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**EFFECT OF RELATIONAL SOCIAL CAPITAL ON THE PERFORMANCE  
OF SOCIAL ENTERPRISES IN NAIROBI CITY COUNTY, KENYA**

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**ABSTRACT.**

The scale of current economic and social change, the process of globalization, the rapid transition to a knowledge-based society are all challenges, which demand a new approach to organizational recourses existing in that enterprise in a form of capital. In recent years, traditionally there were three main types of capital, which together constituted the basis for economic development and performance such as natural, physical and human capitals. But nowadays, scholars have started to understand that those capitals can only partly determine the process of economic growth. That is why they started to talk about relational social capital as a missing link in the development of economic life. The concept of relational social capital has been widely used by academics from different scientific backgrounds. Economists, political scientists and sociologists agree that this conception is ambiguous and has many different connotations. For this reason it is very difficult to create one appropriate definition of relational social capital. Relational social capital builds and maintains networks, which are underpinned by the norms of behavior. On the other hand, emphasizes that relational social capital is the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate an action. So, according to those definitions, scholars have realized that relational social capital has a big impact on economic outcomes and enterprise activities.

**Keywords:** *relational social capital, structural dimension, cognitive dimension, relational dimension, relational social capital, social, enterprise's business processes & Performance*

**Introduction**

Most scientists agree that relational social capital is a potentially productive factor that has significant influence on the efficiency of enterprise's activity but also can transform into liability if not properly constructed or used (Mačerinskienė, Vasiliauskaitė 2007). That is why the scientific problem of this paper is how relational social capital can benefit the performance of an enterprise, which uses its social networks for business purposes. The aim of the article is to evaluate relational social capital's benefits to enterprise's business processes and distinguish the most relevant of them. The object of this research is benefits of relational social capital. Main objectives: to introduce the relational social capital theory in modern economy; to analyze benefits of relational social capital and its influence on enterprise's business processes; to create the model of relational social capital's benefits to enterprise's business activities and find the

most relevant of them. Entrepreneurship and Innovation has received increased attention both in the political and business sphere, and it has become an important factor in determining a nation's or Company's competitive advantage. This has been supported by researchers who have found evidence for a strong correlation between a company's ability to produce new products and their market performance (Bessant, Pavitt and Tidd, 2005).

When searching the literature for success-factors and initiatives for innovation it was identified that the potential for relational social capital as an important asset in the ability to see connections, spot opportunities and to take advantage of them. Recent studies claim that innovation is no longer merely explained by combinations of tangible forms of capital, but also by the combinations of intangible forms like relational social capital. (Landry, Amara and Lamari, 2002). Similarly Nahapiet and Ghoshal (1998) argued that relational social capital is central to the understanding of institutional dynamics, innovation, and value creation. In our thesis we want to explore the underlying factors that can help us explain why the case companies are successful in their innovation processes by focusing on relational social capital theories.

### **Literature review**

Relational social capital is a comprehensive concept focusing on different aspects of social interaction between actors, and how the interactions offer potential resources through these relationships. Moreover the concept emphasizes how relationships promote exchanges that would not likely occur without the connection, and how actors gain 'credit' from other actors through goodwill and favors. The notion 'there is no such thing as a free lunch' represents a commonly held view that in many ways describe the concept of relational social capital.

Many exchanges in the society and in the business world is not immediately returned, resulting in exchanges that brings with it expectations about future obligations and goodwill. However, unlike other forms of capital, relational social capital is a result of interactions and is not owned by a single part. Nahapiet and Ghoshal (2008) e.g. found that relational social capital increases the efficiency for action and encourage cooperative behavior, accordingly arguing that the concept is central to the understanding of institutional dynamics, innovation and value creation. "Recent research has applied this concept to a broader range of social phenomena, including relations inside and outside the family (Coleman, 2008), relations within and beyond the firm (Burt, 2012), the organization-market interface (Baker, 2000), and public life in contemporary societies

(Putnam, 2003, 2005)” (Tsai and Ghoshal,2008).From another perspective the relational social capital theory has also been subjected to much criticism of being poorly defined and conceptualized (Fukuyama, 1995; Portes, 2000; Adler and Kwon, 2002).Isham, Kelly and Ramaswamy (2002) argued (from an economist’s perspective) that relational social capital like human capital before is a concept with much appeal and promise, but full of definitional and operational vagueness. In order to deal with these challenges the review will emphasize articles by the main contributors; Bourdieu (1986), Coleman (1988), Granovetter (1973), Burt (1992, 2000) and Putnam (1993, 1995, 2004). The authors are central in the development of the concept and are covering different aspects of the relational social capital concept that they consider essential to get a proper understanding of the theory. Moreover to give a balanced presentation of the concept we will also include research articles and literature reviews in the field, covering e.g. Nahapiet and Ghoshal (1998), Portes (1998), and Adler and Kwon (2002) among others.

### **Social Capital Theory**

The basic intuition of social capital theory is that social ties including one’s family, friends and associates is an important asset that can be utilized for its own sake, during crisis and as leverage for financial and social growth (Woolcock and Narayan, 2000). The core principle of relational social capital as an asset has been documented through history but the context that is used today was re-invented in 1950’s. Relational social capital is defined as the ability of economic agents to realize benefits by virtue of membership in social networks and structures available in the community. There are two main views used to evaluate relational social capital, the relational view and structural view (Nahapiet and Ghosal 1998).

The relational view is embedded at community level where informal social ties are fostered by trust within the same order or community. On the other hand, structural view refers to formation of vertical and/or formal networks with procedures and collective action. Relationship view focuses on quality of relational social capital while structural view focuses on quantity of direct and indirect networks. Another typology that is used to define relational social capital is bonding, bridging and linking relational social capital. First, the bonding relational social capital is also defined as strong intra-community networks characterized by shared values and norms, strong

ties and high level of trust within family members and close-knit groups (Woolcock and Narayan, 2000).

Second, bridging relational social capital refers to extra-community ties characterized by weak and thin trust that connect different groups in one or more communities (Woolcock and Narayan, 2000; Basu, 2012). From social entrepreneurial perspective relational social capital is viewed as network, group ties and institutions that support social entrepreneurial activity and the level of perceived benefits and resources available from social ties (Ernst, 2012). Studies have shown that relational social capital is a strong and consistent asset especially during initial stages of business creation and among micro and small enterprises. Social entrepreneurship intention model explain that high bridging and bonding relational social capital among a society heightens the perceived behavior of control or the probability of succeeding. Relational social capital is viewed as an enabler as it is used as a source of information, frame of reference, access to resources, source of potential suppliers and customers among others. To this end, the degree to which relational social capital acts as an enabler depends on the degree to which social entrepreneurs utilize bridging, bonding and linking relational social capital.

According to (Ali, Saeid, Mohsen, 2012) Relational social capital is a modern concept that is used extensively nowadays in sociology, economy and recently in management and organization. It refers the existing resources inside and among the personal and commercial network. Relational social capital affects economic successes of societies as well as life quality such as joy and happiness, physical and psychological health and individuals' life cycle increase (Ali et al, 2012, Baker, 2000).

Baker believes that the term social in relational social capital shows that the existing resources inside business or personal networks are not personal assets and no person is the owner of them alone (Ali et al, 2012). These resources are placed in relationship networks. Combination of these two terms confirms the issue that personal affections, cooperation, integrity, mutual respect and sense of common interest among individuals of an organization produces capital that enhances resources capacity.

According to this, different scholars maintain different approaches to relational social capital. E. Bueno (2002) in his work "El Capital Social en el Nuevo Enfoque del Capital Intelectual de las Organizaciones", gives four main theoretical approaches to relational social capital:

1. The economic development theories.
2. The social responsibility and ethics approach.
3. The corporate governance code.
4. The intellectual capital approach.

**Table 1.** Main conceptual approaches of relational social capital (Source: Buenoetal. 2004)

Relational social capital approach	Main ideas	Relevant contributions
Economic development	Confidence, civic behaviour and associativity strengthen the social networks, contributing to the sustainable Economic development.	Stiglitz (1998)
Social responsibility and ethics	Relational social capital expresses the degree of social integration and responsibility with respect to the whole society and its agents and groups. It is based on values and attitudes, such as confidence, cooperation, safety, principles of ethics and compromises.	Cortina (2000); Baron (2001)
Corporate governance	Ethics and corporate governance codes make positive impact on the creation of relational social capital, stimulating the solidarity and overcoming market imperfections.	Zingales (2000); Rajan and Zingales (2000)
Intellectual capital	Relational social capital is a component of Intellectual capital. It is based on a set of values and the subsequent indicators such as confidence, loyalty, sincerity, compromise, transparency, solidarity, responsibility, honesty and ethics.	Cohen and Prusak (2001);

The conception of relational social capital

In this turbulent time when the development of the new markets and technologies is rapidly increasing all over the world, every organization and every manager has to know that business is

run better when people who work in a company know and trust each other. This leads to productiveness of team working, faster learning and creativity within an organization. As L. Prusak and D. Cohen (2001) claimed, strong relationships between companies' workers are vital in organizations. So, it is obvious that in recent years, the concept of relational social capital has been widely promoted in different tasks of business activities.

The essence of relational social capital is that network relationships, including family, friends, casual relationships and even contact with strangers, provide a rich resource in terms of knowledge, information and support in individual, organizational and public levels (Taylor *et al.* 2004). Thus relational social capital can be analyzed in three different levels – micro (individuals), mezzo (organizations) and macro (state). In this study we will consider on mezzo level so the analysis of corporate relational social capital will be the core aim of this paper.

The concept of relational social capital is related to “citizen engagement” and describes “features of social life -networks, norms, and trust that enable participants to act together more effectively to pursue shared objectives” (Putnam 1994). Moreover, it can be understood as a collective resource in organization, which helps to achieve macro outcomes on the state level.

Relational social capital theory has its main three “godfathers” who formulated the basics to this conception and tried to investigate the main points of relational social capital and its importance to economics and organizational life. They are P. Bourdieu, J. Coleman and R. Putnam. So, during last 25 years, their works on relational social capital created the most important foundations in this area. The first was P. Bourdieu (1986) who in his work “The forms of capital” (1986) tried to explain the relevance of relational social capital and its importance in economic affairs. He considers that relational social capital can be divided into two elements. It is social relationships that allow individuals to claim access to resources and the amount and quality of those resources (Ferriet *al.* 2009). That is why P. Bourdieu (1986) defines relational social capital as [...] 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 or recognition.



Despite the fact that P. Bourdieu was the first who tried to write about relational social capital in economic context J. Coleman's work "Relational social capital in the creation of human capital" was the first to receive widespread attention. He tried to explain relational social capital with reference to its function as a variety of entities with two elements in common: they all consist of some aspect of social structures, and they facilitate certain action of actors – whether persons or corporate actors – within the structure (Coleman 1988). So referring to those two scholars and their conceptions of relational social capital, we can stress that P. Bourdieu's definition includes the material conditions that can drive the formation of social process while J. Coleman's approach considers only motivation in individual level.

The third "godfather" of relational social capital and usually called as the guru of relational social capital is R. Putnam. He differently from P. Bourdier and J. Coleman has concentrated on national civic association and the general well-being of communities in his understanding of relational social capital (Ferriet *al.* 2009). Putnam investigated collective relational social capital of the population and defined it as features of social organizations, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions (Putnam 2000). According to those three conceptions of relational social capital, we can find one and the main common feature – that relational social capital consists of social relationships that allow members of those networks to access additional recourses via them because they cannot be find in a different way.

When talking about a variety of relational social capital conceptions, P. S. Adler and S-W. Kwon (2002) assumed that definitions of relational social capital can be divided by whether they:

1. Focus on the relations an actor maintains with other actors (internal).
2. Focus on the structure of the relations among actors within a collectivity (external).
3. Focus on both types of linkages (both).

In literature, usually external type of relational social capital is called "bridging" (describes more distant connections between people and is characterized by weaker but more cross-cutting ties, e.g. with business associates, acquaintances, friends of friends, and is good for "getting ahead" in life (Webb 2008)). In this view, the scientists focus on relational social capital as a resource



build on individual's external social ties and used for the individual's private benefit. It can help to explain success of individuals and organizations<sup>2</sup> in their competitive rivalry and reflects the egocentric network analysis.

The internal type of relational social capital is called “bonding” (describes closer connections between people and is characterized by strong bonds, e.g. among family members or close friends, and is good for “getting by” in life (Webb 2008)). This view focuses on collective actors' internal characteristics (Adler and Kwon 2002). It is about the link-ages between individuals or groups within the collectivity and it refers to socio-centric network analysis.

The third group of definitions is neutral according to this internal / external dimension. It has both elements. For example, the relations between an employee and colleagues within a firm are external to the employee but internal to the firm (Adler and Kwon 2002).

Thus relational social capital is the goodwill available to individuals or enterprises (groups), which lies in the structure of actor's social relationships. It creates value by using those relationships, which are based on social trust, shared values / beliefs and acceptable norms between the members of those networks

### **Relational social capital dimensions on social enterprise performance**

*Structural dimension.* The structural dimension of relational social capital describes the physical structure or links between people in networks. In other words, as Burt (1992) explained, it refers to whom you reach and how you reach those social relationships. Moreover, Nahapiet and Ghoshal (1998) in their fundamental proposition of relational social capital addressed that network ties provided access to resources, which provided the enterprise with not only a wide range of opportunities but also constraints. Thus relational social capital can be analyzed from two different points: how relational social capital can improve the performance of enterprises (benefit) and how much risk enterprise should take in order to maintain and support its relational social capital (risk).

*Cognitive dimension.* The cognitive dimension of relational social capital refers to those resources that represent shared understanding of common goals and the proper ways of acting —

for example, shared language and codes (Yli-Renko 1999). N. Llewellyn and C. Armistead (2000) noticed that cognitive dimension differs from relational one because it captures the extent, to which shared ways of thinking and interpreting events support the generation of relational social capital, while relational dimensions of relational social capital purpose is to access the emotional bonds that hold those networks together. The cognitive dimension of relational social capital is important because through its standards and unified codes, it helps to understand other network members and leads them to act accordingly to their expectations.

According to L. Prusak and D. Cohen (2001), the main element, which builds relational social capital, is a conversation between members of social network, which binds those people into communities. But this element could not be implemented if there were no unique languages and understandable codes, which are the main factors of cognitive dimension of relational social capital. Those conversations in this point of view consist of gossip, stories, mutual discovery of meanings, negotiation of norms and aims and expressions of sympathy, disapproval, bewilderment and understanding (Totterman, Sten 2005). Moreover, those conversations can be analyzed not only through ability to give verbal information but also taking into account the tone of voice and nonverbal expressions when conversation occurs face-to-face.

### **Content Analysis**

Measures of relational *social capital* are utilized to assess network relationship orientation and network ties of either a business or personal nature, developed inside and outside an organization, and believed to lead to business advantage (Florin et al., 2013). Based on Granovetter (2012) and adapted from research on *social capital* (e.g., Moran, 2005; Tsai &Goshal, 2008), the present measure involves one dimensions of *social capital* (relational) that identify patterns of connections between actors (e.g., presence of network ties, network configuration, connectivity). Relational embeddedness is evaluated with respect to closeness, personal familiarity, certainty, and confidence towards other network players.

### **Factor Loading for Construct Relational social capital**

The table below shows Cronbach's alpha values of all items before and after extraction of item with a factor loadings value of less than 0.4. Factor analysis helped to select a subset of variables from a larger set, based on which original variables had the highest correlations with the

principal component factors. The table indicates that the Cronbach's alpha value of all Relational social capital items remained as 0.777 since all the item had a factor loading value of more than 0.4 and there were no item which were removed. According to (Mabert *et al*, 2003), factor loading values that are greater than 0.4 should be accepted and values below 0.4 should lead to collection of more data or help the researcher to determine the values to include. Values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great, and values above 0.9 are superb. (Mabert *et al*, 2003), recommends 0.4 as minimum acceptable values. Since the entire item had a factor loading of above 0.40, all the Relational social capital items were retained by the study and used for subsequent data analysis.

**Table: Factors loading for the Construct Relational social capital**

<b><math>\alpha</math> before</b>	<b>Items</b>	<b>Factor loadings</b>	<b><math>\alpha</math> after</b>
.777	<b>Relational relational social capital</b>	.752	.777

#### Correlation analysis for Relational relational social capital

A correlation analysis for the construct Relational social capital was conducted to find out how Relational social capital correlated with Enterprise performance. Table below shows that the Pearson correlation coefficient was 6.7699. (Baily, 2008) indicates that Relational social capital has a positive correlation with Enterprise performance (p-values >0.05).

Table: Correlation analysis for construct Relational social capital

		<b>Enterprise performance</b>	<b>Relational social capital</b>
Enterprise performance	Pearson Correlation	1	6.76
	Sig. (2-tailed)	0.000	
	N	10	10
Relational social capital	Pearson Correlation	6.76	1
	Sig. (2-tailed)	0.000	
	N	10	10

**Correlation is significant at the 0.01 level (2-tailed)**

Regression analysis for construct Relational relational social capital

The overall model for the Relational relational social capital was tested. The findings shows the coefficient of determination R Square= 0.839 and R=.916 at 0.05 at significance level. This shows that there existed a strong positive corelation coefficient between Relational relational social capital and Enterprise performance.

**Table: Model Summary**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std Error of the Estimate
	.916	.839	.826	.999

**Predictors: ( constant) Relational relational social capital**

## **Conclusions**

As it is obvious, the conception of relational social capital has become the most popular during the last decades. Scholars started to emphasize the wideness and applicability of this concept and its ability to be appreciated in several fields. Thus relational social capital has a multidimensional nature and in this paper is investigated as a part of intellectual capital as it can increase the value of intangible assets by using its innovativeness. Referring to the scientific literature we can find many different authors who try to explain relational social capital conception and its importance for an enterprise; as well as we integrate some scholars' definitions and state that relational social capital is the goodwill available to individuals or enterprises (groups), which lies in the structure of actor's social relationships. It consists of structural, relational and cognitive dimensions and creates value by using social relationships, which are based on social trust, shared values / believes and acceptable norms between the members of those networks.

Most scientists agree that relational social capital is the potentially productive factor that makes significant influence on the efficiency of enterprise's activity. Moreover, its proper usage creates many benefits for enterprise's business processes. So, different scholars have started to investigate the ways relational social capital can benefit the performance of a particular enterprise, which uses its social networks for business purposes, and are there any risks of using them. In such analyses it is recommended to consider relational social capital from two-sided opinion because sometimes that risk, which occurs in enterprise level, can overweight those benefits, which are created by using relational social capital. However in this paper, we concentrate on the benefits of relational social capital and how they can improve the particular business activities of a company.

In order to better understand the quality of relational social capital's benefits and how they influence different business processes in a particular enterprise, the model, which explains the types of benefits relational social capital creates to enterprise's business activities, has been created. According to this model, the survey in order to investigate which of those benefits mentioned in our model have the biggest possibility to occur in an enterprise using and promoting its relational social capital, has been carried out. The results of the survey showed that relational social capital could benefit business activities of the enterprise connected with work

force problems or the prestige of that enterprise but in order to reduce business risk of the company, improve its sales and profits or create new products the enterprise need much more resources than only relational social capital. Only the good combination of different tangible and intangible recourses can properly benefit all business processes of an enterprise.

ACCEPTED

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