

Primer: Measuring and Valuing Social Capital

In business as in life, relationships matter. The [integrated reporting movement](#) emphasizes the importance of such “social capital,” urging companies to report on it. This primer explains the concept of social capital and why and how it should be measured.

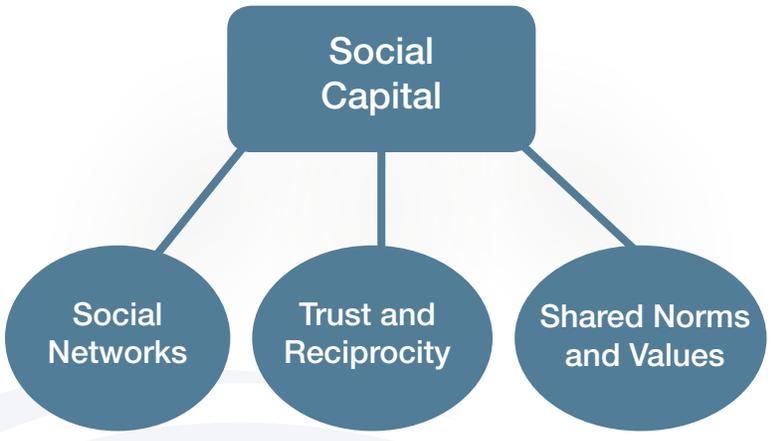
What is Social Capital?

Relationships are familiar territory. Social capital is a formal way of thinking about relationships. Technically, the term refers to:

an individual’s or group’s ability to secure or obtain resources, knowledge and information through relationships with and among individuals and groups.

These relationships exist inside an organization (e.g. among employees) and outside an organization (e.g. between it and external stakeholder such as consumers and regulators).

THREE DIMENSIONS OF SOCIAL CAPITAL



Social capital has three aspects:

- **Social networks.** A social network is the interactions and relationships between individuals or organisations.
- **Trust and reciprocity.** Trust and reciprocity are about the quality of relationships, rather than the number of connections.
- **Shared norms and values.** Shared norms and values are the common expectations which make interactions more productive.

Why is Social Capital Valuable?

INTERNAL SOCIAL CAPITAL

Good relationships among employees make companies more efficient and reliable, in operations, product and innovation management. Benefits come because social capital improves:

- **Information sharing:** If employees have strong and trusting relationships with each other, they are more likely to share knowledge.
- **Employee commitment and retention:** When employees have strong, diverse and trusting relationships, they will be more committed and loyal to the firm.

EXTERNAL SOCIAL CAPITAL

External social capital focuses on employees' and the firm's relationships with external stakeholders, such as neighbouring communities, customers and regulators. External social capital leads to competitive advantage and cost reductions. These benefits come because external social capital improves:

- **Access to external information and knowledge:** As firms face rapid changes in their business environment, their ability to access information shapes their strategic foresight and responsiveness.
- **Reputation among customers, regulators, and neighbouring communities:** Reputation is a vital asset, especially for customer-facing businesses or those that are highly regulated.
- **Talent recruitment:** Positive external social capital gives firms better reputation among prospective employees.
- **Social development and the business environment:** Social capital contributes to community development and sustainable management of natural resources.

How to Assess Social Capital (1): Measures

Measuring social capital can help firms enhance it, and is also necessary to respond effectively to integrated reporting guidelines.

Each of social capital's three dimensions is associated with particular measures. We describe these here and then provide specific tools.

SOCIAL NETWORKS

- **Network size, diversity and density:** How many, and how diverse, are the individuals or organisations in a network? How close are these ties?
- **Network shape:** Beyond individual connections, how is the broader network organized? Do gaps exist?

TRUST AND RECIPROCITY

- **Generalised trust:** Do people trust strangers: unfamiliar employees in a large organisation, or those outside the organization?
- **Interpersonal trust:** This is about trust among people who know each other, including employees working in particular teams or departments.
- **Institutional trust:** This type of trust relates to individuals' trust of authorities: for example, how employees and neighbouring communities see management.
- **Reciprocity:** Are people willing to share resources or provide support to others, expecting that they would do the same?

NORMS AND VALUES

- **Association membership:** Do people or organisations belong to professional and community organizations and associations?
- **Civic participation:** Do individuals or organisations contribute to public debate?

How to Measure Social Capital (2): Tools

Directly: Companies can assess these measures by asking employees and other stakeholders for feedback. Companies can adapt existing employee or corporate surveys, drawing from using other surveys, such as the World's Value Survey's Social Capital Index, or the World Bank Integrated Questionnaire for the Measurement of Social Capital (SC-IQ). They can also use interviews and focus groups.

With social network analysis tools: Tools exist for analyzing social capital data: for example, Relational Proximity Mapping (see [Transnet case study](#)).

Conclusion

We need each other to survive. Organisations depend on diverse internal and external relationships. As with other forms of capital, effective management social capital enhances the success of organizations and society. This primer draws on the best available research, but more work is needed to translate our understanding of social capital into effective management approaches. The NBS network and stakeholders have much to contribute to knowledge of social capital. Please contact [NBS-SA](#) to share your experiences and ideas.

