Chapter 2
A Review of Social and Intellectual Capital From the Lens of Corporate Social Responsibility

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ABSTRACT

This chapter reviews literature on the role of social capital and intellectual capital in the economy, and their contribution to corporate social responsibility with a particular emphasis on their importance for corporations. The chapter relates social capital and intellectual capital to concepts such as trust and corporate culture; and discusses and proposes various metrics that capture them at the firm level, including firms' corporate social responsibility (CSR) efforts. A summary of the existing research on the relation between social capital, intellectual capital, and firm value and stock market performance has been done. Finally, an analysis of whether firms are investing enough in intellectual capital and social capital in its corporate social responsibilities has been done.

INTRODUCTION

In contemporary corporate management, managers combine capital and labor in the production process to maximize profits. Companies continue investing until the return on the marginal dollar of investment is equal to the cost of capital. A huge literature has studied the various frictions that prevent firms from investing optimally, either because financing frictions prevent them from exhausting their investment opportunities (Stulz, 1990), or because inefficiencies in the contracting process between the firm and its executives lead firms to over invest. Likewise, there is a large literature on the importance of human capital in the production process and the role of compensation, particularly at the CEO level, in affecting investment and firm performance (Edmans & Gabaix, 2016). The same applies to intellectual capital

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demands in various firms. It is in this light that this chapter attempts to analyze the relationship that exits between the various capitals (intellectual and social capitals) and corporate social responsibility.

More recently, a literature has also emerged studying a firm's intellectual capital—investments in Research and Development (R&D) (Brown, Fazzari, & Petersen, 2009) and associated patents and patent citations (Trajtenberg, 1990; Hall 2005). Such intangible investments are an obvious necessity to safeguard the future livelihood of the firm, and, in fact, many industries spend more on R&D than on physical capital. Broadly speaking though, investments in both physical and intellectual capital would be considered capital investments. There is another type of capital, however, that has received much less attention in the literature, but may be as important as the other sources of capital. In fact, without it, the return on investments in other capital may well be substantially diminished. This type of capital is called social capital; it consists broadly of the quality of the relationships that the firm has built with a variety of stakeholders. Firms with greater social capital provoke a level of trust and cooperation from stakeholders that can ultimately enhance profitability and firm valuation.

On the other hand, there is intellectual capital. In 1969, Calbraith, an American economist, first put forward the term "intellectual capital". He pointed out that intellectual capital is a dynamic capital, a dynamic process of knowledge generation, and a way to achieve goals (Xu, 2014). However, Calbraith's definition and study of this concept only stay here, without further elaboration. At present, the connotation of intellectual capital lacks a unified standard. Scholars mainly define intellectual capital from three perspectives: intangible assets, knowledge and ability, and enterprise value (Andriessen, 2001). In my opinion, intellectual capital can be defined as the total of knowledge assets that a company owns or controls, which can bring competitive advantages to an organization and create high value. This concept points out that creating high value differentiates intellectual capital from general intangible assets, and emphasizes that intellectual capital is not a single asset. It can play an economic role and is more suitable for the study of the relationship between intellectual capital and enterprise performance in the lenses of corporate social responsibility.

In this chapter, the importance of social capital, intellectual capital and corporate social responsibility for corporations and their relationships to trust building and the notion of corporate culture has been discussed. The chapter starts by discussing the antecedents of the notion of social and intellectual capitals which were originally defined at the level of the society at large and applied to each individual member of that society. Much of the current research on social and intellectual capitals continues to rely on this notion. However, the chapter argues that both, social capital and intellectual capital; can also be defined at the firm level. Investments in social capital can help build trust between the firm and its stakeholders or publics and, thereby, can improve the performance of the firm.

SOCIAL CAPITAL

As a new concept for corporate management, social capital has attracted so much attention that it has become routinized in everyday conversation and policy discourse (Wool-Cock 2010). As a field of research, social capital theory has already been argued to have reached maturity (Kwon & Adler, 2014) because its basic thesis (i.e., the beneficial impact of social capital on information, influence, control, power, and solidarity) has been widely accepted across disciplines. Social capital can be simply said as the resource embedded in the social relationship and can be explored and used for some specific goals, however, since social capital is mainly intangible, there is still no uniform understanding, neither precise

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