measuring and valuing social capital
A Systematic Review
measuring and valuing social capital

A Systematic Review

Prepared by Moses Acquaah, Kwasi Amoako-Gyampah and Nceku Q. Nyathi

Additional resources are available at:
nbs.net/knowledge

© 2014, Network for Business Sustainability South Africa
This work is protected under international copyright law. It may not be reproduced or distributed for commercial purposes without the expressed, written consent of the Network for Business Sustainability South Africa. When using this work in any way, you must always recognise the Network for Business Sustainability South Africa using the following citation: Acquaah, M., Amoako-Gyampah, K., & Gray, B., Nyathi, N. Q. 2014. Measuring and Valuing Social Capital: A Systematic Review. Network for Business Sustainability South Africa. Retrieved from: nbs.net/knowledge
<table>
<thead>
<tr>
<th>4</th>
<th>EXECUTIVE SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>CHAPTER 1: INTRODUCTION</td>
</tr>
<tr>
<td>10</td>
<td>Overview of the Systematic Review</td>
</tr>
<tr>
<td>11</td>
<td>Definition, Forms and Dimensions of Social Capital</td>
</tr>
<tr>
<td>18</td>
<td>Why Managers Should Care About Definitions, Forms and Dimensions of Social Capital</td>
</tr>
<tr>
<td>20</td>
<td>Content and Organisation of Report</td>
</tr>
<tr>
<td>21</td>
<td>CHAPTER 2: MEASUREMENT OF SOCIAL CAPITAL</td>
</tr>
<tr>
<td>22</td>
<td>Approaches to Measuring Social Capital</td>
</tr>
<tr>
<td>23</td>
<td>Individual Level Measures</td>
</tr>
<tr>
<td>27</td>
<td>Group and Organisational Level Measures</td>
</tr>
<tr>
<td>28</td>
<td>Community and National (Country) Level Measures</td>
</tr>
<tr>
<td>35</td>
<td>Summary of Social Capital Measures</td>
</tr>
<tr>
<td>37</td>
<td>A Model to Measure Social Capital</td>
</tr>
<tr>
<td>41</td>
<td>CHAPTER 3: THE VALUE OF SOCIAL CAPITAL</td>
</tr>
<tr>
<td>42</td>
<td>Overview of the Value of Social Capital</td>
</tr>
<tr>
<td>47</td>
<td>Value of Social Capital by Dimension</td>
</tr>
<tr>
<td>50</td>
<td>Value of Social Capital Level by Analysis</td>
</tr>
<tr>
<td>57</td>
<td>Social Capital Value by Discipline</td>
</tr>
<tr>
<td>57</td>
<td>Unfavourable Consequences of Social Capital</td>
</tr>
<tr>
<td>60</td>
<td>Why Business Leaders Should Care About Social Capital - Additional Cases</td>
</tr>
<tr>
<td>65</td>
<td>CHAPTER 4: RECOMMENDATIONS AND CONCLUSION</td>
</tr>
<tr>
<td>66</td>
<td>Recommendation for Measuring Social Capital at Different Levels</td>
</tr>
<tr>
<td>69</td>
<td>Recommendations for Determining Value and Impact of Social Capital</td>
</tr>
<tr>
<td>71</td>
<td>Conclusion</td>
</tr>
<tr>
<td>73</td>
<td>Bibliography</td>
</tr>
<tr>
<td>90</td>
<td>Appendix A: Detailed Methodology</td>
</tr>
<tr>
<td>93</td>
<td>Appendix B: Summary of Studies Used for Review</td>
</tr>
<tr>
<td>93</td>
<td>Appendix C: Definitions of Social Capital Terms</td>
</tr>
</tbody>
</table>
Executive Summary

Researchers and practitioners have long recognised the importance of social capital in mobilising resources for the creation of value for individuals, companies and communities. Companies, in particular those in South Africa, are increasingly being required to examine the impact of social capital as part of their overall sustainability efforts. This review provides a comprehensive research-based guide on the definition, measurement, and the value that social capital provides to individuals, businesses and communities. It addresses the following questions:

- What is social capital? What constitutes the forms and dimensions of social capital?
- How has social capital been measured in the management literature, as well as in other disciplines?
- How has social capital been valued in the management literature? How does the value of social capital differ for individuals, organisations, and communities?
- What should business leaders and organisations bear in mind when making investments in social capital?

Social capital is important to managers and practitioners because:

- It is ‘the glue that binds society together”, and provides the opportunity for businesses to be purposefully involved in creating a sustainable future for their operations, communities, and society at large.
- It allows companies to demonstrate the impact of their business activities on communities, the economy, and the environment through their stakeholder engagements and the social value created.
- It provides value to businesses in the form of improved performance, market opportunities, innovation and new product development, and enhanced reputation.
- It fosters economic development and growth for communities which are part of the ecosystems in which businesses are embedded.
- Companies with higher levels of social capital gain competitive advantage as a result of access to valuable resources, knowledge and information that are not easily traded.
- It provides businesses with the opportunity to gain license to operate through the social legitimacy they gain and maintain in communities.
To infuse and leverage social capital engagements:

- Businesses should make a conscious effort to build social capital internally and externally.
- As a catalyst for altering behaviour within companies (e.g. eliminating fraud and corruption through corporate codes of conduct and values, encouraging workforce diversity, etc.), creating competitive advantage, and transforming communities through corporate social investments (e.g. education and health services).
- Businesses should measure the social capital they build by utilising questionnaire surveys, interviews, focus groups, and personal stories from employees, members of communities, or stakeholders to:
  - Examine company codes of conduct, social relationships, structural network characteristics.
  - Implement measurement tools developed such as the World Bank's Integrated Questionnaire for the Measurement of Social Capital (SC-IQ); Putnam's Instrument, World Values Survey Association's Social Capital Index.

We examined 314 articles published from 1990 to 2013 in academic and practitioner journals as well as other sources, such as reports from the World Bank. The report has four sections: (1) An introduction focusing on the definitions and forms of social capital, (2) measures of social capital, (3) the value or impact of social capital, and (4) recommendations and conclusions. Each section addresses implications for business leaders. The report also has three appendices: Appendix A provides a full report on the methods used for the search; Appendix B provides a table of all the studies generated for inclusion in the review; and Appendix C lists the major social network structure terms used in the studies.

The introduction focuses on the definitions, forms, and dimensions of social capital. Social capital refers to the resources, knowledge, and information that accrue to an individual, a company or a collective as a result of the network of social relationships within and between companies, institutions, and communities. Social capital is created when individuals and companies:

- Establish connections and networking relationships with key stakeholders such as customers, suppliers, competitors, business partners, local communities, and government officials and policy makers.
- Foster trust with their key stakeholders.
- Develop shared norms, common values, and goals to influence attitudes and behaviour.
- Obtain and maintain a social license to operate to demonstrate their commitment to key stakeholders such as communities and government.

Social capital has two forms – internal and external. Internal social capital comes from social networking relationships and connections among individual members within a company, a community (e.g. members of a neighbourhood) or a system (e.g. members of an association). External social capital, on the other hand, derives from the social networking relationships and connections between an individual, a company, or a community and its key external stakeholders, as well as among other stakeholders such as mining communities.
Both internal and external social capital are categorised according to three key dimensions – structural, relational and cognitive. Structural social capital refers to the structure or pattern of personal and social networking relationships and connections people develop with one another. It focuses on whom an individual reaches, how the individual reaches them, and the frequency with which the individual shares resources and information with them. Relational social capital refers to the personal and social networking relationships and connections people develop with one another through a history of interactions. It focuses on the quality of the relationships and interactions and the resources or information that are leveraged through those interactions. Cognitive social capital refers to the values and perceptions of individuals as they interact with one another as a collective. It represents the resources obtained from a common set of goals, a shared vision and values, and shared representations, interpretations, and systems of meanings among individuals.

Chapter 2 outlines the different ways in which social capital has been measured. Social capital measures belong to one of four main groups: (i) social networks (social relationships, interactions, ties and connections); (ii) trust and reciprocity (trust extended to strangers or people in general, trust in organisations, and formal institutions, and trust in people who are familiar to an individual such as family and friends); (iii) norms and shared values; and (iv) civic engagement (membership in professional, ethnic and religious associations, and participation in civic and political activities).

Social capital has been measured at the levels of individuals, groups/organisations, and communities. Thus managers can evaluate their efforts in building social capital at those levels. The review distinguishes indicators that have been used effectively to measure social capital by researchers and international organisations from those that can potentially be used by companies. We provide suggestions on how to use the different indicators. The report further includes a table of the different indices that have been used to measure social capital and draws particular attention to the components of each of the measures so as to guide decision makers and researchers in their application.

Chapter 3 first presents an overview of social capital value. The general conclusions from the research indicate that social capital has value and that this value persists. Unlike human or financial capital, social capital cannot be easily traded since the value resides in the relationships among actors. Detailed examples of how social capital provides value to individuals, organisations, and communities are presented here. Although there are unique benefits from social capital that pertain to individuals, organisations and communities, the value of social capital overlaps. For example, the networking relationships developed by employees of a company with others outside the organisation might enhance the skills of those individuals and also contribute to the human capital within the organisation. A challenge for decision makers is how to justify investments in social capital. Investments by a company in building social capital such as hours spent in engagements with community associations might lead to reduction in crime in those communities. This benefits the community. The company also benefits in terms of its employees feeling safe in those communities. However, the challenge is how to assign value to the improved safety felt by the
company’s employees. This report suggests managerial actions that might help translate some of the intangible value propositions into tangible components, to help with the justification process.

The last chapter presents specific recommendations aimed at helping decision makers understand the components, measures and value of social capital. These recommendations include:

- Use different measures for distinct dimensions of social capital (structural, relational, and cognitive). This will enable the impact of the various dimensions of social capital on individuals, organisations, or communities to be clearly identified so as not to mask their value.
- When measuring social capital, distinguish between the sources or inputs into social capital and the outcomes from social capital.
- Social capital value persists over time and thus investments in social capital should recognise the long-term benefits flowing from them.
- Recognise the importance of context when measuring social capital. The value of social capital depends on the context in which the social capital actions occur. A company might encourage its employees to participate in civic activities in their communities and this might enhance the reputation of the company within the locality. However, in another community the same engagements might yield different outcomes.

- Social capital sometimes leads to the generation of unfavourable consequences or outcomes and these have to be recognised. For example, the amount of effort required to build network ties for employees within a company can lead to exchange of knowledge needed for say project implementation. However, the full benefits of such knowledge generation and exchange might not be realised if the ties are such that other members of the company are denied access to that knowledge.

This report sheds light on what social capital is, how it is measured and what value it provides to individuals, organisations and communities. The report is designed to help managers make the business case to continue their efforts in building social capital within their companies and to explore new opportunities for building social capital.
chapter 1: introduction
Social scientists and practitioners have long recognised the importance of social relationships in organising and mobilising individuals and communities, and contributing to the success of organisations and community projects and initiatives. In recent decades, the concept of social capital has become one of the most popular topics in the social sciences, and in disciplines such as business, sociology, economics, geography, political science, education, development studies, and public health (e.g. Acquaah, 2007; Coleman, 1988; Fukuyama, 1995; Leanna and Pil, 2006; Lee and Kim, 2013; Nahapiet and Ghoshal, 1998; Putnam, 1995). Moreover, the International Integrated Reporting Council (IIRC) in its reports on Capitals: Background Report for the International Framework, is requiring businesses to prepare integrated reports which include the need to measure a company's social capital initiatives and its value for the company and society. As a result, business practitioners who are concerned with assessing the quality of their relationships with stakeholders, and those who are increasingly required to report on their company's social capital as an input and an output to the creation of value, are interested in how to measure and determine the value from social capital. The interest in social capital from both social scientists and business practitioners has resulted in a vast body of literature on definitions, forms, dimensions, measurement and the value or impact of social capital.

Companies in South Africa are increasingly being required to examine the impact of social capital as part of their overall sustainability and integrated reporting efforts. Thus, organisations, businesses and policy makers in South Africa and the southern African community need to understand how to assess the value of social capital for individuals, companies and the societies they operate in. Understanding and measuring social capital will:

- Provide opportunities for businesses to explore the benefits of both formal relationships (e.g. established relationships between a business and its suppliers or the government) and informal relationships (e.g. relationships or engagement between a business and community leaders).
- Enable communities to identify the benefits that can be derived from the trust, norms and value systems that exist within communities, and the relationships they develop with businesses, non-governmental organisations (NGOs) and government departments involved in community development.
- Provide opportunities for businesses to use the connections and relationships they develop with communities to create social change, inculcate the idea of sustainability, and address the social needs of communities.
Overview of the Systematic Review

This Network for Business Sustainability South Africa (NBS-SA) review provides a synthesis of the literature on social capital over a 24-year period, from 1990 to 2013. The review focuses on the question: How can we measure and value social capital for business decision-making and reporting? More specifically, the review addresses these questions:

- What is social capital? What are the forms (internal and external) and dimensions (structural, relational and cognitive) of social capital?
- How has social capital been measured in the management literature? What can we learn about the measurement of social capital from disciplines such as economics, sociology, political science, education, development studies, etc.?
- How has the value of social capital been determined in the management literature?
- How are businesses in South Africa measuring and evaluating the impact of social capital on their productive activities and on their communities?

We searched the literature for relevant studies on social capital through two iterations. First we searched for studies on social capital in emerging economies (including Africa, Asia, Latin America, and the Middle East); then we searched for global studies of social capital. The studies were then analysed and the various definitions of social capital, the measurement of social capital, and the value or impact of social capital were documented. Overall, a total of 314 studies were entered into our database. Table 1.1, Studies Generated by Systematic Review by Disciplinary Area, shows the number of studies initially identified and the number retained for the review. Appendix A reports the methods used for the search, while Appendix B includes a table

<table>
<thead>
<tr>
<th>DISCIPLINE</th>
<th>TOTAL # ARTICLES/ REPORTS RELEVANT</th>
<th># NOT RELEVANT</th>
<th>TOTAL # ARTICLES/ REPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business (includes management,</td>
<td>156</td>
<td>9</td>
<td>165</td>
</tr>
<tr>
<td>marketing, human resources,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>information systems, supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>chain, operations management,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>entrepreneurship, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economics</td>
<td>40</td>
<td>6</td>
<td>46</td>
</tr>
<tr>
<td>Public Policy (includes</td>
<td>61</td>
<td>3</td>
<td>64</td>
</tr>
<tr>
<td>political science, sociology,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>education, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>18</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>Others</td>
<td>39</td>
<td>12</td>
<td>51</td>
</tr>
<tr>
<td>TOTAL</td>
<td>314</td>
<td>34</td>
<td>348</td>
</tr>
</tbody>
</table>
of all the studies that focused on the definition of social capital, measurement of social capital, and value/impact of social capital, with a brief summary. Appendix C includes definitions of the major social network structure terms used in the studies.

Definitions, Forms and Dimensions of Social Capital

Definitions

Social capital has been described as “the glue that binds society together” (Serageldin, 1996: 196). Although the phenomena underlying social capital, including social cohesion, solidarity or sense of community, have been discussed by sociologists for a long time (Ferlander, 2007), recent interest in the concept of social capital was kindled by the work of Bourdieu (1986), Coleman (1988, 1990), Putnam (1993, 2000), and recently by business practitioner organisations such as the IIRC, the World Business Council for Sustainable Development (WBCSD), and the Global Reporting Initiative (GRI). Bourdieu (1986: 248) defined social capital as “the sum of resources, actual and virtual, that accrue to an individual or a group by virtue of possessing a durable network of institutionalised relationships of mutual acquaintance and recognition”. Bourdieu’s definition focuses on the individual and suggests that social capital consists of the social networks that enable individuals to gain access to resources possessed by other actors, and the quantity and quality of those resources.

According to Coleman (1988:S98), social capital “is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors—whether persons or corporate actors—within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that in its absence would not be possible. Like physical capital and human capital, social capital is not completely fungible but may be specific to certain activities. A given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others”. Thus, Coleman sees social capital as a set of elements that facilitate collective action and form part of the social structure.

Putnam (1993:7) defined social capital as “the characteristics of a social organisation, such as trust, the norms and the networks that may make society more efficient by facilitating a coordinated form of action”. He expanded this definition by saying that social capital is “a set of horizontal associations among those who have an effect on a community, and these can take the form of networks of civic engagement” (Putnam, 1993: 35). Putnam’s definition focused on the collective (or community), and so have the definitions of social capital provided by institutions such as the World Bank and the Organisation for Economic Cooperation and Development (OECD). According to the World Bank: “Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society’s social interactions”. The OECD defines social capital as “networks together with shared norms, values and understandings that facilitate cooperation within or among groups” (Cote and Healy, 2001: 41).
However, business practitioner organisations, while recognising the importance of relationships, networks, trust, and norms and values also include the ability of an organisation to obtain and maintain a social license to operate and the creation of social value or impact (IIRC, 2013c & d; WBCSD, 2008). Clearly, to conduct their business activities, companies need the support and social legitimacy of the constituencies upon which they depend. The IIRC (2013d: 10) states that “social and relationship capital may include relationships within an organisation, as well as those between an organisation and its external stakeholders”. The IIRC (2013d) further elaborates its social and relationship capital definition by stating that it includes the strength or efficacy of supply chain relationships, community acceptance, government relations, relationships with competitors, and the development of customer loyalty. The building of relationships enables an organisation to obtain and maintain its social license to operate. Some of the proxies for the social license to operate include regulatory compliance and approvals, reputation, acceptance by customers and cultural groups in diverse markets with strong environmental, social, and governance priorities.

While Bourdieu (1986) saw social capital as an individual (and organisational) resource, Coleman (1988, 1990), Putnam (1993, 2000), the World Bank and even the OECD (2001) see it as a collective (community) resource. So the question is: “Is social capital an individual or a collective societal resource?” As Inkeles (2000:247; italics in original) said: “To wit: whose capital is at issue: that of the individual or the community?” According to Newton (2001:207), “If social capital is anything, it is a societal not an individual property, and should be studied as a social or collective phenomenon, not at the individual level as if it were a property of isolated citizens”. Distinguishing between social capital as an individual or collective property is important because different indicators would need to be used to measure it depending on which it is, and also its impact on society would be different. Both the UK government (Office of National Statistics [ONS], 2001) and the Australian Bureau of Statistics [ABS] (2004) have adopted the OECD definition for purposes of international comparison.

Some definitional preferences are based on disciplinary areas of interest. Adler and Kwon (2002) define social capital broadly as the goodwill available to individuals or groups that is derived from the structure and content of an actor’s social relations, while Nahapiet and Ghoshal (1998, p. 243) define social capital as “the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individuals or social units”. Both these definitions borrow from the ones from Bourdeiu (1986) and Putnam (1993). Business disciplines usually prefer these definitions provided by Alder and Kwon (2002) and Nahapiet and Ghoshal (1998). Sociologists prefer Coleman (1988), while those in economics, political science, public health and various government agencies and international organisations usually use the one by Putnam (1993, 2000). It should also be noted that business practitioners prefer a broader definition which includes the individual, organisation and community with a focus on the social license to operate. Despite the multiple definitions of social capital, most involve social networks (structure and connections), trust, norms (of reciprocity) and values, and the social license to operate in a community. It has been suggested by
Narayan and Cassidy (2001) that, in general, there is a high level of consistency in the definitions of social capital: social capital is broadly seen as the resources, knowledge and information that accrue to an individual, organisation or a collective as a result of a network of social relationships within and between organisations, institutions and communities (Lin, 2001). The definition and determinants of social capital are illustrated in Figure 1.1.

**Figure 1.1**

**DETERMINANTS AND DEFINITION OF SOCIAL CAPITAL**

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Networks</td>
<td>Social capital: Ability to secure or obtain assets or resources, knowledge, and information by an individual, group, organisation or community for its benefit through social networks, trust, shared norms, and license to operate.</td>
</tr>
<tr>
<td>Obtain and maintain social license to operate</td>
<td></td>
</tr>
<tr>
<td>Shared norms, values and social structures</td>
<td></td>
</tr>
<tr>
<td>Trust and Reciprocity</td>
<td></td>
</tr>
</tbody>
</table>
Thus, social capital could be differentiated from other sources of capital such as human capital, natural capital, manufactured capital and financial capital, but also share some similarities with those capital forms. Figure 1.2 shows social capital’s relationship with the other forms of capital (see insert for the definitions of the other forms of capital). The relationship between social capital and the other forms of capital are detailed below. Social capital:

- Is closely linked to natural capital, because it is based on relationships between people and groups, who in turn rely on the natural environment.
- Facilitates the development of intellectual capital by influencing the conditions necessary for relationship building, and the exchange and combination of ideas and knowledge.
- Is instrumental in the development of human capital in companies through educational experiences and social interactions with other employees.
- Influences the creation of financial capital by increasing profitability, market share, sales growth, operational efficiency, etc.
- Assists in the acquisition, management and use of manufactured capital through the shared norms, value systems, goals, and social relationships with external stakeholders.

Other Forms of Capital

In addition to social capital, companies depend on other forms of capital to create value, according to the International Integrated Reporting Framework. The capital forms are natural, financial, manufactured, intellectual, and human.

- **Natural capital** refers to all the renewable and non-renewable resources in the natural environment that are used to support the business activities and create value for a company. It includes; land, minerals, water, air, and forest resources.
- **Financial capital** refers to the available pool of monetary resources used for the production of goods and the provision of services in a company’s value creation process. It includes funds obtained from retained earnings, in addition to debt and equity financing.
- **Manufactured capital** refers to the manufactured physical objects that a company uses for the production of goods and the provision of services in its value creation process. It includes physical assets such as; buildings, machinery and equipment.
- **Intellectual capital** refers to intangible knowledge-based capabilities of a company that are used to create value. It includes; intellectual property (e.g. patents and copyright), and company and brand reputation.
- **Human capital** refers to the competencies, capabilities, skills, expertise and experiences of employees in a company that are used to create value for the company.
The similarities and differences between social capital and other forms of capital are summarised in Table 1.2.

Table 1.2
SOCIAL CAPITAL AND OTHER FORMS OF CAPITAL

<table>
<thead>
<tr>
<th>HOW SOCIAL CAPITAL IS THE SAME AS OTHER FORMS OF CAPITAL</th>
<th>HOW SOCIAL CAPITAL DIFFERENT FROM OTHER FORMS OF CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>• It is a resource or an asset</td>
<td>Social Capital:</td>
</tr>
<tr>
<td>• It is not costless to produce, it requires an investment</td>
<td>• Requires relationships between and among individuals and groups</td>
</tr>
<tr>
<td>• It provides value</td>
<td>• Depends on the interaction of social, political, cultural and economic factors</td>
</tr>
<tr>
<td>• The value persists</td>
<td>• Cannot be sold or traded</td>
</tr>
<tr>
<td>• Can be reduced to economic capital in the long run</td>
<td>• Is not easily alienable from organisations or groups</td>
</tr>
<tr>
<td></td>
<td>• Is not subject to market exchanges</td>
</tr>
<tr>
<td></td>
<td>• Is not tangible</td>
</tr>
<tr>
<td></td>
<td>• Is characterised by unspecified obligations and an uncertain time horizon</td>
</tr>
<tr>
<td></td>
<td>• Does not diminish or depreciate with use</td>
</tr>
</tbody>
</table>

FORMS AND DIMENSIONS OF SOCIAL CAPITAL

Social capital is divided into the two categories of internal social capital and external social capital based on where actors obtain their social capital resources. Internal social capital comes from social network structures and connections or ties among individual members of an organisation (e.g. employees in a company), a community (e.g. members of a neighbourhood) or a system (e.g. members of an association) (Acquah, 2011; Adler and Kwon, 2002; Leana and Pil, 2006). External social capital, on the other hand, derives from the social network structures and connections between an actor, organisation, or a community and its important external stakeholders (e.g. an organisation’s relationship with its customers, suppliers, competitors. A community’s relationship with government officials, or a community’s relationship with other communities).

There is also a general consensus that both internal and external social capital can be classified in three dimensions – structural, relational, and cognitive. Structural social capital refers to “what people do (associational links, networks) which could be objectively verified (by observation or records)” (Harpham, 2008: 51). Structural social capital thus refers to the structure or pattern of connections between actors – whom you reach, how you reach them, and how frequently you share resources and information (Nahapiet and Ghoshal, 1998). Relational social capital “describes the kind of personal relationships people have developed with each other through a history of interactions”
Relational social capital focuses on the quality of the relationship or interactions and the resources that are created or leveraged through the relationships. Its attributes include trust, trustworthiness, respect and friendship. Cognitive social capital refers to “what people feel (values and perceptions)” (Harpham 2008: 51). It represents resources obtained from a common set of goals, a shared vision, and shared representations, interpretations, and systems of meaning among parties. The dimensions of social capital are depicted in Figure 1.3.

The social networks and ties embedded in the structural and relational dimensions of social capital have been further classified based on the strength and diversity of the ties (bonding, bridging and linking), the direction of the ties (horizontal and vertical) and the formality of the ties (formal and informal). Bonding social capital refers to horizontal, tightly cohesive ties between individuals or groups sharing similar demographic characteristics. It is characterised by homogeneous networks, which tend to be inward-looking (e.g. attending the same church or educational institution). Bridging social capital, on the other hand, refers to ties...
that cut across different individuals and communities. This type of social capital is based on heterogeneous and outward-looking connections with individuals from different social groups (e.g. relationship between managers in two organisations) (Ferlander, 2007). Linking social capital refers to vertical ties that span different power relationships, connecting individuals across different vertical social strata (e.g. relationships between the subordinate employees in a company and the top executives of that company) (Woolcock, 2001). Linking social capital is commonly associated with external connections and ties rather than internal ties. Examples of bonding, bridging and linking social capital with strong and weak ties are shown in Table 1.3, while examples of formal and informal ties are presented in Table 1.4.

**Table 1.3**

**SOCIAL CAPITAL AND OTHER FORMS OF CAPITAL**

<table>
<thead>
<tr>
<th>LEVEL OF STRENGTH AND DIVERSITY</th>
<th>STRONG TIES</th>
<th>WEAK TIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonding (horizontal) ties</td>
<td>Close friends or immediate family with similar social characteristics, e.g. social class or religion</td>
<td>Members with similar interests or social characteristics within voluntary associations</td>
</tr>
<tr>
<td>Bridging (horizontal) ties</td>
<td>Close friends or immediate family with different social characteristics, e.g. age, gender or ethnicity</td>
<td>Acquaintances and members with different social characteristics within voluntary associations</td>
</tr>
<tr>
<td>Linking (Vertical) ties</td>
<td>Close work colleagues with different hierarchical positions</td>
<td>Distant colleagues with different hierarchical positions and ties between citizens and civil servants</td>
</tr>
</tbody>
</table>

Source: Ferlander (2007)

**Table 1.4**

**EXAMPLES OF LEVELS OF FORMALITY AND DIRECTION OF NETWORK TIES**

<table>
<thead>
<tr>
<th>LEVEL OF FORMALITY AND DIRECTION OF TIES</th>
<th>FORMAL TIES</th>
<th>INFORMAL TIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizontal ties</td>
<td>Voluntary associations</td>
<td>Family, relatives, friends, neighbors and colleagues</td>
</tr>
<tr>
<td>Vertical ties</td>
<td>The church, work hierarchies and network ties between citizens and civil servants</td>
<td>Criminal networks, clan relations and street gangs</td>
</tr>
</tbody>
</table>

Source: Ferlander (2007)
Why Managers Should Care about the Definitions, Forms and Dimensions of Social Capital

Understanding the definitions, forms and dimensions of social capital can help managers decide where to concentrate when developing social capital. First, managers need to know whether a particular form of social capital is individual (and organisational) or collective and community-based. Collective Social capital can be used to engage communities in activities of the organisation such as marketing campaigns, social responsibility and/or social investment initiatives. Social capital which is individual (and organisational) can be used within an organisation to develop the skills and capabilities of employees and for this information to be shared among employees. Managers also need to know whether to focus on internal or external social capital, or both. For example, by focusing on internal social capital, managers can emphasise to employees the importance of the norms, values and culture of the organisation, develop social cohesiveness among employees, and facilitate employee buy-in and commitment to corporate goals and objectives. Looking at external social capital, on the other hand, managers can decide where to source the resources, knowledge, and information they do not have but require for their success, for example, from their relationships with stakeholders such as suppliers, government officials and/or community leaders. Finally, understanding the different dimensions of social capital enables managers to recognise their relationships or impact on employees, the organisation’s activities or the organisation’s relationship with its community.
Case Study 1: Labour Unrest in South Africa’s Platinum Industry

The labour unrest in the South African platinum industry that led to the tragic killing of 34 people at Marikana in August 2012, and subsequently contributed to the longest strike in South Africa’s history in 2014, may be interpreted through a social capital lens. This is based on analyses of mining managements’ relations with workers, surrounding communities and other stakeholders, as described in company public reports and public analyses that have been endorsed by mining companies. In particular, there are at least two kinds of relationships that deteriorated systematically in the lead-up to the recent unrests, which may have been identified and addressed earlier by applying a systematic approach to social capital.

First, mining managements’ relationship with workers, particularly the rock drillers, had become less and less direct because of a reliance on intermediaries in the form of union representatives or contractors. As a result, middle and senior managers became increasingly isolated from the grievances and growing distrust among these workers. This includes managers’ general lack of knowledge of workers increasingly precarious financial situation, premised in large part on their exposure to unsecured loan providers and emolument orders. A social capital analysis might have indicated earlier on that there are ‘holes’ in managers’ network relationships with workers and that these holes contributed to a lack of pertinent knowledge and necessary trust.

Second, managers arguably paid insufficient attention to the relationship between workers and the dominant union, the National Union of Mineworkers. As this relationship deteriorated, rivalry between the incumbent and a new contender created crucial challenges for management. That is, not just relationships of employees or the organisation are vital for effective management, but also of third parties. The challenges faced by mining companies with regard to conflicts between rival factions within communities, or between municipalities and traditional authorities, provide further examples of this. As noted above with regard to measures of network shape, a social capital analysis would focus attention on these third party relationships and ways in which the company could seek to support more conducive network dynamics.

Source: Prepared for this report by Ralph Hamann (NBS:SA; UCT GSB)
Content and Organisation of the Report

The rest of the report is organized as follows:

- Chapter 2 discusses the measures of social capital that have been used in the literature at the various methods of analysis and concludes with a proposed model for measuring social capital at the various levels.
- Chapter 3 explores value and/or impact of social capital activities of organisations and communities at the various levels. We conclude with a model to classify the literature reviewed into different levels of analysis with regard to value and impact of social capital.
- Chapter 4 presents the recommendations for measuring social capital and how to identify the value and/or impact of social capital. The conclusion of the report is also presented in this chapter.
- Appendix A provides greater detail on the methodology used for the systematic review.
- Appendix B provides a table summarising the studies used for the systematic review, with a focus on the definition of social capital, the measure used and the value or impact identified.
- Appendix C provides the definitions of the major social network structure terms.
chapter 2: the measurement of social capital
Approaches to Measuring Social Capital

The abstract nature of social capital and difficulty in agreeing on its definition poses a challenge to universal means of measurement. Measurement of social capital depends in part on the way in which it is defined, conceptualised and applied to social phenomena. The approaches used to measure social capital also depend on the disciplinary focus of the measurement (e.g. economics, sociology, management, health, etc.), the dimensions of social capital (structural, relational, and cognitive), and the level of analysis (individual, group and organisational, community and national). Measurement of social capital also varies depending on the interests of researchers and “whether they focus on the substance, the sources, or the effects of social capital” (Adler and Kwon 2002: 19).

Generally, measures of the structural dimension of social capital have emphasised the pattern of the connections between an individual and his or her network of acquaintances, while measures of the relational dimension of social capital emphasise the nature and quality of the interactions and relationships among individuals. Measures of the cognitive dimension of social capital focus on shared representations, goals, norms, values and reciprocity. Social capital has been described and measured with so many items such that many researchers have argued for the separation of items that indicate the sources or determinants from those that represent outcomes. Woolcock (1998) stated that social capital should be identified by its source or determinants (e.g. social ties or social networks) rather than its effects or outcomes (e.g. resources). Laursen et al. (2007) noted that there are several problems in measuring social capital because of a lack of clear distinctions between the sources (or determinants) and the consequences (or outcomes) of social capital. For example, Narayan and Cassidy (2001) argue that some of the proxies that have been used to measure social capital such as political engagement, safety and security, and social cohesion are actually outcomes of social capital.

In empirical studies, social capital quantitative measures of social capital have primarily been applied. For instance many researchers have relied on surveys and resulting social capital indexes developed by individual researchers, international organisations such as the World Bank and Organisation for Economic Co-operation and Development, and think-thanks such as the World Values Survey Association (www.worldvaluessurvey.org) for the purpose of measurement and comparison. Specific approaches to measuring social capital have ranged from simply using one indicator (e.g. social networks) to using complicated groups of indexes. Research suggests that the measurement of social capital reflects a multi-dimensional nature, and the various components could be summarised into four broad categories:

- Networks, relationships and connections
- Trust
- Civic engagement and voluntary activities (including cooperation, political participation, social participation, associational memberships, community volunteerism, etc.)
- Civic norms, shared norms and values
Table 2.1 summarises the studies by level of analysis (i.e. focusing on individuals, group and organisations, and community or nation) and how social capital was measured. Most of the studies were conducted at the group and organisation level, although both individual and community/national level studies have also received considerable attention. Networks, relationships and connections were used about twice as often as the next most common indicator, trust. The four categories with details of items used to measure them are shown in Table 2.1.

Individual Level Measures

At the individual level, social capital is usually measured by questionnaire surveys using indicators that tap into social connections, social networks and social support. The structural dimension of social capital has been measured using degree of trust, social network structure and position (e.g. network centrality, network size, network density, betweenness centrality, network homogeneity/heterogeneity, homophily/heterophily, network constraint, tie strength, structural holes, etc.), number of network memberships, association memberships and social participation, social connections and relationships (e.g. bonding ties, bridging ties, linking ties, connectivity, etc.), and the quantity or volume of social resources (Bourdieu, 1986). Measurement of the relational dimension of social capital has focused on social networking and relationships, and on trust. The aspects assessed have included; social interactions, social relationships, social networking, social support, social cohesion, and associability. Cognitive social capital has been measured using indicators focusing on general and interpersonal trust, shared goals, shared culture, reciprocity, feelings of safety, and

Table 2.1
STUDIES BY LEVEL OF ANALYSIS AND THE WAY SOCIAL CAPITAL WAS MEASURED

<table>
<thead>
<tr>
<th>FOCUS OF STUDY/LEVEL OF ANALYSIS</th>
<th>NUMBER OF STUDIES</th>
<th>THE WAY SOCIAL CAPITAL WAS MEASURED</th>
<th>NUMBER OF STUDIES*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community and national</td>
<td>71</td>
<td>Network, relationships and connections</td>
<td>274</td>
</tr>
<tr>
<td>Groups and organisations</td>
<td>160</td>
<td>Trust</td>
<td>136</td>
</tr>
<tr>
<td>Individual</td>
<td>83</td>
<td>Civic engagement and voluntary activities</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Civic norms, shared norms and values</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others (e.g. resources)</td>
<td>14</td>
</tr>
<tr>
<td>TOTAL</td>
<td>314</td>
<td></td>
<td>562</td>
</tr>
</tbody>
</table>

* Several studies have used multiple indicators to measure social capital.
views of multiculturalism to gauge the individual’s tolerance of diversity. Measurement of social capital is less problematic at the individual level given greater specificity of the indicators, which are derived from social network research. Table 2.2 presents the indicators that have been used to measure social capital at the various levels of analysis. The definitions of the major measures of social capital are provided in Appendix C.

A study undertaken at the individual level using data from Africa illustrates how social capital is measured at this level. The study examined the associations between social capital and several health variables:
## MAJOR MEASURES OF SOCIAL CAPITAL AT DIFFERENT LEVELS OF ANALYSIS

<table>
<thead>
<tr>
<th>LEVEL OF ANALYSIS</th>
<th>DATA COLLECTION METHOD</th>
<th>STRUCTURAL</th>
<th>RELATIONAL</th>
<th>COGNITIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>Questionnaire Surveys</td>
<td>Trust and solidarity (general and institutional)</td>
<td>Trust in relationship (confidence level)</td>
<td>Trust (general and inter-personal)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Network structure (number of links, position, network centrality, network size, network density, betweenness centrality, network homogeneity/heterogeneity, homophily/heterophily, network constraint, tie strength, structural holes)</td>
<td>Sociability or social interaction</td>
<td>Reciprocity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Network ties (bonding, bridging, linking, connectivity, etc.)</td>
<td>Social relationship</td>
<td>Feeling of safety</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Association membership and volunteer activities (social participation, civic engagement, political participation, etc.)</td>
<td>Social networks and interactions (bonding, bridging, linking)</td>
<td>Shared goals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social support</td>
<td>Shared culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social cohesion</td>
<td>Views on multiculturalism</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Associability</td>
<td>(tolerance of diversity)</td>
</tr>
<tr>
<td>Group and Organisation</td>
<td>Questionnaire Surveys</td>
<td>Association membership &amp; Institutional links (trade group memberships, network links)</td>
<td>Social relationships (relationship quality, closeness, communication frequency, bonding ties, bridging ties and linking ties, etc.)</td>
<td>Attitudes &amp; beliefs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Network characteristics (network links, centrality, number of links, density)</td>
<td>Social connections and ties (networking relationships, social networks &amp; links, interpersonal relationships, network ties, and connections with formal &amp; informal leaders, etc.)</td>
<td>Emotional intensity &amp; reciprocity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Network ties (bonding ties, bridging ties, linking ties, strength of ties)</td>
<td>Relational trust</td>
<td>Shared norms, values and obligations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trust</td>
<td>Shared goals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Integrity</td>
<td>Shared knowledge</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Shared vision</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Shared purpose</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Collective goals and mission</td>
</tr>
<tr>
<td>Community and Nation</td>
<td>Questionnaire Surveys</td>
<td>Trust (general and institutional)</td>
<td>Social relationship Index (Access to emotional support, access to rational support, and access to material support)</td>
<td>Civic norms and reciprocity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Association membership and volunteer activities (social participation, civic engagement, political participation)</td>
<td>Social cohesion (social interaction)</td>
<td>Perceptions of inter-personal trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Civic norms and values (norms of reciprocity, obligations)</td>
<td>Informal social control</td>
<td>Views on multiculturalism</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Neighborhood cohesion (social interaction)</td>
<td>(tolerance of diversity)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Togetherness</td>
<td>Perceptions of safety after dark</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social networks</td>
<td>Shared emotional connection</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Social support (emotional, instrumental, informational)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Affective bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Collective goals</td>
</tr>
</tbody>
</table>
self-rated health, depressive symptoms, cognitive functioning and physical inactivity, in a sample of 3840 older South Africans (aged 50+) in 2008 (Ramlagan, Peltzer, and Phaswana-Mafuya, 2013). The study assessed social capital using six measures, which were mostly structural measures derived from an index created by Putnam (2000):

- **Marital status** – Married or cohabiting vs. never married, divorced, separated, widowed;
- **Social action** – Four items (questions): “How often in the last 12 months have you (a) worked with other people in your neighbourhood to fix or improve something? (b) attended any public meeting in which there was discussion of local or school affairs? (c) met personally with someone you consider to be a community leader? (d) attended any group, club, society, union or organisational meeting?” Response options ranged from 1 = never to 5 = daily.
- **Sociability** – Four items (questions): “How often in the last 12 months have you (a) been in the home of someone who lives in a different neighbourhood than you do or had them in your home? (b) had friends over to your home? (c) socialised with co-workers outside working hours? (d) left the house/your dwelling to attend social meetings, activities, programs or events or to visit friends or relatives?” Response options ranged from 1 = never to 5 = daily.
- **Trust and solidarity** – Five items (questions), used to create a trust and solidarity index: “(a) Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people? (Yes or No); (b) Do you have someone you can trust and confide in? (Yes or No); (c) First, think about people in your neighbourhood; generally speaking, would you say that you can trust them?...? (d) Now, think about people with whom you work with; generally speaking, would you say that you can trust them?...? (e) And how about strangers? Generally speaking, would you say that you can trust them?...?” Questions (c) to (e) response options were: 1 = to a very great extent to 5 = to a very small extent.
- **Safety** – Three items (questions) used to create a safety index: “(a) In general, how safe from crime and violence do you feel when you are alone at home? (b) How safe do you feel when walking down your street alone after dark? (c) In the last 12 months, have you or anyone in your household been the victim of a violent crime, such as assault or mugging?” (Yes or No). Response options for (a) and (b) ranged from 1 = completely safe to 5 not safe at all.
- **Civic engagement** – Three items (questions) used to create a civic engagement index: “(a) How much say do you have in getting the government to address issues that interest you?” Response options were 1 = unlimited say to 5 = no say at all; (b) “How interested would you say you are in politics and national affairs? Would you say you are...?” 1 = Very interested to 5 = Very uninterested; (c) “A lot of people find it difficult to get out and vote; did you vote in the last state/national/presidential election?” (Yes or No).
Group and Organisation Level Measures

The indicators used to measure social capital at the group and organisation level are similar to those used at the individual level. However, the emphasis here is on the role of executive leadership in developing relationships for the group or organisation. Most of these measures have involved questionnaire surveys; however, a few studies have relied on objective data. The measures have looked primarily at the structural and relational dimensions of social capital. The structural dimensions that have been examined include network structural characteristics (e.g. network links, network centrality, network density, network diversity, network size, network frequency, network redundancy, institutional network, etc.); network ties (strong ties, weak ties, government officials ties, tie strength, bonding ties, bridging ties, linking ties, structural holes, etc.); association membership and institutional links; and trust. The relational dimension of social capital has been examined by measures that focus on social networking relationships and trust. They include social connections and ties with close acquaintances (e.g. family members, and colleagues at work), and various external stakeholders (e.g. executives from other businesses, board members, political leaders, government bureaucratic officials, and community leaders); interpersonal trust and trust. The distinction between structural networks and relational networks is not very clear: the same measures may be labeled structural or relational depending on the researcher. For example, bonding, bridging and linking relationships are measured as both structural and relational social capital. The indicators used to measure cognitive social capital are mostly attitudinal and value-based and include shared norms, values and obligations; reciprocity; shared goals and mission; and attitudes and beliefs.

A study conducted at the firm-level using data from Africa illustrates how social capital is measured at the organisational level. The study examined the relationship between managerial social capital and organisational performance using data from organisations in Ghana (Acquaah, 2007). Social capital was assessed by questionnaire using three items to measure relational social capital. The items focused on the extent to which they were used by top management to access resources, information and knowledge for their companies (response options ranged from 1 = “Very little” to 7 = “Very extensive”):

1. **Personal and social networking relationships with top managers at other firms (social capital from top managers at other firms)**
   - Relationships with suppliers
   - Relationships with buyers
   - Relationships with customers

2. **Personal and social networking relationships with government officials (social capital from government officials)**
   - Relationships with city council executives
   - Relationships with district council executives
   - Relationships with regional government politicians and executives
   - Relationships with national government politicians and executives
• Relationships with officials in regulatory and supporting institutions (e.g. Standards Board, Internal Revenue Service, Central Bank, Environmental Protection Agency)
• Relationships with officials in investment and industrial institutions (e.g. Investment Board, Export Promotion Council, Stock Exchange)

(3) Personal and social networking relationships with community leaders (social capital from community leaders)
• Relationships with local kings, chiefs and/or their representatives
• Relationships with leaders of religious organisations (e.g. pastors, priests, imams)

These indicators of relational social capital were mostly external.

Community and National (Country) Level Measures

Studies on community and national or country level measures of social capital view it as a multidimensional and ‘collectivity-owned capital’ (Bourdieu, 1986: 249) or as a community level resource (Putnam, 1993) that is embedded in networks of mutual acquaintance and recognition in communities. Social capital measures in community or national level studies have not generally examined the dimensions of social capital separately but have used indexes incorporating many or all dimensions of social capital. However, the items in the indexes have been primarily from the structural dimension and have included trust (general and institutional), trustworthiness, network structural characteristics (e.g. network density, strong ties, weak ties, intra-community ties, etc.), association membership and community engagement, and voluntary activities (e.g. community volunteerism, civic engagement, social and political participation, etc.). Measures used to describe relational social capital have focused on social relationships, social cohesion, and social interactions. Measures used for cognitive social capital have emphasised civic norms, reciprocity, trust, social support, affective bonds and collective goals.

Measurement of social capital at the community or national level has relied both on survey questionnaires and the use of “secondary analysis of individual level survey datasets not collected specifically to measure social capital, aggregated to community, state, or even national level” (Baum and Ziersch, 2003: 322). Some of the datasets are from the World Values Survey, the European Values Survey, the General Social Survey, and the Index of National Civic Health in the US. There have been other surveys designed specifically to measure social capital by creating indexes such as Putnam’s Social Capital Index, the New South Wales Study in Australia, World Bank’s Social Capital Assessment Tool, etc. Table 2.3 presents some of the indexes that have been created to measure social capital at the community or national level, with the components of the indexes.

One of the most popular indexes used in measuring social capital at the community or national level is Putnam’s Social Capital Instrument (Putnam, 2000). Putnam’s index was designed to measure social capital at state and national levels in the US using social surveys (e.g. General Social Surveys) and administrative data (US Statistical Abstract, US Commerce Department) for the period 1974-1994. The index
<table>
<thead>
<tr>
<th>INDEX</th>
<th>SOURCE AND YEAR</th>
<th>COMPONENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Values Survey (WVS) (Includes the European Values Survey)</td>
<td>Tinglehart (1997); <a href="http://www.worldvaluesurvey.org">http://www.worldvaluesurvey.org</a></td>
<td>Social capital index (SCI) • General trust • Institutionnalised trust • Membership in associations • Civic norms</td>
</tr>
<tr>
<td>Putnam’s Social Capital Index Instrument</td>
<td>Putnam (2000)</td>
<td>• Community organisational life • Engagement in public affairs • Community volunteerism • Informal sociability • Social trust</td>
</tr>
<tr>
<td>General Social Survey (GSS)</td>
<td>National Opinion Research Center, University of Chicago (Biennial Survey)</td>
<td>• Trust (&quot;Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?&quot;&quot;) • Fairness (&quot;Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair?&quot;) • Helpfulness (&quot;Would you say that most of the time people try to be helpful, or that they are mostly just looking out for themselves?&quot;)</td>
</tr>
<tr>
<td>Global Social Capital Survey</td>
<td>Narayan and Cassidy (2001)</td>
<td>• Group characteristics (including association membership) • Generalized norms • Togetherness • Everyday sociability • Neighborhood connections and community participation • Volunteerism • Trust (including institutional trust)</td>
</tr>
<tr>
<td>New South Wales Study</td>
<td>Onyx and Bullen (2000)</td>
<td>• Participation in local community • Proactivity in social context • Feelings of trust and safety • Neighborhood connections • Family and friends connections • Tolerance of diversity • Value of life • Work connections</td>
</tr>
<tr>
<td>The Barometer of Social Capital</td>
<td>Sudarsky (1999)</td>
<td>• Institutional trust • Civic participation • Mutuality and reciprocity • Horizontal relationships • Hierarchy • Social control • Civic republicanism • Political participation</td>
</tr>
<tr>
<td>Index of National Civic Health in the US</td>
<td>National Commission on Civic Renewal (1996)</td>
<td>• Participation in local community • Proactivity in social context • Feelings of trust and safety • Neighborhood connections • Family and friends connections • Tolerance of diversity • Value of life • Work connections</td>
</tr>
<tr>
<td>Aspects of Social Capital</td>
<td>Harpham (2003)</td>
<td>• Extent of and participation in formal and informal organisations • Information, emotional and instrumental support from networks • Perceived trust and reciprocity • Shared norms</td>
</tr>
<tr>
<td>Scale</td>
<td>Authors</td>
<td>Components</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>University of Minnesota Scale</td>
<td>Scheffert, Horntvedt, and Chazdon (2009)</td>
<td>Bonding engagement, Bonding trust, Bridging engagement, Bridging trust, Linking engagement, Linking trust, Efficacy</td>
</tr>
<tr>
<td>World Bank’s Social Capital Assessment Tool (SOCAT)</td>
<td>Grootaert and Van Bastelaer (2002)</td>
<td>Structural social capital (Membership in local associations, networks, Cognitive social capital (Indicators of trust, Social cohesion (Indicator of collective action))</td>
</tr>
<tr>
<td>Adapted Social Capital Assessment Tool (A-SCAT)</td>
<td>Harpham, Grant and Thomas (2002)</td>
<td>Structural (Connectedness) (Participation in organisations, Frequency of general collective action, Specific collective actions), Cognitive (Reciprocity, sharing, trust) (General social support, Trust, Fellow feeling)</td>
</tr>
<tr>
<td>Social Capital Measurement Tool (SCMT)</td>
<td>Kitchen, Williams and Simone (2012)</td>
<td>Social capital perceptions (Safety after dark, Inter-personal trust, Accessibility to help, Views of multiculturalism), Social capital actions (Volunteering, Municipal voting)</td>
</tr>
</tbody>
</table>
was based on Putnam’s five principal components of social capital (Putnam, 1993): (1) community networks, voluntary, state, personal networks, and density; (2) civic engagement, participation, and use of civic networks; (3) local civic identity—sense of belonging, solidarity, and equality with other members; (4) reciprocity and norms of cooperation—a sense of obligation to help others and confidence for assistance in return; and (5) trust in the community. The index components were as follows:

(1) **Community organisational life**
- Percentage serving on committee of local organisation in the last year
- Percentage serving as officer of some club or organisation in the last year
- Mean number of club meetings attended in last year
- Mean number of group memberships
- Civic and social organisation per 1000 population

(2) **Engagement in public affairs**
- Turnout in presidential elections, 1988 and 1992
- Percentage attending public meeting on town or school affairs in last year

(3) **Community volunteerism**
- Number of nonprofit organisations per 1000 population
- Mean number of times worked on community projects last year
- Mean number of times did volunteer work in last year

(4) **Informal sociability**
- Agree that “I spend a lot of time visiting friends”
- Mean number of times entertained in home last year

(5) **Social trust**
- Agree that “Most people can be trusted”
- Agree that “Most people are honest”

The community/national level measures were obtained either by aggregating individual or household responses to form a collective response or by using archival information. Thus Putnam’s (2000) index of social capital has been called a hybrid measure of community-level social capital (Lee and Kim, 2013).

A second popular index was developed by the World Bank. It has led the effort to understand the role of social capital in community and economic development in developing countries. The World Bank views social capital as a tool which can be used to understand the causes, manifestations, and consequences of poverty and enhance development in these countries. It has, therefore, been developing ways to measure social capital, including the Global Social Capital Survey (GSCS) (Narayan and Cassidy, 2001), the Social Capital Assessment Tool (SOCAT) (Grootaert and Van Bastelaer, 2002), and the Integrated Questionnaire for the Measurement of Social Capital (SC-IQ) (Grootaert et al., 2004). SC-IQ integrates the information in GSCS and SOCAT and is designed to “provide a core set of survey questions for those interested in generating quantitative data on various dimensions of social capital as part of a larger household survey” (Grootaert et al., 2004: 1). The World Bank pilot-tested the SC-IQ in Albania and Nigeria and identified six key dimensions of social capital: groups and networks; trust and solidarity; collective action and cooperation; information and communication; social cohesion and inclusion; and empowerment and political action. Not all of the dimensions are clearly
sources of social capital; rather, some transcend social capital. For instance, Grootaert et al. (2004:14) suggest that “empowerment is thus a broader concept than social capital, and political action is only one of many activities that can be undertaken to increase empowerment”. The contents of the SC-IQ dimensions are:

(1) **Group and networks (measure of structural social capital):**
- **Group** – groups and organisations are measured by four items:
  - The density of membership (the average number of memberships of each household in existing groups or organisations)
  - The diversity of membership (kinship, religion, gender, age, ethnicity/linguistic group, occupation, education, political affiliation and income level)
  - The extent of democratic functioning
  - The extent of connections to other groups.
- **Networks** – represented by three items:
  - The size of the network (the number of close friends)
  - The network’s internal diversity (whether or not the network consists of people with different economic statuses)
  - The extent to which the network would provide assistance in case of need.

(2) **Trust and solidarity (measure of cognitive social capital):**
- Generalized trust (the extent to which the individual trusts people overall)
- Specific trust (the extent of trust in specific types of people, agencies, environment, businesses, community, etc.)

(3) **Collective action and co-operation**
- The extent of collective action
- The type of activities undertaken collectively
- An overall assessment of the extent of willingness to cooperate and participate in collective action

(4) **Information and communication**
- Sources of information and means of communication
- Sources of information on government activities
- Sources of market information

(5) **Social cohesion and inclusion (structural social capital):**
- Inclusion (general perceptions of social unity and togetherness of the community and specific experiences with exclusion)
- Sociability
  - Frequency of every-day social interactions
  - Daily social interactions with people of the same or a different ethnic or linguistic group, economic status, social status, or religious group
- Conflict and violence
  - The extent and trend of violence
  - The contribution made by internal divisiveness in the community
  - The feelings of insecurity stemming from fear of crime and violence

(6) **Empowerment and political action**
- Empowerment – the ability to make decisions that affect everyday activities and may change the course of one’s life
  - Control in making decisions that affect one’s everyday activities
  - Power to make important decisions that change the course of one’s life
  - Impact in making this village/neighborhood a better place to live
• Political action
  ○ Filing petitions
  ○ Attending public meetings
  ○ Meeting with politicians
  ○ Participating in demonstrations and campaigns
  ○ Voting in elections

A study that explored the associations between different forms of social capital and innovation in agriculture in African countries (van Rijn, Bulte and Adekunle, 2012) used some of the ideas from Putman (2000) and the World Bank. The study measured the structural and cognitive dimensions of social capital with the following items:

**Structural bonding social capital:**
• Village members joining together for a social function
• Village members joining together to carry out a community project
• Villagers coming together for a village meeting
• Participation in community activities
• Mean village participation in community development projects
• Mean village visiting of other farmers within the community to learn about agriculture

**Structural bridging social capital:**
• Villagers made a field trip or sent a representative to an agricultural R&D activity
• Villagers organized and went to another village to see development, research project
• People from another village came to the village to see R&D project
• Training by an outside organisation or field extension staff
• Visits by researchers, staff from NGOs or extension
• Mean village visiting of other farmers outside the community to learn about agriculture
• Mean village visiting of a research station to learn about agriculture
• Mean village visiting of an extension office to learn about agriculture

**Cognitive social capital:**
• Financial contributions to help a member in the village
• Extent of trust among people
• Cooperation among people
• Extent of giving or exchanging gifts
• Extent of financial contribution to community activities/problems
• Extent of financial contribution to group activities
• Spirit of helping others, especially the poor
• Extent of settling conflicts or disputes among people
• Extent of abiding by norms and bylaws
• Women’s confidence to speak in public
• Men’s respect and consideration of women
• Mean village financial contributions to community activities or actions
• Mean village involvement in settling conflicts or disputes among people

The items other than ‘Mean village’ were included in a household survey, with response options that ranged from 0 = ‘never happens’ to 4 = ‘happens more than 5 times a month, on average, or happens very often’. The items with ‘Mean village’ reflected the village average of households’ involvement in the events and aspects covered in a village survey and were converted to a 0–1 scale, indicating the share of households in the village involved in these actions.
Case Study 2: Social Capital as a Tool for Community and Economic Development in the Ozarks

In 2008, Springfield/Greene County in Missouri, US studied the state of social capital in the area. The findings were reported in February 2009. The study found that Ozark residents had higher levels of social capital (measured as generalised and local trust, and social connections) than the national average levels. However, the study also found that the residents had lower levels of civic participation and institutional trust (in local government) than the national average. They were faced with the question: How could high levels of social capital be associated with political alienation and low civic engagement? Previous social capital studies suggested that high levels of social capital would generate high levels of civic engagement and political participation. The findings were presented to several community groups in the region, which led to identification of civic engagement as a community problem. Then, in 2010, The Ozarks Regional Social Capital Survey (ORSCS) was designed to study the issue. The survey focused on how bonding social capital and bridging social capital affect the types of trust and civic engagement. The assumption was that bridging social networks (reflecting diversity) sustain generalised trust and reciprocity among individuals and communities, while bonding social networks bring individuals together with others like them and sustain particularised, in-group trust and reciprocity. Civic engagement and political participation require working with different people and diverse groups; thus the relative lack of bridging social capital in the Ozarks was part of the public policy dialogue. The study focused on how bridging social capital could solve the problem of low civic participation. To measure bridging social capital, the study created four measures of network diversity: (a) total number of connections to different occupations; (b) range of occupational prestige connections; (c) highest occupational prestige connection; and (d) number of high prestige occupational connections. The study found that higher levels of social network diversity (bridging social capital) were positively associated with trust, membership in voluntary associations, and civic participation: individuals with greater social network diversity had more trust, more membership in voluntary associations and greater civic engagement.


Implications for Leaders

Measuring social capital in the Ozarks allowed the region to identify where social capital is strong and where it is weak. Social capital was measured with three of the measurement categories discussed above – networking (bridging social capital); civic engagement (association membership, civic participation and political participation); and trust. Relating bridging social capital to civic engagement also led to the mobilisation of existing groups and organisations, and the development of targeted programmes in the region in an effort to increase citizenship participation. As this example shows, regional civic leaders’ ability to measure different categories of social capital and relate them to one another enabled them to focus on providing citizens in the county with more opportunities to participate in diverse civic groups, and thus enhance community social and economic development.
While social capital has been measured by academic researchers at various levels of analysis, there have been fewer measurements by practitioners of the social value creation or impact of an organisation’s social activities. However, the box below shows how social capital was measured and used in a county (district) in the US to solve the problem of low civic engagement by citizens.

Summary of Social Capital Measures

In sum, the measurement of social capital could be summarised as follows:

1. Social capital is measured as an individual, group or organisation and a collective (community-level) attribute.
2. The indicators or elements used to measure social capital fall into four categories: social networks (relationships, interactions and connections); trust and reciprocity; norms and values (including civic norms); and civic engagement (e.g. associational memberships and civic participation).
3. Uneven emphasis on the dimensions of social capital at individual and collective levels.

- **Individual and organisation versus collective measures**: The indicators that are used to measure social capital at the individual and organisation levels are grouped together because the research shows that individual managers or executives’ social networking relationships are generally used as a proxy for the social networking relationships that create social capital for an organisation. Individual- and organisation-level measurements are done through questionnaire surveys focusing on social connections and social support. Thus the measures primarily include social network indicators (see Table 2.2). At the collective level, measures are more varied, focusing on networks and social connections, as well as cognitive indicators (trust, solidarity, norms and values, and the ability to participate in civic life). However, some indicators could be considered as outcomes of social capital instead of inputs to social capital (e.g. collective action, empowerment and political action).

- **Categories of social capital**: Measures of trust (generalised, interpersonal and institutional) and networks and connections are used at all levels of analysis and for all dimensions of social capital. While measures of trust at individual and organisational levels focus on interpersonal trust (or informal trust), measures at the collective or community-level focus on trust in strangers and trust in institutions. Social network measures at individual and organisational levels focus primarily on structural characteristics (e.g. size, density, heterogeneity or diversity, etc.), though recently there has been more emphasis on bonding, bridging and linking ties. Measures of norms (including civic norms, shared norms and values) are common at all levels. However, the focus at individual and organisational levels is on shared values, norms and goals in a community or an organisation, while the focus at the collective goes beyond shared norms and values to include how individuals in a community co-operate or act for societal benefit.

- **Uneven emphasis on the dimensions of social capital at different levels**: There is a general consensus that there are three dimensions of social capital: structural, relational and cognitive (Nahapiet and Ghoshal, 1998). While individual and
organisational level studies have used measures capturing all three dimensions, community-level measures have emphasised only the structural and cognitive dimensions of social capital. This may be due to the problem of separating the indicators used to measure structural and relational dimensions. For example, several studies at individual and organisational levels have used similar measures that are classified as structural by some studies and relational by other studies (e.g., bonding, bridging and linking). While the structural dimension is measured typically through social network analysis, the relational dimension focuses on the quality of interactions or what Leana and Pil (2006: 354) call

**Figure 2.2**

**DETERMINANTS, DEFINITION AND MEASUREMENT OF SOCIAL CAPITAL**

**Determinants**
- Social Networks
- Trust and Reciprocity
- Shared norms, values and social structures
- Obtain and maintain social license to operate

**Definition**
- Ability to secure or obtain assets or resources, knowledge, and information by an individual, group, organisation or community for its benefit through social networks, trust, shared norms, and license to operate.

**Measurement**
- **Social Networks**
  - Network structure
  - Relationships, ties and connections
  - Social cohesion
- **Trust and Reciprocity**
  - Generalised
  - Interpersonal
  - Institutional
  - Reciprocity
- **Norms**
  - Shared norms
  - Civic norms
  - Values
  - Goals
- **Civic Engagement**
  - Association membership
  - Civic participation
  - Volunteerism
  - Political participation
  - Social support

**Tools**
- Use surveys, interviews, focus groups, and personal stories from employees, members of a community, or stakeholders to implement
  - World’s Values Survey’s Social Capital Index
  - Network structural characteristics (e.g., density, diversity, size, etc.)
  - Social relationships and ties
  - Company codes of conducts and values
  - Putnam’s Social Capital Index Survey Instrument
  - World Bank Integrated Questionnaire for the Measurement of Social Capital (SC-IQ)
the ‘character and content of those relationships’, and it is measured usually through the extent and closeness of interactions, and the resources and information leveraged from such interactions.

A Model to Measure Social Capital

Figure 2.2, Determinants, Definition and Measurement of Social Capital, includes the indicators that have been used to measure social capital and the tools that could be used by practitioners and managers to measure social capital in their organisations. The top three indicators (social networks, trust and reciprocity, and norms) have been used at individual and organisational levels, while all four indicators are used at the collective or community level. Table 2.4 presents a summary of the items used to measure social capital in Figure 2.2. The items in bold font are the measures that are commonly used in social capital studies by researchers and international organisations.

Table 2.4
SUMMARY MEASUREMENT OF SOCIAL CAPITAL

<table>
<thead>
<tr>
<th>SOCIAL NETWORKS</th>
<th>TRUST AND RECIPROCITY</th>
<th>NORMS</th>
<th>CIVIC ENGAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Network Structure (e.g. density, diversity, size, centrality, heterogeneity)</td>
<td>• Generalised trust</td>
<td>• Shared norms</td>
<td>• Associational membership</td>
</tr>
<tr>
<td>• Relationships, ties and connections</td>
<td>• Institutionalised trust</td>
<td>• Civic norms</td>
<td>• Civic participation</td>
</tr>
<tr>
<td>• Social cohesion</td>
<td>• Interpersonal trust</td>
<td>• Values</td>
<td>• Political participation</td>
</tr>
<tr>
<td></td>
<td>• Reciprocity</td>
<td>• Goals</td>
<td>• Volunteerism</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Social support</td>
</tr>
</tbody>
</table>
Examine the closeness and quality of the social relationships, connections and network ties managers and employees have with the company's key external stakeholders such as customers, business partners, suppliers, community leaders, and government officials.

- Institutionalised and Interpersonal trust
  - Examine the degree to which employees in the company trust what the company stands for.
  - Examine the degree to which employees trust government agencies, the business environment, communities, etc.
  - Examine the extent to which employees trust company executives and other employees.

- Associational membership
  - Assess the degree to which individual employees are members of professional and community organisations and associations.
  - Assess the number of associations/organisations in which individual employees are members.
  - Assess the number of times individual employees get involved in associational activities in a specific time period (e.g. monthly).

**SOCIAL CAPITAL MEASURES WITH POTENTIAL**

The following measures have been suggested and used by researchers and international institutions interested in the measurement of social capital. They have been tested at the community level but have rarely been used at the organisational level. These measures should be tried as they may be relevant to assessing the social license to operate by companies, but it is important to evaluate their effectiveness in achieving the objectives of the company.

- Generalised trust
  - Examine the extent to which employees trust people in their community.
  - Examine the extent to which employees can confide in other people or employees.
  - Examine the extent to which employees believe that people in their community try to be fair most of the time.
  - Examine the extent to which employees believe that people in their community try to be helpful most of the time.

- Civic participation
  - Examine the extent to which employees are involved in social causes in their community.
  - Examine the extent to which employees support educational initiatives in their community.

- Volunteerism
  - Examine the number of times employees volunteer in the community.
  - Examine the number of times employees volunteer their time for the company.
There are subtle differences in the indicators that should be emphasised when measuring internal or external social capital at different levels of analysis. For example, when the focus is external, the measures to use at individual and organisation levels of analyses should be network structure, network ties and connections (with emphasis on bridging and linking ties), and trust (interpersonal and institutional). However, when the focus is external at the community/national level, the measures to use are network ties and connections (using bonding, bridging and linking ties), trust (general and institutional), civic norms, and association membership and community engagement. Network structure indicators are no
Figure 2.4
SUMMARY MODEL OF SOCIAL CAPITAL MEASUREMENT

• Network ties and connections (bonding and linking)
• Trust (interpersonal and institutional)
• Civic norms
• Association membership and community engagement

Community/National

Organisation Level

• Network structure
• Network ties and connections (bonding & linking)
• Trust (interpersonal)
• Shared norms, values and goals

Individual

• Network ties and connections (bonding, bridging and linking ties)
• Trust (general and institutional)
• Civic norms
• Association membership and community engagement

Measurement Source

Aggregate of group member responses

Top executive or aggregate top management team responses

Individual responses

longer important at the community/national level. Figure 2.4 also shows the sources of information for the measurement of social capital at the individual, organisation and community/national levels from the systematic review. It starts from individual responses within a group, an organisation, or a community at the individual level, to an individual top executive/manager response or an aggregate of the top management responses at the organisational level to an aggregate response of individuals in a community or nation at the community level.
chapter 3: the value of social capital
Overview of the Value of Social Capital

The general assumption is that social capital is good for individuals, organisations and communities. However, determining the value of social capital is not an easy task. Valuation is often thought of from a monetary perspective, but few studies have directly addressed the monetary value of social capital. One of the few is a study by Kim (2007) who examined the effects of outside directors and their social capital on firm value in a sample of 473 large, publicly traded South Korean companies from 1998 through to 2003. The study found that three indicators of social capital, membership in external economic associations, affiliation with government institutions, and elite school network, were significant and positively associated with firm value as measured by Tobin’s Q (the ratio of market value to the book value of the firm).

Generally, however, the value of social capital has been assessed based on its potential impact on individuals, organisations, communities, nations and regions. One challenge with regard to the assessment of the value of social capital is the difficulty in separating the indicators of social capital from the outcomes of social capital. Of course, in economic terms, every impact or outcome could be eventually translated into monetary value. For example, the acquisition of skills by an individual through memberships in a social network could lead the individual to get a new job which might translate to higher income for the individual. However, the inability to attribute direct economic benefits to social capital has led some researchers to question the ‘capital’ component of social capital. Nevertheless, social capital shares some similarities with other forms of capital such as human and physical capital, in that social capital has the ability to generate external benefits that persist (Agenor & Dinh, 2013). Specifically, “these externalities and benefits include information sharing among individuals and firms, and the matching of people to economic opportunities, mutual aid and insurance, which may affect expectations and individual behaviour, as well as effective collective action” (Agenor & Dinh, 2013: 4). In addition, social capital is productive in that certain achievements or outcomes might not be possible in the absence of social capital (Inkeles, 2000). For example, a school child in a deprived neighbourhood could be brilliant academically but might be unaware of the educational opportunities available to him/her. The pairing of such a child with a mentor from a local company and the relationships developed could lead to the child gaining admission to prestigious institutions.

We propose an integrative model (Figure 3.1) that looks at the relationships between the indicators and outcomes of social capital. The model connects the indicators, outputs and value of social capital. To gain a good understanding of the value of social capital, it is necessary to distinguish between outputs and the outcomes of social capital. Outputs such as gaining access to knowledge from an organisation’s members as a result of network relationships are important, but these eventually need to be translated into outcomes such as improved financial performance, increased market share, and innovation. Social capital value includes the value that it provides to companies, to individuals, to other companies and to communities.
Some impacts might pertain uniquely to each constituent group (i.e. individuals, organisations, and communities), but others cut across boundaries. To illustrate, an employee’s network of relationships might enable him/her to build his/her skills. The application of those skills on the job results in cost efficiencies that improve the performance of the company (i.e. profitability) which the company then uses to increase the capabilities of its workforce and enhance the stock of human capital in the organisations. Civic engagement of the employees including sharing their expertise with community organisations, translates into better health outcomes for people in the community and eventually results in economic development in the area. In the process, the company also benefits from its corporate social responsibility, which might translate into greater acceptance of its products and services or increased access to a larger labour pool or gain the license to operate in the community.

Finally, social capital outcomes (value) might serve as motivations for business leaders to make additional investments in social capital activities that further translate into additional outputs and outcomes. In addition, the model suggests that the personal benefits that accrue to individuals might encourage them to further invest in social capital activities such as expanding their network ties. Communities can use the gains from improved well-being as a result of the social capital engagements to leverage government officials for additional resources, such as infrastructure development in their localities.

In the social capital literature, the central proposition is that networks of relationships constitute a valuable resource for the conduct of social affairs. The value of social capital stems from the access to resources that it engenders through an actor’s social relationships. It is important to understand, particularly in the case of business organisations, that because of social capital’s unique features such as its durability and the interconnectedness of human relationships (Bourdieu, 1986; Coleman, 1988), social capital is not as easily alienable from the firm as physical or financial capital, nor is it as mobile as human capital (Moran 2005). This means that the value that companies can obtain, detailed later in this report, will persist over time within those companies.

Value creation is the essence of effective company strategies and the primary source of their competitive advantage. It has been argued that the source of this advantage is the ability to develop intense social capital, which facilitates the creation of intellectual and other forms of capital and, from that, new value. Social capital can contribute to economic growth through the accumulation of human capital. Further, it can assist economic growth through financial development resulting from, for example, collective trust between a company and its suppliers that leads to reduction in transaction costs (less monitoring of supplier quality) or from adherence to shared norms and values within the company that leads to efficiencies. And finally, social capital contributes through the networking and collaborative activities of firms that lead to the creation and diffusion of innovations (Chou, 2006).

While social capital shares many attributes with other forms of capital (e.g. human and physical), social capital differs from these in that its creation requires interaction between at least two people and usually among a larger group of people. For example, social capital
is not subject to the same person-to-person market exchanges through which, for example, physical capital can be acquired or sold. The creation of social capital is a complex process heavily influenced by social, political and cultural factors as well as by the dominant types of economic activities in the environments of actors (Grootaert, 2004).

The impact of social capital on economic activities might be direct or indirect. A direct impact might be the impact on outcome variables such as household welfare, poverty reduction, health, access to services, or educational attainment. Assessment of impact in this manner considers social capital as an input (independent variable) with outputs such as organisational performance or the welfare of individuals and communities as dependent variables. However, the impact of social capital might not occur directly but might be moderated or mediated by factors such as governments, cultures (organisational and national) and regions. For example, a company, in partnership with an NGO provides the youth in a deprived community
with business management and time management skills so as to enhance the employability of the youth. The impact of those social capital activities in reducing the level of unemployment among the youth might be dependent on the willingness of employers in the locality to employ the youth or even on the partnering ability of the NGO. Similarly, the value of social capital in the form of knowledge transfer within a company might be dependent on whether the company has a flat organisational structure or a very vertical structure (Andrews, 2010).

While most of the literature suggests a positive impact of social capital on various organisational performance outcomes, empirical results on the social capital–organisational performance link are not always conclusive (Muarer, Bartsch & Ebers, 2011). Table 3.1 shows the results of a meta-analysis of 65 studies that sheds light on the mixed findings on the impact of social capital on economic growth. At the firm level, results are unambiguous: there is strong evidence of the impact of social capital on firm performance. Details of the value provided to companies and reasons for why companies need to continue their efforts in building social capital are provided later in this report. The results become less clear at national and regional levels. The inconclusive results at national and regional levels can be explained in part by the inadequacy of measures used to assess the impact of social capital and also on the fact that at the regional and national levels, the impact of social capital might be difficult to isolate from the impact of other contributory factors.

Any discussion of the value of social capital has to take into account both investments in and returns on social capital (Raub, Buskens, and Frey, 2013). This is because social capital is the result of purposeful efforts of individuals, organisations and communities...

### Table 3.1

**QUANTITATIVE FIGURES ON THE STUDIES’ DIVISIONS AT SPATIAL LEVELS, MEASURES OF SOCIAL CAPITAL AND ITS IMPACT ON ECONOMIC GROWTH**

<table>
<thead>
<tr>
<th>SPATIAL LEVEL</th>
<th>NUMBER OF STUDIES</th>
<th>SOCIAL CAPITAL MEASURE</th>
<th>NUMBER</th>
<th>POSITIVE</th>
<th>NEGATIVE</th>
<th>MIXED, AMBIVALENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nations</td>
<td>23</td>
<td>Trust</td>
<td>15</td>
<td>9</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Associations</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Regions/states/communities in one country</td>
<td>14</td>
<td>Trust</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Associations</td>
<td>11</td>
<td>6</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Regions/states in several countries</td>
<td>7</td>
<td>Trust</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Associations</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Firms and households</td>
<td>21</td>
<td>Various</td>
<td>21</td>
<td>18</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

(or nations). It is an accumulated stock from which individuals, companies, and communities derive a stream of benefits. Social capital is therefore more than simply a set of social organisations or social values; it enhances output by increasing the productivity of other resources, especially labor. The factors that influence the creation and development of social capital are sometimes referred to as indicators of social capital. Examples of such indicators might be the networks and associational activities of individuals, companies and communities (or nations). For example, an organisation’s social capital can be enhanced by the selection of individuals with learning potential and interpersonal skills, as well as by their involvement in decision-making processes; and their willingness to engage in social exchange and cooperative interaction, and the sharing of information, knowledge and resources. Although the distinction between value indicators and the outcomes of social capital is not easy to make, it is still important for business leaders to consider both when assessing the value of social capital as will be explained later in this report.

Figure 3.2 shows the focus of 285 studies on the potential impact of social capital. The impact of social capital has been addressed primarily from the perspective of organisations (or firms), followed by communities and then individuals. Most studies have focused on only one constituent group at a time. Very few studies examine the impact of social capital on individuals, organisations and communities simultaneously. Table 3.2 provides examples of the different impacts found in the 285 articles. One caveat is important here. To the extent that individuals belong to organisations and communities or organisations are a part of communities and nations, some of the distinctions here might be artificial.
Value of Social Capital by Dimensions

The literature suggests that different components of social capital exert different impacts on individuals, organisations, and communities. At the broadest level, social capital has three major dimensions: structural, relational and cognitive. Although the components of these dimensions such as trust sometimes overlap, the impact of social capital is best assessed by looking at the impact of specific dimensions rather than looking globally at social capital. For example, Andrews (2010), who explored the independent and combined effects of organisational social capital and structure on the performance of over 100 organisations in the United Kingdom between 2002 and 2005, concluded that the cognitive and relational dimensions of social

<table>
<thead>
<tr>
<th>IMPACT ON</th>
<th># OF STUDIES</th>
<th>EXAMPLES OF IMPACT AS REPORTED IN THE LITERATURE</th>
</tr>
</thead>
</table>
| Individuals                    | 55           | • Improves the professional productivity of individuals.  
• Advances the career of individuals.  
• Increases income potential.                                                                                                                                  |
| Organisations                  | 103          | • Contributes to the development of human capital and intellectual capital within companies from the networking, information sharing and knowledge exchanges among employees.  
• Network ties in the form of good relationships with government offices can help companies get access to valuable information on government policy on future economic development, taxation, and import and export regulations.  
• Partnerships with financial institutions can provide firms with a competitive edge in obtaining benefits such as easier access to loans and other financial resources.  
• Obtain license to operate.                                                                                                             |
| Communities/regions/nations    | 58           | • Contribute to economic development.  
• Gain resources such as electricity, water and roads.  
• Social capital reduces crime and deviant behaviours.                                                                                           |
| Individuals and organisations  | 5            | • Social capital enhances the job seeking and career attainment of individuals, and individuals who join an organisation bring their structural social capital to the organisation and provide firms access to their extended social networks, which can then be leveraged by the firms. |
| Individuals and communities    | 6            | • Gain access to expertise from companies and other institutions.  
• Access to financial credit and loans.  
• Job opportunities.                                                                                                                                  |
| Individuals, organisations and communities/regions | 12 | • At the individual level, social capital can influence career success and the creation of human capital.  
• At the inter- and intra-firm level, social capital can facilitate inter-unit resource (including information) exchange and product innovation, reduce transaction costs, enhance cooperation, facilitate entrepreneurship and formation of start-up companies, and strengthen supplier relations, regional production networks, and inter-firm learning.  
• At the national level, social capital is one of the important factors affecting economic development and growth.       |

Table 3.2
IMPACT OF SOCIAL CAPITAL BASED ON LEVEL OF ANALYSIS
Social networks provide the basis for trust and cooperation, which can lead to knowledge transfer and eventually higher organisational performance (Weber & Weber 2010). Yet while bridging social capital and linking social capital are important for the improvement of health of individuals and communities in terms of control of deviance and reinforcement of positive health norms, strong bonding ties may also create demands for conformity and restrict access to contacts and information from other sources, thus negatively impacting health care. At the same time, strong bonding ties tend to provide emotional support, which has positive impacts on health, especially mental health, mainly via psychological mechanisms such as increased personal control and reduced stress. Table 3.3 provides a summary of some of the impacts of social capital classified by the different indicators of social capital. The focus here is to present the evidence of the impact of social capital as noted in the literature. The details on the impact of internal and external social capital on companies are provided under the section “the impact of social capital on organisations”.

The lesson for managers and decision makers is not to expect the same impact on individuals, organisations and communities from implementing different components of social capital. Also, even among the social capital components that have an impact on different beneficiaries, the extent of the impact is not uniform.

### Table 3.3

<table>
<thead>
<tr>
<th>SOCIAL CAPITAL INDICATOR</th>
<th>COMPONENTS</th>
<th>EXAMPLES OF SOCIAL CAPITAL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Networks</strong></td>
<td>Family ties, friends and acquaintances, Workplace contacts, Voluntary association memberships</td>
<td>Offer a rich source of explicit and implicit knowledge, experience and access to physical resources. Can lead to increased job opportunities, promotions on the job. Improve organisational performance by promoting resource exchanges and coordination.</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td>Interpersonal trust, Generalised trust, Confidence, Reciprocity</td>
<td>High levels of collaboration and goodwill among organisation members (or with outsiders) reduce reliance on cumbersome monitoring procedures, thereby lowering transaction costs associated with accumulating knowledge and stimulating innovation. High levels of trust between organisational leaders and members permit the transfer of sensitive information that is unavailable to those beyond the boundaries of trust. Trust can diminish resistance to change.</td>
</tr>
<tr>
<td><strong>Norms and values</strong></td>
<td>Democratic orientations, Identity and solidarity, Obligations, Tolerance</td>
<td>Norms and values lead to self-sustaining solutions that are less dependent on governmental institutions. Value of social capital to individual employees is greater in loosely structured settings where rules and procedures are few, and the prospect of defining one’s social role is correspondingly greater.</td>
</tr>
</tbody>
</table>
Figure 3.3 summarises the relationships between the sources of social capital, definitions, measures and value. The first three components of the model were described earlier in this report. The addition here is the way in which measures are linked to the value of social capital. We present a few examples here. Research suggests that social capital measures in the form of networks leads to social capital value in the form of access to privileged information, enhanced job opportunities and improved firm performance. Trust and reciprocity contribute to lower transactions costs and diminished resistance to change within companies. Adherence to norms and values leads to efficiencies and self-sustaining solutions while civic engagement by a company leads to reduced crime within the communities in which the company operates.

**AN INTEGRATIVE MODEL OF SOCIAL CAPITAL SOURCES, DEFINITIONS, MEASURES AND VALUE**

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Definition</th>
<th>Measurement</th>
<th>Benefits/Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social networks</td>
<td>Ability to secure or obtain assets or resources, knowledge, and information by an individual, group, organisation or community for its benefit through social networks, trust, shared norms, and license to operate.</td>
<td>Social Networks - Network structure, Relationships, ties and connections, Social cohesion</td>
<td>Source of privileged knowledge, Job opportunities, Organisational performance</td>
</tr>
<tr>
<td>Trust and reciprocity</td>
<td></td>
<td>Trust and Reciprocity - Generalised, Interpersonal, Institutional, Reciprocity</td>
<td>Sharing of sensitive information, Lower transaction costs, Diminished resistance</td>
</tr>
<tr>
<td>Shared norms, values and social structures</td>
<td></td>
<td>Norms - Shared norms, Civic norms, Values, Goals</td>
<td>Self-sustaining solutions, Higher social role definition</td>
</tr>
<tr>
<td>Obtain and maintain social license to operate</td>
<td></td>
<td>Civic Engagement - Association membership, Civic participation, Volunteerism, Political participation, Social support</td>
<td>Improved health outcomes, Reduced crime, Higher corporate social responsibility</td>
</tr>
</tbody>
</table>
Value of Social Capital by Level of Analysis

To be consistent with other sections of this integrated report, we present in this section the impact or value of social capital on individuals, organisations (companies) and communities (localities, regions and nations).

IMPACT OF SOCIAL CAPITAL ON INDIVIDUALS

Conceived as social interactions and connections, social capital is an asset that is possessed by individuals and can be used to advance their personal economic standing (e.g. using connections to obtain a job). Social capital can influence career success and the creation of human capital. Knowledge is a form of human capital. High levels of social capital in the form of relationships that an individual has with colleagues within a company or interactions with outsiders within his/her field of expertise can enhance the skills and capabilities of the individual and facilitate access to broader sources of information. It can enhance the information quality, its relevance and timeliness that is available to the individual. Thus individuals can enhance their knowledge through everyday interactions with colleagues, family members, friends, peers and others within their community. This was illustrated by Coleman (1988), who showed how access to social capital could help a teenager secure a high school diploma. Social capital enhances the bargaining power of employees by (1) granting access to strategic information, (2) increasing their replacement cost, and (3) increasing their desirability by other companies and thereby represents a credible threat to leave the firm (Blyer and Coff, 2003).

Agénor and Dinh (2013) noted that the impact of social capital built at the individual level depends not only on already existing networks and the average stock of social capital available in the economy, but also on access to infrastructure. Greater access to roads, electricity, and telecommunications facilitates social networking; thus, social capital and infrastructure are complementary. A study that examined how Internet users may enhance their social capital by investing in online social activities concluded that a rich social capital environment fosters Internet use by individuals to maintain their social capital (Pénard and Poussing, 2010).

In a rare study that looked at social capital and mental health, social capital, as measured by (1) safety after dark, (2) inter-personal trust, (3) access to help, and (4) views on multiculturalism, was found to have a strong association with mental health and life stress. Social capital actions such as volunteering and municipal voting were associated with both overall health and mental health (Kitchen, Williams, & Simone, 2012). Chiu et al (2008), who examined the relationship between social capital and HIV-related stigma in South Africa, found that individuals who felt trust and safety in their community (high social capital) were less likely to attribute HIV stigma to members of their community.

In a related study on social capital and health among older adults in South Africa, Ramlagan, Peltzer and Phaswana-Mafuya (2013) found that self-reported good health was related to higher levels of social capital (e.g. being married or cohabiting, high trust and solidarity, and high levels of psychological resources); depressive symptoms were associated with lower social capital (not being married or cohabiting, lacking high trust and solidarity and having low psychological resources).
Also, better cognitive functioning was associated with greater social capital (being married or cohabiting, with high trust and solidarity, high civic engagement and high levels of psychological resources); and physical inactivity was associated with lower social capital (lower social action, lack of safety, lower civic engagement and poorer psychological resources). In general social capital was perceived as being ‘good’ for health among elderly people in South Africa.

A study that examined the effects of social capital on the repayment behaviour of individual borrowers in the rural credit market in Thailand found that bonding capital facilitated loan repayment by individuals (Dufhues, Buchenrieder, Euler, and Munkung, 2011). Higher loan repayment rates should in turn lead to increased access to credit to individuals as well as others in the community, thus providing economic value.

Social capital can also contribute to the lifelong learning of individuals. It has been observed that 60% of physicians who used social media as an element of their lifelong learning felt that their social media engagement improved their professional productivity and the care they provided to their patients. Further, a well-structured social network has the potential to not only improve healthcare quality but also to decrease healthcare costs.

IMPACT OF SOCIAL CAPITAL ON ORGANISATIONS (COMPANIES)

The value of social capital to organisations (companies) will be broken down into two groups, based on whether the value arises from internal or external social capital.

We present a framework, based on the literature review, which shows the different types of value that businesses can gain from social capital. The benefits represent the resources that accrue to the company from the determinants of social capital. The value represents the impact obtained from the social capital benefits.

A. Value from Internal Social Capital: Businesses should expect investments in building their internal social capital such as providing an environment where norms and values are adhered to or encouraging networking relationships among employees in the company to provide:

• **Improved Financial/Strategic Performance.** Social capital in the form of structural, relational and cognitive, either independently or jointly provide value to organisations in the form of increased profitability, sales growth, and increases in market share. These are achieved by way of cost reductions, and improved awareness of the organisation’s products from social capital actions as explained in detail in other portions of this report.

• **Efficiencies.** The efforts that a business expends in building trust, goodwill, and high levels of formal and informal collaborations among members of the company will reduce the reliance on cumbersome monitoring procedures, thereby lowering the transaction costs associated with accumulating knowledge from internal transactions.

• **Enhanced Innovation.** The trustful relationships between employees in a company can speed up information flows and knowledge exchanges because of the decreased need for controls. This can increase the innovativeness of the organisation and lead to product development, process
innovations, and technology adoption, which the organisation can use to differentiate itself from other competitors.

- **Enhanced Competitiveness.** Social capital helps to combine human and intellectual capital in organisations into human capital bundles that competitors might find difficult to imitate, by creating the friendship and professional ties between talented individuals that bind knowledge workers to the company and enhance information sharing and knowledge creation. These can be exploited to increase the implementation of strategic initiatives within the firm and enhance the company’s competitiveness.

- **Improved Operational Performance.** Workers who exhibit great loyalties to their colleagues are less likely to leave because the social connections with co-workers are firm-specific and relatively immobile. Ties are typically much stronger between employees than between employees and the employing company. Thus, a firm that is able to create social ties among its key knowledge workers may be able to reduce employee turnover significantly and thus enhance quality and also reduce costs.

- **Project success.** Social capital contributes to knowledge integration among teams within a project implementation environment. The historical relationships and the ties developed among team members facilitate access to broader sources of information, and information’s quality, relevance and timeliness, and thus enhance the level of coordination and interactions with colleagues and contribute to project success.

- **Facilitate change management.** High levels of trust between leaders in a firm and other members of the firm will permit the transfer of sensitive information which will then enhance collaborative action within the organisation, thereby diminishing resistance to change.
B. Value of External social capital. Businesses should expect investments in building their external social capital to provide:

- **Cost Reductions.** The relationships a firm develops with its suppliers, customers, and even competitors can lead to reductions in transactions costs such as unnecessary documentation, cumbersome monitoring procedures or reductions in contract enforcing mechanisms, leading to cost savings for the firm.

- **Sales Growth.** Social capital in the form of networks will allow businesses to identify new market opportunities, obtain strategic resources and gain legitimacy from external stakeholders, which leads to market share advantages and growth in sales.

- **Reputation.** Organisations might encourage their workers to collectively engage in volunteer activities within the communities in which they operate such as leveraging the resources of an organisation like Habitat for Humanity to build a house for a needy family. Such goodwill within the community might provide benefits to the organisation in the form of enhanced reputation, ‘license to operate within the community’, and protection of the organisation’s property in the event of civic unrest within the community.

- **Contribute toward employment growth and gain valuable employees.** A firm might, through its relationships with the community, provide educational opportunities to groups in the locality using the expertise of its workers. The educational activities might be in the form of developing entrepreneurial know-how, formulating business plans, basic accounting, financial management, or time management. While these skills might help the communities increase the level of entrepreneurial activities and the establishment of self-sustaining businesses, the skills gained will enhance the pool of talented individuals within the community. The firm can draw from this talent pool in building its own human capital level. It can also lead to the development of new suppliers (local) for the firm’s
operations and new customers for products/services.

- **Gain access to important third parties.** Social capital facilitates access to important third parties in the market place by way of principal/agent relationships. Networking relationships provide value through the opportunity to tap into each other’s informational resources as well as assets and thereby increase the depth of mutual knowledge exchange which can be exploited for new product introductions or expansion of markets.

- **Harness government resources for economic development.** Through partnerships with non-governmental organisations (NGOs), community associations, and collaborative engagements with other suppliers and allied businesses, a company can influence government’s choices around infrastructure and other resource provision improvements (e.g. sanitation, waste management) within the communities they operate. Such improvements in community well-being can contribute to an improved ‘social license to operate,’ and reduce risks of civic unrest, protest, and sabotage. It could also lead to new customers for the organisation because of improved economic growth within the community.

**Access to government officials.** Research has shown that social capital developed from managerial networking and social relationships with top managers at other firms as well as government officials can enhance organisational performance through increased access to privileged information on upcoming policies, regulative changes, or changes in tax codes, for instance. This can be exploited by the company to achieve sales growth, return on assets and profitability.

- **Mitigate effects of poor strategic/operational decisions.** A poor location decision by a firm such as in the case of a hotel can be mitigated through networking relationships (e.g. closeness, local efficiencies, linkages with agencies, commercial agreements) with other companies in the same geographical area to increase occupancy and revenues.

- **Increased shared value.** A thriving community contributes to a successful company. The mobilisation of a company’s resources and the leveraging of those resources with other community resources to improve the overall health, well-being, and improvement of socio-economic welfare of the community, which reduces risks of protests and pilfering. Empowered community members may then choose to become consumers of the company’s products and services. The company also benefits from reduced crime, safety for its employees and their families, and protection of its property.

- **Improved sustainability of the company as a member of the ecosystem.** A company has practices, procedures, guidelines that enable them to comply with laws, standards, and even minimise the use of natural resources (e.g. water, energy, materials). The sharing of this know-how with community groups and associations by way of networks and relationships can enable a community to thrive, improve the company’s operations and contribute to the sustainability.

- **Improve socio-economic development.** A company can use its resources such as expertise to engage members of the larger community to educate the general populace on social dilemmas such as participation in awareness programmes in order to address major health concerns.
HOW CAN BUSINESSES ASSESS THE VALUE OF SOCIAL CAPITAL?

The value of social capital is not easy to assess because the benefits are not always tangible. This often requires that proxies be used in assessing the impact of social capital. Furthermore, the impact of any social capital investment such as fostering trust, civic engagement activities, networking relationships are not always direct but occur through other intervening mechanisms such as human capital development or the strategic orientation of the company. This is even truer when a company tries to assess the societal value of its social capital activities given that that social value might be dependent on numerous other underlying factors.

Case Study 3: Transnet’s Mapping of Stakeholder Relationships

Transnet sought a better understanding of the quality of their relationships with stakeholders. Existing approaches, including customer and reputation surveys and interviews with stakeholders, did not provide enough information about this. After conducting a review of possible approaches, they chose to pilot the ‘Relational Proximity Model.’ In this approach, an independent researcher interviews each party to a relationship, called ‘relationship owners,’ The interviews focus not on service or specific issues or aspects of formal agreements, but on the relationship between the two parties, including questions about communication, knowledge, commonality of purpose, power, continuity, trust and reciprocity, and a shared sense of purpose and values.

The company recently completed the pilot project, focusing on the relationships between a number of line managers and representatives of key stakeholders they engage with, including some customers and some regulators. The results showed that in areas where commonly beneficial outcomes are being achieved, this was reflected in a close proximity score for the quality of the relationship between the parties. The results also showed that there can be misalignment between people’s perceptions of their relationships. In some instances, the company’s managers were positive about the relationship and their counterpart was less so, while in other instances, it was the other way around.

Particularly valuable was the feedback that was then provided to each of the relationship owners. While review committees received aggregated information about the relationship indicators, the actual relationship owners received more detailed and nuanced feedback. This provided the platform for fruitful conversations between the managers and their counterparts, to address unfulfilled expectations or communication barriers.

The pilot study was considered a success, and a larger project involving a broader array of company managers and stakeholder groups is planned. A key outcome of the process has been seeing stakeholder relationships as an important site for value creation.
According the IIRC Basics for Conclusion report, value for the purposes of integrated reporting should include:
1. The total of all the capitals.
2. The benefit ‘captured’ by the organisation.
3. The market value/cash flows of the organisation.
4. The successful achievement of the organisation’s objectives.

A company interested in assessing the value of its social capital efforts should focus on items 2 to 4 above. It is suggested that value should be evaluated from multiple perspectives. The assessment and reporting of the value that social capital provides to the company will help make the business case for the continuation of existing social capital investments and the addition of new initiatives.

IMPACT OF SOCIAL CAPITAL ON COMMUNITIES

In addition to its impact on individuals and organisations, social capital has helped to explain phenomena at aggregated levels, such as regions or nations, with regard to economic development and growth (Zhang and Fung, 2006). For example, village social capital stocks have been found to contribute more to household income than individual stocks of social capital. Social capital affects the probability of receiving a loan, and the willingness to share risk by individuals within communities or regions.

Empirical work on social capital attributes differences between regions and countries in the level and rate of economic and social development to differences in the available stock of social capital. Regions or countries with relatively higher stocks of social capital, in terms of generalised trust and widespread civic engagement, seem to achieve higher levels of growth than societies with low trust and low levels of civic activity (e.g. Brown and Ashman, 1996; Heller, 1996; Knack and Keefer, 1997).

Examples of the relationships between social capital and community/region development range from developed to less developed regions. Social capital often acts as a substitute for formal institutions that if they existed, would sustain a region and make it prosperous. This phenomenon has, in part, explained the growth and success of development strategies in some rural regions of the US (Castle, 1998; Rainey et al. 2003). Rainey et al. (2013) argue that social capital encourages economies of scale and other efficiencies that make rural places more competitive in a global economy. This view might be useful for African countries as they seek to develop their economies in the face of growing global competitive challenges.

The development of social capital may help to explain increased growth rates, declines in poverty rates, and general economic performance (Shideler and Kraybill, 2009). According to the literature, social capital contributes to efficiency and growth by facilitating collaboration between those with conflicting interests towards the achievement of increased output and equitable distribution of resources.

However, as with relationships at individual or organisation levels, the findings here are often mixed. In a study of social capital and economic performance of states in the US, Casey and Christ (2005) observed that social capital, measured as networks (social interactions and connections), norms, and membership in civic and social organisations, created generalised bonds of trust within a community but had no discernible influence on
aggregate measures of output and employment.

A range of social problems—crime, health, poverty, unemployment—have been linked to a community’s endowment of social capital (or lack thereof). Thus, despite the mixed findings from studies, it is imperative that citizens and policymakers alike think about new forms of social capital and how they might be constructed as other or older forms decline (as a result of technological or demographic change) (Grootaert et al., 2004). For example, based on the nature and engagement of informal networks and formal civic organisations, it is possible to conduct a map of a community’s associational life, and thus gain a sense of the state of its civic health.

A community is not limited to a region or population block. Community extends to cooperatives and loosely organized associations, for example, tenants in incubator arrangements (hub organisations). An incubation program serves as a learning context in which tenants are socially embedded. As a vital part of a community concerned with entrepreneurial development and innovation, incubation programmes provide opportunities for tenant organisations to form relationships, gain access to resources and increase their resource mobilisation and knowledge flow. Social capital is effective in raising motivation and ability for both individuals and organisations to engage in proactive work at the collective level, such as resource exchanges and knowledge activities. For example, the ability of tenants to proactively utilise tenant-incubator social capital can lead to inter-organisational learning mechanisms, which in turn may transform social relationships into tenants’ performance, in terms of technological capability, managerial competence and satisfaction with (the) incubation programme. High-quality relationships help to construct an environment for knowledge learning and creation that attracts both incubators and tenants to participate in collective activities and share what they know (Fang, Tsai, & Lin, 2010).

The Value of Social Capital by Discipline

The effects of social capital cut across disciplines. For example, the achievement of efficiencies and growth within organisations might lead to more job opportunities for the individuals within the community, which translates into reduced crime and improved health. We summarise in Table 3.4 social capital’s impact (or value) from the perspective of different disciplines. As in other classifications, of course, the classification in Table 3.4 is not exact since some of the examples could be placed in multiple categories. Also, the number of disciplines listed is not exhaustive and others (e.g. geography) could be added.

Unfavourable Consequences of Social Capital

The fundamental question about social capital is the benefits and costs of co-operation. As we noted earlier, there are some mixed findings on whether the value of social capital is always positive for all constituent groups. The amount of effort (or cost) required to build network ties (both internal and external) might take away resources from other organisational activities and
### Table 3.4

**SOCIAL CAPITAL IMPACT BY DISCIPLINE**

<table>
<thead>
<tr>
<th>DISCIPLINE</th>
<th>EXAMPLES OF POTENTIAL IMPACT (OR VALUE) OF SOCIAL CAPITAL</th>
<th>EXAMPLES OF MECHANISMS</th>
</tr>
</thead>
</table>
| Economics                   | • Leads to efficiency and growth  
• Minimises free-rider phenomenon in economic exchanges  
• Promotes economic growth  
• Leads to higher standard of living  
• Increases household income  
• Leads to early adoption of innovations  
• Minimises losses from exchanges  
• Obtains referrals that can increase business opportunities | • Leads to efficiency and growth  
• Minimises free-rider phenomenon in economic exchanges  
• Promotes economic growth  
• Leads to higher standard of living  
• Increases household income  
• Leads to early adoption of innovations  
• Minimises losses from exchanges  
• Obtains referrals that can increase business opportunities |
| Health                      | • Social capital elements such as trust, reciprocity and membership in voluntary associations, are significantly associated with higher life expectancy  
• Reduces obesity rates  
• Reduces mortality rates from heart disease, stroke, unintentional injury  
• Group memberships are associated with lower overall mortality  
• Good health and better cognitive function are associated with higher social capital | • Diffusion of knowledge about health promotion, maintenance of healthy behavioral norms through informal social control  
• Promotion of access to local services and amenities, and psychosocial processes which provide affective support and mutual respect  
• High levels of trust and solidarity  
• Feelings of security  
• Access to institutions which reduce the negative impacts of life events |
| Business                    | • Increases efficiency of transactions  
• Reduces costs  
• Enhances entrepreneurship  
• Bridging and bonding social capital facilitates the start of entrepreneurship activities and achievement of first profit  
• Increases access to credit bank loans  
• Enhances competitiveness  
• Increases access to financial resources  
• Creates knowledge | • Trustful relations needing less monitoring of compliance  
• Knowledge sharing  
• Access to useful, reliable, exclusive, less redundant information  
• Membership in associations such as Rotary Clubs or Chambers of Commerce  
• Development of human capital  
• Trustful relations between different stakeholders |
| Sociology                   | • Provides explanations of social class differences  
• Helps explain racial, ethnic and cultural disparities in health and mental health  
• Increases achievement in mathematics and reading in public schools (i.e. organisational performance), especially where school boards have high level of external and internal social capital  
• Promotes the well-being of individuals as well as organisations  
• Is essential to the reproduction of society’s members | • Less opportunisms and pursuit of sectional interests  
• Formation of structurally strong autonomous groups  
• Development of creative assessments of valuable projects, who to involve, and how to work together to make it happen. |
| Governance/Political Science | • Increases civic engagement and citizenship  
• Facilitates stable democracies,  
• Increases confidence in government systems  
• Contributes to poverty reduction; helps resolve disputes and crises | • Subsidised neighborhood associations to promote civic and social participation  
• Networks and norms that contribute to enhanced productivity of communities  
• Civic associations that allow the poor to gain access to resources that might be enjoyed only by the rich  
• Trust among people |
provide a negative outcome for the organisation. Also, while generating benefits, social relationships between organisations can sometimes become a liability. For example, if an inter-organisational tie is developed but not utilised in terms of any meaningful activities, the investments in relationship quality and maintenance are wasted (Adler and Kwon, 2002).

Cooperation within a particular group will often have multiple effects. Welfare in the group generally will be enhanced, in the sense that the collective gains to group members are positive. Indeed, this is the standard hypothesis concerning social capital’s impact (Knack 2002). However, within-group collective action often imposes costs on non-members. Thus, scholars have gradually recognised the potential importance of ‘negative’ as well as ‘positive’ social capital in terms of exclusion of outsiders, excess claims on group members, and restrictions on individual freedom Portes (1998).

Social capital can be readily perverted to undermine social cohesion and fragment society for individual and group gain, and potentially can result in violent conflict. For example, the Angka, under the guise of the Cambodian government, employed inclusionary social capital within the group to strengthen its resolve and weaken those excluded from the group. The Rwanda conflict shows how the political and economic elite often use identity to mobilise and pervert social capital as a means of achieving their own ends (Colletta and Cullen, 2000). Thus, social capital can be constructive and support societal cohesion and mitigation of conflict, but it can also hasten social fragmentation and the onslaught of violent conflict.

To illustrate, suppose that social ties within a village raise the rate of return to a public project, making all residents of the village better off. If these same social ties were responsible for the village’s success in lobbying for outside funds to finance the project, a second village with weaker social ties which lost out in the competition for funds is made worse off. Thus, if the funds would have been more productively spent in the second village (which might be much poorer), the first village’s high social capital can actually reduce social welfare at the aggregate level.

Relatively high income inequality within societies, as well as high poverty rates, appears to weaken individual incentives to co-operate and act collectively (Knack, 1999). Such circumstances can exert a negative impact on social capital, not only because of absolute poverty, with its adverse effects on the physical ability of individuals to respond to their role as social actors in groups, but also because relative poverty creates sentiments of discrimination and injustice, leading to distrust towards people, collective action and society as a whole.

Clearly, not all social capital produces positive benefits. The control of free-riding by clubs and hierarchies can produce rent-seeking behaviour like the Mafia, while simultaneously increasing the supply of public goods. Copying of copyrighted material may spread criminality. At the same time sharing of knowledge with regard to new agricultural technologies among co-operative associations in deprived farming communities may alleviate poverty and improve community well-being (Collier, 1998).
Why Business Leaders Should Care about Social Capital - Additional Cases

The questions here are: what should drive business investments in social capital and how should these be prioritised? The literature clearly shows that businesses, through the decisions of their leaders, can contribute to the attainment of multiple benefits of social capital through purposeful social capital initiatives within their organisations. However, given that the value of social capital is not easily measurable, there might be reluctance on the part of decision makers to make these decisions. The point is that business leaders need to recognise that not only does investment in social capital provide value but neglecting to invest has effects that transcend the organisation’s boundaries. The cases below are illustrative of how social capital contributes to value for both organisations and communities as well as how failing to invest in social capital can lead to unfavourable consequences for a company.

Case Study 4: Newmont Ghana Gold Limited (NGGL)

Newmont Ghana Gold Limited (NGGL) is a subsidiary of the Newmont Mining Corporation, a global mining company. NGGL began operations in Ghana in 2006. One of its operations is the Ahafo Mine located in the Brong Ahafo region. In addition to providing jobs for the people in the region, the company’s operations have led to improvements in the infrastructure of the area, including an improved road network, mobile phone coverage, power supply and access to electricity. Other community improvement and welfare projects undertaken by the company include provision of water, sanitation, and healthcare education, including HIV/AIDS prevention, etc.

The project most directly relevant here is the Ahafo Linkages Programme, in particular the Business Linkages Program. There were two major community engagement activities of interest: local supplier development, and the formation of a local business association.

Local Supplier Development:

In 2006, prior to the implementation of the program, the company conducted business with 25 local micro, small- and medium-sized enterprises (MSMEs), and the total value of this procurement was US$1.7 million. In 2007, 106 local MSMEs listed in the company’s database were screened by consultants implementing the Ahafo Linkages Program to determine which MSMEs had the greatest potential for moving from informal business practices (lack of records, lack of financial statements, weak human resource practices, weak statutory practices, and weak cost management) to formal business practices. Based on the results of the assessment, 27 companies were selected for relationship building through mentoring and training. The selected businesses also developed trust and relationships among themselves to pool resources in order to gain access to commercial opportunities with Newmont. At the end of the first year of intervention (2007), the number of local MSMEs engaged in business with Newmont had increased to 52, and the value of goods and services procured from these MSMEs was US$4.2 million. In 2008, the total number of local MSMEs jumped to 125 and the local procurement reached US$4.7 million. The engagement with the supplier community included mentoring and training in the use of standard business practices such as documentation of transactions, tracking of costs, and proper
invoicing. These efforts by the company contributed to the following benefits for some members of the community:

- All of the MSMEs adopted new business practices, and 51% formalised their business practices and improved their financial management.
- Over half (52%) of the MSMEs were able to obtain bank credit, with an average of 75,000 Ghana Cedis per loan; over 70% of MSMEs that took loans continue to service their loans.
- There was a 40% increase in MSMEs meeting tax obligations to local government.
- Twenty-one new permanent jobs were created, 10% of which were held by women.
- A total of 78% of the MSMEs reinvested at least US$1,348 into their businesses.
- The company gained knowledgeable local suppliers.

The Ahafo Local Business Association

The Ahafo Linkages Programme used local consultants to offer training programs to the Ahafo Local Business Association on the development of business plans and adoption of proven business practices. Institutional strengthening for the association included the definition of a realistic mission, vision and objectives. In addition to the 72 members from the association who received training, over 180 new members joined the association and adopted a formal business plan along with the other members. Although survey results revealed that 87% of association members surveyed believed business practices had changed for the better, about one-quarter of respondents were not satisfied with the services of the association. This sense of dissatisfaction could be attributed to initial misconceptions that members would be able to obtain contracts with Newmont by virtue of the fact that they were members of the business association. They failed to accept the fact that the association’s aim was to help build the formal business skills and practices of its members.


Implications for Leaders

This case demonstrates the Newmont Mining Company’s community engagement activities in the form of building the capacity of the community in which it operates and its efforts at fostering community level associations for the purposes of improving their business capabilities. It illustrates the economic impact of social capital programs within a community and the associated benefits for the company and the community. Several lessons are important here:

- It can be inferred that the contributions of the company toward infrastructure development in the form of roads, electricity, telephony, water, and sanitation enhanced its reputation that facilitated the success of the social capital engagements.
- The community benefited from the resultant economic development in the form of job creation, access to loans/bank credits and improved performance of local businesses.
- It shows that membership in the association allowed members to gain access to the training offered by the NGGL program and the training led to improvements in business practices that contributed to the sustainability of the businesses as evidenced by the increased number of MSMEs, the reinvestments in the businesses, and the loan repayment success.
- The company benefited from an expanded local supplier source. The supply chain literature attests to significant benefits for firms who use nearby suppliers.
- The company also benefited from improved knowledge about how to enhance the associational life of businesses within a community.
Case Study 5: Agricultural Extension and the Building of Social Capital in Mali

This case study shows the building of social capital through the development of trust relations between agricultural agents and farming communities in Mali. Agricultural agents are used extensively by governments, banks, and NGOs to help farming communities in Africa improve yields and farming practices that contribute to the sustainability of the ecosystem. The case is extracted from a World Bank research project on social capital. The overall objective of the project was to gain an operationally useful understanding of trust in relation to the use of contact groups for communication in the training and visit system of agricultural extension in Mali.

Three particular aspects of trust were the focus of the inquiry. The first was trust between the technician (agricultural extension agent) and farmer, which may be necessary for the latter to follow the counsel of the former. The second was the trust that binds the members of the contact group into a cohesive whole. The third was trust that transcends the group and allows it to act for and serve the interest of the larger community of which the group is a part.

The engagement between the agent and the farmers and their groups included the following:

• The extension agent, known as the Agent de Vulgarisation de Base in Mali, met with the village members during a general assembly to explain the training and visit approach. Those interested in the programme were asked to organise themselves into small working groups (contact groups).
• Each contact group acted as a conduit for passing technical information to the rest of the village.
• The extension agent visited each contact group every two weeks to work on technical themes and demonstrate new techniques.
• Specific agricultural techniques were taught during hands-on demonstrations in a contact group member’s fields.
• Technical themes addressed specific agricultural problems that were common in the area or that the village highlighted during a yearly diagnostic exercise.
• The annual diagnostic exercise brought together the community, the extension agent, his direct and regional supervisors and various technical specialists. Information from the diagnostic was then centralised and the upcoming year’s themes were chosen at the regional level.
• Extension agents attended monthly training sessions to receive information about the technical subjects and themes chosen for the year.

The interventions were applied to different groups at multiple villages in Mali. The performance of the groups evaluated to gain an operationally useful understanding of trust in relation to the use of contact groups for communication in the training and visit agricultural extension system.

One of the factors found to influence the success or failure of agricultural extension and other development efforts was the cohesiveness of the village (i.e. interpersonal trust). While the calibre of the extension agent was also important in bringing about grassroots development, the community cohesion was the foundation on which sound, lasting development was built, leading to the sharing of information. Development agencies have traditionally placed primary attention on technical matters and the agents who transmit them and devoted little or no time and resources to a) gaining an operationally relevant understanding of the social and institutional fabric in the places where they work, and b) training agents to enhance the local context so that villagers would be more receptive to technical themes.
The results suggest that social cohesion, which is internal to the community, is the primary pre-condition for development. If the community has both social cohesion and a qualified, dynamic external agent, there is significant success in agriculture and other development endeavors. Social cohesion with regard to unity among community groups, agreement on goals and values, treatment and acceptance of public goods, contributed to create the conditions in which an effective external agent could induce change in rural Mali. The presence or absence of social cohesion had a recurring effect on the ability to mobilise for group activities and share information among members of the communities. This social capital is present in communities based on historical and cultural factors that are not subject to the control of external development agencies.

Trust between an external agent, such as an agricultural extension worker, and the community is important. However, it is also important that trust be established and reinforced between the agent and the central government agency for which he or she works. In the absence of such trust, the agent becomes demoralised and less effective in communicating with the target population. Low trust between the government worker and the national organisation can thus reduce trust between the worker and the population served.


**Implications for Business Leaders**

This case study illustrates the fundamental importance of trust and social cohesion for achieving community goals. It shows that an institution’s efforts to help people realise their aspirations becomes more effective when the community members have close relationships with each other and exhibit a high level of trust for the institution.
Case Study 6: Refinor

Refinor was a company in Argentina that operated oil refineries. The company was doing very well between 1996 and 1998. However, the region’s social and economic problems were worsening, with high unemployment rates and social turmoil, depressing the consumer market and making the three cities where the company operated inhospitable for Refinor’s employees and their families. Riots, fuel pilferage, gang activities, and drug trafficking were on the rise, menacing businesses and residents alike. Refinor sought to turn around the decline in social capital in parts of the region and thus invested in helping unemployed residents start agricultural businesses, creating school boards for focusing education on the required competencies, and supporting health and rehabilitation programmes and improving healthcare, infrastructure, and waste management. Social indicators started to improve; in three years, people who had previously been unemployed started 120 new small farms with the help of their own children who were attending local agro-technical schools. Crime and social unrest fell significantly as the unemployment rate was reduced by half as a result of the new jobs created in the process. Farming activity in the region went up and the demand for diesel and gasoline increased. Refinor’s brand of diesel and gasoline become the brand of choice and the company’s market share went up. In 1998, Refinor was sold to a Brazilian state company, Petrobras, which decided not to continue with the investments in social capital, thereby reducing significantly the hours of social work the company was devoting to social capital activities in the community. Between 1998 and 2002, unemployment and social conflict rose, riots increased, and Refinor’s market share and revenue declined significantly. It is difficult to attribute the economic downturn directly to Petrobras’ disinvestment in social capital within the community. However, after an assessment of the impact of the variations in unemployment, riots, strikes, and damage to property within the communities and on Refinor’s business, the company was able to make the business case for the social investments and reinstated the programmes.


Implications for Business Leaders

The above case illustrates the impact of making investments in social capital and the possible consequences of ignoring social capital if the community expects that of companies operating within the locality. The point is that business leaders need to recognise that not only does investment in social capital provide value (both tangible and intangible), but neglecting to invest has effects that also transcend the company’s boundaries such as; increases in crime rates, destruction of property and incarceration rates.
chapter 4: recommendations and conclusion
Our review has shown that although researchers and practitioners have diverse definitions and interpretations of social capital, they broadly agree on its core meaning: Social capital consists of networks of relationships and resources inherent in these networks. The difficulty is the consistency between the definition of social capital and the indicators used to measure it. Therefore, when deciding how to measure social capital, it is important to identify the specific indicators that best correlate with the construct (See pages 39-40 for suggested measures for social capital). We thus present recommendations for measuring social capital and identifying its value or impact. Further, since social capital offers benefits to individuals, groups and organisations, and communities, we offer recommendations for clarifying the impact of social capital for these different groups.

Recommendations for Measuring Social Capital

Recommendation #1: Distinguish between social capital measures for individuals, organisations and communities.

Our review clearly indicated that social capital is a multi-level construct. While some researchers see it as an individual (and organisational) level resource, others conceive of it as a community level resource and therefore a public good. Social capital can be defined as capturing individual, organisational and community (collective) level assets and resources. Therefore, researchers and practitioners should indicate whether they are measuring social capital at the individual (and organisation) level or at the community level.

Recommendation #2: Recognise the multi-dimensional nature of social capital.

Discussions of social capital in the literature recognise that it is multi-dimensional – structural, relational, and cognitive (Nahapiet and Ghoshal, 1998; Payne et al., 2011; Grootaert et al., 2004). However, several of the existing social capital measurement tools (e.g. European Values Study Survey; World Values Survey; World Bank’s Social Capital Assessment Tool [SOCAT]; Organisation level and individual level are grouped together since individual managers or executives’ networking relationships are generally used as a proxy for the networking relationships that create social capital for an organisation. The individual level measures should focus on indicators obtained from social network analysis and social network ties or relationships they forge, while an organisation’s social capital should look at indicators of network structure and social network relationships developed by top managers, executives, and even supervisors or middle-level managers within and outside the organisation. However, at the community (collective) level, the measurement of social capital should focus on indicators that allow resources to be generated for the community through participation in civic life, including civic engagement and associational memberships, in addition to social networking relationships and interactions. Trust and cognitive measures seem to be universally applicable at both levels, but the emphasis should be different. Interpersonal trust or trust in close acquaintances, friends, family and co-workers is important at the individual and organisational levels, while general trust and institutional trust are key at the community (collective) level.
Global Social Capital Survey; New South Wales Study; etc.) use general social capital indexes by aggregating indicators from the various dimensions instead of conceptualising the various dimensions independently. Therefore, the index measures of social capital usually mask the real impact of the various dimensions of social capital by individuals and organisations on communities and national economies. The various dimensions should be measured independently so that the impact of the individual dimensions on society can be identified. This would allow managers to focus on indicators that are relevant to their social capital activities. This suggests that separate indicators, or if need be, indexes should be created for the various dimensions of social capital – structural, relational, and cognitive.

**Recommendation # 3: Distinguish between measures used for social networking relationships and social network structure.**

Our review revealed that it is difficult to distinguish between the indicators used to measure the structural dimension of social capital (which focuses on social network structure and position) and the relational dimension of social capital (which focuses on the content and quality of the social networking relationships). While several studies at individual and organisational levels have used indicators such as bonding social capital, bridging social capital and linking social capital as structural measures, others have used the same indicators as relational measures. However, bonding, bridging and linking social capital are relational measures as they tap into the closeness of relationships or connections. Thus, distinguishing between structural and relational social capital measures would allow practitioners to apply the right indicators to assess the social capital within or outside an organisation so as to ascertain its social impact.

**Recommendation #4: Distinguish between ‘sources’ or determinants or inputs into social capital and the outcomes of social capital.**

Commenting on how social capital has been measured, Baum and Ziersch (2003:320) noted that “It is important to keep the ‘sources’ and ‘outcomes’ distinct— that is, the networks and values, from the types of resources available through these.” Social capital is a relational construct which is dependent on interactions and sharing among actors; thus any indicator of social capital must tap into the issues of relationships, interactions and sharing. This was succinctly captured by Portes (1998:7): “Whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others, and it is these others, not himself, who are the actual sources of his or her advantage”. Therefore, indicators that emphasise relationships, interactions, and the ability to share should be used in measuring social capital. Some of the indicators emphasising relationships and interactions include social networks, trust, shared norms, and social cohesion. This would help managers to easily know the indicators that can be used to measure social capital and separate them from those that social capital can provide a company or a community, thus finding out the impact of their activities.
Recommendation #5: Context is important in the measurement of social capital.

The relational nature of social capital implies that the interactions among actors that lead to its formation take place in a particular context. The context could be the society in which an organisation does business or an industry’s environment. The cultures of most traditional societies in Africa are different from those in Western societies, and as a result the social interactions that engender social capital are different. In fact, most African societies exhibit social systems that are collectivistic and relationship-oriented, in which cultural norms and values favour communal support and commitment to reciprocity and equity (Acquaah and Eshun, 2010). Measures of social capital should reflect these contextual environments. To illustrate, while both relational and structural measures could be used in every cultural environment, the use of relational measures of social capital would be more appropriate in the African context than measures that use network structure and position because the cultures are characterised by strong communal bonds, co-operation among members, and an emphasis on the interests of the group. Conversely, developed societies are more individualistic so measuring social capital with structural measures is more appropriate. Moreover, even within the African contexts, different measures or a variation of similar measures would be needed in different regions or countries or communities. As Grootaert et al. (2004) concluded after pilot testing the SC-IQ index, “local adaption, while resource intensive, is essential”, when developing measures for social capital. This may be challenging for some organisations, but in order to determine the social and economic benefits of their social capital activities in a community, the measures should be relevant to that community.

Recommendation #6: Measurement of social capital should be quantitative as well as qualitative.

Multiple methods should be used to measure social capital. Social scientists have mostly relied on qualitative methods to investigate social phenomena such as relationships, interactions, networks, and cohesiveness. However, the review indicated that the vast majority of the studies used quantitative methods such as questionnaire surveys, and the use of archival data sources from the World Values Survey and the General Social Survey in the measurement of social capital. Social capital is, however, a relational construct so the use of qualitative methods in measuring it would allow for a detailed and complete exploration of the components underlying its measurement such as networking relationships, ties, connections, and the extent of civic engagement (i.e. volunteerism, association membership, social and political participation). Compared to quantitative measurement techniques, qualitative approaches to measurement would enable researchers and practitioners to elucidate individual and collective behaviors in organisations and communities which determine the content and quality of networking relationships, trust, shared collective norms and values. Including the measurement of social capital in a qualitative way will improve how it impacts organisational and community/national outcomes.
Recommendations for Determining the Impact or Value of Social Capital

**Recommendation #1: Recognise and assess the value of social capital.**

The value of social capital is not easily assessed. However, the inability to assess its value should not diminish the ‘capitalness’ of social capital. Social capital value has effects that persist over time and thus investments in social capital should recognise the long-term benefits of the investments. For the individual, social capital has the potential to increase job opportunities, lead to income, and improve health, among others. For organisations, the benefits of social capital include the potential to decrease costs, open up markets, gain access to resources, and improve innovation capability, which can then be translated to monetary value. For communities, social capital can promote improved access to loans, financial credit, and improved sanitation which can subsequently result in enhanced economic well-being of the community. Unlike other forms of capital, social capital cannot be owned or easily traded. The capital resides in the relationships that individuals or groups establish with others.

At the same time, organisations, in particular, can take steps to monetise the value of social capital. Bernardez and Kaufman (2013) suggest that organisations and communities can monetize the value added or subtracted in a double-bottom-line business case by social and anti-social capital factors and interventions such as improving communities’ civic engagement, quality of life, employment, and rule of law. Outputs can be assessed at three levels of performance: “value added to society (Mega level), to organisations (Macro level), and to products and services delivered by social capital interventions (Micro level).” This will enable organisations, governments, and communities to monitor the effective use of new and existing social capital and control the progress and return on investment of turning around anti-social capital (Bernardez & Kaufman, 2013).

**Recommendation #2: An Input-Output model is useful for assessing social capital value.**

Social capital is both a result of and a resource for societal and organisational performance. As a resource, social capital can be an asset for societal and organisational performance—providing trust, rule of law, brand loyalty, and care for shared public resources. It can also be a liability as ‘anti-social capital’—building gangs, weakening institutions and the rule of law, making contracts unenforceable, raising the cost of transactions, and provoking the “tragedies of the commons” by destroying shared resources. Social capital requires actors to establish and maintain links with others (Raub, Buskens, and Frey, 2013). Three activities are necessary in order to turn social capital into value-adding community, organisational, and individual performance. These activities are (i) establishing a shared vision among all stakeholders, (ii) measuring and reporting the value added by social capital, and (iii) building a supportive social ecosystem (Bernardez and Kaufman, 2013). These steps imply a feedback system in which the output potentially influences changes in the input. For example, a study of social capital in post-war Rwanda found that conflicts did not necessarily reduce the stock of social capital.
but transformed it into new forms of social capital (Colletta and Cullen, 2000).

**Recommendation #3: The value of social capital depends on the context.**

Assessing the value of social capital requires consideration of the context in which the social capital occurs. Within organisations, context might take the form of the organisational structure as to whether it is flat and vertical. Context might also be the nature of training and skill enhancement programs within the company. Burt (1997), for example, has argued that for individuals in organisations, social capital provides the context for the effectiveness of human capital in helping individuals climb the social ladder. Similarly, a study of mentoring activities among lawyers indicated that the social position of junior professionals and the social network qualities of mentoring relationships either eased or hindered protégés’ abilities to capitalise on relationships to gain access to resources of professional support while trying to build rewarding careers (Kay and Wallace, 2009). For nations and communities, the benefits of social capital depend on the political and social conditions within those nations and communities. In Kenya, for example, it has been suggested that the prevalence of local informal institutions, such as land tenure systems, customs, norms, and networks, help to explain the success achieved with control of soil erosion and increased food production (Nyangena and Sterner, 2009). The case study in Mali on the role of Agricultural Extension agents in building social capital showed that the trust between contact groups and other members of the community influenced the effectiveness of the groups as catalysts for community development. Thus, attempts at building social capital to enhance economic growth might not be successful without recognising the underlying social factors in the environment.

**Recommendation #4: Recognise the unfavourable consequences of social capital.**

Despite the over-arching evidence of the benefits of social capital, it is important to also recognise the unfavourable consequences of social capital in order to minimize the impact of potential negatives that might arise. While social capital enables individuals, organisations and communities to gain access to resources, it could also lead to the denial of the same access to others. The rules and procedures in organisations necessary to build trust or gain efficiencies might also result in limited mobility for workers or stifle the creativity of workers. The use of network relationships such as a CEO’s social capital to obtain information from government officials might enable an organisation to strategically exploit the information, to the detriment of competitors. The eventual result might be corruption within the community, which then reduces the overall well-being of the society. Civic associations might place a lot of emphasis on norms and values that extend beyond associational boundaries and therefore produce inclusive social capital, which brings about positive effects. However, this pursuit might also foster group boundaries and self-interest, which then leads to the exclusion of others, to the detriment of society as a whole (van Deth and Zmerli, 2010). These examples show that “a higher level of social capital may not only have benevolent consequences but may also come with discontent, disaffection, intolerance, the persistence of social inequality, biased representation, and economic obstacles leading to the deterioration of
Measuring and Valuing Social Capital: A Systematic Review

democratic legitimacy” (van Deth and Zmerli, 2010: 5). Thus any attempts to understand social capital need to recognise the duality of social capital’s consequences as discussed in Chapter 3 of this report.

**Recommendation #5: Social capital's value is also about the process.**

It is important not to ignore the process components of social capital development in assessing the value of social capital. Recognition of social capital as an input-output model is useful in understanding the value of social capital. The process model shows that social capital is an asset whose value-creating potential only materialises as a consequence of resource flows, and more specifically the mobilisation, assimilation and use of those resources. The value of social capital depends on the efforts exerted in building social capital. This is because the value of social capital, unlike say financial capital, arises from the relationships between actors, whether individuals, organisations or community groups. To illustrate, interactions between actors lead to the development of social cohesion, which leads to the development of trust and reciprocity, resulting in efficiencies and cost reductions which in turn produce higher economic growth. The value of social capital, of necessity, depends on the nature of the interactions between the individuals in groups. In other words, the efforts expended in communication, building of trust, encouragement of participation and involvement, development and acceptance of norms and values will have an impact on the resulting social capital (Narayan and Cassidy, 2001).

**Conclusions**

Researchers and practitioners have long recognised the role social capital could play in mobilising resources, information and knowledge from individuals in organisations and communities for the creation of human capital, organisational success, health outcomes, and community social and economic growth. Consequently, practitioners, policy makers and researchers have attempted to define, measure and assess the value of social capital for business and public policy decision-making and reporting. Social capital is seen as an individual as well as a collective societal resource. All the definitions of social capital recognise that it is characterised by social networks, trust and reciprocity, and shared norms, values and goals. There are two forms of social capital (internal or external) depending on where the individual, organisation or community obtains resources, information and knowledge. Social capital is a multi-level construct which can further classified into three dimensions – structural, relational and cognitive. In addition to identifying and examining the definition, forms and dimensions of social capital, this review also investigated and highlighted the ways in which it has been measured at the individual, organisational and community levels. Social capital has been measured by using networks, relationships, and connection; trust; civic engagement and voluntary activities, and association membership; and norms, shared values and goals. There is, however, different emphasis at the individual, organisation and community levels. Despite the growing discussion of how to measure social capital in the literature, there is lack of consensus about the indicators that should be used to measure the
concept. Moreover, there is a wide gap between how social capital has been defined and how it has been measured in different environmental and disciplinary contexts. Thus, there is still a challenge in identifying and using uniform indicators in measuring social capital because of its contextual nature.

The report further explored the value and impact of social capital for individuals, organisations and communities. This review has provided some insights into the value of social capital to individuals, organisations and communities (regions or nations). For individuals, social capital allows access to privileged information, provides job opportunities, and enhances skills. For organisations, social capital value includes gains in efficiency, increased market share, and enhanced performance. Social capital provides value to communities (or regions/nations) in the form of improved community health, improved sanitation, reduction in crime, and economic growth. It is worth noting that the benefits that pertain to individuals can also be realised by organisations and communities, and vice versa. While the literature shows that social capital provides value, there is still a lot of work to be done on quantifying its value, especially in developing countries where the impact of social capital can be used as a basis for policies designed to achieve sustainable economic and community development.

Social capital has policy implications for businesses, communities and nations. Thus, it is important to identify how differing types of social networks can promote desirable outcomes. Governments and non-governmental organisations must remember that businesses contribute to a prosperous economy by providing jobs, investing capital, purchasing goods and doing business every day. By addressing social issues through a shared value exchange, business, government and service providers will achieve self-sustaining solutions that do not depend on private and government subsidies. The collective efforts of business, government and service providers working together to understand the potential of all their citizens can have a greater impact on social good than each operating independently or at odds with each other (Dyda, 2008).
Bibliography


Measuring and Valuing Social Capital: A Systematic Review


Appendix A: Detailed Methodology

This appendix contains the detailed methodology used for the systematic review on social capital. Additional supporting documents are provided in Appendix B and Appendix C.

The purpose of this Network for Business Sustainability South Africa (NBS-SA) review, was to provide a systematic review and synthesis of social capital in the academic and practitioner literatures over the 24-year period, 1990-2013. The scope of the review was developed through a series of discussions among the researchers, members of the NBS-SA Guidance Committee, an industry consultant and the Academic Director of NBS-SA. We sought to provide an answer to the question: “How can we measure and value social capital for business decision-making and reporting?”

We addressed the question through the series of sub-questions:

- What is social capital? What constitutes the forms (e.g. internal and external) and dimensions (e.g. structural, relational and cognitive) of social capital?
- How has social capital been measured in the management literature? What can we learn about the measurement of social capital from other social science disciplines such as economics, sociology, political science, education, and development studies?
- How has social capital been valued in the management literature? How does the value of social capital differ for individuals, organisations, and communities?
- What lessons can business leaders and organisations draw from a systematic review as they make investments in social capital?

To execute the project, we searched the academic and practitioner journals, periodicals, reports, monographs, unpublished papers, working papers, and reports by international development agencies such as the World Bank and the Organisation for Economic Development and Cooperation (OECD).

The specific databases used for the academic journal searches included:

- EBSCOhost Complete Databases
- JSTOR
- LexisNexis Academic
- EconLit
- Emerald
- ProQuest Direct
- Sabinet (this database covers South Africa and many other African Journals);
- African Journals Online (AJOL)
- Google Scholar

We initially searched Google Scholar using the phrase ‘social capital’. This resulted in about 3.95 million ‘hits’ which was impossible to review. This led to a strategy where the initial search process was going to focus on a search of the literature for studies on social capital in emerging economies (including Africa, Asia, Latin America, and the Middle East) published between 1990 and 2013. The following keyword combinations were used in the search:

- Social capital AND measurement
- Social capital AND measures
- Social capital AND valuation
- Social capital AND value
The search terms were vetted by the NBS:SA Guidance Committee and the Academic Director. The number of relevant articles that were obtained from the initial search was 100 academic and practitioner articles. The number of articles was deemed inadequate for a comprehensive review. Thus, based on the advice of the Guidance Committee and the Academic Director the second we expanded the scope of the search to include global studies of social capital. The same search phrases were used as in the initial search but the regional focus was expanded to include all countries.

Overall, a total of 348 studies were deemed relevant for the review. A quick screening process based on the relevance of the articles to the research questions was used to narrow down the relevant articles. The screening involved a quick read of the abstract and/or a visual scanning of other portions of the entire article. This result in a final count of 314 relevant articles. The articles were subsequently classified into five major categories:

- **Business** (includes management, marketing, human resources, information systems, supply chain, operations management, entrepreneurship, etc.)
- **Economics**
- **Public Policy** (includes political science, sociology, education, etc.)
- **Health**
- **Others** (World Bank, World Council for Sustainable Development, OECD, Australian Bureau of Statistics, UK Office of National Statistics, etc.)

The articles were thoroughly reviewed by the researchers and abstracted into a Word document file using the following components:

- Title
- Authors
- Journal or source and date of publication
- Summary
- Focus of the article: individuals, organisations (firms), communities (or regions or nations)
- Definition(s) of social capital used in the article
- Measurement of social capital
- Value/impact/benefits of social capital

Details of the articles are provided as Appendix B (which is provided in a separate document). The complete bibliography is attached to the main report.

The relevant literature obtained from the search was collated. The studies were then thoroughly reviewed and analysed by documenting the various definitions of social capital, the measurement of social capital, and value or impact of social capital. The analysis took the form of looking for consistent and overlapping findings with regard to how social capital had been defined, the forms and dimensions of social capital. We synthesised the findings the component ways in which social capital has been measured. Assessing the value of social capital was challenging since most of the studies examined the associations between indicators of social capital and its outcomes rather than causal relationships.

The culmination of the analysis was the development of several tables, charts and other visuals that could be could be used to clarify the definitions, measurement and the value components of social capital. In addition, we developed several models that sought to integrate the definitions, measures and value of social capital while recognising the similarities and differences for individuals, organisations and communities.
Appendix B: Summary of Studies Used for Review

We provide a summary of the studies used for the review focusing on definitions of social capital, the measurement of social capital and value social capital in a separate document.

Appendix C. Definitions of Social Capital Terms

<table>
<thead>
<tr>
<th>SOCIAL CAPITAL CATEGORY</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Network Measures</strong></td>
<td></td>
</tr>
<tr>
<td>Betweenness Centrality</td>
<td>The degree to which an actor lies on the shortest paths connecting others in the network.</td>
</tr>
<tr>
<td>Bonding</td>
<td>The extent to which a full network consisting of several densely connected groups has minimal ties between them. It also refers to relationships between individuals from the same group. These social ties are often understood to be deeper, stronger, and they are more likely to inspire greater group commitment and strength.</td>
</tr>
<tr>
<td>Bridging</td>
<td>The extent to which a full network in which groups existed (through slightly less dense), along with scattered bridging ties between the groups. It also refers to relationships between individuals from different groups. The relationships usually cross socio-demographic and organisational lines, uniting people who represent different segments of a community or society.</td>
</tr>
<tr>
<td>Centrality</td>
<td>The degree of prominence of actors in a social network.</td>
</tr>
<tr>
<td>Closeness Centrality</td>
<td>The degree to which an actor is close to other actors in the network.</td>
</tr>
<tr>
<td>Density</td>
<td>The extent to which all members of a network are linked to each other or the network is interconnected by direct or undirected ties.</td>
</tr>
<tr>
<td>Eigenvalue Centrality</td>
<td>The degree to which an actor is connected to well-connected others in a network.</td>
</tr>
<tr>
<td>Heterogeneity or Diversity</td>
<td>The extent to which network members have diverse attributes. The attributes could be standard demographic measures (gender, age, race), or socio-economic status, or racial/ethnicity.</td>
</tr>
<tr>
<td>Homophily</td>
<td>The extent to which people interacting in a network maintain close network ties to people who are similar based on some characteristics.</td>
</tr>
<tr>
<td>Linking</td>
<td>The extent of the connections an actor has with people in positions of power and is characterised by relations between those within a hierarchy where there are differing levels of power. It is different from bonding and bridging in that it is concerned with relations between people who are not on an equal footing.</td>
</tr>
<tr>
<td>Network constraint</td>
<td>The degree to which other actors constrain the focal actor.</td>
</tr>
<tr>
<td>Size</td>
<td>The number of actors that an individual is connected to.</td>
</tr>
<tr>
<td>Social Cohesion</td>
<td>The solidarity existing among people who know one another.</td>
</tr>
<tr>
<td><strong>Strong Ties</strong></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td></td>
</tr>
<tr>
<td><strong>Structural Hole</strong></td>
<td>A region in a social network where there are non-redundant sources of information due to weak ties spanning across otherwise unconnected groups.</td>
</tr>
<tr>
<td><strong>Tie Strength</strong></td>
<td>A combination of the amount of time, emotional intensity, intimacy (mutual confiding) and reciprocal services characterising a tie, hence, the quantity of resources characterising a relation. Tie strength may be in the form of strong ties or weak ties.</td>
</tr>
<tr>
<td><strong>Weak Ties</strong></td>
<td>The indirect influences outside the immediate circle of family, close friends and acquaintances.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Trust Measures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Generalized trust</strong></td>
</tr>
<tr>
<td><strong>Institutionalised trust</strong></td>
</tr>
<tr>
<td><strong>Interpersonal trust</strong></td>
</tr>
<tr>
<td><strong>Reciprocity</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Civic Engagement Measures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Association membership</strong></td>
</tr>
<tr>
<td><strong>Civic participation</strong></td>
</tr>
<tr>
<td><strong>Political participation</strong></td>
</tr>
<tr>
<td><strong>Volunteerism</strong></td>
</tr>
<tr>
<td><strong>Social support</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Norms Measure</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Civic norms</strong></td>
</tr>
</tbody>
</table>
About NBS South Africa

NBS-SA is an affiliate of the Network for Business Sustainability, a non-profit organization based at Western University and UQAM (Québécoise des Archivistes Médicales) in Canada. The Network for Business Sustainability produces authoritative resources on important sustainability issues with the goal of changing management practice globally. We unite thousands of researchers and business leaders worldwide who believe passionately in research-based practice and practice-based research.

NBS-SA is hosted by the Gordon Institute of Business Science (GIBS) at the University of Pretoria in partnership with the Graduate School of Business (GSB) at the University of Cape Town. NBS South Africa is funded by the Leadership Council members with additional support from the GIBS Transnet Programme in Sustainable Development.

NBS-SA acknowledges the generous support and funding of the Gordon Institute of Business Science (GIBS) at the University of Pretoria, the Graduate School of Business (GSB) at the University of Cape Town, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, Germany) and EY.

NBS South Africa Leadership Council

NBS-SA’s Leadership Council is a group of South African sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their business sustainability challenges — the issues on which their organisations need authoritative answers and reliable insights. Their sustainability challenges prompt each of the NBS-SA’s research projects.
Network for Business Sustainability

South Africa

Network for Business Sustainability South Africa
c/o Gordon Institute of Business Science
26 Melville Road, Illovo
Johannesburg, South Africa
+27 11 771 4000

NBS-SA is jointly hosted by the University of Pretoria’s Gordon Institute of Business Science and the UCT Graduate School of Business.