

ENRICHING SOCIAL CAPITAL AND IMPROVING ORGANIZATIONAL PERFORMANCE IN THE AGE OF SOCIAL NETWORKING

Edgar Ferrer, Universidad del Turabo, Gurabo, PR, edgferrer@suagm.edu

José González-Rivera, Universidad del Turabo, Gurabo, PR, jgonzalez524@email.suagm.edu

Milton Maldonado-Pérez, Universidad del Turabo, Gurabo, PR, mmaldonado121@email.suagm.edu

Mabel Martínez-Maurosa, Universidad del Turabo, Gurabo, PR, mmartinez328@email.suagm.edu

Ernesto Soto-Montes, Universidad del Turabo, Gurabo, PR, lsoto47@email.suagm.edu

ABSTRACT

Social capital is a term originally used in sociology. The idea of social capital is increasingly influencing multiple disciplines including psychology, economy, management, and information technology. The role that social capital plays in organizations and its contribution to organizational performance has gained attention of researchers and different studies have been conducted to characterize social capital in terms of social networks theories. This work presents a discussion on social capital in the context of social networks, and explains how these networks affect the organizational performance. The study was conducted through literature review with systematic discussion of arguments and propositions. Through this research, we have determined three key constructs, which have a close relation with social networks and a positive effect on organizational performance.

INTRODUCTION

Social capital is a term originally used in sociology. Today, this term has transcended its roots and expanded into other disciplines, including psychology, economy, management, and information technology. Social capital refers to “the ability of actors to secure benefits by virtue of membership in social networks or in other social structures” [14]. The role that social capital plays in organizations and its contribution to firm performance has been widely studied [20]. Different studies have been conducted to characterize social capital in terms of social networks theories [3]. Although different authors emphasize different aspects of social networks, they are consistent with supporting the idea that social networks have value, these represent a great source of competitive advantage for business.

In general terms, a social network is a social structure made up of individuals, groups or organizations which are connected by one or more specific types of interdependencies. The term social network has been popularized in recent years thanks to the massive use of social networking services, which are based on technological platforms used to create and maintain social networks. Social networks have manifested a rapid expansion in recent years; this has motivated an increasing interest in developing studies to understand the structure, the meaning, and the functionalities of social networking as technological platforms and how these social networking sites influence the performance of organizations.

Organizations could exploit effectively social networking as far as they can analyze and understand social networks relationships and how they affect behaviors. This can be useful to predict profitability or cost-effectiveness, and to take strategic decisions. Social networks provide means to allow the companies to interact with the customers by exchanging information and receiving honest and frequent feedback about products or services. In this way, social networks could be a powerful managerial instrument that can lead managers to determine relevant aspects to support decision making, such aspects include: discovering interesting network patterns, analyzing the network structure and determine how it affects consumer behavior.

There are strong theoretical evidences sustaining the importance of social ties between individuals in favor of economic growth [2]. Nevertheless, there exists few literature concerning social networks in the context of social networking services on the web and how these services impact positively the organizational performance. This

research aims to offer a discussion about the use of social capital through social networking and their effect on organizational performance.

RESEARCH METHODOLOGY

The present study was conducted through literature review with systematic discussion of arguments and propositions. The systematic analysis led us to determine three key constructs in relation to social networks and its effects on organizational performance. In the following subsections we will be describing relevant aspects of organizational performance which have influence on aspects of social capital and social networks.

Organizational Performance

Organizational performance involves the analysis of a company's outcomes as compared to goals and objectives. Within organizations, there are three primary outcomes to be analyzed: (1) financial performance, (2) market performance and (3) shareholder value performance [17]. The present study provides several elements and discussions regarding the effect of social networks and social capital on organizational performance. Literature review and systematic analysis have been the means to determine constructs in relation to social networks and its effects on organizational performance.

One of the most studied primary outcomes of organizational performance has been the financial performance, this outcome have also been studied in the context of social networks. In recent years, research has shown the importance of social networks in benefit of financial outputs, and more recently researchers have focused on the potential financial benefits of actors' connections through social networking sites [8] [11] [7] [10]. In this sense, we have determined an association between the financial performance and social network connectedness.

The impact of social interactions on marketing interactions within social networks is a subject that has gained attention, especially since social networking sites have become popular [19]. Social networks constitute an attractive channel to reach customers for creating, delivering, and advertising products or services. Marketing is a fertile field to be exploited by means of social networks tools. In this sense, several authors have established different theories and mechanisms in order to create value for customers, build strong customer relationships, and capture value from customers in return [12] [18]. As result, we have determined an association between the market performance and social network-based marketing.

The third primary outcome in organizational performance has to do with shareholder value and economic value added. In these times, the global economy and the accelerated technological transformations are marking the agenda of managers who are looking for more competitive companies. As result, more companies are renewing their focus on investing in innovation, perceiving innovation as an economic value added. According to the Global Innovation Index Report 2011 [5], every year more companies in the world take into account innovation among their top three priorities. The most innovative companies in the world rely on enterprise social networking to collaborate, share and test ideas, identify new opportunities for growth and build stronger relationships with customers [13]. In this regard, we have determined an association between the economic value added (shareholder return) and the innovation with social networks.

Social Network Connectedness

The essence of the social capital concept is social relations, through these relations actors in a social network are enabled to fulfill their goals [6]. Social relations state the underlying idea to define social connectedness which basically refers to people relating to other people, that is, how people come together, interact and network. Connectedness is also referred to describe the quality and number of connections people have in their social network.

Social networks have become an important element in several business operations. Although most business and public sector organization are not aware about social capital management, they recognize the value of social networking tools and social media to obtain citizen or customers feedback [15]. Aside from external connections with customers, social networks have also proved to impact internally in terms of communication between employees and other member within the organization [8]. Both internal and external connections can be helpful to increase the financial performance and the overall organizational performance.

Marketing and Social Networks

Markets are becoming increasingly attracted by knowing meaningful connections in social networks in order to exploit information exchange in prediction markets [16]. Social network data characterize an immense source of information and opportunities for marketing studies. Social network data and connections lead to discover new aspect in the markets by following connectivity patterns. Social groups can create a high level of internal solidarity and trust, in addition, social networks is an effective mean to gain customer's trust an loyalty in view of the fact that social groups can create a high level of internal solidarity and trust[1].

Social networks can shape a vast number of connections through heterogeneous actors, but such a complex structure can be organized into communities becoming part of the network, and forming clusters within the network. After a brief review of literature in the field of marketing, regarding social networks, we discovered two trends. The first trend has to do with viral marketing trough social media [4], while the second deals with the study of network structure for predictability and crowdsourcing [16]. The aforementioned aspects can be helpful for any kind of organization in order to improve the market performance and contribute to the overall organizational performance.

Innovation and Social Networks

Over the last decade, there has been an increased interest on innovation in different kind of businesses. Researchers have found that innovation is a key element to success and gaining a competitive advantage in organizations [9]. A brief review of recent literature regarding innovation in business reveals that research tends to center attention in three broad categories of innovation, namely: managerial, marketing, and product innovation. The main source of information for product, marketing or managerial innovation comes from the experiences of involved actors. In this sense, social networks constitute a powerful mean to strengthen innovation and performance. Social networks build bridges to fill the gaps in business-to-business and business-to-customer relationships. These types of connections facilitate collaboration and exchange of knowledge, which are fundamental for innovation. In addition, innovative organizations can exploit its social capital to share and test ideas, identify new opportunities and detect trends prematurely. Without doubt, an innovative organization stands in good position to augment the economic value added (shareholder return), therefore, the innovation through social networks becomes a facilitator of organizational performance.

RESULTS

In the last decades, research has shown the importance of social capital with reference to value creation in organizations. Different studies have been conducted to characterize social capital in terms of social networks theories. Conversely, social networks have gained attention of researchers to explain how these networks affect the organizational performance. Three primary outcomes of organizational performance have been identified from literature: (1) financial performance, (2) market performance and (3) shareholder value performance. Arguments and systematic discussion of literature led us to determine three constructs in relation to social networks and organizational performance, namely: Connectedness, Marketing and Innovation. Through this research, we have shown how the concerned constructs have a close relation with social networks and a positive effect on organizational performance.

CONCLUSIONS

This research presented several facts and the corresponding analysis with regard to social networks and social capital and their effect on organizational performance. The study was conducted through literature review with systematic discussion of arguments and propositions. As results, we provide three fundamental constructs that have been shown to have close relation with social networks and a positive effect on organizational performance. Future works include the operationalization of variables, and further empirical research with real organizations.

REFERENCES

1. Ansari, A., Koenigsberg, O., & Stahl, F. (2011). Modeling Multiple Relationships in Social Networks. *Journal of Marketing Research*. 48(4), 713 – 728.
2. Burchardi, K.B. & Hassan T. (2011). The Economic Impact of Social Ties: Evidence from German Reunification. *CEPR Discussion Paper No. 8470*, CEPR London.
3. Cohen, D. J., & Prusak, L. (2000). In Good Company: How Social Capital Makes Organizations Work. Harvard Business Press Books.
4. De Vries, L., Gensler, S., & LeeFlang, P. (2012) Popularity of Brand Posts on Brand Fan Pages: An Investigation of the Effects of Social Media Marketing. *Journal of Interactive Marketing* 26:2, 83–91.
5. Dutta, S. (editor). (2011). The Global Innovation Index 2011: Accelerating Growth and Development INSEAD Press. France.
6. Golubović, N. (2009) Network Structure of Social Capital. *Facta Universitatis Series: Economics and Organization*. 6(3), 211 – 219.
7. Hanaki, N., Peterhansl, A., Dodds, P., & Watts D. (2007). Cooperation in Evolving Social Networks, *Management Science*, 53(7), 1036-1050.
8. Heerden, V. (2009). Finding and Utilizing Opinion Leaders: Social Networks and the Power of Relationships. *South African Journal of Business Management*, 40(3), 65 – 76.
9. Hussain, M., & Ilyas, S. (2011) Environment for Innovation: Gaining Competitive Advantage. *African Journal of Business Management*. 5(4), 1232–1235.
10. Jones O., & Jayawarna D. (2010). Resourcing New Businesses: Social Networks, Bootstrapping and Firm Performance. *Venture Capital: An International Journal of Entrepreneurial Finance*. 12(2), 127 – 152.
11. Luo J. (2010). Social Network Analysis (Second Edition), Social Sciences Academic Press, China.
12. Mottart, A. (2009). How to use Facebook in your Market Research. *International Journal of Market Research* 51(4), 439-447.
13. Pansare, M. (2012). Innovation and Social Business ROI: It's More Than Just Idea Generation. *Information Management Newsletter*. Information Management and SourceMedia. <http://www.information-management.com/newsletters/social-customer-analytics-ROI-Boston-Consulting-10021887-1.html>
14. Portes, A. (1998). Social Capital. *Annual Review of Sociology*, 23, 1-24.
15. Prohaska, B. (2011) Social Media for the Collaborative Enterprise. *IEEE IT Professional*. 13(4), 64-63.
16. Qiu, L., Rui H., & Whinston, A. (2012). Information Exchange in Prediction Markets: How Social Networks Promote Forecast Efficiency. Social Science research Network. Available at SSRN: <http://ssrn.com/abstract=2047904>
17. Richard, P., Devinney, T., George, Y., & Gerry, J. (2009). Measuring Organizational Performance: Towards Methodological Best Practice. *Journal of Management*. 35(3), 718 – 804.
18. Soares, A., Pinho, J., Nobre, H. From Social to Marketing Interactions: The Role of Social Networks. *Journal of Transnational Management*. 17(1), 45 – 62.
19. Surma, J., & Furmanek, A. (2011). Data Mining in On-Line Social Network for Marketing Response Analysis. IEEE third international conference on social computing (socialcom). Boston MA, USA. 537 – 540.
20. Westlund, H., & Adam, F. (2010). Social capital and economic performance: a meta-analysis of 65 studies. *European Planning Studies* 18, 893–919.