SOCIAL CAPITAL IS GOOD BUSINESS

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Social Capital is an important new concept to hit the world of academia and government policy, and it should become a key concept in business thinking too.

Why bother with social capital? Because:

- It creates a healthy community, and a healthy community is good for business,
- It links the organisation to its community, and is a crucial indicator of 'corporate social responsibility',
- It creates a wider social/ economic milieux of optimism and trust, thus for example decreasing transaction costs considerably,
- It creates the conditions for collective problem solving within the firm and within the wider community,
- and serves as a multiplier effect in new investment
- It probably directly impacts the organisations productivity levels

Social Capital is one of four or five main types of capital, all of which are important to a healthy economy (the others being financial, physical, human or cultural capital and natural capital). Social capital is the least well understood form of capital. Yet we already know enough to realise that it has potentially positive effects for the wider community in which the firm is located, but also positive effects within the organisation itself. To ignore it is to create unnecessary damage both inside and outside the organisation.

<u>So what is it?</u>

Social capital as a concept has gained enormous interest in post modernist countries over the past decade. Its "discovery" coincides with fears of its demise, at least in the United States. Its importance lies in its reference to the basic raw material of civil society. Putnam defined social capital as " those features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions" (Putnam, 1993) .

Social capital has a number of important features:

- It is about interlocking networks of relationships between individuals and groups. People engage with others through a variety of associations. These associations must be both voluntary and equal for maximum effect. They represent an expression of freely formed mutuality. Individuals acting on their own cannot generate social capital. It depends on a proclivity for sociability, but a spontaneous sociability, a capacity to form new associations and to cooperate within the terms of reference they establish

- A second common theme is reciprocity. This is not the immediate and formally accounted exchange of the legal or business contract, but a combination of short term altruism and long term self interest, or what de Toqueville called "self interest rightly understood". The individual provides a service to others, or acts for the benefit of others at a personal cost, but in the general expectation that this kindness will be returned at some undefined time in the future in case of need. In a community where reciprocity is strong, people care for each other's interests. At the psychological level this refers to prosocial behaviour.

- Another common theme refers to trust. Trust entails a willingness to take risks in a social context based on a sense of confidence that others will respond as expected and will act in mutually supportive ways, or at least that others do not intend harm. As Fukuyama defined it:

  > Trust is 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 that community. Those norms can be about deep "value" questions like the nature of God or justice, but they also encompass secular norms like professional standards and codes of behavior. (Fukuyama, 1995, p26)

- Putnam explicitly referred to another feature of social capital, that is to social norms. Social norms provide a form of informal social control that obviate the necessity for more formal, institutionalised legal sanctions. Social norms are generally unwritten but commonly understood formula for both determining what patterns of behaviour are expected in a given social context, and for defining what forms of behaviour are valued or socially approved. Injunctive social norms in particular can have a powerful effect in increasing prosocial behaviour, and preventing antisocial behaviour. Where there is a low level of trust and few social norms, people will cooperate in joint action only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated and enforced, sometimes by coercive means, leading to expensive legal transaction costs
- In my own research I have found one further central characteristic of social capital, one that has been implicit before. That is a sense of personal and collective efficacy, or social agency. The development of social capital requires the active and willing engagement of individuals within a participative organisation or community. This is quite different from the receipt of services, or even of human rights to the receipt of services, though these are unquestionably important. It is also different from the obedience of the subordinate. Social capital refers to people as creators, not as victims.

Why Call it Capital??

Last year I was invited to attend a leading edge conference on social capital organised by the World Bank in Washington. The conference asked that question too. I am not an economist, but a number of leading economists in that session struggled with the nature and importance of social capital as an economic concept. For example, Paldam and Svendsen (1999) noted that, to qualify as capital, social capital must be able to be accumulated and invested, but also that it may be destroyed. The World Bank has recognised that existing economic modelling equations are not able to predict economic development in Third World countries. Apparently some 70% of World Bank supply side interventions have failed. The question therefore is "Is Social Capital the missing link?" this is the question explicitly addressed by the Manager of the Social Capital

Initiatives at the World Bank , Christiaan Grootoert. That unit of the World Bank was able to provide an impressive array of evidence from around the world, showing that while all forms of capital are useful and necessary to economic development, none is more so than social capital. More sobering is the realisation that many of the actions of governments, multinationals and aid agencies alike, have actually destroyed existing stocks of social capital in the effort to establish short term economic gains, thus eroding the potential for significant and lasting economic and social development. There is a dawning realisation that investment in social capital is a crucial prerequisite for economic development, even more important than investment in basic material infrastructure. Once there, social capital provides a kind of multiplier effect on financial investment.

Some Australian Evidence

With my colleague, Paul Bullen of Management Alternatives, I conducted an empirical study that confirmed and extended the conceptual structure of social capital. This study used a questionnaire survey of over 1200 adults in 5 communities in NSW. The data from that study suggests several conclusions. First, there is a General Factor, one that can be said to reflect a generic social capital. Each of 36 items contributes to the total scale, thus forming a reliable and valid instrument for the measurement of social capital.

Second, there are also several, quite distinct elements, or statistical factors that together appear to define social capital. The first three factors in particular are very strong, and explain about 30% of the variance. Factor A refers to participation within local community organisations and events. Factor B refers to social agency, while Factor C refers to feelings of trust and safety. Each of these is quite distinct, although there is a moderate relationship between them. Three of the other factors are concerned with participation and connection within a variety of contexts, within the neighbourhood (Factor D), among family and friends (Factor E) and within the workplace (Factor H). The fact that these factors are distinguished from Factor A suggests that people may find their social networks in a variety of contexts, and not necessarily in others, that is that different people are connected in different ways. We should pay more attention to the role of social capital within the workplace. There is every indication that social capital relates to organisational citizenship which itself is believed to impact directly on organisational performance (eg Schnake, 1991).

Of particular interest are those items that **do not** contribute either to the general factor or to any of the specific factors. None of the items relating to government institutions related to any factor (eg "generally do you believe that Australians are well served by their government institutions?"). The pattern of correlations suggests that social capital is about more immediate and personal connections between people and events, rather than the more distant and formal relationship with government institutions and policy. This is not to say that government policy is unimportant, but rather that it is not experienced in any immediate way or connected with people's daily lives.

Other items that failed to relate, were those dealing with the semi-legal contract implied in direct and immediate reciprocity. A generic reciprocity is important and is implied in such items as "by helping others you help yourself in the long run". On the other hand the tit for tat items like "if you help a neighbour is it important that they repay the favour as soon as possible" bore no relation to any social capital specific or general factor.

The relationship between the four capitals

Perhaps enough has been said to illustrate the interconnectedness of all forms of capital. The one we know most about, and certainly talk most about, is financial capital, and to a lesser extent, physical capital. We also recognise, though we talk less about it, the importance of cultural or human capital. By this we mean the sum total available skills, competencies and knowledge that humans involved in the enterprise bring to it. They include formal qualifications but also those intangible cultural knowledges that may well make the difference to a successful enterprise.

We are just beginning to appreciate the importance of natural capital, in terms of ecological sustainability. For too long we have taken for granted the availability of resource materials: the forests, minerals, fish, and soil, upon which our wealth ultimately depends, as well as the 'commons', those things that no-one owns, but upon which we all depend, things such as clean air and water. Until very recently, we took these resources for granted, nature to be colonised, owned, exploited. Some aspects of natural capital have entered the national accounts, but some have not. We have almost certainly undervalued, and continue to undervalue their worth. The evidence is mounting that we cannot continue to deplete without replenishment. We need to find ways of creating wealth in more complex ways, seeing wealth in terms of total quality of life. Wealth that destroys the basis of life is no wealth at all.

But, development, the creation of new wealth, does not need to depend on the destruction of our natural capital. We are beginning to realise, with the world Bank, that a judicious investment of all forms of capital can create the kind of value added advantages that satisfy the financial bottom line, while also enhancing our natural and social environment. It appears, for example that over-use of the "commons" (the free-rider effect) can only be prevented where social capital is strong. What we need to understand much better than we do now, is how social capital factors into the economic equation, how to enhance its presence (how to grow it), and how to 'capitalise' on this resource.

In short, social capital should be as much a part of the organisation's business as any of the other forms of capital. Good social capital is good business.

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