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The Concept of Social Capital

Social capital is linked with economic development through the premise that social capital can make other forms of capital more efficient through increasing the productivity of individuals and groups. [Putnam RD (2000), *Bowling Alone: The Collapse and Revival of the American Community*. Simon & Schuster, New York.]

Social capital is therefore very important to anyone interested in productivity, profitability and prosperity.

“Relatively high levels of social capital will have a direct and positive impact on levels of economic development.” [Woodhouse, A (2006) ‘Social Capital and economic development in regional Australia: A Case Study’, *Journal of Rural Studies*, 22:83-94.]

Social capital refers to connections within and between social networks. It can be defined as *“the stock of accumulated resources that one can access based on relationships that can aid or be leveraged in accomplishing an end or furthering a pursuit.”* [Tymon E & Stumpf S (2002) “Social capital in the success of knowledge workers”, *Development International* 8 (1), 12-20.]

Social capital takes two forms. *Bonding* social capital generated within the immediate community (“in-group”) is necessary for individuals to “get by”. *Bridging* social capital represents the links between scattered individuals and communities and is necessary to “get

ahead". It is possible then that New Zealand enjoys comparatively high bonding capital while simultaneously we have weaker or even poor bridging capital. Low social capital causes transaction costs to increase to compensate for low trust.

In New Zealand we have a belief (two degrees of separation) that we are highly interconnected and therefore have high social capital across the nation and consequently within the national innovation system and broader economy. While we rate well in international comparisons, there is some evidence (to be published) that there are social capital weaknesses within our science and education communities. Common sense supports this contention - we in fact have a fragmented science and education community (Eight CRIs and nine universities for instance) and collaboration is almost the antithesis to the Kiwi approach to business. We suggest that what we take as social capital is in fact "acquaintance" and while acquaintance may be a precursor of bonding capital, it is not the same thing. Conversely, those connectors providing bridging capital may have a very large number of relatively casual acquaintances.

Woodhouse reports that communities with relatively high levels of both types of social capital will do best and better than ones with either high bridging or high bonding social capital alone. There is some evidence that where bridging social capital is weak, excessive demands to provide connections outside the "in-group" may be placed on the small number of individuals providing it and that "exhaustion" may occur.

We should not underestimate the importance of social capital in the productivity equation and the causative affect on its accumulation of our particular Kiwi cognition and behaviour. For example, since New Zealanders have short time horizons and when engaging with people from other cultures do not take the time to develop proper understanding and trust before seeking to close the deal, it is probable that social capital is weak in this situation. That will inevitably reduce the value that we create and harvest from trading with such people and at the same time increase transaction costs.

Professor McCann at Waikato University has attributed part of New Zealand's poor economic performance to low "agglomeration". Agglomeration describes where a large number of people, businesses, educational institutions and the like are adjacent to each other and that knowledge and resources can be exchanged efficiently. Given that that there

is evidence emerging that there are social capital issues within our science and education community, we should anticipate that this will exacerbate the agglomeration issue. We therefore need to design policies and strategies that not only mitigate our agglomeration issue but also our propensity to exacerbate the problem through our own cognition and behaviour.

Tuesday, 12 July 2011