



Effects of social capital on processes in a regional strategic network

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ABSTRACT

Understanding the role of social capital is vital for implementing cluster policies as regional strategic networks and cluster initiatives are influenced by the local socio-economic context and its social capital. Social capital can create value for companies by closure of the network structure (bonding), which maintains internal mutual trust but bonding can also over-embed companies in their social context, whereas sparse networks that provide links to other parts of relevant business networks (bridging) often provide greater innovation benefits. We provide a conceptual framework applied to a case study of a Swedish regional strategic network, and examples mostly of positive effects of bridging social capital and negative effects of the bonding form are identified. This is interpreted against the background of the regional dependence-oriented culture.

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1. Introduction

Network cooperation can emerge in various ways. Often cooperation develops gradually between two firms and spreads to other firms connected to them. In other cases, cooperation is created by explicit initiatives taken by firms seeking mutual benefits, e.g. in marketing, production, or logistics. Officials on the national, regional, or local level also try to stimulate enhanced company cooperation in order to create regional growth (Andresen, 2011; Gebert-Persson, Lundberg, & Andresen, 2011; Lundberg & Andresen, 2011; Porter, 1990).

Koschatzky and Kroll (2007:7) propose that strategic networks designed to create regional growth can be used to implement governmental innovation policy. An element in such policies is often to encourage local firms, governmental agencies and academic institutions to participate in joint technology development and research projects, sometimes called triple helix collaboration (Huggins, 2001; Sölvell, 2009). Relationship building is a key issue in such projects, and they are often supported by considerable governmental funding. This makes it important to scrutinize actions by policy-makers that are intended to influence the local business market (Pesämaa & Hair, 2007; Spencer, Vinodrai, Gertler, & Wolfe, 2010).

Partanen and Möller (2011) claim that analyzing strategic network collaboration projects requires innovative and longitudinal research designs generating in-depth understanding since these projects change the landscape of competition. Sotarauta (2010:387) sums up the need for research and advice by stating that “people

responsible for regional development often understand fairly well the need to construct regional advantage and build clusters” and “what they have not been given much advice on, is how to do it — how to create networks for these purposes, how to direct and maintain them, how to lead complex policy networks”.

Adler and Kwon (2002) and Molina-Morales and Martínez-Fernández (2009) point out that there is a lack of existing literature that explores the negative effects of social capital empirically. The same conditions that support norms and trust can also serve as lock-ins that isolate the organization from the outside world and over-embed the network in its own social context (Eklinder-Frick, Eriksson, & Hallén, 2011a; Gargiulo & Benassi, 2000; Molina-Morales & Martínez-Fernández, 2009; Parra-Requena, Molina-Morales, & García-Villaverde, 2009; Uzzi, 1996). The features of social capital might therefore not only bring positive effects upon a network. There is a risk that social capital might impose constraints that under some circumstances can outweigh the benefits.

Huber (2009) criticizes the widespread assumption that strong ties and dense, cohesive communities are requirements for social capital within the established views of social capital and hence stresses the importance of the often overlooked instrumental role of weak ties and bridges (Granovetter, 1973) or structural holes (Burt, 1992). Granovetter (1973:1364) defines a bridge as “a line in a network which provides the only path between two points”. Hauser, Tappiener, and Walde (2007) claim that “the importance of these bridges as carriers of useful economic knowledge was highlighted with renewed interest in location theory and as a novel perspective on industrial clusters”.

He and Fallah (2009) pose that “the underlying assumption is that small-world structure allows clustered and dense relationships to

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coexist with distant and weak relationships, as the dense and clustered relationships encourage trust and close collaboration, whereas distant ties act as bridges for fresh and non-redundant information to flow". [Parmigiani and Rivera-Santos \(2011\)](#) agree and postulate that "organizations require a mix of both strong and weak ties, since strong ties involve deeper exchanges, while weak ties provide more breadth and diversity of knowledge and resources".

Combining different patterns of bonding and bridging is therefore seen as necessary for successful collaboration and for exploiting the creative potential of social capital ([Daskalaki, 2010](#); [Slotte-Kock & Coviello, 2010](#)). [Osborne, Baum, and Ziersch \(2009:214\)](#) claim that "much of the social capital literature relies upon the assumption that social capital arises from participation in a uniform fashion and leads to beneficial outcomes for all involved, rather than considering how participation in some types of groups, in some situations, may be beneficial, whereas other types of participation in different contexts may not". According to [Alguezaui and Filieri \(2010\)](#), most scholars have highlighted the benefits of both cohesive and sparse networks, failing to analyze more deeply their detrimental effects. [Alguezaui and Filieri \(2010\)](#) therefore suggest that future research exploring social capital should close the gap and empirically prove the benefits of a balanced approach.

Dense networks and trustful close relationships have been the focus of much prior research within the field of social capital ([Daskalaki, 2010](#); [Hauser et al., 2007](#); [Huber, 2009](#)) although innovative collaboration is seen as dependent upon weak and bridging ties ([Alguezaui & Filieri, 2010](#); [He & Fallah, 2009](#)). This creates a need to investigate empirically both positive and negative effects of social capital within collaborative projects. Negative effects of bridging and bonding are reported by [Eklinder-Frick, Eriksson, and Hallén \(2011b\)](#), and by extending the analysis also to positive effects, we aim to answer the call for "closing the gap and empirically prove the benefits of a balanced approach" as posed by [Alguezaui and Filieri \(2010\)](#).

2. Purpose

The purpose of this paper is to describe both the positive and negative effects that social capital implies for a regional strategic network. The empirical base is a case study of a regional strategic network (RSN) operating in a small town in Sweden. We analyze the effects of social capital on processes in the RSN where different patterns of bonding and bridging social capital were combined in an attempt to create an innovative milieu. Both benefits and drawbacks of this attempt are highlighted and discussed in order to contribute to the discourse on the role of social capital in regional development.

The goal of the RSN selected for our empirical case was to market the combined competence and capacity of the member companies by finding product ideas to develop and produce jointly. This demanded joint efforts in product development, marketing and financing. Effects of the characteristics of social capital which facilitated reaching these goals, we define as positive, and detrimental effects are defined as negative.

3. Literature review

Social capital represents a resource in the social structure within which an actor is located, and it is "available to actors as a function of their location in the structure of their social relations" ([Adler & Kwon, 2002:18](#)). It can be seen as "the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action" ([Adler & Kwon, 2002:17](#)).

[Adler and Kwon \(2002\)](#) claim that there are two different ways of creating value through social capital, stemming from two different views of what constitutes social capital. These views are in turn

derived from James Coleman and Ronald Burt, two key contributors within the field.

[Coleman \(1988\)](#) claims that closure of the network structure, in terms of existing ties between actors, facilitates the emergence of effective norms, which, in turn, maintain the trustworthiness of others. These norms strengthen the social capital within that network structure. In a more open network structure, the violation of norms goes undetected and therefore unpunished, which leads to less trust being developed within the network structure. An open network structure is therefore weaker with respect to social capital. Social capital is seen as connected to the creation of norms and trust within a single and cohesive network structure.

In contrast to [Coleman's \(1988\)](#) focus on closure, [Burt \(1992\)](#) argues that a sparse network with few redundant ties often provides greater social capital benefits. This is so because [Burt's \(1992\)](#) notion of "structural holes" does not stress consistent norms fostered by cohesive networks as the main aspect of social capital. Instead, he claims that the diversity of information and the subsequent brokerage opportunities created by the lack of redundant ties (structural holes) that exist within a sparse network are the source of value. The existence of structural holes within a network enables an actor to act as an information broker by combining information from different actors within the network. The combination of the information stemming from weakly connected actors might thereby contribute to innovation within the network.

The reason why Burt and Coleman suggest opposing conditions and use of social capital, closed and sparse networks, lies in the difference between their respective internal and external foci and the related difference in assumed goals ([Adler & Kwon, 2002](#)). A closed and cohesive network provides benefits from social capital within the community, whereas structural holes within a sparse network provide the focal actor with cost-effective resources for competitive action. These different aspects on social capital are referred to as the bridging and bonding forms of social capital ([Putnam, 2000](#)).

In line with [Granovetter's \(1983\)](#) claim that the significant information flows are channeled through weak ties, [Hansen \(1999\)](#) shows that weak ties enable cost-effective information gathering to support research and development. Such information benefits the whole network in future product development, and individual external weak ties might be beneficial to the network as a whole. Similarly, [Burt \(1992\)](#) states that power benefits accrue to information brokers who bridge disconnected groups, and this does not only benefit the group by making new information available, but also helps in getting things done, as a leadership role rests on the information broker ([Adler & Kwon, 2002](#)).

Solidarity can also emerge from the weak ties that bridge otherwise unconnected groups. [Granovetter \(1983\)](#) discusses several studies where large cooperation projects needed to integrate subgroups with strong internal ties, schools with strong cliques of racial subgroups, hospitals with strong departmental structures, just to name a few. [Florida \(2006\)](#) connects the bridging form of social capital to the "creative class" and attributes innovation to loose bonds between different social groups constituting an open society.

[Ahuja \(2000\)](#) argues that an actor might gain information benefits from having many ties. However, in such situations, other actors might be less dependent on contact with the focal actor, since they, too, have other ties to benefit from. The power structure that maintains the ties within a social structure may be eroded by an abundance of weak ties to other social structures. The power benefits of the bridging form of social capital may therefore be difficult for a single focal actor to oversee and manage.

[Gabbay and Zuckerman \(1998\)](#) suggest that in organizational units where effectiveness depends on broad sharing of information, excessive brokering undertaken by individuals may hinder innovation. The individual brokers might advance their careers by bridging holes in the social network, but there is no guarantee that this leads to inflow of valuable information to the subunit as a whole. Also,

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