

# MANAGEMENT OF SOCIAL CAPITAL IN SMALL AND MEDIUM-SIZED ENTERPRISES.

*BYŁOK Felicjan (PL)*  
*Technical University of Częstochowa, Poland*

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## ABSTRACT

This paper describes the significance of managing social capital in stimulating the development of small and medium-sized enterprises. The author in question presents various approaches to defining the social capital of an organization, as well as providing a brief description of its dimensions. There is a description of the stages in the process of managing social capital. The author also indicates the necessity of choosing a specific model of social networks that is based on mutual ties between the management and employees. There is also a presentation of the partnership culture of an organization as the optimal solution for SMEs. The necessity of building trust on the basis of one of the factors, namely empathy, mutual participation, values and structure, identity and involvement is also indicated. By way of conclusion, the fact that the success of an enterprise is possible in the situation of implementing the elements of the management of social capital is stated, namely social networks, norms and values, as well as social trust amongst the management and the employees.

**KEY WORDS:** social capital, social networks, organizational culture, social trust

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## INTRODUCTION

In the market segment where SMEs are competing against each other, tangible and intangible factors which reinforce their level of competitiveness are significant. Most frequently, these economic units do not have large resources of financial capital at their disposal, as well as not having access to modern technologies. Their potential for development lies in their internal resources that may be effectively availed of. (Illés, Dunay, Tatár 2012: 26-40) One of these resources is that of interpersonal cooperation within the employee groups and the organization itself, which collectively speaking, favours the achievement of common goals. The aforesaid skill of cooperation depends on the degree to which the employees and managers acknowledge and share the norms and values that are binding in the enterprise at hand. Sharing mutual values and norms favours the building of social capital, which is an important cultural and economic value. Possessing the positive attributes of social capital, among others, the ability to cooperate in a given network, creating ties, loyalty, credibility, solidarity, innovativeness, entrepreneurship, as well as the skill to avail of its “roadmap” require the appropriate management to be put in place. This particularly relates to SMEs, for which success on the market is more probable if the implementation of the elements of social capital take place, e.g. social networks, norms and values, as well as social trust on the part of the management and the employees.

The aim of this paper is to portray the concept of managing social capital in the development process of SMEs.

## 1. ON THE SUBJECT OF THE NOTION OF SOCIAL CAPITAL IN AN ENTERPRISE

In literature devoted to the concept of management, social capital has become more and more frequently the focal point of research over the past twenty years. Firstly, the problem of social

networks and their significance in the development of enterprises is discussed in the sphere of entrepreneurship. Secondly, there is a presentation of networks, cooperation and alliances as values which support the achievement of success in the case of an enterprise. Thirdly, social contacts are indicated as an important resource of an organization. Social capital has become a popular theme for a multitude of researchers in the sphere of the science of management and sociology due to its economic, social and cultural dimensions.

Out of the numerous definitions of social capital which may constitute the theoretical basis of research on social capital in an enterprise, it is possible to indicate the approach of A. Krishan and N. Uohoff who perceived social capital in the context of mutual actions. The researchers in question acknowledge this as a resource which creates a flow of benefits in the form of mutually beneficial collective action. (Krishan, Uohoff 2002: 86) In analysing the ties between the amount of social capital and the indicators of development in 64 villages of India, they distinguished the structural elements of social capital (the roles and social networks are supplemented by regulations and procedures), as well as cognitive aspects (norms, values), which complement each other in a mutual sense, thus creating a strong impact on the attitudes and behaviour of people. A similar approach to social capital is presented by N. Lin, according to whom it is a resource that is included in social ties. (Lin 2001:3) This indicates that investing in social ties brings benefits to both the organization and to the unit itself. Associating the employee to the social network facilitates access for the entity to the resources and its ties to other network participants. However, the organization gains from the synergy effect resulting from the mutual cooperation of employees in the realization of the specific aims. These two approaches indicate that social capital may exist in the form of the resources that an entity is in possession of as a result of participation in varied forms of social capital. Social contacts are not public goods that an entity acquires automatically, but shall only become a resource for it when it participates in social networks.

Perceiving capital as a resource facilitates its analysis in the context of an organization. In defining social capital in an organization, we may indicate two fundamental approaches as follows: 1) as a form of ties between an organization and its interested parties, trading partners, competitors (the external notion of capital), or 2) as a form and nature of ties between the members of an organization (the internal notion of capital). (Leana, Frits 2006) In the external notion of capital, the attention of scientific research is drawn towards the network of contacts that a given organization maintains with its environs, namely with clients, suppliers, competitors and other entities. This network has an impact on its competitive potential. In theory, the network indicates that the value of an enterprise is the derived ability to create the network of an organization and the right to avail of the knowledge capital created by the participants of the network at hand. (Burt 2000:24)

In the internal notion of capital, emphasis is placed on the social ties connecting the members of an organization that have an impact on the creation of the vibe of cooperation, as well as enabling the achievement of common goals of both the employees and the organization itself. Attention was drawn to this aspect of social capital by J.S. Coleman, who indicated that the skill of interpersonal cooperation within groups and the organization itself on the one hand, enables the realization of common goals, while on the other hand, enables the individual creation of values. (Coleman 1988:108-109) Likewise, J. Nahapiet and S. Ghoshal, in analysing the internal notion of social capital, discovered that thanks to the development of internal social capital, the abilities of an organization to adopt and create knowledge increases. (Nahapiet, Ghoshal 1998: 252-256)

In general, it is possible to state that both internal and external social capital are a significant factor that influences the creation of values in an enterprise. The skilful use of the potential

lying in the resources of social capital may aid the process of knowledge transfer between employees.

In analysing social capital in an organization, it is worth describing its dimensions. J. Nahapiet and S. Ghoshal indicate the existence of three of its dimensions: ( Nahapiet, Ghoshal 1998: 252-256)

1. structural dimension
2. cognitive dimension
3. relational dimension

The structural dimension relates to the structure of the network of ties between the members of the organization at hand and its configuration. In the analysis of the structure of the network, a range of factors are taken into account such as the following: the existence of direct ties between the main player and the other members of the network or its lacking, the density of the network, its size, the centralization of the network, heterogeneity, differentiation of ties which enable the observation and precise gauging of the network at hand.

However, the cognitive dimension includes elements of organizational culture, namely symbols, codes and common language, non-verbal artefacts that constitute the significance of the network. Their importance is due to the fact that the common codes and codification as an element of the common language support the diffusion of knowledge. They are in their own way, the mental patterns for the individual and collective ways of perceiving and understanding the surrounding world.

In turn, the relational dimension appears in the obligations, ethical norms and trust. This relates to the personal nature of ties between the participants of the network and includes the aims, norms, trust, obligations that fulfil important functions in social relations. They are elements in the mechanism of social control in steering the ties between the participants of the network. The relational dimension of social capital facilitates the definition of the strength of ties between people.

These three dimensions have a significant impact on the ability of an organization to build knowledge in an enterprise.

In summarizing the theoretical approaches associated with social capital in an organization, it is possible to state that it results from the social relationship and is based on the obligation or readiness of the associated players to provide access to their own resources for the realization of the common goals. The skilful use of social capital in an organization, or in other words, that embodied in the units, employee groups, the organization itself, knowledge, skills and energy are all of an organizational dimension as they favour the development of the organization at hand, as well as the individual which is portrayed in terms of the increased level of satisfaction, earnings and execution of the work by entities. The value for an individual participant in social capital is the possibility of the better realization of his/her interests, which without access to the resources of the network of contacts could not be realized. Hence, employees are interested in investing in social contacts as thanks to them, they can have access to new resources and information. The value for an enterprise is the limitation of costs associated with checking the employees who participate in the network, as well as a more effective production of knowledge that is necessary for the increase in the level of competitiveness on the market.

## **2. SOCIAL NETWORKS AS AN ELEMENT OF THE PROCESS OF MANAGING SOCIAL CAPITAL IN AN ENTERPRISE**

Social capital is not a feature of an organization that results from its essence, but it must be consciously built up and managed. It should be the result of carefully thought out actions of the managerial staff. Shaping its state may be defined as management of social capital, which encompasses a sequence of specific values and instruments that are availed of in its creation within an enterprise. Management of social capital is in its own way, a type of process which consists of firstly, the choice of a defined structure of social network which shall be implemented in the conditions of the functioning of an enterprise, while secondly, the choice of a defined type of organizational culture that will support the process of creating knowledge and thirdly, the building of trust between the employees and the managers of an enterprise as an element of the stabilization of an organization. One of the most significant elements in the process of managing social capital is that of the choice of a specific model of network that would support the process of creating knowledge in an enterprise. The significance of a network depends on the type of ties between its participants. When an entity is associated with the “appropriate” ties with other people, then the aforesaid ties are the gateway to acquiring important goods from the point of view of the entity in question. (Matiaske 1999:182)

Due to the relatively low number of employees working in SMEs, as well as the efficiency of the flow of information and knowledge, it is worth building an egalitarian model of network. (Burt describes the hierarchical and egalitarian model in the following: Burt 2000:62) In this model, the communication channels are built similarly to the decentralized network where all employees in an enterprise have equal access to information. In this type of network, employees are encouraged to communicate with all others at a given level. The advantage of this network is the pace of transferring information and its unrestricted level of access. In comparison with the traditional system of information in an enterprise, information is not treated as the source of power in network communication, e.g. availed of as the means of ensuring power, but also used as the basic tool in the creation of knowledge. In the case of the egalitarian model, there is no centre that would deal with the distribution of knowledge. Efficient channels of communication are essential, which facilitate the free flow of information between employees in the realization of scientific projects. The flow of tacit knowledge takes on particular significance in this case. Thanks to informal contacts, the spreading of knowledge among the employees of an enterprise takes place, which has a positive impact on their development. Together with the application of the egalitarian model of network, it is worth applying the style of management based on democratic assumptions to this.

The choice of the specific model of network is conditioned by its efficiency, which may be analysed by taking account of its varying dimensions. R.S. Burt in his research on networks in organizations distinguishes three levels of analysis in terms of efficiency as follows: the size of the network, the density of contacts and the hierarchy in the network. (Burt 2000:34-36) In analysing the size of the internal networks in particular enterprises, the researcher in question discovered the dependency between the number of members and their efficiency, namely, the more employees create a network, the greater its efficiency is. Thus, the participation of a greater number of players and the greater probability of ties may be more attractive for an employee than a network with a small number of members, as it has access to credible information which may be availed of in his activities. In SMEs, it is worth striving towards the building of networks which could encompass employees executing various types of work that would in turn enrich the process of sharing knowledge with the other network

participants. By connecting the various areas of knowledge, it is possible to achieve the synergy effect. Sharing knowledge and information would increase the effectiveness of work. Another factor determining the efficiency of a network is its density, or in other words, the average strength of the ties between the contacts that employees make with each other. If the contacts between the network members are more frequent, the greater their efficiency becomes. This regularity results from the fact that the members who make contact more frequently may execute sanctions more easily with regard to those people who violate the common convictions and norms. More frequent contacts have an impact on the strength of relations between members, namely, the fact that they possess the same information and may eliminate the barriers that disrupt the flow of information between the network members. In an enterprise, the efficiency of a network is to a large extent dependent on the ties and channels of the flow of information and knowledge between its participants, both in an internal and an external dimension. Information is only valuable when it is new and is exchanged between the members of the network, thus constituting the basis for building knowledge. Analysis of the models of the structures of social networks indicates that the expanded network of mutual contacts between employees becomes in fact social capital when the values and norms supporting collective action are binding. Employees may count on mutuality when the promotion of cooperation is in the interests of the organization at hand. The member of the network who is a specialist in some area that helps many of his colleagues during the course of executing complicated activities may expect to receive help on their part when the need arises, thanks to which he may save time on becoming familiarized with a new method of work. This network also brings benefit to the enterprise in the form of creating knowledge which has an impact on improving its market position.

### **3. CHOICE OF MODEL OF ORGANIZATIONAL CULTURE AS AN ELEMENT OF MANAGING SOCIAL CAPITAL**

The cognitive dimension of social capital constitutes the basis of organizational culture which may be perceived as the system of values, behavioural norms, ways of procedure and thinking which have been articulated and distinguished by the personnel of the company at hand, which in turn leads to the clear distinction between it and other firms. (Kobi, Watrich 1986: 28-31) In this notion, the organizational culture is an element of the organizational order defining the norms of individual and social norms, ways of inspection, systems of values and symbols.

From the perspective of managing social capital, the choice of a specified type of organizational culture is significant. In the case of SMEs, the author proposes the building of an organizational culture that is oriented towards employees.<sup>1</sup> The features of this culture are as follows: building of friendly interpersonal and amicable contacts in employee groups and in the organization as a whole, while also paying attention to the creation of conditions for satisfying needs through the medium of employees by preserving the primacy of the established aims of the organization. A specific type of culture oriented towards employees is that of partnership culture which is based on cooperation and trust in ties between the employees and the management of an enterprise, as well as creating the sense of involvement in the development of the enterprise. The basis of these ties is that of such moral values as the following: responsibility, solidarity and support.

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<sup>1</sup> L. Zbiegień-Maciąg and W. Pawnik distinguished four types of organizational culture, namely: that which is oriented towards power, oriented towards fulfilling roles, oriented towards tasks and oriented towards employees: Zbiegień-Maciąg L., Pawnik W., *Zarządzanie organizacją. Aspekt socjologiczny*. Wyd. AGH, Kraków 1995.

The model of partnership culture is based on the partnership ties between the employer and employee. (Bylok 2011: 147-148) The ties between the employer on one side and the employees on the other require trust, cooperation and the collectivity of interests. The shape of these ties has an impact on the participation of the employees in the internal processes of information, communication and decision-making. (Beyer, Fehr, Nutzinger 1994:19)

The feature of this type of organizational culture is that of mutuality in ties between the employees and the employer. The employees are expected to devote their creativity and level of personal involvement towards the development of the enterprise at hand. Simultaneously, the employer in question makes his contribution towards the building of partnership ties by means of allowing employees to participate in the IT, communication and decision-making processes.

The manager decides to delegate some of his power to the employees when he is certain that this is the best solution for the development of the enterprise. Consequently, he expects a level of involvement and responsibility from the employees. However, an employee shall then participate in the decision-making processes when he shall have benefits from this, i.e. he would not lose his workplace as a result of the process of restructuring, but additionally, he would gain the opportunity of individual development. In both cases, activities are determined by mutual trust and obligations. When these conditions have been fulfilled, a mutuality of interests emerges and a partnership organizational culture is formed.

The process of initiating employees into the management of the enterprise at hand may take on the form of participation, which is defined as the impact of employees on a wide range of issues associated with the organization itself, work, as well as the principles and conditions of work that are subject to talks and negotiations. (Armstrong 2000: 636) Employee participation mainly arises out of instrumental motives. The management feels that it is a very good means of reinforcing, involving and motivating the employees in order for them to realize his policies. (H.Moerel 1995: 15-33) It is essential to underline that the partnership culture of an organization as opposed to employee participation does not result from economic aspects only, but also from moral aspects based on the following fundamental values: justice and equality. They constitute an important element of the social capital of an enterprise.

#### **4. BUILDING TRUST IN AN ENTERPRISE AS AN ELEMENT OF MANAGING SOCIAL CAPITAL**

The final stage in the process of managing social capital is the building of trust which according to the perception of N. Lin, signifies the conviction that the partner shall take our interests into account during the course of exchange, as we took his interests into account during the course of our previous actions. (Quotation from Sztompka 2007:70) By availing of the approach of R. Putmanem, (Putman 2000) we may state that trust in an organization that is shown towards other employees is based on the principle of mutuality with the notion that it is necessary to do something for your co-worker without expecting immediate gratification, but with the hope that in the future, he or another co-worker shall return the favour. This constitutes a system which complements organizational control.

Trust has an impact on the scope of access to tangible and intangible resources for the members of the network and the possibility of their use. Showing trust brings temporary suspension of the normal restrictions in the availability of the resources of the network. The people who receive this “display of trust”, are not constantly checked, thus gaining in accordance with this a wider range of possibilities of innovative and untypical activities. On a social scale, particular cases of aggregated trust leads to the growing mobilization, activeness and innovativeness. (Sztompka 2012:135)

Organizational trust is not a feature of an organization that arises from its very essence, but requires building in a conscious manner. It should be the result of carefully thought out actions on the part of the managerial staff. In an enterprise it is possible to build trust on the basis of various factors, namely: empathy, cooperation, values and structure, identity and involvement. (Kordel P. 2002: 77-89) Trust based on empathy is featured by a high degree of sensitivity, openness and tolerance. Employees are willing to hold honest talks with the management of the company. In crisis situations they are ready to make sacrifices on behalf of the enterprise, e.g. by undertaking overtime work for a reduced amount of remuneration.

Trust based on cooperation may be built on the basis of ties which emerged as a result of the realization of specified notions, undertakings, projects etc. These ties take on the form of participatory relations, which are characterized by cooperation in taking decisions in the case of all the entities participating in the business undertaking. Particular significance in the building of trust is played by the process of providing information about the current situation of the enterprise at hand on the market. This type of trust has an impact on the creation of the basis of the identification with the tasks executed by particular employees, which in turn, has an impact on the effectiveness of the enterprise as a whole.

In the case of trust based on values and structures, familiarity with the aims, mission and strategies of the enterprise on the part of the employees is significant. The values creating the mission of the organization at hand, become the roadsign for employee behaviour. This first and foremost relates to such values as the following: justice, loyalty, and devotion to the cause of the organization. The research carried out by Z. Baranyai, Z. Tóth- Naár, M. Fekete-Farkas, M. Molnár indicates that loyalty is the most significant value of trust. (Baranyai, Tóth- Naár, Fekete-Farkas, Molnár 2012: 303-314) The degree of trust with regard to an organization is also influenced by the stability of its structures and procedures applied. The cultural and normative dimension of the organization at hand is the foundation of trust between the participants of the aforesaid organization.

In the building of trust based on identity and involvement, emphasis is placed on the process of identifying the employees with the enterprise and the level of involvement in its functioning. The consequence of these actions is the attitude of co-responsibility of the employees for the fate of the company, the feeling of the collectivity of aims and mutual dependency.

In building trust in a small and medium-sized enterprise, it is worth choosing trust based on co-participation as this type of trust has an impact on the creation of the basis of identification with the tasks executed by particular employees, which in turn influences the effectiveness of the enterprise as a whole.

It is also necessary to remember during the course of building trust in an organization that it is a long-term process and depends on the cooperation of the owner, the managerial staff and the employees themselves. In order to achieve the targeted level of trust, it is first of all worth placing emphasis on trust of a rational nature, which is marked out by organizational norms that define the type of negative sanctions, in order to subsequently create the basis of trust based on moral criteria, or in other words, ethical norms - loyalty, justice and solidarity.

## **CONCLUSIONS**

Social capital is an important factor which influences the success of an enterprise on a competitive market. The owners and managers of SMEs should pay more attention to its management, or in other words, to its shaping and development. In particular, it is worth placing emphasis on the development of the capital of partnership culture. Its significance

results from the value which it contributes to the enterprise at hand, namely, cooperation, openness in communication, ability to run dialogue and empowerment of employees.

In a small or medium-sized enterprise, it is possible to strive towards first and foremost the creation of conditions for the development of social networks, or in other words, creating a transparent structural system of the organization, in which transparent conditions of cooperation would be binding. The subsequent step may be to build partnership culture on the basis of adherence to moral standards in terms of ties between employees and managers. In the third step, it is worth building trust based on identity and the sense of involvement. Such a type of trust fulfils an important function in stabilizing the social network and arousing its participants to take action.

A developed form of social capital is a factor that is most helpful on the market, supporting the creation and sharing of knowledge that may be availed of for the creation of new products on the market. Knowledge relating to the nature of social capital may help managers in the stimulation of pro-innovative activities of employees, which in turn increases the competitiveness of an enterprise on the market.

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