A FRAMEWORK FOR ANALYZING SOCIAL CAPITAL IN VIETNAMESE COMPANIES: AN OVERVIEW OF LITERATURE AND EMPIRICAL RESEARCHES

by Assoc.Prof.,Dr. NGUYỄN TRỌNG HOÀI & HUỲNH THANH ĐIỀN*

Abstract

Social capital is an important resource that receives inadequate attention from economic researchers and corporate managers because of lack of a framework for analysis under Vietnamese conditions. This research begins with an overview of theories of sociology and empirical economics in recent years. Basic characteristics of the social capital of companies found by these theories are network structure and quality of the network of companies. The research then combines theories of social capital and modern theories of business administration to work out methods of measuring the social capital of companies in three aspects: internal social capital, external social capital and social capital of corporate leadership. Finally, the research tries to build a framework for analysis of social capital and its effects on overall performance of the company through improvements in corporate competence (effective use of organizational resources) and entrepreneurship of managers.

Keywords: Social capital, organizational resources, entrepreneurship, business performance, corporate competence, framework for analysis of social capital.

1. Introduction

Most Vietnamese companies are of small and medium sizes, with limited physical capital and poor technology, and easily find themselves in a vicious circle: poor competitiveness – shortage of capital – difficult access to credits – inability to replace technology. Enterprise resources comprise both tangible and intangible assets (Itami, 1987). Many researches show that intangible assets affect the business performance through effective use of tangible resources. Some recent studies mentioned an invisible resource in social relations of individuals and organization: social capital. Empirical researches prove that the social capital has a meaningful effect on both macro- and micro-economic activities.

Can findings of recent studies about the role of social capital in economic activities help Vietnamese companies escape from the vicious circle caused by lack of resources ? This paper is an effort to build a framework for analyzing the social capital that is applicable and measurable for Vietnamese companies by reviewing briefly local and foreign theories and empirical researches on social capital. The analytical framework presented here is only limited to a conceptual model. Quantitative measurement of the social capital under Vietnamese conditions will be presented in another paper.

2. Theories of social capital

a. Viewpoints on definitions of social capital:

The social capital has become one of popular concepts arising from theories of sociology and its definition is still controversial (Burt, 1999). Sociologists describe the social capital as personal relations in society (Yli-Renko, Autio & Sapienza, 2001), and they reflect nature of social existence (Putnam, 1993). Recently, however, the social cap-

* University of Economics HCMC

ital as a concept has been used for analysis in various fields, such as civil community (Putnam, 2000), business (Cohen and Field, 1998; Yuan K. Chou, 2003; and Resjean Landry, Nabil Amara and Moktar Lamari, 2000, etc.) and macroeconomic efficiency (Stephen Knack, 1999).

Typical viewpoints on definitions of social capital are presented by Bourdieu (1986), Coleman (1988), Putnam (1993, 2000), Fukuyama (1995, 1997) and Nahapiet & Ghosal (1998). Although different, their definitions complement one another. These viewpoints, in general, include the following characteristics: (1) Social capital only exists when individuals or organizations take part in social network; (2) All individuals or organizations taking part in the social network benefit from the network, that is, they can use effectively or mobilize or get access to various resources, such as physical, financial and human ones; and (3) Characteristics of social network include obligations and expectations based on trust, accepted criteria and mutual support. Thus, the social capital used in this paper means benefits gained by individuals (or organizations) taking part in social network that includes obligations and expectations based on trust, accepted criteria and mutual support. Benefits from the social network are favorable conditions for participants to mobilize and use effectively various resources, such as physical, financial, technological and human ones.

Our definition comprises two principal components of the social capital: structure of the social network and its quality. Network of participants is composed of families, friends, neighbors, colleagues, organizations (governmental, non-governmental and/or commercial ones), and acquaintances. Social networks can be divided into closed (inbound), open (outbound), and connective ones. Structure of network comprises its size, openness, way of communication, temporariness, and strength of ties; and network of transaction includes share-out of support and knowledge, negotiation and acceptance. Quality of network reflects in criteria and behavior complying with common purposes of participants. Common criteria include trust, reciprocity, sense of effective cooperation and acceptance of differences. Behavior complying with common purposes means taking part in civic activities, friendliness, voluntariness and community support.

“Capital” is the most essential precondition for business and there must be a viewpoint on the social capital in order to compare it with other kinds of capital. One of the most perfect efforts ever made to compare the social capital with traditional forms of capital is made by Westlund and Bolton (2003). They show apparent similarities and differences between social capital and other kinds of capital. If the notion of capital is used for social capital, we should be aware of these differences, thereby developing new methods of measuring and analyzing it.

a. Social capital in economic researches:

Social capital is a term from theories of sociology. Until recently, it has been used by economists for explaining economic and managerial issues. Economists identify the social capital according to various approaches and produce variety of results of effects of social capital on economic activities.

- Economic researchers’ approach to social capital: Most economic researchers examine the social capital in its scope and structure. Representatives of the scope-approach include Terrence Casey (2002), Yuan K. Chou (2003), and Narayan and Pritchett (1999). These authors describe the social capital existing at three levels. The structure-based approach examines the social capital in companies from three aspects: structural, relational and cognitive (Nahapiet & Ghosal, 1998). Studies measuring the social capital according to this approach are conducted by Resjean Landry, Nabil Amara and Moktar Lamari (2000) on effects of social capital on improvements in Canadian enterprises; by Cheng-Nan Cheng, Lun-Cheng-Tzeng, Wei-Min Ou and Kai-Ti Chang (2006) on impact of social capital on entrepreneurial orientation, organizational resources and entrepreneurial performance, by Kurt Annen (2000) on the role of social capital in solving the problem of cooperation, and by Partha Dasgupta (2000) on effects on economic efficiency.

- Effects of social capital on corporate activities: Many studies examine effects of social capital on companies, such as on their renovation (Yuan K. Chou, 2003; Resjean Landry, Nabil Amara and Moktar Lamari, 2000); entrepreneurship (Cheng-Nan Cheng, Lun-Cheng-Tzeng, Wei-Min Ou and Kai-Ti Chang, 2006); economic efficiency (Terrence Casey, 2002; Woolcock , 2001; Narayan and Pritchett, 1999; and Partha Dasgupta, 2000); business cooperation (Kurt Annen, 2000); business opportunities and corporate success (Robyn Davis, 2006; Bart Minten and Marcel Fafchamps, 1999); and entrepreneurial process (Maria I. Marshall and Whitney N. Oliver, 2005). These studies only examine the social capital from some aspects they are interested in and offer no framework for measuring and analyzing the role of social capital in companies. In their studies, authors tend to explore effects of the social capital from two aspects - internal or microeconomic, and external or macroeconomic ones – with an adequate emphasis on the role of corporate leaders because they embody the enterprise social capital and their use of social capital determines improvements in business performance.

Corporate activities as identified by Michael Porter's value chain model (1985) include inbound logistics, operations, outbound logistics, marketing & sales, service, procurement, technology, human resource management and firm infrastructure. These activities aim at generating profit for the company. Firm activities striving for strategic targets described by balanced scorecard (BSC) suggested by Kaplan and Norton (1996) fall into four perspectives: (1) Financial: creating value for shareholders; (2) Customer: value from new and existing customers; (3) Internal business process: processes the companies should excel at to achieve financial and customer targets; and (4) Learning and growth: further improvements for future value.

Firm activities need resources of which the social capital is considered as very important by many empirical studies. These activities all aim at achieving some strategic targets according to conscious plan adopted by the firm to gain the most effective BSC with its four perspectives. Achieving these targets in an optimal balance helps enhance the business performance. A better performance in a balance between the four BSC perspectives will ensure, in a long term, achievement of the corporate vision and strategy.

3. Structure and measurement of social capital in company

Building of a scale for social capital in company based on its characteristics is done by synthesizing theoretical ideas and results of empirical studies with proper attention to structure and quality of networks the company takes part in, external and internal environment, and entrepreneurship of leaders. The social capital is examined from three aspects: external environment, internal environment, and personal features of leaders of the company. This approach is presented in Table 1.

a. External social capital:

Social capital from external environment is determined by horizontal and vertical relations of the company with entities in networks outside the company and quality of these relations. Entities in vertical relations of the company (of business climate and clustering network) include officials of central and local authorities. Entities in horizontal relations (of product) include customers, suppliers, competitors and trade associations. Quality of the relations reflects itself in reality (number of supporting relations) and potential (closeness of relations and awareness of importance of relations) and are estimated by trust, support, exchange of information between the company and the said entities.

b. Internal social capital:

Cooperation relations between departments of the company are measured by the scale of potentials (cognizance of relation). These departments differ over companies but they usually include personnel, financial, sales, customer services, sup-

Table 1: Aspects of social capital of the company

Internal social capital	Social capital from leaders	External social capital		
		Of product	*Of environment*	*Clustering network*
Cooperation between departments in the company	Relations/ links of leaders with individuals inside and outside the company	Relations/links with suppliers, customers, and partners for cooperation and growth	Relations/links with local environment and authorities, etc.	Business territories providing opportunities and recruitment of competent employees

Source: synthesized by authors

porting and R&D departments.

c. Social capital from leaders:

As we know, leaders of the company play important roles in establishing core competence and entrepreneurship for the company. So it is necessary to consider the social capital from leaders of the company when measuring its contribution to the company. The leaders' social capital reflects itself in interactions between leaders and entities inside and outside the company and embodies in three dimensions suggested by Nahapiet and Ghoshal (1998): structural, relational and cognitive.

d. Scale for social capital:

Most empirical studies of the role of social capital in economic activities employ some rating scale of expectations or cognizance of degree of agreement, importance, interest, trust or voluntarism of participants in the social networks to assess the social capital. These scales allow easy measurement and collecting of data needed for surveys. One of their shortcomings is the fact that they identify high cognizance with high social capital because cognizance is only expectation of some future increase in the social capital. In our opinion, measurement of social capital must be based on practical scales with quantitative data as units in order to assess actual volume of social capital. Only numbers of relations, time of receiving support or opportunities, and problems solved, etc. in a given period of time can reflect the actual volume of social capital possessed by an entity.

4. Framework for analyzing the social capital in companies

Social capital is an invisible resource that exists inside and outside the company and in its leaders. To work out a model of analysis of social capital in the company, we should examine how these dimensions affect the company activities.

The company carries out various activities and interact with many entities as suggested by Porter (1985) in order to gain high business performance according to the Kaplan & Norton's (1996) BSC. To achieve business efficiency in all aspects of the BSC, the firm activities must aim at enhancing the effective use of organizational resources (or corporate competencies). These activities exist in a business environment with complex networks of relations with authorities (vertical relations), and supplier, customer, competitor and trade association (horizontal ones) creating favorable conditions, opportunities and threats to company success. With support from other entities the company can enhance its organizational capacity, thereby achieving the BSC overall business performance.

Corporate competencies depend on various qualities and competencies of individuals and departments in the company. This does not mean that an organization with competent and well-trained employees (diamonds) will gain high performance. Without connections and cooperation, the group of diamonds is meaningless. Cooperation, mutual support, and trust are main reflections of internal social capital. Many studies have reached the conclusion that it helps reduce transaction cost of the company and use the organizational resource more effectively. Thus, the social capital is described affecting the business performance of the company through better use of organizational resources.

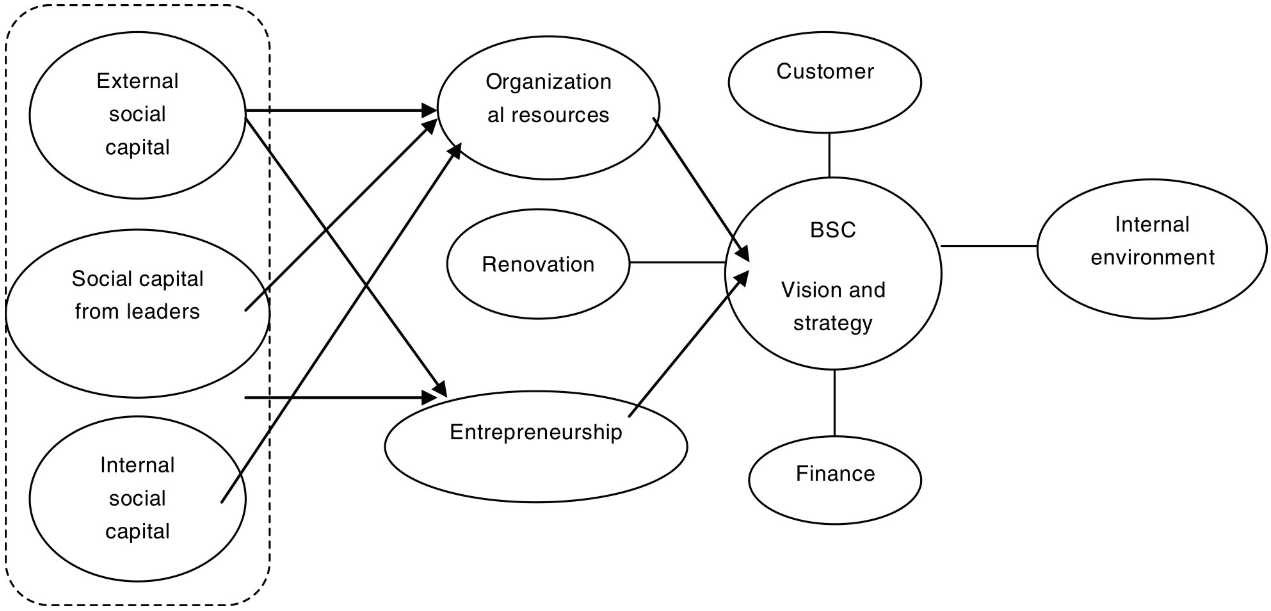
Business performance of the company, whether high or low, also depends on work motives encouraged by the leadership. Leaders need entrepreneurship to create friendly working conditions, help employees see a brighter future, and retain their trust in rewards for their efforts. The entrepreneurship comes into being when the leaders secure good relations with, and support from, the inside and the outside as well, that is, they have good social capital. Good social capital serves as a dynamic that helps the company engage in new methods or operations, encourages employees to work voluntarily, provides leaders with more enthusiasm and encourages them to convey it to employees, and persuade the leaders to accept risks and try renovations. In other words, the social capital affects the business performance by enhancing the entrepreneurship.

An outline of the framework for analyzing the social capital is described in the Figure 1.

5. Conclusion

After reviewing theories and empirical studies of the role of social capital in economic activities along with new theories of business administration, we see that the social capital comes from external and internal relations and from leaders as well. It is hypothesized that the social capital

Figure 1: Framework for analyzing the social capital in company



Source: synthesized by authors

helps enhance the entrepreneurship and effective use of organizational resources, thereby improving the business efficiency in four aspects of the BSC. The framework presented here, however, is limited to a conceptual model without being tested in local companies, therefore empirical researches on this issue are much needed. If the social capital produces significant effects as hypothesized by this paper, we can reach the conclusion that the social capital, when properly and transparently invested, can help the company make the best use of tangible resources to enhance its business performance■

References

1. Annen, Kurt. (2000), "Social Capital within the Urban Small-Firm-Sector in Developing Countries: A Form of Modern Organization or a Reason for Economic Backwardness?" Presented at "Constituting the Commons: Crafting Sustainable Commons in the New Millennium," the 8th Conference of the International Association for the Study of Common Property, Bloomington, Indiana, USA, May 31-June 4, 2000. http://dlc.dlib.indiana.edu/documents/dir0/00/00/10/06/index.html (retrieved on April 22, 2009)

2. Bourdieu, P., (1986), "The Form of Capital," in Richardson, J. E. (ed.) *Handbook of Theory of Research for the Sociology of Education*, 241-258, New York: Greenwood.

3. Burt, R., (1999), "The Network Structure of Social Capital," downloaded from http://gsbwww.uchicago.edu/fac/ronald.burt/research on Nov. 28, 1999.27

4. Cheng-Nan Cheng, Lun-Cheng-Tzeng, Wei-Min Ou and Kai-Ti Chang (2006), "The Relationship among Social Capital, Entrepreneurial Orientation, Organizational Resources and Entrepreneurial Performance for New Ventures" http://bai2006.atisr.org/CD/Papers/2006bai6030.doc (retrieved on March 3, 2010).

5. Cohen, S.S. and Fields, G., (1999), "Social Capital and Capital Gains in Silicon Valley," *California Management Review*, 41 (2): 108-130.

6. Coleman, J., (1988), "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, 94: s95-s120.

7. Dasgupta, Partha (2000), "Economic Progress and the Idea of Social Capital," in Partha Dasgupta and Ismail Serageldin (eds.), *Social Capital: A Multifaceted Perspective*, Washington DC: The World Bank, pp. 325-424.

8. Fukuyama, F. (1995), *Trust: The Social Virtues and the Creation of Prosperity*, London: Penguin Books.

9. Fukuyama, Francis (1997), The End of Order. London: Centre for Post-Collectivist Studies.

10. Itami, H., Roehl T. (1987), *Mobilizing Invisible*

Assets. Harvard University Press. Cambridge.

11. Kaplan R. and Norton D. (1996), *The Balanced Scorecard*. Harvard Business School

12. Knack, Stephen (1999), “Social Capital, Growth and Poverty: A Survey of Cross-Country Evidence,” Social Capital Initiative Working Paper No. 4. Washington, DC: The World Bank.

13. Marcel Fafchamp & Bart Minten (1999) “Social Capital and the Firm: Evidence from Agricultural Trade”, http://www.appropriate-economics.org/materials/social_capital_and_the_firm.pdf (retrieved on March 10, 2010)

14. Maria I. Marshall, Whitney N. Oliver (2005), “ The Effects of Human, Financial, and Social Capital on the Entrepreneurial Process for Entrepreneurs in Indiana”, downloaded from

http://www.aeaweb.org/annual_mtg_papers/2005/0107_0800_0404.pdf on March 3, 2009.

15. Moktar Lamari, Resjean Landry and Nabil Amara (2000), “Does Social Capital Determine Innovation? To What Extent?” http://kuuc.chair.ulaval.ca/francais/pdf/apropos/publication5.pdf (retrieved on Feb. 2, 2008).

16. Nahapiet, J. and Ghoshal, S., (1998), “Social Capital, Intellectual Capital, and Organizational Advantage,” *The Academy of Management Review*, 23 (2): 242-266.

17. Narayan & Pritchett (1999), “Social Capital: Evidence and Implications” www.exclusion.net/images/pdf/778_teadi_narayan_pritchett.pdf (retrieved on April 10, 2009)

18. Putnam, Robert D. (1993), “The Prosperous Community. Social Capital and Public Life,” *The American Prospect* Vol. 13, pp. 35-42.

19. Putnam, Robert D. (2000), *Bowling Alone. The Collapse and Revival of American Community*, New York, NY: Simon & Schuster.

20. Robyn Davis (2006), “Social capital among small urban enterprise in Asuncion” from http://wc3.ns.utoronto.ca/plac/pdf/CIS-CADEP/Documento%20No.%2010%20%20R.%20Davis%20-%20Social%20Capital.pdf on Dec. 12, 2009)

21.Terrence Casey (2002), “Social Capital and Economic Performance in the American States”, http://www.rosehulman.edu/~casey1/US%20Social%20Capital%20(Casey-Christ).pdf (retrieved on Feb. 27, 2009)

22. Westlund, Hans and Roger Bolton (2003), “Local Social Capital and Entrepreneurship,” *Small Business Economics*, Vol. 21.

23. Woolcock (2001), “Social Capital: A review of the literature,”

http://www.statistics.gov.uk/socialcapital/downloads/soccaplitreview.pdf (retrieved on March 20, 2010).

24. Yli-Renko, H., Autio, E. & Sapienza, H. J. (2001), “Social Capital, Knowledge Acquisition, and Knowledge Exploitation in Young Technology-Based Firms,” *Strategic Management Journal*, 22, 587-613.

25. Yuan K. Chou (2003), “Modelling the Impact of Network Social Capital on Business and Technological Innovations” http://www.economics.unimelb.edu.au/SITE/research/workingpapers/wp03/890.pdf (retrieved on Jan. 20, 2009).