social capital

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Social capital is the set of resources derived from the networks of cooperation inside and outside the firm for the benefit of customers and shareholders. Social capital constitutes one of the key resource groups of a firm, which include financial capital, organizational capital, and human capital.

Inside the firm, horizontal interactions between business units, divisions, and employees have a positive effect on productivity. The sharing of knowledge and best practices reduces the cost of operation. The internal interactions and cooperative dynamics are likely to develop unique dynamic capabilities that are difficult to imitate and that would increase the firm's competitive advantage. Social networks within the firm are likely to succeed when a firm develops a common set of values and communicates a clear set of goals. The common ideologies and objectives act as binding factors for social networks.

External networks of cooperation are developed by the firm through strategic alliances with suppliers, distributors, and R&D outfits among others. The social capital derived from the networks helps the firms gain access to new materials, markets, and technologies. The benefits derived from the network can be the acquisition of resources that the firm lacks to compete effectively against competitors. Alliances are also developed with networks of competitors when it is necessary to develop the industry as a whole. Mobile telecommunications companies combined their resources to create the industry standards for GSM, (3G) UMTS, and (4G) LTE Advanced standards, which provided common compatible platforms for mobile service providers.

Firms with strong internal and external networks develop a solid foundation of social capital, which enables them to be more agile and reactive to developments in the marketplace. These firms have a wider network of resources to call upon in order to meet new forms of demand and to exploit business opportunities.

The internal social networks that are developed within a firm may have a downside. If the networks are inward looking and parochial, they may become detached from the realities of the external environment. They may neglect evidence from a changing world. For this reason, social capital is generated more effectively when a firm develops a mix of internal and external networks that encourage a diverse set of norms and interactions. Horizontal internal ties are required to give the firm a common purpose and a sense of identity. Vertical ties outside the organization transcend the internal culture and brings in new ideas, perspectives, and resources.

See also *cognitive map*; *cooperative strategies*; *coopetition*; *resource-based view*; *strategic alliances*

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