

# Assessing Social Capital: Small and Medium Sized Enterprises in Germany and the U.K.

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**ABSTRACT.** “Social capital” can be considered to be the product of co-operation between various institutions, networks and business partners. It has potential as a useful tool for business ethics. In this article we identify categories pertinent to the measurement of social capital in small and medium sized enterprises (SMEs). By drawing on three different sectors, one business-to-business service, one business-to-customer service, and one manufacturing, we have enabled the consideration of sectoral differences. We find sector to play an important part in relation to business practices and social capital. Our inclusion of SMEs from Germany and the United Kingdom has called attention to cultural, institutional and economic aspects of two regions of Europe and how they can influence SME social capital. Social capital is found to be influenced by context and, in particular, institutional arrangements. In analysing the data we note particular areas of interest from the point of view of SMEs and social capital as being: formal engagement, networking within sectors, networking across sectors, volunteerism and giving to charity, and finally a focus on why people engage. We conclude that there is a considerable amount of further research needed on social capital, SME’s and business ethics.

**KEY WORDS:** charitable giving, civic engagement, corporate social responsibility, Germany, local community, networks, small and medium-sized enterprises, social capital, United Kingdom, volunteerism

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## Introduction

In this article we use social capital as a tool for expanding our understanding of small and medium sized enterprises (SMEs) from a business ethics perspective. “Social capital” can be considered to be the product of co-operation between various institutions, networks and business partners. Taken from the perspective of economics, it has been positioned alongside the more traditional notions of physical capital and human capital as an important source of performance improvement for the firm. The concept of social capital has been of primary interest to economists (e.g. Woolcock and Narayan, 2000) and sociologists (e.g. Coleman, 1988) and political scientists concerned with community and civil engagement (e.g. Putnam, 2000; Ostrom, 1994). It has been noted as a valuable prospect in management studies (Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002). Acknowledgement of the relevance of social capital has been reflected in a number of broad practical projects – at the national as well as the international level (World Bank, 1998). Here we combine empirical research on SMEs and social capital with a theoretical discussion, bringing the concept to this new context.

We believe that social capital is a potentially critical aspect for small business life. Previous literature highlights the importance of informal relationships, trust and solidarity for small business development (Granovetter, 2000). The value of these relationships is one of the composite parts of social capital. Since informal local relationships can include local civic engagement,



and associated social capital, we might also expect SMEs to be highly embedded and engaged at a local level. Challenging the Bolton Committee of Inquiries' (Bolton, 1971) vision of the small firm owner-manager as willing to serve the community, more recent research in the United Kingdom has suggested a distinct lack of local involvement among SMEs (Curran and Blackburn, 1994, Curran et al., 2000). We believe that there remains some link between community and owner-manager and that social capital theory can help us to comprehend this. Research focussing on the social capital perspective is needed to further understand the role of institutional links, networks and trust relationships for SMEs. With this understanding we can identify ways in which SMEs could be encouraged and enabled to contribute to civil society.

Social capital has some important aspects for business ethics – it highlights the manner of doing business and has many points of intersection including issues such as transparency, honesty, co-operation, trust, community investment, organisational citizenship and goodwill. To date, much of the work on social capital which is applied to industrial perspectives has been done on large organisations. Notable exceptions include the work on Italian industrial districts by Putnam (1993) and consideration of social capital in relation to ethnic entrepreneurs by Flap et al. (2000). Work on small firms and networks is more prolific and frequently touches on similar issues (See, Burt, 2000; Blundel and Smith, 2001; Perry, 1999). Here we report on preliminary findings of an exploratory study of SMEs and social capital.

### **Social capital, business ethics, CSR and SMEs**

The mainstream of business ethics and Corporate Social Responsibility (CSR) literature is orientated towards large firms. This is not unusual in the management literature generally, but in this case specifically, the reasons are at least three-fold. First, big companies are powerful enough to play an active unilateral role in their political

and social environment. Thus, the concept of the "Responsible Corporate Actor" is addressed dominantly to large international corporations that can reasonably be expected to act according to these imperatives. Second, most theorists of CSR and business ethics conceptualise "ethical business" as something that is in contradiction to economic imperatives within a market economy. They therefore implicitly think of business ethics as a "luxury good". Thus, only wealthy players will be able to "afford" such a good. The final reason for the focus on large organisations is taken from a "sociology of science" view: CSR is not yet an established subject of academic research. The drive for its development has come largely from the corporate sector seeking quasi-academic bases for the pursuit of win-win scenarios to protect both corporate reputation *and* the bottom line. As a result, much of the focus to date has been on serving the needs of large corporations. The voice of the SME is unlikely to be heard in this consultancy-orientated perspective. However, the business ethics and Corporate Social Responsibility movement is obliged to apply itself to SMEs. In all countries small firms are the vast majority of business enterprises. This is true at a national and a European level, where the European Union increasingly focuses its research efforts on supporting and stimulating SMEs.

Familiar concepts from business ethics and CSR are not readily transferable to small and medium sized enterprises. The "Triple Bottom Line", the "Balanced Scorecard", concepts of ethical investment or human resource strategies (for example, the U.K.'s Investors in People): all these are complex and ambitious concepts requiring bureaucratic administrative structures antipathetic to the usual circumstance in SMEs. Professional implementation and highly paid consultants are required for such initiatives. SMEs facing competitive pressure and limited cash flow may not be motivated to spend time and money on ethics if, adopting the economic model, they perceive it as a business cost with no benefit. Thus, to integrate SMEs into the key concepts of business ethics literature more is needed than a simple extension of the existing concepts to new groups of actors. The social capital approach

to organisational citizenship and civic engagement is opening up new perspectives and research agendas that may lend themselves readily to smaller organisations. In particular the embedded and interactive nature of social capital is likely to be relevant to SMEs.

The social capital approach is an embedded concept in the sense that it locates the object in its societal environment. Within such an approach, understanding “business ethics” necessitates the development of a consistent theory of modern society and its basic structural elements (Twickel, 2001). “Business ethics” does not operate in a vacuum disconnected from the rest of the world. Rather, it has to be drawn from a broader contextual framework.

Social capital is an interactive concept. Small and medium sized firms are not “microcosms” that could be conceptualised as a “hermetic world” with its own rules and laws. Rather they exist predominantly because of a constant and essential exchange with their economic and social environment. This is true even where SMEs are considered to be disconnected from their local settings. Still, economic, physical and social ties, we argue, can be important.

Why would the SME owner-manager consider “investing” in social capital? There are at least three aspects which structures of social capital provide for the actor, in this case the SME owner-manager:

1. They stabilise mutual expectations and enable collective action (trust),
2. They form a kind of insurance and
3. They give access to relevant information.

Social capital stabilises mutual expectations through trust, and enables collective action. Big companies are run by networks of regulated contractual exchange and therefore rely much more on formal rules than smaller ones. Through their professional resources, large firms have far better access to legal protection to enforce their claims. For small and medium sized enterprises, however, structures of social capital offer a more valuable condition for business. If an exchange partner does not deliver or pay the bill on time this may result in a crisis for the owner-manager carefully balancing cash flow. A social network may be a

source of informal threat to a client to stick to promises or might lend easier access to legal institutions.

Social capital possesses elements of insurance. Even within a well-developed system of financial and assurance markets this is still an important aspect for the every-day business life of an SME. Actions of small mutual assistance (e.g. technical or organisational help) save money for professional services. A concept of extended equivalence shows civic engagement as an investment in the reputation of the entrepreneur.

Structures of social capital may also deliver important information (for example concerning the trustworthiness of a potential client or employee, a government programme, industry specific developments, new laws, new information technology etc.). The SME has limited access to costly professional information, and are more likely to rely on personal tips and “informal” mechanisms of information exchange. A network of cross-sectoral and intra-sectoral relations is very helpful in this respect.

During the 1990s, articles began to appear in both the business ethics and social responsibility fields and the small business literature, which acknowledged the need for further research in the CSR/business ethics and small firm area. There has been some limited work on SMEs and social and ethical issues (e.g. Kenner Thompson and Smith, 1991; Quinn, 1997; Vyakarnam et al., 1997; Spence, 1999; Joseph, 2000, Spence et al., 2001; Spence and Rutherford, 2001; Maaß and Clemens, 2002; Department of Trade and Industry, 2002a). A repeated theme in these studies is that small and medium sized enterprises are widely engaged in socially and ethically aware activities, although they may not be measurable in the same way as their large firm counterparts. Work which compares the situation between countries is extremely rare, despite the special need within Europe due to the European Union-wide objectives to support SME development. One exception is the Observatory of European SMEs (2002) report comparing social and environmental responsibility issues in 19 European countries. Here we take the agenda forward with our in-depth focus specifically on the extent to which investment in social capital is important

for SMEs. This we do in the empirical research presented in this article.

### Empirical research

A European empirical pilot study has been completed to help improve our understanding of social capital and small and medium sized enterprises. The research was qualitative in nature with a comparative element, drawing on research done in Bavaria (Munich) and England (West London). These two areas have similarities in that they are wealthy and economically stable regions of Europe, with well-established small and medium sized enterprise infrastructures, and occupy an important role in the economy (Lauder et al., 1994). In both the German and U.K. political contexts social responsibility is a clear area of concern. In Germany the independent commission by the German Bundestag into the future of civic engagement was completed in 2002 (die Enquete-Kommission "Zukunft des Bürgerschaftlichen Engagements"). In the U.K., the Minister of State for E-commerce and Competitiveness, whose remit includes Corporate Social Responsibility is taking many initiatives forward as described in the report "Business and Society: Corporate Social Responsibility Report" (Department of Trade and Industry, 2002b). Engaging smaller organisations is one of the elements of the agenda proposed (op. cit., pp. 31–32). In both countries, SME owner-managers have been identified in sociological terms as important political characters from whom much is expected. This takes the form of the German "Mittelstand" as a class of person, corresponding with the "entrepreneurial middle classes" (Scase and Goffee, 1982), or the *petite bourgeoisie* (see Curran et al., 2000, pp. 130–131).

The focus of our study is to understand social capital from the point of view of owner-managers of a small sample of SMEs in two regions. While this excludes social capital generated by employees, we chose the owner-manager as being a likely major source of social capital opportunities for the firm. As Burt (2000, p. 282) notes, "The social capital of people

aggregates into the social capital of organizations". For the samples we randomly chose 5 garages, 5 marketing service firms and 5 food processing or manufacturing firms from the Yellow Pages (Gelbe Seiten in Germany). The three sectors were identified as examples present in each region of a business-to-business service, a business-to-customer service and a manufacturer. These choices were made with a view to opening up the debate on social capital and SMEs which we expect to have sector-specific characteristics. This is inkeeping with previous SME research where sectors have been found to make a critical difference (Curran and Blackburn, 2001, pp. 16–19).

Previous empirical work has grappled with the difficult task of assessing social capital by using questionnaires and the occasional qualitative interview (see for example Knack and Keefer, 1997; Onyx and Bullen, 2000; Paldam, 2000; Inkeles, 2001). We chose qualitative interviews as a way of accessing the social and informal world of the owner-manager with some validity, giving the respondents the opportunity to help define and guide the research subject. In designing our research tool we drew on the wide literature of social capital to identify three broad areas used as stimulus questions relating to: institutional links (e.g. trade group membership), network links (e.g. informal or formal local business group), mutual trust relationships (e.g. with neighbouring firms). The work of Elinor Ostrom was particularly useful in identifying these levels of analysis (Ostrom and Ahn, 2001).

We asked the respondents to discuss both their "commercial" contacts and their personal ones, since social capital is by its nature in the grey area not belonging to the commercial sphere alone. We were interested to learn about the local contacts of the respondents and their contributions to the local environment and institutions.

The definition of SME was drawn from the European Union, as one of applied relevance in both Germany and the U.K., i.e. independent firms with up to 250 employees. However, it is recognised that sectoral differences were relevant in this. For example, the food manufacturing and processing companies tended not to be micro firms (fewer than 10 employees), whereas the

marketing firms often operated with one or two people. In future research these differences should be dealt with more closely.

Individual cases are referred to by their codes of SC (social capital project), U.K. or D (U.K. or Germany), 1, 2, 3, 4 or 5 (specific interview in series), F, G or M (Food manufacturing or processing, Garage, Marketing services). The basic information relating to each company in the study is given below.

The transcripts were analysed initially by looking at individual case studies. In this article we present the findings identified when readings were made across the case transcripts to consider which issues and perspectives relevant to social capital were most pertinent in the case of our respondents.

## Findings

Analysis of the transcripts of the 30 interviews in this research resulted in the identification of forms of social capital relevant to SMEs. Relevant categories were found to be: formal engagement, networking within sectors, networking across

sectors, volunteerism and giving to charity, and finally a focus on why people engage. Quotations from owner-managers presented here are literal examples and illustrative of the comments which helped us to identify the categories shown. In the case of the German interviews, the German language version is given as an endnote, enabling German-speakers to read the original. It is methodologically important that we have presented the words of the owner-manager in as exact a version as possible in order that the subtleties and nuances of their words can be seen in detail by the reader. Quotations include the line number of the interview transcript. Where there is a need to preserve confidentiality, an "X" has been inserted.

### *Formal engagement*

While none of the respondents in our sample had roles in traditional civic leadership (for example in local government) a number were formally engaged with sector or small firm-specific organisations. In this respect, however, there are institutional differences between the two countries.

TABLE I  
Summary of participating firms

Code	Established	Employees	Code	Established	Employees
SCD1M	1999	0	SCUK1M	1993	0
SCD2M	1998	1	SCUK2M	1990	7
SCD3M	1992	10	SCUK3M	1995	25
SCD4M	1994	10	SCUK4M	1982	0
SCD5M	1997	16	SCUK5M	1993	2
SCD1F	1985	30	SCUK1F	1984	17
SCD2F	1992	8	SCUK2F	1987	11
SCD3F	1902	65	SCUK3F	1991	1
SCD4F	1937	42	SCUK4F	1986	80
SCD5F	1881	16	SCUK5F	1986	34
SCD1G	1934	2	SCUK1G	1991	3
SCD2G	1986	4	SCUK2G	1971	0
SCD3G	1992	3	SCUK3G	1990	7
SCD4G	1990	4	SCUK4G	1979	0
SCD5G	1935	7	SCUK5G	1999	6

In the U.K., for example, the owner-manager of SCUK4F one of the larger food manufacture firms had been a Director of the local Business Link (a Government agency that supports and represents small firms). The owner-manager of SCD3M was involved with the Chamber of Commerce. The Chambers system differs considerably between the two countries, with compulsory membership in Germany (see Fallon and Brown, 1999 for a comparison of the U.K. and German Chambers systems). There is, however, still a role for voluntary engagement in the German Chambers of Commerce. In the case of SCD3M's owner-manager this took the form of having a role in examining training programmes (Prüfungsausschuss für Werbekaufleute). He is also responsible for the regional group of the Communication Association (Kommunikationsverband), and is a member of the Board.

From a more sector-specific perspective, the owner-manager of SCD5G served voluntarily on the Board of the Body Work Guild (Karosseriebauer-Innung) for ten years (SCD5G). When asked what the advantages of this were, he replies:

SCUK5G (84) In the first case, you are with these people, who you work together with, and you become friends, get known. It is, well, it is a kind of community.<sup>1</sup>

Some were involved from a rather more arms length position. Garage owner-manager SCUK2G felt that he should speak up when there are issues he feels to be important. For example:

SCUK2G (162) I have been to council meetings and told them about developments that I don't consider right, I have been on the PTA (Parent-Teacher Association) around the school for about 10 or 12 years . . . (166). And so, I have always sort of taken pride in the community as it were.

In a number of cases owner-managers would say that they could imagine getting more involved in civic issues in the future (e.g. SCD1M, SCUK5F). This is of course difficult to evaluate,

although it was often the case that they invoked the time needed to become established as a small firm as prohibitive to formal engagement outside of the firm. An example of this position was the owner-manager of a small marketing firm SCD1M, who when asked about voluntary involvement said:

SCD1M (41) Not in voluntary institutions so far. The main reason is, there is no time for so-called secondary activities. This is also to do with the fact that all operative activities are still being carried out by myself or my brother, which is very time-consuming.<sup>2</sup>

#### *Networking within sectors*

As has been found in previous research, the small and medium sized enterprises in our sample often had ties with other SMEs in their sector (Spence et al., 2001). While we cannot claim that intra-sector collaboration is universal, all three of our sector samples included examples of collaboration in both the U.K. and Germany. Networks have been identified as an important source of social capital (Burt, 2000, p. 282). The form of these connections were wide ranging, but included exchange of information, borrowing of equipment, recommendation and subcontracting. Previous work on garages has also found that they often have long-standing, co-operative informal links (Lloyd-Smith et al., 1993, p. 125). In a literature review on networking produced for the U.K. Small Business Service, Blundel and Smith (2001, p. iii) also suggest that business networks are sector-specific. Owner-manager of the food manufacturer SCD1F explains how these arrangements can come about:

SCD1F (276–282) I've been collaborating for years with a couple of colleagues. But this came about because some of my employees dropped out or something like that. And then it went: "You supply me with this . . ." "I supply you with that . . ." Everybody saves himself something, those kinds of relationships do exist . . . but it is not collaboration on a bigger scale. It is just a sort of "helping each other out", so that everybody can take things a bit easier.<sup>3</sup>

A U.K. garage owner-manager told us how these relationships can result in concrete problem-solving assistance.

SCUK2G (316) I was down getting an MOT down at XXX yesterday and was discussing the job that I have had trouble with, with BXXX and MXXX and you sort of bounce off one another and they may have a suggestion that you haven't thought of, and you know, at the end of the day, I solved the problem that I have been battling for about three weeks.

This is an example of the appropriability of social capital. Social capital is appropriable in that links made for one purpose can be useful for a different one (see Coleman, 1988, pp. 108–109). In the example above, a contact built for MOT purposes brings benefits in different areas.

#### *Networking across sectors*

Networking in cross-sectoral organisations was also found in our sample. One of the examples given by owner-manager SCUK5F demonstrated how some problems and issues are non-sector specific and can produce useful rewards.

SCUK5F (68) Yes, yes, sometimes it's always useful to network otherwise you think you are the only one with the problems and everyone else is fine but it's only when you discuss that you find that yes, other people have similar problems and how they overcome them and sometimes you come up with the bright ideas because we all want to advertise for jobs or whatever but sometimes you always choose the wrong newspaper or the wrong media altogether, whereas by talking to people they would probably come up with some ideas. I mean recently I did that, they came up with a web idea which I'd never thought of because I thought I'm so regional that if I put on the web, then I'll probably get enquiries from Scotland (laughs) but it actually worked.

Cross-sectoral networking was most likely, however, due to geographical proximity. By this we mean neighbouring firms, often on the same industrial estate or street, rather than the broader local business community.

For example, SCUK3G a garage located in the high street of a very small town, organises a Christmas barbeque for the neighbours and customers:

SCUK3G (156) All customers, anyone from off the street can come in and have a drink and eat or whatever, it's open to anyone really . . . (158). It's just for Christmas time when we all get together and have a few drinks and a bite to eat.

This may seem like an idyllic picture of village life. The pertinence of the example is particularly clear when it is considered that the garage owner and his family did not live in the area but some 20 minutes drive away. Furthermore, they are British Asians and not Christians in the overwhelmingly white, Christian area.

SCD1M describes how he has got to know the other people in the block in which the office is located. He says:

SCD1M (266–268) You meet each other in the hallway. . . . Or, or if there is something concrete, someone comes, or you drop by (292–294) I got a desk from the Casting Agent, they put it in for me. And then I offered it to the people from the Promotions Agency, because the colour didn't match after all, so they took it. Well, that is, that is basic neighbourliness.<sup>4</sup>

Garages often had parking problems, or found themselves in increasingly residential areas. This forced neighbourhood contacts if only to negotiate on this common problem. A pertinent example of this was given by owner-manager SCD5G:

SCD5G (139–141) The house over there was sold. Then it was renovated and decorated and sold as flats. And they showed the flats on Saturdays and Sundays, when there naturally wasn't any business going on. And then they moved in and on Monday suddenly a garage was there at work. . . . And they were of course straight on the telephone, furious, and since then that is, I have indeed experienced a lot of anger.<sup>5</sup>

One of the most active examples of neighbourhood networking was given by owner-manager of SCD3M. In this developing industrial estate,

a group had been formed to deal with common local issues:

SCD3M (236) twice a year, that all owner-managers meet and have loose contact, a kind of platform . . . (256). One current issue: a kindergarten is going to start here on the property, over there. It will be a sort of nursery, so that it'll be easier for mothers to take the kids with them, to leave them there and still be not far away from them.<sup>6</sup>

Interestingly, however, the group had been temporarily disbanded because one participant had hijacked it to forward his own agenda of complaints against the leaseholder. Networks which build social capital can evidently also be misappropriated – this might reflect a version of what Putnam has called the dark side of social capital (Putnam, 2000, pp. 350–363).

#### *Volunteerism and giving to charity*

Some of the owner-managers in our research did get involved in voluntary work and gave their time and resources in areas other than traditional, formal “civic” positions. In some instances, such as the owner-manager of SCUK5F, this was clearly directed and focused and drew on all the individual's networks and friends. He is a British Asian working in the food manufacturing sector.

SCUK5F (150) We actually formed a charity which was friends, groups of friends, we basically formed a charity group and this was in our youth, when we had a lot of time. Yes, we did a lot of charity work. Lately it's very much helping or supporting charities. We don't have any specific one but in the background there are plans, mainly to do . . . because within the ethnic community there is a lot of issues with kidneys and it's one of the research guys based at XXX Hospital here whom I just met and got on with quite well. So that's the ambition, to basically do something specifically for kidney patients because there are a lot of people struggling for dialysis machines (152). Basically among my friends we have quite a few and these are friends for eighteen, twenty years. We have got a very good network, we meet, everybody meets and whatever, so if someone initiates then we get this support, instantaneous support.

Others would use their skills directly for good causes. Owner-manager SCDIM had the idea of setting up a donations portal, using his know-how and business skills directly.

SCD1M (177–179) There is a social institution I'm planning to get involved in. It is not an association, it is a sort of institution that can be termed as a donation portal (on the internet). It is a portal, where several charities are presented. And I'd like to get directly involved in there. It's not that I have taken concrete steps, yet, but I want to become active soon.<sup>7</sup>

The link between donating time and money to local community and the possible financial reward to the business was made by owner-manager SCUK3G. Here, we can assume that as a garage, the local customer base has an influence.

SCUK3G (123) when you're involved in a small, local community, I would think I must pick up 35–40% business through that contact, probably more but then again I've missed spending a lot of time (on the business) with it, so it more or less pays for it that way. Bringing, involving local community, if any local sponsors like the school needs money, I will help them for whatever they're doing. There's a little bowling alley round the back here in HXXX, so I do a little bit of sponsorship for them. I've done a big sponsorship for a guy, a one-man band, one of my customers, £1000 sponsorship for his car, he's in the racing which comes on telly. We don't advertise in the paper for work, we spend our money, our marketing side through sponsorship. That's the only bit of sponsorship we do or advertising we do. So that's how we get the business.

Voluntary work and giving was sometimes done by the partners of the owner-manager, usually the wife, whose time is available as a result of the owner-manager as the main bread-winner. This involvement could also bring business benefits on occasion. Examples of this are given below:

SCUK2G (342) My wife runs the local cancer support drop in centre . . . she knows a lot of people, I know a lot of people through her (362). She is fully into the local community, completely really because she is meeting people all the time



not only for professional reasons but also to support families.

SCUK5F (142) I haven't managed to have much time but my wife is fairly active so yes I just follow her (146). she's quite involved in the cultural side of things because she is quite arty, all these fairs and whatever they organise, she gets involved with that.

The importance of looking at the whole family unit when considering social capital of the owner-manager is one perspective to keep in mind for future research.

### *Why do people get engaged?*

Further light can be thrown on the measurement of social capital by considering more closely the motivations to be a member, build links, volunteer and develop mutual trust relationships.

Some invoked notions of community and a feeling of wanting to "give something back":

SCD2M (284) Why do I do it? Because I think everybody needs to have at least one social project.<sup>8</sup>

SCUK4F (241) Em, I think you do use the local community, you have got to give something back if you can if you like, perhaps that sounds a little bit arrogant I don't know but it is the way it is. I just felt that it was a good idea to put something back into the local community.

SCUK2G (172–174) Well, because I feel that the community is the place we all live in and should be kept clean and tidy and everyone should live in harmony, you know . . . I have got quite strong feelings about that.

Others considered that they were simply the right or wrong personality type. For example, when asked why they get involved and are engaged in activities outside the firm, some respondents answered as follows:

SCUK5F (156) I as a person, I just set goals in life and whilst you are young there is only so much you can do and I've got this business growth which I want to be something and then I want to do something for the community and I think it's very

much a personal thing. Some people are quite happy, they couldn't be bothered whereas I like challenges and that's what I am doing.

SCUK2G (316) I mean, you don't go through life without meeting people do you? Making friends. I think I am a fairly amicable sort of person and if I think a person, not that I use people, but if I think something is interesting or you know that people have got something that I haven't then I will go and speak to them and learn from them, you know. . . . You know you never go through life lying low, I don't think so anyway.

Indeed personality type was invoked as a reason why not to be involved:

SCD1M (175) Not in an association, I'm basically not the type of person that is interested in associational activities or membership. It's more of an individualism.<sup>9</sup>

However, we must be careful not to draw too many conclusions on the basis of personality type or draw unsubstantiated causal links. Lloyd-Smith et al. (1993, p. 130) have suggested that a plausible case can be made for garage owners being predominantly "genial, trusting and outward looking". However, in their research they find that rather than particular personality types choosing appropriate sectors to work in, sectors tend to determine owner-manager behaviour.

Others in our sample identified the benefits which came from engagement, which emerge over the long term:

SCD3M (138) Well, I've been wondering about it as well, what the benefits are. Links, perhaps. I see it more in the long-run, say, you generate contacts through work you're doing there and create a network, and all that on a reputable level, which is not necessarily linked to the actual business.<sup>10</sup>

One owner manager suggested that he sought camaraderie from his involvement in outside groups and networks.

SCUK4F (241) I think really, what probably drives it all is the thought that if you are the Manager it is a lonely place, I mean, it is a very isolated place to be.

## Conclusion

We acknowledge limitations to this pilot study research. The most important of these include the size of the sample, the approximate comparability of the regions, the breadth of the sectoral definitions and the limitation of the study to the owner-managers only. It is in the last of these which we envisage the most critical aspect for future research on SMEs and social capital. More systematic research is needed which investigates in detail the purported relationships of the owner-manager, including the accessing of information from business partners, networks, institutions, friends and family. We would also propose that consideration be given not only to the owner-manager, but also to the relationships of employees, who may have equally important reservoirs of social capital. Employee connections were often important in determining voluntary giving, for example.

Religious and ethnic groups are an important area for future research. Where a group associates and identifies with members of the same group, this is called bonding social capital. According to Putnam, "Bonding social capital is good for undergirding specific reciprocity and mobilizing solidarity" (2000, p. 22). This type of social capital may come from a feeling of needing to react to (negative) external forces. Where SMEs of the same sector draw together and support each other against large firms or a dominant customer, this is also bonding social capital. We found the garages in our sample most likely to exhibit this behaviour.

A different kind of social capital is bridging social capital. This is inclusive and concentrates on bringing together people from different backgrounds and perspectives. Putnam explains this as follows: "Bridging networks . . . are better for linkage to external assets and for information diffusion" (2000, p. 22). A neighbourhood group which comes together to solve a common problem, such as Kindergarten provision could be an example of bridging social capital. A group may contain both bridging and bonding social capital. Identifying these and better understanding how they influence business behaviour

and performance would be a further avenue for research.

Social capital does not only bring ethically positive perspectives to the business organisation. It also has a potential dark side (Putnam, 2000, pp. 350–363). Networks heavily saturated in bonding social capital may, for example, result in closed recruitment opportunities or even unfair pricing agreements. Investment in social capital may be purely manipulative. So far we have not considered whether the motivation of the participant is important, but it does seem qualitatively and morally significant if "friends" are made purely for their expected business benefits. Flap et al. (2000, pp. 151–159) argue that too much social capital can result in the setting up of businesses with inadequate prospects for success. Where the small firm is a family business, emotional family perspectives have been found to have a significant impact on the business (Murray, 2002) this could lead to a confusing overplay between different forms of capital including social capital.

The family (particularly wives) of the usually male owner-manager in our research sample, have been suggested as builders of social capital, acting as a relatively time-rich resource, from which the owner-manager can also profit. Note here that we say "wives". A weakness of our study is that only 3 female owner-managers participated, all of which were in the German sample. None of these mentioned husbands or partners who developed social capital. Perhaps there are inevitable influences from lingering traditional roles here, which may diminish as roles shift and change. We did achieve a good ethnic and religious mix in the West London sample, reflecting the research site. This included representatives of the following faiths: Protestant, Hinduism, Jane, Jewish and Sikh. This diversity was not present in the predominantly Catholic community of the Munich sample.

A further point to note is that the firms in two of our three sectors, garages and food manufacturing and processing, were consistently older than the third sector of marketing services. While the distinction was not marked, we can infer from the data that there is a tendency to be more

embedded in the food and garage sectors. Garages are most often drawing from the direct client base neighbouring them, so one might expect a more obvious embedding in the local community. As well as being older, the food manufacturers tended to be the larger among the SMEs. Their employee base becomes increasingly important in this respect, and it is important to build a positive reputation in the community to ensure a good supply of potential employees.

There were indeed some differences between the batches of samples from the two countries that may not be fully apparent from the data presented above. Our findings reflect previous research that has found that business interests in Germany are much more highly organised than in the U.K. (Kitching and Blackburn, 1999, p. 625). The regulatory framework in Germany which means that trade-based individuals are required to have specific qualifications in order to operate and through which sustained membership of the relevant "Innung [Guild]" is normal. This, coupled with the compulsory membership of the Chamber of Commerce, means that SMEs in Germany are quite well organised before any voluntary, additional membership or networking is entered into. However, over and above these "requirements" it would be difficult to argue that the German SMEs were voluntarily investing more heavily in social capital than the U.K. ones. Hence the importance of the institutional context when studying social capital is drawn out by our research. Further research comparing differing contexts is needed to amplify this. The indications are that social capital can be supported by institutional links and requirements, but there remains an important voluntary reservoir which policy makers may not easily be able to influence.

We do not propose social capital as a panacea to small business difficulties and as a perfect business ethics tool. However, we do see that social capital could be a useful way of understanding business ethics and bringing it to the mainstream. Social capital is currently primarily an economic and political concept. It has potential as a social and ethical one.

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## Notes

<sup>1</sup> In erster Linie mal, du bist mit diesen Menschen, die wo du da zusammenarbeitest äh bist du befreundet, bekannt. Das ist äh, das ist halt irgendwie eine Gemeinschaft.

<sup>2</sup> Äh, in in freiwilligen, äh, Institutionen bisher nicht. Äh, der Grund ist vor allem, dass die Zeit derartige, ich nenn' es mal sekundäre Tätigkeiten nicht da ist. Das hat auch zu tun eben mit der Situation, das momentan noch alles, äh, auch die operativen Sachen, äh, von von mir oder meinem Bruder gemacht werden, was sehr zeitintensiv ist.

<sup>3</sup> Ich arbeite seit x Jahren mit ein paar Kollegen zusammen . . . Ähm, es ist aber mehr durch Problematik im Betrieb entstanden, wir mir die Leute ausgefallen sind und sonst irgendwas. Und da hat man gesagt "Gut, du lieferst mir das" "Ich liefer dir das" . . . Ähm jeder spart sich irgendwo ein bisschen was, solche Verbindungen bestehen schon. . . . Aber das artet nicht in große Aspekte aus. Das ist eigentlich nichts anderes als wie ein Unter-dem-Arm-greifen, dass der andere oder jeder ein bisschen, das Ganze ein bisschen leichter nehmen kann.

<sup>4</sup> Man trifft sich auf dem Gang. . . . Oder, oder wenn man äh 'ne konkrete Sache hat, kommt man auch, geht man auch vorbei (292–294). Ich hab Schreibtische von der von der Casting-Agentur bekommen, habe sie mir reingestellt. Dann haben sie mir nicht gefallen, weil die weil die dann doch äh farblich nicht gepasst haben. Dann hab ich sie denen von der äh von der Promotions-Agentur angeboten, dann haben die die genommen. . . . Also das ist so, Basis Basisnachbarschaftshilfe.

<sup>5</sup> Sind da, gerade da drüßern, das Haus, das ist verkauft worden. Dann wurde das ganze Haus renoviert und hergerichtet und lauter Eigentumswohnungen verkauft. Und die haben denen die Wohnungen am Samstag, Sonntag gezeigt, wo da natürlich kein Betrieb war. Und dann sind die eingezogen und am Montag ist da plötzlich eine Werkstatt,

die gearbeitet hat. . . . Und die haben natürlich dann gleich, waren am Telefon und Mordsärger und seitdem das da so ist, habe ich da schon einen Ärger hier drin.

<sup>6</sup> zweimal im Jahr, dass sich alle Geschäftsführer treffen und man so lose Kontakt hat, so als Plattform (256). Was was jetzt diskutiert wird: wir kriegen 'nen Kindergarten hier auf's Gelände. Also so'n, hier ja, da drüben. Da kommt so 'ne Kinderkrippe 'rein, so dass also Mütter es einfach leichter haben, mal die Kinder mitzunehmen, hier abzugeben und man ist trotzdem nicht weit weg.

<sup>7</sup> Äh, es gibt eine eine äh soziale Einrichtung, wo ich geplant habe, mich mehr zu betätigen. Das ist aber kein Verein, das ist eine Institution, die ähm eine, man kann's am einfachsten beschreiben mit einem Spendenportal. Das ist eine ähm eine ein Portal, wo ähm Spendenangebote dargest ähm präsentiert werden. Und äh (. . .) eben direkt dort tätig werden können. Und da, das ist jetzt noch nicht so, dass ich da etwas unternommen hätte, aber es ist 'ne, wär für mich das das nächste, was ich an an Tätigkeiten will.

<sup>8</sup> Warum ich das mache? Weil ich denke, dass jeder, ich sage, jeder braucht mindestens ein "social project".

<sup>9</sup> Ähm, nicht nicht in einer äh Vereinigung, ich bin auch äh grundsätzlich vom Typ her nicht äh nicht sehr ähm interessiert an Vereinen äh Tätigkeiten oder Vereinmitgliedschaften. Ist mehr so'n Individualismus.

<sup>10</sup> Also, das habe ich mich auch schon paar Mal gefragt, was das wirklich bringt. Ähm, eventuell Kontakte. Ich sehe es eher langfristig, das man einfach sagt, man generiert über die Arbeit, die man da macht, einfach Kontakte und entwickelt ein Netzwerk und das Ganze auf 'ner seriösen äh Ebene, die jetzt nicht mit tatsächlichem Business zu tun hat.

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