

1. Introduction

Over the past few years, entrepreneurship has become a major source of concern due to the need to stimulate small business developments as another driver of the country's economic growth. Therefore, much attention has been focused on the elements that produce a successful entrepreneurial endeavor. The restaurant industry attracts many new entrants and comprised as a relatively large percentage of Thailand's SME businesses (19.5%). Although, it has low barrier to entry and is deemed as a popular business investment, it is one of the most demanding and difficult business to run (Camillo, Connolly & Kim, 2008). Despite its alarming failure rates, it still is capable in maintaining its popularity as an investment choice and has attracted entrepreneurs with various backgrounds, from Thai celebrities, to investment bankers and many white collar workers who are seeking to take advantage of these opportunities to obtain high levels of economic compensation. (Tasai & Lan, 2005). However, the complexity nature and high number of entrants in the restaurant industry creates a very competitive business environment, which also is one of the reasons why the sector has very high failures rates. Restaurant requires resources just like any other investments, whereby it includes initial investments that are considered relatively low compared to other industries but it also has high sunk costs like interior investments and some equipment purchases that cannot be resold. Many past literatures have attempted to point out the success factors of restaurant business, aiming to help restaurant start-ups to have a higher chance of success to prevent a waste of scarce economic resources, however, many entrepreneurs seems to be neglecting the search of

information prior to start-up decision. By theory, entrepreneurs are believed to possess the judgment, knowledge, skills and technology that are needed to set up a firm and it also requires effort, investment, and most importantly planning (Spulber, 2009). During the planning process, the entrepreneurs need to seek information, which means they often encounter transaction costs, such as time and effort required to search for trading partners. One type of capital that has recently gained importance in reducing transaction costs is social capital through its function of trust (Grootaert, 2007). There are three basic categories of capital that contribute to a successful venture: human, financial, and social. In recent years, many studies have been conducted in an attempt to understand the impact of these forms of capital on the entrepreneur, in hopes that it will help entrepreneurs increase their success rates. With small businesses playing such a vital role in the economy, it is essential to better understand those factors that increase the probabilities of success. Therefore, this paper aims to explore how entrepreneur's social capital may benefit entrepreneur through their networks during starting up a restaurant business process and increases their chances of success.

2. Definition of Social Capital

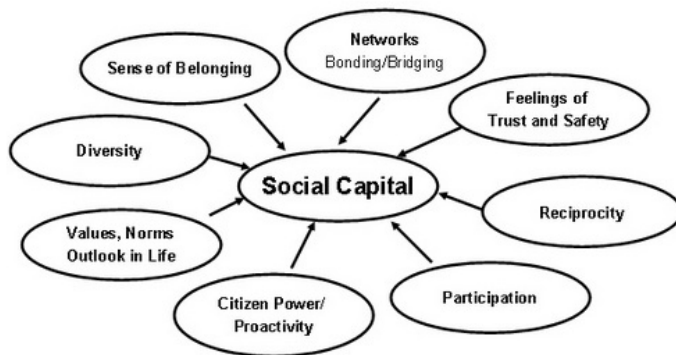
The concept of social capital has received considerable attention recently among sociologists, economists, and political scientists. Early works focus primarily on government performance, macroeconomics rates of growth and school performance and job placement. However, social capital has been gaining prominence as a determinant in organizational

performance and start-ups success. Three types of capital associated in the production function is physical, human and social capital (Bourdieu, 1997). Human capital refers to individual attributes, such as personality, education, intelligence, and job experience. Similarly to how human capital has gained its importance from the 1990s, social capital has been increasingly cited by many researcher papers and there has been a increase in interests within the topic, however it still remains a controversial idea due to its unclear and disputable variable definitions and difficulties of measurement (Fafchamps & Minten, 2009). However, the commonalities of most definitions of social capital are that they focus on social relations that have productive benefits. The definition this paper will focus around is the individual level where social capital is defined as the benefits individuals derived from the value of their social networks, bonding similar people and bridging between diverse people, with norms of reciprocity (Dekker and Uslaner, 2001). The network enhances access to and exchange of information, enforcement of contracts, and focusing on a shared vision and collective goals (Nahapiet and Goshal, 1998). However, at both aggregate and individual levels they can have both positive and negative effects as dense networks may provide useful resources such as explicit and improved quality of information and reduce monitoring costs, however, social capital also deals with problems of network suffocation and free-riding (Smulders, 2003).

Social capital has been differentiated into two major types, bonding and bridging. Bonding is horizontal, among equals within a community or homogenous groups whereas bridging is vertical between communities or heterogeneous groups with diverse backgrounds (Dolfsma and Dannreuther, 2003; Narayan, 2002). Bonding social capital appears to have less

importance compared to bridging capital in start-ups success, where bridging capital allows different groups to share and exchange information, ideas and innovation and builds consensus among the groups representing diverse interests. This widens social capital by increasing radius

of trust, whereas for bonding types reduce the radius of trust (Panth, 2010).



Sources of social capital are still disputable among many researchers, but it mainly uses network (Burt, 1997), norms (Putnam, 1993), reciprocity (Newton, 1997),

shared beliefs and Formal institutions and rules (Adler & Kwon, 2000). However, the two most elements of social capital is from trust and networks (Coleman, 1988; Putnam, 1993; Woolcock, 1998), whereby Putnam (1993) further argues that trust within the community is what made democracy work and some countries developed more than others. The two benefits from these elements is the reduction of transaction costs due to trust and cooperation from networks is associated with the broad network of information exchange. Therefore, social capital has various forms and sources, which each have its own benefits and causes towards starting up a business.

3. Literature Reviews

Many past papers have tried to empirically prove the relationships between social capital and start-ups success. For the past decades, social capital have gained spotlight within the small business development arena, where researches attempts to give the most accurate measurement

for social capital to test the hypothesis that there is a positive correlation between social capital and startups success or the network success hypothesis.

Aldrich, Rosen and Woodward (1987) was among the first researchers to conduct empirical test on the effect of entrepreneurial networking activities on the startup success through using a qualitative in depth interviews of startup founders in North Carolina. Entrepreneurial networks is used as a proxy for social capital and measured through entrepreneurs network size, network diversity and the ease of access to network resources. Start up success is being measured as the decision of the potential entrepreneur to realize the business idea and the start up's profitability. The paper finds that the accessibility of resources has positive impacts on the entrepreneur's decision to start a new business. Also, for start-ups that are less than 3 years old, network diversity is highly correlated with start-up's profitability. For firms operating 3 years and above, the paper finds positive correlation between the size of entrepreneur's network and company's profitability. After Aldrich, Rosen and Woodward (1987) published their paper, many researchers replicated the study in other countries such as Italy, Sweden, Northern Ireland and Greece. Among the studies, Drakopoulou Dodd and Patra (2002) found similarities and differences suggesting that there is a form of universal entrepreneurial behavior and cultural differences.

Cooper, Folta and Woo (1991) analyze interviews from founders of companies and differentiates source of information into public, personal and professional sources. The paper examines the relationship between entrepreneurs networking activities measured through the intensity of using personal sources of information and start-up success measured as survival after

2 to 3 years. However, the authors did not find significant evidence to conclude the relationship between the independent and dependent variables.

Further research attempts to test the network success hypothesis that states that there is positive relation between networking activities of founders and their start-up's success. Bruderl & Preisendorfer (1996) conducted a study of German startups to empirically test the network success hypothesis after Johannisson (1996) failed to prove the significance of the hypothesis. The study uses the degree of support that an entrepreneur receives from his or her network as the independent variable and uses growth of sales, survival after 4 years and growth of employees to measure startup success. Entrepreneurial network is defined as a personal network of information contacts and exchange relationships that an individual entrepreneur can utilize for purpose of creating and nurturing their venture. The result of the work by Bruderl and Preisendorfer (1998) shows that entrepreneurs who received relatively large support from their personal networks has a higher chances of survival and sales growth for their start ups. Bruderl and Preisendorfer's (1996) explains network resource or social capital as the channels in gaining access to more useful, reliable and exclusive information, the provision of access to customers and suppliers and lastly, broadening the financial basis of the startup. Although the paper focuses more on new identifications of the family network benefits, emphasizing the benefits of strong ties than weak ties. Results shown proved the validity of network success hypothesis, but the evidence is not sufficient enough to fully confirm the relationship due to many restrictions of the experiment.

Focusing on 110 Finland startups, Littunen (2000) attempts to find relationship between changes in numbers of partners in the external personal networks of entrepreneurs and success measured as survival beyond the critical operational phase (4 to 6 years) as the criterion for success. Using a logistic regression model, the study finds no significant correlations between networking and start-up success.

Kaila and Wahbeck (2011) examine the role of bonding and bridging social capital and its effects on Chinese restaurant startups in Finland, focusing on the cultural benefits. The paper emphasize the network resource as bonding social capital which refers to the resources in social networks within social groups and how it is more crucial for immigrant and ethnic minority businesses. Through using qualitative interview methods, the results shown the benefits of bonding social capital for valuable information, advance, contacts, staff recruitment. Also, the difficulty in accessing bridging social capital among locals have caused a higher dependent on close co-ethnics ties which is important for the startup phase.

Yokakul (2011) examines the role of social capital and knowledge exchange in promoting SME development for Thailand's dessert industry. Through questionnaire survey with 121 owners of Thai dessert firms, the author measures the relationship between social capital and innovation. The result from multiple regression analysis shows that knowledge exchange is an important element that enables firms to enhance innovation and technological capability or the stronger the linkage or social relations the higher the probability for innovation to occur.

Fu (2004) emphasizes on the importance of trust, whether it is a precondition of social capital or a product of it. Firstly, the papers aims to explore whether the relationship between social capital and trust by comparing the sources of each. The paper concludes that trust and social capital are mutually reinforcing, whereby social capital generates trusting relationships that in turn produce social capital. The second part explores how trust reduces transaction costs in finding quality of suppliers and save time spent on monitoring and guaranteeing compliance (Nahapiet & Ghosahl 1998), which substitutes formal contracts, incentives and monitoring mechanisms that are otherwise necessary with higher costs. Also, trust reduces turnover rates when employees have psychological attachment towards their employing organization, including the widespread feeling among employees that they are proud to be members of an organization (O'Reilly & Chatman, 1986). In conclusion, the paper concludes that social capital is positively related to organizational effectiveness and plays a key role in reducing organizational transaction costs (Fukuyama 1995).

Gloor and Dorsaz (2013) narrows down the personal network into the entrepreneur's social networking behavior by measuring the usage of online social networks such as Facebook, LinkeddIn, Twitter and Myspace. The author wants to further study successful entrepreneurs and their networking activities by focusing more on the virtual communications rather than the face-to-face networks. The studies found that entrepreneurs who studied in highly selective universities has higher advantage through strong support networks and social media is the tool for entrepreneurs to do so.

4. Restaurant Startup Process

From studies of previous literatures, the paper concludes on the role of social capital in fostering startups success in the restaurant sector through entrepreneur's utilization of their networks, norms and trusts.

Prior to starting a business, entrepreneurs are usually past consumers who have interests in opening a business within the field. Consumers have preferences over consumption bundles, and they also have initial endowments of factors of production, technological knowledge towards production of goods and services and knowhow on purchasing and labor supply decisions (Spulber, 2009). Therefore, consumers themselves can choose to establish firms if they believe return of establishing the firms are greater than the costs they may face. Cost of establishing the firm includes investments in time, opportunity cost foregone, effort and resources. Consumers incur transaction costs of communication, information search, matching, bargaining, moral hazard, adverse selection, free riding and contracting. For a firm to be profitable, it should be able to provide better transactions in comparison with direct exchange between consumers (Intermediation Hypothesis). Therefore, before startup decisions they require great deal of information search to calculate cost and return from their start-ups. There are opportunities for entrepreneurs to use their networks during their startup process.

Social capital and Innovation

When thinking about the restaurant industry, there is often variety of products in the market that belongs to different category, from quick service, fast casual, buffet or full service restaurants. Also, different companies tend to provide different products to different markets or target groups. Whether they use demographic, psychographic, or geographic segmentation to divide these markets, they try to make their product more appealing than those of similar restaurants or in other words product differentiation. Some of the main types of differentiation used are the type of food (origin, style, and quality), the cost of the food, and the experience while dining. Restaurants in Thailand are very competitive with large number of substitutes and consumers have a variety of choices to choose from. Restaurant meals is considered highly price elastic, therefore entrepreneurs need to differentiate their product to be able to have power to set the price. Top factors of success in restaurant business include having a validated concept definition, differentiated brand imagery and experience (Wilson 2013). Fischer, Scharff, Ye (2002) elaborates on how the exchange of knowledge between individuals with different perspectives and background knowledge creates foundation for creativity for entrepreneurs. The more extensive entrepreneur's networks are and the higher the utilization of their networks, results in higher chances that the entrepreneur can put forward an innovative business ideas (Yuawakol, 2011). Therefore, the role of social capital is creating the resources upon which the entrepreneur can draw to obtain knowledge, information and creativity or help from other members of their personal networks (Fischer, Scharff & Ye, 2002). Hence, the entrepreneurs are encouraged to seek ideas and opinions from their personal networks, to establish a solid business model, which could increase their chances of success.

Social capital and Search Costs

Before an entrepreneur can decide whether to invest in a startup, it requires a lot of information search. Search costs involve time, effort and resources. External search costs is the costs of acquiring the information and the opportunity cost of the time taken up in searching. Internal search costs include the mental effort given over to undertaking the search, sorting the incoming information and integrating it with what the entrepreneur already knows. Information that the entrepreneur needs to find includes supply and demand sides. High search costs could create less incentive for the entrepreneurs to make their decision to invest in a restaurant start up. Firstly, entrepreneurs seek information on the business know-hows, market conditions, competitors, location choice appropriate for the target group and the right suppliers. One of the reasons why restaurants fail is that entrepreneurs do not have enough experience or knowledge of the industry and does not have sufficient information about the market and their competitors before their investment decision. Restaurant business is very complex and entrepreneurs who have experience within the industry have an advantage over those who do not. The information regarding set ups and standard of procedures of restaurants may not be provide among public sources, however, if entrepreneurs seek information through their personal sources for consultations and advice, it could reduce to problematic consequences after the restaurant starts operating.

Also, entrepreneurs need to be able to seek all the suppliers for the inputs they need before they can make investment decisions, which includes anything from plates to type of herbs. Thankfully to the Internet, search costs has been reduced and we now can often find certain

products through the Internet directly to the suppliers. This is the reason why entrepreneurs do not have to go to supermarkets for the ingredients they need because they can buy it directly from the suppliers. However, some specific items sometimes cannot be found on the Internet but from other person's knowledge, which makes the information exclusive (Witt, 2007). For example, an entrepreneur wants to find specific types of plates at the cheapest price, the entrepreneur may search online for the information or seek out through their personal networks. Therefore, there are search costs to finding the right trading partner who provides the goods or services you want when there are diverse buyers and sellers in the market. Gaining information through personal networks is one way in gaining exclusive information and reducing search costs (Fafchamps and Minten, 2009).

Entrepreneur's social capital or their networks can create information exchange that allows entrepreneurs to have more access to a broad range of information and also exclusive information that cannot be found from other sources of information like public information on the internet and professional sources of information that has costs. Therefore, social capital plays a role in reducing search cost of restaurant startups.

Social capital and Asymmetric Information

Some market transactions occur within markets with asymmetric information whereby buyers do not know the real quality of sellers. Startup deals with many market transactions, especially during their second phase of the startup, where the entrepreneurs deals with the execution of their business plans. The effects of asymmetric information that make

characteristics of suppliers costly to observe can be reduced with the elements of trust from social capital through the reduction of transaction costs (Fu, 2005). For restaurant startups, market transactions that have high asymmetric information include contracting designers/architect, contractors and electrical equipment purchases. Firstly, restaurant initial investments comprises mostly of the costs of interior designing and restaurant construction. This entrepreneur may not know the quality and price of the product until the project is done, therefore, entrepreneurs will not trust the construction company and there will be high monitoring cost as well. In Thailand, it is well known that many construction companies behave unfairly in the market, such as using lower than agreed quality materials and marking up the price too high. Entrepreneurs who do not have the knowledge within the area may suffer with great losses in the future. Therefore, entrepreneurs who can find companies they trust or recommended by someone they trust may have advantage with lower startup costs and lower monitoring costs. Secondly, entrepreneur needs to make huge investments in electrical appliances and equipment such as refrigerators, POS machines, dish washing machines, and other appliances. Some restaurants outsource equipment consultants to give them advice on quality, durability, after sales services and maintenance costs. Many of these investments become sunk costs and become costly to replace if the characteristics of the equipment purchased affects the startup negatively in the future. Therefore, the development of social capital helps shares relevant information in imperfect market transactions, especially information on the quality and credibility of suppliers. Entrepreneurs might become more efficient in managing startup costs, have a reliable supplier network and saves time checking quality of the products.

Conclusion

In this study, the paper attempts to summarize and point out the opportunities the entrepreneur can obtain from reaching out to their personal networks for reduction of transaction costs that occur during startup process. Information as a result of from the exchange of information within the networks can reduce transaction costs such as search costs for the entrepreneur and increase innovation for business ideas. Trust can also alleviate costs from seeking the quality of the product in asymmetric market transactions. The paper elaborates on the role social capital may have in reducing cost and fostering startups success. However, startups fail or succeed for many reasons and it would be overstating to present social capital as the only villain or hero of the story. However, identifying a factor that helps the development of startups and SMEs could increase the overall success rates in the sector and reduce failure that waste economic resources. There have been no empirical study on the idea of social capital and restaurant startup success, however, this study could be used as a based for further studies. Past researchers whom tried to test the significance of the relationship between start up success and social capital still faced tremendous limitations in doing so because the idea of the social capital itself is vaguely defined. Therefore, there is still motivation in finding an agreed definition and form of measurement of social capital to be able to conduct further studies on its benefits and causes on startups and firms. The paper aims to conduct further empirical tests on the relationship of entrepreneur's social capital and startup success in the restaurant sector in Thailand.

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