

**ECONOMICS***Sociology***Kristine Berzina***Faculty of Economics and  
Management**University of Latvia**E-mail: evf1@lanet.lv**Received: July, 2011**1st Revision: September, 2011**Accepted: October, 2011*

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## ENTERPRISE RELATED SOCIAL CAPITAL: DIFFERENT LEVELS OF SOCIAL CAPITAL ACCUMULATION

**ABSTRACT.** Success of the enterprise is related to many aspects of the enterprise – economic and managerial covering influenced by many layers of the external environment. The enterprise as such can be viewed as a form of social capital, consisting on different relationships. In the same way the whole external environment of the enterprise can be analysed as the set of different relationships that are interrelated, interacting and thus influencing the operation of every enterprise.

The paper displays different aspects of social capital with the aim to analyse enterprise related social capital and its different levels of accumulation in the organisations and firms. Accordingly the research tasks are: to cover all the basic theoretical aspects that are related to the social capital; inspect more in details different approaches to define social capital, social capital characteristics, comprising elements, social capital types; investigation of enterprise related social capital as the background for relationships among enterprises, including challenges and problems connected with the social capital measurement.

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### Introduction

Even if social capital is quite new term, there is quite enough and frequently used basic concept of economy under it – relationships between individuals and values that are as bases for them. As social capital is built both at the level of families, communities, enterprises and national or sub-national administrative units and other institutions, it can be studied from different aspects, for example, analyses of the sources of motivation for human relationships; relationships between enterprises, including networking between these entities; calculation of countries social capital index as indicator of the development and use of social capital, and many other dimensions of sociology, economy and management sciences.

The paper will cover all the theoretical aspects that are related to the social capital inspecting more in details different approaches to define social capital, social capital characteristics, comprising elements, social capital types. In the second part author will focus on elaboration of enterprise related social capital as the background for relationships among enterprises, including challenges and problems connected with the social capital measurement.

## 1. Social capital and the different approaches to define it

Social capital as we use this term nowadays is only couple decades old as a concept in the discipline of economics, but, as it has been stated by many current scientists, the nature of this phenomena that are today referred to a social capital has been described by a list of scientists already in the previous centuries, as for example by Marshall, Schumpeter, Adam Smith, only in the form of other terminology.

Even thou, that there is little interest in the study of social capital and networks shown by the economists, social capital is discussed from different social science aspects. Studying the development of the modern usage of the term social capital during the last century, the first ones that need to be mentioned are L.H. Hanifan and G.Lourythe, continuing with such prominent and most cited scientists as sociologist Jane Jacobs in the 1960's, Pierre Bourdieu in 1980's, and in 1990's the term social capital was extensively popularised by James Coleman and Robert Putnam. By the mid 1990-s and till now, social capital had become a much more familiar term than it had been just a few decades previously.

Generally there is no single definition of social capital. The OECD report on human and social capital (OECD report "The Well-being of Nations...", 2001, p. 118) states at least four broad categories of approaches to the social capital concept:

1. The anthropological approach states that the roots of social capital are in human nature as humans have natural instincts for association.
2. In the sociological approach authors analyse social norms and the sources of human motivation, emphasising features of social organisation such as trust, norms of reciprocity and networking of civic engagement.
3. The political science literature emphasises the role of institutions, political and social norms in shaping human behaviour.
4. The economic literature draws on the assumption that people will maximise their personal utility, deciding to interact with others and draw on social capital resources to conduct various types of group activities. The focus in this approach is on the investment strategies of individuals faced with alternatives for use of time.

Despite the fact that capital is traditional economic concept, the concept of social capital has come into being and has been further developed primarily in the subjects of sociology and political science. While there has been a great deal of scepticism towards using the concept of capital for social capital among certain prominent representatives of the discipline of economics (Westlund, 2003), generally social capital concept is incorporated in to economic concept terminology.

Additionally to the four previously mentioned, there could be added more recently established so called business administration or entrepreneurial point of view (Wikipedia Encyclopedia; Steven N. Durlauf, 2002):

5. Entrepreneurial approach refers to investment in social relations with expected returns in the marketplace and analyses set of informal values or norms shared among members of a group that permits them to cooperate with each other.

Presently social capital as multidisciplinary subject is studied from point of view by variety of social science subjects (Sokratis M. Koniorodos, 2005, p. 4), studying socio-economic developments by Trigilla, modernisation by Inglehart, measure of social capital by Onyx and Bullen, comparative studies by Debertin, Foley and Edwards, Davies and Healy, international studies by Narayan and Cassidy, cultural specificity by Tsujinaka, Robinson and in general the interdisciplinary aspects of social capital – Bertolini and Bravo, Castle, Monah and Monah, Healy, Fukuyama, and others.

After the examination of different dimensions from which the social capital can be studied, author will list the most cited definitions of social capital, once more emphasising,

that there is no single definition of this phenomena, because even among the first main social capital investigators there is a great difference in social capital definitions. Hanifan, for example, was emphasizing the informal and comforting social norms of every day life, Bourdieu – material benefits to individuals of their social networks, Putnam – norms and networks.

The list of definitions will include the classical social capital scientists as well as enterprise related social capital definitions.

Already abovementioned social capital researcher Pierre Bourdieu is often quoting in defining social capital as the resources that result from social structure: "social capital is the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalised relationships of mutual acquaintance and recognition, or in other words, to membership in a group, which provides each of its members with the backing of the collectively-owned capital, a "credential" which entitles them to credit, in the various senses of the word" (Bourdieu, 1983, pp. 183-198; Lin, Cook, Burt, 2001).

Coleman, another often-cited author, defines social capital as a function of social structure producing advantage „social capital is defined by its function. It is not a single entity but a variety of different entities having two characteristics in common: They all consist of some aspect of a social structure, and they facilitate certain actions of individuals who are within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence" (Lin, Cook, Burt, 2001).

The author of the wide spread book "Bowling Alone: The Collapse and Revival of American Community" Robert D. Putnam included in his book already a huge list of data for analyses of social capital development in USA. He describes social capital as "collective value of social networks and the inclinations that arise from these networks to do things for each other" (web page of Robert D. Putnam "bowling Alone"; Wikipedia Encyclopaedia).

From the representative organisations, author will include definition of social capital by OECD, that was published in the report "The Well-being of Nations: The Role of Human and Social Capital", where social capital is characterised as: "networks together with shared norms, values and understandings that facilitate cooperation within or among groups" (OECD report "The Well-being of Nations...", 2001, p. 118).

This OECD definition is at the same time short and simple, but includes the basic general idea of social capital.

Francis Fukuyama was not in the above-mentioned list of the top social capital researchers, but his work is enough prominent in economic social capital papers, he describes social capital as: "an instantiated set of informal values or norms shared among members of a group that permits them to cooperate with each other. If member of group come to expect that others will behave reliably and honestly, then they will come to trust one other. Trust acts like a lubricant that makes any group or organization run more efficiently (Durlauf, 2002).

In the further sections of the theses author quite often will quote the ideas of Westlund and Bolton, as they study social capital not only from economic, but also from entrepreneurial perspective: "Space bound social capital as spatially defined norms, values, knowledge, preferences, and other social attributes or qualities that are reflected in human relations. In network forms it may be expressed as meaning qualities, capacity, objectives and quantity of the links in primarily informal spatiality-demarcated social networks" (Westlund, 2003).

Short, clear and again more entrepreneurial approach to social capital by Nan Lin refers to "investment in social relations with expected returns in the marketplace" (Wikipedia Encyclopaedia).

Commenting the wide range of social capital definitions, there is needed to understand the reasons why social capital is studied at so many dimensions and defined from so different perspectives even only in economic science. One of the main reasons for that are the different sources of social capital, it is built at the many levels of society (OECD report “The Well-being of Nations...”, 2001, p. 118) – starting from the level of families and communities, to the level of enterprises and organisations, national or sub-national administrative units and other institutions.

## 2. Comparison of social capital with other forms of capital

Even if that some of the scientists are sceptical in use of the word “capital” describing the phenomena of social capital, it is now studied together with other forms of capital taking into account the similarities and differences between social capital and so called classical forms of capital.

More entrepreneurial point of view to the description of different forms of capital is incorporated in next table.

Table 1. Forms of capital (Halpern, 2005, p. 4)

<b>type of capital</b>	<b>definition</b>
capital (general use)	any form of material wealth used, or available for use, in the production of more wealth; the remaining assets of a business or person after all liabilities have been deducted, net worth
financial capital	money and paper assets; does not directly produce goods and services, but can be used to purchase factors of production which can produce goods and services
physical capital	stock of produced goods that contribute to the production of other goods and services
other tangible assets	factors of production that nature supplies, for example land
human capital	stock of enterprise accumulated by a worker – knowing how to do something; it is valued for its income earning in the future
social capital	social networks and the norms and sanctions that govern their character; it is valued for its potential to facilitate individual and community action, especially through the solution of collective problems

Characterising the differences between social and human capital, it can be qualified that human capital is a feature of people; but social capital is the feature of the relations among people. Human capital refers to the investment in and of people in terms of the economy, but social capital is incorporated in the resources that are invested to reproduce people.

The table with main groups of social capital aspects is included for further analyses that enable see similarities and differences between social capital and other forms of capital including such characteristics as productivity, vintages, accumulation and maintenance, rights of possession versus public goods, complexity and levels of aggregation.

Table 2. A summary of similarities and dissimilarities between social capital and the other capital forms, concerning productivity, vintages, accumulation, possession and complexity<sup>1</sup>

	<b>Similarities with other forms of capital</b>	<b>Dissimilarities with other forms of capital</b>
<b>Productivity</b>	Social capital are sunk costs that might become obsolete From the society's perspective, social capital can be put to good or bad uses	Social capital is not neutral with regard to society's interests, it expresses interests of actors, good or bad from society's perspective.
<b>Vintages</b>	Social capital consists of vintages	The vintages of social capital are more comparable to a port wine than to other capital forms. The composition of vintages is decisive. There is no simple correlation between age and decreasing productivity
<b>Accumulation and maintenance</b>	Social capital is worn out if it is not maintained Social capital is a result of past activities	Social capital is a product of both intentional investments and an unintended by-product of other activities Accumulation of social capital does not necessarily need deliberate sacrifices for future benefits Social capital is harder to construct through external interventions
<b>Rights of possession vs. public goods</b>	Social capital is not genuinely public, since access to it demands connection to a network and/or certain skills. The network/club may exclude outsiders from access	Social capital can not be individually possessed. Social capital resembles a club good.
<b>Complexity and levels of aggregation</b>	Diversified social capital means less vulnerability to economic structural changes	Social capital is the most diversified, least homogeneous form of capital Aggregating social capital belonging to different levels meets great methodological difficulties

Unlike the economic capital, social capital functions purely symbolically and immaterially. Significant characteristic of social capital is that it does not decrease by use, but by non-use, thus slogan for social capital would be "use it or lose it".

Many social capital scientists, such as Bourdieu, Coleman, Johannisson, Westlung and Nilson, express the opinion that the various forms of capital: financial capital, real capital, human capital and social capital, are related and partly exchangeable. An investment in social capital – in the context of trust – can, for example, replace or increase access to financial capital.

There are certain interrelations between the different forms of capital – all the different types of capital can be derived from economic capital. That is possible only at the cost of an effort of transformation, for example, there are some goods and services to which economic capital gives immediate access, without secondary costs; and others including many tourism services can be obtained only by virtue of a social capital of relationships. Financial capital is

<sup>1</sup> figure is based on study of Hans Westlund, Elin Nilsson "Measuring enterprises' investments in social capital – a pilot study"<sup>43</sup> Congress of the European Science Association, Jyväskylä, Finland, 2003.

at the root of all the other types of capital and these transformed forms of financial capital produce their most specific effects only to the extent that they conceal the fact that economic capital is at their root of their effects. So every type of capital can be transformed into financial capital thus having a specific efficiency.

The basic forms of capital are related to each other as entrepreneurs turn financial into social capital by investing in the design of obligations and expectations, responsibility and authority, and norms and sanctions among people within the organization in order to achieve effectiveness and efficiency.

Additionally to the previously described forms of capital, Bourdieu states another form – cultural capital – “capital can present itself in three fundamental guises: as economic capital, which is immediately and directly convertible into money and may be institutionalized in the forms of property rights; as cultural capital, which is convertible, on certain conditions, into economic capital and may be institutionalized in the forms of educational qualifications; and as social capital, made up of social obligations, connections, which is convertible, in certain conditions, into economic capital and may be institutionalized in the forms of a title of nobility” (Bourdieu, 1983, pp. 183-198).

Concluding from previous there is a need to emphasize that social capital is one of the forms of capital together with financial, physical, human and social, all these forms of capital are related to each other and can be exchanged. Economic capital alone does not necessarily guarantee success, only in connection with other forms of capital, cultural and social, can boost the successful application of economic capital.

As stated in social capital studies in Easter Europe (Koniordos, 2005, p. 189-278) the economic capital plays a much smaller role in transition economies (even though that it is still very important) than for example in Western Europe, but the role of social capital reaches the foreground position.

### **3. Components of social capital**

Summarising the more or less similar approaches to the description of the components of social capital, author proposes three basic groups of components of social capital:

- cooperation, networks and networking;
- values, trust, norms, expectancies;
- rewards and sanctions.

The first component is network that consists of relationships among its different members and can be characterised by its density and closure.

Second group – social norms include rules, values and expectancies that characterise the members of the network. Many of these rules are unwritten. Some of these norms have behavioural component, requiring people to do certain things; and others are affective, concerning how we feel about the network group, etc. Trust is based on people sharing a personal identity and values. It means that people hold common values including a common concept of moral obligations, common norms, which can develop in long-standing relationship based on trust.

Third social capital component group rewards and sanctions comprise not only formal, but also informal rewards and sanctions, accenting that informal ones are quite effective in maintaining social norms.

Fundamentally all these three groups of components of social capital – networks, norms and sanctions – can have two aspects:

- formal aspect – explicit and institutionally codified,
- informal aspect that is implicit and tacit.

In order to highlight the importance of trust in the enterprise relations, author will include a classical example described by Coleman (Coleman, 1998, p. 95-120) on the characteristics and benefits of social capital in the New York diamond whole sale market. These diamond merchants during their leisure use no security measures when hand over these fairly expensive bags of diamonds to their colleagues for the diamond examination. In that way instead of expensive insurances and time-consuming formal agreements these diamond wholesalers rely on this informal network of merchants. Such network can work only when trustworthiness is among the partners.

Using the Coleman example of the New York diamond wholesalers networks each of there components Halpern (Halpern, 2005, p. 12) characterises in following way;

- network; network members are the dealers that provide access to diamonds and deals,
- norms; rules and understandings are characterised by trustworthy exchange, without payment, of uncut diamonds for examination,
- sanctions; rewards and punishments for complying with or breaking network norms include approval, disapproval and exclusion from the list of members.

More in details author will describe social capital component trust as it is one of the crucial components of social capital.

The concept of trust extends beyond economics and sociology to philosophical and political fields. Trust can be characterised as a confidence of goodwill of others that highly influences creation and maintenance of interaction between individuals and institutions, trust is the willingness of one party to relate with another in the belief that the other's actions will be beneficial rather than detrimental to the first party even thou this can not be guaranteed.

There are different kinds of trust (Van de Ven, 2004) – like simple or naïve trust, the blind trust when everything is taken for granted, and an authentic or basic trust that does not excludes distrust, but accepts it and overcomes. Trust even can be calculative (Child, Faulkner, 1998, p. 48) involving expectations about other party that are based on the calculations of benefits of certain actions to either the trustor or trustee. Calculative trust depends on availability of relevant information and is influenced by existence and dominance of rewards and/or sanctions.

There are many reasons that state the importance of trust for enterprises. These reasons can be sorted in three basic groups – social, empirical and theoretical reasons (Van de Ven, 2004). Socially trust can be described as glue that bonds together interpersonal and inter-organisational relationships with the confidence in the goodwill of others when you are vulnerable. Empirically direct benefits for organisations are the increase in flexibility, open communication, creative conflict management, negotiation processes, learning and knowledge sharing, satisfaction and performance; and many other indirect benefits such as positive interpretations of another's behaviour, and commitment. Theoretically trust is considered as principle of organisation that has its influence when whenever actors are simultaneously dependent or vulnerable to actions and decisions of others, trust has a power to be as conjunction for other organisational principles.

In general all the classical social capital authors do emphasize the importance of trust, like for example, Coleman stresses the importance of relationships that enable individuals to trust each other, Putnam (Koniordos, 2005, p. 74) underlines that it is the trust on the individual level that enables the organisations, institutions and enterprises to work well. Nowadays the concept of trust as part of the social capital has received relatively much attention in a variety of study fields.

The term trust in social capital studies has gained a very particular comparison or image – it is described as glue or lubricant. So trust in its particular sense can be seen as bonding element for network members or as glue in the relationship bonds or lubricant of the relationships.

On enterprise level trust serves as lubricant for economic transactions (Koniordos, 2005, p. 76) and thus creates the basis for economic development. Trust improves the efficiency by facilitating coordinated actions.

At the intra-organisational level, trust is associated with positive experiences and expectations of the networks members, and usually reduces the perceived risks (Todeva, Knoke, 2002) in undertaking future transactions.

At the inter-organisational level trust provides bases for one enterprise to achieve some degree of social control over another's behaviour under conditions of high uncertainty. To the extent that trust substitutes for more formal control mechanisms, such as written contracts, a formal network can reduce or avoid paying several types of transaction costs, such as searching for information about potential partners and monitoring to ensure that each party meets its obligations. There are two perspectives regarding inter-organisational trust (Todeva, Knoke, 2002) differing in their relative emphases on the predominance of objective and subjective elements in the relationships. A business-risk view stresses that partners' trust is based on confidence in the predictability of their expectations, which are hedged by such formal contractual means as insurance against violations. An alternative psychological conceptualisation emphasises trust as confidence in another's goodwill, of faith in the partner's moral integrity. The social psychological explanation of trust is rooted in basic social exchange principles, including conformity to such norms as reciprocity, commitment, forbearance, cooperation, and obligations to repay debts.

It is claimed that there is causal link between a high degree of trust and enhancement of socio-economic development (Koniordos, 2005, p. 4).

According to World Value survey the level of trust in Latvia is about 25% (part of population answering that people could generally be trusted) (World Value Survey, 1995), which is more or less average for transition countries, having the lowest level in Macedonia – about 8% and highest level of trust in Ukraine – 31%. The reliance level (rely a lot) on family is 68%, and on friends – 24%, which are above the average number for similar countries, but quite high is the average trust level (rather rely) – additional 26% for families, and additional 57% for friends. The trust in companies in Latvia is about 2,6 as a mean on a scale of 1(low confidence) and to 4 (high confidence) (Koniordos, 2005, p. 259-261).

#### **4. Social capital subdivisions**

There are many possible divisions of social capital taking into account its different aspects – actors involved, relationships and ties among actors, etc.

One of the most frequently used classification originally coming from Gittel and Vidal is based on the characteristics of relationships thus forming two groups of social capital:

- bridging social capital;
- bonding social capital.

Another division is quite similar to the above mentioned by defining ties of network members – mainly two extremes:

- weak ties;
- strong ties.

Weak ties are extremely useful in terms of getting information and opportunities. Strong ties provide a more intense, multi-stranded form of support. The social capital studies are quite often stressing the so called “strength of the weak ties”.

Most individuals have very few strong ties, but instead having a bunch of so called weak ties, the only issue is that these weak ties are more difficult to manage (Kim, Aldrich, 2005, p. 1) than the strong ties both from the personal as well as entrepreneurial point of view.



Cultivating and maintaining valuable relationships through one's social network requires skills that can not be generated by habitual social behaviour.

As social capital is built both at the level of families, communities, enterprises and national or sub-national administrative units and other institutions, another division based on the domain of social capital can be following:

- micro level concept of social capital;
- macro level concept of social capital;
- multi level concept of social capital.

The analyses of social capital from the point of view of enterprises lies in between micro level and macro level, displaying different levels of social capital accumulation on different environments of the enterprise that will be analysed in the next chapters.

## 5. Enterprise related social capital

In this section the main focus on social capital analyses will be from entrepreneurial point of view, where the main actors are firms – enterprises with their investments in social capital.

Studies of business networks, norms and values that are mainly in the discipline of business administration have generally not been associated with the theories of social capital (Westlund, 2003) therefore main articles on social capital are of economy scientists and only few, including Westlund, Nilsson, analyse social capital emphasising use social capital from enterprise point of view. Some of the scientists describing enterprise related social capital use other terms, for example Johannisson uses the term relational capital or corporate social capital describing the core of enterprise-related social capital and its components.

There are three different parts involved in the enterprise related social capital (Johnson, Scholes, Whittington, 2005, p. 64) – first of all enterprises themselves and their organisations, and secondly as external influence – political governed sector and civil society and its organisation, that interacting with each other can create and maintain social capital.

Accordingly to the listed characteristics of social capital on enterprise level, following enterprise related social capital definition can be stated: “social networks filled norms, values, preferences, etc., within or externally connected to the enterprise” (Westlund, Nilsson, 2003).

Social capital can be accumulated on different levels of enterprise.

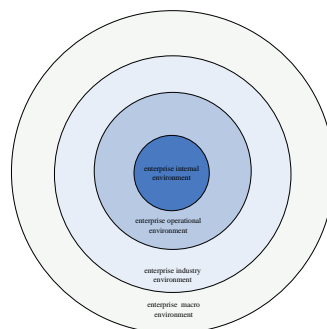


Figure 1. Levels of enterprise environments

Taking as a base the levels of enterprise environments that can be seen in *Figure 1*, it is possible to view social capital as set of relationships on each on the enterprise environment levels.

The enterprise and its internal environments components is the first group of the enterprise social capital level, the enterprise competitor, market, industry and macro environments are as a sets of external links of the enterprise.

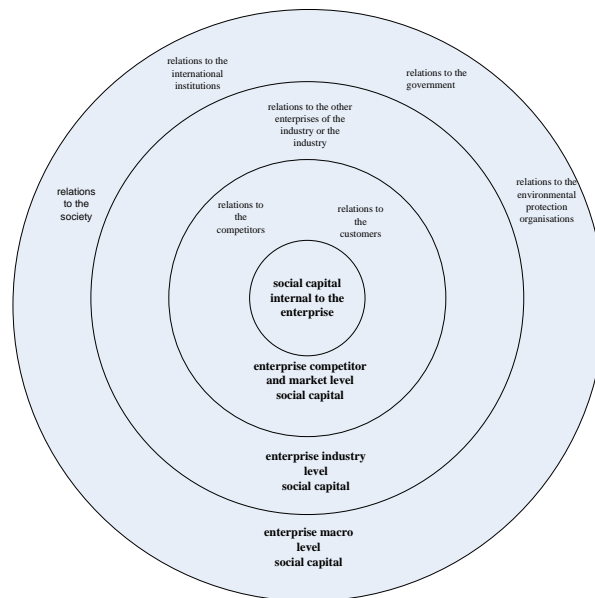


Figure 2. Social capital related to different levels of enterprise environment

Enterprise related social capital can be divided by grouping these relationships of the enterprise by areas of operation. The two basic groups of enterprise related social capital – social capital that is internal to the enterprise including mainly employee-employer relationships; and external social capital of an enterprise, that is connected with main areas of operation of an enterprise – production and market, as well as the areas of external influences – environment.

Table 3. Enterprise related social capital<sup>2</sup>

Social capital internal to the enterprise	The enterprise’s external social capital		
	Production-related social capital	Environment-related social capital	Market-related social capital
Links and relationships within the enterprise filled with attitudes, norms, traditions	Links and relationships to suppliers, products users, partners in cooperation and development	Links and relationships to the local and regional environment	General customer relations

Enterprise related capital can be a product both from formal interactions as well as informal interactions. The formal interaction sanctioned and regulated by formal decision, is an intentional investment to raise efficiency of an enterprise. But these clearly stated and clearly visible interactions are not the exclusive ones. The informal interactions can influence enterprise having different aims, including maximisation of the utility. On a large scale these formal aspects of enterprise related social capital can have informal elements included.

<sup>2</sup> adapted from Hans Westlund, Elin Nilsson “Measuring enterprises’ investments in social capital – a pilot study”<sup>43rd</sup> Congress of the European Science Association, Jyväskylä, Finland, 2003.

From the entrepreneurial approach organizations which learn to socialize knowledge and skills through more effective forms of interaction, networks and norms of trust and cooperation are important sources of social capital (OECD report “The Well-being of Nations...”, 2001, p. 118).

Each following subsection will analyse the general division of enterprise related social capital in two groups – internal and external enterprise social capital.

## **6. Enterprise’s internal social capital**

Already speaking about the phenomena “enterprise” it can be seen a kind of cooperation network. For example Halpern is describing the basic idea of enterprise (Halpern, 2005, p. 53) stresses that there are major economic advantages for bringing together a group of individuals with complimentary skills into a closely co-ordinated network – enterprise, with shared understandings and mutual commitments that facilitate co-operative action for maximum productivity. The existence of the enterprise means that the individuals inside it can rely on one another to be there when they need each other, to share information, and to perform tasks without elaborate contracts and bargains having to be negotiated for each separate act.

Internal enterprise related social capital relates mainly to following manifestations of links and relationships within the enterprise:

- company spirit,
- teamwork,
- climate for cooperation,
- labour-management partnerships,
- methods for codifying knowledge, product development, conflict resolution, etc.

Enterprise can be viewed as a form of social capital, primarily as bonding (Halpern, 2005, p. 53) social capital.

Thus enterprise is a relatively dense network – a workforce network, that develops shared norms and objectives corporate culture, an understanding of roles and appropriate behaviour, shared understanding of the company purpose, company products, etc. At the same time the enterprise incorporates sanctions to maintain these norms and internal networks, for example, peer and management pressure, economic rewards and advancement, formal and informal punishments for underperformance and defection, etc.

Social capital in the workplace appears to be a better predictor of quality of life at work and job satisfaction than are any of the traditional indicators of the characteristics of the worker, the company or the work environment.

## **7. Enterprise’s external social capital**

Enterprise related external social capital can be divided both by the levels of the enterprise or in the three groups – production-related social capital, environment-related social capital and market-related social capital.

Thus social capital is connected not only to the enterprise’s internal knowledge production, but also to knowledge exchange between enterprises that on short or long term basis have some kind of production related links. Production related enterprise external social capital mainly consists of enterprise links and relationships to suppliers, product users, partners in cooperation and development. Social links between enterprise with its employees and enterprises with which it has production relations, increase the flows of knowledge and information between those enterprises, therefore feedback from the enterprise to its suppliers and to its customers is increased and speeded up because of the acquaintanceship and trust.

The border between an enterprise's production relations and its environment related social capital is not always clearly manifested, but environment-related social capital can be stated as a second subgroup of external enterprise social capital comprising by Westlung and Nilsson:

- non-technical-financial links to other enterprises,
- links to local and regional politically governed bodies,
- links to the citizens in civic society and their organization.

It is the interest of enterprise to establish social relations with public decision makers, but the form of the realization for these relationships is chosen by each enterprise between direct and indirect relationships.

Market related social capital relates to all the anonymous mass customers with whom enterprise has no personal relations via trade marks and other marketing activities. Trademark in contrast to most other forms of social capital is an asset of enterprise that can be bought and sold as its actual property.

The importance of the inter enterprise relationships can be compared to the importance of the so called "weak ties" (Halpern, 2005, p. 54) of the individual person engaged in network. Strong and cohesive bonds inside the enterprise may turn out to have limited use if the enterprise lacks a sustainable network of suppliers or links to potential consumers of its products.

These external enterprise relationships also have a linking component, in that way that they may involve connections between enterprises and communities. Most successful enterprises have long since learned the value of upward links, such as those to the political elite. Making sure that the corporation's point of view is heard when policy-makers are deciding on the regulatory and tax environment in which you operate may be one of the best investments that an enterprise can make.

Enterprises are also learning that it can be in their own long-term interests to build links down to the communities in which they are based. Partly it is because of the better informed consumers, reputation matters. Such investments can improve employee loyalty, thereby strengthening the enterprise's bonding social capital (Halpern, 2005, p. 56) and improving the quality of people it can attract.

Social capital scientists not only study each from internal and external social capital, but also the interactions between them.

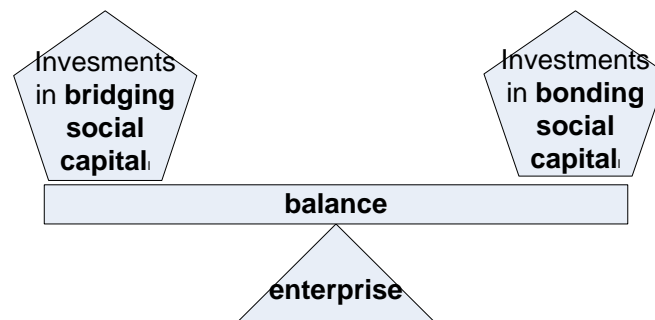


Figure 3. Balance in the investments in social capital

If the enterprise emphasizes too much the bonding social capital, it can neglect its bridging social capital (Halpern, 2005, p. 57) – the relationships to community, customers, suppliers and other partner enterprises. Halpern emphasizes that there may be optimum level of bonding, or embeddedness, beyond which further bonding becomes counterproductive by

insulating the enterprise from information beyond its own internal networks, this problem is quite typical for large corporations.

On the other hand the enterprise that only invests in its bridging social capital and neglects to build a strong social network and culture within itself is vulnerable to fragmentation and a loss of identity. There is a need to have a so called “absorptive capacity”, so that in case of outsourcing of research, enterprises still need to maintain sufficient technical knowledge within them in order to be able to understand and judge the value of research done outside.

Successful enterprises show the balance of investment between bonding or within-enterprise social capital, bridging or between-enterprise social capital and linking social capital (for example between enterprises and their regulators) (Halpern, 2005, p. 59). The basic idea is that there is a need to avoid overinvestment in only one type of social capital, disregarding other groups of social capital.

## **8. Enterprise related social capital estimation**

The social capital investigator Bourdieu states that the volume of the social capital possessed by given agent depends on the size of the network of connections that he can effectively mobilize and on the volume of the other network member capital. This means that, although social capital is relatively irreducible to the economic capital, it is never completely independent of classical forms of capital.

The fact that social capital generates economic utility value for individual enterprises has also been emphasized by many authors – Johannisson, Dyer, Hakansson and Snehota, Axelsson and Easton (Westlund, Nilsson, 2003) and others.

No doubt that the social capital bring additional value for enterprise, as it can not be assumed that enterprises build networks with pure non-profit making purpose (Westlund, Nilsson, 2003), nor that the networking is interaction merely of informal nature. Individuals will not attempt to create social capital unless they can appropriate significant benefits for themselves<sup>3</sup> – this is a nature of people. The only difference between different members involved is in the dominance of self-beneficial and profitability connected reasons or self-devotion creating not purely financial value.

The profits which accrue from network membership in a group are the basis of the solidarity which makes such cooperation possible. The profits of network membership can be both tangible and intangible – material profits, such as all the types of services accruing from useful relationships, and symbolic profits, such as those derived from association with a prestigious group.

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<sup>3</sup> Coleman, article by Richard A. Couto „Social Capital and leadership”, Academy of Leadership Press, 1997, [www.academy.umd.edu](http://www.academy.umd.edu)

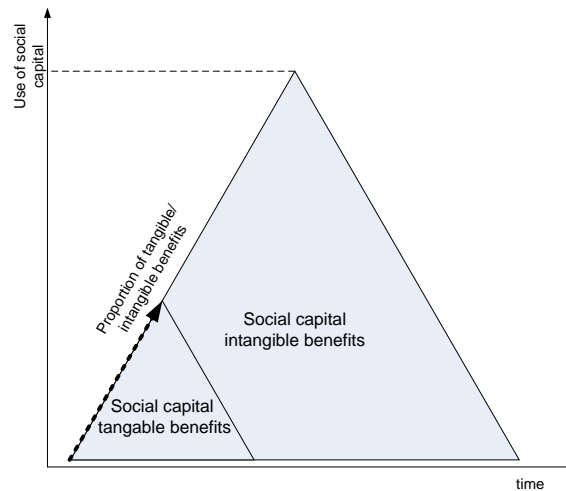


Figure 4. Proportion of tangible / intangible benefits from social capital

Already mentioned critical social capital component trust in some level is presented in all transactions of enterprise whether they are private, social, economic or political in nature. Enterprises can benefit from norms of cooperative trust embodied in various types of intra-enterprise or inter-organisational networks thus facilitating coordination and reducing transaction costs (OECD report “The Well-being of Nations...”, 2001, p. 118). Trust reduces costs for enterprise negotiations and enforcements, imperfect information and layers of unnecessary bureaucracy, economies of time, relying on the belief in the partner – his good intentions, competence and reliability. Additional important argument for social capital advantages is that social capital cuts expenses and reduces time needed for knowledge exchange between enterprises (Westlund, Nilsson, 2003) that is very crucial in the new century era of the knowledge.

Most of the benefits are not those who can be quickly seen and they require long-term perspective as social capital value growth in the long run.

As mentioned already in previous sections social capital needs use and attention in order to increase its value. The existence of a network of connections for an enterprise is not a natural given, or even a social given, constituted once and for all by an initial act of institution. It is the product of an endless effort at institution, of which institution rites mark the essential moments and which is necessary in order to produce and reproduce lasting, useful relationships that can secure material or symbolic profits (Bourdieu, 1983, pp. 183-198).

In other words, the network of relationships is the product of investment strategies, individual or collective, consciously or unconsciously aimed at establishing or reproducing social relationships that are directly usable in the short or long term, i.e., at transforming contingent relations, into relationships that are at once necessary and elective, implying durable obligations subjectively felt (feelings of gratitude, respect, friendship, etc.) or institutionally guaranteed (rights). This is done through the alchemy of consecration, the symbolic constitution produced by social institution and endlessly reproduced in and through the exchange which it encourages and which presupposes and produces mutual knowledge and recognition. Exchange transforms the things exchanged into signs of recognition and, through the mutual recognition and the recognition of group membership which it implies, reproduces the group (Bourdieu, 1983, pp. 183-198).

The social capital estimation is quite complicated because of two groups of factors. First of all social capital is very interrelated with other forms of capitals and enterprises do not separate them for some calculations. The second factor is the nature of social capital benefits – most of them are intangible, to which it is not easy set a value.

Table 4. Enterprise related social capital value estimation in Swedish enterprises (Westlund, Nilsson, 2003)

Social capital internal to the enterprise	The enterprise's external social capital		
<p>Strong, work-related links, particularly strong for personnel performing similar types of working duties.</p> <p>Fairly extensive social intercourse at the work place, particularly for personnel with similar types of working duties. Few conflicts and easy for new employees to be part of the social atmosphere at the enterprises.</p> <p>Socialising among personnel during leisure hours is not as great as that at work. Most socialising is done by personnel who have similar working duties, and least for those who do not have similar working duties.</p> <p>The majority of the enterprises spend less than 2 hours per week in formal meetings. On average they spend somewhat more time in informal meetings. Individuals in management functions spend more time at formal meetings than personnel working in core activities. There is no distinct difference where informal meetings are concerned.</p> <p>The majority have spent SEK 0-5000 and 0-30 hours of their working time on formal training during the last 3 years. Relatively speaking small investments are more common than large investments.</p> <p>Uncertainty as to whether enterprises cooperate where training is concerned.</p> <p>The majority of the enterprises have spent between 1-10 hours and SEK 0-5000 on internal entertainment per man-year. No enterprise has spent more than 10 hours on internal entertainment during the last 3 years.</p>	Production-related	Market-related	Environment-related
	<p>The majority of the enterprises spend 1-2 hours per month on production-related cooperation. The enterprises cooperate most in respect of transport.</p> <p>The majority have not changed the ways in which they cooperate since 1998. Largest change is in respect of product development. Conclusion: no strengthening of production-related links.</p> <p>The majority cooperate in a production-related manner with either 0 or 1 other enterprise. The largest number of partners in cooperation is in respect of purchases of material.</p> <p>Without exception, the geographical location appears to be the arena for cooperation.</p> <p>More informal, light-hearted and close relations with customers than with suppliers. Few enterprises make regular market surveys. The enterprises cooperate to a greater extent with suppliers than customers where product development is concerned.</p> <p>The majority have invested between SEK 0-5000 and 1-10 hours in external entertainment. Somewhat larger investments in external than in internal entertainment.</p> <p>The majority of the enterprises have not made any monetary investments in R&amp;D. Cooperation where R&amp;D is concerned is by and large non-existent for most enterprises in the study. Consequently, weak links where R&amp;D is concerned.</p>	<p>Participants in the survey have higher costs for traditional advertising than for offers to loyal customers. They invest more in traditional advertising than in offers to loyal customers. There is a relationship between these two features – and those enterprises that invest a lot in one of them also invest a lot in the other.</p> <p>The average value of traditional advertising is SEK 31 705, and for offers to loyal customers SEK 8 168.</p> <p>The size of the enterprise is of no significance for the size of the investments per man-year. This applies to both traditional advertising and offers to loyal customers.</p>	<p>There are very few work-related contacts with local decision-makers. This is also the case with the entrepreneurs' social intercourse with decision-makers. Accordingly, weak links to local decision-makers.</p> <p>The majority of the enterprises state that representatives of management socialise with executives of other enterprises privately. This is without exception much more frequent than socialising with local decision-makers. The entrepreneurs that socialise with local decision-makers also socialise with other entrepreneurs.</p> <p>The majority of the enterprises have sponsored local sports clubs or cultural events in an amount of less than SEK 2000 per man-year during the last three years.</p> <p>Those enterprises that participated in the survey have fairly few contacts with university colleges/universities. The majority have not cooperated at all on any occasion during the last three years. Conclusion: weak links to university colleges/universities.</p>

Even thou that the author inspected many social capital book and more that 30 papers regarding social capital and enterprise related social capital, it was hard to find any information about enterprise social capital value estimation. The most credible information can be found in the paper of Westlund and Nilsson (Westlund, Nilsson, 2003) where they presented the results of the research even thou that the rate of responses from the Swedish

enterprises was quite low. The reasons for it could be connected with the fact that social capital related cost and income estimations are not estimated, not calculated separately and it is even not easy to separate social capital related costs from other costs of enterprise.

### **Conclusions and recommendations**

From the enterprise perspective social capital can be defined as investment in social relations with expected returns in the marketplace.

Social capital is a complex set of relationships that includes main groups of components – cooperation, networks and networking; values, trust, norms, expectancies; rewards and sanctions.

Social capital in the enterprise can be accumulated at different levels. The internal enterprise related social capital is stated in company spirit, teamwork, climate for employee mutual collaboration and cooperation, labour-management partnerships, product development, and conflict resolution. Enterprise related external social capital can be divided both by different levels of the enterprise environments and by groups of relationships in these environments. The three main groups of enterprise external environment consist of social capital accumulation on competitor and market level, on broader industry level, and on enterprise macro environment level. Enterprise related social capital sub grouped by different enterprise business relationships can be viewed from the production-related, environment-related and market-related relationships.

Using the social capital terminology there are two main groups of social capital in the enterprise – bonding social capital that mainly consists from enterprise internal relationships and bridging social capital as a set of enterprise external relationships.

These two levels of social capital need to be balanced at the enterprise. The over investment in one of the type of social capital and fall in to disrepair on the second type of social capital can cut the ground of enterprise operation balance. Therefore investing in the bonding enterprise social capital by taking care about the employees, the bridging social capital – enterprise suppliers, partners and clients can not be left out of consideration. And on the other way it is important for the enterprise keeping the close watch on the external environment links and different actors, developing additional services in order to keep closer cooperation with them, the relationships in the enterprise inside need to be maintained on the appropriate level not to loose the valuable staff.

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