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Building social capital in networks

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ABSTRACT

This paper explores the re-emerging concept of social capital in business networks. Spanning a multitude of disciplines and different contexts, the construct remains ill defined and its measurement imprecise, yet researchers in both the developed and transitional economies are increasingly finding it necessary to draw upon social capital as a means of explaining behavior within embedded social networks. We encourage and indeed implore researchers to continue to explore the construct and its impact on the performance of business networks.

1. Introduction

The papers presented in this special edition of Industrial Marketing Management arose from the last meeting of the IMP Group in Asia, which took as its theme, "Building Social Capital in Networks". The decision to introduce social capital into an IMP conference was to encourage IMP researchers to investigate alternative theoretical frameworks developed outside the mainstream business-to-business marketing literature.

Social capital is a broad umbrella concept that is increasingly being used across multiple disciplines, including regional development, business, political science, economics, sociology and education (Adler & Kwon, 2002). Paldam (2000, p. 631) went as far as to suggest that social capital is becoming a "joint concept for all social sciences", while Adler and Kwon (2002, p. 18) reported that social capital is attracting "researchers from heterogeneous theoretical perspectives", thus encouraging dialogue across a number of different disciplines.

Researchers and practitioners within the business discipline are embracing social capital to describe outcomes such as: value delivery (Adler & Kwon, 2002; Baxter & Matear, 2004; Lindgreen & Wynstra, 2005; Tsai & Ghoshal, 1998; Uzzi, 1997); firm performance (Batjargal, 2003); network strength; intellectual capital and learning (Nahapiet & Ghoshal, 1998) and entrepreneurial network growth (Liao & Welsch, 2003). Yet, business-to-business marketing researchers have been relatively slow in investigating the implications of social capital within business networks. This special issue is an initial step towards the consideration of social capital within the IMP oeuvre and visa versa. Social capital research can offer IMP researchers further insights into many of the concepts they are currently grappling with, while IMP research can offer social capital researchers insights into the operations of business networks.

Although social capital has been popularized only in the last decade, largely due to the prominent studies of Bourdieu (1986), Coleman (1988, 1990) and Putnam (1993, 1995), the concept of social capital has a long intellectual history in the social sciences (Sabatini, 2006). The sense for which the term is used today dates back to Hanifan (1916) who invoked the concept of social capital to explain intangible assets [that] count most in the daily lives of people: goodwill, fellowship, sympathy and social intercourse among the individuals and families who make up a social unit (Productivity Commission, 2003). Jacobs (1961) used social capital to emphasize the importance of social networks in an urban environment and Loury (1977, 1981) drew on social capital to help explain different economic opportunities that minority and non-minority youths faced due to social connections. Bourdieu (1986) explored the concept of social capital in discussing social interactions, while Granovetter (1985) identified the role of social capital within embedded social networks. However, it was the work of Coleman (1990) and Putnam (1995) who are most responsible for the renewed interest in social capital as a means to moderate the behavior of individuals within society and exchange transactions. Even so, social capital remains an elusive concept (Durlauf & Fafchamps, 2004), with multiple interpretations existing within the literature.

Although a number of papers have been written which seek to clarify the concept (see Adler & Kwon, 2002; Durlauf, 2002; Lin, 1999; Paldam, 2000; Sobel, 2002), Adler and Kwon (2002) conclude that no single accepted definition has yet to emerge. Ostrom (2000) defines social capital as the shared knowledge, understandings, norms, rules and expectations about patterns of interactions that groups of individuals bring to a recurrent activity (p. 176). Bowles and Gintis (2002) state that social capital generally refers to trust, concern for one's associates, a willingness to live by the norms of one's community and to punish those who do not. Putnam (2000) defines social capital as the connections among individuals, social networks and the norms of reciprocity and trustworthiness that arise from them (p. 19). For the purposes of this paper, we view social capital as the mobilization, use

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and benefits gained through accessing present and future resources through social, intra- and inter-firm networks.

Although social capital is a unifying concept, there are differences in how social capital is conceptualized and measured. As the OECD (2001) points out, it is possible to distinguish at least four broad approaches to the concept of social capital: (1) the economic literature focuses on both the individuals' incentives to interact and out of self-interest, to invest in social capital and the design and impact of formal and informal institutions; (2) the political science literature emphasizes the role of institutions and political and social norms in shaping human behavior; (3) the sociological literature analyses the social determinants of human motivation and focuses on the features of social organization such as trust, reciprocity and networks of civic engagement; and (4) the anthropological literature develops the notion that humans have a natural instinct for association, providing a biological basis for social order (Productivity Commission, 2003).

IMP researchers are focusing on similar constructs, with particular emphasis on the economic and political science literature, such as trust, reciprocity, networks, interaction and institutions (see Ford & Håkansson, 2006). However, research tends to focus on either the individual or network level, rather than integrating both levels within a single broad definition (Adler & Kwon, 2002). Others focus their research on the benefits attained or sources of social capital with little empirical research considering how both play a role in the mobilization of those resources. Finally, empirical papers tend to develop their own measurement systems, which although they may employ similar terms, actually measure different aspects of the construct. Therefore, comparison of research results between different studies is difficult if not impossible (Durlauf, 2002). Furthermore, Sobel (2002) suggests that many of the benefits some authors claim are derived from social capital may not accrue from social capital at all!

Within a society, social capital includes the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development (Productivity Commission, 2003). It includes the shared values and rules for social conduct expressed in personal relationships, trust, and a common sense of 'civic' responsibility that makes society more than just a collection of individuals (World Bank, 1998).

Even although there are numerous definitions of social capital, there are some common characteristics, the most important of which is the role trust plays in gluing the network together. The concept of trust lubricating business network processes has a strong foundation within the IMP (Jansson, Johanson, & Ramström, 2007), for trust is an important construct within the interaction model (Håkansson, 1982). Trust research also has cross-disciplinary roots not dissimilar to those of social capital. Fukuyama (1995) defines trust as 'the expectation that arises within a community of regular, honest and cooperative behavior, based on commonly shared norms, on the part of other members of the community'. People are also more likely to trust strangers who have religious, racial, vocational or other characteristics that are similar to their own. While trust based on personal experience and on-going relationships may be more robust than trust based on community norms, Putnam (2000) argues that generalizing trust is more valuable as it extends the 'radius of trust' to a wider circle of people, allowing a much larger range of interactions.

Social norms are more likely to be spread and observed in a densely connected society (Productivity Commission, 2003) and are linked to societal values. Social norms are also related to trust with accepted rules, customs, norms and standards informally regulating transactions (Brenkert, 2000). Members of highly connected communities are more likely to trust one another due to strong societal values giving them confidence in other actors' actions and reliability. Thus, highly connected networks display higher levels of social capital.

Common values and norms of obligation develop in long-term relationships where trust is present. Bradach and Eccles (1989) see norms of obligation as one of the bases of trust within and between organizations. Common values and norms based on kinship, familiarity, religion, ethnic status or family background will assure solidarity between exchange partners within the network (Zucker, 1986). Granovetter (1985) considers trust to be based primarily in the social system, where individuals find themselves capable of trusting because of the social norms and networks within which their actions are embedded.

The role of formal institutions repeatedly emerges in the social capital literature, as high levels of societal social capital are closely aligned with the ability of business to "trust". Zucker (1986) describes institutional trust as a vital precondition in the development of complex economic systems. Institutional trust is tied to formal social structures that generalize beyond a given transaction and specific exchange partners. Luhmann (1979) develops a similar concept of system trust on the basis that individuals trust on the assumption that others trust. System trust, derived from the confidence in the authority, reliability and/or legitimacy of political power, money and the legal system, accumulates from continuous positive experiences within the system.

Social capital is particularly important in the transitional economies, as they often lack high levels of trust in their formal institutions. For example, in Ghana, Lyon (2000) reports how trust derived through a common individual, intermediary or guarantor, family linkages and long-term friends, a common ethnic background, attendance at the same church, or the individual's position within the community, is mandatory before traders will enter into any exchange transaction requiring credit. In China, Bjorkman and Koch (1995) describe how trust and the formation of social relationships is a prerequisite for business transactions. Child (2000) describes how trust-based relationships within defined family groups protect against opportunism and the very low levels of trust that prevail within Chinese society.

Where personalized exchange emerges in response to the high risk of opportunism resulting from market imperfections, social capital reduces transaction costs by generating expectations, informal rules of conduct and a common understanding that enables actors to conduct business transactions more efficiently. In Ghana, Fafchamps (1996) shows that by sharing information on bad payers, actors can reduce transaction costs. Knowing more traders helps the focal firm collect price information from clients and suppliers; it facilitates sales on credit, enabling the focal firm to buy from regular suppliers and to sell to regular clients; and it simplifies quality inspection. By circulating information, social capital can enforce contractual obligations, penalties and magnify reputational sanctions (Durlauf & Fafchamps, 2004). Strong social norms and beliefs encourage compliance with local rules and customs reducing the need for formal mechanisms of control.

Research suggests that social capital generates significant benefits by: (1) reducing the costs of conducting day-to-day affairs and of doing business; (2) facilitating the spread of knowledge and innovation; and (3) promoting cooperative and/or socially-minded behavior in situations where narrow self-interest alone is unlikely to generate good outcomes for society (Productivity Commission, 2003). Conversely, a lack of social capital encumbers daily life, limiting social and economic opportunities, and causes markets to work less efficiently (Rose-Ackerman, 2001).

2. Commonalities between IMP and social capital research

The IMP tradition highlights the importance of relationships and interaction as the foundation upon which business networks develop (Anderson, Håkansson, & Johanson, 1994). Social capital should be of particular interest to the IMP approach given its theoretical focus on networks and the role of networks in society. Both social capital and the IMP approach developed from social exchange theory and Granovetter's (1985) argument that social systems and the social networks within which individuals are embedded play an important role in determining their actions and behaviors. Therefore, not unexpectedly, constructs such as trust, reciprocity, interaction, values and commitment have emerged in both research areas.

Social capital focuses on accessing intangible resources such as goodwill (Adler & Kwon, 2002) from the embedded social network. The ARA model also includes resources (both tangible and intangible) and the mobilization of resources within business networks (Håkansson & Snehota, 1995). The concept that interactions are aimed at improving resource value within the network is a strong theme within the IMP literature. Therefore, intangible resources fit well within the resource perspective of the ARA model and the linking of resource constellations throughout the network. Social capital and the ARA model both include the use of intangible network resources, such as knowledge, goodwill and privilege as important assets (Bowey & Easton, 2007; Johanson & Mattsson, 1985).

Social capital emphasizes the importance of networks and relationships as a critical component. Network level perspectives are prominent within IMP (Anderson et al., 1994; Ford & McDowell, 1999; Håkansson & Ford, 2002). Operating in business networks plays an important role in business decision-making, yet it is difficult to research due to the complexity and connectedness of the interactions. Håkansson and Ford (2002) highlight that operating in business networks requires organizations to operate within an uncertain environment where they are largely unable to foresee future strategic outcomes.

The importance of different types of relationships has been discussed within the social capital theory (see Adler & Kwon, 2002; Lin, 1999). Relationship type is also of interest to IMP (Veludo, Macbeth, & Purchase, 2006), which has been recently extended to consider portfolio analysis (Zolkiewski & Turnbull, 2002) and strategic nets (Möller & Rajala, 2007; Möller, Rajala & Svahn, 2005). Research into networks has found that high levels of social capital and dense network structures assist the learning process, and provide contacts for future opportunities and knowledge creation for start-up companies (Ahuja, 2000; Batjargal, 2003). Learning in business networks is critical for adapting and improving processes. Learning and knowledge creation is achieved via business relationships and emerges from the interactions that occur within these relationships (Håkansson, Havila & Pedersen, 1999; Håkansson & Ford, 2002). Sharing knowledge and network learning leads to network evolution and adaptation (Håkansson et al., 1999; Purchase, Olaru & Vaaland, 2006).

Dense networks with strong levels of social capital play an important role in enforcing network behaviors (Coleman, 1988). These behaviors are similar to motivation or enforced trust described by Adler and Kwon (2002), in that the network determines what is an acceptable use of social capital and what is not. Nahapiet and Ghoshal (1998) relate this to cognitive capital in that actors operating within the network need to have similar values and norms of behavior to ensure that the network operates efficiently. Network influence on individual actor behavior is also described by Håkansson and Ford (2002, p. 136) as “a way to influence and to be influenced”. Although, they do not use terms such as enforced trust, they describe how managers operating in a network are influenced by the actions and processes of other network actors during their decision-making processes.

Network research within the transitional and developing economies is a neglected area from both a social capital perspective (Carlisle & Flynn, 2005; Hitt, Lee & Yucel, 2002) and within the IMP oeuvre (Batt & Purchase, 2004). Yet, networks and social capital play a critical role in the enforcement and development of industry within these economies. Given the globalization of business and the emergence of powerful global actors such as China and India, it is critical that our understanding of the role of social capital and business networks within the developing world is advanced. Jansson et al., (2007) also highlight the importance of developing institutions within the transitional economies, linking social capital to a political science perspective.

3. Differences between IMP and social capital research

While there are numerous similarities between the social capital and IMP literature, there are several areas of difference from which each can learn from the other. Social capital is a broad concept that has tried to incorporate a wide variety of concepts within a single conceptual framework. This framework includes network structure, relationship type, cognition, benefits, risks and value. The advantage of such a broad framework is that it encourages greater integration of different discipline-specific perspectives. However, Durlauf (2002) warns that such an approach will make it increasing more difficult to measure the construct.

Research into social capital has tended to focus on the benefits obtained from the mobilization of resources with little empirical research on social capital processes (Bowey & Easton, 2007). IMP has put more emphasis on the interaction process and made dynamics and change an important research agenda (Ford & Håkansson, 2006). The interaction model (Håkansson, 1982) and the ARA model (Håkansson & Snehota, 1995) include many of the concepts included in the social capital models, yet neither of these has managed to become well known outside their discipline-specific area. Integrating social capital concepts into these models may open up the IMP literature to more cross-disciplinary ideas.

Incorporating temporal effects into network research is difficult and complex. Social capital has incorporated temporal aspects and considers the future mobilization of resources as an important aspect in the decision to build social capital (Bourdieu, 1986; Nahapiet & Ghoshal, 1998). However, given the strong emphasis on reciprocity, the time horizon given to social capital is ambiguous (Adler & Kwon, 2002). The importance placed on time within social capital research can be seen with the temporal effects included in a number of definitions (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). The consideration given to the temporal dimension within IMP research is still in its early stages (see Medlin, 2004) and needs further consideration (Ford & Håkansson, 2006).

4. Outline of this special issue

For this special issue, the five papers which have been finally selected after an extensive review and revision process are expected to extend our current thinking on the role social capital plays in facilitating exchange. The first three papers consider social capital in the context of the transitional economies, where the lack of institutional trust and the pervading business practices rely heavily on the formal and informal social networks that actors have established. The two other papers view social capital in the context of high technology firms in Europe, where, by its very nature, the industry is very dynamic and uncertain.

Anticipating that social capital will take different forms and assume different levels of importance in different countries, Ramström explores the various mechanisms by which northern European firms engage with ethnic Chinese business people. Of special significance is the realization by European business managers that business relationships for the ethnic Chinese are built on social relationships. There is a more frequent need for social interaction, both formally and informally, with multiple numbers of personal contacts in the Chinese firm, at a number of different management levels. In the absence of institutional trust, social capital is intrinsically tied to trust, not in the organization, but with the individual. Relationships are established initially through personal references and recommendations, reinforcing the need to both build and maintain an extensive network of social contacts, even with those firms with whom business is no longer conducted. Furthermore, whereas Europeans have a natural propensity to trust until an individual demonstrates that they are untrustworthy, ethnic Chinese assume all exchange partners to be untrustworthy until such time as they have proven themselves worthy of being trusted. Not unexpectedly, there is a significant difference in the temporal dimension required to both develop and valid the trust that has been ascribed to an individual. European firms interacting with ethnic Chinese business partners have an opportunity to build trust at a number of levels. In the first instance, European managers perceive that there is an element of respect shown towards them because of their superior knowledge and expertise (competence trust) (Sako, 1992). Implicitly, there is an element of goodwill trust, for in order to build a long-term relationship with an ethnic Chinese firm, European business managers must show respect, be considerate and caring, and if they are to succeed, to pro-actively offer assistance. Of particular importance is the need to avoid confrontation and to preserve "face". While the use of written contracts is unusual in business relationships between ethnic Chinese firms, there is perceived to be a growing recognition among the ethnic Chinese who transact with European firms, of the need for a written contract, for such is a characteristic of western business practice. A European firm can best demonstrate contractual trust by adopting a long-term orientation to the market, by locating sales representatives in the region and appointing ethnic Chinese to positions of responsibility.

Theingi, Purchase and Phungphol use a model developed from Adler and Kwon (2002) to explore business relationships in Thailand, not from the perspective of the western firm, but from that of ethnic Chinese traders and exporters. The paper begins by exploring the relationship between social capital and the concepts of requing, guanxi and xinyong that collectively are receiving increasing attention in the business-to-business literature. Whereas Adler and Kwon differentiate between hierarchical relationships (intra-organizational), market relationships (inter-organizational) and social relationships (personal and family relationships), Theingi et al. reveal that Thai business people seldom differentiate between internal and external and/or between social and business relationships in accessing social capital. Consequently, it was proposed that the relationship types be merged into a single construct described as social structure. Similarly, while Adler and Kwon differentiated between opportunity (network position and relationship quality), motivation (whether drawing on social capital is acceptable within society) and ability (whether network actors have the skills and resources required), Theingi et al. noted that the three constructs were not independent, but rather, there was a considerable amount of overlap. Again, it was proposed to these be amalgamated to form a single construct described as social capital behavior. The unifying element was trust which minimized risk through sharing information, keeping promises and adopting a mutually beneficial relationship that resulted in an equitable sharing of the relationship benefits. Of particular note was the considerable investment required to build enduring, long-term relationships: respondents indicated that it was not uncommon to invest from 6 to 24 months building the relationship before any exchange of goods or services took place. This commitment also extended to the need, on occasions, to support a business partner who was in trouble in the expectation that such favors would be reciprocated in the future.

Moving to Europe and more specifically to Russia, Butler and Purchase explore the use of social capital among a new generation of Russian business managers. While much has been written about the corrupt business practices that accompanied the fall of the communist regime, a new generation of managers are emerging who are not connected to the nomenklatura and are well educated in the western ways of conducting business. No longer is the wild capitalism of the early 1990s rampant, but rather, respectability, integrity and responsibility are becoming critical aspects of Russian business practice. In particular, reputation has become fundamental in developing trust with the public and building a strong identity. Using the three dimensions of social capital proposed by Nahapiet and Ghoshal (1998), it is evident that in this transition, structural social capital is still the most influential in building and maintaining social capital. Respondents indicated that they continue to maintain relationships established with former colleagues by engaging in various social activities. Such contacts were particularly important in developing new business relationships and in accessing government assistance. Trust, trustworthiness and reciprocity were the critical elements of relational social capital where interpersonal trust was highly valued. The ability to learn (cognitive social capital) was important in reinforcing both structural social capital and relational social capital.

Westerlund and Svahn discuss the role of social capital in the turbulent and uncertain environment of the software industry, from a value perspective. In order to gain access to resources and markets, firms need relationships, and social capital provides the key to developing and maintaining these relationships. However, Westerlund and Svahn note that not all relationships are identical: different relationships with different actors will make different contributions to the firm's value proposition. Recognizing that some relationships are more valuable than others, Westerlund and Svahn draw on the three dimensions of social capital as described by Nahapiet and Ghoshal (1998) to explore how the focal firm's relationships with upstream and downstream business partners differ by function: those that support research and development; those that support marketing and distribution; and those that facilitate or support the focal firm itself. Their analysis reveals the critical role of social relationships in providing access to technology "gurus" and in providing a gateway to large research and development institutions and tool providers. These individuals may be both internal and external to the organization. In establishing partnerships and alliances with marketing and distribution companies, the structural aspects of the relationship such as the partner's market share, their visibility and the strength of their brands were critical determinants. Nevertheless, exchange partners also needed to demonstrate their capacity to innovate and to adapt the product to meet customer's demands and to gather, filter and distribute market information. For those relationships that facilitated and supported the focal firm, many of these actors were individuals embedded within the entrepreneurs' social networks. Business consultants and business angels (financiers) were invaluable in gaining access to funds and in providing the expertise necessary to manage the business.

In the final paper, Partanen et al. continue to explore the role of social capital in the process of innovation. To be innovative, firms need to be able to access and mobilize networks, but the role that social capital plays in the innovative process differs with the stage of business development. Initially, firms need to access knowledge, information and technology networks. Such resources are achieved primarily through personal or individual networks. Cognitive social capital is essential at this stage to create a limited set of strong relational, trust-based ties, which are the cornerstone of scientific and technological collaboration. Social capital also has an essential role to play in the transition between offer development and commercialization, especially in terms of transforming weak ties into collaborative business relationships. However, as the product enters the first phase of commercialization, the emphasis shifts towards the establishment of reference or reputational networks. Relational social capital is helpful in creating the level of trust among financial institutions that facilitates the acquisition of venture capital. However, as the networks become more numerous, more complex and multifunctional, social networks become increasingly less important and are gradually replaced by structural capital.

As this and the other papers selected have revealed, social capital is indeed a complex and multifaceted construct, subject to numerous interpretations at the individual level, the organizational level, the network level and the societal level. While trust and trustworthiness seem instrumental in moderating relationships between individuals, structural social capital (Nahapiet & Ghoshal, 1998) becomes more prominent in facilitating exchange at the network level. Underpinning the structural and relational dimensions of social capital, cognitive social capital provides a mechanism for the development of shared norms and values which enables actors to facilitate exchange beyond the dyadic relationship. By implication, as relationships and networks develop over time, a temporal dimension is introduced, which adds considerable complexity to an already dynamic environment.

In concluding this introductory paper, we encourage researchers to continue to explore the social capital construct and its role in facilitating exchange within business networks. Examining such complex research issues from different perspectives and from varied discipline backgrounds can only improve our understanding of the construct and of the complex systems we call business networks.

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