Harnessing Social Capital for Community & Economic Development

RESEARCH SPOTLIGHT

The promotion of small firm social networks is key for community and economic development. Scholars like Robert Putnam were among the first to note a strong correlation between economic growth and communities with large densities of civil and social networks. Network interactions between individuals and firms build trust, which leads to reciprocal positive economic outcomes. This phenomena – called social capital – has been well demonstrated in the scholarly literature. Broadly speaking, social capital refers to the networks embedded within organizations that facilitate trust and norms to improve the efficiency of society via coordinated action. At a macroeconomic level, social capital has been shown to be of particular interest for community development because it promotes networks that lower income inequality and fosters sustainable growth.

The mechanisms through which social capital promotes community development are complex. Existing research suggests social capital promotes the growth of community networks, and thus leads to better economic outcomes, in three ways:

1. **Increasing Trust Levels**: Areas with high levels of social capital allow better facilitation of trust and business knowledge between community members.

2. **Lower Transaction Costs**: Increasing social capital levels allows community members to engage in entrepreneurial efforts because high trust levels lower economic costs.

3. **Enables Collective Action**: The reinforcing nature of social capital enables collective economic action at the local level, especially in underserved communities.

Scholars have long suggested that the foundation of economic distress in disadvantaged neighborhoods is weak social capital networks. Without strong networks, such communities often face negative outcomes including increases in crime, net migration outflows, fewer social facilities, lower health standards, and even a degraded physical environment.

Though the promotion of social capital networks has positive economic implications at all levels, there is a large amount of evidence that it is particularly effective for small firm transactions. For example, some research shows high levels of social capital boost microfinance activity. Scholars have even shown entrepreneurial networks created by social capital are key for the success of other types of economic development projects. Small business owners who engage in social capital generating activities are both more innovative and likely to be more economically successful than those who do not engage in such activities.
Community Institutions as Social Capital Creators

The lending and technical assistance activities of community development organizations can help generate social capital in the communities they serve. It is important to note that many of the services offered by these organizations strive to target underserved entrepreneurs – including women, minorities, and veterans – which are populations that face structural barriers to small business success. In a social capital context, the effect of building networks across underserved populations has been shown to be highly effective in generating positive economic outcomes. Research has shown the most powerful types of network activity involve what scholars term bridging capital, which occurs when entrepreneurs reach outside of their existing networks and interface with other entrepreneurs or firms that are not normally within their social sphere. Thus, the network promoting activities engaged in by community and economic developers are likely to be efficient in the production of bonding capital. The production of bonding social capital is critically important in underserved communities because it has strong associations with equitable and sustainable economic growth.\textsuperscript{xi}

Measuring North Carolina’s Social Capital Levels

Research shows social capital is important for community development, but it can be a practical challenge to quantify the concept. How do we define how much social capital is in a region? Though much theory highlights the importance of trust-building networks for economic development, expressing social capital through a number is complex. One way to illustrate how social capital levels vary across place is the use of indices. Social capital indexes combine a variety of different metrics on organizational social interactions within a community. The below map uses a popular social capital measure developed by scholars at Pennsylvania State University.\textsuperscript{xi} The index takes into account the density of social-capital generating organizations in a county (religious, civic, social, political, professional, labor, sports) and also includes proxy variables to measure the level of trust in a community (census response rates, voter turnout).

The above map displays the Pennsylvania State University social capital index for North Carolina’s counties.\textsuperscript{xiii} Counties are color-coded by their relative levels of social capital to the state average, with greener colors indicating relatively more social capital. Interestingly, county-level
social capital levels in the North Carolina do not necessary correlate with other more traditional measures of economic success. For example, metropolitan counties in the Raleigh-Durham-Chapel Hill triangle have relatively average to slightly above average social capital stocks. Additionally, it is interesting to note that there is not a correlation between how rural a community is and its social capital levels.xv North Carolina is home to communities that have wide variation in their social capital levels, but some communities have more robust networks than others:

### Above Average Social Capital

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>SC Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Polk</td>
<td>2.94</td>
</tr>
<tr>
<td>#2</td>
<td>Bertie</td>
<td>2.47</td>
</tr>
<tr>
<td>#3</td>
<td>Washington</td>
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</tr>
<tr>
<td>#4</td>
<td>Tyrrell</td>
<td>2.08</td>
</tr>
<tr>
<td>#5</td>
<td>Transylvania</td>
<td>1.83</td>
</tr>
<tr>
<td>#6</td>
<td>Avery</td>
<td>1.82</td>
</tr>
<tr>
<td>#7</td>
<td>Forsyth</td>
<td>1.73</td>
</tr>
<tr>
<td>#8</td>
<td>Alleghany</td>
<td>1.63</td>
</tr>
<tr>
<td>#9</td>
<td>Macon</td>
<td>1.49</td>
</tr>
<tr>
<td>#10</td>
<td>Chowan</td>
<td>1.36</td>
</tr>
</tbody>
</table>

### Below Average Social Capital

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>SC Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>#100</td>
<td>Onslow</td>
<td>-2.96</td>
</tr>
<tr>
<td>#99</td>
<td>Hoke</td>
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</tr>
<tr>
<td>#98</td>
<td>Harnett</td>
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</tr>
<tr>
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<td>Cumberland</td>
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<tr>
<td>#96</td>
<td>Robeson</td>
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<tr>
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<td>Union</td>
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<td>#94</td>
<td>Gates</td>
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<tr>
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<td>Camden</td>
<td>-1.09</td>
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<tr>
<td>#92</td>
<td>Columbus</td>
<td>-1.08</td>
</tr>
<tr>
<td>#91</td>
<td>Johnston</td>
<td>1.03</td>
</tr>
</tbody>
</table>

### Why Leverage Social Capital?

Overall, the data suggest an opportunity for community and economic developers on both ends of the spectrum. Areas with high social capital can be primed for immediate growth and development by harnessing existing business networks. Approaching community development in a social capital context represents an affordable and fast-working strategy for such regions. Based on the findings of other research, developers in areas with high levels of social capital should strongly consider partnerships with community institutions to tap into existing entrepreneurship and small firm networks.xv

On the other end of the spectrum, there are many methods to strengthen and improve business networks in areas with relatively low social capital levels. Communities with lower social capital offer opportunities for growth when public and non-profit organizations that can find ways to raise trust levels and integrate entrepreneurs into business networks with bridging social capital. Methods to improve social capital from a community development context include using business assistance organizations to promote networking opportunities between existing small firms and aspiring entrepreneurs.xvi

### About This Report

This report is part of Carolina Small Business Development Fund’s Research Spotlight program. The goal of the program is to provide succinct analyses of emergent issues related to community and economic development. For more information about this topic, please contact Jamie McCall at jmccall@carolinasmallbusiness.org.
References


Research Spotlight: Social Capital


This definition is similar to how the term was defined by Putnam (1993, 167).


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See Callois and Aubert, 2007.

This is opposed to bonding capital, when entrepreneurs engage in social activities only within their pre-existing networks. See Knudsen, Florida & Rousseau, 2005; Patulny & Svendsen, 2007; Woolcock & Narayan, 2000.

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See Rupasingha, Goetz, & Freshwater, 2006 (with updates).

Raw scores normalized by transforming the index values into a standardized z-score.

A difference of means test demonstrates social capital levels between the state’s rural and urban areas are not statistically significant at p < 0.05.

See Cooke & Willis, 1999.

See Stam, Arzlanian, & Elfring, 2014.