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Social Capital and Firms' Growth: Perspective from Consumer Goods Sector in South-West Nigeria.

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Abstract

The impact of social capital on firm's growth, especially in Nigeria, is still in doubt among stakeholders. The study examines the impact of social capital on firm's growth in food sub-sector of the Consumer Goods sector quoted on the floor of Nigeria Stock Exchange, based on a sample of 388 management staff of the firms arrived at with Rakesh (2013) sample size formula. The study applied multiple regression analysis to analyze the data collected from the selected sample. The results show that mutual trust, level of education and involvement in social activity have positive statistically significant impact on firms' growth with coefficient of 0.783, 0.074 and 0.135 respectively. The study therefore concluded that social capital has a positive significant impact on firms' growth in Consumer Goods sector. Based on the

findings, it was recommended that managers and entrepreneurs should promote mutual trust, get involved in social activities and associate with stakeholders in their industry to maximize the windows of opportunities and to grow the firm accordingly for the benefit of all stakeholders.

Keywords – Social Capital, Firms' Growth, sector, mutual trust, education, social activities.

Introduction

Social Capital is as old as the entrepreneurs themselves, but may not have been termed Social Capital. It is an emerging concept in management cycle in recent decade and has proved productive in many instances. Halpern (2005) argues that the popularity of social capital for policy makers is linked to the concept's duality, because it has a hardnosed economic feel while restating its importance. Social capital has been used at various times to explain superior managerial performance, the growth of entrepreneurial firms, improved performance of functionally diverse groups, the value derived from strategic alliances, and enhanced supply chain relations. Social Capital is a resource that actors derive from specific social structures and then use to pursue their interests (Baker 1990).

According to Putnam (2000), social capital "refers to the collective value of all 'social networks' and the inclinations that arise from these networks to do things for each other". It is also defined as those resources inherent in social relations which facilitate collective action. Social capital resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose. A norm of a culture high in social capital is reciprocity, which encourages bargaining, compromise, and pluralistic politics. Another norm is belief in the equality of citizens, which encourages the formation of cross-cutting groups (Garson, 2006).

Coleman (1994) submits that social capital in the abstract is a neutral resource. His work tends to show how it can be used practically to produce or reproduce inequality, demonstrating for instance how people gain access to powerful positions through the direct and

indirect employment of social connections, while, World Bank (1999) defines Social capital as the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together. Coleman (1994) concludes that Social capital is best defined by its function and not a single entity, but a variety of different entities with two common characteristics: they all consist of some aspect of a social structure, and they facilitate certain actions of individuals who are within the structure.

A firm's growth is the ability of an organization to maximize the use of resources at her disposal in order to attain the stakeholders' objective and their ability to surpass past records in terms of increase in sales, better access to funds, timely introduction of new products, process re-engineering. Social capital, therefore, is an unquantified resource possessed by an organization which can facilitate the growth of a firm. It is a form of influences enjoyed by an organization as a result of association of the management or the owner with different groups. These influences ranged from prompt assess to fund, winning of contracts, technical support, recommendations and so on.

Therefore, the extent to which these influences impact on the growth of firms is still a subject of debate in the business cycle. Based on this, the paper seeks to establish the impact of social capital on firm's growth in Nigeria and specifically, in Consumer Goods Sector in South-West Nigeria.

Literature Review

This section reviews the necessary literature considered relevant to this work.

Sources of Social Capital

World Bank (1999) identified the following key sources of social capital in the context of social and economic development;

- Families - as the main source of economic and social welfare for its members, the family is the first building block in the generation of social capital for the larger society.
- Communities - Social interactions among neighbours, friends and

groups generate social capital and the ability to work together for a common good.

- Firms - Social capital benefits firms by reducing transactions costs, but can also have negative effects on a firm and society.
- Civil Society - Social capital is crucial to the success of any non-governmental organization because it provides opportunities for participation and gives voice to those who may be locked out of more formal avenues to affect change.
- Public Sector - the state and its institutions are central to the functioning and welfare of any society.
- Ethnicity - ethnic relations is important in the concept of social capital, whether it is immigration, microenterprise development, tribal nepotism or racial conflict, ethnic ties are a clear example of how actors who share common values and culture can work together for mutual benefit.
- Gender: Social networks of women like cooperatives, professional associations are important for women to obtain income and other necessities.

Social Capital Motives

Robison, Shupp, Jin, Siles & Ferrarini (2012) measure the relative importance of selfishness and four social capital motives using resource allocation data collected in hypothetical surveys and non-hypothetical experiments. The selfishness motive assumes that an agent's allocation of a scarce resource is independent of his relationships with others. This motive is sometimes referred to as the selfishness of preference assumption in neoclassical economics. Social capital motives assume that agents' allocation of a scarce resource may be influenced by their social capital or sympathetic relationships with others which may produce socio-emotional goods that satisfy socio-emotional needs for validation and belonging. The first social capital motive seeks for validation by acting consistently with the values of one's ideal self. The second social capital motive seeks to be validated by others by winning their approval. The third social capital motive seeks to belong. Recognizing that one may not be able to influence the sympathy of others, persons seeking to belong may act to increase their own sympathy for others and the organizations or institutions they represent. The fourth social capital

motive recognizes that our sympathy or social capital for another person will motivate us to act in their interest. In doing so we satisfy our own needs for validation and belonging. Empirical results reject the hypothesis often implied in economics that we are 95% selfish.

Theory in Social Capital

This paper is based on the theory of Pluralism. Pluralism is a political philosophy that recognizes and affirms the diversity within a political body, which permits the peaceful coexistence of different interests, convictions and lifestyles. Political pluralists are not inherently liberals, who place equality as their guiding principles or conservatives who place liberty and tradition as their guiding principles, but advocates of a form of political moderation. Nor are political pluralists necessarily advocates of a democratic plurality, but generally agreed that this form of government is often best at moderating discrete values. Pluralists also seek the construction or reform of social institutions in order to reflect and balance competing principles. The advocates of the theory – Madison (1787) and Berlin (1997), posit that to avoid factionalism, it is best to allow many competing factions thereby advocating different primary principles to prevent anyone from dominating the political system. This relies, to a degree, on a series of disturbances changing the influences of groups so as to avoid institutional dominance and ensure competition (Wikipedia, 2015).

Empirical Review

Social capital is an emerging concept in management. This accounted for the scanty empirical evidence especially in Nigeria and Africa at large. But the study reviewed the available studies.

Knack & Keefer (1996) examine the correlations between confidence and civic cooperation norms, with economic growth in a big group of countries. They found that confidence and civic cooperation have a great impact in economic growth, and that in less polarized societies in terms of inequality and ethnic differences, social capital is bigger.

Narayan and Pritchett (1997) researched the associativity degree and economic performance in rural homes of Tanzania. They saw that

even in high poverty indexes, families with higher levels of incomes had more participation in collective organizations. The social capital they accumulated because of this participation had individual benefits for them, and created collective benefits through different routes, for example: their agricultural practices were better than those of the families without participation (they had more information about agrochemicals, fertilizers and seeds); they had more information about the market; they were prepared to take more risks, because being part of a social network made them feel more protected; they had an influence on the improvement of public services, showing a bigger level of participation in schools; they cooperated more in the municipality level.

Measurement

Measuring social capital is a fundamental problem due to the intangibility of social capital as a resource and this accounted for why there is no widely held consensus on how to measure social capital. This has become a debate in itself: why refer to this phenomenon as 'capital' if there is no true way to measure it? Quantitative measurement has proven somewhat complicated. This has resulted in different metrics for different functions. In measuring political social capital, it is common to take the sum of society's membership of its groups. Groups with higher membership contribute more to the amount of capital than groups with lower membership, although many groups with low membership (such as communities) still add up to be significant. While it may seem that this is limited by population, this need not be the case as people join multiple groups. In a study done by Yankee City, a community of 17,000 people was found to have over 22,000 different groups.

Many studies measure social capital by asking the question: "do you trust the others?" Other researches analyze the participation in voluntary associations or civic activities to ascertain if someone is an extrovert or an introvert.

The level of cohesion of a group also affects its social capital. However, there is no one quantitative way of determining the level of cohesiveness, but rather a collection of social network models that researchers have used over the decades to operationalize social capital. One of the dominant methods is Ronald Burt's constraint measure, which taps into the role of tie strength and group cohesion. Another network based model is network transitivity.

The way and manner a group relates to the rest of society also affects

social capital, but in a different manner. Strong internal ties can in some cases weaken the group's perceived capital in the eyes of the general public, as in cases where the group is geared towards crime, distrust, intolerance, violence or hatred towards others. The Ku Klux Klan and the Mafia are examples of these kinds of organizations.

Sociologists Bankston & Zhou (2002) argued that one of the reasons social capital is so difficult to measure is that it is neither an individual-level nor a group-level phenomenon, but one that emerges across levels of analysis as individuals participate in groups. They argue that the metaphor of "capital" may be misleading because unlike financial capital, which is a resource held by an individual, the benefits of forms of social organization are not held by actors, but are results of the participation of actors in advantageously organized groups.

Foschi & Lauriola (2014) presented a measure of sociability as a proxy of social capital. The authors demonstrated that facets of sociability can mediate between general personality traits and measures of civic involvement and political participation, as predictors of social capital, in a holistic model of political behavior. Chaston (2010) suggested that the life cycle concept of an enterprise has stages that have to be crossed before the next stage of growth can commence. He then identifies five stages namely: launch capacity, expansion, organizational formalization, succession, and long-term growth. But, submitted that crossing each stage will require the entrepreneur to acquire new skills and prioritize managerial task inside the organization. The author further suggested that some of the entrepreneurs may take more time to move from one stage to another, while for some, it may be a fast progression. Financial backing, non-viable means to new technology, may be the reasons for not being able to cross the first stage (Dunn and Cheatham 1993). To be able to cross the second stage, the entrepreneur should be able to generate demand and increase sales through appropriate strategies. Once demand increases, there is a need for capacity expansion in order to match demand with appropriate supply to cross the third stage. Failure to implement a formal organization structure with professional manpower will pose challenges to cross the fourth stage (Anonymous 1984). While a well-established business will require a competent successor which an entrepreneur may decide to appoint an internal person or bring a new chief executive from outside of the company. But, an ineffective replacement for the founder may cause the business to fail to cross the fifth stage (Ip and Jacobs 2006).

Methodology

Primary data was employed in order to ensure active participation of the respondents and to give credence to the study. Data were collected with the aid of a well structured seven- point Likert scale, close-ended questionnaire. 388 respondents were selected based on Rakesh (2013) sample size determination formular and copies of the questionnaire were distributed on convenience basis to the management staff (top management, middle level managers and supervisors). Multiple regression analysis was used to establish the relationship between social capital and firm growth. This approach was employed as a result of its ability to predict the value of a variable based on the value of two or more other variables and it is supported by Jansen, Scherer and Schroeders (2015).

The model for this study is presented;

Firm's growth = $f(\text{social capital})$

Therefore increase in sales = $f(\text{collaboration, social activities, cross-fertilization of ideas, extrovert, education and mutual trust})$.

Increase in sales = $a_0 + a_1 C + a_2 SA + a_3 CF + a_4 EX + a_5 ED + a_6 MT + U$

Where C = Collaboration

SA = Social Activities

CF = Cross-fertilization of ideas

EX = Extrovert

ED = Education

MT = Mutual Trust

Results Presentation and Analysis

Table: 1 Multiple Regression Results

Dependent: Increase in company sales turn over

VARIABLES	COEFFICIENT	T - VALUE
Constant	-0.069	-0.307
Collaboration	-0.102	-1.206
Cross-fertilization of ideas	0.025	0.305
Social activities	0.135*	2.132
Extrovert	0.004	0.149
Level of education	0.074*	3.056
Mutual trust	0.783*	14.803
R ²	0.536*	
F-statistics	61.901*	

Source – Authors' computation, 2015

Table 1 presents the regression result of the impact of social capital on firm growth. From the table, mutual trust, level of education and social activities have positive significant impact on firm's growth. However, collaboration, being an extrovert and cross-fertilization of ideas has insignificant effect on firm's growth. Coefficients of all independent variables have expected positive sign except coefficient of collaboration. This can be explained by the extent of the influence of the group members. The more influential, the better the effect of collaboration and cross-fertilization of ideas on firm's growth.

The positive effect of social activity on firms' growth signifies the importance of social interaction between the firm's management and stakeholders in the community. This can be attributed to the impact social capital has on firms' growth in-terms of ideas sharing, getting influence for window of opportunities and so on.

Level of education, based on the result also significantly promotes a firm's growth. This supports the view that human development in-terms of training and learning improves social interaction and acceptability of an individual in the society, which ultimately enhances a firm's growth.

The results also confirm the importance of mutual trust on a firm's growth. This implies that trust facilitates acceptability and collaboration among individuals for the sake of organizational productivity that culminates in a firm's growth.

Furthermore, the overall result shows that the predictive power of the model is more than 50% and all the independent variables are jointly significant in explaining the impact of social capital on a firm's growth as explained by the significance of F-statistics as shown in table 1 above.

Conclusion and Recommendations

Based on the findings, social capital is a tool that enhances a firm's growth and management of an organization should tap to the fullest in order to maximize the opportunities and gain competitive advantage in their industry. Cross-fertilization of ideas in form of sharing tacit knowledge may ease management 'head-ache' and help resolve challenges that may affect the existence of the firm. Social activity which fosters social relationship among players in various industries is also a fundamental tool for a firm's growth in the information age. The findings of the study indicate that level of education and mutual trust among stakeholders also build-up social capital which firms can employ for the growth of the organization. Taken together, the results clearly demonstrate the positive impact of social capital on firms' growth. The study therefore recommends mutual trust, involvement in social activities and association for management of an organization in order to maximize the windows of opportunities and to grow the firm accordingly for the benefit of all stakeholders.

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