

**EXPLORING THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY (CSR), SOCIAL CAPITAL AND ECONOMIC CAPITAL THROUGH A CORPORATE CASE STUDY**

**Neil Rotheroe**

**ABSTRACT**

This paper seeks to examine links between the notions of corporate social responsibility and social capital. Stakeholder theory is addressed. A brief review of the theoretical context is carried out. Connectivity between the building of social capital and the building of capital in the economic sense are investigated, in the business context, through case studies of Electrolux, the international corporate white goods manufacturer and one of its key suppliers. This research was carried out as part of a wider project addressing social capital and economic development in the North East of England. While still at the early stages of understanding insights, regarding the building of social capital and the connectivity of this to economic value at the level of the individual enterprise, are made.

**INTRODUCTION**

The research work that this paper describes was carried out as part of a wider project in North East England. This wider work addressed wider issues concerning ways social capital can be built and can effectively contribute to programmes for economic development and social inclusion in a regional context. The wider project addressed community development projects and community networks. The research to which this paper refers is exploratory. It is inductive and utilises qualitative methodology.

The work described in this paper informed, was informed by and was a component of the wider project. However, it was explicitly focused on the business sector. This was through a corporate sector case study, the aim of which was to examine social capital at the level of individual businesses and to relate this to the notions of CSR. It was set in the context of the North East England manufacturing facility, of a global corporate entity, which produces white goods for the global market. Upstream it addressed also the global stance of the corporate entity and down stream a key supplier of the company. Two linked case studies were undertaken one with the manufacturing facility and one with the supplier. The latter is a key supplier; it produces coating materials and provides services, and particularly innovation in relation to their application.

The aim was to assess the social capital built or not built and to examine if this is related to the building of economic capital / economic development / business development. For these purposes stakeholders are defined as individuals, groups or organisations that are affected by or can affect the business. The intersection with the developing approaches to CSR in the context of stakeholders is brought out and the methodology is informed by this.

In this context the approach is particularly informed by understandings arising from interventions in the form of CSR and Sustainable Development projects.

## **BRIEF OVERVIEW OF BACKGROUND AND SUMMARY OF THE THEORETICAL CONTEXT**

This section addresses material from a number of different disciplines which informs the considerations. It does not purport or attempt to be exhaustive. It is carried out in the context of the project which, as indicated above, was exploratory and carried out within the constraints of limited resources.

Field (2003) refers to the key figures in the development of the concept of social capital as Pierre Bourdieu, James Coleman and Robert Putnam. Putnam (1993) provides the following definition of social capital:

‘Social Capital here refers to features of social organisation, such as trust norms and networks, that can improve the efficiency of society by facilitating co-ordinated actions.’

Putnam has been influential in developing current ideas of social capital and he argues that:

‘...the core idea of social capital theory is that social networks have value...social contacts affect the productivity of individuals and groups.’

(Putnam 2000)

Applicable to part of this study are considerations concerning personal development in relation to the development of social capital. In the context of the workforce development programme, lifelong learning and the relationship to community, referred to below, the work of Kilpatrick et al (2003) is relevant. This refers to nuances of individual and collective benefit of social capital formation. Kilpatrick et al (1999) refer to the building of satisfaction and increased confidence in work lives in relation to building social capital.

Clearly the ideas of social capital are receiving increasing attention in a number of areas. Field (2003) refers to this:

‘The concept of social capital is increasingly influential. It has taken off like a bushfire in the social sciences, it has started to catch on in policy circles, and it has also flared up from time to time in the mass media.’

Hooghe (2003) addresses the growth in acceptance of the concept of social capital:

‘Not only in political science, but also in other academic disciplines it is now widely acknowledged that that the presence of dense networks within a society, and the accompanying norms of generalised trust and reciprocity, allows citizens to overcome collective problems more effectively. Social capital is seen as an important resource available to societies and communities.’

Current interest in social capital in the UK policy context is reflected, for instance, in a Social Capital Discussion Paper produced for the Cabinet Office (2002). Relevant to this study the paper refers to the link with economic aspects:

‘...social capital may contribute to a range of beneficial economic and social outcomes including: high levels of growth in GDP; more efficient functioning of labour markets; higher educational attainment; lower levels of crime; better levels of health....’

According to the World Bank social capital website:

‘Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.’

In the context of the overall study of which this work forms a part, social capital is defined by Miles et. al. (2005) as:

‘...the personal contacts and social networks that generate shared understandings, trust and reciprocity within and between social groups, and which underpin co-operation and collective action, the basis of economic prosperity and economic inclusion. Social capital can be accumulated when people interact in a purposeful manner with each other in families, workplaces, neighbourhoods, local associations and a range of informal and formal meeting places.’

Of relevance to the parts of this paper that relate to intra-corporate relations, supply chains, innovation, research and development and economic competitiveness the work of Inkpen and Tsang (2005) is relevant. This work addresses the knowledge dimension of networks and its links to competitive success. Inkpen and Tsang refer to the direct benefit of social capital in providing access to new sources of knowledge and to the part of intensive social interactions in the knowledge transfer. They explicitly link social capital, networks and knowledge transfer. Relevant to this study, their definition of networks includes intra-corporate business units, strategic alliances, R&D consortia and buyer supplier relationships.

The literature recognises different types of social capital. According to Woolcock (2001) there are three types of social capital, bonding, bridging and linking. Bonding social capital refers to ties between people in similar situations, bridging capital refers to weak ties between people in similar situations. Linking social capital refers to ties to more distant groups. The literature recognises the existence of negative as well as positive social capital although the former is not the focus of the considerations in this paper.

It is important in the social policy context to realise that social capital is context dependant. Miles et. al. (2005) refer to this as follows:

‘...there is no such thing as social capital that exists in isolation from the context in which it is embedded. This does *not* mean that the concept is vacuous, but that the use to which you put social capital building depends on the nature of, and the analysis of the context.’

This is relevant to issues raised in this paper concerning the particular importance of context in the circumstances of interventions related to public policy in the area of business support development. This is discussed further below.

As indicated the approach to this work was informed by experience derived from substantial project work carried out to articulate the ideas of sustainable development in a multi-stakeholder context at the Centre for Sustainable Development; see for instance Rotheroe (2000) and Rotheroe (2003). Related to this, stakeholder theory was utilised to inform the methodology used in the research. In this respect stakeholder theory provides a link between the ideas of CSR and Social Capital. Central to normative stakeholder theory is the idea that corporations need to be managed in the interests of a range of stakeholders of the firm. Freeman (1984), a leading proponent of the theory, defines stakeholders as follows:

‘A stakeholder in an organisation is...any group or individual who can affect, or is affected by, the achievement of the organisation’s objectives.’

Considering stakeholders from an instrumental theoretical perspective the work is also informed by the managerial approach to stakeholder relations. In this respect Hill and Jones (2001) refer to the importance of managing stakeholder needs. Mitchell et al.(1997) refer to the importance of stakeholders in relation to their power, legitimacy and urgency. Power relates to their perceived ability to influence organisational action. Legitimacy is judged in the context and urgency refers to the perceived immediacy of the need to address the concerns raised by particular stakeholders in the circumstances that the organisation finds itself in. These considerations were relevant to the stakeholder mapping carried out in this research.

The ideas from stakeholder theory move considerations beyond the traditional model of managerial capitalism which is focussed on the rights of shareholders. According to Freeman (1984) one role of management is to take account of the legitimate interests and rights of all stakeholders. The latter considerations take us more broadly into the realm of business ethics and to normative ethical theory. This includes aspects of utilitarianism, ethics of duties, ethics of rights and justice and virtue ethics. Relevant analysis of the theoretical context, in relation to ethics, is provided for example by Crane and Matten (2004). Treatment by the latter is underpinned by contemporary examples and a consideration of current issues including sustainability, globalisation and Corporate Social Responsibility (CSR).

The link to ethics is clear in the theoretical and practical context. Carroll (1991) in his four part pyramid model of CSR refers to the economic, legal, ethical, and philanthropic responsibilities of CSR. Carroll and Buchholtz (2000) define CSR as follows: ‘Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organisations by society at a given point in time.’ The context of ethical theory in relation to CSR is further developed by Carroll and Schwartz (2003) in their consideration of a three domain approach to CSR which applies a Venn framework.

There is concern that many current CSR approaches in companies are incomplete and are not being embedded in the organisations. Solutions to this are seen to be associated with organisational transformation and culture change. Improvements are seen as being concerned with internal and external stakeholder interactions and this is informed by stakeholder theory. The focus is on the articulation of organisational values, governance and making strategic commitments operational; see for example Grayson and Hodges (2004) and Doppelt (2003).

An increasing demand for improved transparency in relation to corporate performance has lead to a drive for reporting and social accounting mechanisms. Crane and Matten (2004) refer to reasons for this demand including the rise in corporate power and government failure. There is an increase in available information and we are seeing the rise of the ethical consumer. Zadek (2004) states that ‘...companies need to keep abreast of the public’s evolving ideas about corporate roles and responsibilities.’

However, as indicated, there are concerns regarding the embeddedness of corporate responsibility. Gray (2001) refers to the issue as follows: ‘A lack of theoretical rigour and the triumph of optimism and pragmatism over clarity of purpose are leading to a melange of stakeholder dialogue, sustainability reporting and

community reporting which will not necessarily move us towards a more substantive democracy.’

International effort to develop a framework in which to create public reports on social, environmental and economic performance pertaining to sustainability at the level of individual organisations had led to the development of the Global Reporting Initiative (2002) (GRI). This was through an international multi-stakeholder co-operation. The GRI is informed by ethical principles of duties, rights and justice and so on.

Linked to the co-operation that resulted in the GRI is the development of the AA1000 Assurance Standard, Institute of Social and Ethical Accountability (2003). Crane and Matten (2004) define social accounting as follows:

‘Social accounting is the voluntary process concerned with assessing and communicating organisational activities and impacts on social, ethical and environmental issues relevant to stakeholders.’

AA1000 is designed to complement the GRI and to provide a tool for assurance in general concerning the robustness of company reports in the public domain. It provides a measure against various criteria including stakeholder engagement.

The business competitiveness agenda is informed by the advantages of stakeholder management. In this context the importance of recognising and managing different stakeholder relationships is addressed, for instance, by the DTI (2003). Social accounting and reporting offer a vehicle to extend accountability and to enter into dialogue with stakeholders.

## **SCOPE AND OBJECTIVES**

The aim of this work was to examine social capital at the level of individual businesses. As indicated, two case studies were undertaken. One was of Electrolux which has a manufacturing facility, Electrolux Home Products, in NE England. It manufactures domestic cookers on a global scale and is an important actor in the regional economy. The other case study company, ESCOL, is a key supplier to Electrolux. ESCOL produces ceramic coating materials and provides services, and particularly innovation in relation to their application. It is an SME and employs approximately fifty people. This supplier was chosen because of the key mutual dependency of the two organisations and the relationship of this to social capital aspects such as trust and partnership. These aspects were brought out in the research.

Arising from the literature review and for the practical purposes of this work, social capital is taken as being concerned with stakeholder interactions (interactions with internal and external stakeholders of the organisation) and the social capital aspects of networks, trust, belonging, inclusion, empowerment, partnership, relationship development, personal and community development and so on that are perceived as being involved in building social capital. The aim was to assess the social capital built or not built and to examine if this is related to the building of economic capital / economic development / business development. Following the focus provided by the section on theoretical context, stakeholders are taken as individuals, groups or organisations that are affected by or can affect the business.

## **APPROACH**

As discussed above, this approach is built around understandings gained in Corporate Social Responsibility (CSR). This is informed by other interventions/projects concerned with Corporate CSR and Sustainable Development (SD). In this CSR is taken as the approach indicated to progress towards SD at the level of the individual company or organisation. In the context of the latter, the development of the CSR stance is progressed by taking the applicable overarching SD issues and addressing them in a way that is relevant and appropriate to the individual organisation in its setting and at the scale of its operation.

A methodology was applied that allows investigation of the understanding and management of social capital at company or site level. The approach was applied to both the multinational case study, Electrolux and the SME case study, ESCOL. As indicated the general approach to the case studies is particularly informed by understandings arising from interventions in CSR and SD projects. These interventions have brought out the meaning of the processes that are really involved, on the ground, in building the relationships that lead to the formation of social capital. Within this the building of trust and transparency in the stakeholder relationships, and dialogue, provide the touchstone that informs activity.

As discussed the research method was inductive and qualitative methodology was utilised. Two focus groups were undertaken, one at the Electrolux NE England facility and one at the supplier, ESCOL. Six semi structured interviews were carried out with management. Three were face to face with UK management. Two were by telephone with managers at the Electrolux Swedish corporate headquarters. One was face to face with the MD at ESCOL.

### **Components of the Approach; Corporate Case Study**

#### ***Step 1 context setting***

A literature review was carried out to summarise the state of play on the development of CSR and social capital approaches and to investigate relevant areas in relation to theoretical context and linkages.

#### ***Step 2 overview of the corporate stance of the case study organisation***

An examination of the corporate values of Electrolux was made. This was accomplished by researching information available in the public domain concerning the social, environmental and economic aspects of the company in the context of CSR. This was examined in relation to the views of two corporate managers at the Electrolux headquarters in Sweden. Semi-structured telephone interviews were carried out with the two managers. In these interviews an open discussion was undertaken under selected topic headings. This was supplemented by an overview analysis in relation to the topic areas listed in the Global Reporting Initiative, with the two managers. The intention was to confirm the existence and extent of the company CSR approach.

### ***Step 3, overview of the interpretation by the local facility of the corporate stance***

The output from above Step 2 above was utilised in interviews with senior managers at the local facility to examine how the ‘corporate mission’ is in itself understood and interpreted at local level. This was in practice accomplished in parallel with the assessment of the relationship between social capital built and economic capital, discussed below.

### ***Step 4 mapping of the local stakeholders and aspects of social capital***

In the case studies, Social Capital was considered in detail in relation to the interactions with the various stakeholder communities of the local operation as well as the relationship with the local site and parent organisation. This concerned both internal and external stakeholder dynamics. As indicated, social capital implies matters such as networks, trust, social cohesion, empowerment and community engagement. From the internal perspective this focuses on the workforce perception, but for workforce members this exists in a dynamic of relationships between and within the external and internal (company and social) community. To understand this more clearly, in the circumstances of the two case studies, it was necessary to identify the internal and external stakeholders through stakeholder mapping. Mapping was carried through two focus groups with key players in the firms. These had the dual purpose of initiating the project, drawing up the stakeholder map and identifying aspects of social capital. This included a perception of what the stakeholders’ objectives are and what the company stance and actions are with respect to the objectives of the stakeholders. The objective was to draw out the aspects of social capital that reside in the current company approach and activities, noting also gaps and conflicts to assist understanding.

### ***Step 5 social and economic capital***

Semi structured interviews were carried out with senior management around the aspects of social capital identified by the focus groups for the stakeholders that had been mapped. The objective was to examine the relationship of the social capital formed to economic gain / business opportunity / commercial development and to identify the latter. The results of the stakeholder workshops were thus used to assess the relationship between social capital aspects and commercial advantage.

### **Components of approach; SME case study**

The approach taken with ESCOL, in the SME setting, did not include the corporate assessment stage but otherwise followed the steps carried out in the corporate case study.

## **DISCUSSION OF RESULTS**

### **Electrolux Corporate Stance**

From the research it was clear that the Electrolux Group are committed to CSR and the approach has solid underpinnings. Electrolux Group are building from a strong existing environmental reporting approach towards more comprehensive CSR

reporting. Moreover, this is supported by appropriate corporate governance and risk control arrangements. The progression from the 2002 Environmental and Social and Report to the 2003 Sustainability report emphasises this. The approach is complemented by the Company Annual Report and by the adoption and integration of the Electrolux Group Workplace Code of Conduct and more recently by the Electrolux group Code of Ethics. Clearly the development of social indicators is at an early stage and this is very much work in progress. However, in the social context, the corporate appreciation of work on the ground at facilities in different countries is central. This includes, for example, the workforce development programme at the NE England facility and other initiatives carried out at the plant. These activities are in line with the corporate mission to be a good corporate citizen. The President's statement in the 2003 Corporate Sustainability Report captures this as follows and is very resonant in relation to social capital:

*'...We must earn the trust of our stakeholders by showing respect for everyone: employees, shareholders, local communities, business partners, even competitors. And we must be honest, telling the truth about what we have achieved and where we need to improve...'*

The corporate organisation is taking steps to implement the CSR stance at individual operating units worldwide. One aspect of this is through the Electrolux Group Workplace Code of Conduct and more recently by the Electrolux group Code of Ethics. The Group Workplace Code of Conduct is supported in implementation at the local facilities by a web based tool, which is for assistance and progress tracking, and through the provision of manuals for conversion into local procedures. Local managers were conversant with this approach. Requirements are also being taken into the supply chain and the SME case study company, ESCOL, was aware of this.

### **Summary, Electrolux, Social Capital Developed and Corresponding Links to Economic Capital**

The following discussion is carried out in relation to the stakeholder groups identified in the stakeholder mapping.

#### *Employees*

The social capital factors here were felt to be of major economic importance. The results indicated that the workforce development programme has resulted in the building of a number of social capital aspects. This has arisen from partnership working with stakeholders including the Union and, under the auspices of the NE Accelerate programme, with ASSA the workforce development group and with the delivery organisation NEEPA. Regarding the employees as stakeholders; gains in partnership development, inclusivity and confidence building are notable. This achievement is particularly satisfying when it is set against the NE England background of us and them labour relations, low aspiration and poor educational achievement. The social interactions are felt to be quite complex; one aspect of the approach relevant to confidence building was the appointment of learning representatives from among the workforce peer group to assist individuals. It was emphasised that the latter built further on the social capital aspects of trust and bonding. This was in that some individuals among the workforce already feel excluded by the educational process and intimidated by work figures perceived to be

in authority in this context. Hence receiving advice from trusted peers was constructive in overcoming resistance to take up. The benefits in hard terms identified by the production manager, concerning the business parameters are listed in the results and reproduced below at Figure 1:

**Figure 1. Improvements stated by management (in particular areas) in % terms:**

- *Not right first time*
- *Efficiency*
- *Delivery*
- *Downtime*
- *Elimination of historical failure reasons*
- *Production*
- *Work in progress reduction*

Figure 1. demonstrates measurable economic benefits felt to arise from the initiative. However, it was clear that managers saw the culture change and ownership achieved as the long term benefit for the business. It was emphasised that the position would be very much worse, in the current adverse trading situation, without the improvements in attitude and performance achieved by the workforce development programme.

The managers felt that the benefits to the employees in the 'home situation', as well as at work were large - deriving from the confidence building. One particular aspect raised was that some of the individuals, with previously limited literacy skills, were now able to take more part in their childrens' education, including providing assistance with homework and suchlike. This was in addition to the benefit deriving from access to portable qualifications.

#### *Trade Union*

The factors for consideration here derive from the workforce development programme; it was felt to be particularly telling that the wage agreement had gone through on the first ballot, for the first time ever, following delivery of the programme. Thus the building of partnership confidence and trust had placed the organisation in a position where time and management resources lost on unproductive strife were saved. Beyond this the Union was now, from management experience, more likely to support reasonable management proposals to grow and protect the business. This is important in the economic sense.

#### *Electrolux Corporate Entity*

The social capital aspects here were felt to be of major economic importance. The results indicated that the social capital aspects of networks, partnership and trust built with the corporate entity are very subtle. They are vital to the economic survival and economic success of the local plant. The local facility has become skilled in utilising these relationships to ensure local investment by the corporate entity. Within this management endeavour to keep corporate attention on medium and long term matters, key to the economic development of the plant, as well as short term issues. It is notable that the local workforce development programme is completely in line with the emerging corporate approach on CSR, captured in the 2003 Corporate

Sustainability Report and other company documents reviewed. Indeed the growing agenda around CSR is perceived as giving the local facility advantage, in a competitive sense, deriving from its previous and developing stance – taken alongside the other business performance factors. It is also noteworthy that the local management perceive that they must continue to persuade corporate that the investment in the workforce development programme which needs to be judged on medium and long term payback, is in fact judged in this way. This is important for the credibility of the plant and hence to the propensity of the corporate entity to invest in it.

### *Sales and Marketing Function Slough*

The social capital aspects of trust, partnership and networks here are important. The results indicated that early information on product design and predicted sales volumes is very important to production planning. The costs of getting this wrong are considerable. Deepening of the interaction through the appointment mentioned in the results section illustrates the importance of the social capital aspects.

### *Community*

The social capital aspects here, of trust and networks, were felt to be of major economic importance.

The particular local circumstances, of economic decline including a number of high profile manufacturing plant closures and the perceived development of social exclusion, were felt very strongly. In the local culture there is perceived to be a powerful sense of place and space; pride in trade through manufacture has been a significant part of this. A reflection of this is that the Electrolux workforce has been stable and long service is the norm. The community as a source of employees is an important matter for the company. This is from the viewpoint of both recruitment and retention. Retention of employees is an important economic factor in that it cuts training costs and maintains knowledge intensity in the business. Having access to a source of socially included employees is perceived as an issue in the circumstances of social decline in the local community. As discussed in the results, a large proportion of the workforce is drawn from within five miles of the plant. It was envisaged that social deterioration would reduce access to suitable employees. Problems of retaining skilled staff were envisaged, in the circumstances of developing social exclusion. The results indicated that one aspect of this was schooling for employees' children in circumstances of social deterioration leading to classroom behaviour problems. Loss of skilled staff was feared in that staff may move in order to secure more stable conditions for the education of their children.

One response is the great efforts that the facility has made in community outreach activities. The local plant has developed a considerable profile in this respect and has the attention of community organisations, schools and the arms of local and regional government. It has also achieved national recognition. As indicated the workforce development programme also applies here as it links the home and the workplace by addressing personal confidence. The impact of this on the relationship with the corporate entity is discussed in the section above.

### *Local authorities*

The results indicated that the social capital aspects, and corresponding economic factors were seen as being broadly the same as in the community section. On the partnership aspect the effort put into community outreach was seen as important in creating a relationship where reasonable development proposals would be likely to be accepted in land use planning applications and the like.

### *Enforcement authorities - HSE, Environment Agency, Northumbrian Water*

The social capital aspect of partnership was felt to be important and this was expressed in economic terms. The factor revealed in the results regarding reduction of the propensity of the authorities to prosecute in the case of unforeseen compliance excursions is important. Legal costs and the opportunity cost of lost management time are significant in these circumstances. Provision of advice deriving from the networks is also a relevant factor. For example, the water undertaker has a number of internal experts and a wider external network which can be drawn on to assess and provide technical solutions to the economic benefit of the company.

### *Key suppliers and contractors*

The social capital aspects here, of trust and networks, were felt to be of major economic importance and important to economic development. In the case of key suppliers this was couched in very positive terms and was explicitly in connection with business opportunity and the business prerogative. This was concerned with the provision of innovation in product development with the specific intention of providing edge over competitors and economic advantage. ESCOL, the subject of the other case study, is a key player in this context and provides a product / service package which includes the supply of coating materials but also explicitly innovation in product development in the context and advice on the related issues. It is important to realise that while this concerns technical matters it goes beyond this to include issues related to market advice.

There has been considerable building of the social capital aspects of trust, loyalty networks and partnerships in this relationship. The results reveal that this extends to the establishment of an office facility at the Electrolux plant for an ESCOL employee and the establishment of a very integrated relationship.

### *Workforce Development Agencies*

The partnership with and role of the workforce development agencies has been important in relation to building the social capital aspects including culture change, trust, partnership and empowerment in the workforce. The economic advantages gained are discussed above in the workforce section.

### *Customers*

The social capital aspects of trust and loyalty are key to the business imperative.

## *Centre for Sustainable Development*

The development of the social capital aspects of partnership and networking in the ongoing cross sectoral co-operation which is the essence of the Centre for Sustainable Development has proved useful to the local facility. One component of this has been developing understanding of the meaning of sustainable development and CSR in relation to the local facility. The other has been in relation to building the relationship with the corporate entity, the economic aspects of which are discussed above.

### **Summary, ESCOL, Social Capital Developed and Corresponding Links to Economic Capital**

#### *Employees*

The social capital factors here were felt to be of major economic importance. The need for flexibility to secure economic survival is revealed in the results. Building social capital aspects including trust, partnership, belonging and so on has been a major focus of management. The results revealed improvements in business parameters concerning this. However, management feel that the culture achieved is what is really important for medium and long term survival. The creation of an ongoing dialogue with the workforce is emphasised as essential in this and it is based on structured effort.

Stretching employees in the context of drawing on them as a resource for innovation/development was felt to be problematic. Further workforce development to address this was seen as problematic because of the considerable existing demands on management resources. Any external interventions would require real knowledge of the organisation, and the niche, to be effective. The results indicate that the situation arising from the niche position places the organisation in a position of having a *network deficit*. This is in that it effectively does not have a peer group to 'benchmark' its approaches against. Necessarily the energies of the organisation are significantly taken up in efforts to maintain and further develop integration with the client organisation. It was perceived that the way to progress the workforce development issue would be to seek to gain advice from / piggy back on the successful approach of the client in this area. Finding ways to do this / facilitating it would be a real benefit to the economic security of the organisation.

#### *Shareholders – these are family shareholders*

Significant social capital has been built in the way of partnership, loyalty, trust and support. This is very important for survival of the firm in that it 'binds' the investors into a long term commitment in the teeth of difficult trading conditions. In this respect it is important to realise that the investors are the partners in a family firm and have strong ownership and feelings of responsibility to the employee community. As indicated in the results section the relationships are subtle, it was clear that in some aspects were personal. Pride in 'ownership' exists on the part of the shareholders and this is reflected by the management team; there is an element of very positive paternalism towards the workforce which is reinforced by the small size of the organisation. It was emphasised that in periods of adverse trading the investors have kept the firm going, at least in part, as a result of the social capital aspects built. In

hard headed financial terms it would have been possible, at least in the short term, to obtain better returns by withdrawing the capital reinvesting it elsewhere.

### *Trade Unions*

The social capital aspects here reflect those discussed in relation to the workforce and the creation of dialogue. The open relationship created by management with full access to financial and business information has created ownership and partnership in the stewardship of the business.

### *Community*

The community dynamics are different to those enjoyed by Electrolux in that the impact of ESCOL as an employer in the local economy is small by comparison. The principle issue here is compliance with environmental requirements given the potentially polluting nature of the process. This ties in however to social capital aspects relevant to the relationship with enforcement agencies and this is addressed below.

### *Environment Agency re authorised process and standards certification body (BSI) for quality management system and environmental quality management system*

The social capital factors here in relation to trust and partnership were felt to be of major economic importance. The process is potentially polluting and loss of the permit to operate provided by the Environment Agency would be very serious. As indicated in the results section, the trust built arising from sustained good performance and relationship building has resulted in a consideration of reduction of monitoring requirements; this will produce cost savings.

Maintenance of the management systems certifications is a client requirement and a good relationship has been built with the certifying body, BSI, in this context.

### *Customers*

The social capital factors here were felt to be of major economic importance. Significant social capital has been built in the development of trust and partnership with Electrolux. This is vital to the survival of the ESCOL business. This relationship is maintained and deepened by the continued service offering of innovation to support the product and involves development in the technical and business sense. The latter approach is felt to be essential to counter the potentially negative cost down pressures arising from a client operating in a global economy. In the discussion section, on employees, above the issue of perceived network deficit arising from operating in a niche situation is discussed. The provision of opportunities for ESCOL to deepen the relationship with the client by participating in wider client initiatives is seen as productive. This would be doubly so in initiatives like the Electrolux Workforce Development Programme because this would have the added benefit of meeting ESCOL's own staff development objectives.

### *Contractors; Transport and Engineering*

The social capital aspects of trust, loyalty and long term relationships were important here. Failures on the part of these contractors could have serious economic consequences for the company in loss of clients or loss of permit to operate.

### **Summary comments on the type of social capital built**

It is clear that bonding social capital has been created through the activities of the Electrolux workforce development programme. Electrolux has built bridging social capital with internal and external stakeholders. Linking social capital has been built, for example, between Electrolux and ESCOL.

### **CONCLUSIONS**

The research confirms the relationship between CSR and social capital through the stakeholder processes common to each. In the developing field of CSR these stakeholder relationships and the explicit creation of stakeholder dialogue are perceived as central to making progress.

From the results and discussion it can be seen that the building of social capital is important to the formation of economic capital in a number of ways. It is difficult to express this in direct financial terms but this could be accomplished with further, in depth, work. However, the importance to the business case of building social capital is brought out.

It can be seen that there are differences as well as similarities for the corporate organisation and the SME in terms of the priority issues. Taking as read the need for this major white goods manufacturer to satisfy its customers; in the context of this study, for Electrolux the particularly important areas fell within the following stakeholder categories:

- Employees
- Corporate Entity
- Community
- Key suppliers

For ESCOL the particularly important areas fell within the following stakeholder categories:

- Employees
- Enforcement Agencies
- Corporate Customer

As can be seen from the study the key supplier / corporate customer social capital aspects are reciprocal in the relationship between Electrolux and ESCOL. They are also central to economic survival and development for both parties.

The powerfulness of the recent and ongoing Electrolux workforce development programme in building social capital is revealed. The returns from this in economic and business terms are brought out. This is listed in the discussion section in relation to measured business parameters and is addressed in terms of the advantages deriving

from the step change that is perceived to have occurred and the culture change that is felt to have been set in train. The potential precariousness of corporate support and the subtleness of social capital building needed to address this are significant issues for consideration in designing any strategy for regional support. Thus regional support needs to be implemented in a way that is sensitive to the particular circumstances that organisations find themselves in. Broad brush interventions are unlikely to be successful and organisations providing advice need to be knowledgeable of the particular sector and niche.

Clearly the further promotion of these approaches in the regional economic context is important; however this needs to address the issues raised if it is to be sustainable. Arising from this study the network deficit perceived by the SME and its aspiration to address this by participating in programmes linked to major clients, like the workforce development programme, is important. Lessons can also be drawn from the strongly expressed view that unfocussed interventions to assist businesses are wasteful and an obstacle rather than being of assistance. Management at the SME articulated this very strongly. It is felt important that these issues are addressed further in the setting of strategy connected with interventions to build social capital in the business setting. As indicated, particular knowledge of sector and market niche is felt to be important for delivery organisations. Various lessons from this study concerning dialogue between workforces and management are transferable.

It is notable that positive comments were received from management, at both of the case study organisations, concerning the rationale for and process of this research. It was felt that the process of the work had itself contributed to the production of social capital. This arose from the cross discipline nature of the focus groups and, in the case of Electrolux, the inclusion of external stakeholders from ESCOL and the trade union. The participants found that the sharing of different perspectives, with the assistance of a facilitator, was productive and resulted in an outcome with gains in understanding of the processes and their benefits that were more than ‘the sum of the parts.’ The stakeholder methodology utilised is derived from experience in applying CSR approaches in organisations. It aims at inclusiveness, in accordance with the developing thinking on CSR. As indicated this work was exploratory and it is intended to develop it further.

## REFERENCES

Carroll, A.B. (1991) The pyramid of corporate social responsibility: toward the moral management of organisational stakeholders, *Business Horizons*, July-Aug, pages 497-505

Carroll, A.B., and Buchholtz, A.K. (2000) *Business and Society: Ethics and Stakeholder Management*, 4<sup>th</sup> edn. South Western College, Cincinnati

Crane, A., and Matten, D. (2004) *Business Ethics*, Oxford University Press

Department of Trade and Industry. (2003) *Sustainability and Business Competitiveness*, London

Doppelt, B. (2003) *Leading Change Towards Sustainability: a change management guide for business, government and civil society*, Greenleaf Publishing Limited, Sheffield

Inkpen, A.C. and Tsang, E.W. (2005) *Social Capital Networks and Knowledge Transfer*, *Academy of Management review*, Vol. 30, No. 1, pages 146-165

Field, J. (2003) *Social Capital*, Routledge, USA

Freeman, R.E. (1984) *Strategic Management a Stakeholder Approach*, Pitman, Boston

Global Reporting Initiative (GRI), (2002) *Sustainability Reporting Guidelines*, GRI.

Gray, R. (2001) *Thirty years of social accounting, reporting and auditing: what if anything have we learned*, *Business Ethics: A European Review*, Vol.10, No 1

Grayson, D. and Hodges, A. (2004) *Corporate Social Opportunity: 7 steps to make corporate social responsibility work for your business*, Greenleaf Publishing Limited, Sheffield

Hill, C.W.L., and Jones, G.R. (2001) *Strategic Management; an Integrated Approach*, 5<sup>th</sup> edn. Houghton Mifflin, Boston

Hooghe, M. and Stolle, D. (2003) *Generating Social Capital; civil society and institutions in perspective*, Palgrave Macmillan, New York

Institute of Social and Ethical Accountability (ISEA), (2003) *AA1000*, ISEA.

Kilpatrick, S., Bell, R and Falk, I. (1999) *The Role of Group Learning in Building Social Capital*, *Journal of Vocational education and Training*, Vol. 51, No. 1, pages 129-144

Kilpatrick, S., Field, J and Falk, I. (2003) *Social Capital; an analytical tool for exploring lifelong learning and community development*, *British Educational Research Journal*, Vol. 29, No. 3, pages 417-433

Miles, N., Tully, J., Hudson R., Robinson, F., Queau, K., and Rotheroe, N.C. (2005) *Social Capital and Economic Development in the North East of England*, One North East

Mitchell, R.K., Able, B.R., and Wood, D.J. (1997) *Toward a theory of stakeholder of stakeholder identification and salience: defining the principle of who and what really counts*, *Academy of Management Review*, 22/4, pages 853- 886

Performance and Innovation Unit (2002) *Social Capital a discussion paper*, Cabinet Office, London

Putnam, R.D. (1993) *Making Democracy Work: civic traditions in modern Italy*, Princeton University Press, Princeton

Putnam, R.D. (2000) *Bowling Alone, the collapse and revival of American Community*, Simon and Schuster, New York

Rotheroe, N.C. (2003) *Delivering Sustainable Development in the Local Government Context; Linking Strategic and Operational Aspects*, Corporate Social Responsibility and Environmental Management Conference Proceedings, University of Leeds, 30 June-1 July 2003

Rotheroe, N. C. and Keenlyside, M. (2000) *Addressing Business Needs: Articulating the Meaning of Sustainable Development*, Business Strategy and the Environment Conference Proceedings, University of Leeds, 18-19 September 2000

Schwartz, M.S., and Carroll, A.B. (2003) *Corporate social responsibility: a three domain approach*, *Business Ethics Quarterly*, 13/4, pages 503-530

Woolcock, M. (2001) The place of social capital in understanding social and economic outcomes. *Isuma: Canadian Journal of Policy Research*, 2/1, pages 1-17

World Bank

<http://www1.worldbank.org/prem/poverty/scapital/whatsc.htm>

Zadek, S. (2004) *The Path to Corporate Responsibility*, *Harvard Business Review*, Vol. 82, No.12