

UDC 316/3(477)

JEL CLASSIFICATION: A14

## INSTITUTIONAL FACTORS OF FORMATION AND IMPLEMENTATION OF SOCIAL CAPITAL

**Inna Yu. KOCHUMA**

*Candidate of Economic Sciences, Associate Professor of Economics and Management Department, Cherkassy Institute of Banking of the University of Banking of the National Bank of Ukraine (Kyiv)*

*Анотація. У статті розкривається сутність соціального капіталу як економічної категорії, його вплив на ефективність використання економічного потенціалу, даються рекомендації щодо здійснення державної політики у сфері розширеного відтворення та реалізації позитивного соціального капіталу в Україні.*

*Аннотация. В статье раскрывается сущность социального капитала как экономической категории, его влияние на эффективность использования экономического потенциала, даются рекомендации по осуществлению государственной политики в сфере воспроизводства позитивного социального капитала.*

*Summary. The article considers the problem of institutional providing of the formation and implementation of social capital in Ukraine at present, in particular, the degree of civil liberties,*

*the system of education and social partnership. The priority measures concerning the development and improvement of social capital institutions are proposed.*

**Ключові слова:** соціальний капітал, ефективність, соціальні мережі, цінності, норми, довіра.

**Ключевые слова:** социальный капитал, эффективность, социальные сети, ценности, нормы, доверие.

**Key words:** social capital, institutions, institutional factors, institutional environment, social networks, values, norms, trust.

**Problem Statement.** The implementation of a strategic priority of Ukraine development and European Union integration requires the reassessment of approaches to the definition of key factors of social and economic progress. In the modern world, the notion of economic growth as a function of the quantity and quality of the use of material and labour resources is replaced by the awareness of factors, including social capital, unstudied before and having a great importance for their efficient implementation.

The experience of developed countries shows that the countries paying attention to the development of social capital reach higher level of human potential implementation and social need satisfaction. The formation and implementation of positive social capital, in its turn, are possible only in the favourable institutional environment that, in its turn, implies the need of its development.

Accordingly, the tasks of social capital research are of paramount importance, particularly, in terms of determining its nature and institutional factors of

its expanded reproduction and impact on economic growth.

**Research Analysis and Publications on the Topic.** The theoretical foundations of social capital research have been laid by the works of P. Bourdieu, J. Coleman, R. Putnam and have been further developed by R. Barthes, V. Baker, P. Wilson, G. Woodcock, N. Lynn, A. Portes, M. Schiff, F. Fukuyama, and many other authors.

Different aspects of social capital research are considered in the works of the following Ukrainian scientists as Bandur S., Bova A., Horozhankina M., Hurevych M., Zaitsev Y., Onikiienko V., Reznikova Y, Strelnikova L., Chemerys A., Shikhiriev M. and others.

At the same time, the definition of the institutional factors of the formation and implementation of positive social capital in modern terms has no complete consideration in the foreign and Ukrainian economic research.

**The Goal of the Research** is to reveal the nature of

social capital as an economic category, to determine the main institutional factors of its development and implementation, to work out recommendations as to the creation of favourable institutional environment for its formation and usage.

**The Main Material of the Research.** Despite the tremendous interest in the phenomenon of social capital by representatives of many social sciences (from philosophy to demography), its definition has not yet found its definitive interpretation in the scientific literature. Moreover, there is a wide range of approaches to understanding the nature and significance of social capital by both Ukrainian and foreign scholars.

The “social capital” category was firstly used by L. J. Hanifan in 1916 to determine those “circumstances that affect the daily life of everybody including human feelings of brotherhood, sympathy for each other and the ability to build social relationships”. Thus, L. Hanifan points out that the accumulation of social capital contributes to the improvement of living conditions of the society as a whole [1].

Another sociologist, Francis Fukuyama, defines social capital as “institutional informal norm that promotes cooperation between two or more individuals”. However, he believes that its availability is the necessary condition of modern economics and the term of stability of liberal democracy, and its construction is a task for the “second generation” economic reforms [2].

The first systematic analysis of social capital phenomenon was made by Pierre Bourdieu. He considered the social capital to be “a set of existing or potential resources associated with the inclusion into a strong networks or more or less institutionalized relationships of mutual obligations and recognition” [3]. However, social capital, in his opinion, is not so much a means of obtaining economic benefits as a manifestation of economic and social conditions of society development.

J. C. Coleman expanded the content of the “social capital” category creating, thereby, the preconditions for its application as an efficient tool of research in economics and other branches of science and practice. In his opinion, the social capital is a resource that arises and is found in qualitative social relationships supported by individuals, economic agents in social networks [4].

Gary Becker points out that social and human capitals are capable of mutual influence. Thus, knowledge, technical skills and salary of an individual depend upon physical and social capitals. However, investments into the human capital can adjust the ef-

fects of other capital forms [5].

The World Bank definition of social capital runs: “Social capital is the institutes, relationships and norms that form quantitatively and qualitatively social interaction in the society... Social capital is not a set of institutes maintaining a society; it is the glue that holds it together” [6].

In the term “social capital”, the word “social” means that it is embodied in the network of connections between people and their groups; and the word “capital” means the opportunities of getting competitive advantages and profit from its use. Similar to physical and human capital embodied in the tools and productive human qualities, respectively, social capital exists in such elements of social organizations as social networks, social norms and confidence creating conditions for coordination and cooperation for mutual benefit that increases the efficiency of using material and labour resources and promotes the realization of economic potential at both micro and macro levels.

Social capital facilitates the mobilization of resources available through personal and business networks (such as information, ideas, business opportunities, financial capital, power and influence, emotional support, reputation, trust and cooperation), though, it is not limited directly by them. One could say that, social capital, like economic one, can be exchanged for these resources, be profitably used in different situations and be multiplied due to the participation in social relations. The basis of social capital is the concept of trust – a phenomenon that promotes ordering of social life and legitimating of social relations [7].

Like other forms of capital, it requires investments and implies appropriate recoil in the form of increasing financial and material assets, decreasing transaction costs and risk level. However, in the case of social capital, these investments are made directly to the social relationships between people. They are implemented not only in the form of material and financial resources but in the forms of cultural ones, the resources of free time and others and do not necessarily intend to provide social capital and often pursue completely different goals. In this sense, the formation of social capital can be seen as positive externalities of investments into other types of capital, primarily, in human one (e.g. education).

Social capital meets most specifications of economic capital, namely, the limitations, the ability to accumulate, convertibility, capacity for self-expansion, and transmission, at least, at the level of inter-organizational relationships. However, unlike other

forms of capital, social capital is not exhausted in the course of its use but, on the contrary, in case of its weak use or break in relations. Social capital is not fixed or inert resource; it is constantly changed and transformed under the influence of relationship practice.

The value of social capital in the economic system is determined by the fact that it allows to use of other types of capital the most efficiently and sometimes to compensate their absence. It is a peculiar supplement and a catalyst to other forms of capital; it facilitates the formation and contributes to more efficient implementation.

The availability of social capital facilitates access to new knowledge and skills for individuals, groups and organizations; and, conversely, the limited access to social relations, social or individual or group isolation may prevent the creation and use of human capital or its other forms by them. Social capital creates the favourable climate for business activity in the country, decreases the investment risk, thereby, increasing the efficiency of economic activity and creating the conditions for sustainable development.

Comparative empirical study of developed and developing countries shows that positive social capital facilitates the increase of life quality and economy due to preserving good traditions, making information transfer easier, decreasing the cost of enforcement and control. Through social capital, the efficiency of a society increases, the coordination of actions becomes easier, and the development of cooperation and interaction is stimulated in terms of satisfying social needs and human potential development.

However, one should take into account that social capital is bipolar; namely, it may have both positive and negative signs for a society. In this regard, positive and negative capitals are distinguished. This is due to the fact, that relationship between people in certain groups may acquire the signs of cooperation with immoral or even criminal intent, be directed towards obstruction of the access to resources involving informative ones, for the representatives of other groups, limiting personal freedom and others.

The main institutional factors that influence the formation and qualitative characteristics of social capital are economic, social and legal institutions formed by traditional norms and values prevailing in society. On the other hand, these factors depend largely upon the availability and implementation level of social capital and, in their turn, are the components of institutional environment of a country. In particular, it is the degree of development of civil society, behaviour norms and social traditions (civil-

ian mentality), the development level of information channels, terms of social cohesion, etc.

A state has limited opportunities as to the formation of most forms of social capital since social capital is formed under the influence of religion, traditions, historical experience subjected under control by a state. At the same time, it can create an appropriate institutional environment for its formation through the support mechanisms of strengthening traditions in a society that lead to its consolidation and constructive interaction.

Its policy in this direction should involve the development of democratic institutes and ensuring the freedoms of citizens, public administration based on the principles of openness and transparency, public participation in the formulation and implementation of public policy in the political sphere.

The experience shows that social capital accumulates the best in the countries with considerable experience of democratic development. In postsocialist countries, excessive state intervention in all spheres of life has created a deficit of social capital preventing the solution of vital problems. The consequence of a lack of positive social capital in Ukraine is the spread of a number of negative effects, especially in economic sphere occurring because of distrust, corruption, inability to cooperate for the common good. Besides, the feature of the institutional environment of formation and development of social capital in Ukraine is contradiction and inconsistency of formal institutions with each other and their discrepancy to informal institutions prevailing in the society.

In this regard, the development of democratic freedoms, local authorities and their legal maintenance are of paramount importance. A state which does not provide a wide range of freedoms for its citizens or separate communities of citizens in making decisions prevents, thereby, the formation of positive social capital.

Members of society, getting dependent on the state apparatus, lose the ability to spontaneous cooperation for the common good. Conversely, there is a negative social capital, when the interrelations take the form of a vertical "economic entity – official who allocates resources", which is used to obtain unlawful extraordinary access to these resources and the implementation of various corruption schemes.

In the spiritual and cultural sectors, the state should make efforts for forming citizens' democratic outlook (by respect for civil liberties, respect for national traditions, instilling moral values, etc.). The state should pay great attention to education and training of young people as an important sphere of

accumulating social capital and forming its quality parameters. The state provides expanded reproduction of human capital as well as promotes the development and improvement of social rules and norms influencing the formation of social capital, facilitates communication networks and trust to be used by the consumers of educational services during all their life promoting the formation of positive social capital of the country through forming certain values and behaviour norms.

In economic sector, the formation of positive social capital is facilitated by improving society welfare, building partnerships in business, implementing corporate ethics and social responsibility. Social capital arises in the implementation process of a consistent social policy which provides the development of social institutes and appropriate investment in the development of man and society.

**Conclusions and Prospects for Research.** Thus, social capital is a special form of capital which has common and distinct features with its other forms. The general features include limited character, ability to accumulate, convertibility, the ability to self-expansion, as well as to transmission. In this sense, along with the human and intellectual capital, social capital is a complete economic resource, the component of economic potential at both micro and macro levels.

Like other forms of capital, the formation of social capital needs investments and generates additional material and financial benefit, the decrease of transaction costs and risks through better access of an individual, a group of people or an organization to information, knowledge, services, material benefits, better cooperation and coordination of joint activities, emotional support, etc.

On the other hand, social capital has a number

of specific characteristics that determines its special place among other capital forms and gives reason to talk about its dual nature as a resource and as a factor that promotes more complete implementation of resources due to the creation of conditions for activity coordination and the cooperation of economic subjects at all the levels.

Social capital exists in such elements of social organization as social networks, social norms and trust. Unlike other economic resources, it is not exhausted in its use but, conversely, it is lost in case of its weak use; and it is relevant only in the concrete time and territory framework.

At macro level, social capital may be determined as a set of norms, traditions, values and confidence that, through the system of specific structural forms and institutes, defines the character of social interaction. The low level of social capital in Ukraine is connected with a wide dissemination of its negative forms manifested in corruption, organized crime, etc. Negative social capital increases the costs of economic entities at all the levels and decreases the efficiency of economics.

The formation of positive social capital in our society should be considered as a main factor of economic and social reforms, an important direction towards civilized democratic European society and highly developed socially-oriented economics. The state is obliged to carry out a comprehensive and consistent policy on development and reproduction of positive social capital.

Further study of social capital includes: the definition of its capitalization object and formation mechanisms, the creation of adequate methods and the system of its measurement indexes, as well as the development of recommendations as to the creation of efficient management system at all the levels.

### References

1. Shadrin A. Transformation of Economic and Social-Political Institutes in the Conditions of Transition to the Information Society. Retrieved from <http://rvles.ieie.nsc.ru:8101/parinov/arteml.htm>.
2. Fukuyama F. (1995) Social capital and the global economy. *Foreign Affairs*, 74.
3. Bourdieu P. (1985) The forms of capital. *Handbook of Theory and Research for the Sociology of Education*, P. 245.
4. Coleman, James S. (1988) Social Capital in the Creation of Human Capital. *The American Journal of Sociology*, 94, P. 95.
5. Becker G. S. (1964) Human capital: theoretical and empirical analysis, with special reference to education. N.Y: University of Chicago Press.
6. Social Capital, Growth and Poverty: A Survey of Cross-Country Evidence, Social Capital Initiative, Working Paper No. 7, World Bank.
7. Hrishnova O., Polyviana N. (2009) Social Capital: Nature, Significance, Relationship to Other Forms of Capital. *Ukraine: Aspects of Labour*, 5, 19–24.