

The Role of Social Capital for Business Networks

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Abstract. Through a literature review, this research seeks to investigate the function of social capital in business networks. We concentrate on the structural dimension of social capital, or social networks, which is based on social ties. Relational dimension made up of reciprocity standards and trust. Common meaning systems create a cognitive dimension. In this context, we attempt to investigate how shared cognition, reciprocity norms, embedded trust, and established relationships can all serve as investments in social capital for commercial networks.

Keywords: Social Capital, Business, Networks

1 Introduction

The demands of competition in an increasingly complex business industry require companies to have competitive resources. Every company, including MSMEs, certainly wants to achieve superior performance by managing its resources effectively and efficiently. However, micro, small, and medium-sized companies lack internal resources, so they use the owner's social network to obtain relevant information and knowledge in developing their business [1]. One way that can be used to gain this knowledge is by building social capital through social networks: collaboration and alliance strategies. Social capital help facilitate the exchange and gathering information and make a way for collaboration and interaction. Through social capital, companies can obtain new resources, which will later become social capital for the company [2]. Social capital refers to resources derived from social networks. In recent years, the social capital literature has generated a great deal of insight.

Currently, the success of a company is not only determined by the performance of employees working in the company, but also by external factors. Companies are starting to realize the importance of social networking relationships between companies, where these relationships can play an important role in creating corporate value and company excellence [3]. Companies can have several relationships with other companies, so that a network structure emerges from the parties involved [4]. In a network, there is interaction between several individuals. The interactions that occur between a company and its suppliers can generate goodwill and increase the willingness of these network partners to provide useful information and resources [5]. Furthermore, interaction also plays an important role in building coordination structures and can transfer information or ideas to companies [6]. Powell [7] added that companies that are embedded in collaborative networks between companies can achieve higher innovation outcomes. Several studies on social capital, which categorize it into three dimensions: structural, relational and cognitive are based on research by Nahapiet and Ghoshal [32]. The connections that exist between firm players are the main emphasis of the structural dimensions of social

capital. The relational dimension is related to the relationships that are formed and then developed by actors through the history of interactions that were formed in the company. The cognitive dimension is the creation of a shared cognition among company members that forms a shared representation, interpretation, and system of meaning among the actors in the company.

It is believed that social capital is a multifaceted notion whose value must be determined by its dimensions rather than a direct measurement [9]. The significance of social capital for sustainable growth and economic advancement has been revealed by researchers. Most economic behavior, according to some researchers, is ingrained in social networks. More information access, social cohesion, citizen engagement, opportunistic behavior reduction, political participation, government responsiveness and efficiency, transaction cost reduction, risk and uncertainty assurance, problem solving, and collective action are all made possible by social capital [10].

2 Research Method

This research was categorized into descriptive qualitative. The aim was to do literature review study by investigating the function of social capital in business networks.

3 Result and Discussion

3.1 Social Capital Theory

The theory of social capital, according to Bourdieu [11], is the number of actual and potential resources that come from social networks. The resources contained in social capital lie in the structure and content of social relations between actors within the company [12][13][14]. Social relations among these actors can be a productive resource for companies. Patterns of social relations built through exchange are the basis for social capital [8]. Thus, companies must be considered social communities whose profits can be generated by exchanging information so that companies will gain the knowledge needed to generate innovation [8][14].

Social capital theory has also been widely used to explain how companies manage their social relationships to be able to access knowledge and generate innovation [2]. Social capital can be a source and factor that provides access to knowledge. According to Barney [15] Knowledge is a source for the survival of a company in competition. As a major challenge that is important in the global economy, the need for corporate knowledge management is an important factor. Researchers argue that new sources of value are generated through the exchange and amalgamation of knowledge. Based on this, knowledge transfer within the company must be carried out evenly so that all actors in the company can apply knowledge effectively to improve company performance, especially innovation [16].

Definition of Social Capital

Since the mid-1980s, when Bourdieu, Coleman, and Burt presented their research contributions to clarify the concept of social capital [11][16][17][18][19], the idea of social capital has been extensively addressed in the literature. Although social capital is still a relatively new idea in theory and study, it is being widely applied in many different disciplines. Liu [20] claims that

within the past few decades, the idea of social capital has been taken into account in a variety of (multidisciplinary) disciplines of study. Nonetheless, a challenge that arises is the multitude of interpretations of social capital, leading to disparate consensuses about the notion [2].

Adler and Kwon's research provides a systematic analysis of the different definitions of social capital stemming from two main reasons. First, a definition that focuses on its substance, source, or consequence. Second, it focuses on the relationships that bind focal actors with other actors, the structure of relationships between actors in collectivities, or both [12]. Based on this, the definition of social capital shows that the essence of understanding social capital is the resources available through social networks. Furthermore, based on the differences described, this study uses the definition of social capital according to Nahapiet and Ghoshal, [8], which states social capital is an actual and potential resource that is embedded in, available through, and comes from a network of relationships owned by individuals or social units. Both networks and assets may be mobilized through these networks.

3.2 Dimensions of Social Capital

Numerous studies on social capital are based on research done by Nahapiet and Ghoshal. Social capital is divided into three categories by Nahapiet and Ghoshal [8]: structural, relational, and cognitive.

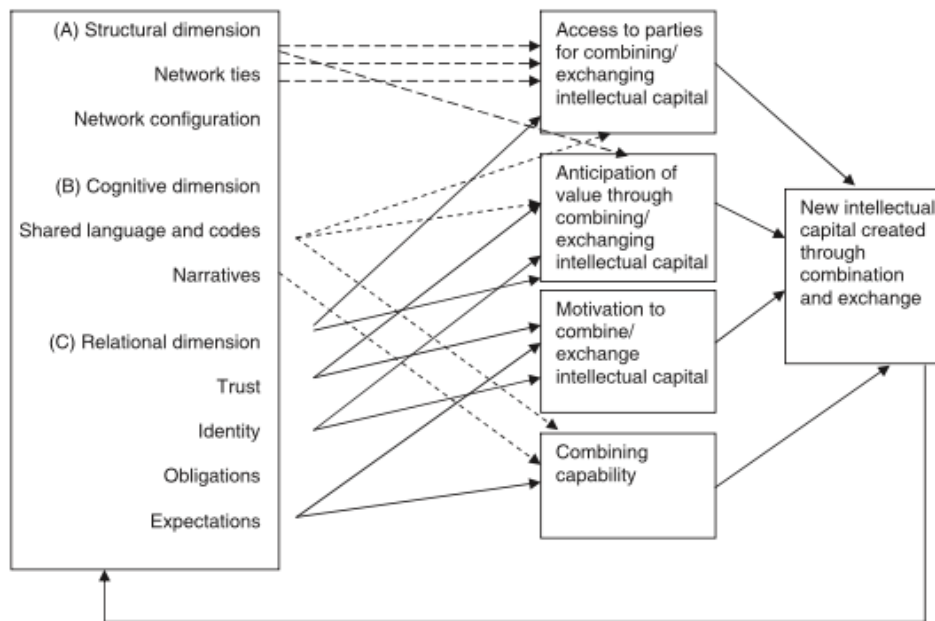


Fig 1. Social capital contributes to the development of competitive advantage and intellectual capital (adapted from Nahapiet and Ghoshal 1998)

a) Structural Dimension

The structural component relates to the total pattern of relationships between actors, including who the actors are reached by and how businesses reach them [21]. It also includes the characteristics of social networks between players. Innovation activities that are directly tied to information or knowledge are necessary for an organization to grow. New knowledge has an impact on industry innovation, as indicated by [22]. Various sources, including the news media, clients, and social (structural) networks, can provide new knowledge or information. This is consistent with Cope [23] who state that innovative entrepreneurs will develop their social capital by building (structural) networks that provide sources of information that can come from internal and external sources, support, finance, and expertise that allow them to learn from each other and exchange information.

For small industries, new information is important for innovation because innovation is essentially a knowledge-based phenomenon. A research result has shown that the innovation activities of firms are influenced by new knowledge [22]. One example is the structural relationship formed with suppliers, which can increase the effectiveness and efficiency of the company. Effectiveness in relationships consists of developing new products, improving product quality, and other factors that enhance innovation and competitiveness; while efficiency consists of reducing costs, increasing delivery timeliness, and shortening lead times [23]. Likewise, the relationships that exist with employees in the company through the knowledge and creativity possessed by employees can help companies provide input for new product development [24]. Therefore, the structural relationship that exists between many parties is very important to building a company's innovation capability through knowledge gained from the relationship or collaboration that is formed.

b) Relational Dimension

The relational dimension is a personal relationship developed by corporate actors among one another through a history of previously formed interactions. This illustrates how the type of relationship that has been developed, can increase the company's opportunities for innovative performance. This dimension refers to the interpersonal dynamics in the structure that lead to the formation of social capital [8]. According to Chiu [25] the key elements of the relational dimension are trust, reciprocal norms, and identification. Trust plays a key role in the willingness of actors to share their knowledge [18][13]. Trust is very important in an entrepreneurial context because most entrepreneurial activities require a certain level of trust. Trust in relationships within firms is an important source of competitive advantage because it contributes to reducing transaction costs, increasing investment in specific assets, and increasing routine knowledge sharing [20]. In other words, trust will benefit the company, but only if the trust is reciprocal. This is easier when the two parties share the same culture.

The norm of reciprocity, results in increased pressure on individuals to reciprocate beneficial behavior, which will lead individuals to be more committed to the common interest and show higher attitudes toward that behavior. For entrepreneurs whose activities are based on the exchange of factors and knowledge, the norm of reciprocity is one of the main prerequisites for developing social networks and interactions [20]. Identification is defined as a process by which individuals see themselves as one with other people or groups of people [8]. Identification refers to one's sense of belonging and positive feelings. Enterprise creation is considered a social

activity, and entrepreneurs shape their behavior in relation to how they perceive themselves in relation to others [26].

c) Cognitive Dimension

The cognitive dimension of social capital refers to resources that provide representations, interpretations, and shared meaning systems [8]. Furthermore, Martinez-Canas [27] added that the cognitive dimension of social capital refers to the shared knowledge structure of group or organization members that is used for the information environment in a way that allows it to be interpreted and take further action on a group and organizational level. This dimension is related to the existence of the same cognition in the form of the same language in communication, the same understanding, and the same thoughts [25]. The existence of cognitive similarities in the relationship between companies and other parties leads to effective communication and representation of the same results so that they can understand each other.

This dimension also helps the previous two dimensions (structural and relational), to create closeness that creates positive things for the company [25]. Social capital is considered a multidimensional concept, whose value cannot be measured directly, but must be measured through its dimensions [9]. Therefore, it can be concluded that the three dimensions are used because they are important and interrelated. As stated by Nahapiet [28] although the three dimensions of social capital above are different, they are closely interrelated, so research on the three dimensions simultaneously is very important to utilize knowledge through inter-firm relationships.

3.3 Social Capital be an Investment in The Business

Many people think that investing in social and human capital might boost employee performance. According to Laurence and Don, managers need to learn how to invest in social capital because relationships are eroded by volatility and virtuality. Since entrepreneurship is a key component of contemporary knowledge-based economic activity, this is an easy concept to comprehend. This is due to the inherent uncertainty around the potential utility of new concepts and knowledge. Many people can absorb this uncertainty by launching new businesses to investigate, pursue, and implement novel concepts. Therefore it is necessary to have a social network so that when the company lacks the required knowledge, they can form social capital to gain knowledge to run their business [29].

Through the social networks that are created, structural social capital aids businesses in learning new information. Companies with social networks among employees are better able to take collective action, as networks make it easier for people to exchange information, gather it, and cooperate and interact [33]. It is simpler for entrepreneurs to build trust the more engagement there is and the more channels of communication are available. Entrepreneurs will find it simple to access the tools and information available through business networks [14]. When parties have established reciprocity, identification, and trust between them, they are more likely to cooperate in actions that foster additional trust. According to Inkpen and Tsang shared vision and goals serve as a unifying mechanism that makes it easier for different intra-corporate network players to communicate and incorporate recently gained knowledge. Additionally, Nahapiet and

Ghoshal noted that cognitive dimensions play a significant factor in promoting the fusion and sharing of knowledge throughout various company departments.

Businesses work better when organizational members have a strong social capital; know and trust each other, transactions happen quicker and easier, teams work more efficiently, and people learn faster and work more creatively. Most managers would agree that strong relationships are the lifeblood of an organization. Business was done without them, but not for long and not very well [30]. It has been argued that bonding networks encourage moral obligations and expectations to remain loyal. After engaging in the formation of social capital in the manner described, SMEs consider it an advantage for their business performance and, within this framework, innovative activities or not. their previous, more individualistic state. To grow, businesses may need to develop networks outside of their communities, whether ethnically or regionally rooted. They may need to borrow larger sums of money for investment purposes their network can lend to, or here specifically they may need external sources of learning, knowledge and innovation. Networks are repositories of innovation knowledge for SMEs, less or even no transaction fees, efficient information channels and exploitable information or knowledge capital for innovation [19].

The influence of social capital (structural, relational, cognitive) provides different disclosures based on the context of the research object. Therefore, research on social capital can be conducted specifically on different business types, such as manufacturing and service businesses [27]. Future studies will be able to determine the impact of social capital (structural, relational, and cognitive) in various industrial contexts and study in more depth how various firm contexts can be compared.

4 Conclusion

Social relations among these actors can be a productive resource for companies. The foundation of social capital is a set of social interactions that are developed through trading. Companies should be viewed as social groups because they can make money by exchanging information, which will provide them the knowledge they need to innovate. It will be simpler for the organization to share the knowledge acquired in order to generate innovation the higher the level of communication it establishes. Shared vision and goals serve as a unifying mechanism that makes it easier for different players in the business network to communicate and incorporate recently acquired knowledge, a finding that is also supported by Inkpen and Tsang. We conclude that specific investments in human and social capital substantially increase entrepreneurial performance, especially for SMEs.

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