



Social Capital and Local Economic Development: The Key to Success and Sustainability of LED in Developing Countries

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<http://dx.doi.org/10.18415/ijmmu.v10i5.4576>

Abstract

Social capital is currently considered an abstract and normative concept, therefore, it is difficult to understand its mode of operation. This study aims to provide a detailed and descriptive operational understanding of the three types of social capital, namely bonding, bridging, and linking in accordance with the Local Economic Development (LED) based on community empowerment. Data were obtained from a review of various literatures to clarify the conceptual framework and analytical description of the various benefits. The result showed that bonding social capital needs to be improved in the early stages of the LED program because it provides a strong impetus for group awareness to bind and strive to be independently free from poverty and under-development. Assuming the strong nature of bonding social capital is properly managed, irrespective of its ability to create group primordialism it fosters the confidence of the target community. Meanwhile, bridging and linking of social capital need to be improved to create a synergistic relationship between the target community and external parties. In conclusion, the LED program is key to the successful sustainability of the LED program in developing countries.

Keywords: *Bonding Social Capital; Bridging Social Capital; Linking Social Capital; and Local Economic Development*

Introduction

Social capital is a topic with great attention due to its visible scope and relevance (Yustika, 2006). Wallis, Killerby and Dollery (2004) stated that it is a joint concept for all social science disciplines, with specialization in the field of economy and human capitals. According to Adler & Kwon (2002), scientists defined social capital as an asset used to facilitate certain actions. Ahn & Ostrom (2007) stated that it is widely seen from an economic perspective, and more interesting to study from the collective action perspective. Uphoff, (2000), explained that mutually beneficial collective action is a form of benefit from social capital in economic and development activities.

Woolcock and Narayan (2000), used individuals, households, community groups and the state as the main unit to analyze and formulate the existence of social capital. Dhesi (2000) defined it as the

accumulation of various social, psychological, cultural, institutional, and invisible asset that influences economic development. Furthermore, Poter (1998) stated that this capital opens up opportunities for the utilization of economic and human capital in realizing prosperity. Efforts to understand and measure social capital have increasingly been carried out since this concept was first systematically introduced by Pierre Bourdieu and James Coleman in the 1980s. Bourdieu, Coleman, and Putnam inspired the next scientists to provide a conceptual framework of social relations as an embodiment of social capital (Asmin, 2018).

There is more human capital in developing countries compared to the developed, therefore the social action is properly exploited to improve welfare. Social capital is the relationship between humans, therefore, assuming the amount of capital is logical, variety of social capital is created. According to Granovetter (2005), these facts showed that social relations have a significant relationship to individual economic success both theoretically and empirically. Social capital plays an important role in economic development, due to its exchange value in transaction activities as the basis of economic resources (Lin, 2001). Trigillia (2001), stated that capital is an important aspect in local economic development (LED). Therefore, it needs to be the business of everyone, including local residents, business people, and the government, at the local level.

According to Mayer (2014) LED has been globally implemented, especially in developing countries. It is the right solution to improve the quality of life, reduce unemployment, poverty and inequality in economic and social development. However, the origins concepts of LED are found in developed countries at Western Europe (Kevin and Macgarvey (2003), Rogerson, (1999) and Markey et al. (2008)).

The initiation or adoption of LED approach is largely rationalized by the failure of the traditional approach to adapt to global changes and its inability to eradicate developmental challenges, such as poverty, social polarization, basic service delivery, environmental protection and achieving high levels of economic growth (Rogerson (2000) and Net & Rogerson (2004)). Human resources, empowerment and skills development are the main pillars of the LED approach which is seen as an important element for its success and sustainability. Blakel & Bradshaw (2002) stated that poor people cannot possibly benefit from any new work unless they possess appropriate skills. Therefore, the success of this concept is to increase independence and strengthen social relations.

This paper elaborates the social capital concept supported by various related literature to provide a more operational understanding and illustrate how social capital helps in economic development at the local level. The discussion was qualitatively described and supplemented with a structural illustration of the beneficial flow from social capital towards collective action in LED. This paper provides a conceptual and analytical framework in understanding social capital concretely therefore it is easily understood. It also facilitates researchers, practitioners, and bureaucrats to elaborate cognitive and structural aspects of social capital in implementing LED programs in developing countries. By reviewing the three types of social capital are expected to be an alternative strategy in implementing LED programs based on community empowerment. Every social capital type has different impacts and roles in accepting and implementing LED programs.

Literature Concept Review

1. The Concept of Social Capital and Local Economic Development

Social Capital is an important pillar in economic development, both on a national and local scale (Dhesi, 2000). Meanwhile, the theory has important implications for local economic development, with the inability to clearly determine the associated activities in economic development. The ideas contained

in the social capital literature still need to be systematically developed into a comprehensive explanation model (Midgley, & Livermore, 1998).

All over the world, the local governments, private sector and civil society are exploring better ways to reduce poverty through local economic development strategies (Sam, 2014). Rowe (2012) stated that the discipline of local economic development is a complex mixture of concepts, and practices. However, the holistic and complex nature of the local economic development process has become a difficult task to understand the logistics relationship between various socioeconomic factors in the development process (Porter, 1991). The aim of local development is to build the economic capacity of the area to improve for a brighter future (Geart and Marjon, 2002). Economic growth and theoretical studies underline that the level and accumulation of human capital are important factors in production, with a competitive advantage in the growth process (Dynreg, 2006). LED offers opportunities for local governments, private and non-profit sectors, and communities to work together in improving the economy. It focuses on increasing competitiveness, promoting sustainable growth (Sam, 2014)

Midgley (1996) defined social capital as infrastructure development used for social purposes. It also provides material facilities needed for community development creates assets that unite people. The interaction between capital, social, and nature is needed to produce human welfare. The social capital in society does not flow directly. Therefore, it is important to adopt a broad transdisciplinary perspective to deal with ecosystem services. (R. Costanza et al, 2014).

Sherraden (1991) presented a similar idea which primarily focused on individual assets and capacity building. It also recognizes the importance of community assets, such as revolving loan funds, in generating economic development at the local level. Social and ecological sustainability have a strong relationship, namely diversity, quality of life, social justice, sustainable society and the conserved natural environment (Van Winden & van den Berg (2004), and Yigitcanlar & Velibeyoglu (2008)).

However according to Cochrane (1993), local governments may also become more proactive in empowerment programs, by engaging in new partnerships with the private, community, and voluntary sectors to increase inward investment in order to support local economic development programs. However, Syrett (1993) stated that local government does not always act in an openly responsible manner. The stronger possibility of political leadership is motivated by a commitment to the local area to improve prospects for residents. Blair and Carroll (2009) stated that innovation in local government tends to originate in metropolitan areas, and its spread occurs by (1) crossing and descending the urban hierarchy as well as (2) moving away from innovative centers in a radial pattern. Certainly, there is always debate on what innovation is in the context of local government, with most of the claims from leaders in this sector doing something extraordinary that raises questions on the initiatives' origin. Meanwhile, innovation may not always be successful. It is impossible for public entrepreneurs to meet failure, because they are usually always ready to take risks and learn from their experiences.

Social capital has a very significant and positive impact on performance and achievement in local economic development (Staveren, 2000). Nel (2001) state that at the community level, trust is needed to ensure that the LED program runs smoothly. It also pointed out that LED initiatives were highly dependent on high level social cohesion, joint identification, and commitment to the project to ensure the necessary complementarity with social capital.

Expectations of cooperation in managing resources and economic potential at the local level increases when individuals or groups have a strong interest in collective action (Poteete & Ostrom, 2004). However, assuming they do not consider it necessary to cooperate with others, actions according to their own interests are carried out on the basis of their cognition. According to Uphoff (2000), this activity is called the minimum social capital, while Krishna (2000) described it as actions based on norms and beliefs. When individuals or groups assess the need for cooperation with others, then the flow of social

capital cognitive elements rationalizes the formation of roles, rules, and procedures as its structural elements. These are interdependent through the expectation mechanism (Uphoff, 2000).

The use of social capital concept needs to be understood in the system and relationship aspects. The criticism starts with an understanding of the social capital concept which only focuses on the relationship aspects (Harriss, 2002). Esser (2007) reported that social capital also includes the social relationship, shared beliefs, norms, community's knowledge, discussions, and builds arguments (Berkes, 2009).

Subsequently, LED's success is also dependent on trust between collaborators, potential partners and sponsors in the initiative. Trust represents the value of democracy in LED and its dimension. Buckland (1998) concluded that beliefs, norms (customary behavior) and networks, improve community efficiency by facilitating coordinated action. Trust is also an important basis for voluntary associations in social action and development (Anheier and Kendall, 2000) It also serves to strengthen voluntary cooperation which fosters innovation (Knorringa, 1992). Furthermore, in relation to competitive advantage, Cox and Mair (2010) provided examples of how the local economy in the United States operates to create constructive competition between localities rather than conflicts.

Social capital arises due to the relationships between people, and the principle of development used to improve human quality. Therefore, by collaborating with the existing social relationship capital in the community, through the development of programs, local communities increase the quality of human life. This paper tries to link the role of social capital in society, in developing countries in order to support the successful implementation of the LED program as an alternative choice in reducing poverty, unemployment inequality and failed economic development.

2. The Role of Social Capital and Local Economic Development Especially in Developing Countries

Saegert and Winkel (1998) stated that the success of local governments in developing countries is largely attributed to the presence of previous social capital. Swyngedouw (2000) stated that effective local governance structures strengthens the economy core values through dialogue and negotiation. This ultimately encourages institutional capacity and LED activities which leads to innovative development. Bowles and Gintis (2002) stated that institutions play an important role in developing countries, markets and communities and when poorly designed it hampers growth.

Cornell and Kalt (1991) stated that institutions as unifying with the endowment of resources and human capital, able to improve a community through collective decisions and the provision of a friendly environment. They concluded that socio-cultural institutions are very important for development. According to Bowles and Gintis (2002), individual are ready to bear costs in lieu of long-term benefits for other groups and especially family members. A local economy where such "mutual cooperation" is common, tend to become successful. In these areas, the struggle of resources is culturally transmitted and usually governed by the institutional structures for certain purposes. Studies were carried out By Turner and Killian (1972), Alexander (1987), Fukuyama (1999), Lowndes and Wilson (2001), Bowles and Gintis (2002) which focused on things that motivate people to conduct voluntary activities for collective action as a form of social capital.

Social capital, equated with virtual currencies exchanged by people when they work together in networks, families, community organizations, or in any form of collaborative or altruistic action, is valued with mutual support from others. These literature highlights important considerations with some different forms, which have positive consequences in the successful implementation of LEDs. Putnam (1993) classified social capital into two different forms, namely bonding which tend to be exclusive to individuals or groups and Bridging is a more inclusive relationship. However, it can be further divided into three types, namely bonding, bridging, and linking.

Highlighting the importance of social capital in Local Economic Development (LED), economists claimed that the basic idea of social capital is that one's family, friends and colleagues are important assets used in a crisis, enjoyed for its own benefit, and utilized for material gain. Likewise, Putnam (2000) showed that this capital is a stock of social trust, networks, and values used to improve their livelihoods and to pursue common goals. According to economic experts social capital has a link with structures, beliefs and norms in networks.

Szreter and Woolcock (2004), stated that there are three types of social capital as follows: bonding social capital, which refers to the relationship of mutual trust and cooperation between members of a network which is similar in a socio demographic sense, with strong trust, ties, informal collaboration, long-term reciprocity and many dense networks. Bridging social capital refers to the relationships between dense networks separated by collaboration and coordination, and characterized by larger and looser networks with weaker bond, more formal collaboration and thinner trust. Linking social capital strengthens the relationships between people with interactive power, authority, or gradients in explicit, formal, or institutionalized at society. It has the ability to interact with groups that do not have great similarities in terms of socio demography. The bonding in social capital corresponds to the strong ties between homogeneous groups and intra-community such as partners, neighbours, friends, and family with connection to the concept of closed networks (Coleman, 1988). Bridging social capital refers to the weak bond between extra-community networks and heterogeneous groups such as government officials, counterpart agencies, and companies. According to Granovetter (1985), Social Capital refers to the type of weak bond that allows the use of resources, ideas and information from formal institutions outside the community for example government institutions, research institutions, universities, banks and other business sectors to link to open networks.

Bonding social capital exists at the local level and refers to the network of family, friends and neighbours. World Bank (2000) stated that bonding social capital connects people with similar demographic characteristics. Poor people are seen to have a lot of social capital, and this leads to social environmental cohesiveness. Forrest and Kearns (2001) also stated that close family bond, mutual cooperation, and volunteerism are often strong features of poor areas in order to overcome poverty, unemployment, and social exclusion. However, the marginal do not show the social capital type compared to the rich.

Relationships formed through bridging are considered weaker than bonding social capital (World Bank, 2000). This type is referred to as horizontal ties with people in the same economic power and social status. The most common relationships are through civic organizations, religious groups and occupations. Bridging and linking social capital allow greater access to knowledge, and innovative experience with skills improvement training used to implement LED programs.

However, there are also some disadvantages associated with bonding, as recognized in several studies conducted by Gargiulo and Benassi (1999), Portes (1998), and Villalonga-Olives & Kawachi (2017)). For example, Portes (1998) stated that some of the negative effects include exclusion of outsiders, excess claims on group members, restrictions on individual freedom, and down levelling norms. Treagar and Cooper (2016) stated that the limitations in the flow of knowledge and types as some of the negative side effects of social capital. Actors face challenges when the social context of their collaboration with many strong bonds.

Networks are primarily formed with bridging social capital, and used to access new sources of knowledge. However, the lack of social capital bonding among community actors in LED inhibits joint learning and the implementation of new knowledge, which has limited success potential in adapting technology and practices (Tiwana, 2008). Furthermore, linking social capital is concentrated in several individuals, and this provides access of new information for social mobilizers (Titeca and Vervisch,

2008). Therefore, in realizing the successful implementation of Local Economic Development (LED), the role of social capital from the three characteristics need to be optimized.

Bonding social capital is the main and first capital to form strong bonds between LED objects such as the target community group. Actors, agents or local governments create and explore events capable of triggering the emergence of bonding social capital in the community. After arising awareness the next step is to optimize the bridging social capital in the community therefore the synergistic interaction occurs, and the programs in LED have a positive multi-layer effect. Its highest level is the optimization of social capital as a skill to create synergistic relationships outside the LED program target community. This aims to maintain sustainability and independence of the community after the stimulant programs in the LED is over the role of social capital in Local Economic Development is shown as follows:



Figure 1. The Role of Social Capital as a Foundation for Local Economic Development

Conclusions

The social capital concept is a more representative framework in studying the practices of implementing Local Economic Development (LED) based on community empowerment. The construction arises from the expectations of individuals or groups related to local economic empowerment. These expectations incorporate the cognitive and structural elements of the social capital that generates a flow of benefits for collective actions in the practice and implementation of Local Economic Development (LED). In-depth elaboration of the cognitive and structural social capital provides a conceptual clarity and analytical description in understanding the role in the practice and implementation of LED. Therefore, this study is carried out by social-economic experts to determine the factors capable of encouraging an increase in the social capital role to ensure the success and sustainability of the Local Economic Development (LED) program in improving welfare and reducing poverty, unemployment and the powerlessness of local communities.

Acknowledgement

The authors are grateful to the Local Wisdom Research Group of the Faculty Economics and Business, Universitas Sebelas Maret, and Development Planning & Management, School of Social Science, Malaysia Sains University. This paper is the initial discussion result of research collaboration in the field of human development and local wisdom in Southeast Asian countries.

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