1. Introduction and overview

Firm competitiveness depends heavily on the ability to produce new knowledge bases through combinations of knowledge located inside and outside the firm boundaries (Cassiman and Veugelers, 2006; Chesbrough, 2003a; Kogut and Zander, 1993). To increase competitiveness, firms need to be able to leverage complementary resource endowments and knowledge from external actors such as users, suppliers, universities and competitors (Arora et al., 2001; Rosenkopf and Nerkar, 2001; Shan et al., 1994; von Hippel, 1988). Therefore, it is important for firms to identify the contingencies that facilitate access to valuable knowledge and information.

The central argument in this book is that social capital plays a key role in enabling knowledge to flow across firm boundaries, allowing firms to exploit knowledge to generate new ideas. Underlying the idea of social capital is that personal and work relationships overlap, and individual attitudes and behaviours affect the collective behaviours of firms. The literature on localized economic activities supports this assumption and argues that multiple-level networks (professional and personal) eventually merge within geographical locations (Brusco, 1982; Saxenian, 1994).

The concept of social capital raises several theoretical and empirical questions about the way in which it creates value for firms, and provides entrepreneurs and managers with certain practical challenges. This book explains what social capital means for firm competitiveness and investigates how and why firms are able to generate value from social capital. It combines insights from the relational view of the firm and social capital theory, to advance the thesis that social capital is a key mechanism for firms’ gaining access to external sources of knowledge and resources, since it reduces the search and transaction costs in contractual and non-contractual interactions among economic actors and facilitates joint learning opportunities.

This study provides the theoretical, analytical and empirical grounding needed for a comprehensive understanding of how social capital influences firm competitiveness, contributing to the work on geographically localized knowledge creation and entrepreneurship. Valuable interactions between a focal firm and its social environment require an exchange of information/knowledge, and reciprocal trust, to support joint activities.
The strategic value of social capital

in a highly imperfect market. This book shows that firms located in geographical environments characterized by high levels of social capital are more competitive and innovative, since social capital is conducive to knowledge sharing and promotes trust-based relationships among the actors.

The entrepreneurship literature shows that entrepreneurs face several challenges in identifying and exploiting opportunities for their firms, including the development of advanced innovative capabilities and new internationalization practices. In order to succeed, firms need to be able to access heterogeneous sources of knowledge that will prevent myopic searching for new information. This work shows that entrepreneurs, who invest in individual social capital, gain access to knowledge domains that otherwise would be unavailable.

The results of the analysis in this book position it within the stream of literature that emphasizes the role of external sources of knowledge for firms’ competitive advantage (that is Ahuja, 2000; Baum et al., 2000; Laursen and Salter, 2006; von Hippel, 1988). This book develops new insights on the linkage between levels of social capital, external knowledge acquisition and firm competitiveness, based on new empirical evidence.

This work is one of the very few that investigates social capital using research and analytical techniques from a variety of disciplines including entrepreneurship, regional studies, strategic management, international business and innovation studies. This study, therefore, provides new knowledge and makes a step towards the development of a more comprehensive theory of social capital.

The target audience for this book is individuals wanting to enrich their knowledge on the concept of social capital. This work responds to a growing interest in the wider notion of social capital and its impact on firms’ competitive advantage, among management scholars, economists, sociologists and political scientists. From the perspective of leading consultancies and business advisers, knowledge and data on business issues concerning how managers and entrepreneurs relate to social capital is scarce. Policymakers also have a great interest in this issue, since they are called to define policies and strategies to promote social capital.

BACKGROUND: RESEARCH ON SOCIAL CAPITAL

Social capital is an interdisciplinary concept which is capturing the attention of political scientists (Putnam et al., 1993), sociologists (Burt, 1992; Coleman, 1988; Lin et al., 2001), and economists (Beugelsdijk and van Schaik, 2005; Hauser et al., 2007; Knack and Keefer, 1997).
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The extant research shows that social capital provides several advantages: it creates learning opportunities (Powell et al., 1996); facilitates knowledge sharing; increases social trust (Putnam et al., 1993), legitimacy (Gulati and Higgins, 2003), observance of norms and the level of social control (Coleman, 1990); and facilitates joint problem solving (Burt, 1992).

Drawing on this literature, this book identifies two main approaches to social capital: structural and individual.

The Structural Approach to Social Capital

The structural approach defines social capital as a collective good embedded in the firm’s environment (Coleman, 1988; Guiso et al., 2004; Knack and Keefer, 1997; Putnam, 1995; Putnam et al., 1993). This approach adopts a collective-good view of social capital specifying that all individuals in a given community can benefit from social capital (Shaw et al., 2005).

Coleman (1988, 1990) pioneered this structural approach, which recognizes social capital as a collective asset, introducing the idea of social capital as an attribute of a social community: ‘social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist in some aspect of social structures, and they facilitate certain actions of actors within the structure’ (Coleman, 1990: 302). Therefore, social capital relates to some aspects of social structure that ‘make possible the achievement of certain ends that would not be attainable in its absence’ (Coleman, 1990: 302).

The structural approach to social capital highlights the importance of community participation and local social interaction. North (1990) asserted that formal and informal institutions, legal structures and normative ‘rules of the game’, were fundamental for understanding economic performance. Putnam et al. (1993) found that the performance of regional government in Italy is significantly related to the traditions of civic engagement, participation-level associations, voter turnover and other manifestations of social capital. Putnam (1995) shows that in the USA, the decline in civic engagement is indicative of a decline in the social connectedness of Americans. Putnam’s (2000: 19) idea of social capital refers to ‘connections among individuals, social networks and norms of reciprocity and trustworthiness that arise from them’. He approaches social capital as a community asset that facilitates coordination and cooperation, recognizing that regional associations and informal ties provide a basis for knowledge sharing and complementarities, increase the speed of problem identification, facilitate access to resources and reduce the time...
required to monitor partners, thus creating the foundations for economic development.

These works were the inspiration for a now wide literature on the implications of social capital for economic outcomes that includes notable contributions that analyse social capital at national (Knack and Keefer, 1997), regional (Hauser et al., 2007) and provincial (Guiso et al., 2004) level.

The Individual Approach to Social Capital

The individual approach defines social capital as the investment of one individual in a network of social relationships which allows access to a set of diverse and rich resources (Bourdieu, 1980; Burt, 1992; Lin, 1999). This approach adopts a private-good view of social capital maintaining that social capital can benefit individuals (Shaw et al., 2005).

Bourdieu (1980) is one of the first scholarly works on social capital and defines it as ‘the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition’ (Bourdieu, 1980: 2). According to Bourdieu, social capital is a resource linked to social networks and group membership: ‘the volume of social capital possessed by a given agent depends on the size of the network of connections that he can effectively mobilize’ (Bourdieu, 1986: 249).

Lin (1999) provides a similar definition and highlights that the meaning of social capital is reflected in the use that individuals may make of their social ties in instrumental actions. He claims that social capital is the ‘investment in social relations by individuals through which they gain access to embedded resources to enhance expected returns of instrumental or expressive actions’ (Lin, 1999: 39). Lin (1999) emphasizes that individuals can generate value from their social capital since social relations facilitate information flow, make it easier for individuals to obtain social credentials and reinforce social obligation (Lin, 1999; Lin et al., 2001).

The entrepreneurship literature includes many important contributions that investigate the entrepreneur’s investment in social relations: entrepreneurs generally consult within their own networks of relations to obtain resources and knowledge (Larson and Starr, 1993; Stuart and Sorenson, 2003), thus an entrepreneur’s social capital has consequences for many firms (Shane, 2002).

This is one of the first books that systematically integrates the individual and the structural approaches to social capital. By combining two research traditions that have progressed in parallel, this book develops a new and
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comprehensive framework that investigates how firms create value from social capital.

THE EMPIRICS OF SOCIAL CAPITAL

Measuring social capital is challenging. The difficulties derive mostly from the complex and multidimensional nature of the concept and the paucity of data. Existing databases on social capital have been collected for different purposes and in different contexts and often in the absence of an informed theoretical framework.

By proposing new procedures to measure geographically bound social capital and an entrepreneur’s social capital variables, this book helps to clarify and operationalize the concept of social capital.

In line with Putnam’s proposed measurement of social capital, to operationalize the concept of geographically bound social capital, this book considers items that capture the local participation in informal associations (Putnam et al., 1993) and socialization with friends (Putnam, 2000). These items reflect the breadth of social ties essential in social capital theory.

All the items that constitute this geographically bound social capital variable are constrained by geographic space. The sociological literature on social relationships includes several contributions that support the existence of a correlation between the probability of two actors having a relationship and the geographic distance between them (Sorenson and Baum, 2003). Distance costs affect social relationships since ‘the interdependencies of different types of social relations make dense combinations of them dependent upon geographical proximity’ (Lorenzen, 2007: 805). Therefore, social capital is deeply rooted in local, institutional, historical and cultural bases (Putnam, 1995). The locally bound nature of social capital is especially evident in Italy where regions are characterized by persistent inequality in terms of social capital, despite the existence of common policies, institutions, laws, justice, school system, and an ethnically and religiously fairly homogeneous society.

Several studies use data from the World Values Survey to measure social capital at the national and regional levels (Beugelsdijk and van Schaik, 2005; Hauser et al., 2007; Knack and Keefer, 1997). The World Values Survey looks at social, cultural and political change in a sample of more than 80 countries. It grew out of a study conducted in 1981 by the European Values Survey. Since that date four waves of the World Values Survey have been conducted (from 1981 to 2004), allowing time series analysis to assess the effects of social capital on economic outcomes.
Although the value of the World Values Survey is unquestionable for cross-country studies on social capital, the final sample is significant across macroregions. For the harmonization of the regional statistics, the European Union adopts a hierarchical system for dividing up its economic territory, named Nomenclature of Territorial Units Statistics (NUTS). A macroregion corresponds to the NUTS level 1 and includes various regions within its territorial boundaries, which correspond to the NUTS level 2. Therefore, based on World Values Survey data, social capital will have the same value across all regions included in the same macroregion making it impossible to observe regional differences in social capital. This makes the use of the World Values Survey inappropriate for studies that involve countries where regional social capital differences are particularly evident.

This book operationalizes geographically bound social capital by using a database collected by the Italian Institute of Statistics. Starting from 1993, the Italian Institute of Statistics has carried out annual surveys (Multiscopo Surveys) that involve many social and cultural variables. The Multiscopo Surveys are usually conducted in the last two weeks of November; sample more than 24,000 families and more than 50,000 individuals by using a stratified random sample. From the first stratum (that is the municipality) a sample of families is obtained. The information is collected through face-to-face interviews with each family member.

The Multiscopo Surveys provide regional level data, corresponding to the NUTS level 2.

At the empirical level, since geographically bound social capital is a multidimensional entity, this book identifies more than one component of social capital. It uses statistical techniques, such as principal component analysis and factor analysis, to describe the variability among a range of variables in terms of fewer unobserved variables, named factors or principal components.

Furthermore, this book provides important insights into the operationalization of the entrepreneur’s social capital. It contributes to the empirical study of social capital by proposing an original data design and collection method that refers to the benefits (resources and knowledge) obtained by an individual from embeddedness in a network of relationships (Adler and Kwon, 2002; Stam and Elfring, 2008).

I employ the position generator technique to derive a measure of the entrepreneur’s social capital (Lin, 1999; Lin and Dumin, 1986). This measurement technique operationalizes social capital by looking at the entrepreneur’s access to a list of positions, which, in turn, give access to a corresponding knowledge domain. For the present study, I identified a list of positions that could be useful for the entrepreneur to detect information
relevant to its business. This operationalization of social capital provides a measure of the individual capability to handle a combination of relationships that facilitate the exchange of information and knowledge.

Information on an entrepreneur’s social capital was obtained through personal interviews, in the course of two surveys. The first survey was conducted between November 2007 and May 2008 and involved an initial sample of 300 Italian firms operating in two Italian regions, Abruzzo and Umbria, in the mechanical, chemicals, textile, agroindustrial and wood sectors. The second survey, which consisted of two rounds of data collection, was conducted between April and September 2008, and between October and December 2009. It involved an initial sample of 352 Italian companies in the information technology and automotive sectors. The latter survey was motivated by the need to investigate the role of social capital in the international setting.

OUTLINE OF THE BOOK

The book has two main parts. The first part illustrates the role of geographically bound social capital providing empirical grounding for the social dimensions of a geographical context. It analyses the significance of geographically bound social capital for firm performance to explore how geographically bound social capital works and the mechanisms whereby social capital can produce value for the firm.

The second part of the book introduces the concept of entrepreneurs’ social capital and explores the interconnectedness between geographically bound social capital, entrepreneurs’ social capital and firm performance. This part is devoted to an investigation of how firms capitalize on individual social capital. It analyses the processes used by entrepreneurs to utilize their individual social capital to promote activities geared towards the creation, diffusion and use of knowledge.

Part I  The Strategic Value of Geographically Bound Social Capital

Chapter 2 the regional determinants of firms’ innovation: the role of social capital and regional creativity

Chapter 2 investigates the role of geographically bound social capital in determining the relationship between regional creativity and firms’ innovation. Previous studies have defined regional creativity primarily looking at the regional capability to attract skilled and talented individuals (Florida, 2002; Mokyr, 1990; Romer, 1990). Since knowledge is embodied largely in skilled and talented individuals, regions need to attract firms...
and also to attract skilled and talented people who can contribute to the local production of embedded locally bound knowledge essential for firms’ innovation and regional competitiveness. I build on these studies examining the concept of regional creativity through the lenses of human capital, knowledge production through R&D and cultural capital.

High levels of regional creativity are beneficial for firms since they enable them to take advantage of the presence of skilled and talented individuals. Scholars are arguing increasingly that there are persistent economic differences among regions caused mainly by unequal access to knowledge stocks (von Tunzelmann, 1995).

Storper and Scott (2009) questioned whether the presence of skilled and talented individuals in particular places is a sufficient condition to generate innovation, or are other enabling mechanisms required. In this chapter, I suggest that a firm location in a creative region is a necessary, but not sufficient condition for it to be innovative. Innovation is a very complex process, which does not depend only on the presence of skilled and talented individuals within a regional boundary. According to the European Commission (2003), social capital is required to transfer the knowledge embedded in people. Consistently with this idea, this chapter examines the concept of geographically bound social capital as an important external contingency that determines the possibility that firms will benefit from high levels of regional creativity.

I argue for the positive role of social capital in defining the effectiveness of regional creativity in terms of firm innovativeness. I test this hypothesis on a sample of nearly 5000 Italian manufacturing firms, which are split into two subsamples. The first subsample groups firms located in high social capital settings or regions where the level of social capital is higher than the 75th percentile. The second subsample contains firms located in low social capital settings, which are regions where the level of social capital is lower than the 25th percentile.

The results of the estimations applied to these two subsamples show that for the subsample of firms in high social capital settings, regional creativity has a positive and significant impact on innovation, but for the other subsample of firms in low social capital settings, regional creativity is not significant in firm innovation.

This suggests that geographically bound social capital positively mediates the effectiveness of regional creativity for firm innovation. The analysis confirms the importance of geographically bound social capital.

**Chapter 3 the impact of social capital on firm–bank relationships**

This chapter investigates whether and how geographically bound social capital shapes firms’ relationships with banks. I examine the two main
aspects of firms’ relationships with banks in this study: (i) number of credit relationships established by firms; and (ii) firm’s privileged debt maturity.

Firms tend to have involvement with more than one bank. Multiple banking could be interpreted as a form of shyness on the part of firms, which makes them prefer several sources of finance over the divulgence of too much private information, which is a crucial condition for a single, strong banking relationship. At the same time, many banks prefer multiple banking, since it allows them to spread the risks among many recipients. This chapter shows that firms located in high social capital settings have a higher probability of forming single banking relationships. Geographically bound social capital boosts perceived trust among the economic agents and facilitates credit relationships: firms are no longer forced to refer to multiple partners and banks do not have to limit their credit possibilities to minimize credit risk.

In terms of privileged debt maturity, firms tend to rely on short-term debt to finance their investment. The preference for short-term finance may be short-sighted on the part of managers and may not promote the development of long-term plans. For the majority of firms, however, short-term finance is a condition imposed by the banks rather than being the firm’s choice. Most banks prefer shorter debt maturity in order to enable some sort of periodic control over firm performance. This behaviour may have its origins in the lack of mutual trust among the parties caused by the asymmetric information problems common in the banking sector. Asymmetric information problems induce leading banks to prefer short-term debt agreements in order to reduce the risk of default.

After controlling for variables at firm and geographical level, I show that the higher the level of social capital, the longer will be the debt maturity. The empirical analysis is based on an original database obtained by merging two Italian data-sets that provide information on firms’ financial situation and geographically bound social capital.

Part II  The Strategic Value of Individual Social Capital

Chapter 4  turning public into private: how geographically bound social capital amplifies entrepreneurs’ network for innovation

Chapter 4 explores the role of geographically bound social capital and entrepreneurs’ social capital. Geographically bound social capital is a collective asset and represents the level of social connection and interaction within a given community. Entrepreneurs’ social capital is an individual asset and represents the investment that entrepreneurs make in order to build their social networks. I focus on the relationship between geographical bound social capital, entrepreneurs’ social capital and firm
innovation using a unique data-set that combines public data collected by the Italian Institute of Statistics with survey data.

The results show that entrepreneurs’ social capital positively affects firm innovation and that geographically bound social capital represents an external contingency that positively moderates the relationship between an entrepreneur’s social capital and innovation. In other words, being located in an area characterized by a high degree of geographically bound social capital increases the effectiveness of an entrepreneur’s social capital on firm innovation. This result holds controlling for a large set of firm characteristics and local variables.

Chapter 5  international social capital and the offshoring of intangibles
This chapter introduces the concept of international social capital and investigates how it influences the relationship between the offshoring of intangibles and firm performance. The offshoring of intangibles is a global production strategy based on the decision to outsource to foreign countries high knowledge intensive activities, such as software development, R&D, product design and professional services (Bounfour, 1999; Kotabe and Swan, 1994). To reap the full benefits of offshoring, firms are required to integrate and coordinate performance and knowledge.

International social capital is the relationship that firms establish with foreign actors that have access to a wide variety of knowledge domains. In this chapter, I suggest that there is a positive relationship between the offshoring of intangibles and firm performance and that, to benefit fully from offshoring intangibles, firms need to invest in building international social capital. This will help the identification of valuable partners with a willingness to cooperate, facilitating the process of knowledge acquisition.

I test these assumptions using an original data-set obtained by merging a public data-set, AIDA, with survey data collected on a sample of Italian firms operating in the information technology (IT) and automotive sectors: it has been shown that firms operating in these sectors are more likely to engage in offshore outsourcing activity.

The results confirm the value of social capital for firms’ strategic decisions: international social capital positively moderates the relationship between offshoring intangible activities and firm performance. International social capital is shown to be especially important in this specific context when there is a danger of fragmentation of activities and knowledge. International social capital reduces the difficulties associated with integration.
Chapter 6  the role of social and human capital in the succession process in family firms

Chapter 6 looks at the effects of social and human capital on the succession process in family businesses. The transition from one generation to the next is considered the most important phase in family business management, since it promotes several changes in the company, including changes in the distribution of power and in the management structure.

In family firms, as opposed to other types of firms where knowledge is linked strictly to the business, knowledge is often individual and accessible only to the family members. The success of family firms, therefore, is linked to the knowledge possessed by the family owners.

A central figure in the succession process is the successor. Analysis and evaluation of the effectiveness of the transition process in a family firm requires a deep understanding of the influence of the successor’s level of social and human capital.

I draw on theories of family business and focus on conservative, vacillating and proactive succession. Each of these models results in different performance which influences the overall effectiveness of the succession process in a family firm.

A multiple case study empirical approach is applied to a theoretical sample of six family firms; this shows that the successor’s level of social and human capital contributes to defining the succession model adopted by the firm. This study bridges the gap between the literature on family firms and social and human capital theories, and provides some insights for managers and entrepreneurs preparing for a succession.