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Building social capital in networks

Peter J. Batt

Agribusiness Marketing, Curtin University of Technology, GPO Box U1987, PERTH 6845, Western Australia, Australia

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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

E-mail address: p.batt@curtin.edu.au.

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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