ICTs and Social Capital
Setting the Scene

Workshop on ICTs and Social Capital in the Knowledge Society
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Basic concepts

- **Social Capital = Social + Capital**
  - “the missing link between growth and accounted inputs”
    - Unmeasured “capital” + “services”
  - “the missing link between economic growth and sustainable welfare”
    - Unmeasured output
  - “the glue that puts it all together”

- **Capital**
  - “asset that generates benefits over time”
    - investment $\Rightarrow$ capital stock $\Rightarrow$ service flow
Economic growth

output ← econometric efficiency ← labour

human capital

physical capital

land
The visible but unaccounted economic impact

• The “drivers dilemma”
  – Solved by traffic lights + norms + sanctions
• Diamond wholesale market
  – Lower costs through trustworthiness (lawyers unhappy, though)
• Labour market
  – “it’s not what you know, it’s who you know” (the importance of weak ties)
• Winning the Nobel
  – The shortest route: through the laboratory door of a Nobel laureate
• Learning to do e-commerce transactions
  – Ask your grandson (“Coleman in reverse”)
Hanifan

• “Those tangible substances that count for most of the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit…”

Coleman

• “a variety of different entities [which] all consist of some aspect of social structure, and [which] facilitate certain actions of actors—whether personal or corporate actors—within the structure”
Putnam

- "features of social organization, such as networks, norms, and trust, that facilitate co-ordination and co-operation for mutual benefit"

Fukuyama

- “Social capital is an instantiated informal norm that promotes cooperation between two or more individuals.”
- “All groups embodying social capital have a certain radius of trust…”
- “The economic function of SC is to reduce transaction cost associated with formal coordination mechanisms…”
- “social capital arises spontaneously as a product of iterated Prisoners Dilemma (PD) games.”

Bourdieu

- “the aggregate of the **actual or potential resources** which are linked to possession of a durable network of **more or less institutionalized relationships** of mutual acquaintance and recognition”

- “depends on the size of the network of connections he can effectively mobilise and on the volume of capital (economic, cultural, or symbolic) possessed in his own right by each of those to whom he is connected”
Different views

- Hanifan: outcome (well being)
- Putnam: collective productivity
- Fukuyama: lower cost
- Bourdieu: capital (borrowed)
- North: institutional enablers

- micro – meso – macro
Three components of business value generation in knowledge-based firms

**Internal Structure**
- Management processes
- Information systems
- Work practices

**Competence**
- Skills
- Attitudes
- Learning / innovation

**External Structure**
- Customer relations
- Stakeholder relations
- Reputation / Brand

Value
## Intellectual Assets Monitor

<table>
<thead>
<tr>
<th>Our Customers (External Structure)</th>
<th>Our Organization (Internal Structure)</th>
<th>Our People (Competence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth / Renewal</td>
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<tr>
<td>Revenue growth</td>
<td>Total competence, expert years</td>
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<tr>
<td>Image-enhancing customers</td>
<td>Percentage value added</td>
<td></td>
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<td></td>
<td>Total investment in org. value added</td>
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<tr>
<td>Efficiency</td>
<td>Efficiency</td>
<td>Efficiency</td>
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<tr>
<td>Change in sales per customer</td>
<td>Change in sales per admin staff growth</td>
<td>Value added per expert</td>
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<tr>
<td>Stability</td>
<td>Repeat orders</td>
<td>Expert turnover</td>
</tr>
<tr>
<td>Repeat orders</td>
<td>Five largest customers percent</td>
<td>Expert seniority</td>
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<tr>
<td>Five largest customers percent</td>
<td>Admin seniority</td>
<td>Median age</td>
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<tr>
<td></td>
<td>Rookie ratio</td>
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**Growth and renewal**

- Revenue growth: 44%
- Image-enhancing customers: 40%
- Product R&D percent value added: 18%
- Total investment in org. value added: 33%
- Total competence, expert years: 298
- Average education level: 2.3

**Efficiency**

- Change in sales per customer: -20%
- Value added per expert: 867
- Value added per employee: 665

**Stability**

- Repeat orders: 66%
- Five largest customers percent: 41%
- Admin seniority: 3
- Rookie ratio: 64%
- Admin turnover: 10%
- Expert turnover: 10%
- Median age: 34
The Four Quadrants of Social Capital

- **Macro**
  - Institutions
  - Culture

- **Structural**
  - Organisations

- **Meso**
  - Knowledge
  - Cognitive

- **Micro**
  - Networks, routines
  - Information
ICT impact routes

- structural
- organisations
- knowledge
- cognitive

networks, routines

institutions

culture

ICTs

- macro

- meso

- micro

information
An Example: Open Source Innovation Communities

- Exchange of social favors differs from economic exchange in two aspects (cf. Portes, 1998)
  - No single currency for social obligations
  - Timing of the repayment often unspecified

- Complementary contributions become possible
- Innovative contributions become possible
Example 2: Firm-level propensity to invest in innovation

- The willingness of business firms to invest in innovative activities depends strongly on social capital
  - External networks provide information about markets and competition, and decrease risk
  - The success and costs of new product introductions depends on existing external networks (innovation is easy, finding reference customers is difficult)
  - The growth capability depends on internal social capital (e.g. possibilities to reorganise resources and processes)
ICTs will change mechanisms of trust, institutions, value systems, networks, and information access. Open questions include:

- ICT as a source of improved access to labour market and economically relevant competences
- Impact of ICT and CMC on the generation and destruction of social capital; implications to civic society, regional development, organisations and the foundations of economy
- Social capital in social innovation and change; sustainable growth, social cohesion, innovation, and renewal
- The new dynamics of trust, transparency, and accountability