

# Employment of Corporate Social Capital for the Soak of Innovations

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**Annotation.** High pace of development and competition in national and global markets urge the constant search and implementation of innovations in business. Social capital (if used properly) thanks its constituents can become a fairly valuable tool for the soak of innovations. The concept of corporate social capital in the light of the soak of innovations is presented in the article. The constituents of corporate social capital alongside with the forms of corporate social capital that are determined by these constituents and their peculiarities are analyzed in short.

**Key words:** social capital, innovations.

## INTRODUCTION

The importance of social relations and, accordingly, social capital is growing rapidly because of the recent changes in the global market – such as increased need of efficient and prompt communication for the exchange of information, knowledge and innovations. Innovations generally are highly resource-intensive. That makes it hardly available for the majority of SMEs. As social capital in proper conditions facilitates collaboration, it can enable SMEs develop, soak and implement innovations. Besides social capital can be conducive for the spread and exchange of information and knowledge that is also crucial for the innovation. This confirms the importance of social capital in the innovation based process and urges to analyse this issue in more detail.

There is variety of corporate social capital concepts presented in the scientific literature. Based on the reasoned systematic analysis of these concepts the unique concept of corporate social capital binding the peculiarities of social capital determined by its constituents with the nature of corporate social capital impact on the operation of enterprise was elaborated by the authors of this article.

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The aim of this article is to analyse this concept in the coherence with innovation displaying the possibilities of corporate social capital employment for the soak of innovations. To learn about the possibilities to employ social capital in innovation process, first, it is essential to understand what is meant by the term ‘social capital’, how it develops and what determines its particular impact.

## CONCEPTION OF CORPORATE SOCIAL CAPITAL AND ITS ROLE IN INNOVATIONS

**The constituents and forms of corporate social capital.** During the last decades concept of social capital has gained a wide interest of scholars representing various fields, especially economic and political. Because of that there is big variety of definitions of corporate social capital presented in the scientific literature. The direct equation of corporate social capital with its functions or the resources that can be obtained through it incidental for these definitions is negotiable and necessitates specifying the definition of corporate social capital. On the basis of scientific literature the definition of corporate social capital was elaborated defining **corporate social capital as deliberate use by enterprise or its members of social networks that thanks to trust, shared values / believes, norms and sanctions become the means for seeking the corporate goals.** It is clear from this definition that social network, trust and the framework of shared values / believes, norms and sanctions are the essential elements for social capital as well as corporate social capital formation. These elements alongside with three prerequisites – opportunity, motivation and ability – generate social capital (Macerinskiene, 2008; Macerinskiene, Vasiliauskaite, 2007).

Although most scholars list some of these above-mentioned elements as the foundation for social capital, what they mean by these elements and how they interpret the role of these elements differ. Some scholars concentrate on horizontal informal networks based on personal contacts and personal trust (Putnam, 2000), others stress formal hierarchical networks that interlink heterogeneous actors and facilitate general trust (Burt, 2000; Coleman, 2005). Coleman (2005) presents theory of closure of the network structure and argues that closed networks with dense inner contacts are conducive for shared

norms and believes therefore facilitate strong interpersonal trust and social capital. Contrarily, Burt (2000) argues that structural holes connecting otherwise unrelated networks provide unique information and cooperation opportunities therefore are more beneficial for social capital formation.

The differences in scientific views are caused by the variety of scholars' background and the complex and multiple nature of social capital. As it generates on the interaction of social networks, trust and the framework of shared values / believes, norms and sanctions alongside with three prerequisites – opportunity, motivation and ability – the formation of social capital is complicated and miscellaneous process. Output of this process will depend on the features of every element involved as well as on the conditions under what this process runs. One of the ways to classify social capital is to differentiate among the **bonding, bridging and linking social capital** (Adler, Kwon, 2002; Gabbay, Zuckerman, 1998; Knoke, 1999; Woolcock, 2001).

These three forms of social capital are based on different set of background elements and produce different outcomes. Bonding social capital generates in bonding networks that link homogenous actors. These usually share group specific values, believes and norms that are somewhat different from the rest of the society. Dense and strong inner group ties facilitate particularized trust among group members. So bonding social capital facilitates confidence, reciprocity and cooperation among group members but fail to connect different groups and its' members. Sometimes bonding social capital can even become a reason of excessive closure and dependence on network membership that in turn may cause hostility between the bonding group and rest of the society or other groups.

As bonding social capital is based on homogenous networks with specific values and norms generating particularized trust, it is not beneficial for the development of innovation that is naturally coherent with variety of information, knowledge and invention. Bonding social capital is most conducive in the later stages of innovation – such as accumulation of resource for implementation of innovation, share of knowledge or skills during the implementation of innovation, etc. Bonding social capital can also facilitate spread of end-user innovation that is where an agent (person or company) develops an innovation for their own (personal or in-house) use, because existing products do not meet their needs (Davila, Epstein, Shelton, 2006). Generally user innovators rarely become entrepreneurs, selling their products. More often they chose to trade their innovation, using networks of innovation to freely reveal and exchange their innovations. Bonding social capital is the most favorable for such exchange as it facilitates reciprocity and collaboration.

Bridging networks, contrarily, tie heterogeneous actors. Ties between them are weaker with a fewer commitments but characterized with a bigger variety. The values and norms of bridging networks

members' are more universal and don't call for specific attributes such as nationality, religion, social class or politics. Bridging networks are built on generalized trust, *i. e.* general trust in human beings as honest and socially thinking. Consequently such kind of networks is more open and rotational. Bridging networks are less tight knit therefore are more flexible. Because of the heterogeneity of its' membership it is more difficult for partners to know each other but the bigger variety of resources, competencies and information can be exchanged. This kind of social capital is less beneficial for confidence though facilitates transmission of information, cooperation of unfamiliar partners, etc.

That makes bridging social capital highly favorable for the spread of innovations and innovation friendly information and knowledge. More recent research show that innovation does not just happen within the industrial supply-side or as result of user demand, but through a complex processes that links many different players together – not only developers and users, but a wide variety of intermediary organizations such as consultancies, standards bodies, etc. (Ettlie, 2006). General trust based heterogeneous networks are most suitable frame for the spread of innovations.

Linking social capital refers to the relationship between individuals and groups in different social strata in a hierarchy where different groups access power, social status and wealth. Woolcock (2001) describes linking social capital as the relationships people have with those in power. Linking social capital can be characterized with the qualities of both bonding and bridging networks. It depends on what relationship linking social capital is based. If it is friendship or kinship relationships that tie actor with those in power then linking social capital have more similarities with bonding social capital. And contrarily, if it originates as contact of earlier unfamiliar actors due reciprocity or common goals linking social capital like bridging social capital will be based on universal shared values and norms as well as generalized trust. Linking social capital enables individuals and community groups to leverage resources, ideas and information from formal institutions beyond the immediate community radius.

The dual characteristic of linking social capital enables it serve both development and spread of as well as implementation innovations processes. The main distinction of linking social capital lie in the resources and powers involved. Linking social capital is characterized by links among the individuals and/or groups that differ in power of access, social status and wealth. That makes linking social capital essential when innovation requires exclusive resources or actions, such as limited information or knowledge, licence or permission, authorisation, etc.

To conclude it should be noticed that the mix of different forms of social capital is most favorable conditions to occur and develop with the particular form of social capital prevailing on the particular stage of innovation process.

That induces to look for the some factors that could be applied for the identification for the most appropriate form of social capital during the innovation process.

**Contingencies of corporate social capital.** As the impact on operation of enterprise of bonding, bridging and linking social capital differ, it is important to systemize potential impact of particular corporate social capital. The contingencies of social

capital can be applied for that (see Figure 1). **Three contingencies of social capital – task, symbolic and complementary capabilities** – show that the net value of a given form of social capital depends in large on the context, and in particular on the tasks of the focal group and on its fit with environment (Adler, Kwon, 2002). Both factors will influence the relative importance of social capital’s benefits and risks.

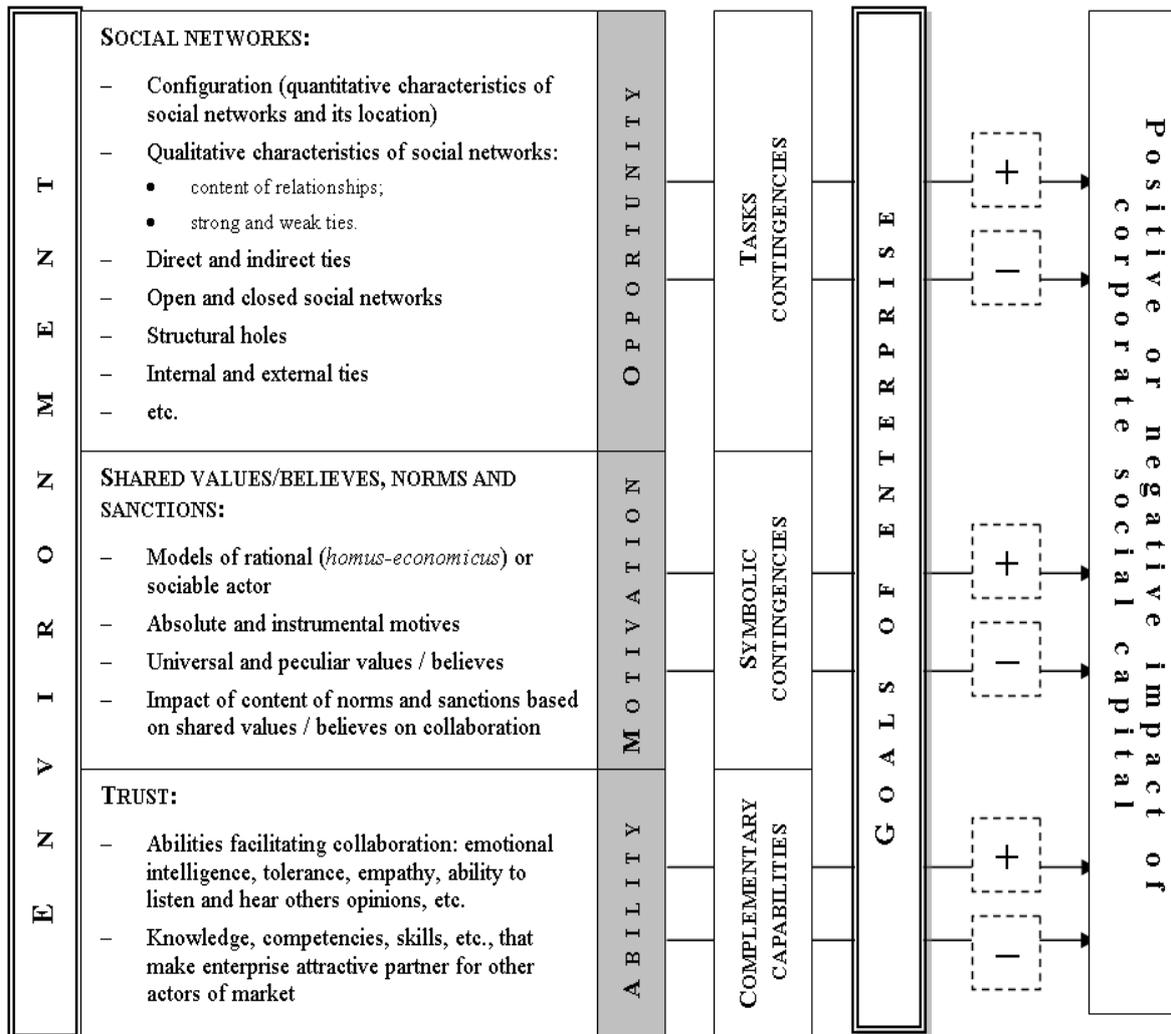


Figure 1. Coherence among the elements and prerequisites of social capital and impact of social capital

Task contingencies help explain, first, whether strong or weak ties are more valuable. According to Uzzi (2002), if the task requires trust and cooperation, embedded ties with repeated exchanges between a small numbers of partners is preferred, but if the task requires economic rationality and market competition, arm’s length market relations with more numerous partners are more effective. Task-contingency view also clarifies the tension between Coleman’s thesis that the closure of social network is the key source of social capital and Burt’s theory favoring sparse networks with many structural holes (Baker and Obstfeld, 2006). Hansen, Podolny, & Pfeffer (1999) show that the performance of relatively uncertain tasks

benefits from greater tie density (closure) because closure makes actors more willing to share tacit knowledge, whereas when tasks are relatively certain, structural holes are more valuable because they allow a cost-effective way of accessing a wider range of information sources. The need for certain type of ties and other elements inherent differ during the different stages of enterprise duration. As at the start the possibility to get lacking resources and search opportunity to enter the market are more important during the development of activity the need for more close cooperation when developing new product or bigger variety of contacts for search for new opportunities or markets may occur.

Symbolic contingency covers the issues

coherent for the third element of social capital, *i. e.* shared values / believes, norms and sanctions. Corporate values, beliefs, norms and sanctions inherent for the particular enterprise and the norms and beliefs in the surrounding environment influence the value of a given stock of social capital. For example, entrepreneurship may be seen as legitimate in one context whereas in another context it might be seen as opportunistic and self-seeking (Adler, Kwon, 2002). In Burt's (2000) analysis of corporate managers, he finds that entrepreneurial brokering by senior executives is perceived as legitimate and thus rewarded, but less senior managers may suffer if they engage in such activities. Similarly, Gabbay and Zuckerman (1998) found that organizational settings where norms encourage cooperation are often inhospitable to entrepreneurs, and brokering activities are less likely to be rewarded. If the particular corporate values / believes, norms and sanctions inherent differ from those inherent in surrounding community, corporate social capital will not generate any benefit for enterprise.

In the case of complementary capabilities two dimensions are important when studying corporate social capital. First one is the associability that encompasses the social disposition and ability of reciprocity (Nahapiet, Ghoshal, 1998). The second one is the degree at what the experience and abilities that corporate player has gained during his activity can be useful in the recent and future business ties. Actor's abilities figure as complementary resources. Gabbay and Zuckerman (1998) study of an industrial design firm provides an example. New design ideas for one client often come from ideas developed in the context of work for other clients in other industries. Burt (2000) shows that a distinctive skill is needed to take advantage of the social capital created by the network of clients – the ability to combine these disparate ideas to generate new, innovative ones. For the focal firm, its own combinative capability is not constitutive of its social capital, but it is clearly a critical complementary ability.

The stencil of contingencies of social capital can be efficiently applied in the case of innovations seeking to identify the most appropriate form of social capital in the particular situation. The most favorable set of social capital forms should be developed comparing the needs of certain innovation process and characteristics of the given environment with the potential impact of particular form of social capital aiming efficiently to employ social capital in innovation process.

**Peculiarities of the ownership of social capital.** Unlike other forms of capital, social capital resides in relations of individuals or other actors, but not in objects or individuals itself. This feature determines some **peculiarities of corporate social capital ownership and formation.** Social capital can not be owned by the one particular owner. Social capital can be build only during the

communications process and only the results of communication can be possessed by partners but not the generator of these results – social capital – itself. This feature of social capital makes the formation of corporate social capital more complicated than the traditional forms of capital. Although some contacts of enterprise can be determined by its ownership form (common board, dependence to the syndicate, joint venture capital, etc) or contracted during its activity (participation in joined projects, R&D partnership or patent relationships) the biggest part of communications is initiated and held by individuals. This raises the question if corporate social capital as such exists or if it is only the sum of social capitals of employees.

Some scholars argue that social capital at meso level, *i. e.*, between enterprises, does not exist because it is individuals who keep the relationships (*e. g.*, Knoke, 1999; Putnam, 2001, etc). The other scientific stream consider both micro (individual) and meso level corporate social capital formation processes as separate but interacting (*e. g.*, Penning, Lee, 1998). The existence of corporate social capital as independent form of social capital depends on the kind of activity of enterprise – whether it is liberal professions or other activity where the individual professional dominates or whether it is conventional kind of activity such as trade, construction, etc. (Pennings, Lee, 1998). Size, hierarchical structure, duration of enterprise and other factors are also important when deciding on the priority of individual or corporate social capital at the meso level.

These peculiarities of corporate social capital make its employment difficult not only in case of innovation but also for the other task. Aiming to soak relevant individual social capital, regular systematic work should be carried in organization in order to establish and implement appropriate social capital development and exchange friendly policy and culture of organization.

Based on the coherence among the elements and prerequisites of corporate social capital and its impact presented in Figure 1 it is clear that the particular form of social capital that would be most prosperous for the innovations will depend on several factors, such as:

- **type of enterprise and the field of its activity** – traditional forms of activity such as grocery or furniture trade will require different type of innovation and, accordingly, different seedbed unlike, let's say, IT or pharmaceuticals.
- **surrounding environment** – there are variety of factors of surrounding environment that are determines the particular type of corporate social capital to become most beneficial for the innovations: political, economic, social and cultural situation in the local market, competitive situation in the market, stage

of business cycle in the particular market, etc.

- **type of particular innovation** – whether it is manufacturer or end-user innovation; whether the innovation is supply-pushed or demand-led one, etc.
- **particular stage of innovation** – it is important to employ the proper form of social capital during the all process of innovations starting from the situation analysis and finishing with the implementation of innovation as every stage demands different level of openness and confidentiality, type and variety of contacts, information, knowledge, etc. It is proposed that the life of innovations can be described using ‘s-curve’ or diffusion curve (Ettlie, 2006). The s-curve maps growth of revenue or productivity against time. The early and final stages of particular innovation though for different reasons – to ensure / re-ensure success – are more information and financial resources intensive. The implementation of innovation though requires more confidentiality and trust.

The nature of social capital and its impact makes it highly favorable factor for innovations. Though it is very important to identify and foster the appropriate form of social capital in particular situation in order to achieve the most beneficial outcome.

## CONCLUSIONS

Even such short analysis confirms the importance of social capital for the soak of innovations. Still it is clear that the existence of corporate social capital itself does not facilitate innovation. As social capital is complex factor it provides for the different outcomes depending on the set of particular constituents and the conditions these constituents were employed. That’s why it is essential to consider variety of factors on both – corporate social capital and innovation – sides in order to ensure catalyst effect of social capital in innovation process.

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