

THE INFLUENCE OF SOCIAL CAPITAL| ON ORGANIZATIONAL COMPETITIVENESS

**Laura DIACONU,
A. MAXIM**

Faculty of Economics and Business Administration,
“Alexandru Ioan Cuza” University, Iasi
e-mail: dlaura_es@yahoo.com

There are two facets of a company: the formal, legally determined one, which consists in firm's management and the informal one, based on mutual trust, which complements the formal structure and helps the organization achieve prosperity. In this paper we focus on the informal structure of the firm, identified with social capital, in order to explain how it can influence the firm's performance. Social capital can be defined as a network structure, based on an informal association among the members of the firm. The mutual trust and the obligations create an informal mechanism, an instrument which allows the members of the firm to better and easier achieve their goals. Social capital is considered to be a stable mechanism, which supports the growth of an organization, by its feedback role: creating a sustainable development framework. Horizontal association and vertical integration obtain this framework, which help reaching a consensus in ranking a company's priorities. Within a company, social capital usually has three functions. The first one is to obtain information through networks of personal contacts maintained by the firm's owner or managers. They do this in order to identify and contact clients, to access market information, to access inputs, and to obtain technical and financial assistance. The second function is to reduce uncertainty and to better control costs by transacting with trusted individuals and organizations. Finally, the third function relates to collective action. Social capital may help companies engage in mutually beneficial collective actions (such as joint development of a new product, technology or know-how sharing etc.). We conclude that an efficient management of the social capital may help a company develop a better understanding of its competitive environment and improve its motivation and ability to undertake numerous and complex strategic actions. These capabilities are essential to long term competitiveness and sustainable growth.

Keywords: *social capital, trust, associational activity, norms of civic behavior, competitiveness, strategic value.*

It is argued that firms can achieve higher results due to better informal interactions not only among their members, but also between them and the other organizations. This aspect increased the interested of managerial science in analyzing the informal structures within firms and their influence on the overall performance.

Unlike the economic view of human action that perceives individuals as resources that can be developed and that can influence the environmental factors, the social capital brings a sociological view of human action and perceives individuals as actors that can be modeled by social factors. The definition of social capital depends on the level that it was analyzed: at individual [3], organizational [8; 14] or at the societal level [17; 20].

Analyzed at the individual level, social capital was viewed as all the resources embedded in one's relations with the others; so, in this situation, the focus is on the actual or potential benefits that result from formal or informal connections a person has with others. At the organizational level, social capital has been defined as the social relationships that a firm has and uses in various actions, and also as the networks developed within that firm. The latter may represent horizontal relations, among the employees, based on trust and collaboration, and vertical ones, which imply communication and cooperation between the employees and managers. At a macroeconomic level, Putnam defines social capital referring at the features of social organization – network structures, norms and trust that facilitate coordination and cooperation for mutual benefit within a society [18].

In this article we intend to analyze the social capital only through its organizational dimension, underlying the way in which it influences the firms' competitiveness.

MATERIAL AND METHOD

This article is the result of a systematic analysis of the specialized literature from several social sciences databases, including articles, books and reports of various international organizations.

Several research methods were used. The observation method was used to investigate the reality in order to underline the specific features of social capital at the organizational level: trust, associational activities and norms of civic behavior, all these facilitating coordination and cooperation into a firm. The statistical method and the comparative one were used in order to analyze the general trend of individuals: whether or not they are members of associations and voluntary-type organizations, if they obey or not to the norms of civic behavior or if they trust or not their colleagues, subordinates and managers.

RESULTS AND DISCUSSIONS

Firm's actions are the result of knowledge, skills, imagination and creativity that exist both within and between employees. Consequently, a high level of human and social capital from an organization enhances its awareness of the competitive environment and its motivation and ability to undertake complex competitive actions. Nahapiet and Ghoshal underline the fact that social capital fosters the intellectual capital through the exchange of information and knowledge [14]. These two are the most competitive asset that a firm possesses as they stimulate the innovation process, vital for the survival of any company. D'Aveni notes that „flexibility, quick information processing and creative responses are critical to competitive success” [6].

Among the specific features of social capital we can mention trust, associational activities and the norms of civic behavior, that together facilitate coordination and cooperation for collective benefit [15; 16; 9].

Trust, as a component of social capital, may foster innovation. At an organizational level, trust reduces the need for some rigid control systems which would diminish the creative thinking [19]; the release from rigid rules and job restrictions enhances ideas generation. Trust is necessary not only for innovation at an organizational level, but also for interorganizational cooperation. The researches on innovation revealed the fact that the development and the adoption of new processes and products in a country is the result of the interaction between the specific abilities of any firm or industry [7]. Consequently, the possibility of having a continuous flow of innovation in a country depends on the ability to diffuse specific knowledge to the organizations that interact in production, research and development activities. A high level of trust between the organizations of a country facilitate the exchange of confidential information, reducing in this way the risk that one of the parties will use that information for its own interests [13]. Regarding this aspect, it is notable the idea of Bradach and Eccles that „trust is a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically” [2]. At an organizational level, trust reduces the amount of time it takes for meaningful information to circulate among different hierarchical levels; a high level of social capital fosters the sharing of tacit knowledge [14]. This knowledge, together with individual skills and collaborative working relationships create the strategic value of the firm.

Associational activities describe the general tendency for people to be active members of associations and voluntary-type organizations [13]. People must have a great interest in taking part into these kinds of associations because they involve solidarity and mutual support [17]. More than this, they may play an important role in attracting capital, fact that might increase investments in innovative activities. Chell and Baines show how many owner-managers of small business use their contacts in organizations like Chambers of Commerce or Small Business Federations in order to get more business ideas [4]. Consequently, these associational activities may foster the innovation among the members of an organization through the exposure to different ideas from various sources of information.

Norms of civic behavior refer to the ability of people to subordinate self-interest to that of the society [13]. As Putnam argues for the case of Italy, this aspect is essential for an organization; he notes that some regions have become more economically prosperous compared to others because they were more civic [17]. The norms of civic behavior may foster innovation through their effect on the exchange of ideas and knowledge, aspect considered by some researchers as a facet of cooperative behavior. For example, Argyle considers that in the case of some working groups from a firm, successful cooperation involves coordination, helping, communication and division of labor [1]. A similar opinion is promoted by Tjosvold who identifies different aspects that are associated with a cooperative relationship, including the exchange of information [21]. In his opinion,

cooperation is directly related to innovation, i.e. when norms of civic behavior are high, there is a strong tendency to share ideas and information and thus the knowledge transfer is expected to be more extensive.

Frequent social interactions permit individuals from an organization to better know one another, to share important information and to achieve a common point of view. Common values and a shared vision, the main manifestations of the cognitive dimension of social capital, may also encourage the development of trust among the members of an organization, as they know they are working together for achieving common goals and that they will not be hurt by any other member's pursuit of self-interest. Moreover, when members of an organization have the same perceptions about how to interact with one another, they may avoid possible misunderstandings in their communication. The moment when in a firm there are distinct points of view regarding a problem, and each of those involved in the decisional process tries to impose his point of view, significant barriers in sharing information and knowledge creation will arise.

Social relationships are the channels not only for the flows of information but also for the flows of resources. Through social interactions, a person may gain access to other's resources, access that, as Kanter observed, „allows innovators to go across formal lines and levels in the organization to find what they need” [12]. In order to create new products, or to improve the existing ones, firms need to relocate resources and to combine them in different ways. This process of exchanging and combining resources may be correlated to innovation, playing the role of an indicator for value creation. As Hitt, Hoskisson, Johnson and Moesel observed, „firm innovation has become important for value creation” [11].

The importance of social interactions can be noted not only at the organizational level, but also at the inter-organizational one, aspect mentioned by researchers such as Sarageldin and Dasgupta or Coleman. They tried to underline the fact that in those regions where there is a large number of small firms which strongly interact with one another (large firms may be included in these small firms networks), it is more likely to achieve economical prosperity than in those areas where large organizations prevail [10].

CONCLUSIONS

The ideas presented in this material provide a strong support for the argument that social capital, through the knowledge and information exchange that it involves, facilitates the innovation process. For any organization, innovation serves as an indicator for value creation, which is critical to competitive success.

All three dimensions of social capital foster innovation: trust facilitates communication and collaboration that can generate new ideas; taking part into associational activities promotes new social contacts that may be used in order to get some business ideas; when there are strict norms of civic behavior, there is also a strong tendency of information exchange, without fearing that the partner will act opportunistically.

Social capital stimulates competitiveness not only through innovation process, but also through the fact that the employees, communicating and collaborating with one another, get to know each other better, can share a common vision on the existing problems within the firm, avoiding this way, misunderstandings and conflicts.

These conclusions regarding the impact of social capital on organizational competitiveness may be extended to a macroeconomical level, a better social capital being able to foster a nation's prosperity.

REFERENCES

1. Argyle, M., 1991 - *Cooperation: The basis of sociability*, Rutledge, London.
2. Bradach, J. L. & Eccles, R. G., 1989 - *Price, authority, and trust: From ideal types to plural forms*, in W. R. Scott (Ed.). *Annual review of sociology*, Palo Alto, vol. 15.
3. Burt, R., 1992 - *Structural holes: The social structure of competition* Harvard University Press.
4. Chell, E., Baines, S., 2000 - *Networking, entrepreneurship and microbusiness behaviour*, *Entrepreneurship and Regional Development*, nr. 12, p. 209
5. Coleman, J.S., 1990 - *Foundation of social theory*, Harvard University Press
6. D'Aveni, R., 1994 - *Hypercompetition: Managing the dynamics of strategic maneuvering*, New York: Freedom Press
7. Dosi, G., 1988 - *Sources, procedures, and microeconomics effects of innovation*, *Journal of Economic Literature*, nr. 26, 1120-1171
8. Freel, M., 2000 - *External linkages and product innovation in small manufacturing firms*, *Entrepreneurship and Regional Development*, nr. 12, p. 245-266
9. Helliwell, J., Putnam, R., 1995 - *Economic growth and social capital in Italy*, *Eastern Economic Journal*, nr. 21, p. 295-307
10. Herrigel, G., 1996 - *Industrial constructions: The sources of German industrial power*, Cambridge University Press, Cambridge
11. Hitt, M. A., Hoskisson, R. E., Johnson, R. A., & Moesel, D. D., 1996 - *The market for corporate control and firm innovation*, *Academy of Management Journal*, 39.
12. Kanter, R.M., 1998 - *When a thousand flowers bloom: Structural, collective, and social conditions for innovation in organizations*, in B.M. Staw & L.L. Cummings (Eds.), *Research in organizational behavior*, n° 10, Greenwich, CT: JAI Press, 169-211
13. Knack, S., Keefer, P., 1997 - *Does social capital have an economic payoff? A cross country investigation*, *The Quarterly Journal of Economics*, 1251-1288
14. Nahapiet, J., Ghoshal, S., 1998 - *Social capital, intellectual capital and the organizational advantage*, *Academy of Management Review*, nr. 23, p. 242-266
15. Nichols, T. M., 1996 - *Russian democracy and social capital*, Sage, p. 629-642
16. Paxton, P., 1999 - *Is social capital declining in the United States? A multiple indicator assessment*, *American Journal of Sociology*, nr. 105, p. 88-127
17. Putnam, R., 1993 - *The prosperous community: Social capital and public life*, *The American Prospect*, nr. 13, p. 35-42
18. Putnam, R., 2000 - *Bowling alone: The collapse and revival of American community*, Simon & Schuster, New York
19. Quinn, J., 1979 - *Technological innovation, entrepreneurship and strategy*, *Sloan Management Review*, nr. 20, p. 19-30
20. Serageldin, I., Dasgupta, P., 2001 - *Social Capital: A multifaceted perspective*, World Bank Publications
21. Tjosvold, D., 1988 - *Cooperative and competitive dynamics within and between reorganizational units*, *Human relations*, nr.41, p. 425-436.