightingale, 2014; Župič & Giudici, 2017). In addition, growth is a dynamic, context-dependent and complex concept, resulting in the need for a holistic, multidimensional, process-oriented and longitudinal approach (Coad et al., 2014; Župič & Giudici, 2017).

One way to consider growth holistically, is to focus on the role of *knowledge*. Most studies that connect knowledge to the growth of an organization, view knowledge as a transferable asset

(Ganguly, Talukdar, & Chatterjee, 2019; Lee, 2018). Macpherson and Holt (2007) view knowledge as a *relational construct* that has to be examined within the context of social interactions. Hence, there is a need to examine the role of knowledge in the context of firm growth from a more relational perspective, for example by looking at the *absorptive capacity* of an organization. Another topic within growth research that has received wide attention, is the notion of *social capital*. The creation of social capital is seen as a way to compensate for the lack of resources that firms might face (Nahapiet & Ghoshal, 1998; Župič & Giudici, 2017) and is positively linked to the creation of absorptive capacity (Maurer, Bartsch, & Ebers, 2011). Similar to knowledge, social capital is a multidimensional, dynamic concept (van Dijk, Hendriks, & Romo-Leroux, 2016) and thus has to be examined from a relational perspective.

This paper aims to fill the research gap providing a holistic view on high growth by constructing a conceptual model based on Absorptive Capacity theory and Social Capital theory. Hence, previous research on HGFs is examined and interpreted using both theories. These theories provide a structured approach to consider high growth from a process-oriented perspective that suits the context-dependent nature of high growth. The main research question to be answered is: “*How does social capital facilitate absorptive capacity in a high-growth environment?*”.

2. Literature review

A systematic, iterative approach inspired by the grounded theory of Wolfswinkel, Furtmueller, and Wilderom (2013) was used to select and analyze relevant literature. Relevant articles were sourced from EBSCO and Web of Science databases. An open search was conducted combining the key terms ‘high growth’, ‘absorptive capacity’ and ‘social capital’, using the NEAR, AND and OR operators. Relevant synonyms were identified and added, namely ‘HGF’, ‘rapid growth’, ‘social network’ and ‘knowledge’ (E.g. TS = (high growth) NEAR/5 (“absorptive capacity” OR knowledge OR “social capital” OR network* OR HGF)). All searches included only English and academic articles with no time-frame restrictions to include theoretical papers by founders of the theories used. After selecting relevant articles based on title and abstract, additional sources were identified e.g., highly cited articles omitted from the initial search. These were added to the core literature, resulting in 16 empirical articles used to frame the initial conceptual model. Selected articles were coded using open coding followed with clustering and finally selective coding, as proposed by Wolfswinkel et al. (2013). The main themes are discussed next.

3. Literature analysis

3.1 Challenges of a growing organization

Because of the dynamics of growth, the challenges that organizations face during a phase of high growth vary over time. Phelps et al. (2007) describe these challenges as six ‘tipping points’ that need to be overcome: people management, strategic orientation, formalized systems, new market entry, obtaining finance and operational improvement. According to Phelps et al. (2007), during growth, the structural and contextual dimensions of an organization need to be changed in order to successfully resolve these tipping points.

3.2 Absorptive capacity as a means to overcome growth challenges

Based on the notion of overcoming growth challenges that organizations face during phases of growth, Phelps et al. (2007) focus on the role of *knowledge* as a means to survive these dynamic phases. Most studies that connect knowledge to firm growth, treat knowledge as a transferable asset (Ganguly et al., 2019; Lee, 2018). However, Macpherson and Holt (2007) describe knowledge as a relational construct which has to be examined within the context of social

interactions. Hence, there is a need to examine the role of knowledge from a more relational perspective, for example by looking at the *capability* of recognizing and acquiring valuable knowledge instead of looking at the acquired knowledge itself (Macpherson & Holt, 2007).

Phelps et al. (2007) propose a framework to examine growing organizations. In their view all tipping points might need to be addressed in different ways but can be overcome by applying new and requisite knowledge. In order to do so, organizations that aim to grow, need to be able to recognize, assimilate and apply current as well as new valuable knowledge within the context of the organization. This so-called *absorptive capacity* of an organization thus influences successful growth (Phelps et al., 2007). Absorptive capacity can be divided into two types. The acquisition and assimilation of external knowledge is defined as *potential absorptive capacity*, whereas the transformation and exploitation of knowledge is defined as *realized absorptive capacity* (Zahra & George, 2002). Both types of absorptive capacity play an important role in a high-growth environment, as organizations need to pass different levels of absorptive capacity in order to overcome the main challenges (Phelps et al., 2007). As follows, differences in growth rates between organizations might be explained by differences in the capability of acquiring, assimilating, transforming and exploiting knowledge.

3.3 The importance of social capital

The growth process is partly determined by the constant matching of resources to opportunities (Župič & Giudici, 2017). Social capital in particular has received a lot of academic attention, as the creation of social capital is seen as a way to compensate for the potential lack of other relevant resources (Nahapiet & Ghoshal, 1998; Župič & Giudici, 2017).

Nahapiet and Ghoshal (1998) define social capital formally as “*The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit*” (p. 243). The network of connections between people, organizations and other social units is described as the *structural dimension* of social capital, whereas the *cognitive dimension* describes the existence of a shared understanding between the actors within networks. The type or value of network ties are described as the *relational dimension* of social capital (Nahapiet & Ghoshal, 1998). In addition, relationships where the focus lies on homogeneity are defined as *bonding ties*, whereas *bridging ties* are relationships between actors of different social backgrounds (Putnam, 2001).

Various studies focus on the role of social capital within growing organizations, as social networks, i.e., the structural dimension of social capital, provide access to valuable resources (Ganguly et al., 2019; van Dijk et al., 2016; Župič & Giudici, 2017). However, as growth is a dynamic process, the social capital that an organization needs during phases of growth changes according to the resources needed (Hite & Hesterly, 2001; Partanen, Möller, Westerlund, Rajala, & Rajala, 2008).

3.4 .The relationship between social capital and absorptive capacity

Although the positive impact of social capital on growth is recognized in the growth-orientated literature (Hite & Hesterly, 2001; Partanen et al., 2008; Župič & Giudici, 2017), some researchers argue that only the *interaction* between social capital and absorptive capacity leads to growth. E.g., Yli-Renko, Autio, and Sapienza (2001) found a positive relationship between firm growth and the internal and external relationships of the organization but only through the mediating effect of knowledge acquisition. Maurer et al. (2011) also found that social capital is essential to the growth of an organization, but only through knowledge transfer. As both studies show, the potential as well as realized absorptive capacity of an organization mediates

the relationship of social capital with firm growth. Consequently, the influence of social capital on high growth can only be understood by including the role of absorptive capacity.

4. Conceptual model of high growth

Prior research shows, there is an important link between social capital, absorptive capacity and high growth. Various researchers found that social capital increases access to the valuable resources needed to achieve high growth (Hite & Hesterly, 2001; Partanen et al., 2008; van Dijk et al., 2016; Župič & Giudici, 2017). In addition, the type of social capital varies depending on the phase of growth (Hite & Hesterly, 2001; Partanen et al., 2008; Župič & Giudici, 2017). This leads to the first two propositions:

- H1a: Social capital contributes directly to high growth.
- H1b: The social capital needed in order to grow, varies per different phases of growth.

Social capital is not only expected to facilitate growth directly, but also through the creation of absorptive capacity (Maurer et al., 2011; Yli-Renko et al., 2001). Hence, this leads to:

- H2: Absorptive capacity is facilitated by different dimensions of social capital.

Through the creation of absorptive capacity, various growth challenges can be overcome (Macpherson & Holt, 2007; Phelps et al., 2007). Hence, the third proposition is as follows:

- H3: Absorptive capacity facilitates high growth.

And finally, through the combination of propositions, an overall contribution of social capital, in combination with absorptive capacity is expected to facilitate growth, leading to proposition:

- H4: The development of social capital in combination with absorptive capacity facilitates high growth.

These propositions are integrated in the proposed conceptual model provided in Figure 1.

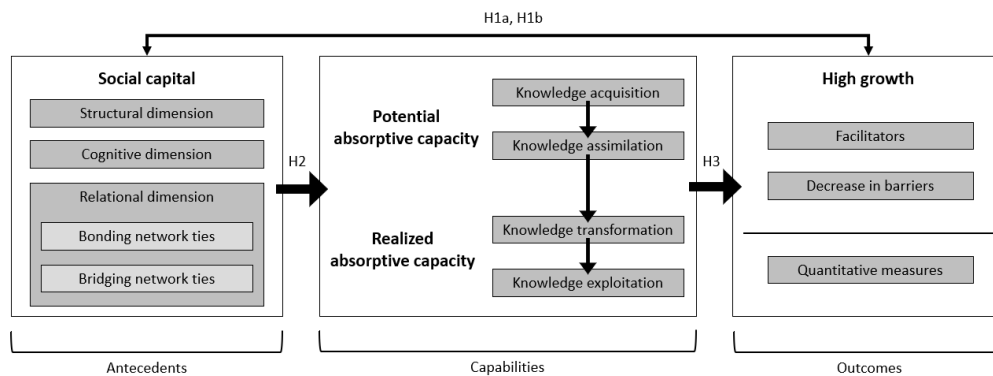


Figure 1: Proposed Conceptual Model of the Relationship between Social Capital, Absorptive Capacity and High Growth

5. Research method

In order to test the proposed conceptual model empirically, this study will follow a mixed method research approach consisting of an extended qualitative research study and a quantitative research study. A mixed method is particularly valuable when looking at complex phenomena and social constructs through multiple lenses (Creswell, 1999). As this research

aims to look at knowledge and social capital as relational constructs in relationship to the dynamics of high growth, a mixed method seems most appropriate.

5.1 Stage 1: Extended literature review

As differences in the conceptualization of high growth have led to a fragmentation of growth research (Župič & Giudici, 2017), the creation of an inclusive conceptual model based on an extended literature review is necessary to interpret existing findings. Conceptual models function as a mediator between existing theories and empirical phenomena (Morgan & Morrison, 1999). When a phenomena cannot be analyzed from a single theory, existing views have to be synthesized in light of the specific situation, creating an integrated view on the phenomena (Imenda, 2014). As this research aims to integrate various findings into a holistic view and then test it within the dynamics of a high-growth environment, the qualitative study will focus on the extension of the proposed model. To do so, a more extensive literature review will be conducted based on the principles of the grounded theory (Wolfswinkel et al., 2013).

5.2 Stage 2: Multiple case study

To test the extended conceptual model of stage 1 and address the current qualitative research gaps, a qualitative multiple case study will be conducted. Research questions that aim to understand *how* and *why* phenomena occur are best answered by conducting qualitative research (Creswell, 1999). Especially case studies allow to investigate phenomena in a real-world setting (Saunders, Lewis, & Thornhill, 2016). As both social capital and absorptive capacity need to be examined from a relational view, a multiple case study seems most suitable. The multiple case study will consist of conducting a thorough document analysis in order to collect qualitative background information, supplemented with semi-structured interviews within two different organizations that faced multiple phases of high growth. The first case study concerns a managed business process outsourcing organization active in the domain of financial services. This organization has realized a growth in turnover of roughly 100% and a growth in employees of roughly 400% in 2020. The second case study is selected within the same sector. This organization is seen as one of the main competitors of the first organization, as this organization offers secondment of financial professionals. In 2018, it realized a turnover growth of 43% and an employee growth of 20%. Both cases express clear growth ambitions.

5.3 Stage 3: Quantitative study

Finally, the research will be complemented with a quantitative study based on the outcomes of stage 1, as some findings will ask for a quantitative approach. Hence, at the end of stage 1 all the findings will be integrated into a theoretical framework that will be used to develop a complementary survey with the propositions from the framework guiding this process. For example, results might indicate that a sound measurement tool of social capital or absorptive capacity within the context of HGFs might be lacking. The creation and testing of such a tool might not only be a valuable addition to current research but also guide practitioners in evaluating and acting on challenges they face during phases of high growth. However, results might uncover other valuable propositions that need to be addressed. Hence, the final research approach will be based on earlier findings. The proposed research design is given in Figure 2.

6. Conclusion

This research in progress, as part of a PhD, study attempts to uncover the contribution of social capital and absorptive capacity in a high-growth environment. The results of this research will increase our understanding of the growth process in general and guide organizations in achieving high growth through social relationships and knowledge, instead of financial capital. This research will also provide practitioners new insights in how to design support programs

for organizations that aim to grow, based on the presence or absence of social capital and absorptive capacity. Finally, this research will act as an example to scholars that aim to examine relational constructs in dynamic contexts by using a process-orientated, holistic approach.

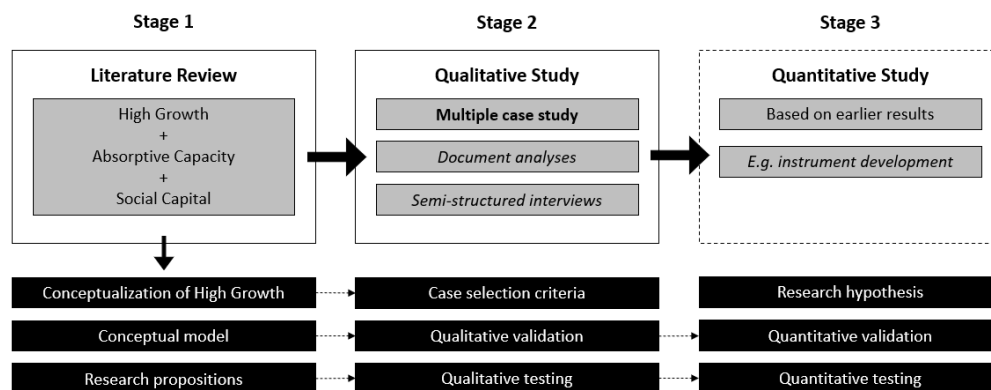


Figure 2: Proposed Research Design

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