

2013

Small business top decision makers' involvement in business associations: A tale of two theories

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**Small business top decision makers' involvement in business associations:
A tale of two theories**

by

Yan Huang

A thesis submitted to the graduate faculty
in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

Major: Sociology

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2013

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ACKNOWLEDGEMENTS

I would never have been able to finish my thesis without the guidance of my committee members, and support from my family and friends. First and foremost, I would like to express my deepest appreciation to my major professor, Dr. Besser, for her guidance, patience, and immense knowledge. Her guidance helped me in all the time of research and writing of this thesis. I would also like to thank the rest of committee members: Dr. Bain and Dr. Yu, for their insightful comments and suggestions. My sincere thanks also go to faculties and staffs of the Department of Sociology of ISU for their academic support. Last but not least, I would like to thank my parents, Xin, and my friends. They were always supporting me and encouraging me with their best wishes.

ABSTRACT

Individuals join associations with the intention of making the best use of all the groups can offer. In business associations, members are usually top managers or owners of businesses. Business associations, formal arrangements between businesses, are widely accepted as important to business success; however little research has been conducted on how to improve members' involvement in such associations. The purpose of this study is to examine factors related to members' involvement in business associations. As two distinct approaches of social capital, the rational choice and embeddedness perspectives provide different explanations.

This study describes both theories, discusses their similarities and differences, and applies them to the topic of involvement in business associations. Using data from a sample of 1,122 members of 29 industry and community business associations, I found that members' involvement is associated with relationships, perceived benefits, and years of membership. Of particular interest may be the role of relationships which appears the most powerful motivations for involvement in business associations. In terms of years of membership, this study supports the embeddedness perspective that the longer a business top decision maker has been a member of the association, the greater his or her involvement will be.

CHAPTER 1

INTRODUCTION

Individuals join associations with the intention of making the use of all that the groups can offer. In business associations, members are usually top managers or owners of businesses who represent their businesses. A business association is defined as “a group of businesses joined in a voluntary formal organization (contains officers, by laws, dues, regular meetings) of indefinite duration having as one primary goal the enhancement of business success” (Miller, Besser, & Malshe, 2007). Business association is another word for formal business network. In this study, I focus on formal networks and use the term “association” instead of “network”. Business associations can bring lasting benefits to members, including access to timely information, resources, and technologies, and the ability to share risks and benefits with other members (Gulati, Nohria, & Zaheer, 2000; Dennis, Jr. & William, 2003). Small businesses account for half of private sector non-farm employment and represent the majority of businesses. Small businesses are defined as for-profit enterprises with fewer than 500 employees. (U.S. Small Business Administration, 2012). Associations may have more influence on small business members than on large business members. Larger businesses can use their power to obtain access to information and resources from other sources, but small business managers or owners usually must rely on associations to receive similar opportunities (Davis, Renzulli, & Aldrich, 2006; Besser & Jarnagin, 2010).

Although there are hundreds of business associations, little research has been conducted with respect to improving members' involvement to help enhance association successes. Members' involvement in an association is defined as the behavior of an individual to engage and participate in activities that support the associations' goals (Gould, 1979; Mosley, 2010), for example, serving as an officer, or serving on the board of directors. For business associations, members' involvement is important. At the basic level, an association's existence obviously depends on recruiting and retaining members, so member retention is critical. There are benefits that accrue to all members (Jarillo, 1988; Poh & Erwee, 2005) and benefits available only to involved members (Kotler, 1987; Barrett et al., 2005). First, regardless of involvement level, all members benefit from the lobbying and public relations efforts of the association. Involved or not, members have access to group rates for health and life insurance. Over and above these general membership benefits, involved members gain from networking at association events. Those who serve as officers or on board of committees become known to other members and are likely to be invited to participate in lucrative cooperative ventures (Adler & Kwon, 2002). Involved members also are more likely to build trusting relationships with other members. These trusting relationships can lead to other benefits such as sharing resources and risks with other businesses (e.g., referring customers, sharing employees) (Rayport & Sviokla, 1999). Moreover, the greater the number of members who are involved, the less organizational work is required of any one member, so more work gets done without being burdensome on just a few members.

I propose that social capital is associated with members' involvement. Social capital is defined as relationships characterized by trust and norms of reciprocity that provide resources for individuals and collective goal achievement (Putnam, 1993). Two perspectives of social capital theory are used to explain members' involvement: embeddedness and rational choice. Both perspectives recognize social capital as a factor associated with involvement (Coleman, 1988; Putnam, 2000). Member involvement can help build trusting relationships, and these trusting relationships can generate resources to help individuals and groups achieve goals. In addition, both perspectives agree that individuals will act for their self-interest. Benefit and cost are part of the equation used by rational individuals to determine whether a particular action is in their best interests. But the embeddedness perspective indicates that members' motivations are influenced by group norms and values. Therefore, I include perceived benefits in my analysis.

However, the two perspectives differ in their ability to predict the involvement of members who have been in the association for the longest time. The length of membership is an important distinction of the two perspectives (Montgomery, 1998). The rational choice perspective of social capital posits that new members are more likely to be involved because they want to receive maximum benefits available through getting to know people, and building trusting relationships with other members (Gruen et al., 2000). Those who have been members for a longer time have already known most other members and have realized the associated benefits that involvement provides. Therefore, the longer they have been members, the less likely they are to be involved, and the more likely they are to be "free-riders" (Somma, 2010). The embeddedness perspective

proposes a different explanation for members' involvement in business associations. The longer a business owner has been a member of an association, the more trusting relationships he or she has developed with other members. These relationships represent invitations to become involved and obligations to return previously received favors (Granovetter, 1985). Instead of decreasing involvement due to the diminishing value of membership with each additional year as the rational choice perspective posits, long time members will be more likely to identify with the goals of the association and contribute to the realization of those goals (Granovetter, 1985).

Using data from members of 29 business associations (Besser, et al., 2006), this study will analyze the relationships between years of membership, social capital, perceived benefits, and Members' involvement. I then test hypotheses designed to identify the roles of these factors. The role of years of membership and perceived benefits in influencing member involvement will be elaborated with the embeddedness perspective and rational choice perspective of social capital. Before applying these two perspectives to the topic of members' involvement, I will provide an overview of the theoretical framework, and then apply it to members' involvement in business associations.

In this thesis, I focus on addressing the following research questions.

- 1) What factors influence members' involvement in business associations?
- 2) What is the difference between the embeddedness perspectives and the rational choice perspectives in explaining members' involvement?

CHAPTER 2

LITERATURE BACKGROUND AND THEORETICAL FRAMEWORK

Business Associations

Business associations have been shown to help small businesses achieve success (Greve & Salaff, 2003; Davis, Renzulli, & Aldrich, 2006). There are four types of business associations: community-based, industrial, regional clusters, and supply chains (Inkpen & Tsang, 2005). This study focuses on industrial and community-based associations. Community-based associations comprise businesses that share a common location (e.g., the Ames Chamber of Commerce). Industrial associations are organizations of businesses that share a common product or service. Examples of industry associations include the Iowa Bankers Association and the Minnesota Soybean Association.

Association is another word for formal network. Before I discuss the benefits resulting from association membership, it is important to note the distinction between informal networks and associations. Informal networks refer to “interpersonal relationships developed from informal social gatherings and meetings” (Inkpen & Tsang, 2005), and have no permanent structure, while associations follow the organizational structure defined by organizations or associations. Informal networks require members to be involved, or they are excluded from the network. However, regardless of involvement level, members of business associations can obtain general membership benefits, and involved members can gain greater benefits.

Existing research indicates that membership in business associations can provide economic and social benefits to members that are not available to non – members. Economic benefits result from enhanced profits from resources available to all members, (e.g., influencing favorable legislation, participating in association-offered insurance plans, attending association-sponsored workshops). Involved or not, members will enjoy group rates for health and life insurance. Another important economic benefit of association membership is information sharing (Jarillo, 1988; Baker & Iyer, 1992; Nelson, 2004) through which members can gain both industry knowledge and self-knowledge. Information sharing allows businesses to become more aware of their environment and competitors, and helps them stay on the leading edge of trends (Greenhalgh, 2001; Poh & Erwee, 2005). Information sharing can also be beneficial in achieving adoption of new technology (Malecki & Tootle, 1996). In sum, businesses obtain trustworthy and timely information about the environment, market, industry trends and innovations which can help promote business success.

Besides information sharing, business associations can also generate new opportunities for lucrative cooperative ventures and new customers (File & Prince, 1992; Jain, 2011). The referrals that members get from other members in the associations are often high quality. In other cases, association members can get referrals for services such as building maintenance and accounting¹. Moreover, through business associations, companies can establish a strong and unified presence and protect their common

¹ California Small Business Association website <http://www.csba.com/about/membership/> and Mckenzie Business Association website <http://www.mbaleads.com/purpose.cfm>

interests (MaCormick et al, 2008). Moreover, industrial associations also perform activities like setting industry standards.

In addition to economic benefits, business associations can benefit members as individuals. Although the primary goal of members are to enhance their business success, business associations contribute to building relationships among members (Malewicki, 2005). Not only can these relationships be good to business success (Ring & Van de Ven, 1994), but they can also benefit business owners. First, the relationships developed among members can provide psychological support for members (Lowe & Marriott, 2006; Anderson, Hakansson, & Johanson, 1994). Second, members can improve their social and personal skills through interactions with other members (Langer, 1975; Hoch & Ha, 1986).

The benefits of association membership are related to the length of membership as well. Business owners receive the greatest benefits from association membership in the early stages of business development (Bhide, 2000; Huggins, 1998; Greve & Salaff, 2003). New members are likely to be new business owners who are engaged in the process of developing knowledge in a variety of areas and, therefore, are most in need of information and other resources. In addition to benefits, there are also costs associated with membership. Members pay membership dues, and spend time in association activities. Moreover, members must follow the written rules of the association, which may restrict individual freedoms (Portes & Landolt, 2000); for example, some business associations require members to sign confidentiality agreements before joining the associations.

It is clear from the research reviewed above, that relationships among members of associations are a critical avenue through which benefits are realized. Social capital theory provides greater insight into the association of personal linkages and their outcomes. Before turning to the discussion of how business associations facilitate the formation of social capital, and how the embeddedness and rational choice perspectives lead to different predictions about the relationship regarding years of membership, perceived benefits and involvement, it is necessary to elaborate social capital theory in general.

Social Capital

The term “social capital” has received considerable attention among economists, sociologists, and political scientists. Social capital in this study is defined as relationships characterized by trust and norms of reciprocity that are beneficial to individuals and groups. Fundamental to social capital theory is the concept that networks are a resource that can enhance access to other resources to individuals or groups. Within the social capital literature, two perspectives emerged. One is the rational choice perspective, which focuses on the outcomes of social capital for individuals motivated by self-interest. The other is the embeddedness perspective which identifies social capital as a resource for collectivities and individual’s motivation is also influenced by group norms, values and beliefs.

Rational Choice Perspective

The rational choice perspective treats the collectivity as an aggregate of individuals and, social capital as a private good used by individuals. “Basic to all forms

of rational choice theory is the assumption that complex social phenomena can be explained in terms of the elementary individual actions of which they are composed” (Scott 2000: 233). This view of society forms the basis for the central proposition on which rational choice perspective is predicated: social capital is used by individuals in their pursuit of self-interests (Useem & Karabel, 1986; Burt, 1997). The rational choice perspective differs from the embeddedness perspective which argues that the collectivity is an entity partially independent of the people who compose it.

In addition, it is noteworthy to mention that self-interest is scaled from individual to business and national interests (Kaler, 2000). Individual’s self-interest generally refers to the needs or desires of oneself, which consists of not only economic self-interest, but also personal emotional self-interest, like pride (Miller, 1999). However, business self-interest is “most readily thought of in terms of commercial success and, more particularly, profit” (kaler, 2000). Therefore, businesses are considered as profit maximizers. In this study, business owners have a direct relationship to the economic self-interest of businesses. Even if what is considered as economic self-interest “must be ultimately reduced to psychological gratifications, those gratifications are arrived at through the pursuit of economic self-interest and so to that extent remain describable as economic” (kaler, 2000).

Granovetter (1985) criticizes that rational choice perspective is an “undersocialized” view of human behavior. It assumes that people are rational and self-interested, and affected minimally by social relations. Therefore, individuals’ decisions

do not depend on what others think and expect, but their own interest. In other words, individuals only care about the pursuit of self-interest.

The rational choice stream of social capital theory is introduced by Coleman (1988). The central idea is that individuals create social capital for their own self-interest based on a rational assessment of the costs incurred and the benefits provided (Coleman, 1990). Coleman (1988) identifies the actor as “having goals independently arrived at, as acting independently, and as wholly self-interested”. He assumes that each individual has control over certain resources. Social capital is one resource that facilitates individual capability for achieving self-interest goals. That is, individuals must foresee the outcomes of alternative choices and calculate the best methods for reaching them and then act on those deliberations.

Benefits and cost are part of the equation individuals use to determine whether a particular action is in their best interests. For each choice, individuals consider several factors. The first is the extent of actual benefits or positive outcomes of the choice. The second relates to the necessity to calculate the cost of such choice (Snow & Oliver, 1995). Third, individuals also calculate the likelihood of the benefit and cost occurring. If greater benefit is unlikely even if the costs are low, the individual may decide against taking the action. In addition, individuals consider the opportunity costs of any particular actions. Rational individuals try to maximize their benefits and minimize their cost (Scott, 2000). Wilson (1973) recognizes three forms of costs and outcomes: *material* benefits and costs, the basic goods and services, and monetary returns or expenditures; *solidarity* benefits and costs, the frustration, rejection, support and pleasure possible

from social relationships; and *purposive* costs and benefits that concern individuals' self-esteem and confidence through possession of the material and solidarity benefits. All of these benefits and costs are included in the members' calculation about belonging and then becoming involved in business associations. I will elaborate the greater benefits and costs of involvement in business association later.

Embeddedness Perspective

While the rational choice perspective claims that social capital is created and used by individuals for their personal self-interest, the embeddedness perspective looks beyond self-interested individual actions to collective benefits (Uphoff & Wijayaratra, 2000), and how individual motivations are influenced by group norms, values and beliefs (Granovetter, 1985). Although the two perspectives share some similarities, conceptually more interesting are the differences between the two perspectives.

Karl Polanyi (1944) introduced the concept "embeddedness" which was further developed by Mark Granovetter (1985). Granovetter (1985) insists that economic relationships within and among individuals are embedded in social networks. The embeddedness perspective emphasizes on "the role of concrete personal relationships and structures (or networks) of such relations in generating trust" (Granovetter, 1985).

Granovetter's (1985) argument is in the middle ground of economic theory, which he argued is "undersocialized", and existing sociological theory which is "oversocialized". He points out that the rational choice perspective overestimates the power of the market and hierarchies, and underestimates the influence of social relations and social structure. The oversocialized view maintains that the action between

individuals is predicted by social relations, and the economy is separate from society. Granovetter (1985) supposes that people might work for collective ends without becoming referring to the “oversocialized” picture of people. He realizes that it is more accurate to view economic rationality as embedded in social relationships. “Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy” (Granovetter, 1985). People work for collective ends and do not cheat since “individuals with whom one has a continuing relation have an economic motivation to be trustworthy”, and “departing from pure economic motives, continuing economic relations often become overlaid with social content that carries strong expectations of trust” (Granovetter, 1985). Nevertheless he also mentions that these social relations are not sufficient to guarantee these behaviors and even provide opportunities for malfeasance.

Granovetter (1973) suggests a notion of social ties that implies that networked businesses are embedded in social relations that over time can generate outcomes such as trust and expectation of reciprocity. The underlying meaning in the embeddedness perspective is the idea that group members are expected to contribute to the group while receiving benefits from the group (Flora, 1998). People who take the embeddedness perspective look beyond self-interested individual actions to collective beneficial actions and collective negotiation of meaning. It is now generally accepted among social researchers that economic actions are embedded in social relations, and the behavior of business owners is influenced by the social environment (Uzzi, 1999).

The concept of social capital owes much of its resonance to the perspective Robert Putnam (1993, 1995, and 2000) introduced. Putnam argues that social capital can be used for individual interests, in the meantime, his work also calls attention to social capital as a resource for communities, regions, and nations. In his well-known book *Bowling Alone: The Collapse and Revival of American Community*, Putnam (2000) finds that social capital has decreased in the United States as measured by declining membership in voluntary organizations, and trust among people. By acknowledging the impact of social relations on people's motivations, Putnam recognizes three important notions: moral obligations and norms, social value (especially trust) and relationships.

Social capital theory is not without critics. Portes (1998, 2000) argues that neither Coleman nor Putnam clearly distinguishes between the "ability to secure resources" and "the resources themselves", and that social capital literature fails to include the "less desirable" consequences. To partially address the criticism of early social capital conceptualizations and research, Putnam (2000) separates social capital into bonding and bridging variations. Bonding social capital is formed within groups, and benefits mostly group members rather than non-members (Putnam, 2000). It is characterized by strong relationships between members of a group, who are usually like each other in important demographic dimensions. Moreover, bonding social capital strengthens the sense of belonging and solidarity, and improves the groups' ability to motivate members' to act together for mutual benefits. Bridging social capital is characterized by relationships between members of different groups with diverse social cleavages. Bridging social capital makes it possible for people to access a broad range of

opportunities and sources of useful information. By introducing different types of social capital, Putnam and other researchers explain the potential negative effects of social capital, such as exclusion from too much bonding social capital, and not enough bridging social capital.

The Role of Business Associations in the Formation of Social Capital

A business association is a type of social network and can play an important role in the formation of social capital. It can provide opportunities for new relationships as well as strengthening existing relationships between members. First, a business association works to recruit new members, which provides members opportunities to develop new relationships. The other way is to host association activities like regular meetings, workshops, and golf outings. Because association activities are more than just showing up and shaking hands, they offer members a way to extend their range of personal contact. Members can get to know each other, talk with each other, share market information, and even develop friendship.

From the rational choice perspective, association activities offer members the opportunity to obtain benefits (e.g. finding potential partners, sharing market information). Once members build trusting relationships with other members, additional benefits are associated with these trusting relationships, such as resource sharing (Lin, Ensel, & Vaughn, 1981; Burt, Hogarth, & Michaud, 2000), and risk sharing (Bygrave, 1987; Barnir & Smith, 2002). Therefore, members are likely to develop new relationships and strengthen existing relationships with other members in the association as long as they can benefit from such relationships.

From the embeddedness perspective, a business association not only can host association activities that facilitate relationships between members, but it also has association goals, norms and values. These norms and values play an important role in influencing members' motivation to develop relationships with other members. The relationships among members represent invitations to become involved and obligations to return previously received favors. It is about building long-lasting relationships with other members rooted in a connection developed over time. Members who identify with the goals of the association may maintain and strengthen relationships without expecting anything in return. In this way, business associations contribute to facilitating the formation of social capital.

Members' Involvement in Business Associations

In this study, involvement differs from membership and participation. Membership is a fact of being a member of an association which requires paying dues and meeting other minimal expectations as specified by the association. Participation is defined as the degree to which members use and enjoy an association's services, for example, web site view or newsletter use, meeting or program attendance. However, involvement is an advanced behavior that includes participating in an association's regular meetings and activities, serving as an officer, or serving on the board of directors (Useem, 1979). According to every theory of human behavior that I know of, there will be variation in members' involvement.

Involvement in business associations is believed to bring greater benefits than membership. A member's involvement in a business association is likely to increase the number of his or her relationships with other members (Kotler, 1987). If members in a business association develop relationships with other members, they will be more apt to trust each other and share common values (Adler & Kwon, 2002; Barrett et al., 2005; Wiewel & Hunter, 1985). Miller et al. (2007) suggest that trust is necessary for business members' participation and continuance. Moreover, these trusting relationships can result in benefits like sharing resources (e.g., referring customers, sharing employees) and risks. Resource sharing allows businesses to decrease transaction costs, and achieve economies of scale (Rayport & Sviokla, 1999; Culpan, 1993), so that they can "stay small, but act big" (Human & Provan, 1996). Resource sharing "should use risk as a driver" (Nigro & Abbate, 2011). Risk sharing occurs in risky exchanges like developing products together and purchasing resources or equipment together (Besser et al., 2005). In addition, according to Granovetter (1985), information from trusting relationships is cheap, rich, detailed and accurate.

The rational choice perspective and embeddedness perspective provide two explanations for why members become involved in business associations and what factors are related to members' involvement. Both perspectives suggest that members of the associations will act rationally, so involvement in business associations is associated with perceived benefits. However they differ in their ability to predict the variation of involvement by years of membership.

Rational Choice Perspective and Members' Involvement

This rational choice perspective considers atomized individuals and economic goals, individuals are rational and self-interested. Actors are expected to sacrifice or be more involved only when it is necessary to access group resources. Therefore, members of business associations are expected to be more involved only when they can access association resources or obtain perceived benefits (Gruen et al, 2000). The less they invest, the less they will expect to be paid (Houston & Gassenheimer, 1987).

Costs and benefits are the main considerations for individuals in making decisions, in this case, deciding whether or not to become involved. The benefits of involvement discussed earlier are one consideration for members' involvement. The other consideration is the costs of involvement. From the rational choice perspective, the costs associated with involvement are greater than the cost of membership. The foregoing discussion in the "business association" section has shown that the cost of membership is money (membership dues). For specific associations, members may also have to spend time to attend association activities required by the association. In addition, members have to follow the written rules of the association, which may restrict individual freedoms. The costs of involvement include not only the cost of membership, but also extra time, money, and emotional involvement. Involved members need to spend time to attend board of directors meetings and participate in managing the association. As the officers of the association, involved members also take on extra duties and responsibilities to other members. For example, they may need to answer questions, and care for other members. In addition, there are considerations of the

opportunity costs of belonging or being involved in an association. Members must decide whether involvement is a good use of time and money compared to other ways to spend their time and money. Paying dues or membership fees raises the need for the exchange of benefits (Thorelli,1986).

Involvement is particularly important to new members who are in need of these trusting relationships to access association resources and obtain benefits (Bhide, 2000; Huggins, 1998; Greve & Salaff, 2003). New members who want to receive maximum benefits will be more involved, thereby getting to know other members, and building trusting relationships with them. Once the trusting relationships are built, members realize these benefits. Those who have been members for a longer time have already known people and have realized all the benefits that involvement provides them. Benefits will be diminishing with each additional year and there will be greater costs associated with involvement than membership. There is no longer any “rational” self – interested reason to be involved. Therefore, members are unlikely to be involved and are more likely to act as “free riders” to enjoy the benefits of associations without paying for them (Cress, MePherson, & Rotolo, 1997; Somma, 2010).

Embeddedness Perspective and Members’ Involvement

The embeddedness perspective argues that individuals will act for their personal self-interest, but their motivations will be influenced by group norms, and values. That is, individuals’ economic rationality is embedded in social relations. According to the embeddedness perspective, the primary consideration of a business owner in joining an association is whether the benefits outweigh the costs. For new members, involvement is

associated with perceived benefits. However, as members of the association, they are not only driven by their economic goals, but also by association values and collective ends. Therefore, instead of decreasing involvement due to the diminishing benefits with each additional year as the rational choice perspective posits, long-time members will be more likely to identify with the goals of the association, and contribute to the realization of those goals. In other words, the longer a business owner has been a member of an association, the more trusting relationships he or she has developed with other members. These relationships represent invitations to become involved and obligations to return previously received favors. To be specific, the more people with whom a member has trusting relationships, the more likely he or she is to do them a favor (when they ask him or her to help out on an association project) or owe them a favor because they helped him or her with something previously. In sum, the longer a business owner has been a member of an association, the greater his or her involvement will be.

To sum up, both of the perspectives posit that members' involvement is associated with social capital and perceived benefits. However, the embedded perspective predicts that the longer a business top decision maker has been a member of the association, the greater his or her involvement will be, while the rational choice perspective posits the opposite.

Hypotheses

Based on the preceding discussion about the different implication of rational choice perspective and embeddedness perspective of social capital on members' involvement, the following hypotheses are proposed:

H1: Members' involvement in business associations is positively associated with social capital.

H2: Members' involvement in business associations is positively associated with perceived benefits.

H3: Members' involvement in business association is positively associated with years of membership (embeddedness perspective).

H3': Members' involvement in business association is negatively associated with years of membership (rational choice perspective).

CHAPTER 3

METHODOLOGY

Data and Sample

Data for this study is from a survey of members of business associations conducted in 2005. The overall purpose of this study was to examine the association of business associations and rural community economic vitality (Besser et al., 2006). Given this purpose, two kinds of business associations were chosen: state industrial associations and community – based business associations. A sampling frame of 797 industry and community business associations was created and stratified by state², association type (industry vs. community), association age, and for community-based associations, by town population (500 to 3,500 and 3,501 to 10,000). The goal was to maximize the variation across industries and communities. The sample of industrial associations was selected by systematic random sampling and purposive sampling. To ensure the variation of community – based associations, the non – chamber of commerce business associations were oversampled. The chambers of commerce were randomly selected within town population size and state strata. The sampling process is shown in Table 1. A total of 77 business associations were selected (Besser et al., 2006; Besser & Miller, 2011; Besser, Miller, & Perkins, 2006).

²The states chosen for this study are Iowa, Minnesota, Nebraska, and Ohio.

Table 1. Sampling Process Description

Sampling frame	797 industry and community business associations
Association sample selected	77 business associations
Association sample included	29 business associations (10 community based associations and 19 industrial associations)
Sampling frame for the member interviews	2,071 members in 29 associations
Sample size for this study	898 members in 29 associations

12 directors were unable to be reached, six associations were ineligible, 19 directors refused to participate, and 11 directors did not follow up to supply member lists. If these associations were removed from the sample, the response rate for associations was 49 percent. 29 associations were included in the final sample. Among the 29 associations, there were four chambers of commerce and six other community business associations. The 19 industrial associations included four in agriculture, two in construction, two in finance, real estate, and insurance, three in manufacturing, three in retail and hospitality, two in business services, one in personal services, and two home-based business associations. One failed industry association was included and matched with an association in the same industry in another state.

Systematic random sampling was used to select members from the member lists of associations. For associations with fewer than 90 members, all members were included. The selected members were interviewed by trained interviewers using Computer Assisted Telephone Interviewing technology. Interviews lasted about 25

minutes. The sample size was 2,071 members, and 1,122³ members completed the full interviews. The overall response rate for members after removing the ineligible and partial interviews was 54.2 percent (range from 24.4 to 88.0 percent by association) (Besser et al., 2006; Besser & Miller, 2011; Besser, Miller, & Perkins, 2006).

There was no significant difference in response rates by association type or size. Among the 1,122 respondents, 898 members owned or managed a business. The remainders were association members who did not represent a business or were not the top decision maker for the business. Since the target population for this study is business top decision makers, the sample size for this study is 898 members in 29 associations.

Operationalization

This study focuses on four concepts, members' involvement, perceived benefits, social capital, and years of membership. The dependent variable, members' involvement, and the independent variables, perceived benefits, and social capital were created from several questions combined into a single variable using principal component factor scaling. The independent variable, relationships and years of membership were measured by two questions. The responses to some questions are reverse coded when necessary. The reliability of the factor scaled variables was determined by computing the Cronbach's alpha (Cronbach, 1951). The factor scale statistics and the alpha scores of 0.50 or more were considered to be acceptable (Kim & Mueller, 1978). The exact questions and factor scale statistics are shown in Table 2.

³ 176 ineligible, 466 could not be reached or interview could not be scheduled, 283 refused to participate, 23 partially completed the interview.

Table 2. Factor Loadings for Involvement, Perceived Benefits, Social Capital, and Years of Membership. (n=898)

	Mean	S.D.	Factor score
Members' Involvement			
1. Have you been an officer of the _____ (1 = no, 2 = yes)	1.16	.37	.81
2. Have you served on the Board of Directors (1 = no, 2 = yes)	1.20	.40	.83
3. Have you served on a committee (1 = no, 2 = yes)	1.36	.48	.78
4. Did you attend last membership meeting (1 = no, 2 = yes)	1.37	.48	.60
5. How would you rate your involvement in association activities (1 = not at all active, 2 = not very active, 3 = somewhat active, 4 = very active)	2.27	.97	.76
<i>Cronbach's alpha = .76 Percent variance explained = 57.83</i>			
Perceived Benefits			
<i>How has the association impacted yourself or your business: 1= no benefit 5 = critical benefit</i>			
<i>Perceived Benefits to the Business</i>			
1. Access to financial resources	1.80	1.09	.62
2. Securing new domestic customers or suppliers	2.04	1.17	.60
3. Improving work practices or productivity	2.50	1.25	.82
4. Providing Training for employees	2.30	1.38	.67
5. Access to technology	2.53	1.30	.78
6. Contributing to service or product development	2.39	1.23	.83
7. Accessing additional production facilities	1.70	1.03	.63
8. Improving delivery or distribution	1.83	1.10	.73
9. Improving quality	2.47	1.30	.84
10. Improving marketing	2.67	1.28	.79
11. Influencing favorable legislation	3.29	1.48	.69
<i>Cronbach's alpha = .91 Percent variance explained = 54.24</i>			
<i>Perceived Benefits to the Individual</i>			
1. Reducing personal stress	1.89	1.10	.78
2. Providing personal emotional support	2.17	1.26	.84
3. Providing opportunities for personal socializing	2.96	1.26	.80
4. Enhancing market knowledge	2.86	1.28	.71
5. Improving management skills	2.54	1.29	.82
<i>Cronbach's alpha = .85 Percent variance explained = 62.60</i>			

Social Capital***Trust***

What are your expectations and experiences as a member of the association?

1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

1. I can rely on members without fear they will take advantage of me or my business.	3.97	.87	.83
2. In general, people in the association will always keep their word to you.	4.00	.73	.83
3. If I need something, I wouldn't hesitate to contact an association member.	4.10	.77	.70
4. When something needs to get done, the whole membership pitches in and helps out.	3.12	.98	.59

Cronbach's alpha = .72 Percent variance explained = 55.24

Relationships

What proportion of the association members do you know on first name basis? (<i>1 = None/almost none, 2 = about one fourth, 3 = about half, 4 = about three fourths, 5 = all/almost all</i>)	2.37	1.25	
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Years of Membership

	13.02	11.97	
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A factor scaled variable derived from five questions was created to measure members' involvement. The first four questions were designed to ask members to report their involvement activities in associations. The respondents were asked whether they have been an officer of the association, whether they served on the board of directors, and whether they attended the last general membership meeting. The responses were coded "yes" or "no". The last question captured an overall sense of the members' evaluation of their involvement: "How would you rate your involvement in association activities?" with response categories of 1 = not at all active, 2 = not very active, 3 = somewhat active, 4 = very active. As shown in Table 2, factor loadings ranged from .60 to .83, and Cronbach's alpha was .76 which was acceptable.

Perceived benefits of association membership were measured from a list of questions that asked members to report their perception of business association's impact on their businesses and themselves as individuals. For this analysis, I divided them into two categories, advantages for one's business and advantages for oneself personally. Perceived benefits to members' business were indicated by asking members' perception of the specific ways the association has impacted access to resources, technologies, marketing, employee training, etc. This measurement can be supported by Broecker (2002) who identified nine aspects that are common to any businesses: planning, management, finance, technical and production skills, principles of technology, labor issues, community issues, health, safety, and environment, and personal work habits. The responses ranged from no benefits to critical benefits, coded from 1 to 5. The factor loading scores were acceptable (between .60 and .84) and Cronbach's alpha was .90.

The indicator of perceived benefits to individuals resulted from a factor scaling of five questions in the same list. Those items were reducing personal stress, providing personal emotional support, providing opportunities for personal socializing, enhancing market knowledge, and improving management skills. Factor statistics for these items ranged from .71 to .84 and the Cronbach's alpha was .85 for the factor scaled variable.

Social capital is measured by questions about members' assessment of the trust in the association and the extent of their relationships with other members. Trust was measured by four questions in a list of questions that asked members to report their expectations and experiences as a member of this association. The items are shown in Table 2. The responses ranged from strongly disagree to strongly agree, where responses

of agree or strongly agree indicated higher level of trust. Factor statistics for these items ranged from .59 to .83 and the Cronbach's alpha was .72. Relationships was measured by one question that asked members to identify the proportion of members they know on a first name basis. A five point scale from *none or almost none* to *all or almost all* was used, coded from 1 to 5.

The indicator of years of membership resulted from a question that asked members to report the year they joined the association. 149 members did not respond to this question. For the purpose of dealing with these 149 missing value, I replaced the missing value with values calculated based on median of valid surrounding values (6 points) (Little & Rubin, 1989; Stanimirova, et al., 2007). Imputation of missing value introduces some error into the model for that variable; nevertheless it allows the non-missing values of the other predictors to contribute to the analysis.

In order to statistically control for the influence of members' education and association type, they were included in the regression models for this study. It is well established that education is positively related to involvement in organizations and political areas (Hanks, 1981; Dekker & Broek, 1998; Bekker, 2005). Association type can also potentially influence members' involvement. Members of community-based associations share the same location and may possess greater chances to know other members on a first name basis.

Descriptive statistics were calculated for both the independent and dependent variables included in the analyses with recoding of variables when necessary (Table 2). Next, I tested the relationship between the dependent variable and each independent

variable. Then, correlation was used to describe the strength and direction of the linear relationships between the dependent variable and independent variables (Table 4). I employed a hierarchical regression modeling (ordinary least squares regression) to gain a better understanding of the relationships between members' involvement and the multiple independent variables (Table 5).

CHAPTER 4

RESULTS

Descriptive Statistics

Survey data were analyzed using Statistical Package for the Social Sciences (SPSS). Before analyzing correlations and regression models, it is important to present an overview of the salient characteristics of the sample. Table 3 lists the means and standard deviations for all variables. The general level of members' involvement is not very active. Most members perceive a little benefit to their businesses and themselves as individuals, as indicated in the means which ranged from 1.70 to 3.29 (1= *no benefits*, 5= *critical benefits*). The general level of trust is in the medium range. The average proportion of association members that respondents know on a first name basis is about one- fourth. The average number of years as a member is 13.02.

Table 3 shows the demographic, business, and association-related characteristics of members. Approximately 73.39 percent of members belong to industry-based associations and, 26.61 percent belong to community-based associations. The average respondent is 15 years old and well-educated with the highest education level of six to seven (6 = graduate of vocational or technical school, 7 = bachelor's degree). Approximately three-fourths (74.05 percent) of the members are male.

Although the average business size is about 20 employees, the distribution is skewed because as the median business size was six employees. The ages of members' businesses ranges from one year to 75 years, with the average age of 14.53 years and the median age of 12. More than half (57.6 percent) of businesses are family-owned.

Additionally, 40 percent of members started their business from scratch. The remaining members either purchased the business (20.60 percent) or inherited it (13.00 percent).

Members own or manage businesses in agriculture, construction, business services, retail and hospitality, finance, insurance, and real estate, human and animal health services, and other areas. Except for the other areas category, members are about equally distributed in the above industries (6.79 to 12.92 percent).

Table 3. Descriptive Findings for Respondents (n=898)

	Percentage	Mean	S.D.
Association characteristics			
<i>Association type</i>			
Industry	73.39		
Community	26.61		
Business characteristics			
<i>Business size (number of employees)</i>			
		19.53	56.27
<i>Business age (years)</i>			
		14.53	11.55
<i>Family business</i>			
	57.60		
<i>Business origin</i>			
Start from scratch	42.30		
Purchase	20.60		
Inherit	13.00		
<i>Industry</i>			
Agriculture	7.35		
Construction	6.79		
Business services	12.92		
Retail/Hospitality	17.71		
Finance, insurance, and real estate	12.03		
Manufacturing	11.69		
Human and animal health services	9.02		
Others	22.49		
Owner/manager characteristics			
<i>Gender (Male)</i>			
	74.05		
<i>Age</i>			
		50.00	10.00
<i>Education⁴</i>			
		6.00	2.18

⁴ 1 = less than 9th grade (.22%), 2 = 9-12th grade (no diploma)(2.24%), 3 = high school graduate or equivalent (12.91%), 4 = some college no degree (16.16%), 5 = associate degree (8.98%), 6 = graduate of vocation or technical

Correlations

The correlation matrix shows the direction and strength of the relationships between the variables in this analysis (see Table 4). There are statistically significant relationships among most of the variables. Members' involvement is significantly positively correlated with all the other variables except for association type which yields a negative relationship. This finding conveys that more involved members belong to industrial associations, have higher education, are more trusting of other members, know more people on a first name basis, perceive more benefits from their membership, and have longer years of membership.

The two measures of perceived benefits are significantly correlated with each other. Trust is positively related to relationships. Members who know more people in the associations will put more trust in others. Additionally, there is a significant positive correlation between years of membership, trust, and perceived benefits. As such, the longer a business owner has been a member of the association, the more trust he or she will put in others, and the more benefits he or she will perceive. Association type is negatively related to all variables except for relationships which yields a positive relationship. Members of community associations know more people than those of industrial associations. Members of industrial associations put more trust in other members, and receive more benefits. Education is only significantly related to members' involvement and perceived benefits to the business.

school (4.04%), 7 = bachelor's degree (31.99%), 8 = some graduate work (2.81%), 9 = graduate or professional degree (20.99%).

The initial correlations lend support to the hypotheses that members' involvement is significantly related to social capital, perceived benefits, and years of membership. In addition, the high correlation between perceived benefits to the business and perceived benefits to the individual indicates a potential multicollinearity issue. To be certain, a multicollinearity diagnostics was conducted in SPSS. Multicollinearity is evident when a variance-inflation factor (VIF) is greater than 10 or tolerance statistics are below .1 (DeMaris, 2004). The statistics in this analysis show that multicollinearity is not a problem in any models.

Table 4. Correlation Matrix for All Variables

N = 898	1.	2.	3.	4.	5.	6.	7.	8.
1. Members' Involvement	1							
2. Trust	.21**	1						
3. Relationships	.46**	.20**	1					
4. Perceived Benefits to Businesses	.31**	.51**	.13**	1				
5. Perceived Benefits to Individuals	.37**	.52**	.23**	.86**	1			
6. Years of Membership	.22**	.13**	.09**	.16**	.11*	1		
7. Education	.09**	.01	-.02	.08*	-.00	-.01	1	
8. Association Type (0 =industry, 1 = community)	-.11**	-.05	.29**	-.32**	-.25**	-.21**	-.11**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Regression Results

A hierarchical regression modeling (ordinary least squares regression) is used to analyze the relationship between members' involvement and the multiple independent variables. The control variables are introduced first in each equation before the independent variables are entered sequentially to show the net effects of each independent variable net of the others on members' involvement. All variables are entered in the last model to compare the explanatory power of each with the others controlled. All the F statistics are significant. The adjusted R square value denotes that the variables added in the models improve the predictive ability of the model.

As shown in Table 5, Model 1 is the regression of association type, and education on member involvement. For all members, involvement is positively and significantly related to education, and negatively related to association type, suggesting that members of industrial associations who have higher education are more involved in business associations. About two percent (adjusted $R^2 = .02$) of the variation in members' involvement is explained by association type and education.

Years of membership is positively and significantly related to members' involvement in Model 2, this result provide insights into Hypothesis 3. The adjusted R^2 is .05. This finding means that five percent of the variance in members' involvement is explained by Model 2.

Table 5. Variation in Members' Involvement by Years of Membership, Social Capital, and Perceived Benefits

Dependent variable: Members' involvement in business associations Standardized Coefficients (t-value)	Ordinary Least Squares Regression				
	<u>Model 1</u>	<u>Model 2</u>	<u>Model 3</u>	<u>Model 4</u>	<u>Model 5</u>
Association Type	-.1 (-2.98)**	-.02 (-.662)	-.00 (.21)	-.24 (7.49)***	-.15 (-4.89)***
Education	.08 (2.39)*	.07 (2.41)*	.08 (2.38)	.08 (2.61)**	.06 (2.12)*
Years of Membership		.22 (7.19)***			.11 (3.83)***
Perceived Benefits to Businesses			-.01 (-.10)		.01 (.10)
Perceived Benefits to Individuals			.37 (5.69)***		.19 (3.44)**
Trust				.10 (3.21)**	-.00 (-.10)
Relationships				.51 (15.63)***	.49 (15.78)***
F-score	8.15***	20.68***	30.65***	77.05***	60.31***
Adjusted R ²	.02	.05	.13	.28	.33

* p<0.05, ** p<0.01, *** p<0.001

Model 3 presents the test of Hypothesis 2 when perceived benefits to the business and perceived benefits to the individual are combined. When the two kinds of perceived benefits are entered together, members' involvement is positively and significantly related to perceived benefits to the individual, while the effect of perceived benefits to the business is not significant. This result may be due to the high correlation between the two types of perceived benefits. About 13 percent of the variation in members' involvement is explained by Model 3.

In Model 4, social capital as a whole is regressed on members' involvement. The statistics displayed in Model 4 indicate that when the two social capital variables are combined, both of the variables provide results consistent with Hypothesis 1. The coefficients for trust and relationships are both positive and statistically significant, as predicted. However, it is noteworthy to mention that relationships is the stronger predictor of the two social capital measures. According to social capital theory, this finding indicates that some trust is impacting members' involvement independently, while some trust can be explained by relationships.

Model 5 is the regression of all independent variables and members' involvement, when controlling for association type and education. Although most independent variables are found to be significantly and positively related to members' involvement when they are regressed with involvement individually, not all of these relationships hold in Model 5. Relationships is significantly and positively related to members' involvement. Although I did not offer specific hypotheses about variables in the models, this result is consistent with the prediction in Hypothesis 1. As predicted by Hypothesis

2, the effect of perceived benefits to the individual is significantly positive. However, neither perceived benefits to the businesses nor trust reaches the level of statistical significance. It shows that when years of membership, perceived benefits, and social capital are controlled for, perceived benefits to the business and trust are not strong predictor of members' involvement in business associations. As stated in Hypothesis 3, I expected members' involvement to be positively associated with years of membership. That expectation was supported. Model 5's adjusted R^2 is the highest of the five models with 33 percent of the variance in members' involvement is explained by Model 5.

In addition, the significant relationship between association type and members' involvement in Model 5 is revealing. When other variables are controlled, members of industrial associations are more involved than are those of community-based associations. As introduced earlier, industrial associations consist of businesses in the same industry categories, but do not necessarily share the same location. Conversely, members of community-based associations share the same community or common location. Therefore, members of community-based associations have other opportunities to develop relationships with other members.

The regression results thus provide support for Hypothesis 1, 2 and 3. Three factors that I identified – years of membership, perceived benefits to the individual, and relationships – are significantly related to members' involvement. Along with association type and education, these factors account for a significant portion of the variation in members' involvement in business associations.

CHAPTER 5

CONCLUSION AND DISCUSSION

Business associations play an increasing important role in business success, and especially in the success of small businesses. Previous research on business associations has focused on the role of business associations in a variety of settings (Miller, Besser, & Malshe, 2007; Gulati, Nohria, & Zaheer, 2000; Dennis, Jr. & William, 2003), but factors related to members' involvement have been less frequently examined and understood. The aim of this study is to compare the embeddedness and rational choice perspectives of social capital on members' involvement in business associations. Although they bear some similarities, the differences between the rational choice perspective and the embeddedness perspective are more pronounced. Based on the two perspectives and past research, it was hypothesized that members' involvement in business associations is positively related to social capital and perceived benefits. However, the embeddedness perspective posits that the longer a business top decision maker has been a member of the association, the greater his or her involvement will be, while the rational choice perspective posits the opposite.

Using data from a study on business associations (Besser, et al., 2006), members' involvement in business associations was found to be related to a constellation of factors. The findings of this study provide insight into the research questions and hypotheses proposed in previous chapters. First, members' involvement in business associations is positively associated with relationships and perceived benefits to the individual. More specifically, when all the factors are taken into consideration, members of industrial associations who have higher education, perceive more individual benefits, and know

more people, are more likely to be involved in business associations. This finding partially supports the rational choice perspective and the embeddedness perspective of social capital on predicting the variation in members' involvement in terms of social capital and perceived benefits. The rational choice perspective indicates that social capital is created and used by individuals for their self-interest (Coleman, 1998). The embeddedness perspective argues that individuals act rationally, but their motivations are influenced by group goals, norms and values (Granovetter, 1985). Although their approaches are different, both the two perspectives posit that members' involvement is associated with social capital and perceived benefits.

Second, members' involvement is influenced by their years of membership. The statistics in this study show that the longer a business top decision maker has been a member of the association, the greater his or her involvement will be. This finding is consistent with the embeddedness perspective. The longer a business owner has been a member of the association, the more trusting relationships he or she has developed with other members. These relationships represent invitations to be involved and obligations to return previously received favors. Instead of decreasing involvement due to the diminishing value of membership with each additional year as the rational choice perspective posits, long-time members appear to identify with the goals of the association and contribute to their realization. This finding confirms Granovetter (1985)'s argument that the rational choice perspective is undersocialized, and that it is more accurate to view economic rationality as embedded in social relationships.

The result of this study indicates that relationships have the strongest effect on members' involvement in business associations. This finding supports previous research findings that social capital has important potential effects on members' involvement. Another possibility for such result is that relationships is measured by only one question, asking the respondents the proportion of members they know on a first name basis. In addition, although this study shows that some trust is impacting members' involvement independently, trust is no longer significantly related to members' involvement in the last model. It is possible that the independent variables may obscure each other's effects (Heise, 1972).

The fact that the effect of perceived benefits to the business is not significant when the variable perceived benefits to the individual is included raises the possibility that perceived benefits to the business are not fully captured by the measures employed in this study. Another possibility is that the respondents are the top decision makers of small businesses, most of which have fewer than six employees. Sharing resources like customers, technology, or management skills are considered high-risk exchanges, and it is unlikely that small business owners are willing to participate in such exchanges.

Association type appears to be an unexpectedly significant factor in members' involvement. This makes sense since community-based associations are composed of businesses from several industries, sharing a single location (Inkpen & Tsang, 2005). Due to this shared location, members of community-based associations may possess other opportunities to build relationships with other members. Involvement in business associations may not be the only way to receive benefits from them. However for

industrial associations, membership is the primary element of shared identity.

Involvement in associations may be perceived as an effective way to build valuable relationships with other members.

In addition, it is undeniable that there are several limitations of this study. One limitation of this study is that the regression models did not indicate the direct and indirect effects of independent variables (Preacher & Hayes, 2008). Second, the high correlation was found between perceived benefits to the business and perceived benefits to the individual. Although the two factors are conceptually different, the high correlation may suggest a potential problem of overlapping in indicators. Moreover, this is a cross-sectional study. The primary limitation of the cross-sectional study is that certain behavior and its outcomes are assessed simultaneously (Bowen & Wiersema, 1999). We cannot tell if one variable causes the change in another variable. Since involvement is a time-related behavior, longitudinal study is strongly recommended. Additionally, there is also self-selection bias of those who participated in the study and are members of an association. In most cases, self-selection will lead to a biased data, since respondents who participated will not fully represent the entire target population (Heckman, 1979).

Despite the limitations of this study, this study examines the robustness of two perspectives of social capital theory in the context of members' involvement in business associations. To my knowledge, not much comparative empirical research has been conducted, and the findings add substantially to our understanding of the two perspectives. I hope to encourage dialogue between proponents of the two perspectives

that may pave the way for future comparative studies and subsequent distinction between and articulation of the two perspectives. Moreover, this study examines and confirms the validity of perceived benefits and social capital factors (as multi-component factors) as influential factors related to business associations. It is also worth mentioning that social capital and perceived benefits in this study do not explain all the variance in members' involvement. Nevertheless, the explanatory power of perceived benefits and social capital factors is acceptable. Another advantage of this study is that the sample was selected from different types of business associations. The findings may therefore be generalized to business associations on a large scale.

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