

# POSITIONING SOCIAL CAPITAL FOR SUSTAINABLE INDUSTRIAL CLUSTER IN MALAYSIA

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**ABSTRACT :** *This article is based on the findings of the survey of Malaysian understandings of social capital and its potential in promoting sustainable industrial cluster in Malaysia. Social capital which generally refers to as trust, social norms, and networks, has been widely recognized to have positive consequences on socio-economic development. This study contends that social capital does not only matter in ensuring societal well being but innovative performance as well. Hence, the general aim of this study is to understand the concept of social capital from a Malaysian perspective. Specifically this study examines the Malaysians understandings of social capital and determines the elements of social capital from the Malaysian vantage point. The empirical data reveals that social capital is fairly understood among the Malaysian society but can be regarded as critical factor to promote sustainable industrial clusters. It is highly recommended that a more elaborate working definition and framework of social capital to be developed by the Malaysian government as it may lead to the full potentials of development. Finally, and most importantly for future research, a more coherent framework for incorporating social capital into industrial development theory and policy must be developed for Malaysian context.*

**KEYWORDS:** Social capital, social cohesion, social ties, industrial cluster

## 1.0 INTRODUCTION

Social capital which generally refers to trust, social norms, and networks, has been widely recognized to have positive consequences on socio-economic development. Furthermore, social capital has been viewed as encompassing many aspects of a social context, such as social ties, trusting relations, and value systems that facilitate actions of individuals located within the particular context.

In the past, economists and policy makers have emphasized on the accumulation of physical and human capital as a tool for achieving development objectives such as to increase income and improve health, and education level of the people. While these two types of capital are important, neglecting social capital may lead to failure of achieving the full potentials of development.

This study contends that social capital is crucial to sustain industrial clusters in Malaysia. The latter have been acknowledged as strategic economic intervention mechanism to enhance regional economic development and knowledge-based growth in particular the promotion of research, innovation and entrepreneurship. Being one of the actors of regional innovation system, industrial clusters involved massive interaction and interdependence among various economic actors in a highly complex ecosystem particularly the sharing and exchange of ideas, knowledge and resources. It is in this relational aspect that the role of social capital seems inevitable and instrumental to govern interactions and relationships among actors and institutions within the ecosystem of industrial clusters.

The literature on the role of social capital in sustaining the performance of industrial clusters in Malaysia is scarce and perhaps almost absent. This study, however, does not intend to examine the performance or achievement of Malaysian industrial clusters. It rather attempts to examine the potential of social capital in promoting sustainable development for industrial clusters. Specifically, this article reports the findings of a survey on Malaysians understanding about the concept of social capital and their perception on the elements

that form social capital. It is in a way attempts to position social capital for sustainable industrial development from Malaysian vantage point.

## 2.0 LITERATURE REVIEW

Social capital was first introduced by Jacobs [1] where the concept became popular in sociological studies [2-3] and then applied to political analysis [4-5] and recently in management and organizational studies [6-7]. Social capital is centrally concerned with the significance of relationships as a resource for social action [8-10]. Other scholars, however, have espoused a broader definition of social capital, including not only social relationships, but also the norms and values associated with them [11].

From a sociological perspective, social capital constitutes the basis for the formation of civil society as it reflects its main elements such as trust, civic engagement, social interactions, cooperation and tolerance. They are all closely related and not separated from state institutions and family life. Putnam [12] provided evidence that showed the levels of civic engagement and voluntary participation in the United States were strongly correlated with a number of social consequences such as lower levels of violent crime, lower mortality levels, and better educational outcomes. Nakagawa and Shaw [13] showed that social capital plays an important role in disaster recover. Their study asserts that a community with higher social capital proactively participates in the reconstruction program and hence, successfully and quickly recovers from the disaster.

In organisational and management studies, social capital has been diffusely studied in the last years as a source of access to knowledge and resources as well a main factor that enable territorial collective learning and innovation [14-21]. The acquisition of some forms of knowledge strongly depends on social interaction among cooperating members in a community or in a cluster. Through social interactions, an actor may gain access to other actors' resources. Thus, an actor that is central in a network of social interactions likely has greater potential to combine and exchange resources

with other actors because of its locational advantages in the cluster.

Nahapiet and Ghoshal [22] have proposed an influential theoretical model which identifies three dimensions of social capital i.e. structural, relational and cognitive, which have different functions in enabling the access to external knowledge. The structural dimension (networking) provides actors with the opportunity to share knowledge; the relational dimension (trust and common values) provides them with the motivation to share while the cognitive dimension (shared vision and language) provides them with the ability to share. Tsai and Ghoshal [24] test Nahapiet and Ghoshal's framework by measuring the impact of social capital on inter-firm resource exchange and firms' innovative production. Results show how relational social capital, in its turn fostered by structural and cognitive capital, facilitates knowledge exchange.

The term industrial cluster was introduced and popularized by Michael Porter [23] in *The Competitive Advantage of Nations*. Cluster development has since become a focus for many government programs. Porter [24] claims that clusters have the potential to affect competition in three ways: by increasing the productivity of the companies in the cluster, by driving innovation in the field, and by stimulating new businesses in the field.

As Malaysia enters k-economy era, the growth strategy for industrial development has shifted towards accelerating knowledge-based development particularly research and innovation. To remain competitive, it is necessary for Malaysia to fully seize the prospective benefits from ongoing regional integration and to upgrade its industrial structure to an innovative industrial cluster where companies conduct a range of research and development (R&D) activities, or collaborate to transfer knowledge and technologies. This signifies the complexity of relationships within the industrial clusters hence, they are defined as highly relational and a networked process. It is in this respect that to incorporate social capital within the industrial cluster is an urgent necessity as it has a great potential in mobilizing social cohesion for progress and competitiveness.

### 3.0 METHODOLOGY

This study use data collected from multiple respondents through a survey in various business and industrial units. The survey was carried out between November-December 2012 amongst the economic agents and industrial practitioners in the selected industrial clusters of Malaysia. This study employs a survey method to collect data and gather information from the respondents particularly to know their understandings and level of knowledge on the concept and elements that formed social capital. Meanwhile, document-research has also been instrumental to collect the relevant data particularly to triangulate the data obtained from the interviews.

#### 3.1 The Sample

This study is largely based on purposive sampling. The sample has been selected from three main industrial clusters

i.e. Perak and Melaka in the northern region, Johor and Melaka representing the southern region. A total number of 100 surveys have been distributed but only 91 surveys were returned to be analyzed by the researcher.

#### 3.2 The Questionnaire

The main objective of distributing the questionnaires is to identify the perceptions and understanding of various economic agents and industrial actors on the followings:

1. The concept of social capital in promoting sustainable industrial cluster.
2. The elements of social capital for the successful development of sustainable industrial clusters in Malaysia

### 4.0 DESCRIPTIVE ANALYSES RESULTS

This section presents the descriptive analyses results of the study. First, the demographic profile of the respondent is presented followed by the respondents' understanding about the concept of social capital and finally their perception on the elements that form social capital.

#### 4.1 Demographic Profile

The respondents were 54.4% (51) male and 44.6% (41) female. Almost half of the respondents, 45.7% (42) of them, possessed qualification lower than Bachelor's degree. Another 37% (34) possessed a Bachelor's degree followed by 14.1% (13) with a Master's degree and 1.1% (1) with a PhD. Majority of them, 68.5% (63) are from the private sector, 23.9% (22) are from the government sector and the other 7.6% (7) are from the semi-government sector. 40.2% (37) of these respondents reported that they have more than 10 years working experience followed by 30.4% (28) having less than three years of working experience, 22.8% (21) having working experience between four to six years and 6.5% (6) having working experience between seven to nine years. With regard to the job position, majority of the respondents were manager 25.3% (23), 20.9% (19) Senior Executive, 19.8% (18) Non-Executive, 6.6% Executive, 3.3% (3) Senior Manager and others 23.1% (21).

#### 4.2 Level of Knowledge and Understanding on Social Capital

Descriptive analysis done on the level of knowledge possessed by the respondents yielded the following findings. While majority of the respondents, 85.6% (84) of them reported that they have some knowledge about social capital, only 7.7% (7) of them claimed that have no knowledge at all with regard to the subject being examined.

Subsequently, another descriptive analysis was done to examine the level of understanding amongst respondents on the concept of social capital. Table 1 shows the result of the analysis.

The descriptive analysis shows that majority of the respondents viewed social capital as productive knowledge and innovation network. Subsequently, social capital is viewed as the least significant in terms of facilitating the combination and exchange of resources within firms.

**Table 1: Understanding of Social Capital**

Statements	Mean	SD
1. In order for firms to succeed they need productive knowledge and innovation network	4.40	.647
2. I believe that mistrust and disunity could harm the success of regional economic development	4.18	.725
3. Social capital builds upon social relations	4.11	.456
4. Trust and mutual confidence are crucial elements in social network	4.05	.685
5. Social capital leads from social relations to economic effects	4.04	.591
6. Social capital is one of the crucial elements for regional economic development	4.00	.679
7. Social capital is necessary even though it does not bring immediate benefits	3.90	.712
8. Social capital contributes significantly to a firm's ability to create value in the form of innovations	3.90	.757
9. Social capital affects the internal functioning of firms	3.83	.720
10. Social capital facilitates the combination and exchange of resources within firms	3.70	.642

**Table 2: Elements of Social Capital**

Elements of Social Capital	Frequency	Percentage
1. Trust	25	29.1%
2. Group and network	17	19.8%
3. Social interaction	14	16.3%
4. Material well being	9	10.5%
5. Shared social values	8	9.3%
6. Quality of life	8	9.3%
7. Shared norms and routines	1	1.1%

#### 4.3 Perception on the Elements of Social Capital

Subsequently, another descriptive analysis was done to examine the perception of the respondents on what are the elements that constitute the concept of social capital. Three elements were identified by 65.2% (56) of the respondents as the most important elements that formed the concept of social capital. Trust was rated as the most important by 29.1% (25) of the respondent. The next element was group and network which was rated second most important by 19.8% (17) of the respondents. Finally, the third most important element is social interaction which was rated by 16.3% (14) of the respondents. Table 2 shows the result of the analysis.

#### 5.0 CONCLUSION

This study has provided some information on the level of knowledge and understanding among Malaysians on the concept and elements of social capital. First, it is worth noting that equal attention is given to human or technological capitals, as well as to social capital in the development process. Without proper and effective governance of relationships, knowledge and information cannot be shared effectively within the clusters, which may affect innovative performance. From managerial perspective,

there is an urgent necessity for industrial clusters management to come up with a programme to strengthen the inter-firm networks and trust, develop knowledge ecosystem as well as to enhance the knowledge-based activities for successful development of sustainable industrial clusters. The concept of active and productive linkages and synergies, as well as trust between all industrial clusters actors must be fully understood and systematically nurtured in the clusters. The researcher also believes that this could be done in the context of the appropriate technological infrastructure without adopting a narrow technical view which overlooks the social and cultural barriers to the creation of an environment that is conducive to creativity and knowledge sharing.

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