Implications of Social Capital for Business in the Knowledge Economy:

Theoretical Considerations

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1. Introduction

The concept of social capital has had a powerful impact during the last decade, both in research and in the general public debate. Despite the fact that capital is a traditional economic concept, the concept of social capital has come into being and has been further developed primarily in the subjects of sociology and political science. There has been a great deal of scepticism towards using the concept of capital for social capital among certain prominent representatives of the discipline of economics (for example Solow (1997 and 2000), Arrow (2000) and Dasgupta (2000). However, other leading economists have accepted the concept, incorporated it into economic concept terminology, and attempted to measure it and estimate its importance. Becker (1996) has from a theoretical point of view treated social capital as a variable where the utility for the individual is concerned. Empirical studies have been presented by, among others, Knack & Keefer (1997), Knack (1999), Cooke and Wills (1999), Glaeser et al (2000) and Temple (1999).

There is no recognised, established definition of social capital in the discipline of economics and even to a lesser extent a common definition that extends over disciplinary boundaries. In this paper, social capital is defined as social, non-institutionalised networks that are filled by the networks’ nodes/actors with norms, values, preferences and other social attributes and characteristics.\(^1\) An important quality of this definition is that it distinguishes between the networks and the norms etc they are filled with.

Two concepts that are related to social capital are culture and institutions. However, culture should be regarded as a considerably broader concept than social capital. Institutions differ from social capital by the very fact that they are “institutionalised”, formalised in laws and with charter and formal rules (cf. Westlund 2002). This means that institutions as such are not social capital, but they influence the social capital of a society. Social capital is only one decade old as a concept in the discipline of economics, but the phenomena that are today referred to as social capital have been commented on by, among others, Marshall and Schumpeter\(^2\), if in the form of other terminology. Moreover, Bruni & Sugden (2000) have shown that the eighteenth-century philosopher-economists Hume, Smith and Genovesi had a clear view of the importance of trust and other elements on society’s economic life. These are today summarised under the concept of social capital..

A recent example of the importance attached to the concept is the OECD report *The Well-being of Nations: The Role of Human and Social Capital*, 2001. The OECD report defines social capital as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups” (p. 41). This general definition is applicable to all parts of society. However, most studies – including the OECD report – have however stuck to the “Putnamian” tradition and focused on the social capital of the civil society. This does not mean that we completely lack information about aspects of social capital in enterprises and economic life in general, but studies of business networks, norms and values –

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\(^1\) This definition is a further development of Westlund & Bolton (2003) who “define spacebound social capital as spatially-defined norms, values, knowledge, preferences, and other social attributes or qualities that are reflected in human relations. In network terms this may be expressed as meaning qualities, capacity, objectives, and quantity of the nodes (actors) and qualities, capacity, objectives and quantity of the links in primarily informal, spatially-demarcated social networks.”

\(^2\) The concept of social capital has, however, an older history in other disciplines. For a review of this and of Marshall’s and particularly Schumpeter’s discussion of these phenomena, see Westlund and Bolton (2003).
mainly in the discipline of business administration – have generally not been associated with the theories of social capital.

“Capital” is one of the most fundamental prerequisites for business and it is necessary to have an opinion regarding the extent social capital is comparable to physical capital. One of the most exhaustive attempts made hitherto to discuss the relationship of the concept of social capital with traditional forms of capital has been done by Westlund & Bolton (2003), on which Figure 1 is based. One of the important characteristics of social capital that they discuss is connected to its vintage aspects. Social capital differs from real capital and human capital in that, as with wine, older vintages are not necessarily less valuable than newer wines. Social capital can be described as a blend of networks, norms, knowledge, etc of an extremely wide range of vintages in which the older ones function as stabilizing factors and the newer ones as factors of change. Certain elements among both new and old vintages may have negative effects on e.g. labour supply, entrepreneurship etc, but social capital, unlike port wine, does not permit.

*Figure 1. A summary of similarities and dissimilarities between social capital and the other capital forms, concerning productivity, vintages, accumulation, possession and complexity.*

<table>
<thead>
<tr>
<th>Similarity</th>
<th>Dissimilarity</th>
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</thead>
<tbody>
<tr>
<td><strong>Productivity</strong></td>
<td></td>
</tr>
<tr>
<td>Social capital are sunk costs that might become obsolete.</td>
<td></td>
</tr>
<tr>
<td>Social capital can be put to good or bad uses (from society’s perspective).</td>
<td>Social capital expresses interests of actors, good or bad from society’s perspective. It is not neutral with regard to society’s interests.</td>
</tr>
<tr>
<td><strong>Vintages</strong></td>
<td></td>
</tr>
<tr>
<td>Social capital consists of vintages.</td>
<td>The vintages of social capital are more comparable to a port wine than to other capital forms. The composition of vintages is decisive. There is no simple correlation between age and decreasing productivity.</td>
</tr>
<tr>
<td><strong>Accumulation and maintenance</strong></td>
<td></td>
</tr>
<tr>
<td>Social capital is worn out if it is not maintained.</td>
<td>Social capital is a product of both intentional investments and an unintended by-product of other activities.</td>
</tr>
<tr>
<td>Social capital is a result of past activities.</td>
<td>Accumulation of social capital does not necessarily need deliberate sacrifices for future benefits.</td>
</tr>
<tr>
<td><strong>Rights of possession vs. public goods</strong></td>
<td></td>
</tr>
<tr>
<td>Social capital is not genuinely public, since access to it demands connection to a network and/or certain skills. The network/club may exclude outsiders from access.</td>
<td>Social capital cannot be individually possessed. Social capital resembles a club good.</td>
</tr>
<tr>
<td><strong>Complexity and levels of aggregation</strong></td>
<td></td>
</tr>
<tr>
<td>Diversified social capital means less vulnerability to economic structural changes.</td>
<td>Social capital is the most diversified, least homogeneous form of capital.</td>
</tr>
<tr>
<td>Aggregating social capital belonging to different levels meets great methodological difficulties.</td>
<td></td>
</tr>
</tbody>
</table>

these elements being omitted by a wine-blender. As the economy changes, social capital must be renewed in order to preserve its productive function (quality), i.e., it has to be topped up by new vintages while simultaneously preserving “the best” of the old. Without this renewal, it becomes increasingly out of touch with economic developments and assumes an increasingly negative character.

Westlund’s and Bolton’s conclusion is that there are clear similarities as well as distinct differences between social capital and other forms of capital. Therefore, if the capital concept is to be used for social capital, it is necessary to be aware of its differences and that these differences require the development of new methods for measurement and analysis.

As noted above, most studies of the phenomena that are considered as social capital have, in the tradition of Putnam (1993a,b, 1995a,b,c, 1996, 2000) mainly focused on the so-called social capital in civil society, and used a broader perspective and did not focus specifically on the enterprises and the public sector. Research on these types of phenomena in enterprises and the public sector has often been made with a different terminology. One recent example is Rauch’s (2001) survey of business and social networks in international trade. In order to underline the fact that social networks, trust and other factors that are linked to social capital also can be found in industry and the public sector, the term enterprise-related social capital is here used for these phenomena.

It can be argued that there is a certain composition of an enterprise’s social capital that optimises its growth. The social capital should be adapted to factors as type of production, labour force, suppliers, customers, as well as the enterprise’s environment in a broader sense. The enterprise itself can to a large extent form the type of social capital it wants by investing time and other resources. A number of other factors also have an impact on an enterprise’s social capital, e.g. its labour and its environment. The enterprise’s environment consists of many actors but Putnam has stressed the local civil society as being one of the key actors. Another important component part of an enterprise’s environment is formed by political decisions and measures.

Thus, in principle, three types of actors can make the creation of this social enterprise-related capital:
- the enterprises themselves and their organizations
- the politically governed sector
- the civil society and its organizations

The enterprise itself is for obvious reasons the prime actor in the creation of its own social capital. The enterprise forms and maintains the social capital it considers best adapted to its current and future production by investing in internal and external links and nodes (employees, partners, customers, politicians, etc). Initially, one of the most important investments in an enterprise’s external social capital may be the choice of location.

This paper aims at analysing the role of social capital for business. It is divided in three main sections and a section with concluding remarks. Section 2 is devoted to a scrutiny of the concept enterprise-related social capital and its component parts. Based on the definition that enterprise-related social capital consists of social networks filled with norms, values, preferences, etc, within or externally connected to the enterprise, the analysis shows that firms’ make intentional and unintentional investments in social capital in several fields, even
if classified in other denominations. In Section 3, the role of the “third sector” (or social economy) for business development is analysed, mainly from Swedish experiences. The analysis results in several conclusions: A simple division between “social” (non-commercial) and commercial activities conceals changes in degree of commercialisation over time. Activities belonging to the third sector are more “social” than “commercial” but there are examples of movements along the “commercialisation scale”, creating incentives for competitive third sector activities to transform to traditional enterprise forms. Thus, third sector activities contribute to business development to a given, but small amount. The third sector also seems to have a given but limited role in creating a favourable local environment for business.

Several scholars claim that social capital is becoming increasingly important in the knowledge society. In Section 4 a comparison between the knowledge society and earlier societal forms is made. The discussion is concluded with a hypothesis stating that the transformation from a manufacturing-industrial society to a knowledge society needs a corresponding transformation of the social capital in order to enable growth of business and renewal of the economy.

2. Enterprise-related social capital

As this paper deals with implications of social capital for business, we mainly focus on the prime actor in business – the enterprise – and the social capital it invests in. Figure 2 provides a schematic picture of the component parts of enterprise-based social capital.

Figure 2. Social capital of the enterprise broken down into different component parts

<table>
<thead>
<tr>
<th>Social capital internal to the enterprise</th>
<th>The enterprise’s external social capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Links/relations filled with attitudes, norms, traditions etc. that are expressed in the form of: - Company spirit - Climate for cooperation - Methods for codifying knowledge, product development, conflict resolution, etc.</td>
<td>Production-related</td>
</tr>
<tr>
<td>Production-related</td>
<td>Environment-related</td>
</tr>
<tr>
<td>Links/relations to suppliers, product users, partners in cooperation and development</td>
<td>Links/relations to the local/regional environment, to political decision-makers etc. (Lobby capacity, etc.)</td>
</tr>
</tbody>
</table>

3 A term used in business administration and management for some of the concepts in Figure 2 is “corporate culture”. The concepts of production-related and environment-related social capital in the figure have connections to the concept “relational capital”, which has been discussed and analysed by among others, Camagni 1995 and Capello 2001. These factors are in a spatial context also connected to the concept of “regional milieu”.
2.1. The enterprise’s internal social capital

The basic division in the figure is between the enterprise’s internal and external social capital. All actors in the enterprise, i.e. both the management and the employees, form the internal social capital. Mainly in the disciplines of management, business administration and business sociology, the literature in these topics has expanded heavily, although other terms than social capital has been used. One important topic has been, employee-employer relations.

One often cited historical example of the importance of employment relations is the Swedish “Saltsjöbad Spirit”, named after the place where Sweden’s central employers’ association and blue-collar union signed an agreement 1937. Up to the beginning of the 30’s the Swedish labour marked was characterised by hard class struggles that reached their climax with the shooting of five striking workers 1932. This became a signal for afterthought and both sides realised the need for a new strategy. Labour market relations in Sweden were peaceful until 1969, with exception of a communist dominated national strike among metal workers 1945, and conflicts were solved by negotiating. The years between 1945-70 was also characterised by very rapid growth in Sweden’s economy, a growth that during the entire century 1870-1970 was surpassed only by Japan. It is of course not possible to claim that the peaceful employee relations were the one single factor behind 25 years of extraordinary growth, but no judge has denied their impact. The agreement of the employee relations was a central agreement, based on opinions on local level. It later became the model for basically every enterprise.

Japan is the other country where employment relations have been highlighted as an important explanation to growth of firms and the economy in general up to around 1990. Fruin’s (1992) description of the Japanese firm’s employment relations after World War II could have been quoted from a description of the Swedish model around 1965 although emerged in another environment and context: “a veritable partnership in goals, methods, and means has been negotiated and renegotiated … and this accomplishment has depended on contributions and initiatives from both labor and management…. Reciprocity hinges on balance, equity, and fair recognition; these can be encouraged and enhanced but they cannot be mandated or legislated…. the post-war environment of industrial relations has evolved in the direction of a kind of organic solidarity between labor and management. Interdependencies bind the two” (Fruin 1992: 174-5).

Later in this paper, we discuss why these examples of excellent employment relation were not sufficient to warrant continued economic growth. Here we restrict ourselves to noting that employment relations is something enterprises in developed countries have a tradition of investing in as it in general pays off.

Another important topic in the literature related to enterprises’ internal social capital is that of learning organisations and the development of methods to transform tacit knowledge to codified knowledge. The observation that man knows more than he can tell have been made by many philosophers. Also Keynes has been quoted for saying that an economist always knows more than he can explain (Johnson & Lundvall 2001). The explicit distinction between tacit and codified knowledge was made by Michael Polanyi (1958, 1966). In particular during the 90’s a growing share of literature has discussed the issue. Codified knowledge can be defined as formalised, stored, written or digitalised information, which can be used or tested by an other actor than the one that formalised the information (if the actor has access to the information and the necessary competence to use it). ‘Tacit’ knowledge is defined as...
knowledge that cannot be obtained by a mere sum of codified (digitalized) information. It can be generated through intimate ‘indwelling’ (Polanyi 1966:17) within a relevant local domain, or as personal knowledge through particular experiences and/or due to inherently personal qualities and competence; therefore it cannot become immediately available in open markets.” (Aoki 2001: 308). Aoki uses the example of the knowledge needed by venture capitalists, which to a large extent is tacit and non-codified. If codified knowledge would be enough, “everybody” would be able to pick the winners and there would not be any need for venture capital.

In contrast to tacit knowledge, codified knowledge can be regarded as an asset that the enterprise deliberately can use to increase its competitive power. The task is often formulated in terms of commercialising or capitalizing the tacit knowledge to a controlled input in the production process or a product of its own. Being able to control the production of knowledge in an enterprise and the use of it in the production process gives the enterprise a competitive advantage and contributes to growth. In the knowledge economy, we also witness a rapid growth of firms that have codified knowledge as their main product, e.g. consultants and education enterprises.

In our terms the strivings to transform tacit knowledge to codified knowledge are attempts to institutionalise a capital that originally is social and non-institutionalised. Not all tacit knowledge should be considered as social capital since some of the tacit knowledge is strictly personal. However, most tacit knowledge must be regarded as created in social interactions, which makes it a part of the social capital. From the enterprise’s perspective, this means that codifying knowledge mainly should be considered as investments to be able to use parts of the existing social capital in an enterprise, but not as investments in new social capital in itself.

The literature in this field has almost entirely focused on enterprises’ investments to commercialise the parts of their social capital that consist of tacit knowledge. Very little attention has been given to how new enterprise-internal social capital is created. However, there is no doubt that an enterprise takes many intentional or unintentional steps that affects its internal social capital. Among intentional arrangements we find those devoted to affecting the company’s spirit, culture and cohesion. Not less important are probably arrangements aiming at affecting the institutional capital of an enterprise. How a firm is organised has important effects on how it produces tacit knowledge and other components of social capital. There is a well-known fact that knowledge-producing enterprises normally has a much more horizontal organisation than traditional hierarchical industrial enterprises. This can be seen as an indication that enterprises in the knowledge economy need another internal social capital than enterprises of the industrial age (see below). Thus, social capital is a crucial factor in the internal governance of firms.

### 2.2. The firm’s production-related social capital

A striking development in recent research is the discussion of social capital in interfirm relations, especially relations between firms and their suppliers. This stands in sharp contrast to the traditional perspective of economics in which the enterprise is a non-cooperative monolith that buys its input from suppliers and sells its output to customers. According to this view, the production-related networks of an enterprise are technical and economic, and exist only to fulfil the input and output services.
This simplified view is today sometimes referred to as production relations of the “Fordist” or manufacturing-industrial age, but that is not a correct description. Social networks, even the actors of production, are not an invention of the knowledge economy. There are however arguments saying that they have become more important in the knowledge economy: “In a knowledge-based economy the perhaps most significant rent originates from the way in which the easy exchange of knowledge, only partly understood, between and among a constantly changing configuration of firms within the community dramatically enhances their innovative capabilities. Reducing your development to commercialization time is often worth virtually whatever you have to pay and social capital contributes by cutting the expenses and reducing the time needed to benefit from knowledge residing elsewhere. As innovative capabilities become increasingly important so does social capital.” (Maskell 2000:116).

Maskell connects social capital not only to the firm’s internal knowledge production (as we did in the former section) but also to knowledge exchange between firms that temporarily or on a more long-term basis have some kind of production-related links. Moreover, he explicitly connects social capital to firms’ innovative capabilities. His argument is that social capital cuts expenses and reduces time needed for knowledge exchange between firms.

These arguments could further be developed. Social, non-formalised links, between a firm (and its co-workers) and firms with which it has production relations, increase the flows of knowledge and information between the firms. Feedback, from the firm to its suppliers and to the firm from its customers, is increased and speeded up. These links of acquaintance and trust are of obvious importance in R&D-projects, aimed at developing new products or production methods. They are probably also essential in the small, invisible development processes that take place in firms everyday, which constitute the base for new innovations.

During the last decade a growing interest in formalising these formerly mainly spontaneous technical-economic networks can be discerned. The issue of innovation has been brought up on every developed nations policy agenda. By institutionalising innovation processes within innovation systems, policy makers attempt to achieve similar results on macro level as when firms make arrangements for transforming tacit knowledge to codified knowledge on micro level.

2.3. The firm’s environment-related social capital

The border between a firm’s production relations and its environment-related networks is not entirely sharp. In a spatial context, production relations in principle constitute a component of the environment relations as well. Therefore, we here delimit the firm’s environment relations with other firms to relations not being mainly technical-economical.

Even with this delimitation, Maskell’s arguments concern the enterprise’s environment as well, as he speaks about “community”. This adds a spatial aspect on social capital. A firm’s costs for, among other things, knowledge and information are influenced by social capital through the degree of trust and the climate of cooperation prevailing both in individual workplaces and between firms and actors in a region. Marshall (1920: 271) described this vividly in his nowadays celebrated account of the positive external effects which come about in industrial districts:
"The mysteries of the trade becomes no mysteries; but are as it were in the air, and children learn many of them unconsciously. Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas."

Marshall’s industrial districts were for generations of economists merely a queer marginal note in the classic textbook of microeconomics. However, Porter’s (1990) book on clusters marked a new and growing interest in the spatial milieu of firms (even if Porter 1990 considered cluster as functional, non-spatial concept as well). In the rapidly expanding cluster literature, clusters are normally defined as spatially delimited industrial systems regardless the size of the enterprises, whereas industrial districts are defined as spatial agglomerations of SMEs in one or a few complementary industries. As noted above, both concepts are connected to production relations as well as to more general relations to the firm’s spatial environment. These general, spatially dependent networks consist in principle of:

- Non-technical-economic links to other firm’s
- Links to local/regional politically governed bodies
- Links to the citizens of the civic society and their organisations

The first of these network types contributes to explain agglomeration phenomena as that of the IT-industry in Silicon Valley. Enterprises emerge there and choose to locate there because “the air” is full of tacit knowledge and information (incl. gossip and rumours), potential partners and co-workers are there, the competitors are there and it is easier to watch and learn from them if you are near them, etc. Even if the firm have business with only a little fraction of all the other enterprises in the region, the presence of all the other firms is a positive external effect, a social environment that the firm benefits from. The open, innovative spirit that characterise these agglomerations until they mature and eventually become petrified, is closely allied to the encouragement of entrepreneurship.

The second of these network types is an expression of the firm’s dependence on a predictable political-institutional infrastructure and the needs of favourable political decisions also in a medium-term and short-term perspective. Those who wish, might see these networks as a confirmation of the public choice theory, i.e. that politics does not work in accordance with its ideals. To achieve favourable decisions, to receive non-official information off-the-record, etc, the firm cannot restrict itself to let its individuals take part in the public debate and to vote in elections and referendums. It is in the interest of the firm to establish social relations with public decisionmakers, either directly or indirectly through branch organisations or lobbyist groups.

The third and last network type is an expression of a firm’s needs of being embedded in a local social context. This need of embeddedness varies depending on, among other things, the firm’s size, alternative locations, space-bound capital, type of production, type of customer, type of labour, etc. In general a small firm with spatially fixed capital and production for the local market have great incentives to build a strong social capital with the local environment. A big, global firm with alternative locations, low investments in space-bound capital and production for the world market have much smaller incentives. Still, local units of global firms engage in building good local public relations through sponsoring or giving grants to local non-profit organisations and other similar purposes. The reasons may be twofold.
First, a global company may be more dependent on a good reputation than a local one. A global company not following the local informal rules of behaviour might become worldwide news the next day. Increased consumer awareness about environmental, child labour and other such issues has caused many commercial firms to initiate reorganisation of their production and distribution networks, which is also a sign that customer relations can no longer be confined to offering anonymous products at the best price. Generally speaking, the increased importance - and market value - of trademarks provides testimony that customer relations are being impinged on more and more by considerations which must be regarded as social. It is no longer the product alone but also the customer relationship established by the trademark that constitutes a firm's market value (see below).

Another reason might be that both the firm’s management and employees are individuals with social needs. Some of these needs are often expressed in becoming an accepted and respected part of the local community. Contributions to the local civic society and its organisations thus raise the status of both the firm and its employees and increase the experienced individual welfare. The connections to public choice theory are evident here as well.

2.4. Market-related social capital

In Figure 2, a trademark is seen as a component part of an enterprise’s social capital that is created and maintained through marketing. With this approach, the trademark is a relational network to the anonymous mass of customers, to which the enterprise has no personal relations. Here the competitive aspect of social capital is obvious. By creating relationships with customers in diverse ways (advertising, personal contact, servicing contracts, etc.) a firm attempts to shut out competitors from the network it has established. It can build similar networks with suppliers. An established firm with strong customer and supplier networks can use these to shut out competitors, which perhaps have newer and more productive physical and human capital, from the market. In this way, the established firm might temporarily substitute renewal of its physical capital with investments in social capital. The new enterprises have to find new, unestablished market segments or else break down parts of the established firm’s customer and supplier networks in order to force its own way into the market.

Including trademarks in the concept of social capital is not without objections. A trademark is an asset which, as opposed to other forms of social capital, is actually property that is not directly linked to a specific owner but can be bought and sold in the same way that enterprises are bought and sold. While social capital in civil society is, to a varying extent, semi-public goods or club goods (see Buchanan 1965), enterprise-related social capital consists of social networks that the enterprise has built up and may dispose of as it wishes. Most of these social networks cannot be separated from the enterprise’s productive and/or financial activities, but they can of course be acquired since an enterprise, or part of it, can be bought and sold. However, the trademark is an example of a type of social network that is not necessarily integrated with other activities of the enterprise. This type of social capital is a private good, property in the legal sense of the term, and can thus be directly valued on the market. Thus, it might be more correct to say that a trademark is based on a firm’s social capital, but that it is transformed, institutionalised and commercialised in the same way as the case of tacit knowledge being transformed to codified knowledge.
3. Business implications of third sector activities

Putnam (1993) stressed a certain kind of organisations as producers and bearers of the civil society’s social capital: non-governmental organisations, based on citizens’ own activities. The “third sector” is one of the denominations of citizens’ activities and organisations that neither takes place within the private profit-seeking sector nor the public sector. The third sector covers a broad spectre, from local civic initiatives to international organisations as the Red Cross.

"Social economy" has been an official term in the European Union since 1989, a special unit of the Commission’s General Directorate Employment and Social Affairs being responsible for social economy-related issues. The definition of social economy selected by the EU confines it to four types of entrepreneurial and organisational forms, viz Cooperatives, Mutuals, Associations and Foundations (CMAF). However, in the international debate on the social economy there are a number of different concepts which can be put on more or less the same footing as social economy, the third sector being perhaps the best known. Other terms used are non-profit sector, not-for-profit sector, solidarity economy, alternative economy and third system. The concepts have emerged in different national and cultural contexts. In France, Belgium and other mainly catholic and Latin-speaking countries, social economy became the established term. In the United States, the UK and other West European countries, non-profit sector and third sector became the most common concept.

The concept of social economy seems to have been used for the first time in France 1830, by Charles Dunoyer in his paper *Nouveau traité d'économie sociale*. The advocates of social economy directed their attention towards measures for social peace and reduced class conflict, often in a conservative, paternalistic spirit. Profit-sharing was one of the methods advocated. The best known of the French social economists was Charles Gide, representing a more radical line. He considered cooperation to be the principal instrument for attaining the social economy which was regarded as the alternative both to the crude free market economy and to state socialism. Besides cooperation, the social economists worked for the growth of related organizations such as savings banks and educational organizations. In France, social economy became something which firstly united "a catholic and conservative right, an egalitarian socio-liberal center and a left which leaned in the utopian socialistic and perhaps also anarcho-syndicalist direction". (Trädgårdh, 2000, p 16). The feature common to the adherents of social economy was a lively suspicion of the state as an economic actor. In the conflict between capitalism and socialism which characterized twentieth century Europe, the social economy became a "third" way which never became dominant but did achieve a sufficiently important position in several Latin countries for it to be accorded official EU status.

Among researchers there seems to be a basic, common concordance about social economy being something between market capitalism and state economy. In the concept’s native countries, France and Belgium, the relations between the Latin and Anglo-Saxon concepts were discussed during the 90s (see e.g. Gui, 1991; Monnier and Thiry, 1997; Mertens 1999). This discussion has partly coincided with increased research on the third sector in Anglo-Saxon and other countries, among which the Johns Hopkins Comparative Nonprofit Sector Project perhaps is the best well known (see e.g. Salamon and Anheier, 1994, 1998).

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4 This section is partly based on Westlund 2001 and 2003.
Simultaneously, with the enlargement of the European Union 1995, the concept of social economy have been spread to new countries, whom endeavour to adapt the concept to their conditions. CIRIEC (2000) has presented an overview of the “third system” in the fifteen countries of the EU. CIRIEC equals the concepts social economy, third sector and third system and defines them as “cooperatives, mutual organizations as well as voluntary organizations, associations and foundations which remunerate work” (CIRIEC, 2000, p. v).

Malinovsky (1930), Thurnwald (1932), Polanyi (1944) and others have told us that historically, human society has developed, side by side with family housekeeping, three principles of production and distribution, viz reciprocity, redistribution and the market. Prior to the market revolution, humanity's economic relations were subordinate to the social. The market revolution has reversed this situation so that economic relations are now generally superior to social ones. Even though the market dominates modern society, however, this still does not mean that the two other principles have disappeared. The secular sovereign power, the state, has been based on a redistribution principle throughout history. The same applies to the modern public sector. The social economy may be said to be a modern generic term for activities based on the reciprocity principle.

Reciprocity can be described in terms of give-and-take in a relationship between actors who to a certain extent are equals. This does not mean that reciprocal relations are wholly lacking in power aspects - even activities in the social economy have governing boards and management groups. But there are important differences between reciprocal power relations and those which characterise relations between state and citizen or between employer and worker. Reciprocal relations are significantly more horizontal than those of hierarchical power systems. Another difference is the absence of legal means of coercion. Nor are reciprocal relations based on supply and demand on the free market, but on a striving to internalise wants and their satisfaction in networks with rights and duties, thus being the expression of an endeavour to make themselves less dependent on the market.

It has to be underlined that even though this argument accords with a tradition in the disciplines of anthropology and economic history, it may be in conflict with other disciplines. Mutuality is often used as a synonym for reciprocity. Basic economic micro theory is grounded on the assumption of balance and exchange between actors to the mutual advantage of both. The exchange would simply not take place were it not of benefit to both parties - even if the "benefit" for one of them only consists, for example, of temporarily alleviating social need and getting food for the day. Thus on this theoretical market, neither power aspects, unequal relations, norms, customs or institutions have any influence. From this perspective, therefore, it may be argued that a sort of mutuality imbues all exchange.

However, it is important to realise that this economic mutuality is a strictly theoretical economic concept, ignoring social conditions and relations. But the reciprocity discussed by Malinovsky, Thurnwald and Polanyi proceeds from social conditions and relations, and regards the economic exchange as a result of these. Reciprocity of social relations creates mutuality of economic relations, but mutuality in economic transactions is no guarantee of reciprocity in social relations.

It may also be appropriate to point out, moreover, that in economics there is another mutuality concept, viz interdependence, which is not to be confused with the concepts above. Interdependence is an expression of the economy's character as a system in which one unit is
mutually dependent upon other units, and changes in one unit are transmitted to the rest of the system.

In this way the reciprocity criterion does form something of a theoretical basis for the social economy concept. There is another problem here, however. Many actors in the social economy undoubtedly designate their work as social but hardly as economic. They do not describe their activities in terms of "production and distribution" or other economic concepts. To them the word "economic" is usually synonymous with market economics, in contradistinction to the "non-economic" activities in which they themselves are engaged and which do not strive for any return in market terms. Economic profit does not constitute the primary purpose of their business; it is more in the nature of a necessary evil to enable them to carry on their activities. From an "economic" perspective, it is similarly possible to pay regard only to the monetary aspects of the social economy without realising that the primary purposes of these activities are in fact social and not market-economic.

If the social economy is to be analysed not only as a social but also as an economic phenomenon, therefore, there are good reasons to highlight the distinction between different types of economy and to describe the difference between the social and other types of economy in economic terms too.

Like the publicly-managed economy, the profit-maximising market economy and the family economy, the activities of the social economy consist in production in which human and material resources are processed and exchanged for the ultimate purpose of being consumed. The relation between the social economy and other economies, therefore, might possibly be described as follows, for example:

- Like the family economy, the social economy is based on a reciprocity principle. Unlike the family economy, however, the social economy's relations are not based on circumstances of marriage and kinship but on more open and changeable relationships.

- While the modern market economy and public sector economy are based chiefly on monetary principles, non-monetary factors play a large role in the social economy. Whereas the pure cash economy attributes value only to wages and capital yield in monetary terms, in the social economy these elements are mere constituents of a total return in which social factors play a crucial role. Solidarity with the local community; better care of children and the elderly; reduced human suffering; improved leisure activities; less destructive behaviour; job opportunities near to home: these are some examples of the social values yielded by activities in the social sector.

- In many instances the public sector has objectives which are identical to those of the social economy. But whereas the public sector economy is based on official legislation and a system of official sanctions, activities in the social economy are based on the actors' unofficial commonality of interest and values. The public economy is based on an official and obligatory system of taxes and dues. The social economy is based on reciprocal, voluntary adherence and subscriptions - although in certain respects social pressure may function as an unofficial form of coercion.

- Whereas the market economy and public sector are based primarily on material capital (money and plant) plus individual human capital, the social economy is based to a higher degree on the types of social capital which take the form of reciprocal social networks between people, organisations, firms and the society at large. Reciprocity implies that networks in the social economy are considerably more horizontal in nature than networks in the other economic spheres. The activities of the other economies also have elements of social economy in them (social objectives for
example), a certain voluntary element, and diverse forms of social capital; but these elements do not constitute the primary basis of their production.

The social economy defined in this way should consist of that portion of society's production which

- is guided primarily by a principle of reciprocity
- is based on the types of social capital which take the form of reciprocal social networks
- is organisationally independent of the state power
- is not sold mainly on the official markets.

Even if the above definition has theoretical merits, it is in many cases difficult to operationalise. One alternative way of discussing the social economy can be based on the "model depiction" shown in Figure 3. The figure starts out from the assumption that all production carried out in a society (whether or not counted as part of the gross domestic product) can be graded on a scale showing respectively how "social" or "commercial" it is.

*Figure 3. Schematic depiction of juridical forms of society's production according to degree of commercialisation*
The purpose of commercially-orientated activity can be described briefly and concisely as a rule: it is to earn money. The purpose of socially-orientated activity, on the other hand, may centre on the promotion of one or more of a number of different values. Blennberger, Jess and Olsson (1999) mention the following as examples of such values: euphoria and significance, cultural diversity, social solidarity and integration, training in democracy, defence of rights, mobilisation of marginal groups, inculcation of discipline, cost effectiveness, socioeconomic gain, public health, job opportunities, fresh ideas and innovation, and other particular qualities.

Other objectives which have been cited in the course of debate on social economy, such as members' good and social good, may be regarded as combinations of social and commercial objectives; combinations which look different depending on level in society and target group. A centre line in the figure marks a boundary between socially dominated and commercially dominated activity. The instances in which activity is social throughout or commercial throughout really constitute extreme theoretical cases. In principle, all activities have elements of both objectives. Social activity cannot be carried on entirely without economic/commercial elements. Commercial activity cannot be conducted entirely in isolation from social norms and behaviour.

The figure also describes where different juridical forms engaged in the nation's production are to be found on the commercialisation scale. It should be pointed out here that the figure is a model depiction and does not purport to give any description to scale. The lower part of the figure consists of activities which have no formal juridical form. These thus include sundry activities such as production conducted within the household/family, informal economy between neighbours, relatives and friends, and also "black" economy and seriously criminal activities. Obviously a very broad span is covered by the degrees of commercialisation featuring in all these various activities.

The majority of the juridical forms contain highly disparate activities with strongly varying degrees of commercialisation. Public sector activity has social objectives to a large extent. But openly result-orientated activities with profit as the end in view are also carried on under public auspices.

The juridical forms reckoned as being organisationally within the social economy also extend in most cases over to the commercially dominated side. Among the largest group of non-profit associations, i.e. sports associations, the numerous small clubs kept afloat by voluntary work are of course predominant. But the same movement also contains large clubs, with turnovers in multi-millions of kronor, which are professional clubs in all but their organisational form. The neo-cooperative movement consists of a large number of small local economic associations in which work contributed by members themselves is essential to the activity. The large established consumer and producer cooperative movements also operate via the same entrepreneurial form, viz the economic association. Their business extends far out into the international market and is carried on in competition with privately-owned firms and at the same level of commercialisation as theirs.

Figure 3 also shows that by no means all of the business conducted within the framework of private firms or companies is to be found to the right of the centre line, where it constitutes commercially dominated activity. As Figure 4 shows, about 85% of Swedish firms are what may be called “subsistence” enterprises, meaning that maximising profit is not their primary objective but achieving a tolerable level of subsistence within a chosen lifestyle. As a proportion of employment the self-employed share is obviously much lower, but even so it
The motives of the self-employed, exactly like those of other entrepreneurs, are varied and complex, but while the motive of very commercially focused enterprise may often be to change social environment, an important motive of the self-employed may be to succeed in making a living within their established social milieu. Many small firms managed in company form probably also have similar aims. This group also includes employee-owned firms managed as companies. Thus it is a highly plausible supposition that for a certain proportion of the self-employed, commercial activity is a means of attaining social ends.

Figure 4. Distribution of Sweden's approximately 600 000 business firms 1996.


Firms quoted on the stock exchange are to be found to the right of the centre line in Figure 3. It is an indication that although the activities of quoted companies always have social aspects - employment for example - and perhaps even social purposes in some instances, quotation on the stock exchange is an important sign that the aims of the enterprise are primarily commercial.

Of course it is not the case that activities conducted in social-economic forms automatically comply with all the social values mentioned above while those conducted in openly commercial forms comply only with purely commercial values. If the juridical form of the activities in a society were completely neutral with regard to degree of commercialisation, the juridical forms would be evenly distributed along the scale. This is not so, however. Social-economic forms preponderate on the left-hand, socially dominated side of the figure while commercial forms dominate the right-hand side. The social values which Blennberger, Jess and Olsson (1999) believe can be created by social economy naturally arise in formally commercial activities as well to a varying extent. Job opportunities are perhaps the most obvious example. But viewed as a whole, it is probably not to be doubted that it is mainly the
formally social-economic organisations and the enterprises on the left-hand side of the figure that give priority to compliance with the social values cited.

From the standpoint represented by the figure, activities to the left of the centre line may be assigned to the social economy and activities to the right to the commercial economy. In practice, of course, such a balancing-out of the considerations involved is very difficult, not to say impossible. In principle it would require a judgment to be made as to the principal purpose of the activities of every single enterprise or organisation. Thus it is not possible to demarcate the social economy operationally on the basis of degree of commercialisation.

However, the figure shows that the juridical form of activity is not capable of serving as any sort of boundary-line between social and commercial economy either. Although activities with mainly social objectives predominate among the juridical forms categorised as social economy according to the semi-official EU definition, activities in which commercial purposes predominate do occur within these forms of organisation as well.

While underlining the problems of defining the concept of social economy in practical terms, Figure 3 does at the same time open the way to a more dynamic approach to changes in degree of commercialisation and changes of juridical form. An activity may be carried on in unaltered juridical form even though its degree of commercialisation changes. Similarly, an activity may alter its juridical form without its degree of commercialisation being changed. However, longer shifts of position along the scale may be assumed to furnish an increased incentive to change juridical form.

Thus the figure may help to illustrate how voluntary, spare-time and other activities serving mainly social purposes expand and create employment, both by taking the step from unorganised to formally organised activity, by growth within the social economy, and by going over to commercially dominated activity.

There are numerous historical examples of such commercialisation processes in Sweden. These Swedish examples have their similarities in other West European countries. During the building-up phase of the consumer cooperative movement the social and ideological aspect of the business was a very important foundation of the customer relations developed in competition with private trade. Today these customer relations remain in being only among certain of the older generation, and the cooperative ideology plays a very unobtrusive role in the marketing strategies of Konsum, the cooperative retailing arm. A large part of the activities of Kooperativa Förbundet (the wholesaling arm) - including trade in everyday goods - is conducted not in cooperative but in company form, on the same terms and using the same methods as private trade.

The savings banks and the cooperative agricultural bank (the Föreningsbank) were built up as a people's alternative and supplement to the commercial banks. During the 1990s the Föreningsbank has undergone conversion from a cooperative to a joint stock company, amalgamated with a majority of the savings banks and taken its place on the Stockholm stock exchange, thus shifting itself to the outer margins of the commercially dominated side. What is significant about both these examples is that it is during a restructuring and rationalising phase, including downsizing of the work force, that the transition from social-economic to open commercial form takes place.
Other examples may be cited from the IT branch. Many firms which made their appearance in this branch during the 1990s had their genesis in young people's leisure interests. Commercial products and services have gradually evolved from the latter, leading to the establishment of businesses. In many instances the leisure activity seems to make the transition to commercially dominated activity in company form without passing through any intermediate phase in the shape of voluntary or economic association. In other cases company formation has been preceded by activity within a framework of voluntary or economic association.

From the perspective outlined in this section, activities and organisations summarised under the concept of social economy have historically played a certain role in Europe’s economic dynamics in certain sectors. Current experiences in Sweden also seem to indicate that local associations are used as a “first step” in business development. However, the importance of associations in the creation of new enterprises is limited. In 1999 (the only year for which statistics is available) 2% of the new founded limited and closely held companies had their origin in associations (ITPS, unpublished statistics). Thus, even if activities in the third sector originally aim at filling social and not economic needs, certain of these activities can, if they are competitive, develop and transform to “real” enterprises.

What is then the role of the third sector in creating a social capital that contributes to business development and economic growth? Putnam (2000) has shown that the civil society seems to have been weakened in America during several decades. He has also shown that civil society’s social capital is among the strongest in Montana and among the weakest in Los Angeles (Los Angeles Times, March 1, 2001) – a fact that do not coincide with economic development in the areas concerned. Moreover, Cohen and Fields (2000) have concluded that whatever has caused the expansion of Silicon Valley, it is not the civic engagement. These findings may be interpreted as a limited and/or decreasing importance of the civil society on local and regional business development.

One explanation to this might be that Putnam’s model does not include the actor where economic growth is created – the enterprise. Putnam’s perspective is that of the political scientist and is concentrated on democracy issues. Unfortunately there are very few studies on the relationship between enterprises, their business success and their embeddedness in their local environment – in which the third sector often is an important component. One interesting exception is a study by Kilkenny et al. (1999) that in an empirical test showed the significance of reciprocated community support in the success of over 800 small businesses in small towns of Iowa, USA. Using logistic regression, they found that the interaction effect of an entrepreneur’s service to the community, reciprocated by community support of the business, was the single most significant determinant of business success among dozens of indicators and characteristics of the managers, the businesses, and the communities. Thus, these results support the view that local initiatives in the civil society might contribute to creating a favourable local environment, milieu or culture for business and entrepreneurship (cf. Section 2 where the firm’s investments in the local environment was discussed).

However, an alternative interpretation is that Putnam is focusing on the social capital of the (civil) industrial society, whereas other, new forms of social capital develop in the emerging (civil and business) knowledge society. Some critics of Putnam underline that the Internet, mobile phones, etc. offer new networks for social interaction among young people, who do not find traditional organizations very exciting. Another argument is that in the knowledge economy’s career communities, informal professional networks substitute organized civil networks.
4. Social capital in the knowledge economy

Several scholars (like Maskell 2000, quoted above) have underlined the increased importance of social capital as society has transformed from a manufacturing-industrial economy to a knowledge economy. Although “knowledge society” or “knowledge economy” are concepts used every day in debates on society, it is not easy to find a concise summary of the characteristics of the concepts and how the knowledge society is distinguished from earlier societal forms. Figure 5 is an attempt to present some key attributes of the knowledge and industrial societies and of the mercantilist era of the pre-industrial society.

Figure 5. Key attributes of the knowledge and industrial societies and of the mercantilist era of the pre-industrial society.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Knowledge society</th>
<th>Industrial society</th>
<th>Mercantilist era</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key assets / production factors</td>
<td>Labour with knowledge and information</td>
<td>Physical capital, transportation</td>
<td>Land and trading assets</td>
</tr>
<tr>
<td>Market’s extension</td>
<td>Global</td>
<td>Mainly national</td>
<td>Mainly local</td>
</tr>
<tr>
<td>Polity</td>
<td>“Supra-state” organisations increase in importance</td>
<td>Nation-state democracy</td>
<td>Autocracy/oligarchy</td>
</tr>
<tr>
<td>Central principle(s)</td>
<td>Application of knowledge</td>
<td>Use of non-muscle power, division of labour</td>
<td>Increase muscle power through population growth, organise trade</td>
</tr>
<tr>
<td>Owners of decisive production factor</td>
<td>The individuals</td>
<td>Capitalists</td>
<td>Landowners</td>
</tr>
<tr>
<td>Central conflict</td>
<td>Access / rights to knowledge, information and benefits</td>
<td>Justice: Division of social accumulation between labour and capital</td>
<td>Liberty: business autonomy, the individual’s freedom from feudal restraints</td>
</tr>
<tr>
<td>Management principles</td>
<td>Horizontal, cooperative</td>
<td>Vertical</td>
<td>Vertical</td>
</tr>
<tr>
<td>Dependency relations</td>
<td>Organisation/collective needs the individual who possesses knowledge</td>
<td>The individual needs the organisation/collective (enterprise, trade union, etc)</td>
<td>Mutual collective dependencies between crown, nobility, church, burghers and peasants</td>
</tr>
<tr>
<td>Central individual qualification</td>
<td>Creativity</td>
<td>Adaptability</td>
<td>Fidelity</td>
</tr>
<tr>
<td>Gender relations</td>
<td>Growing equality</td>
<td>Emerging emancipation</td>
<td>Patriarchal</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Digital nets, social infrastructure, airports, roads, rail</td>
<td>Land transportation systems</td>
<td>Waterways and ports</td>
</tr>
<tr>
<td>Central spatial units</td>
<td>Metropolitan region</td>
<td>Industrial town</td>
<td>Agricultural region, market town</td>
</tr>
</tbody>
</table>

Comment: The figure is partly based on Lakshmanan (1994) who, however, does not treat the knowledge society.
Figure 5 shows that the differences between the knowledge and industrial societies are at least as comprehensive as between the industrial society and the mercantilist era. Knowledge, the individual bearers of it and their social infrastructures are some of the key elements of the knowledge society. This makes new demands on the individual’s qualifications and affects relations between the individual and the organisations as well as gender relations.

A presumption based on Figure 5 is that a social capital adapted to the needs of the industrial economy cannot fulfil much of the needs of the knowledge economy. This can be illustrated with a Swedish example.

During Sweden’s industrialisation, the pre-industrial ironworks regions became the centres of the modern steel industry. Bruksandan, a “local industrial community spirit” was formed in these communities and subsequently this spirit also became a characteristic of communities with other manufacturing industries. The local industrial community spirit thus became a term for the norms and values that were created from the relations between a dominant local employer and a closely-knit, locally recruited group of workers with a strong trade union, during the industrial era. The spirit of common interest, which was formed through demands and counter-demands, resulted in the local factory assuming responsibility for the welfare of their employees and their families in exchange for the loyalty of the families to the local factory. There was, in principle, a local employment guarantee for the male population of the community. Education after primary school was not necessary for entering the industry. The women had in principle two alternatives: become a housewife or move. Other enterprises, apart from the requisite local service businesses, were potential competitors for the labour force and were regarded as unnecessary. The consequence was that entrepreneurship and the establishment of new enterprises were not promoted by the norms and values of the local industrial community spirit. The actors that formed the local industrial community spirit – the factory and the trade union of the (mainly) male workers – opposed, consciously or subconsciously, the emergence of new actors.

During Sweden’s industrial era, the local industrial community spirit was, in many respects, the local foundation for the successful Swedish model. On the other hand, during the structural adjustment of the last twenty-five years, this spirit has proved to be a critical problem for these communities. When the context changed, the communities needed actors to renew the local economy and the local social capital. However, to a large extent, the local industrial community spirit has obstructed the emergence of actors of this type.

In the case of the local industrial communities, the dominating parties had invested in very strong links both internally locally, and externally with customers and suppliers. When the markets eventually declined and the external links were weakened, the strong internal links were an impediment that obstructed the development of new links to new external actors. Thereby, the necessary importation of new ideas and values was prevented. More than a generation after the emergence of the knowledge society, these regions are still in crisis with low growth and outmigration, particularly of young women. The growth in Sweden has taken place in other regions, mainly in the three metropolitan regions and the university centres.

The Swedish local industrial community spirit is one example of the type of social capital that was formed in and by the industrial regions of Europe and North America. Their industrial heritage has left these regions with obsolete networks and obsolete attitudes which constitute severe obstacles to a smooth and rapid transition to the knowledge economy.
In Section 2, we referred to arguments saying that the enterprise-related social capital expressed in employer relations were among the factors contributing to the very rapid economic growth in Sweden (1945-1970) and Japan (1945-1990). The industrial crisis of the 70’s caused severe structural problems in Sweden, which still are not solved in certain regions. The employer relations in existing industries were not of much use since growth was dependent on new industries in new sectors. It is highly probable that the good employer relations in Japan contributed to its continued industrial success until 1990, but after that this social capital, build up under the manufacturing-industrial age, could not prevent the recession.

The examples above might be viewed as a support to a hypothesis concerning the needs to transform the social capital in accordance with the economy’s transformation: During stable growth phases the economy benefits from strong, stable societal networks that are closely adapted to the needs of the economy. Actors (nodes) form links to distribute and reproduce desirable norms, values and behaviour which are in conformity with the economy’s demand. When economic-structural changes happen, the economy needs new industries with new actors not to stagnate. However, the existing networks are adapted to the earlier economic structure and do not necessarily support the restructuring of the economy and the emergence of new actors. The new actors need to build new, competing networks that distribute and reproduce norms, values and behaviour in conformity with the new economic actors’ demand. If the networks of the old economic structure are too strong, they may retard or prevent the emergence of new actors, new networks and economic restructuring. With Schumpeter’s expression, one might argue that there is a need for a “creative destruction” of obsolete social capital, in order to facilitate the creation of new social capital. The transformation from industrial society to knowledge society is a huge-scale example of this economic restructuring and the needs of new economic and social networks to emerge.

5. Concluding remarks

According to the hypothesis in Section 4, enterprises and regions in the developed nations currently find themselves under a pressure to change their internal and external social capital with the transformation from the manufacturing-industrial economy to the knowledge economy. Not only must existing enterprises modernise their existing physical capital and recruit labour with another human capital to survive – they also need to transform their social capital. And not only must existing enterprises transform their social capital – without the growth of new enterprises, in new sectors and with new physical, human and social capital, there would not be much of a knowledge economy and not much of a growth.

Thus, the knowledge economy means a great challenge to all kind of business and the social capital seem to be of a greater importance in the knowledge economy compared with earlier systems. The phenomena that in this paper are included in the concept of social economy are each of them objects of growing research in economics and related disciplines. The advantage in gathering them within the framework of “the enterprise’s social capital” is twofold:

- A common theoretical framework gives a better understanding of the relations between the phenomena that now are investigated separately. This contributes both to theory development as well as to development of empirical research.
• A common concept put the spotlight on enterprises’ own arrangements in these fields. We have seen that enterprises devote time and money to form a social capital that contributes to its growth and profitability. A common concept makes these types of assets visible, which makes it easier to form deliberate strategies for investments in social capital and to weight these investments against other investments.

This paper has focused on theoretical considerations on the implications of social capital for business. There is certainly need for further theoretical development – this paper has merely presented a new perspective that should be criticized and developed. However, it might finally be important to stress some practical implications of the issues brought up here. Enterprises’ investments in the various components of the social capital should, in principle, be measurable in the form of the enterprise’s expenses for these activities. But the charts of accounts used by enterprises today are not specially adapted to allow direct specifications to be made of these investments. Therefore, measuring the investments made by enterprises in social capital is problematic in the short run and would need a change in bookkeeping methods.

Measuring the stock of an enterprise’s social capital is a still more difficult task, since it requires that the rate of depreciation of the investments can be determined. It is probable that the rate of depreciation varies between different types of investments, but it should be possible, in practice, to estimate an average period of depreciation. However the problem is more a question of methodology than principle. It requires the development of new bookkeeping methods and methods of closing the books. In the case of the trademark, its value is assessed as capital stock in another way, though an estimate of the price it would command if sold on the market.

Thus, the implications of social capital for business are both theoretical and practical. Taking the enterprise, in contrast to the civil society, as the focal point of social capital is a new perspective that might lead to changed agendas, for researchers, for the business actors – and for policy makers.

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