

INNOVATIONS AND INFORMAL INSTITUTIONS: AN INSTITUTIONALIST APPROACH TO THE ROLE OF SOCIAL CAPITAL FOR INNOVATION

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Abstract

This article seeks to add to the debate on the role of informal institutions on innovations within firms. It argues that social capital arising from informal institutions can either help innovation or inhibit it within small enterprises. The paper attempts to provide a conceptual framework of how social capital fosters innovation within small firms. Like physical and human capital, social capital is also considered an explanatory factor in theories of innovation. Social networks become an essential element in the economic activity of the small businesses as they are more likely to rely on them to obtain information and learn about new techniques of productions due to their smaller resource base.

Keywords: Social capital, innovation, informal institutions, Pakistan