
The Intricacy of Social Capital and its Theory in Businesses: Theoretical Evolution

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Abstract

The paper examined the evolution of social capital theory and its intricacies. As the theory stripe to provide an explanation about capital resource inherent in social relations. Social networks provide invaluable resource access to group members at no/little cost in as much as an individual remain a member of the group. This becomes possible through information exchange, trust fund, and leadership skill transfers. However, little attention is given to these resources by business researchers despite its contribution to community's trades. The study is more of literature survey where various view promoted by earlier scholars were explored. It was discovered social relations are important resources achievable through group social interaction. Suggest for further research using empirical data that incorporate externalities. This will help find the effect of the social relationship on local entrepreneurs (developing countries) business success. Also, there is a need for a study that will consider the multidimensional nature of the social relationships.

Keywords: *Social Capital Evolution; Social Capital Theorists; Social Resources; Group Relations; Social Network*

1.0 Introduction

The concept of social capital is primordial, has been with us since when humans civilised to live as a family and /or community. It is recognized that collective effort through interactions with the expectation of reciprocation and trust produce more output than the individual (Häuberer, 2011). This social relation facilitates cooperative family relations, and societal associations to achieve common goals.

It allows members of a given social relationship to have access to collective resources created through interactions and connections among themselves (Adam & Kriesi, 2007). These resources include trust, norms and networks of associations present in any group which gather consistently for a common purpose.

Therefore, the core guiding principle of social capital is the goodwill that others have towards relationships is a valuable resource. This goodwill refers to the sympathy, trust, and forgiveness offered to group members as a result of friendship and acquaintance (Adler & Kwon, 2002; Häuberer, 2011).

The aim of this study is to provide an evolution of the theory and early scholars' perspectives on its importance in resource accessibility through networks. It opines networking and

interaction among group members creates value and economic opportunities which can be used for the benefit of the members. The study is theoretical where reviews are made on the theory to show its use in business research.

2.0 Evolution of social capital theory

The concept that underlies social capital has a much longer history. John Dewey was made to be the first to direct the mainstream use of the social capital in his work 'The School and Society' in 1899, though he did not offer a definition. The power of communal relations and governance has been stressed from antiquity to 18th century, from Aristotle to Thomas Aquinas Burnke (Bowles & Gintis, 2002). Thus, the concept was strongly criticised at the end of the 18th century, with the development of rational choice theory.

However, there is an issue with the social capital as many thinkers continue to question the complicated relationship between 'modern society' and the importance of old institutions', in particular family and traditional communities (Ferragina, 2010). The debate of community versus modernization of society and individualism has been the most discussed topic among sociologists (Willmott, 1986). They continue to observe a breakdown of traditional bonds and the progressive development of anomie and alienation in society.

Interest in the social relation started over a century with Hanifan's work of 1916 regarding local support for the rural school. This was among the first occurrence of the term social capital. It was referred to as social cohesiveness and personal investment in the community relations; a goodwill, mutual sympathy, and social intercourse among individuals and communities that satisfy needs and improving living conditions of members; a collective benefit as well as individual gain through the sympathy and fellowship of neighbors (Lin, Cook, & Burt, 2001). However, the concept was not systematically used until 1980, where the in-depth study is made by various scholars.

3.0 The key theorists of the capital

As indicated above the concept was not given much consideration until recently, and each scholar approaches the phenomenon from his own perspective. This results in different definitions and conceptualizations of the theory that reflect the variance (Adler & Kwon, 2002).

3.1 Bourdieu Concept of Social Capital (1930-2002)

He was among the first to offer systematic contemporary analysis of the concept. His work was influenced by Karl Marx classical theory of capital. He considered three types of capital (economic, cultural and social) which each can be transformed into one another like private good. The capital is defined as the "aggregate of the actual or potential resources, which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition"(Bourdieu, 1986, p. 243). It was also seen by Bourdieu and Wacquant (1992, p. 119) as "the sum of the resources actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network more or less institutionalized relationships of mutual acquaintance and recognition". The relationship is maintained by material and symbolic exchange which provides supports, creates honour, reputation among members, and facilitates building trust.

An institutionalized form of delegation exists that allows the capital to concentrates in the hands of one individual or committee where a representative is normally assigned to speak or act on behalf of the group. This avows the resourcefulness of relationship as it provides helpful support to produce and preserve trust among members.

However, Häuberer (2011) argued that the transformation of social capital into economic and the reverse is not explicitly provided. No consideration is normally given to the importance of the relationship quality in the transformation. This may limit the relevance of theory in explaining the social relationship.

3.2 Coleman's Concept of Social Capital (1926-1995)

The concept is embedded in the context of rational choice theory, social interdependence arises among actors by interest in events and resources controlled by other actors to maximize their utility, rationally choosing the best solution for them. Where the relationship exists in permanent nature, it is not uncommon for the exchange to exist and members may transfer rights of control to the group.

He upholds that *“Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate the certain action of individuals who are within the structure”*(Coleman & Coleman, 1994, p. 302).

It was seen as a special resource that is being always an element in social structure favouring actions of actors that are members in this structure (Adam & Kriesi, 2007). This capital is a productive resource that facilitates achievement of certain results that would be impossible in its absence (Häuberer, 2011). The main feature of the social capital, unlike the other types of capital, is inherent in the structure of relations between persons and among persons. This social structure facilitates the establishment of social norms which specify actions that are considered appropriate. Members support a norm that is beneficial from common compliance and reject otherwise.

He provides for different kind of social capital based on relations of mutual trust among members with expectations and obligation. Coleman and Coleman (1994) provide among them are, authority relations of control in respect to the transfer of rights; information potential that will be beneficial in utility maximization process; effective norms of ethical conduct.

One issue this view is the overemphasis on group membership affects weak ties and the ability of the network to generate new knowledge, access to outside resources (Baron, Field, & Schuller, 2000). And where the social structure is closed information potential (as a kind of social capital) cannot be maximized because no weak ties are maintained (Lin et al., 2001). This makes only old information is diffused in the circle with little inflow current and most valuable ones. This is particular relevance in this digital age where information flows crucial for business decisions.

Notwithstanding that social capital as a structure is a public good where both individual and collective realize benefits therefrom. The closed network structure facilitates faster access to information and the establishment of sanctions that minimize the risk of failure in cooperation, (Burt, 2001; Lippert & Spagnolo, 2005, 2011). This provides most effective structural tie and the social capital.

3.3 Putnam's social capital (Civic Perspective)

Putnam developed the concept following Coleman perspective. The idea is centred on social networks and proposed that social relations contain a value for individuals. The relations between individuals form social networks, norms of reciprocity and trustworthiness (Putnam, 2000). This social relation enhances the productivity of individuals and the group by allowing the members to act together more effectively to reach collective goals (Hume, 2011). The

relationship quality is highest if a tightly-knit network of reciprocal social relationship exists. He construed the capital as civic virtue relevant in a political movement. It is of value to individuals as well as the group. Where individual interest is facilitated to support self-benefits, while the community improves its markets and state performance (Putnam, 2000). He shows that social capital contributes to state stability, effectiveness and economic development.

The Putnam's perspective presents a causal relationship between different elements of the capital as shown in the diagram below:

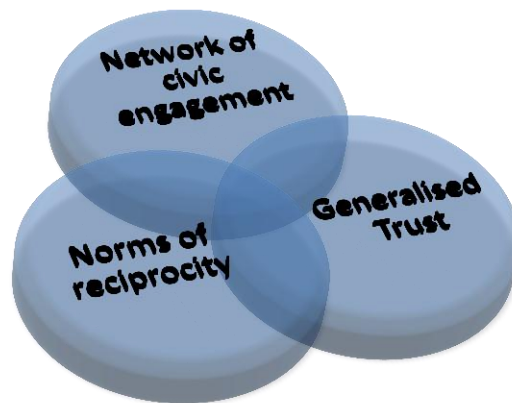


Figure 1 Civic Perspectives

The diagram shows the social relationships, capital persists where relationships based on trust continue to prevail among actors in the networks. Thus, the trust via norms of reciprocity facilitates networks of civic engagement (Häuberer, 2011). In addition, trust is seen as the lubricant of the civic life in which the higher the level of mutual trust in a community the higher the probability of cooperation. It contains a prediction about the behaviour of an independent actor.

3.3.1 Putnam's bonding and bridging social capital

He developed the idea of inward and outward looking social capital (bonding and bridging relationships). Bridging social capital brings together different people outside of a group and /or different classes, e.g. civic movement, religious group, among others. This can be used to connect to external advantage, and guarantee the flow of information from both within and without (Poortinga, 2012). It helps members to get ahead by creating multi-faceted identities and reciprocity.

Bonding, on the other hand, connects people that are alike; it is directed to the inside of the group and leads to exclusive identities that reinforce homogeneous group (Lancee, 2012; Poortinga, 2012). It mobilizes reciprocity and solidarity, it is good for getting through, strengthen identity that leads to loyalty to group norms.

However, the claim of trust, norms, and networks in social organization improve the efficiency of society and coordinated action was condemned (Dynes, 2002). This is because combining different aspects of social life into one will not form a common dimension. Also, the view fails to consider the concept at the individual level and excludes relationships outside the association and informal relations (Häuberer, 2011). The view takes the vague definition of the concept, uses community, fraternity, among others, as synonymous with the

social capital.

Though the perspective contributes to the understanding of the importance of formal networks to political performance and economic development. It offers testable theorem presumptuous cohesive network of civic engagement. This increases the level of generalized trust as well as acceptance of norms of reciprocity.

3.4 Burt's Social Capital Theory (Network Approach)

Burt works along the rational choice perspective like that of Coleman. The theory is embedded in the structural theory of action where an actor or group in the relationship network performs a social action and pursue goals to maximize benefits (Häuberer, 2011). The actor or group has specific resources at their disposal that determine the frame in which the goal can be achieved (Lin, 2017). The interests of the actor are determined by the surrounding social structure that emerged from the division of labour as presented below

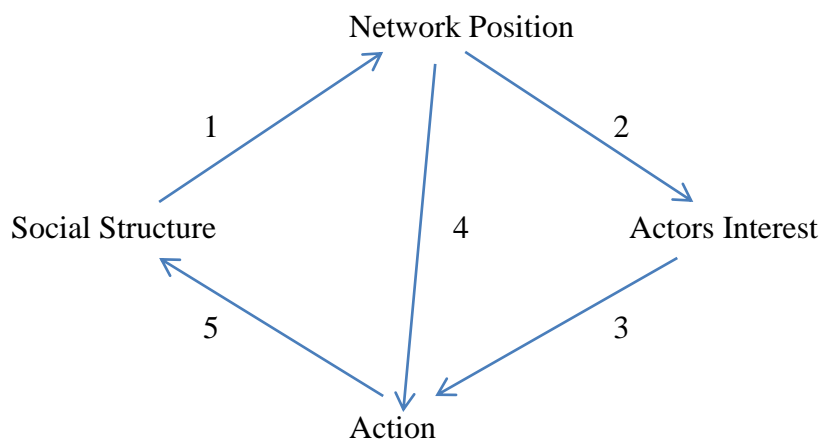


Figure 2 Social Network

The diagram shows the emergence of a casual relationship between the components. The position of an actor in the social structure determines his calculation of utility (1) and, therefore, models the actor's interest (2). Both actors interest (3) and position (4), determine the social action that itself modifies the social structure (5).

The theory also provides that multiple relations among actors constitute networks which are viewed from different levels: individual (ego-networks), a network of subgroups as a structured system. Further provides that information benefits are the highest in big and diversified networks. A structural hole arises where relationships become redundant, leading same people network, same information flow.

The loophole is identified in this view as the capital is considered a public good. No consideration is given to a likelihood of exploitation in an open structure (Lin, 2017; Scott, 2017). Do not consider the possibility to use the capital to fight inequality (Castilla & Fernandez, 2017). The relationship will suffer due lack of mutual control among members. Though, Liu, Sidhu, Beacom, and Valente (2017) the view is important as it sees the capital as a structural asset of networks with the character of both public and private good and is produced in open and closed structure.

3.5 Nan Lin's social Capital Theory (Resource Perspective)

Nan Lin resource perspective of social capital was rooted in Marx classical theory of capital. It posits that capitalists generate surplus value by exploiting labourers. The surplus arises

where the amount paid as the wage is less than the labourers' contribution to production. According to the Lin et al. (2001) in a capitalist society, capital is part of the surplus value captured by the capitalists, and investment in the production and circulation of commodities. The surplus value is reinvested to generate surplus value. He further provides that, "capital is an investment of resources with expected returns in the marketplace"(Lin et al., 2001, p. 3). In addition, the capital is resources embedded in one's social networks, resources that can be accessed or mobilized through ties in the networks (Lin, 2017; Lin et al., 2001). Through such social relations or through social networks in general, an actor may borrow or capture other actors' resources (e.g., their wealth, power or reputation) where positions, authority, rules and agents form a hierarchy of distribution.

Lin's Model of social capital

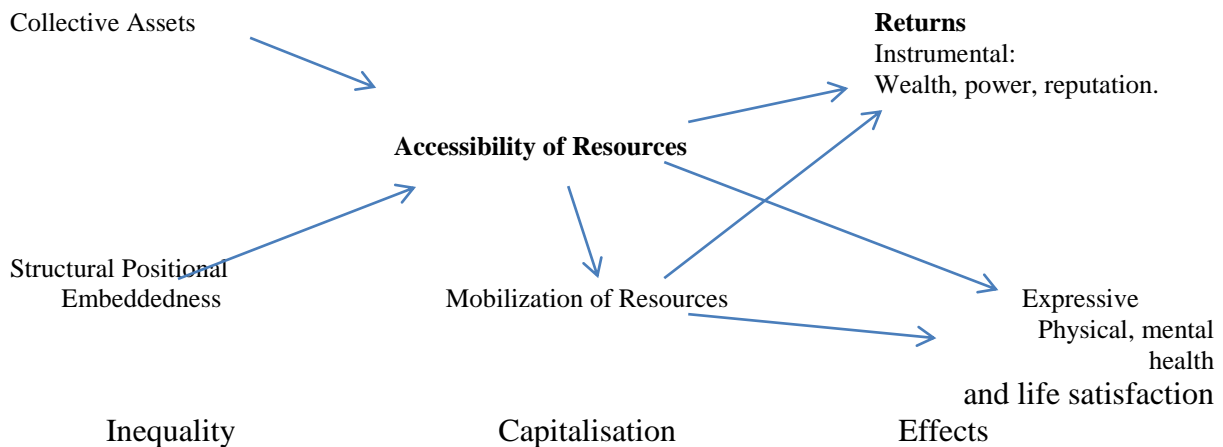


Figure 3: Social Resource Perspectives

Valued resources are embedded in the social structures in which position, rules, and occupant usually form pyramidal hierarchy in terms of the resources, number of positions, level of authority, and number of occupants; The higher the hierarchy the greater the concentration of the valued resources (Lin, 2017; Scott, 2017). Interactions usually occur among actors with similar contagious characteristics of resources and lifestyle. The network directly or indirectly interacting actors carry varying types of resource and the actors are motivated to either maintain or gain their resource in social action by aiming profit.

The problem with Lin's theory is intentional preclusion of the externality negative effect of the capital. and did not consider the potentials to use the capital to fight inequality (Fine, 2010; Häuberer, 2011). This makes his analysis lacking in methodological strength for today's business research. Though, the work has provided a clear concept of the capital as it is used in modern-day societies. It provided the relationship effect of an organization where marketplace/profit motive is aggregated into the social networks.

4.0 Social Capital Theory in Business Research

Adler and Kwon (2002) have provided dimensions of relations that give rise to the capital and it's used in organisations. These provide a base for the application of the concept in accounting and business to get an insight into its relevance in modern business management

Dimensions of the Relationships

Dimension:	market	hierarchical	social
1. Items Exchange:	Goods and services for money or Barter	Obedient to authority for material and spiritual security	Favour, gift
2. Are the terms specific or diffuse:	Specific	Diffuse (obey order up-front commitment)	Diffuse (a favour today in exchange for tomorrow favour).
3. Are the term of exchange made explicit:	Explicit	Explicit (Terms and conditions)	Tacit (a favour in tacit with understanding will returned someday).
4. Is the exchange Symmetrical	Symmetrical (Hierarchy is the form of dominance)		Asymmetrical (time symmetrical horizon not defined but definite)

Source: Adler and Kwon, 2002.

The figure shows the different relationships dimension which is commonly found in the social networks, thus a concrete relation is most likely to involve a mix of the three dimensions. Market and hierarchical relations normally give rise to social relations under conditions of repeated interactions.

Prior Literature on the capital

Author (year)	Focus	Methods	Findings
Behtoui (2007)	Examined access to social capital rewards in the labour market	Used social capital indicator extensity, upper reachability, heterogeneity and actors resources disposal	Access to social capital is greater the higher the actor's education and the higher his work experience
(Cormier & Magnan, 2007)	Analysed three environmental organization that takes part in the preservation movement	Used qualitative data to measure the resources to measure the resources of organization members, position, reachability and extensity, and members' activism.	Activism and duration of membership is positively associated with occupation ties to other environmentalists

<p>(Laursen, Masciarelli, & Prencipe, 2012)</p>	<p>Investigate localized social capital effect on firm's ability to innovate through various external channels</p>	<p>Used data on social capital at the regional level with large-scale data set of the innovative activities of a sample of 2413 Italian firms from 21 regions. Controlled for a large set of firm and regional characteristics.</p>	<p>A firm located in a region characterized by a high level of social capital leads to a higher propensity to innovate. Also, that being located in an area characterized by a high degree of localised social capital is complementary to firms' investments in internal research and development (R&D). Firm's location positively moderates the effectiveness of externally acquired R&D on the propensity to innovate.</p>
<p>(Richardson, 2009)</p>	<p>Focus on "networks of the rule". Use social network analysis to document linked organizations that affect the creation of accounting and auditing standards in Canada.</p>	<p>The network consists of 61 organizations, sharing 131 interlocks. They are clustered into four groups: the Canadian Institute of Chartered Accountants, the Canadian Securities Administrators, International Federation of Accountants and the IOSCO/World Bank.</p>	<p>The analysis identifies the boundaries of these clusters and the key organizations that maintain the cohesion of the network.</p>
<p>(Education, 2012)</p>	<p>Examine the impact of relational capital components on the performance of tea manufacturing firms in Uganda.</p>	<p>A study was carried out on 59 managers representing 17 tea manufacturing firms in Uganda. A correlation matrix and multiple regression models were used to test the effects.</p>	<p>A positive relation between the relational capital components and firm performance. Relational capital as a whole accounts for 28.3% of the variation in performance of Uganda's tea manufacturing sector.</p>

(Annuar, 2013)	To explore and obtain empirical evidence on the selection criteria of independent non-executive directors (INEDs) of Malaysian public listed companies, based upon social capital characteristics	Face-to-face interviews with 27 company directors representing companies listed on the stock exchange	Indicate that social tie with existing board members and directors' reputation is important antecedents in the appointment of potential candidates. Directors from an ethnic background different from the owners of the company were selected for their human capital attributes, as a legitimating device and as a means of linking the company to important external parties. In spite of this, however, those directors constitute a minority in terms of numerical representation on boards.
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5.0 Conclusion

It can be concluded that social capital has a significant contribution to society particularly less developed countries where access to formal financing by institutions are restrictive. It is relevance in community development as it provides an avenue for shared resource utilization. The complexity of structural relationship hinders its application in business research, though it is important for local and small-scale business entrepreneurs as a resource of business capital. However, there is a dearth of literature on social capital to accounting and businesses because of capitalist nature of the business organization. This is because of the modern day businesses alignment to the private enterprise. Furthermore, the problem of measurement hinders the research because standards of measuring the social relations and the capital are ambiguous.

6.0 Suggestion for Further study

There is need to study the theory as a multidimensional construct having a structural as well as cultural dimensions with a character of public good so that the negative effect of externalities can be reduced or eliminated. The likelihood of exploitation resulting from hierarchical social relations and inequality therefrom should be researched particularly in less developed countries.

There is need to study customer and firms benefits as the outcome of the social capital relations. Need for measurement standards of the capital into the monetary term.

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