# A Social Capital Approach Towards Social Innovation

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## 1 Introduction

In June 2012, the American political scientist Elinor Ostrom died in Bloomington, Indiana. Only three years before, in 2009, she was awarded the Nobel Prize in Economics. Lin (how her friends and students called her) was not only the first female Nobel Prize winner in the field of economics; she was also the first trained political scientist to receive that most prestigious award. These rather outward traits, however, were not the only aspects of her 'uniqueness'. In the context of a sometimes superficial research practice in economic and social sciences, whose progress is shaped by imperatives to publish in highly specialized scientific journals, the work of Elinor Ostrom – which she pursued together with her husband, political philosopher Vincent Ostrom – chose some very basic and elementary questions as points of departure.

Her most central research focus was on common property, on collective assets and why they are not degrading (e.g. in traditional societies) even if the concept of 'economic man' would predict that. What economic theory models as a 'prisoner's dilemma' – i.e. individual and collective rationality contradicting each other in certain situations – is a living experience for every human actor. The fear of getting the sucker's payoff (cooperation by the participant and defection by the other players) may inhibit rational actors from contributing to a public good (Bougherara et al. 2009; Fehr and Gächter 2000). If this is an obvious fact, we may continue to ask with Elinor Ostrom: Why are some communities working together and others are not? Answers to this simple question are of crucial importance for local and regional development, for sustainable economic success of a company or national economy and ultimately probably even for the (ecological) survival of mankind. The answers to this question can be analyzed at three different levels:

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1. The question poses itself on a face-to-face level. For example, one of Elinor Ostrom's research objects were beneficiaries of irrigation projects in developing countries (Ostrom 1990, 1992). In order to produce sustainable effects, the irrigation channel needs to be sustained by maintenance work, which has to be carried out by the adjoining tenants themselves. However, if the water comes for free and the maintenance work is annoying and arduous: Why do some tenants voluntarily contribute and fight against the draining of the channel and others are not?
2. The question, however, also poses itself on an inter-organizational level. When the garment factory 'Ali Enterprises' burned down on September 17th, 2012 in Hub River Road, Sindh Industrial Trading Estate (SITE) in Karachi, Pakistan, more than 289 workers died: they had been trapped and were unable to escape from the latticed windows of their production site. The local population, media and NGOs but also powerful consumer organisations in developed countries held western clients of 'Ali Enterprises' like the German brand KIK responsible for this tragedy (IndustriAll Global 2012). In the international supply chain of large textile brands, there are no effective mechanisms in place to prevent suppliers (first, second, third tier) from ugly exploitation, exposing their employees to lethal risks by saving on elementary safety devices. In order to safeguard their brands, clients have an interest in creating organisational mechanisms to prevent those disasters from happening. Why are some more successful than others?
3. The question ultimately also poses itself on an international level. In global conferences taking place at Copenhagen, Rio and elsewhere in the World, politicians and representatives of international organizations like the United Nations Environmental Program struggle to achieve common environmental goals like effective reduction of CO2 emissions in order to overcome global warming. However, achieving these goals always comes at a cost – which politicians have to bear nationally: additional investments in resource saving production may slow down growth, increase in taxes and fees for consumers hamper the international price competitiveness of companies, threaten jobs and ultimately satisfaction of citizens with their political leaders. Mutual enforcement mechanisms – and sometimes even basic observability – of compliant behaviour are absent in many cases. Why did coordinated efforts sometimes succeed – like ozone killer prevention in the early 1990's – and in many others not?

In a national context we are relying on legal rules and institutional enforcement mechanisms (institutional capital) to assure general cooperation for public goods. However, as the contemporary European debt crisis clearly demonstrates, this already holds true to a rather limited extent in some nations, which prove their inability to effectively coerce powerful groups into bearing their share. Moreover, effective control and enforcement mechanisms are even more absent on an international level, where only sparse institutional capital exists.

Thus, in a situation where no cooperation exists even if obvious potential gains are looming from it, the crucial role of 'social capital' for the provision of public goods and social development (in the widest sense of the word) has become obvious.

Social capital includes 'soft' elements like mutual trust (Ostrom and Walker 2003) but also 'hard' ones like mutual enforcement mechanisms (i.e. 'covenants with a sword', Ostrom et al. 1992), here: It is their social capital, which allows individual actors to overcome social dilemmas and achieve gains from cooperation.

Summing-up, according to Ostrom and Ahn (2009: 20), social capital can be understood "as an attribute of individuals and of their relationships that enhance their ability to solve collective-action problems". From this point of view, social capital can be considered an asset and a resource for social innovation but this is a risky assumption. In the following, we will analyze in depth the three different levels already mentioned (individual, organizational and global) of social capital and its relation with the social innovation discussion from a systemic point of view (Habisch and Moon 2006).

## 2 Three Levels of Social Capital in Social Innovation

M. Yunus, the Nobel Peace Prize winner of 2006, is probably one of the best-known examples of a successful social innovator. At the same time, the Grameen Bank as his major organisational achievement is a very obvious example of a social enterprise based on the transformation of social and cultural capital; and finally the microcredit movement born after the escalation and replication of Grameen Bank's business model can be considered a social innovation at a global level.

Yunus provided the Bangladeshi women with a rather small amount of money. But much more importantly, the Grameen experience emerged from a basic transformation of the social and cultural capital among the group. Already existing networks of mutual solidarity among the women were extended and used in such a way that they were able to substitute their access to financial capital (they found themselves notoriously deprived from). Evenly important, however, (and often overlooked primarily by the social scientist perspective) is the cultural capital, which the creation of Grameen Bank brought about for a cooperative culture among very-low-income women in Bangladesh. With their becoming a co-responsible subject of the rotating credit association they formed, women experienced increased self-esteem and acceptance of their human dignity, which beyond group monitoring and enforcement, formed another powerful motivator for compliance.

The impact of the microcredit business model can be exemplified in the multiplication and increasing growth of the number of microfinance institutions (MFIs) around the word. For an overview, it is sufficient to take a look at the Forbes list of the 50 most important MFIs in the world (Swibel 2007). This list was created using the information the microfinance institutions deliver to the Microfinance Information Exchange, Inc. – more than 2,000 of them did it in 2011 (Microfinance Information Exchange, Inc. 2012). However, while the empirical research on microfinance shows a positive contribution to the development of microbusinesses, their impact on the alleviation of poverty is less evident (Chowdhury 2009; Gibbons and Credit 2011; Goldberg 2005; Islam 2007; Odell 2010).

## *2.1 Micro-Individual Level: The Role of the Social Innovator*

At an individual level, social innovation is driven by the crucial intervention of social innovators or social entrepreneurs. According to the Skoll Foundation, “social entrepreneurs are society change agents, creators of innovations that disrupt the status quo and transform our world for the better” (Skoll Foundation 2012). In a social capital perspective, we can formulate more precisely: *A social innovator is a person who changes the collective action situation of a relevant group in such a way that their social or cultural capital is either modified or extended in order to achieve mutual cooperation in the production of public goods.*

According to Phills et al. (2008: 37), literature that focuses on social entrepreneurs highlights some personal qualities like boldness, resourcefulness, ambition, persistence. Others include ‘unreasonableness’ (Elkington and Hartigan 2008) and allude to a certain long-term, ‘prophetic’ perspective. From our perspective, it is not occasionally that this often goes together with highly humanistic and even religious motivations (Habisch and Loza Adaui 2012). But even if the role of social innovators as persons is crucial for the emergence of social innovations, a concept of an enlightened ‘hero’ who accomplishes everything on his own is not a realistic one. On the contrary, the establishment and successful implementation of social innovations depend on a variety of factors (some of them being of organizational and institutional character) but all have to be co-involved in a complex process that permits social change. In our words: the innovation must fit into the existing endowment of social and cultural capital in order to enfold a sustainable impact.

According to Landry et al. (2002: 683), there are two important points to be taken into consideration, here: “first, research on innovation is no longer conceived as a discrete event only involving the development of technical solutions, but as a process also involving social interactions” and “second, innovation is no longer explained by the sole combinations of tangible forms of capital (physical, financial, . . .), but also by combinations of intangible forms of capital, especially social capital”. While Landry’s et al. first point is constantly stressed by scholars in the field of social innovation (Mulgan 2006; Nicholls and Murdock 2012; Phills et al. 2008), his second point i.e. the particular reference to social capital is somewhat less clearly expressed. A careful analysis of social capital creation as “the collection of resources owned by the members of an individual’s personal social network, which may become available to the individual as a result of the history of these relationships”, (van der Gaag and Snijders 2004: 200) is crucial to understand the dynamic of social innovation. Unfortunately, *research on the individual social capital of social innovators is practically inexistent.*

## 2.2 *Meso-Organizational Level: The Role of Social Organizations*

At an organizational level, a social capital perspective refers to the role of 'business models' (Sommerrock 2010): How is an organizational arrangement capable of structuring interactions in such a way that contributions to public goods are made on a sustainable basis? What role do the different social actors (companies, NGOs, public organizations etc.) play in that process? This analysis does not necessarily limit itself to social enterprises – for two reasons: First, social innovation can take place in any kind of organization, even if social enterprises are the most representative drivers of social innovation; and second, the social innovation phenomenon has proven that some of our categories are indeed outdated.

In the literature, there seems to emerge an agreement that social innovations go hand in hand with blurring limits between market, state and civil society differences. Other authors question even more radically, whether a distinction between the –so called– "profit" and "non-profit" sectors does make sense at all; they search for new and more adequate categories such as 'hybrid organizations' (Battilana, et al. 2012; Grassl 2011; Haigh and Hoffman 2012) or the concept of 'metaprofit' (Loza Adaui 2012; Mion and Loza Adaui 2011).

In the organizational literature, there is no general agreement about the role of social capital for innovation. On the one hand, some dimensions of organizational social capital contribute to product innovation, (Tsai and Ghoshal 1998); on the other hand, Leana and van Buren (1999: 551) argue that social capital can also hinder the diffusion of innovation in organizations: "social capital, while encouraging risk taking through trusting relations, may also hamper innovation through its detrimental effect on the introduction or consideration of new information by members". On the contrary, McElroy (2002: 30) develops the concept of "social innovation capital" as the "collective capacity of a firm to innovate". In this approach, the word social is not charged with a normative connotation and refers to firms as "social systems that organize themselves around –and carry out– the production and integration of new knowledge" (ibid, 2002: 32). Screening the literature, however, Zheng (2008) underlines the inconclusiveness of the research on the relationship between social capital and innovation. He deplores the 'elasticity' of the concepts and forms of social capital and in particular raises concerns regarding the relation of causality between social capital and innovation from a holistic perspective. What becomes obvious from these authors is the lack of a precise definition of what is meant by social capital – a problem we try to overcome following E. Ostroms perspective on collective action.

The research on social innovation at an organizational level seems to follow two streams of analysis. One studies social innovation taking place in normal companies and the other focuses its attention on innovative organizational models.

The first of these two research streams is better known as corporate social innovation. Rosabeth Moss Kanter built the concept of corporate social innovation on the experience of companies that consider "community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve long-standing business problem". She identifies how "tackling social sector problems forces companies to stretch their capabilities to produce innovations that have business as well as community payoffs" (Kanter 1999: 124). An extension of this line of thought can also be found in the research focus on business opportunities in low-income markets, i.e. the bottom of the pyramid (BoP) (Prahalad and Hart 1999). Moreover, even M. Porter's recent focus on 'shared value creation' may be attributed here (Porter and Kramer 2011). A rather limited set of literature focuses on the role of small and medium companies and inquires the specific way they economize their social capital (Spence et al. 2003).

A second research stream on social innovation at an organizational level focuses on social enterprises, more precisely on organizations explicitly oriented towards the provision of public goods (Sommerrock 2010). The research on social enterprises is gaining momentum; however, research on organizational social capital in social enterprises or studies linking organizational social capital with social innovation are a practically nonexistent.

## *2.3 Macro Level: Social Capital and the Drivers of Innovation*

The empirical evidence on the impact of social capital on innovation at more macro levels is the most intriguing. We understand macro levels as national but also as regional or community analysis, here. There is no clear evidence on which of the multiple elements of social capital on a macro level encourages or discourages innovation.

Following the traditional approach of the American political scientist Edward Banfield on the 'moral basis of a backward society'(1958), some research on social capital and innovation states that more social capital hampers innovation. For example, for Florida et al. (2002) what stifles innovation is not commonality but difference. Others find innovation as the way in which social capital contributes to economic growth (Akçomak and Weel 2009). With the influential work of R. Putnam (1992) who in his famous empirical study stresses the role of social capital for the economic success for Italian regions, even this line of thought has a point of reference in political science analysis. Summing-up, however, there is no clear path to take in the analysis of social capital as driver of innovation at regional and more aggregated levels.

For example, for the relation of social capital and innovation, the study from Hauser et al. (2007) covered 51 territorial units from six European countries to see if "social capital plays an important role in the diffusion of knowledge and regional innovative capacity" (ibid: 83). The authors concluded with two important points: first, "independent components of social capital have a joint significant impact on innovation measured by patent applications that corresponds to the influence of human capital" (ibid: 84); second, they affirm to have found "robust empirical evidence for the significant role of weak ties in social interaction and innovation on a regional scale" (ibid: 84). Proving the reasoning from Granovetter (1973) about the strength of weak ties: "close friends know the same people you do, whereas acquaintances are better bridges to new contacts and non redundant information" (Castilla et al. 2000: 220).

Research on social innovation at an aggregated level focused on neighbourhood and communities are better known as community development projects. These are forms of social innovation within certain communities. According to Moulaert et al. (2010: 5), community development projects are "locally based initiatives . . .[that] can galvanise a range of publics to engage in activities that have city-wide (if not greater) impacts on the dynamics of urban cohesion and social development". The results of the *Social Innovation Governance and Community Building Project* –funded by the European Commission– shows through several case studies what social innovation (intended as community development at a local scale) can reach. The project interprets social innovation as a "dialectical process between exclusion conditions. . . and collective processes and practices deployed to overcome them" (Moulaert et al. 2010: 2). For these authors, the lack of resources –including social capital – is a factor that somehow motivates social innovation at a communal level (Moulaert et al. 2010).

According to Moulaert (2009: 14), "within the social sciences literature some authors emphasize opportunities for improving social capital, which allow economic organizations either to function better or to change, thereby producing positive effects on social innovation". While he doesn't mention which authors he is talking about, he adds an important suggestion to our topic: "the price paid for. . .sharing social capital concepts across disciplines is that it has become highly ambiguous, and its analytical relevance is increasingly questioned" (Moulaert 2009: 14, for a development of this, see Moulaert 2005). In our perspective, he calls for a conceptual underpinning of the social capital concept, which might be provided by the reference to collective action.

In a study that covered 59 different countries, Dakhli and de Celrq (2004) found only limited support for the positive effect of trust and associational activity on innovation; moreover, he notes a negative relationship between norms of civic behaviour and innovation. The authors explain this negative relation, affirming that a "general tendency of 'being a good citizen' is generally contradictory to the general willingness to deviate from existing rules and procedures that has often been shown to be necessary for innovative activities" (ibid: 124.) The question whether this notion is also valid for social innovation, which requires a certain degree of open cooperation, remains questionable.

In that sense, Akçomak and ter Weel (2009) in a study covering 102 European regions from 14 countries during 12 years (1990–2002), identify innovation as an important channel by which social capital influences per capita economic growth. For these authors, a higher stock of social capital clearly yields more innovation. The main reason they provide is that innovation will profit from (risk-avoiding) trust between venture capitalists and researchers. In other words, innovation "is easier in an environment in which people trust each other more" (ibid: 562).

Summing-up this body of rather contradictory evidence, we may state that a macro level analysis of the relationship between social capital and innovation is far too abstract. In fact, not all social innovations have global impact. Rather it seems that the way in which social innovations influence society is quite particular; most of them tackle specific problems in an innovative and border-spanning way but show only indirect impact on certain aggregate indicators. The specific impact of social innovations result more from its replicability, for example, via social franchising or via scalability strategies such as crowdsourcing. Whether social capital contributes to or hinders the replicability and scalability of social innovative projects should certainly be a question to be tackled by further research.

## 3 Conclusion

The literature on social innovation refers to social capital only exceptionally, even if the need of networks and inter-organizational and cross-sectorial collaboration is stressed as an important element (Mulgan 2006; Mulgan et al. 2007; Nicholls and Murdock 2012; Phills et al. 2008; Rüede and Lurtz 2012). While the theoretical research regarding the relations between social capital and innovation has received increasing attention, the empirical evidence remains still scanty.

Upon this background, we claim that – in the tradition of Elinor Ostrom – a collective action orientated concept of social capital lends itself as a fruitful analytical tool to better understand the structure and role of social innovations. Not unlike technical innovations, social innovations do not form a punctual achievement of an individual; rather they owe themselves to a recombination of relationships among different actors, which are grounded in an extension or transformation of their social or cultural capital. Very specific case studies (type organizational learning), which carefully analyse how these social capital investments are achieved and in exactly which form they have been able to transform the relationship structure of relevant social actors, seem to be of crucial importance here for the narrow future.

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