measuring and valuing social capital

A Guide for Executives

This report is based on a systematic review conducted by Moses Acqaah and Kwasi Amoako-Gyampah (both of Bryan School of Business and Economics, University of North Carolina at Greensboro, USA) and Nceku Q. Nyathi (University of Cape Town Graduate School of Business, South Africa). The research team reviewed 314 studies on social capital. They outlined the business benefits of social capital and identified measures and tools that can be used to assess the key dimensions of social capital.
Introduction

“It’s not what you know but who you know!” Phrases like this suggest that the value of relationships has long been appreciated. Relationships are particularly vital in successful business ventures and operations. This includes relational links of leaders and employees, as well as of the business as an organisation, and it includes relationships within and beyond the organisation.

More recently, the value of relationships has been recognised and highlighted explicitly in the integrated reporting movement. South Africa is the first country in the world in which listed companies are required to publish such an integrated report. The guidance provided by the International Integrated Reporting Council (IIRC) suggests that a company’s integrated report should include information about six forms of ‘capital’ as inputs and outputs of the business value generation process (see Figure 1). According to the IIRC’s framework, these capitals refer to “stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation.” One of these – social capital – focuses on “institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being”.

What is Social Capital?

Social capital refers to relationships between individuals or groups and the resulting ability to secure or obtain resources, knowledge and information.

FIGURE 1: THE IIRC’S INTEGRATED REPORTING FRAMEWORK AND THE SIX CAPITALS INVOLVED IN VALUE CREATION

However, despite the importance given to relationships in business leadership and management, it is remarkable how little explicit, structured attention is often given to assessing and improving them. Although social capital has been highlighted in integrated reporting guidelines, there is still much uncertainty about what it actually means and particularly why and how it should be measured. To address such uncertainties, the Network for Business Sustainability (South Africa) commissioned a systematic review of the rich scholarly literature on social capital. In total, 314 studies were reviewed, with this report adapting the key findings of the review for a practitioner audience.

We define social capital and provide an overview of its business benefits, and we also outline measures and tools that can be used to assess the key dimensions of social capital. Our framework is summarised in Figure 2 on the following page.
Social capital refers to relationships between individuals and groups and the resulting ability to secure or obtain resources, knowledge and information.

These relationships can be **internal** or **external** to an organisation.

Social capital has **three dimensions**:  
- Social networks and their structure  
- Trust and reciprocity in relationships  
- Shared norms and values

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| Social networks                  | *Internal social capital* gives rise to enhanced efficiency and reliability in operations, project and innovation management, based on improved:  
  - Sharing and dissemination of information and knowledge  
  - Commitment and retention of employees  
|                                 | *External social capital* contributes to competitive advantage and cost reductions, based on improved:  
  - Access to firm-external information and knowledge  
  - Reputation among customers and other key stakeholders  
  - Talent recruitment  
  - Broader benefits associated with social development and the business environment  | *Network size, density and diversity* focus on the number and characteristics of members in an individual’s or organisation’s network, and the frequency of interactions or some related measure of closeness  
  - **Network shape** focuses on the network as a whole, including third party relationships and possible “holes” in networks | **Primary data** on social capital measures can be collected through surveys of employees and other stakeholders. Often existing employee or related corporate surveys can be adapted and augmented.  
  - Such surveys can adapt items from **existing survey instruments**, such as the World’s Values Survey’s Social Capital Index, Putnam’s Social Capital Index Survey Instrument, or the World Bank Integrated Questionnaire for the Measurement of Social Capital (SC-IQ).  
  - Additional data collection methods include **interviews** and **focus groups**.  
  - Such primary data can be augmented or compared with **secondary data** from national censuses or large-scale surveys such as the World’s Values Survey.  
  - The data can be analysed and visualised using **social network analysis tools**, ‘relational proximity mapping’ (see case study 2, page 14), and related methods. |
| Trust and reciprocity            | *Generalised trust* (i.e. between strangers)  
  - **Interpersonal trust** (i.e. between people who know each other)  
  - **Institutional trust** (i.e. trust in authority structures in the state or corporate hierarchies)  
  - **Reciprocity**, or the willingness to provide support to others in the expectation that they would do the same | | |
| Norms and values                 | *Homogeneity or diversity of norms and values*  
  - Civic norms, or people’s willingness to co-operate and contribute to the public good | | |
| Civic Engagement                 | **Associational membership**  
  - **Civic participation** | | |
Social capital refers to an individual’s or group’s ability to secure or obtain resources, knowledge and information through relationships with and among individuals and groups. These relationships can be among internal stakeholders of an organisation (e.g. among employees) and between an organisation and its external stakeholders (e.g. consumers and regulators). Social capital has three dimensions (see also Figure 3):

- **Social networks**: This dimension prioritises the shape and structure of the network of relationships. As a result, an individual’s social capital will depend on the number of his/her ties and his/her position in a network (e.g. his/her centrality), as well as the strength or weakness of his/her ties to others.

- **Trust and reciprocity**: This dimension focuses less on the number of ties or structure of resulting networks, but rather on the quality of relationships. In particular, it focuses attention on the degree of trust imbued in such relationships and their ability to influence people’s actions and willingness to take risks. Trust can furthermore be divided into interpersonal trust among people who know each other; generalised trust among strangers, and institutional trust that people have in structures of authority, such as the government or corporate hierarchies. Reciprocity refers to an individual’s willingness to offer or share resources with someone else in the expectation that the recipient would provide such help in similar circumstances.

- **Shared norms and values**: This dimension emphasises that effective communication and collective action are enhanced by a common stock of norms and values. That is, if individuals and organisations share common norms – such as agreements based on handshake – this will reduce the transaction costs associated with contracts, legal action, and so on.
Social Capital and Social Value Creation

Social capital shares a number of characteristics with the other forms of capital. Like them, it is a resource or asset that provides value. It requires investment to build and maintain, but can also persist over the long term and, ultimately, be translated to financial capital. Many of its benefits and contributions to business value—such as described below—rely on its effects on other forms of capital; e.g., employees access knowledge through relationships and thus enhance the firm’s human capital.

Social capital also has distinctive features. In particular, because it is based fundamentally on relationships, it is intangible and context-specific. It is enhanced, rather than diminished, by use. Its intangible nature is one of the reasons why it is difficult to measure and influence by intentional leadership actions—but this same trait also makes it an important resource for companies because it is difficult for competitors to buy or imitate.

It is also useful to distinguish between social capital and social value creation. While social capital is about networks, trust, and shared values, social value creation is about the substantive improvement in people’s well-being, as measured by indicators of health, education, income, and so on. These are distinct concepts, but they are closely inter-related: social capital enables social value creation, and a company’s contributions to social value creation enhances its social capital, as outlined in Figure 4.

![Figure 4: Relating Social Capital and Social Value Creation](image-url)

- Social capital provides for social value creation through enhanced access to information and risk mitigation, and through reduced transaction costs and crime.
- Social value creation provides social capital to the firm through enhanced reputation and trust, and through frequent interactions based on shared objectives.
the benefits and value of social capital

Internal Social Capital

Firms derive value from both internal and external social capital. Relationships among internal stakeholders give rise to enhanced efficiency and reliability in operations, project, and innovation management. These outcomes result mainly on the basis of two benefits:

• **Improved sharing and dissemination of information and knowledge:** If employees and different groups within the firm have extensive and trusting relationships between each other, they are more likely to effectively share information and knowledge. In terms of network structure, for instance, it is important that there are no ‘structural holes’ that impede the flow of information between different parts of an organisation. ‘Bridging’ agents can play a particularly important role in bringing different groups or types of knowledge into contact with each other. For example, effective connections between research and development, and marketing departments are vital for innovation management. Yet even if such links exist, if these relationships are characterised by distrust, consequences to operations or change management will be dire. Finally, operations, change and innovation management will be supported by employees sharing a degree of common norms and values. All of these benefits translate into more efficient operations and effective change initiatives, which translate into competitive advantage.

• **Commitment and retention of employees:** Research shows that employees that have strong, diverse, and trusting interpersonal relationships with other employees will have a stronger commitment to the firm, and are likely to be more loyal. This contributes to improved employee retention, which enhances the firm’s return on investment in human capital and also supports change management initiatives.

External Social Capital

External social capital focuses on employees’ and the firm’s relationships with external stakeholders, such as neighbouring communities, customers, and regulators. Building external social capital contributes to competitive advantage and cost reductions, based on the following benefits:

• **Access to a company’s external information and knowledge:** In the context of increasingly rapid and complex technological, regulatory and other changes in a firm’s business environment, a firm’s ability to access information and knowledge determines its capacity for strategic foresight and effective responsiveness. If key employees have trusting relationships with government regulators, for instance, this is likely to improve their ability to gain access to information about impending regulations or other policy developments. Note that such relationships may transgress into illegal or unethical forms of social capital, such as collusion or insider trading. Ethical leaders will need to emphasise the benefits of transparent relationships while proactively discouraging the ‘dark side’ of social capital.
• **Reputation among customers, regulators, and neighbouring communities:** Company reputation is a vital asset, especially for customer-facing businesses or those that are highly regulated. Proactive management of such a firm’s relationship with customers or regulators is thus likely to receive dedicated attention. Appreciating the power of social networks in marketing has become common cause in connection with the Internet and indeed entirely new business models have emerged in the context of networking opportunities brought about by Information and Communication Technology. Not only does the expanse of and secure position within such networks have competitive implications, but also the trust placed in the firm, which in turn is associated with prior experience and reputation.

• However, benefits from focusing only on customers or regulators may be thwarted if other relationships are neglected. For instance, a mining company’s relationship with the government regulator will be threatened if the company’s reputation among neighbouring communities is strained. Being perceived as a responsive ‘citizen’ gives a company legitimacy among key stakeholders and this will also help the firm to address problems as they arise, because effective communication channels are less likely to close down. A holistic approach to measuring and managing social capital is thus necessary.

• **Talent recruitment:** A firm with good relationships with customers, regulators and other stakeholders, will also enjoy a better reputation among prospective employees. This will enable a firm to attract better talent.

• **Broader benefits associated with social development and the business environment:** Social capital has been shown to be an important contributor to community development and sustainable management of natural resources. When firms are willing and able to contribute to relationships within and beyond the firm, they contribute to the broader stock of social capital in the communities in which they operate and virtuous cycles of human capital and economic development. The resulting broader benefits contribute to higher spending power among potential customers, better-educated and healthier employees, and diminished risks associated with crime, pilferage, protests and political instability.
measuring social capital

The intangible nature of social capital makes it a powerful strategic asset, but it also makes it a difficult thing to measure. Yet such measurement can enhance proactive efforts to enhance this asset, and it is also necessary to respond effectively to integrated reporting guidelines. As indicated in Figure 1, each of the three dimensions of social capital is associated with particular measures, and a further set of measures focuses on civic engagement.

The **social networks** dimension of social capital is associated with the following measures:

- **Network size, diversity and density:** This refers to the number and diversity of individuals or organisations that are connected in an individual’s or organisation’s network, and the closeness of these ties. For individuals (e.g., employees) this measure would include the number and characteristics of other individuals in their network. These characteristics might include demographic variables or individuals’ positions in the firm’s hierarchy or functional domains. Diversity may furthermore pertain to the kinds of network ties; that is, bonding ties are those between members of a social group, such as a family or team, while bridging ties cut across such groups, and linking ties connect members of different levels in a hierarchy. For each of these network ties, some measure of closeness may be identified, such as frequency of interaction or perceived trust (linked to the second dimension discussed below). For a firm, it might include a mapping of key stakeholders in terms of their degree of influence and interest in contributing to the achievement of the firm’s objectives, and the regularity and reliability of interactions between the firm and these various stakeholders.

- **Network shape:** By coalescing information about not only the network linkages of individual employees or the firm itself, but also the linkages between others in the network, the shape and density of this broader network can be mapped. This network map can be used to identify third party relationships that are crucial to the organisation’s objectives. It may also bring to the fore important gaps or ‘holes’ in networks within or without the organisation. ‘Bridging’ such holes can be a cost-effective mechanism to build social capital and attain some of the related benefits described above.

Two classic social network studies provide useful concepts both for assessing and for engaging in networks. Mark Granovetter’s The Strength of Weak Ties, published in 1973 in the American Journal of Sociology, argues that even though much attention is commonly given to strong ties – that is, social interactions with significant time commitment between people who are similar – a particularly important role is played by weak ties that bridge different groups and thus transmit information and influence through broader networks. To illustrate, a “rumour moving through strong ties is much more likely to be limited to a few cliques than that going via weak ones; bridges will not be crossed” (page 1366).

These network measures commonly rely on survey instruments to collect data on employees’ or stakeholders’ relationships. Most firms implement employee surveys and some implement broader stakeholder surveys, which can be adapted to include pertinent questions to collect social network related data. Alternative and/or auxiliary methods include interviews and focus group discussions. In order to link two members in a network it is preferable to characterise their relationship in terms of information obtained from both. Once information is collected about network members’ linkages with each other, these can be mapped using basic social network methods. The social network methods used by social scientists are probably too technical and detailed for practitioners’ use, so more intuitive and basic approaches may be applied.

The trust and reciprocity dimension of social capital is linked to the three forms of trust plus reciprocity:

- **Generalised trust** pertains to the degree to which people trust strangers. This includes the proverbial ‘man on the street’, as well as anonymous employees in a large organisation. Understanding generalised trust is useful because it provides a basic platform for social interaction within and outside the firm. Organisational change, community development, or stakeholder engagement activities will benefit from this knowledge. There are well-established survey instruments that can be adapted for querying this in a given population; pertinent items might query, for instance, the degree to which respondents would rely on information provided by an unknown community member.

- **Interpersonal trust** is about trust among people who know each other, including employees working in particular teams or departments. This trust is particularly salient for the effectiveness of operations, as well as organisational change or innovation initiatives. Again, well-established questionnaire items can be used for this.

- **Institutional trust** relates to individuals’ trust of authority structures, including citizens’ perceptions of state legitimacy, as well as employees’ and neighbouring communities’ perceptions of management. The latter are obviously particularly salient for managers. Low institutional trust in management will obstruct strategy implementation within and outside the firm. Institutional trust can be assessed in questionnaires by querying respondents’ agreement with phrases such as ‘company leaders generally do as they say’, or ‘managers have our best interests at heart’.

- **Reciprocity** can be assessed as respondents’ willingness to share resources or provide support to others in the expectation that they would do the same. Like generalised trust, this provides a basic foundation for social interactions and it reduces transaction costs. Managers benefit from knowing about levels of reciprocity within and outside the firm.

Like the social network measures, trust and reciprocity measures can be assessed using surveys, including adapted versions of existing employee or stakeholder surveys. Additional or alternative methods include interviews, focus groups, and observation.
Norms and values represent a dimension of social capital, of which related aspects are often included in employee or organisational climate surveys. Such surveys can be used, possibly in adapted form, to assess whether employees or other stakeholders share some overlapping set of norms and values. If there is a high degree of diversity, this will have implications for internal and external management strategies and tactics. Over and above assessing the homogeneity or diversity of norms and values, specific attention should be given to civic norms, which relate to the general tendency or willingness of people in a given society or community to cooperate and act for the public good. This can also be queried in surveys and interviews. In addition, specific data collected on employees’ and other stakeholders’ norms and values can be augmented or compared with broader surveys, including, in some instances, national census data or large-scale surveys such as the World’s Values Survey and specifically its Social Capital Index.

The fourth category of social capital measures is not directly related to one of the dimensions, but it has links to each. Civic engagement is about the degree and manner in which people participate in associational activities in support of the public good. It may thus be considered the manifestation of civic norms considered above. Civic engagement includes the following potential measures:

- **Associational membership** considers individuals’ or organisations’ membership in professional and community organizations and associations. This may pertain to employees and their participation in associational life in surrounding communities, or to the firm itself and its contributions to general or specific business associations.
- **Civic participation** is more generally about individuals’ or organisations’ contributions to the public debate including, for instance, publication of opinion pieces in the press, or contribution in public forums, such as local development planning or water allocation forums provided for in diverse jurisdictions. Among individuals this may also include volunteerism in community initiatives, and corporate social investment initiatives may also be seen as a form of civic participation. Civic participation may also include political participation, such as individuals’ participation in elections or companies’ commitment to transparency in party funding.

Associational membership and civic participation may be assessed quantitatively in terms of, for instance, the number of associations that an individual or organisation is a member of, and the amount of time or resources that is committed to such activities. It may also involve more qualitative measures explaining a company’s stance on issues such as party funding.

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The labour unrest in the platinum industry that led to the tragic killing of 44 people in August 2012 and subsequently contributed to the longest strike in South Africa’s history in 2014 may be interpreted through a social capital lens. This is based on analyses of mining managements’ relations with workers, surrounding communities and other stakeholders, as described in companies’ public reports and public analyses that have been endorsed by mining companies. In particular, there are at least two kinds of relationships that deteriorated systematically in the lead-up to the recent unrests, which may have been identified and addressed earlier through a systematic approach to social capital.

First, management’s relationship with workers, particularly the rock-drillers, had become less and less direct because of a reliance on intermediaries in the form of union representatives or contractors. As a result, middle and senior managers became increasingly isolated from the grievances and growing distrust among these workers. This includes managers’ general lack of knowledge of workers increasingly precarious financial situation, premised in large part on their exposure to unsecured loan providers and emolument orders. A social capital analysis might have indicated earlier on that there are ‘holes’ in managers’ network relationships with workers and that these holes contributed to a lack of pertinent knowledge and necessary trust.

Second, managers arguably paid insufficient attention to the relationship between workers and the dominant union, the National Union of Mineworkers. As this relationship deteriorated, rivalry between the incumbent and a new contender, the Association of Mineworkers and Construction Union, created crucial challenges for management. This indicates that it is not just relationships between employees and the organisation that are vital for effective management, but also of third parties. The challenges faced by mining companies with regard to conflicts between rival factions within communities, or between municipalities and traditional authorities, provide further examples of this. As noted above, with regard to measures of network shape, a social capital analysis would focus attention on these third party relationships and ways in which the company could seek to support more conducive network dynamics.
Case Study 2
Transnet's Mapping of Stakeholder Relationships

Transnet SOC Ltd sought a better understanding of the quality of their relationships with stakeholders. Existing approaches, including customer and reputation surveys and interviews with stakeholders, did not provide enough information about this. After conducting a review of possible approaches, they chose to pilot the ‘Relational Proximity Model’. In this approach, an independent researcher interviews each party to a relationship, called ‘relationship owners’. The interviews focus not on service or specific issues or aspects of formal agreements, but on the relationship between the two parties, including questions about communication, knowledge, commonality of purpose, power, continuity, trust and reciprocity, and a shared sense of purpose and values.

The company recently completed the pilot project, focusing on the relationships between a number of line managers and representatives of key stakeholders they engage with, including some customers and some regulators. The results showed that in areas where commonly beneficial outcomes are being achieved, this was reflected in a close proximity score for the quality of the relationship between the parties. The results also showed that there can be misalignment between people’s perceptions of their relationships. In some instances, the company’s managers were positive about the relationship and their counterpart was less so, while in other instances, it was the other way around.

Particularly valuable was the feedback that was then provided to each of the relationship owners. While review committees received aggregated information about the relationship indicators, the actual relationship owners received more detailed and nuanced feedback. This provided the platform for fruitful conversations between the managers and their counterparts, to address unfulfilled expectations or communication barriers.

The pilot study was considered a success, and a larger project involving a broader array of company managers and stakeholder groups is planned. A key outcome of the process has been seeing stakeholder relationships as an important site for value creation.
This report was inspired by the NBS South Africa Leadership Council, which gathers annually to identify the top sustainability challenges for business in South Africa. The report is an extension of a larger systematic review authored by Moses Acquaah and Kwasi Amoako-Gyampah (both of Bryan School of Business and Economics, University of North Carolina at Greensboro, USA) and Nceku Q. Nyathi (University of Cape Town Graduate School of Business, South Africa). With guidance from members of the Leadership Council the researchers reviewed 314 studies.

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NBS-SA is an affiliate of the Network for Business Sustainability, a non-profit organization based at Western University and UQAM (Québécoise des Archivistes Médicales) in Canada. The Network for Business Sustainability produces authoritative resources on important sustainability issues with the goal of changing management practice globally. We unite thousands of researchers and business leaders worldwide who believe passionately in research-based practice and practice-based research.

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NBS South Africa Leadership Council

NBS-SA's Leadership Council is a group of South African sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their business sustainability challenges — the issues on which their organisations need authoritative answers and reliable insights. Their sustainability challenges prompt each of the NBS-SA's research projects.
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