

## The Impact of Social Capital on the Attitude-Related Aspects of Strategic Adaptability

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**Abstract:** This research investigates the impact of social capital which results from social interaction within a horizontal industrial district on the attitude-related aspects of internal and external strategic adaptability. Such foreseen effects are studied from interaction of three dimensions of social capital which occurs indirectly through entrepreneurial behavior and social knowledge exchange. Research data were taken from 450 metal craftsmen in the Tegal municipality and Tegal regency, Central Java, Indonesia. This study reveals that entrepreneurial behavior and social knowledge exchange, which conflicting in nature, have the effects on the internal strategic adaptability, but only entrepreneurial behavior effect the external strategic adaptability. The study also reveals that the interaction of two dimensions of social capital have the effects on entrepreneurial behavior and social knowledge exchange due to it was not enough evidence that relational embeddedness act as a social capital which able to strengthen strong ties among entrepreneurs.

**Keywords:** social capital, entrepreneurial behavior, social knowledge exchange, internal strategic adaptability, external strategic adaptability.

**Abstrak:** Penelitian ini menyelidiki dampak modal sosial yang dihasilkan dari interaksi sosial dalam kawasan industri horisontal pada aspek yang terkait dengan sikap adaptasi strategis internal dan eksternal. Efek yang diperkirakan tersebut dipelajari dari interaksi tiga dimensi modal sosial yang terjadi secara tidak langsung melalui perilaku kewirausahaan dan pertukaran pengetahuan sosial. Data penelitian diambil dari 450 pengrajin logam di kota Tegal dan Kabupaten Tegal, Jawa Tengah, Indonesia. Studi ini mengungkapkan bahwa perilaku kewirausahaan dan pertukaran pengetahuan sosial, yang bertentangan di alam, memiliki efek pada kemampuan beradaptasi strategis internal, tetapi hanya perilaku kewirausahaan yang mempengaruhi kemampuan beradaptasi strategis eksternal. Studi ini juga mengungkapkan bahwa interaksi dua dimensi modal sosial memiliki efek pada perilaku kewirausahaan dan pertukaran pengetahuan sosial karena itu tidak cukup bukti bahwa relasional tertanam bertindak sebagai modal sosial yang mampu memperkuat ikatan yang kuat di antara pengusaha.

**Kata Kunci:** modal sosial, perilaku wirausaha, pertukaran pengetahuan sosial, kemampuan beradaptasi strategis internal, kemampuan beradaptasi strategis eksternal.

## INTRODUCTION

In a business environment characterized with uncertainty, adaptability helps organizations to survive and increase their competitive advantages (Tuominen *et al.*, 2004; Reeves and Deimler, 2011). Strategic actions that lead to the development and exploitation of current competitive advantage will accentuate entrepreneurial behaviors by tapping any opportunities to create future competitive advantage (Hitt *et al.*, 2002; Carrion *et al.*, 2017). The studies on entrepreneurship were more focused on individual characteristics that influence entrepreneurial performance and propensity. Entrepreneurial was more viewed as characteristics of the leader and members of organizations; not yet viewed from the aspects of attitude and behavior (Leitch and Volery, 2017).

Entrepreneurial processes occur in a social context (Carrion *et al.*, 2017; Marqués *et al.*, 2019). This social context of entrepreneurial process occurs in the form of inter-entrepreneurial social interactions within which socio-cultural environment can be created. Relationships among entrepreneurs within a social context can create a social network (Bird and Zellweger, 2018). Studies on social networks showed that social interactions among entrepreneurs within an industry can produce additional sources for creating competitive advantage (Tsai and Ghoshal, 1998; Moran, 2005; Lester, 2013). A strong inter-entrepreneurial social network is formed from the benefits that arose from social capital (Cao *et al.*, 2012; Leyden *et al.*, 2014).

Social capital is formed based on norms of reciprocity and trust that are developed within a social network (Torche and Valenzuela, 2011; Bird and Zellweger, 2018). The construct of social capital was based on a line of thought that social interactions among actors can influence economics activities (Granovetter, 1985). The main proposition of social capital was that relational network is a valuable resource for its constituents (and that's why this can be referred to as capital) (Nahapiet and Ghoshal, 1998; Inkpen and Tsang, 2005; Lester, 2013).

(Simsek *et al.*, 2003) conveyed the basis of thought about the impact of inter-organizational networks on the development of entrepreneurial behavior. On the other hand, the phenomenon of inter-organizational social interconnectivity and its influence on entrepreneurial behavior has not been given much attention from researchers (Marqués *et al.*, 2019). Studies on constructs of entrepreneurship have not been enriched by forces of a high social relevance (Covin and Slevin, 1991; Dwivedi and Weerawardena, 2018). Social capital as the basis for the development of inter-organizational social networks plays an important role in the development of entrepreneurial behavior (Carrion *et al.*, 2017). Social capital is formed from its three dimensions: structural embeddedness, relational embeddedness and cognitive embeddedness (Nahapiet and Ghoshal, 1998; Bird and Zellweger, 2018). Each dimension of social capital has its own discrete effect on the development of entrepreneurial behavior.

Within a social network there can be an extemporaneous social exchange of resources and this will reinforce the activity of organizational learning which is important for the development of organizational strategic adaptability. Organizational learning can occur because social interactions will facilitate organizational members to extend their access towards knowledge, resources, markets, and/or technology. Social exchange of knowledge will be more effective in a more intensive social interactions supported by a strong social capital (Nahapiet and Ghoshal, 1998; Inkpen and Tsang, 2005; Lester, 2013).

External and internal strategic adaptabilities can be developed by way of inter-entrepreneurial social interactions (Touminen *et al.*, 2004; Li *et al.*, 2011). These social interactions necessitate cooperative actions to facilitate the social exchange of knowledge. Social interaction presents an opportunity in which entrepreneurs can observe one another in order to develop inter-entrepreneurial competitive behavior. In other words, social interaction creates a conflicting situation which, in one side, facilitates the exchange of resources and, on other side, creates a competition (Cofré-Bravo *et al.*, 2019). This situation is reflected in entrepreneurial behavior in terms of their cooperative and competitive behaviors amongst and against other entrepreneurs, which in turn can influence their internal and external strategic adaptabilities.

## THEORETICAL REVIEW

Network formed across horizontal industrial district can be used by entrepreneurs as sources of learning to help them to identify entrepreneurial opportunities (Simsek *et al.*, 2003). Any economic activities within a network, including entrepreneurial processes, will be inherent to social interactions that influence business activities (Granovetter, 1985; Leyden *et al.*, 2014). Entrepreneurial process is developed within socio-cultural and socio-emotional contexts and not only based on pure contracts of economy relationships (Zhang, 2009, Yan and Yan, 2017).

Inter-entrepreneurial social interactions that create social capital within an industrial district can provide a valuable resource for entrepreneurs. This resource can be used as a source to gain new insights on unexplored business opportunities (Yamada, 2002; González *et al.*, 2017). Social interactions and shared interpretations amongst entrepreneurs that create social capital can inspire entrepreneurs to create new values for consumers and develop proactive and aggressive strategies to deal with competition. Social capital by way of its dimensions (structural embeddedness, relational embeddedness and cognitive embeddedness) can facilitate the development of entrepreneurial behavior. In this sense, the three dimensions of social capital will continuously relate to each other within a system.

Structural embeddedness is developed from strong inter-entrepreneurial ties within an industrial district (Simsek *et al.*, 2003; Stuart and Sorenson, 2005). Even when there is no new information, this strong tie is more valuable and useful than a weak tie in interpreting opportunities and external threats and also in formulating the potential responses. This can facilitate the development of entrepreneurial behavior (Simsek *et al.*, 2003; Villanueva *et al.*, 2018). A strong tie will facilitate the development of intense communications and the exchange of valuable and accurate information that are useful for developing new business.

Relational embeddedness within an industrial district is evidenced by mutual trust and willingness and desire to share among parties (Bird and Zellweger, 2018.). Inter-entrepreneurial relational embeddedness will lead to a high intensity of informational exchange and experience sharing among entrepreneurs and these will give positive contributions for the development of business. Relational embeddedness will enhance the exchange of knowledge between entrepreneurs in routine activities (Nell and Andersson, 2012; Lester, 2013; Meuleman *et al.*, 2017). The exchange of practical experiences and

technical knowledge will provide inspirational sources for the development of entrepreneurial behavior (Simsek *et al.*, 2003).

New values for consumers can also be created through relational embeddedness (Bird, and Zellweger, 2018). The exchange of experiences and problems will drive entrepreneurs to find new breakthroughs in product development and are significant for their efforts to deal with the changes of consumer's demands leading to the changing of product specification. These efforts will be strengthened when there is a high degree of mutual trust among parties. With a high degree of trustworthiness, entrepreneurs will not be reluctant to be more open in sharing valuable information.

Entrepreneur's cognitive knowledge will also affect their efforts in identifying problems and opportunities, in interpreting their own capabilities, and in formulating and implementing strategies. Inter-entrepreneurial cognitive embeddedness will facilitate a more efficient inter-entrepreneurial communications because it will speed up the process of mutual understanding in certain conditions. Such was the case that cognitive embeddedness will facilitate in the dispersion of knowledge and the harmonization of interpretation about the existing products and production processes (Simsek *et al.*, 2003).

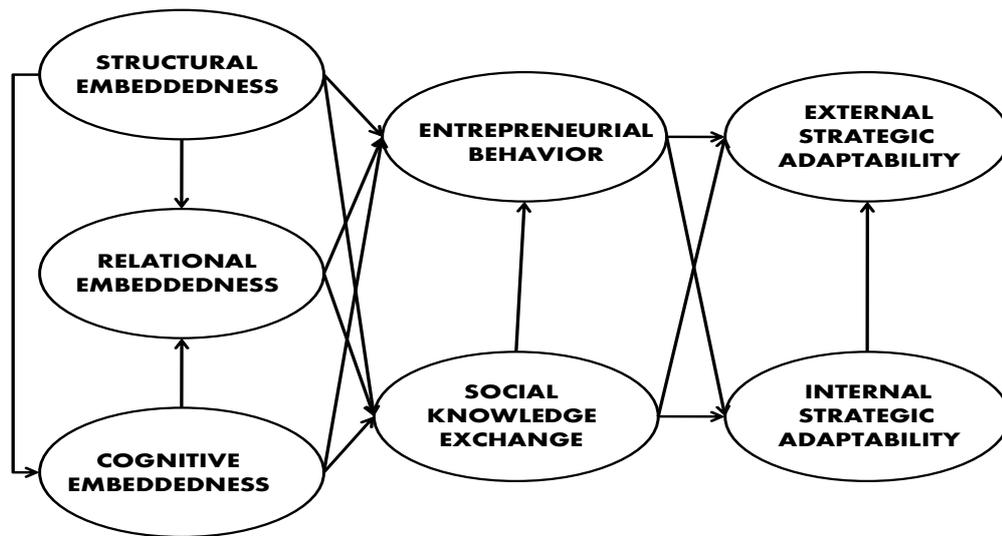
Cognitive embeddedness is evidenced by the homogeneity in identifying opportunities and environmental threats, in interpreting organizational capabilities and limitations, and also in formulating and implementing strategies (Hambrick and Mason, 1984; Simsek *et al.*, 2003). This homogeneity, as the result of cognitive embeddedness, actually weakens entrepreneurial behavior because it lacks new ideas that are significant for the development of business. To develop proactive and aggressive strategies, entrepreneurs need resource asymmetry (Gnyawali and Madhavan, 2001, Lin *et al.*, 2018). Asymmetry in identifying threats and opportunities (as the result of cognitive diversity) will drive entrepreneurs to develop their business and establish proactive and aggressive strategies (Simsek *et al.*, 2003).

Inter-entrepreneurial social exchange of knowledge in a horizontal industrial district provides the source for gaining new knowledge (Carrion *et al.*, 2017). The new knowledge will inspire entrepreneurs to develop their business and formulate proactive and aggressive strategies. This condition will facilitate the development of entrepreneurial behavior.

Social knowledge exchange can also inspire entrepreneurs to adapt to environmental dynamics characterized by uncertainty. Entrepreneur's participation in a network can satisfy the need for new knowledge to help organization dealing with environmental uncertainty (Carrion *et al.*, 2017, Yan and Yan, 2017). The new knowledge that is gained from the process of social exchange will improve entrepreneur's capabilities to develop internal and external strategic adaptabilities (Tuominen *et al.*, 2004; Bager, 2018). Entrepreneurial behavior that leads to risk-taking, innovative, proactive and aggressive behaviors will always be directed to the creation of new values. New values are needed to exploit opportunities that often present in the dynamics of business environment. Developing entrepreneurial behavior that leads to the creation of new values can influence the development of internal and external strategic adaptabilities.

Based on the above description, a research theoretical model is developed that links latent variables as shown in Figure 1.

Figure 1. Theoretical Causal Model



Source: (Authors, 2019)

Based on the theoretical causal model in Figure 1, fifteen hypotheses can be formulated according to the arrows in Figure 1.

- Hypothesis 1: “*Structural Embeddedness (SE) has a positive effect on Cognitive Embeddedness (CE)*”.
- Hypothesis 2: “*Structural Embeddedness (SE) has a positive effect on Relational Embeddedness (RE)*”.
- Hypothesis 3: “*Cognitive Embeddedness (CE) has a positive effect on Relational Embeddedness (RE)*”.
- Hypothesis 4: “*Structural Embeddedness (SE) has a positive effect on Social Knowledge Exchange (SKE)*”.
- Hypothesis 5: “*Cognitive Embeddedness (CE) has a positive effect on Social Knowledge Exchange (SKE)*”.
- Hypothesis 6: “*Relational Embeddedness (RE) has a positive effect on Social Knowledge Exchange (SKE)*”.
- Hypothesis 7: “*Structural Embeddedness (SE) has a positive effect on Entrepreneurial Behavior (EB)*”.
- Hypothesis 8: “*Cognitive Embeddedness (CE) has a positive effect on Entrepreneurial Behavior (EB)*”.
- Hypothesis 9: “*Relational Embeddedness (RE) has a positive effect on Entrepreneurial Behavior (EB)*”.
- Hypothesis 10: “*Social Knowledge Exchange (SKE) has a positive effect on Entrepreneurial Behavior (EB)*”.
- Hypothesis 11: “*Social Knowledge Exchange (SKE) has a positive effect on Internal Strategic Adaptability (ISA)*”.
- Hypothesis 12: “*Entrepreneurial Behavior (EB) has a positive effect on Internal Strategic Adaptability (ISA)*”.

Hypothesis 13: “*Entrepreneurial Behavior (EB) has a positive effect on External Strategic Adaptability (ESA)*”

Hypothesis 14: “*Social Knowledge Exchange (SKE) has a positive effect on External Strategic Adaptability (ESA)*”

Hypothesis 15: “*Internal Strategic Adaptability (ISA) has a positive effect on External Strategic Adaptability (ESA)*”

## METHODOLOGY

Research data were taken from metal craftsmen in the Tegal municipality and Tegal regency, Central Java, Indonesia. A total of 450 respondents were taken using purposive sampling method in the Tegal metal industrial district.

Seven sets of measured attributes in the questionnaires have been developed, which were defined to generate the corresponding seven latent variables with their operational definition as presented in Table 1.

**Table 1.** Operational definition of the Latent Variables as the base for developing the sets of Measured Attributes

No.	Latent Variables/ Constructs	Operational Definition	References
1.	Structural Embeddedness	<ul style="list-style-type: none"> <li>– <i>The strength of a tie is a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services with characterize the tie.</i></li> <li>– <i>Network ties between activities, network configuration or morphology, and appropriable organization.</i></li> </ul>	(Granovetter, 1985; Nahapiet and Ghoshal, 1998)
2.	Relational Embeddedness	<ul style="list-style-type: none"> <li>– <i>Trust and trustworthiness, norms and sanctions, obligations and expectations, and identity and identification</i></li> </ul>	(Nahapiet and Ghoshal, 1998)

3.	Cognitive Embeddedness	<ul style="list-style-type: none"> <li>- <i>Resources providing shared representations, interpretations, and systems of meaning among parties.</i></li> <li>- <i>Interorganizational macrocultures: the relatively idiosyncratic, organizational related beliefs that are shared among top managers across organizations (boundary homogeneity, reputational homogeneity, and strategic issue homogeneity).</i></li> </ul>	(Nahapiet and Ghoshal, 1998; Abrahamson and Fomburn, 1994)
4.	Entrepreneurial Behavior	<ul style="list-style-type: none"> <li>- <i>Risk taking propensity, tendency to act in competitively aggressive, proactive manners, and reliance on frequent and extensive product innovation.</i></li> </ul>	(Covin and Slevin, 1991)
5.	Social Knowledge Exchange	<ul style="list-style-type: none"> <li>- <i>Three primary dimensions of reciprocity :</i> <ol style="list-style-type: none"> <li>(1) <i>The immediacy of returns</i></li> <li>(2) <i>The equivalence of returns</i></li> <li>(3) <i>The degree and nature of the interest of each party in the exchange</i></li> </ol> </li> </ul>	(Sparrowe and Liden, 1997)
6.	Internal Strategic Adaptability	<ul style="list-style-type: none"> <li>- <i>Three aspects of organizational adaptability: technological mode, market focus, and organizational design.</i></li> </ul>	(Tuominen et al., 2004)
7.	External Strategic Adaptability	<ul style="list-style-type: none"> <li>- <i>A firm's ability to identify and capitalize emerging market and technology opportunities, which, in turn, implies changes in a firm's strategic posture.</i></li> </ul>	(Tuominen et al., 2004)

Data were analyzed with Structural Equation Modelling (SEM) using Lisrel 8.8 on the basis of the theoretical causal model in Figure 1. This step was performed to test the relationship between variables that build the overall research model. Three step of model fit were evaluated in terms of overall model fit, measurement model fit, and structural model fit. Overall model fit measures goodness of fit between data and model. Measurement model fit evaluates the relationship between observation indicators with latent variables in each construct. Structural model fit examines the significance of an estimated co-efficient to test the hypothesis (Hair *et al.*, 2018).

## THE RESULTS OF STATISTICAL TESTS

The data processing with EFA results in 4 dimensions of structural embeddedness (SE), two dimensions of cognitive embeddedness (CE), 8 dimensions of relational embeddedness (RE), 7 dimensions of entrepreneurial behavior (EB), 8 dimensions of social knowledge exchange (SKE), 5 dimensions of external strategic adaptability (ESA), 3 dimensions of internal strategic adaptability (ISA), with some indicators that represent the latent variable accordingly.

Result of goodness of fit which are represented by some indicators as shown in Table 2 shows a good fit between data and model.

**Table 2.** Result of goodness of fit

Indicator	Standard	Estimation	Conclusion
RMSEA	$RMSEA \leq 0.08$	$RMSEA = 0.072$	Good fit
NFI	$NFI \geq 0.90$	Normed Fit Index (NFI) = 0.95	Good fit
NNFI	$NNFI \geq 0.90$	Non-Normed Fit Index (NNFI) = 0.96	Good fit
CFI	$CFI \geq 0.90$	Comparative Fit Index (CFI) = 0.96	Good fit
IFI	$IFI \geq 0.90$	Incremental Fit Index (IFI) = 0.96	Good fit
RFI	$RFI \geq 0.90$	Relative Fit Index (RFI) = 0.94	Good fit
RMR	$RMR \leq 0.05$	Root Mean Square Residual (RMR) = 0.028	Good fit
SRMR	$SRMR \leq 0.05$	Standardized RMR = 0.077	Good fit
GFI	$GFI \geq 0.90$	Goodness of Fit Index (GFI) = 0.82	Marginal fit

Source: (Data Processed, 2019)

Measurement model fit also meets the standard of reliability and validity, by yielding the score of Standardized Factor Loading (SFL)  $\geq 0.50$ , Construct Reliability (CR)  $\geq 0.70$  and Variance Extracted (VE)  $\geq 0.50$  (Table 3).

**Table 3.** Measurement model fit of latent variables

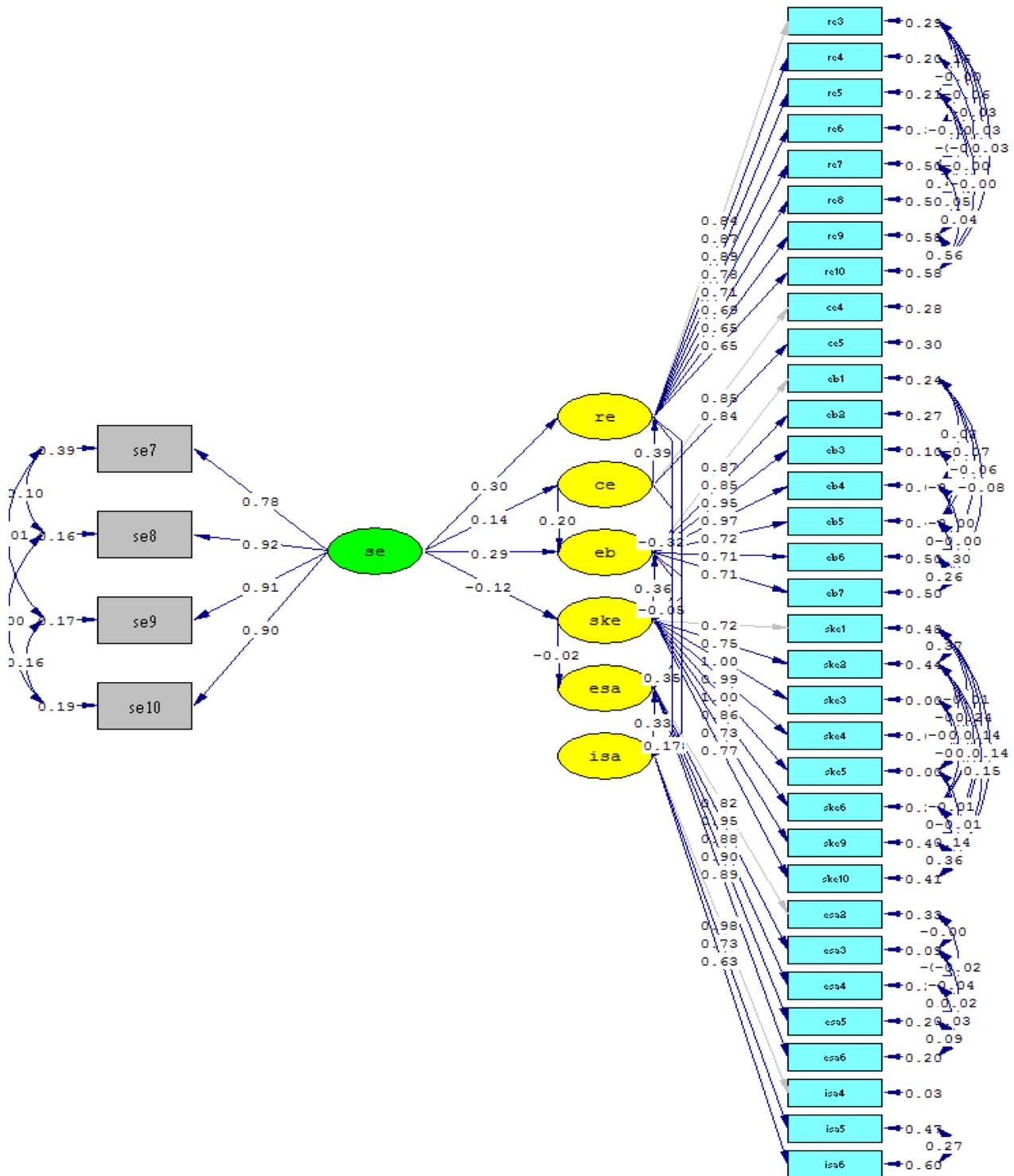
Variable	SFL $\geq 0.50$	CR $\geq 0.7$	VE $\geq 0.5$	Notes
Structural embeddedness (Se)		0.931217	0.772665	Reliable
Se7	0.78			Valid
Se8	0.92			Valid
Se9	0.91			Valid

Se10	0.90			Valid
Relational embeddedness (Re)		0.919187	0.590587	Reliable
Re3	0.84			Valid
Re4	0.87			Valid
Re5	0.89			Valid
Re6	0.78			Valid
Re7	0.71			Valid
Re8	0.69			Valid
Re9	0.65			Valid
Re10	0.65			Valid
Cognitive embeddedness (Ce)		0.831204	0.71117	Reliable
Ce4	0.85			Valid
Ce5	0.84			Valid
Entrepreneurial behavior (Eb)		0.93848	0.688894	Reliable
Eb1	0.87			Valid
Eb2	0.85			Valid
Eb3	0.95			Valid
Eb4	0.97			Valid
Eb5	0.72			Valid
Eb6	0.71			Valid
Eb7	0.71			Valid
Social knowledge exchange (Ske)		0.958971	0.748623	Reliable
Ske1	0.72			Valid
Ske2	0.75			Valid
Ske3	1			Valid
Ske4	0.99			Valid
Ske5	1			Valid
Ske6	0.86			Valid
Ske9	0.73			Valid
Ske10	0.77			Valid
External strategic adaptability (Esa)		0.949431	0.790059	Reliable
Esa2	0.82			Valid
Esa3	0.95			Valid
Esa4	0.88			Valid
Esa5	0.90			Valid
Esa6	0.89			Valid
Internal strategic adaptability (Isa)		0.832715	0.632132	Reliable
Isa4	0.98			Valid
Isa5	0.73			Valid
Isa6	0.63			Valid

Source: (Data processed, 2019)

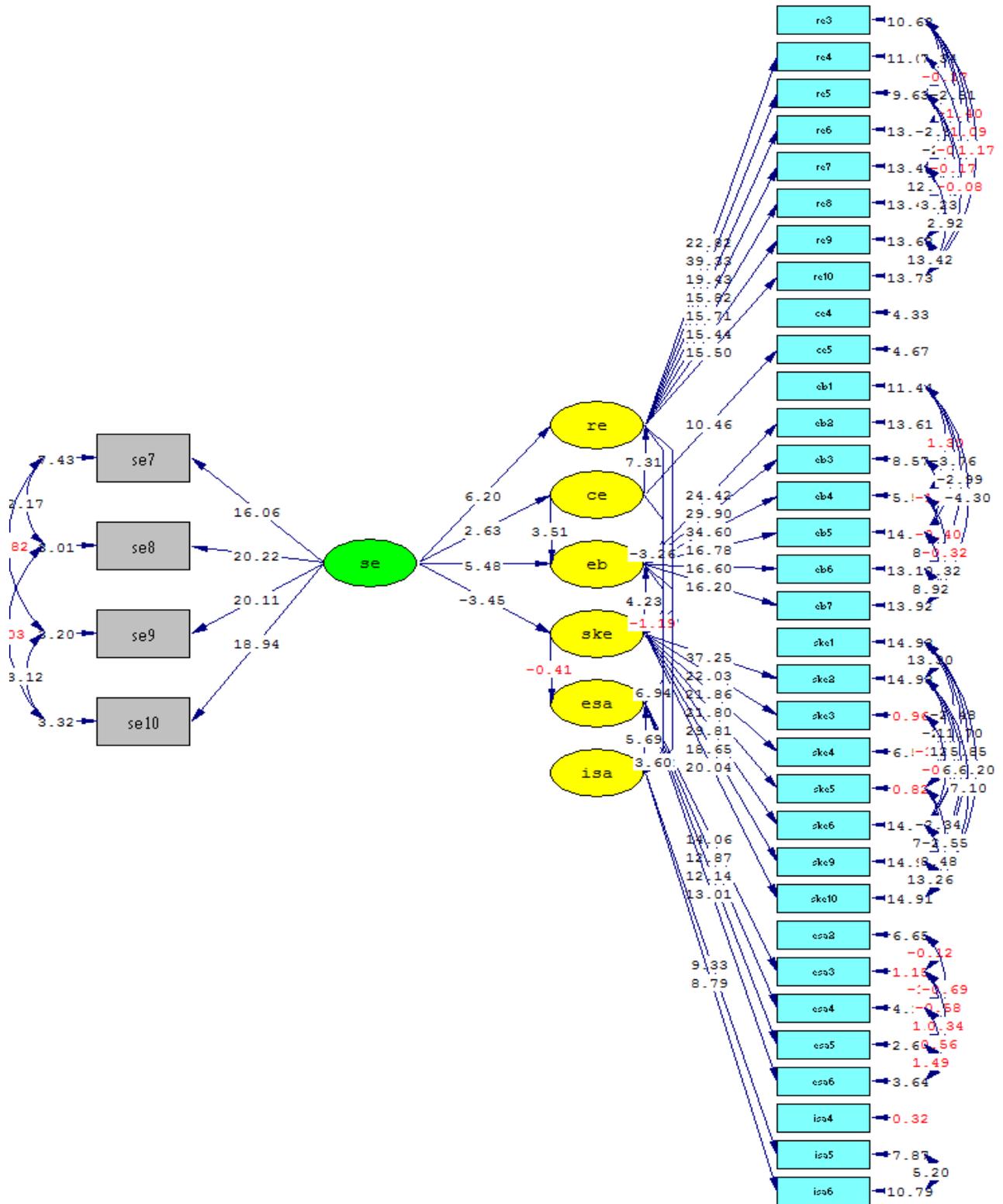
Structural model fit is associated with hypothesis testing. The hypothesis is accepted when the absolute t value  $\geq 1.96$  (Hair *et al.*, 2018). The result shows that all relationship between latent variables are accepted for t value is greater than 1.96 (Figure 2, Table 4)

Figure 2. Overall model



Chi-Square=1853.66, df=560, P-value=0.00000, RMSEA=0.072

Figure 3. T value of Overall model



Chi-Square=1853.66, df=560, P-value=0.00000, RMSEA=0.072

**Table 4.** Hypothesis Analysis

No	Hypothesis	Coefficient	T value	Description	Conclusion
1	Structural Embeddedness (Se ) → Cognitive Embeddedness (Ce)	0.14	2.63	Significant	Accepted
2	Structural Embeddedness (Se ) → Relational Embeddedness (Re)	0.30	6.20	Significant	Accepted
3	Cognitive Embeddedness (Ce) → Relational Embeddedness (Re)	0.39	7.31	Significant	Accepted
4	Structural Embeddedness (Se )→ Social Knowledge Exchange (Ske)	-0.12	-3.45	Significant	Accepted
5	Cognitive Embeddedness (Ce) → Social Knowledge Exchange (Ske)	-0.05	-1.19	Not Significant	Not Accepted
6	Relational Embeddedness (Re) → Social Knowledge Exchange (Ske)	-0.05	-1.19	Not Significant	Not Accepted
7	Structural Embeddedness (Se ) → Entrepreneurial Behavior (Eb)	0.29	5.48	Significant	Accepted
8	Cognitive Embeddedness (Ce) → Entrepreneurial Behavior (Eb)	0.20	3.51	Significant	Accepted
9	Relational Embeddedness (Re)→ Entrepreneurial Behavior (Eb)	-0.32	-3.26	Not Significant	Not Accepted
10	Social Knowledge Exchange (Ske ) →Entrepreneurial Behavior (Eb)	0.36	4.23	Significant	Accepted
11	Social Knowledge Exchange (Ske) → Internal Strategic Adaptability (Isa)	0.17	3.6	Significant	Accepted
12	Entrepreneurial Behavior (Eb )→ Internal Strategic Adaptability (Isa)	0.17	3.6	Significant	Accepted
13	Entrepreneurial Behavior (Eb )→ External Strategic Adaptability (Esa)	0.36	6.94	Significant	Accepted

14	Social Knowledge Exchange (Ske) → External Strategic Adaptability (Esa)	-0.02	-0.41	Not Significant	Not Accepted
15	Internal Strategic Adaptability (Isa ) → External Strategic Adaptability (Esa)	0.33	5.69	Significant	Accepted

Source: (Data processed, 2019)

Notes: +) Co-efficient>0 means positive influence \*) T-value>1.96 means significant influence

## DISCUSSION

Of the 15 hypotheses tested, 11 significant and accepted hypotheses were found. From the test results it was found that the effects of relational embeddedness on social knowledge exchange and entrepreneurial behavior were not significant. Thus, in this research, is not enough evidence that relational embeddedness act as a social capital which able to strengthen strong ties among entrepreneurs, which in turn will influence their future actions and interpretations (Brashears and Quintane, 2018). Without trust, shared identity, and mutual obligations of support, industrial district members' knowledge of each other is not enough to improve their entrepreneurial behavior and to encourage the exchange of knowledge between them (Bird and Zellweger, 2018).

Relational embeddedness which is characterized by a high degree of trustworthiness is not enough evidence able to enhance the intensity of social knowledge exchange within an industrial district. Empirical data does not support the significance of the role of relational embeddedness although a high level of inter-entrepreneurial mutual trustworthiness should makes it possible for entrepreneurs to share valuable information to each other and also minimize the risk of opportunistic behavior (Lester, 2013). Knowledge transfer is enabled only when the firm develops meaningful and trust-based relationships with other firms (Hughes *et al.*, 2014). With the lack of evidence of the role of relational embeddedness on social knowledge exchange, of course this will weaken the role of social knowledge exchange on external strategic adaptability. This argument is reinforced by the findings of the hypothesis test stating that the impact of social knowledge exchange was not significant to external strategic adaptability. Therefore the direct effects of internal strategic adaptability, entrepreneurial behavior on external strategic adaptability depend on structural embeddedness and cognitive embeddedness.

In an industrial district, social capital can be developed through the interrelationships of its two dimensions: structural embeddedness, and cognitive embeddedness. Structural embeddedness that is formed within an industrial district can enhance cognitive embeddedness among parties in doing their business activities. Homogeneity in interpreting the contents, assumptions, and expectations will reinforce the norms of reciprocity. Cognitive embeddedness as is reflected in entrepreneurial homogeneity in identifying business opportunities and problems can also enhance inter-entrepreneurial mutual trust and willingness to share information. Strong ties and relationships and the high intensity of informal communications among parties within an industrial district can create a pattern of trustful interactions. And this in turn will create mutual reciprocity that is based on high level of trustworthiness.

A high inter-entrepreneurial reciprocity can facilitate the development of social knowledge exchange which is influenced by structural embeddedness through regular social interactions among members. Social knowledge exchange can enrich entrepreneur's knowledge. The information gained will inspire entrepreneurs to search for new values that are significant for the development of their business and products. And this in turn will facilitate the development of new innovations that are significant in entrepreneurship (Marqués *et al.*, 2019).

Conflicting behavior that are reflected in entrepreneurial behavior and social knowledge exchange through its two dimensions of social capital (structural embeddedness, and cognitive embeddedness) will have effects on internal strategic adaptability. The development of innovative behavior and gaining new information will drive organizations to continuously make organizational changes by seeking informational inputs from their employees. In the high intensity of competition, social capital formed from personal networks can inhibit the exchange of knowledge among its members, this has no impact on external strategic adaptability (Carrion *et al.*, 2017).

By developing internal strategic adaptability, entrepreneurs can improve their external strategic adaptability. Organizational change can be done by improving employees' capabilities and seeking informational inputs from employees about the development of new products. These will help entrepreneurs in interpreting and adjusting themselves to the changes in consumers' demands. Entrepreneurs will be able to deliver more superior values for their consumers by developing internal and external strategic adaptabilities.

## CONCLUSION

This study reveals that entrepreneurial behavior and social knowledge exchange, which conflicting in nature, have the effects on the internal and external strategic adaptability, whose effects are dependent on two dimensions of social capital, those are structural embeddedness and cognitive embeddedness. Relational embeddedness which is characterized by a high degree of trustworthiness is not enough evidence able to enhance the intensity of social knowledge exchange within an industrial district. It was not enough evidence that relational embeddedness act as the most important component of social capital can indeed strengthen strengthen strong ties among entrepreneurs, but this influence is still widely debated.

The bonding and bridging in the social capital in an industrial district can encourage entrepreneurship and social knowledge exchange among its members. In many cases social capital only strengthens the economic activities of members but is not able to improve commercial entrepreneurship in an industrial district. The development of entrepreneurship is also influenced by cultural capital in the society (Light and Dana, 2013).

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