

**International Journal of Entrepreneurship and Innovation**

**Special Issue - The Competitiveness of SMEs in the Food Sector: Exploring Possibilities  
for Growth**

**Investigating the role of entrepreneurial leadership and social capital in the  
competitiveness of SMEs in the food and drink industry**

**March, 2014**

**Abstract**

This paper aims to explore the effects of social capital on business competitiveness, using entrepreneurial leadership as the explanatory variable. It employs a data set of 359 SMEs from the food and drink manufacturing sector in the South West of England to develop a structural equation model of the interdependent relationship between social capital, leadership and the entrepreneurship process. The study reveals that social ties with local associations and professional services providers are most important for SMEs within the sector on both structural and relational dimension. The resulting inadequate level of brokerage hinders the market knowledge that is required for the formulation of a comprehensive vision, in spite of the fact that values of 'hard work', 'continued-improvement' and 'ambition' are commonly shared in the food and drink manufacturing industry. The paper concludes by recommending tailored training aimed at filling the knowledge gaps impeding the competitiveness of this important sector.

Key words: social capital, social networks, entrepreneurship process, leadership, SMEs competitiveness.

# **Investigating the role of entrepreneurial leadership and social capital in the competitiveness of SMEs in the food and drink industry**

## **Introduction**

The UK food and drink manufacturing sector makes a significant contribution to the manufacturing industry, with a turnover of £ 76.2 billion representing 16% of industry output (FDF, 2013). SMEs account for 68% of the business portfolio, with the majority located in rural areas (DEFRA, 2011). On a global scale, innovation, driven by demographic and life style changes and health concerns, has increased competition in the domestic market as recent trade figures show (FDF, 2013; ONS, 2011). Furthermore, the sector recorded a steady drop in profitability every quarter during the period 1998-2003, in spite of an enhanced provision of business support. Recent studies (FDF, 2013; Cambridge, 2010) show some improvement, with a 4.7% increase in GVA/employee between 2003-2008 and an increase in full-time employment. Yet the sector still lags behind in comparison to the national average. In the context of an increasingly globalised industry, improving the competitiveness of SMEs in the UK food and drink industry is a priority. This study seeks to examine this issue by analysing the interrelationships between social capital, leadership and the entrepreneurial process. No study so far has examined the competitiveness of the UK food and drink manufacturing from an entrepreneurship perspective.

Conceptually, the process of entrepreneurship is intrinsically linked to the changing socio-environment where opportunities emerge (Schumpeter, 1934). It is thus argued that businesses that develop social networks have an advantage in recognising, evaluating and exploiting opportunity and, as a result, compete better (Alder and Kwon, 2002; Shane and Venkataraman, 2000). The debate on the type of social interactions that are most suitable for entrepreneurial success is ongoing. Burt (1992) argues that since competition is rooted in

social structure, people who can bridge ‘structural holes’ benefit from increased access to information emanating from non-familiar interactions. The theory of ‘the strength of weak ties’ (Granovetter, 1983) is built on the argument that relationships born out of non-familiar social ties generate non-redundant information emanating from different levels of society (Lau et al, 2010; Bhagavatula et al, 2010; Tiwana, 2008). Meanwhile, Birley (1985) holds that informal ties through family and friends are more critical for mobilising resources whilst others claim that relationships of informal ties improve market knowledge (Aldrich and Zimmer, 1986; Davidsson and Honig, 2003; Hill et al, 1997).

People naturally communicate and interact more within groups than with different groups, and this pattern of social interaction generates ‘structural holes’. The dynamics of social interactions generate expectations and obligations but equally breed identity and identification of members (Coleman, 1988a) hence the duality of social capital raises important questions with respect to business competitiveness and this begs the question: what types of social interaction are most effective in the process of recognising, evaluating and exploiting opportunities? More importantly, what explains the difference in competitiveness between businesses in a given socio-environment with a ‘certain’ social capital?

The question of how human interactions could create an opportunity which subsequently instigates potential for commercial value brings interest to this question. One could claim that because human action is based on knowledge and preferences in the pursuit of a goal implicitly or explicitly, the changing socio-context of opportunities generates information and knowledge which inevitably is accessible to some and not to others (Cooper et al, 1995; Kirzner, 2009). It can thus be argued that individual skills and experiences define the value of knowledge that translates into strategic resources (Dimov, 2007; Bontis et al, 2000; Proctor, 1998). Previous research examines the effects of such individual capabilities and social networks as separate determinants of business competitiveness (Packalen, 2007; Fischer and

Reuber, 2007; Rodenbach and Brettel, 2012; Saxenian, 1994; Katou, 2011) However, to fully understand the relationship between entrepreneurship and business competitiveness in a dynamic socio-environment necessitates the conceptualisation of the inter-dependence between these determinants. This paper is the first to draw on a database of SMEs in the food and drink manufacturing sector in the South West region of England in order to address this issue. The study builds on Gupta et al's (2004) model of entrepreneurial leadership to measure the individual determinants of entrepreneurial competitiveness and draws on Nahapiet and Goshal's (1998) dimensions of social capital to assess the effect of social networks. Schumpeter's (1934) theory of entrepreneurship is used to conceptualise the inter-dependence between social capital, its benefits to business competitiveness and leadership using a structural equation model. Taken together, the modelling illustrates causal relationships and sheds light on the direct and indirect effects in this interaction.

The next section of the paper outlines a review of the relevant literature and concepts from which we derive hypotheses relating to the interdependence between the three main variables: social capital, business competitiveness and leadership. After a description of the methodology employed in the study, the results of the structural equation modelling are presented and discussed. The paper concludes by discussing the implications of the research for actors within the food and drink manufacturing industry.

### **UK food and drink – a network perspective**

UK food and drink is a multi-faceted industry built around the UK food chain, a complex and inter-connected network stretching from farm to fork and representing a significant share of the national economy (Boyce, 2007). It embodies several industry links between farm businesses, retailers, various suppliers and consumers in the public and private sector, with

food manufacturers located at its core. Up to 2009, it counted several levy bodies such as the Red Meat Industry Forum or the Cereal Industry Forum and subsequently the Institute of Grocery Distribution took over several functions including the provision of leadership to the food and consumer goods industry by helping to prepare for, and face the strategic challenges of, the global market place (IGD, 2013). Its characteristics suggest a network typology of asymmetrical relationships.

What constitutes an SME is subject to contextual definitions. This study adopts the European Union (2005) classification of a small business as having fewer than 50 employees and a medium-sized business as having between 50 and 250 employees. Considering the size disadvantage, the provision of business support is an integral part of SME networks where brokerage is achieved through facilitated access to specialist professional services, often private sector consultants (SWRDA, 2008). Food manufacturers looking for export markets can access potential importers/distributors, training on export documentation, translation services and trade fairs (UKTI, 2013). Recent surveys suggest that the proportion of SMEs using public-funded support services is on the rise (Businesslink.Gov, 2012). Regional strategy encompasses business competitiveness with community-oriented programmes (RES, 2012). Events such as food festivals and manufacturing advice fora foster social networks and community interactions, knowledge dissemination and brokerage. Local Action Groups (LAGs) contribute to the network support for rural businesses. Research suggests that endogenous and locally-focused initiatives tend to limit market opportunities and access to resources, and could impact negatively on business competitiveness in a global economy (Carmen and Gorton, 2011). Locally-driven strategies can increase the occurrence of redundant information being exchanged within the industry (Burt, 1992; 2005).

## **The Social nature of opportunity and the roots of competition**

Opportunity is ingrained in the reality of human interactions on the presumption that social actors generate information asymmetries because of two factors: (i) their personal judgement based on intuition and experience, and (ii) the quality of information in their possession and their ability to make sense of it (Casson, 1982). Entrepreneurial success is thus dependent on the ability to capture current knowledge and to make the right conjecture about resources (Cardon et al, 2012). Arguably, the lack of connectivity between networks of social actors not only obstructs access to information but also perpetuates asymmetries in judgement and value. SMEs are typically managed by business owner and are reputed for flexibility, innovativeness and their contribution to social cohesion (Smallbone, et al, 2010; 2004; Penrose, 1959). Historically, food and drink associations are built on a shared location, e.g. Taste of the West, Yorkshire Regional Food Group. Research shows that competitive strategies based on local actors and local resources also need extra-regional resources to achieve better outcomes (Mason et al, 2014; Shucksmith, 2002). Thus, to understand the competitiveness of the sector requires a greater understanding of the influencing roles of social capital and leadership as part of the entrepreneurship process. Networks theory offers an explanatory framework to elucidate this assertion.

## **The Construct of Social Capital (SC)**

Social networks provide an understanding of SC because they engender norms of reciprocity and other benefits on which social actors rely to achieve goals that would otherwise be impossible to attain. It is on this understanding that people gain influence and businesses develop market share and strong brands.

Building on previous work (Putnam, 1993; Granovetter, 1983; 1995; Burt, 1992; 1997), Nahapiet and Goshal (1998) have developed a definition of SC using social network dimensions based on three distinctive attributes examined in terms of interrelationships. The ‘structural’ dimension measures the configuration of connections between people or units and illustrates the presence or absence of a pattern of linkages where the frequency of connectivity indicates ‘structural holes’ and the need for brokerage (Doreian and Stokman, 1997). The ‘relational’ dimension refers to relationships built through a history of connections of on-going relationships to fulfil such social motives as sociability, approval and prestige and leveraged through distinctive behaviour based on trust and trustworthiness. The extant literature refers to ‘strong ties’ or relationships of closure (Burt, 1992; Granovetter, 1983) that develop for a purpose (e.g. familiarity) but could be used for another, for example a family member being a business partner or employee or a business relation becoming a confidant. The ‘cognitive’ dimension refers to resources providing shared representations and systems of meaning among parties through the medium of code and narratives affecting individual thinking processes (Augoustinos and Walker, 1995).

### **The benefits of social capital**

The work of Casson and Della Giusta (2007) contributes to understanding the value of SC made of two components: (i) a social component representing an ‘intrinsic’ value typically made of interactions among people forming a habit of coming together, and (ii) an ‘instrumental’ value defined by the expected capitalised value made in terms of future improvement in economic performance. In this sense, the potential benefits of SC align closely to enhanced organisational competitiveness. Evidence suggests that social ties, particularly when developed for ‘instrumental’ value, bring a vision advantage for more lucrative opportunities through different alternatives in problem solving (Klyver et al, 2012;

Lau et al, 2010). Lin, et al (2008) classify SC as an investment in social relations with expected returns because embedded resources in social networks generate tangible benefits to social actors. First, privileged access to information enables market making entrepreneurs to spot and evaluate opportunities (Casson and Della, 2007; Shane and Venkataraman, 2000). Second, influence affects decisions with regard to allocation of critical resources that are key in evaluating and exploiting opportunity (Burton, 2001; Haynie et al, 2009). Third, social credentials affect investment decisions as people are prepared to ‘stand behind’ an individual entrepreneur (Craig et al, 2007; Domhoff, 1967). Furthermore, it can predict innovation outcomes through the formation of business alliances (Brunetto and Farr-Wharton, 2007; Saxenian, 1994). Finally, identity and recognition as self-worthiness in a social group sharing similar interests and resources, providing emotional support and public acknowledgment, can award claim to certain resources such as human capital (Packalen, 2007). Extended benefits include the power of consumer groups and brands (Casson and Della, 2007) with numerous examples in the food industry (Duchy Originals, Innocent).

### **The Construct of Entrepreneurial Leadership**

Previous studies suggest that membership of associations does not necessarily bestow benefits to social actors (Newbery et al, 2013). This study contends that leadership plays a key role in the relationship between SC and competitiveness in the food and drink industry. Gupta et al. (2004) argue that entrepreneurial leadership plays a key role in the innovative function of entrepreneurial organisations. Three perspectives of leadership support this postulation. First, Transformational leadership advocates that a leader seeks high performance by evoking higher needs of self-achievement, self-motivation and deeply-held personal values from followers (Bass, 1997). It is an appropriate response to the need for adaptation in a changing socio-environment (Schumpeter, 1934). Second, Team-oriented



leadership examines leaders-members interactions and discusses the ability of leaders to generate high levels of group participation and involvement (Graen and Uhl-bein, 1995). Team-oriented leadership breeds shared ownership and reward and drives creativity, which constitutes a unique asset to contain adverse competition (Horner-Long and Schoenberg, 2002). Finally, Value-based leadership is centred on a compelling and inspiring vision based on self-belief and sustained by an exemplar conduct that followers are keen to emulate (House and Aditya, 1997). The leader's behaviour motivates and inspires values and beliefs across the team.

### **Theoretical model**

Schumpeter (1934) associates the entrepreneur with a specific category of leader undertaking a set of activities outside the boundaries of accustomed channels. To be able to see things in a way that afterwards proves to be true necessitates good judgement and intuition (Storey, 2011). Two simultaneous processes occur. The first is essentially a leadership process to overcome psychological and social resistances that stand in the way of innovating (Schumpeter, 1934:126-127). This requires personal attributes such as 'initiative', 'foresight', 'authority' that are not associated with routine activities (Rosing et al, 2011). The second is an entrepreneurship process which connects the individual entrepreneur to social networks during the process of recognising, evaluating and exploiting opportunities (Gedaljovic et al, 2013). Arguably, the ability to formulate an inspiring and compelling vision and to behave with 'self-confidence' and 'self-belief' is a requisite to convincing social actors such as employees, partners, investors, customers, and so on. Research (Horner-Long and Schoenberg, 2002; Vecchio, 2003) shows a strong correlation between such behaviour and the following leadership attributes:

ambitious, high-performer, well-informed, visionary, forward-thinking, inspirational, confidence-builder, diplomatic, encouraging, effective negotiator, convincing,

inspiring, enthusiastic, integrator, improvement-oriented, intellectually stimulating, creative, decisive, team-builder, intuitive.

Various authors (Fink and Kessler, 2010; Sosik and Dinger, 2007; McAllister, 1995) affirm that leaders who display these attributes also build better relationships with their employees and attain a superior performance for their organisation. Drive to superior performance, self-motivation and self-achievement are characteristic of behavioural attributes which inspire, motivate and enthuse. Leader and followers operate in a network of relationships where the leader becomes a conduit for resources embedded in those relationships (Schumpeter, 1934:129).

Based on the above review of extant literature, the following hypotheses are proposed:

***H1: SC benefits are positively and indirectly related to SC.***

***H2a: Leadership is positively and directly related to social capital***

***H2b: SC benefits are positively and directly related to leadership.***

This paper contends that SC benefits are determined by individual entrepreneur/leader behavioural characteristics, and it is these leadership attributes that explain the interdependence between the socio-environment defined by social networks and the process of recognising, evaluating and exploiting opportunity.

## **Methodology**

### **Measurement**

The conceptual framework used in this study consists of three constructs which were developed from the extant literature. SC was measured on 'structural' and 'relational' dimensions circumscribed on six indicators of social ties: resource providers at regional and

national levels in the public and private sector; suppliers including professional services such as accountants, bankers, lawyers etc.; local associations; employees and customers; family members, business partners and close friends. Social media was included to account for the role of technology in social interactions. The ‘cognitive’ dimension was excluded from the construct because of its function as a determinant of variations in decision making among entrepreneurs (De Carolis and Sapatiro, 2006). Gupta et al’s (2004) entrepreneurial leadership construct based on three leadership perspectives was used to measure the leadership construct, and finally SC benefits were derived from Lin et al (2008). In total, 33 indicators were used to design a questionnaire on a five-point Likert scale. Interviews with pilot survey participants were conducted and 50 SMEs from the sample population completed the pilot study which informed subsequent questionnaire refinements. The research instrument is summarised in table 1.

### **Sampling**

The study employs a questionnaire survey of SMEs operating in the food and drink manufacturing sector in the South West of England. Data collection procedures utilised a regional database from Business Link to identify a suitable sample frame. A population of 3,453 food and drink manufacturers was identified across all the seven counties. Most socio-economic and demographic characteristics of food and drink manufacturing identified in the population are also present at similar proportions in England (DEFRA, 2011). Only businesses classified as SMEs (EU, 2005) were retained in the population with branches or subsidiaries of multinational companies (e.g. Unilever, Cadbury, Kraft, Wiseman, and Constellation Europe) excluded. Stratified random sampling was used to avoid the sample being skewed towards a particular county or a specific group in the population.

A total of 1,218 business owner/managers were identified by their name and title and they received a questionnaire by post. The survey was administered in two stages. Within the two weeks following postal distribution of the questionnaire, approximately 200 responses were received indicating a very positive response rate. Thereafter, the response rate declined during the months of August and September due to holiday and harvest time. In order to meet the sample size requirements for SEM, a tailored design method (Dillman, 2000) using contacts with Taste of the West was used to improve the response rate and this brought the total number of respondents to 370. Excluding 11 non-valid forms, the response rate was 30%, which is acceptable for postal survey questionnaire (Field, 2009). Table 2 shows the distribution of respondents by stratum and a summary of sample key characteristics is provided below.

<b>Characteristics</b>	<b>Categories</b>	<b>Sample units</b>	<b>Proportion in sample (%)</b>
Number of employees	Up to 5 employees	168	47
	6-10 employees	50	13
	11-20 employees	35	10
	21-49 employees	10	3
	Over 50 employees	96	27
	Total	359	100
Average sales growth over the past 5 years (%)	0 and below	27	8
	Up to 10	142	40
	11-20	79	22
	21-30	37	10
	Over 30	74	20
Total	359	100	
Product type	Soft and alcohol drinks	32	9
	Dairy	122	33
	Seafood	27	7
	Bakery and confectionery	62	18
	Meat	56	15
	Ready meals and vegetables	60	18
	Total	359	100

The issue of sample size in Structural Equation Modelling (SEM) is important to the validity of results and the recommendation is to have a ratio of between 5 to 10 respondents for each estimated parameter (McCullum and Austin, 2000). On that basis, the critical minimum size with a five per cent error margin either way should be 155-175 for this study, indicating that a sample size of 359 is adequate.

### **Structural Equation Modelling**

Multivariate techniques, particularly SEM, enable a meaningful analysis of multiple measurements of interrelated variables simultaneously based on linear combinations with empirically determined weights by means of correlation or regression (Hair et al, 2010; Blunch, 2008; Byrne, 2009). SEM takes a confirmatory approach (i.e. hypothesis-testing) and is developed using two main procedures. Firstly, the structural model defining causal processes in the relationships between unobserved variables or constructs are represented by a series of structural equations as articulated in H:1, H:2a and H:2b. Secondly, the measurement model that defines relationships between observed and unobserved variables enables a clearer conceptualisation of the underlying theory. The hypothesised model can be tested statistically in a simultaneous analysis of the entire system of variables to establish if the model is consistent with the data (Bentler and Chou, 1987).

Authors recommend a choice between three modelling strategies in fitting an SEM and the study adopted a *Model development approach* consisting of modifications to both structural and measurement models that maintains the confirmatory characteristics of the model (Hair et al, 2010; Byrne, 2009). Analysis of Moment Structures (AMOS) software modification indices output suggests ways to achieve an acceptable model fit.

## **Analysis and Results**

### **Descriptive statistics**

An analysis of frequency distribution was conducted on the original questionnaire with 33 items collected from 359 respondents. On the structural dimension of SC, 61.3% of respondents indicated that relationships with employees and customers SC were most used followed by family, close friends and partners (41.2%), local associations (27.6%) media (11.7%) and finally regional and national organisations (8.1%). On the relational dimension of SC, family and close friends scored highest (73%) and regional and national bodies scored lowest (3.3%). On leadership attributes, 'ambition' ranked highest (56.8%) followed by 'enthusiastic' (46%), 'confidence-builder' (45.4%) and 'reward' (39.8%). The items with the lowest means were 'decisive' (3.84) and 'intuitive' (3.97). On SC benefits 'social credentials' was perceived as most important with 67% strongly agreeing and agreeing; followed by 'influence' (57.6%) and finally 'privileged access to information and resources' (51%). The indicator 'social recognition' was perceived the least important with a combined strongly agree and agree score of (49.5%), also showing the lowest mean of 3.38.

### **Confirmatory factor analysis**

Preliminary tests were conducted using SPSS to ascertain the validity of the variables for factor analysis, even though Cronbach's alpha of .899 was obtained for the 33 variables. Internal consistency of the measurement scale of the three main constructs taken individually was tested, bearing in mind that a construct measured on more than 10 indicators could yield a Cronbach's alpha of .50. In such frequent occurrence, reliability testing on adjusted scale helps to eliminate indicators with inter-item correlations below .40 (Field, 2009). The results showed 19 variables which were retained to form the input matrix.

Item parcelling, a common practice of reducing the number of observed variables measuring a construct to about 3 per factor, was adopted following the *content method technique* to form composite items. This approach, which consists of averaging the sum of the items making each composite, improves model fit particularly when items parcelled are conceptually linked (Bagozzi and Edwards, 1998; Bandalos, 2009). Table 3 presents the variables confirmed in the input matrix which was uploaded to AMOS software.

Procedures for the measurement model were completed using the maximum likelihood estimation method (Byrne, 2009; Hair et al, 2010) for estimating the model parameters and results showed 32 degrees of freedom and  $p=.000$  which confirmed that the model was over-identified. Two further tests of statistical significance at  $p<0.05$ , and critical ratio ( $cr>1.96$ ) for hypothesis testing were also satisfactory.

### **Construct validity and reliability**

In addition to Cronbach's  $\alpha \geq .70$ , SEM requires construct validity, convergent and discriminant validity of construct following Campbell and Fiske's (1959) criteria. For convergent validity the average variance extracted (AVE) using the standardised regression weights for each construct is  $\geq .5$  ( $AVE > .5$ ); for discriminant validity a) Maximum Shared Squared Variance (MSV); b) Average Shared Squared variance (ASV) and c) the Squared Inter-construct Correlations (SIC) values must be  $< .5$ .

AVE test establishes that the number of times an item correlates more strongly with items of other variables than with items of its own variable is less than 50 per cent, while confirming the composite reliability simultaneously (Fornell and Larcker, 1981). An examination of the standardised regression weights reveals that AVE for the leadership and SC benefits constructs was  $< .5$  and as a result, the model was rejected.

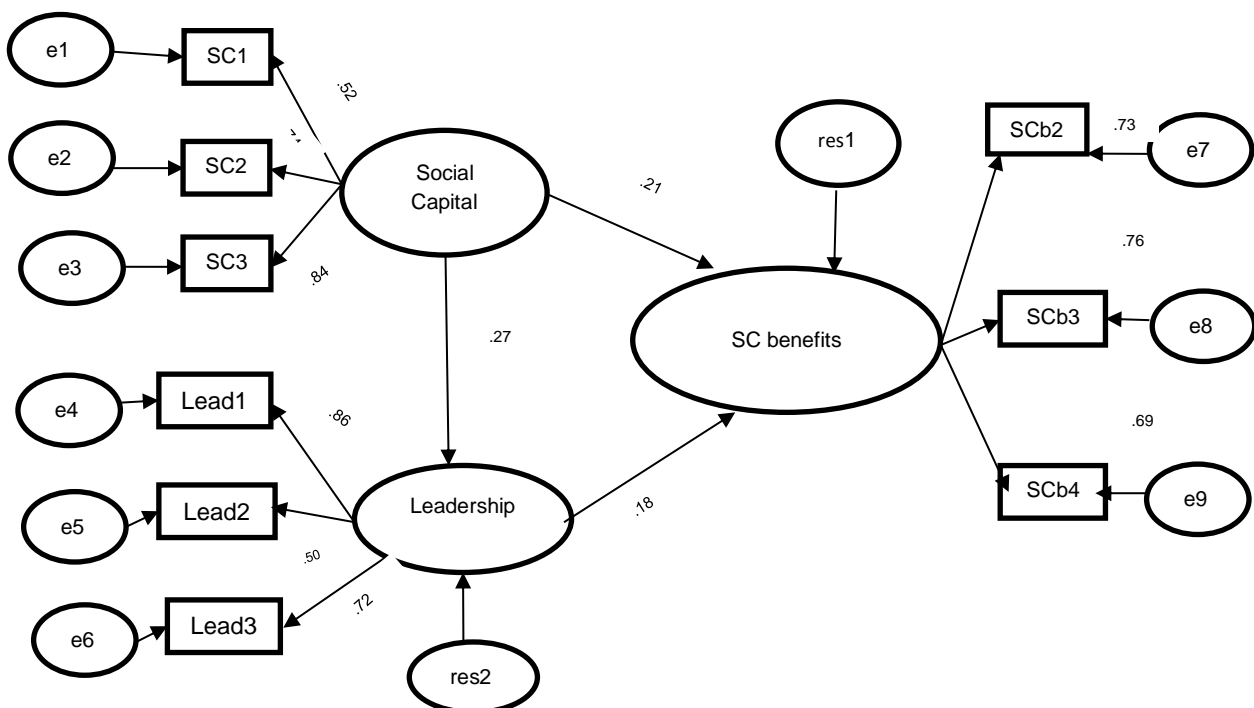
## Model fit

Model modification examines the correlation of error terms of observed variables. A strong correlation between an error term and an observed variable may indicate that the observed variable could be measuring something else, and therefore that uni-dimensionality is not assured (Hair et al, 2010). Accordingly, SCb1 was excluded from the model since e10 attached to it its error term was strongly correlated to that of SC1 and SCb4 respectively. Results for construct validity and reliability showed AVE > .5 for all three constructs, with MSV and ASV < AVE; SIC all below 50%. All fitting indices were satisfactorily met with AGFI = 0.96; CFI = 0.96; NNFI = 0.93; RFI = 0.90; RMSEA = 0.06 and RMR = 0.03. As a result, the model fit was achieved.

## The structural model and interpretation of results

With a measurement model fitting the data, the causal structure hypothesised was evaluated . Figure 1 presents the model of interdependence with the loading factor of each observed variable on the latent variable/construct, and the regression weights between the constructs.

**Figure 1: The structural model, path diagram and path coefficients**





Direct effects are illustrated by a single arrow pointing in one direction from one latent variable to another and indirect effects are represented by a series of arrows. An evaluation of the structural model hypotheses is summarised below with the results of statistical significance tests.

Hypotheses	Path	Direct	Indirect	Total	CR	P
<b>H1</b>	Social Capital-SC benefits	.21	.048	.26	2.817	.004
<b>H2a</b>	Social Capital-Leadership	.28		.28	3.886	***
<b>H2b</b>	Leadership-SC benefits	.18		.18	2.450	0.11
<b>Total H2</b>	Social Capital-Leadership-SC benefits			.46		

The model holds some key findings. First, as a non-recursive model the hypothesised causal relationships under H1 generates a total effect of (.26) which is much smaller than under H2 (.46) and this confirms the mediating effect of leadership and the underlying theory in the conceptual model (Schumpeter, 1934). Furthermore, the effect of Social Capital on leadership with a regression weight of (.28) is much higher than that of leadership (.18) in determining the benefits of SC and points to some weaknesses in the leadership among SME food and drink manufacturers. Second the predominance of certain observed variables in the construct measurement are of interest in understanding these key results.

## Discussion

The SEM results have some conceptual implications. Starting with the measurement model, behavioural characteristics of value-based leadership which are ‘ambition’, ‘performance-oriented’ and ‘foresight’ essential for business competitiveness are confirmed. However, the overall strength of value-based leadership attributes does reveal some deep seated weaknesses in other conceptually relevant attributes, for example ‘*intellectually stimulating*’ and ‘*decisive*’ called upon in formulating a compelling vision. Other key characteristics such as ‘*positive*’ and ‘*encouraging*’ are not present in the explanatory model and could indicate an inadequacy to reassure others (McCallum and O’Connell, 2008). Finally, a noteworthy

aspect of value-based leadership concerns the presence of the behavioural indicator *'reward'* or the ability to bargain effectively and this raises a conceptually defined question. Research on leadership shows a commonality between transactional and transformational leadership styles through the behavioural indicator *'reward'* or *'effective negotiator'*. Individual consideration as a dimension of transformational leadership portrays the leader's ability to invest in the development of others in a two-way communication, while acknowledging *'contingent reward'* in the transactional leadership. This conceptual dichotomy could infer a transactional approach to leadership with support conditional to task completion. When interpreted alongside the absence of *'visionary'* and *'well-informed'* indicators it points to an atypical leadership style.

Team-oriented leadership was the second most important behavioural characteristic of food and drink manufacturers with *'motivation'*, *'team work'* and *'commitment'* emerging as important characteristics. These findings are consistent with other studies which establish a strong correlation between the presence of these leadership attributes and a positive impact at personal, team, and organizational levels with the strongest boost to performance occurring at the team level (Katou, 2011; McAllister, 1995). The effect of transformational leadership is weak with some key characteristics e.g. *'extra insight'*, *'visionary'* and *'well informed'* not present in the measurement model. The absence of a strong vision impairs leader-follower communication that is capable of hosting shared ambitions and goals, as other studies have also found (Fink and Kessler, 2011; Ireland and Hitt, 2005).

If we consider transformational leadership indicators not present in the model, being *'visionary'* in having an idealised goal is the glue between leader and follower in sharing a future direction. Being *'well-informed'*, an attribute associated with intellectual stimulation based on the leader's knowledge and information awareness, instils creativity in problem solving. Thirdly, the leadership attribute *'extra insight'* describes the presence of a strong

intuition and is believed to be a strong characteristic of entrepreneurs who combine the knowledge in their possession with a strong perceptiveness in making conjecture about the future. The theoretical association of knowledge, intuition and vision in entrepreneurial behaviour is necessary to inspire and model a team capable of extraordinary achievement. The absence of these three strong characteristics of entrepreneurial leadership signals is a significant finding which may point to inadequate knowledge of markets and industry (Gentry and Leslie, 2007).

With regard to Social Capital, the overwhelming reliance on social ties with local associations and professional services on both 'structural' and 'relational' dimensions raises two important points: '*over-socialisation*' of network actors and '*duality*' of SC. From this position, the distinction between network actors driven by the need for brokerage and those motivated by an 'intrinsic' value is a fundamental point of difference which establishes the distinction between SC and social networks (Fishman, 2009; Coleman, 1988b). Four case studies on how rural entrepreneurs in Denmark transform local SC into economic value show that only one case was successful because the entrepreneur was able to attract regional partners in addition to keeping local partners in an unconventional cooperation with effective sanctioning (Svendsen et al, 2010). Social interactions within members of trade associations create bonds among independent organisations for purposes of marketing or brand protection which are not necessarily beneficial in the long run (Gorton and Tregear, 2009). Particularly with regard to relationship formation with foreign partners, the poor performance of SME food and drink manufacturers on export markets at national level (BIS, 2013) indicates that this could be due to factors not necessarily associated with geographical constraints or industry characteristics (Beecham and Cordey-Hayes, 1998). Also, the lack of active networking with customers prevents the acquisition and development of market knowledge which is the cornerstone of innovation (Bhagavatula et al, 2010).

From a buyer-supplier relationship perspective, firms develop Social Capital for mutual operational and strategic benefits, but taken to extreme, such relationships can hinder business capabilities to effectively adapt to evolving markets. With time, the relationship between performance improvement and networks of ‘structural’ and ‘relational’ dimensions becomes curvilinear as a study of 730 Spanish firms has revealed (Villena et al, 2011). Social capital becomes a liability to a firm when frequent and close interaction does not facilitate exploitation of synergies, and access to valuable resources, as relationships with professional services may indicate. With time, the risk of opportunism, loss of objectivity, ineffective decision making and costly investments may outweigh the benefits and ultimately hinder the client’s performance.

Another important finding is the association of relationships with family members, close friends and partners with a function of access to resources. Although research shows that both ‘*strong ties*’ and ‘*weak ties*’ can be effective for recognising, evaluating and exploiting opportunity, the nature of the relationships with family and close friends does not lend itself to a function of brokerage because of the limited diversity in opinions and practices present in those interactions (Haynie et al, 2009; Tiwana, 2007).

Lastly, social credentials are predictably found in environments where norms and values are fundamentally determined by or acquired from socialisation (Lin et al, 2008). Relationships of dual nature reinforce this precept since being trusted to honour obligations is more important (Gambetta, 1988). By confining the scope of influence, these relationships frustrate the flow of strategic resources necessary for the formulation of a compelling vision and the development of extra-insight capabilities which are critically important for the successful commercialisation of market opportunities (Anderson et al, 2012; Grabher, 1993). In effect, the limited scope of brokerage emanating from professional services particularly excludes

SMEs in food and drink manufacturing from an adaptive system where a continuous cycle of new opportunities occurs.

## **Conclusions**

Drawing on a primary database of 359 SMEs in the SW food and drink manufacturing, this paper examined the inter-dependence between SC, leadership and SC benefits and draws three main conclusions.

First, the hypothesised model shows that the total effect of SC measured through the benefits it generates for recognising, evaluating and exploiting opportunity is much lower than the total effect of the path diagram using leadership. This confirms the mediating role of entrepreneurial leadership in business competitiveness. Second, by showing a regression weight from leadership to SC benefits smaller than the total effect from SC to leadership, it confirms two important concepts: the theoretical link between SC and entrepreneurship, and the impact of leadership in business competitiveness. The weakness of the regression weight from leadership to SC benefits contributes to the understanding of the difference between SC and social networks in explaining variations in business competitiveness within a given socio-environment.

The study's methodological approach makes a further contribution to the evaluation of business competitiveness. By precisely measuring the loading factor of each observed variable on construct, it is possible to identify specific direct and indirect effects of each construct measurement. In so doing, the study generates some policy recommendations for service provision, particularly those receiving public subsidies. The lack of adequate knowledge appears to be the main handicap preventing SMEs from adapting to the changing marketplace and makes a strong case for tailored personal development and managerial skills.

The study has some limitations, particularly in respect of the non-homogeneity of SMEs in the food and drink manufacturing sector where product sector could be used to complete multi-group analysis. The moderating effect of socio-demographic and business factors such as firm size could explain variations in competitiveness and profit levels in the sector. Other multivariate techniques such as canonical correlation could also be used to evaluate the strength of the relationship between these groups of variables and the main study variables.

**Table 1: Summary of the Research Instrument and Reliability Test**

	Questionnaire items	Corrected-item total correlation	Cronbach's alpha if item deleted
	<b>Social Capital of structural dimension:</b>		
	<b>social ties of instrumental value</b>		
1	family, friends, partners	0.458	0.802
2	employees, customers	0.427	0.844
3	local associations	0.591	0.789
4	professional services	0.643	0.783
5	regional, national bodies	0.531	0.795
6	Media	0.319	0.762
	<b>Social Capital of relational dimension:</b>		
	<b>social ties of intrinsic value</b>		
7	family, friends, partners	0.361	0.810
8	employees, customers	0.284	0.816
9	local associations	0.603	0.786
10	professional services	0.542	0.793
11	regional/national bodies	0.279	0.797
12	Media	0.500	0.737
	<b>Self-assessment: leadership attributes</b>		
13	Ambition, goal	0.518	0.750
14	Performance-oriented, hard work	0.472	0.751
15	Inspiring	0.623	0.824
16	Visionary	0.339	0.849
17	Enthusiastic	0.555	0.741
18	Extra insight, intuitive	0.307	0.749
19	Well-informed, knowledgeable	0.434	0.758
20	Intellectually stimulating	0.327	0.834
21	Decisive	0.327	0.837
22	Confidence-builder	0.487	0.834
23	Support creativity	0.279	0.767
24	Motivational/encouraging	0.612	0.825
25	Foresight	0.427	0.758
26	Team-builder	0.696	0.820
27	Integrator, trust employees and partners	0.319	0.762
28	Reward/effective negotiator	0.604	0.826
29	Commitment	0.703	0.818
	<b>Social Capital benefits</b>		
30	Social recognition	0.451	0.744
31	Social credentials	0.621	0.727
32	Privileged access to information and resources	0.461	0.742
33	Influence	0.432	0.747

**Table 2: Summary of population and sample**

<b>County/Stratum</b>	<b>Population</b>	<b>Potential Respondents</b>	<b>Sample units</b>
Avon	51	32	18
Cornwall & Isles of Scilly	967	389	90
Devon	1560	443	146
Dorset	168	60	16
Gloucestershire	148	75	15
Somerset	455	169	56
Wiltshire	118	50	19
Excluded	(686)	0	(11)
Total	3767	1218	359

**Table 3: Variables for Measurement Model Input Matrix**

<b>Construct</b>	<b>Variable name</b>	<b>new</b>	<b>Composite items</b>	<b>Loading factor</b>
Social Capital	SC1		Structural family, friends	.53
			Structural local associations	.77
(SC)	SC2		Structural professional services	.79
			Structural regional national bodies	.65
Entrepreneurial	Lead1		Relational local associations	.75
			Relational professional services	.72
Leadership	Lead2		Ambitious	.72
			Performance oriented	.60
(Lead)	Lead3		Effective negotiator/reward	.47
			Foresight	.53
SC benefits (SCb)	SCb1		Inspirational	.63
			Confidence builder	.56
			Motivational	.64
			Commitment	.78
			Team builder	.79
			Social Recognition/Identity	.71
SCb2	Privileged access to info and resources	.83		
SCb3	Social credentials	.79		
SCb4	Influence	.74		



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