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## SOCIAL CAPITAL IN FUNCTION OF CLUSTER DEVELOPMENT

### SOCIJALNI KAPITAL U FUNKCIJI RAZVOJA KLASTERA

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**Abstract:** *This paper analyze the role of social capital in shaping inter-firms relations within the cluster and identifies whether a lack of social capital can be considered an impediment to cluster formation and development. Social capital is determinants that have a positive value for clusters. Attention is focused on some major features that characterise social capital and that positively impact business clusters development: a sound base of trust among economic and institutional actors, together with valued and acknowledged co-operation. Parallel definitions of social capital and clusters are provided and the links between the two concepts are analysed in particular the impact of social capital on cluster building and performance.*

**Key words:** *social capital, clusters, innovation, efficiency increase*

**Sažetak:** *U radu je analizirana uloga socijalnog kapitala u oblikovanju odnosa između tvrtki unutar klastera te da li se nedostatak socijalnog kapitala može smatrati zaprekom u osnivanju i razvoju klastera. Socijalni ili društveni kapital je jedna od odrednica koje imaju pozitivnu vrijednost za klaster. Pažnja je usmjerena na neke važne osobine koje karakteriziraju socijalni kapital i koje pozitivno utječu na razvoj poslovnih klastera: zdrav temelj povjerenja između gospodarskih i institucionalnih sudionika, zajedno sa vrednovanom i priznatom suradnjom. Dane su usporedne definicije socijalnog kapitala i klastera i analizirane su veze između dva koncepta naročito utjecaj socijalnog kapitala na gradnju klastera i učinkovitost.*

**Ključne riječi:** *socijalni capital, klasteri, inovativnost, povećanje efikasnosti*



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## **1. Introduction**

The concept of social capital consists of two concepts, which have different etymological origins. The concept of the word suggests a social concept which describes a relationship between people and the concept of capital indicates that relations among people should be understood as something that can serve as a resource for those who possess it. Metaphorically speaking, the economic capital based on bank accounts of individuals, human capital is in the minds of individuals, social capital is in the structures of relationships among people. If an individual want to use social capital, must be connected with other people.[1]

To offer a better understanding of the social capital concept in its relation to business clusters and improved performance, the following questions are addressed:

- Why is the concept of social capital relevant to the study of business clusters?
- Can business clusters with high levels of social capital perform better?
- Can social capital contribute to cluster creation?
- Is it possible to transfer the social capital concept into explicit recommendations for cluster policies?

## **2. The relevance of social capital to cluster building**

Social capital is defined as network together with shared norms, values and understandings that facilitate co-operation within and among groups.[2] The main interest in studying social capital from the economic and social point of view is that social relations among individuals can represent a positive resource for the economy and society. The notion of “trust” is indirectly conveyed by this definition. Trust expresses reciprocity and confidence, both among enterprises and institutions. In particular, in the case of clusters, individual trust in other entrepreneurs and appreciation of the way they “do business” directly impacts on the decision to engage in collaboration.

The central idea of social capital is that networks and associated norms of reciprocity have value.[3] One question that immediately arises from this definition is what kind of value does social capital give rise to? Few research projects have tried to provide answers in the social and economic fields. The World Bank defines social capital as “institutions, relationships, networks and norms that shape the quality and the quantity of a society’s interactions”, and places the focus on the social dimension.[4] This means that social capital can contribute to fight poverty and to increase well-being, thus having an economic impact beyond social objectives.

Business clusters are based on specific interactions among firms and other organisations, involving a mixture of co-ordination, co-operation and competition and extensive use of market exchanges. If it seems so interesting to look into detail at how social capital can influence business cluster formation and development, it is

because of this intriguing nature of clusters, which mix both competition and collaboration ties.

Recent policy interest in clusters is driven by research and theory suggesting that firms can achieve increased efficiency and competitive advantage through cluster formation, which can translate into economic advantage for the localities and regions concerned. Specific interest in the role of social capital in clusters is also motivated by the argument that social capital can favour the competitiveness of enterprises.

How can social capital concretely contribute in a positive way to a business cluster's results? Social capital can directly impact on cluster performance in two key ways: (i) supporting innovation and (ii) lowering transaction costs, potentially increasing efficiency and growth. Innovation in clusters is often based on collaboration, proximity and networks, involving processes of mutual learning, emulation and personal contacts, which in many ways are dependent on the presence of social capital. Firms in clusters also benefit from lower transaction costs due in some cases to personalised negotiations, fewer bureaucratic procedures, lower information costs stemming from local and personal information flows, better coordination because of direct contacts, social exchange and often trust-based relations among economic agents.

### **3. Social capital and economic performance**

One of the critical concepts is that social capital can be treated as a "resource" that is less tangible than physical capital but is nevertheless productive because it facilitates the completion of certain objectives, in particular relating to the ability of individuals to undertake entrepreneurial activities and become involved in inter-firm relations at local level. Social capital should be seen as a "local resource" that can differ in content from one location to another.[5]

Social capital is a key factor for economic, social and political development. Self organizing of citizens through associations and interest groups achieves the interests of participants for whom the State can not take care of, or it would be too expensive. Community, which is abundant with social capital have no necessity for ubiquitous and wasteful government. Such a community, for example, marks the high level of crime and respondent social costs. [6]

Social capital has been identified as an integral component of social and economic development at both micro and macro level. At micro level social capital can be important for production in three ways: i) as a factor of production in parallel with physical and human capital; ii) as a determinant of transaction costs; and, iii) as a determinant of monitoring costs. According to this economic rationale, entrepreneurs would make the rational choice to maximise their personal profit by deciding to interact and invest in social relations.[7]

Research have shown [8][9] that regional measures of social capital correlate positively with various indices of economic performance. These studies show that greater social capital improved economic performance, although these conclusions have nevertheless been contradicted by research done in the Denmark, Ireland and Wales, which shows the complexity of the social capital notion applied to regional performance.[10] The results of extensive research showed that social capital is consistent with high performance, innovation and knowledge intensity. The research looked at government programmes promoting collaboration among SME's with the objective of improving the capacity to innovate through increasing social capital by supporting networking among SMEs. The results showed that the most competitive regions are indeed the most pronounced users of social capital. Firms with greater innovation capacity tended to show higher trust in associates, to exchange information outside the normal commercial links, higher level of external information, to develop strategic contacts and to consider co-operation as more beneficial than other SME's. However, from a cluster perspective it appears that these highly innovative SME's are global rather than local in the social and professional contacts they develop. Hence, innovative SME's are high users of social capital but not necessarily at the local level.

Further evidence on the effects of social capital on SME performance is researching twelve UK regions[10]. The author led a survey comparing social capital indicators; mutual trust, exchanging favours, judging reliability, credibility and reputation with performance indicators; profitability, turnover, innovation and employment growth. Study is shown that social capital seems to be an important factor in innovation and improved performance. But this seems to be especially true when a business is less locally focused and more internationally oriented.

Social capital is a significant factor for SME and cluster performance because it produces un-traded benefits. Thus formal and/or informal partnerships, networks and cluster-based initiatives that promote mutual trust, credibility, reputation and the exchange of personal favours can contribute to SME profitability, turnover and innovation.

#### **4. The results of studies of social capital**

Levels of social capital include the level of social trust, distribution of social capital and its determinants. Only with social trust as a relatively stable feature it is meaningful to analyze the other two levels of social capital. Therefore, all previous analysis of social capital are based on an examination of the level of social trust. Classical measures of social trust is the percentage of respondents who selected the answer that most people can be trusted. [1] World and European research on social capital have been conducted in four waves of research, where the first three World Values Surveys and European Values Surveys 1981-1984 , 1990-1993 and 1995-

1997., the first survey had a European character, and the other two were involving the transition state and the Third World countries. Fourth survey of social capital, European Values Survey 1999-2000., Included only European states. Croatia was included in the third and fourth study. Apart from these two time points at which social capital is explored in Croatia, the third point in time is provided in two studies, both conducted in 2003 The European Social Survey, ESS, 2002/2003, and research in the scientific research project of the Faculty of Political Science, elections, parties and parliament in Croatia 2000-2010.[12] According to research on social trust in Croatia, conducted in 1995., 1999. and 2003. the level of social trust ranged 23% in the 1995., 20% in the year 1999 while in 2003. it amounted to 9%. The reasons for the erosion of social capital are described in this paper the author Štulhofer.[13]

## 5. Regional distribution of social capital and indicators of economic activity in Croatia

Research on the regional distribution of social trust has been carried out only in year 2003 and it is not possible to make a deeper interpretation of the regional distribution of social trust from several time points. In this research, the Republic of Croatia is divided into five regions. Although such a division is not suited it gives us a picture of the regional distribution of social trust in Croatia, as shown in Table 1

	Središnja Hrvatska	Slavonija	Zagreb	Dalmacija	Rijeka, Istra
Hrvatska	6	7	14	8	16

Table 1 Regional distribution of social trust in Croatia, 2003. [1]

Information on the regional distribution of social capital, divided by five regions, after the spatial ordering, allow us a comparison with indicators of economic activity in the statistical NUTS II regions of Croatia, which are shown in Figure 1. Central Croatia and Slavonia are NUTS II Central and Eastern (Pannonian) Croatia, Zagreb is the NUTS II Northwest Croatia, Dalmatia and Istria, Rijeka are the NUTS II Adriatic Croatia.

Comparing the regional distribution of social trust in Croatia with regional levels of economic (in) actions in Croatia, shown in Figure 1 it is evident that Northwestern Croatia with significant levels of social trust achieves outstanding improvement of economic results, while Continental Croatia, with a low level of social trust has highlighted weak economic activity in comparison with the other two regions. Adriatic Croatia with developed Istria and underdeveloped Dalmacija is located at the level of social trust and economic activities between the other two NUTS II regions of Croatia.

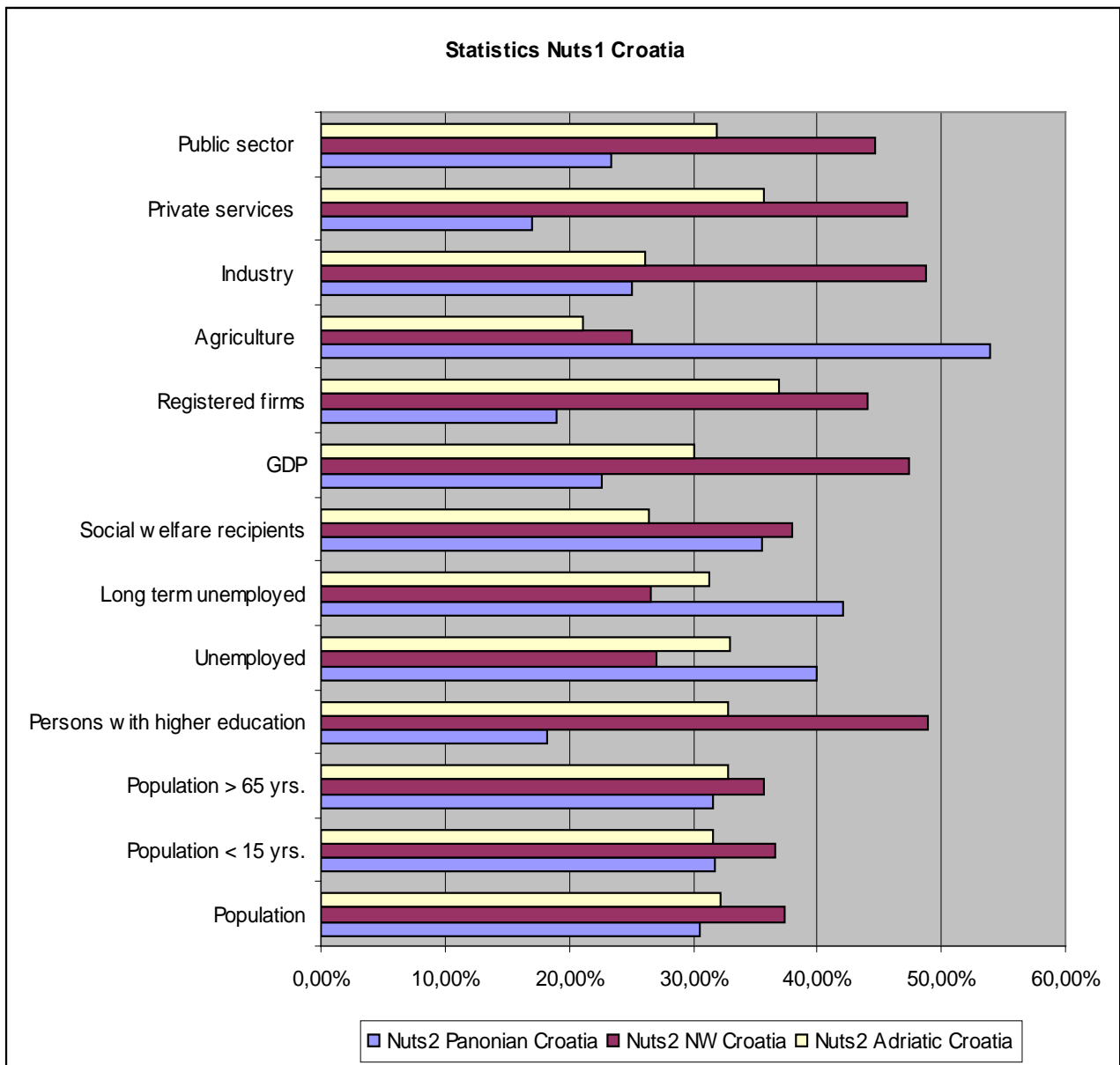


Figure 1: A national overview on some important indicators which allows to compare the 3 different NUTS II regions in Croatia (Croatia=100%) [14]

## 6. Conclusion

Research shows that social capital, like clusters, is difficult to ‘construct’ and top-down policies aiming at building clusters from the beginning are often unsuccessful. Public intervention should play a catalyst role, supporting existing or emerging clusters. Like clusters, social capital stems from a particular historic, cultural and social context. Social organisation [8], decentralised governments[9] and competent public administration [11] are explanations of strong levels of social capital in some regions and localities. Clusters and social capital are both deeply rooted in a local culture where overlapping social and business ties create a complex social fabric. Statistically significant differences in levels of social trust between respondent regions in Croatia, with the perceived association with the level of economic activity

in individual NUTS II regions, are suggesting that future research of regional differences in levels of social capital of the Republic of Croatia is certainly justified.

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Photo 155. Luka Imbrisić monument / Spomenik Luki Imbriševiću