The Investments in the Social Capital by SMEs

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Abstract

The aim of this work is to identify the different typologies of investment in the internal and external social capital by Small and Medium-sized Enterprises. Social capital represents the value embedded in the social relationships of individuals and collectives. We consider both primary perspectives of social capital: the bonding/strong-tie social capital refers to the cohesion within small groups; the bridging/weak-tie social capital favors contact and collaboration among members of diverse and unconnected groups.

Through some case-studies, we propose an initial classification of investments, dedicated to social capital. They could be internal or external investments, direct or indirect, voluntary or not voluntary, formal or informal, costly or costless. This classification should help to understand how to affect social capital assets, especially by SMEs. In fact, these kind of firms, that are distinguished by scarcity of resources, could significantly take advantage of actual and potential resources, as well as appropriable, embedded in the social personal relationships. The role of entrepreneur is fundamental to promote the creation and exploitation of social capital, inside and outside the firm.

Introduction

The aim of this research project is to identify the different typologies of investment in the internal and external social capital by Small and Medium-sized Enterprises. SMEs should become aware of social capital significance as a means of acquiring information, knowledge and resources, necessary to guarantee the firm's survival through a long-lasting competitive advantage creation. Differences between firms, including differences in performance, may represent differences in their ability to create and exploit social capital (Nahapiet & Ghoshal, 1998). Social capital represents the value embedded in the social relationships of individuals and collectives (Adler & Kwon, 2002; Payne et al., 2011). Specifically, social capital is the «sum of actual and potential resources, embedded within, available through, and derived from the network of relationships possessed by individuals or social units.» (Nahapiet & Ghoshal, 1998).

We consider both primary perspectives of social capital, utilized in existing literature: the bonding (Coleman, 1988) and the bridging (Burt, 1982, 2000, 2007) perspectives. Bonding/strong-tie social capital refers to the cohesion within small groups. Bridging/weak-tie social capital favors contact and collaboration among members of diverse and unconnected groups (Estrin et al., 2013). Social capital building and maintenance needs continuous efforts and constant investments by Small and Medium-sized Enterprises.

Brief literature review

The concept of social capital began in sociology thanks to authors like Bourdieu (1980), Coleman (1988, 1990), Fukuyama (1995), Granovetter (1985) and Putnam (1993). It has been applied to a broader range of social phenomena (family interactions, geographic economic development, firm performance, product innovation, creation of intellectual capital, entrepreneurship,…). To date there is still no univocal and precise definition of social capital. We would like to apply it to enterprises, specifically Small and Medium-sized Firms, focusing on the interpersonal relationships inside and outside the firm's boundary.

We refer to Nahapiet & Ghoshal's definition (1998): social capital is the «sum of actual and potential resources, embedded within, available through, and derived from the network of relationships possessed by individuals or social units». They recognize three dimensions of social capital: structural, relational and cognitive. The structural dimension refers to the configuration of linkages, that is the pattern of connections between people (focus on network ties, centralization and density of linkages, appropriable organization). The relational aspect considers the kind of personal relationships which derive from social interaction among people, based on reciprocal trust, shared norms, perceived obligations and a sense of mutual identification. Finally, the third dimension concerns those resources coming from mutual understanding, shared language, common perspective, exchange of shared narratives. The cognitive dimension may be considered the cultural dimension of social capital.

According to the resource-based view of the firm, the organization that is able to activate resources which are rare, valuable, inimitable and non-substitutable acquires those capabilities that give it competitive advantage (Bolino et al., 2002; Barney, 1986, 1991). Through high levels of social capital, the firm gains access to unique and appropriable resources, but to share them with others. Consequently, high quality relationships make the organization more successful than competitors.

Moreover social capital solves problems of coordination, reduces transaction costs, facilitates the flow of information and the dissemination of knowledge, promotes economic activity among people already sharing the requisite cultural capital (Bolino et al., 2002; Light & Dana, 2013).

Social capital is an immaterial resource, such as human capital or intellectual capital, and very difficult to measure. Its source lies in the social structure within which the actor (individual or collective) is placed. This social structure is characterized by three dimensions: market relations, hierarchical relations and social relations in which favors and gifts are exchanged (Adler & Kwon, 2002). The main benefits of social capital are information (in terms of quality, relevance and timeliness), influence and solidarity. Investments in social capital are not costless; thus they have to be reasonable and coherent with the corporate strategy in order to exploit all the opportunities deriving from this productive assets.

SMEs should make balanced investments in both bonding and bridging social capital to create value (through strategies classifiable as socio-political, in Ansoff's language) and to effectively compete in the global markets. But what does it mean "*invest in social capital*" for a SME? *What kind of actions can be considered investments in social capital*? We propose a map of investments' typologies that SMEs can realize to build, increase and maintain inside and outside social capital and to benefit from this.

Research methodology

Within the framework of qualitative research methodology, the research method employed is the multiple-case studies (Yin, 2009; Eisenhardt, 1989). Through some cases, it

should be possible to identify several investments' typologies in social capital by SMEs. They could be internal or external investments, direct or indirect, voluntary or not voluntary, formal or informal, costly or costless.

The entrepreneur or entrepreneurial group has the decision-taking power if investing in social capital. Thus personal variables strongly affect social capital assets, which may be considered both individual good and collective good, whose benefits are appropriable by individuals or collective groups. Social capital, as common and collective good, is embedded in the territory of origin, characterized by specific cultural traits, shared values and common vision. The entrepreneur, who is embedded with his firm in definite areas, should be able to identify the most suitable actions to increase and consolidate the land's social capital and be aware of the strategic advantages for his firm.

The first data source is represented by document analysis, specifically public documents, articles of journals and websites; the second one is the semi-structured interview. Both data sources allow us to investigate the ways through which bonding social capital, inside firm's boundaries, can be enhanced and to examine the different typologies of investment in bridging/weak-ties social capital.

Findings

We expect to be able to map the most significant typologies of investment in both bonding and bridging social capital by SMEs. First of all, investments can be classified as internal or external: the first one concerns the actions dedicated to the development of linkages among people who work inside the firm. These actions should be directed to strengthen network ties and to enhance density of linkages. In this way, information flows quickly and transforms into valuable knowledge, appropriable by all workers, aside from the operative level in which they are occupied.

External investments are relative to the community and territory in which the firm is located. In fact, the firm operates inside a local community, in a specific land. We would like to map actions directed to mainly increase number of ties among individuals and collectives which populate that territory. These actions are addressed to increase social cohesion, through support measures to definite sectors of public relevance: for example education, culture, sport, infrastructure, and so on.

Investments can be directly addressed to build and consolidate social capital or these investments could be directed to pursue other scopes and, only indirectly, to affect social capital assets. Moreover, the entrepreneur could decide to voluntary invest in social capital or, in other cases, this investment could be not voluntary, as involuntary investment. Then investments in social capital can assume a specific and definite form (donation, contribution, social dinner,…), but they could be completely informal. Finally, these actions could have an economic cost, considerable or exiguous, or costless, but anyway they need time, effort, commitment.

We propose a classification of investments, dedicated to social capital. This classification should help to understand how to affect social capital assets, especially by SMEs. In fact, these kind of firms, that are distinguished by scarcity of resources, could significantly take advantage of actual and potential resources, as well as appropriable, embedded in the social personal relationships. The role of entrepreneur is fundamental to promote the creation and exploitation of social capital, inside and outside the firm.

Discussion and Conclusions

This work contributes to advancing research on the social capital, entrepreneurship and SMEs. Social capital is an intangible resource, embedded in both the social context in which enterprises work and the network ties developed inside the firm. The focus is on the interpersonal relationships among individuals belonging to the companies or to the local communities. The attention is directed to the investments that SMEs can realize to support social capital development. SMEs that will be able to create and exploit social capital, will be capable of creating corporate value, improving their performance and increasing social cohesion and social prosperity.

We suggest that SMEs, commercial or social enterprises, can effectively contribute to building social capital which carries out important functions (Adler & Kwon, 2002): it helps workers find jobs (Granovetter, 1973, 1995; Lin & Dumin, 1996); it helps inter-units resource exchange and product innovation (Tsai & Ghoshal, 1998) and the creation of intellectual capital (Nahapiet & Ghoshal, 1998); it reduces turnover rates (Krack-Hardt & Hanson, 1993); it facilitates entrepreneurship (Chong & Gibbons, 1997) and the formation of start-up companies (Walker et at., 1997).

We propose an initial classification of actions that can be considered investments in bonding and bridging social capital by SMEs. The entrepreneur is one of the main promoters of these investments inside and outside of his firm. The entrepreneur's personal variables are factors that better explain the voluntary choice of investing in social capital, because it facilitates value creation through resources exchange and combination (Tsai & Ghoshal, 1998). In the future, it will be interesting to examine which personal traits positively or negatively affect the propensity to sociality of the entrepreneur, and, consequently, inclination to invest in social capital.

Moreover future research should focus on the existing connection between different investment typologies in social capital and corresponding firm performance in order to understand which actions are more effective in terms of social capital development and corporate performance improvement.

The main limit of this study derives from the research method employed, the multiple-cases study, that does not allow a statistical generalization of results. However the work's aim is to generalize and broaden theories (analytic generalization). Furthermore, we would like to highlight those actions which positively influence the creation and exploitation of social capital, such as common and shared resource, appropriable by individuals and collectives to pursue specific objectives.