FACTA UNIVERSITATIS
Series: **Economics and Organization** Vol. 7, N° 1, 2010, pp. 137 - 150

SMALL FIRMS, SOCIAL NETWORKS AND ECONOMIC PERFORMANCE

UDC 316.472.45:65.017.2/.32

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Abstract. *Starting from the theoretical concept of "embeddedness" of economic relations in the social structure, this paper focuses on the attempt to examine the effects of different forms of social relations between firms on their business performance. As a framework for studying these effects, the concept of social networks and social capital is used, with an attempt to show the specific organizational forms of social capital as well as the direct consequences of their application in terms of business performance of small and medium enterprises. Also, it is pointed out to the possible role of the state in creating cooperative relations between firms, especially in the field of innovation, by encouraging and stimulating collaboration and networking.*

Key Words: *Social networks, small and medium enterprises, economic performance, social capital*

INTRODUCTION

The idea of the impact of social relations on the conduct of economic activity has been present in the literature since the middle of the previous century, owing to the work of Karl Polanyi (1944), who introduced the concept of "embededdness" of economic relations in the social structure, in order to explain the social structure of modern markets. However, a new way of criticizing the neoclassical theory, which shifted the focus from the assumption of rationality to the assumption of isolated economic actors, appeared in the article which is also known as the manifesto of the new economic sociology, Mark Granovetter's "Economic Action and Social Structure: The problem of Emeddedness" from 1985. This article was an attempt to redirect the critique of the economic mainstream from the usual emphasis on unrealistic or psychological nature of the concept of rationality - individuals are not as rational as economists assume, to the failure of economists to incorporate social structure into economic analysis (Swedberg, 1997). In order to

Received April 22, 2010

explain the impact of social relations on economic action, Granovetter criticizes the assumption that economic actors make decisions isolated from each other, regardless of their social connections. This has opened the ability to analyze economic phenomena, taking into account both rational behavior of individuals and social structures within which they conduct transactions. "Embededdness" as a concept which is offered as a counterweight to the assumption of atomization, implies that economic behavior is deeply rooted in the social structure, i.e. in networks of interpersonal relations. Also, the appearance of this concept has revived the debate about the positive and negative effects of social relations on economic behavior, between the theorists who have emphasized the essential role of social structure for economic behavior and those who argue that social relations exert minimal impact on the conduct of economic transactions, as well as that such influence is manifested in the form of restrictions on market transactions.

One of the ways to make the idea of embeddedness concrete and applicable to reality is to focus on its structural aspect, i.e. how the quality and the architecture of network of social relations during the exchange of material goods affect economic activity. In that sense, it is assumed that the mutual relations of economic actors in the network are characterized by trust and personal ties, which take over the role of explicit contracts, making transactions predictable and reducing the costs of monitoring, while encouraging the exchange of information and tacit knowledge. Rather than focusing on short-term objective of profit maximization, economic agents shift to building long term relationships of cooperation from which they can draw long-term benefits. Thus embeddedness creates economic opportunities that are difficult to achieve through the market or explicit contracts.

ECONOMIC ACTIVITY AND SOCIAL RELATIONS – THE CONCEPT OF "EMBEDDEDNESS"

While Polanyi, by introducing the concept of embeddedness of economic relations, tried to emphasize that economic activity was an integral part of the social structure in pre-capitalistic societies, and modernization was the cause for the appearance of autonomous economic behavior and isolation of the economy as a separate sphere in modern society, Granovetter wanted to show that the economic activity is in its essence a social activity, right in the capitalist world. Depending on whether they believe that economic transactions are determined by social relations or by rational calculations aimed at achieving self-interest, researchers are divided into two camps: "substantivistic" school in anthropology, which represents the idea of embeddedness and the "formalists" who argue that economic behavior at all levels of human society was independent of social relations. Granovetter tried with his formulation of the concept of embeddedness to keep the middle course between what he calls "oversocialized" and "undersocialized" concept of social activity (Golubović, Milošević, 2009). Namely, "oversocialized" approach originates from sociology and implies that individuals are oversensitive to the opinions of others and therefore obey to the dictates of norms and values, established through consensus and internalized through socialization (Wrong, 1961). On the other hand, "undersocialized" concept of human action relates to the position of classical and neoclassical theories of atomized markets, where any influence of social relations and social structures on economic activity is not possible. The idealized market of perfect competition, where a large number of anonymous buyers and sellers enter the transactions on the basis of possessing perfect information, operate without interference from social contacts. If there is any personal connection or implicit contract between individuals, it is considered to be a friction, which hinders the exchange. Self-interest motivates individuals to action and they regularly turn to new partners in situations where it is possible to take advantage of new business opportunities and to avoid dependence. With the help of the weak ties between economic subjects, the business is spread among a large number of competitors and narrow and limited relations are thus avoided. However, the assumption about market efficiency fails when the ideal theoretical model of the market is abandoned and different forms of imperfect competition are taken into account.

The concept of embeddedness of economic activity neither implies the atomization caused by a narrow focus on achieving self-interest, nor blind respect of internalized patterns of behavior in a particular social group, but puts emphasis on the dynamics of ongoing social relations. Granovetter criticizes two existing theoretical explanations of the mechanisms which in terms of imperfect competition act in the direction of preserving order: on the one hand, it is the solution of the new institutionalism where the presence of institutions prevents opportunistic behavior of individuals, making the cost of deviation from established standards high; on the other hand, there is the presence of "generalized morality", which suggests that there are implicit social rules of conduct that guarantee a minimum of trust and concern for others. The concept of embeddedness suggests that specific interpersonal relations and social structures, i.e. networks play a key role in creating trust and discouraging rule violations. In addition to the concept of embeddedness, which means that all economic activity is rooted in the system of social relations, which is expressed in different ways: through social relations, cultural patterns and political context, affecting the possibilities and limitations of individual actors, presence of smaller or larger number of autonomous relations at the micro and macro level also determines the direction of development (Woolcock, 1998).

However, criticism of the concept of embeddedness, although admitting that this concept can explain some forms of economic action better than the pure economic analysis, suggests that the fact that economic action is embedded in ongoing social relations suffers from the theoretical indefiniteness (Uzzi, 1997). In contrast to the relatively solid and concrete proposals of economic theory, there are general statements about social relations shaping economic and collective action. The importance of the idea of embeddedness is manifested primarily through connections of structural embeddedness with the theory of social networks. In fact, the concept of social construction of economy has, along with the concept of embeddedness been the basis for the development of the theory of network activities in the economy. One of the earlier Granovetter's studies "The Strength of Weak Ties" points out that the way in which individuals come to employment to a large extent depends on the nature of their personal ties, and how such ties structure the flow of information. Individuals with many casual contacts ("weak ties") can much easier find a job than individuals who only have regular contacts ("strong ties"), primarily because the amount of information that is transferred through these ties. Network analysis is gaining importance with the establishment of industrial regions and with creating networks of small enterprises, which opens the space for the development of entrepreneurship theories by including the dimension of interconnecting of the enterprises.

SOCIAL STRUCTURE AND ECONOMIC PERFORMANCE

It is often emphasized that personal relations between economic entities have a role in creating trust, reciprocity and loyalty, which could represent a new source of competitiveness based on cooperation. Theoretical construction which includes common resources in the form of membership in associations, civic engagement, trust, reliability and reciprocity in social networks is the theory of social capital. Although it appeared in the 1920's (Hanifan, 1920), when it implied "good will, friendship, sympathy and social relations between members of a social unit", it entered economic analysis as a system of social relations that are naturally occurring to promote and foster the development of important skills and characteristics (Loury, 1977). Sociologists regard it as the structural feature of a society that encourages productive individual actions (Coleman, 1990) or individual resource that can be derived from durable networks, institutionalized through mutual acquaintances and recognition (Bourdieu, 1986). In contrast to this individualistic approach to the conceptualization of social capital, development of a collectivistic approach started in the works of Putnam (Putnam et al, 1993), who explained the variations in the progress of regional economies with the variations in level of social capital, civic engagement and networking between economic subjects in the observed regions. The presence of numerous civic organizations as well as high intensity of collective action in some regions is converted to an effective pluralist pressure on regional government, while in the economic sphere the presence of social capital is manifested in the form of dominance of small and medium enterprises in the regional economy based on industrial districts. These findings are particularly interesting for analyzing the results of small and medium enterprises because they enable a new way of studying their business success, which is not anymore based on individual attributes of the enterprise, as it stands in the conventional entrepreneurship analysis (Cooke, Wills, 1999).

There are opinions that the introduction of the social structure into economic analysis re-opens issues that bring us back to the dawning of modern philosophy: "…whether man is an individualistic or social animal, whether economic practices are more effective when based on essentially competitive or cooperative norms, how do we know trust in social relations will be reciprocated other than by legal contract?" (Cooke, Wills, 1999). Under the conditions of intensifying competition, cooperation between economic subjects becomes particularly important. Intense changes in technologies and markets as well as government programs increasingly encourage companies to undertake collective action in order to increase their capacity for adaptation and orientation in terms of uncertainty (Lundvall, 1998).

On the other hand, researchers from different disciplines emphasize the role of social structure in the process of economic development (Gambetta, 1988; Fukuyama, 1995; Landes, 1998, Coleman 1988, Putnam et al, 1993), while small and medium enterprises (SME) are often emphasized as promoters of economic growth, as well as the ultimate impetus of employment, innovation, entrepreneurship and prosperity in modern conditions. In this regard it is interesting to explore how the networking, trust and cooperation between SMEs might affect their economic performance, particularly in the field of innovation and financing, where small businesses have difficulties compared to large companies. The enthusiasm about this idea can be justified by some of the following reasons (Dulupcu et al. 2006): first, it seems that the developed economies exploited almost all the available tangible resources; they are trying to discover new sources of competitiveness, including intangible ones. On the other hand, developing countries are faced with limited availability of tangible factors of production, which makes social capital, as the intangible resource that is derived from social relations between economic subjects, especially attractive. Furthermore, the revival of the regions and the localities shifts the focus to the relations between regional actors, thus strengthening the arguments of relational resources, such as associative economy, interdependence, "learning regions". This kind of relations is most intensive at the regional level, where the proper social infrastructure is built. Finally, social relations become particularly important in circumstances where it is necessary to pursue economic development based on own resources, rather than rely on foreign investment. Therefore, if risk and uncertainty are barriers and social capital mitigates them by providing risk-spreading and knowledge enhancing conditions then the sooner we understand how, the better (Cooke, Wills, 1999).

THE ESSENTIAL COMPONENTS OF PERSONALIZED RELATIONS BETWEEN ECONOMIC ACTORS

Social capital, understood as a product of cooperation between different institutions, networks and business partners represents a potentially critical aspect for small business life (Spence et al., 2003). The importance of informal relations, trust and solidarity for the development of small business is increasingly recognized in the literature (Granovetter, 2000). The concept of social capital is based on the idea of embeddedness, since it analyses objects of study in their social environment, which for SMEs primarily implies the local environment. These economic entities are not treated as separate "microcosms", with their own rules and laws, but their existence is conditioned by constant exchange with actors from their economic and social environment. Research based on the concept of social capital can help to clarify the role of institutional relations, networks and trust for small businesses.

In studying relations within a network of SMEs one should not neglect the existing formal ties, based on contracts and regulations, which are generally more intense, more frequent and stabile. However, the special relations or personal ties are sometimes more important for the success of the company or the scope of its operations. That is why a restrictive assumption that individuals behave either egoistic, or cooperative does not hold - within a network there are simultaneously present different types of relations, which mainly depend on the quality of social relations and network structure in which they are embedded.

The essential component of embedded relations between SMEs, i.e. their primary and explicit feature that regulates the behavior and expectations of participants in the transaction is trust (Uzzi, 1997). Trust is usually defined as the belief that the exchange partner shall not act in self-interest, to the expense of partners in the transaction. Trust is a predilection to assume the best when interpreting another's motives and actions, which speeds up the decision-making and saves resources. Trust within the network of economic partners is developed by investing additional efforts in the form of small services to partners that are reciprocated the same way back. Such relations are not governed by formal mechanisms that would ensure reciprocity (contracts, penalties, sanctions), nor could the benefits of such services be translated into money. The primary outcome of the trust relations is access to privileged and hard-to-measure resources, thereby strengthening the competitiveness and flexibility of SMEs and opening new possibilities, which could not be gained in terms of impersonal contractual relations in atomized markets.

Trust stabilizes mutual expectations and enables collective action, acting in the role of a specific insurance (Spence et al., 2003). Large companies are run by developed networks of contractual exchange and therefore rely much more on formal rules than small companies. Owing to their resources, large firms have easier access to legal protection in order to enforce their claims. However, for SMEs, social relations can be far more important when it comes to terms for the realization of transactions. If a partner in the transaction does not pay the debt on time or does not deliver the goods, this may result in a crisis for the owner of a small company that carefully balances its cash flows. Social networks here can serve as a source of informal threat to the client that does not keep the agreed terms, or may offer easier access to legal institutions. Even in well-developed financial market and insurance market, personal relations are important for daily business activities, as mutual services, such as technical or organizational, save money that would be spent on professional services. In terms of uncertainty, structures of social relations generate economic coordination, thereby improving economic performance through the reduction of transaction costs, increasing productivity, mobility, flexibility and innovation.

The next aspect of the relation between social structure and economic results of SMEs is the transmission and delivery of important information (Dulupcu et al. 2006). Social capital enhances the flow of information in social or local networks and allows easier knowledge exchange, which is of vital importance for SMEs to which search for knowledge is a significant fraction of the cost. The information transmitted through the network can refer to the reliability of a potential client or employee, to a new state program, the development of specific industries, new laws and information technology. Smaller companies have limited access to expensive professional sources of information, so they are much more likely to rely on personal advice and informal mechanisms of information exchange. In this regard, a network of inter-sector and intra-sector relations can be of great assistance. Of course, trust is a necessary condition for this mode of information transmission. It should be kept in mind that the exchange of codified knowledge is almost free, while the transfer of tacit knowledge is generally difficult and requires closer formal relations between economic actors. The information that is exchanged through personal relations does not relate to price and quantity, but to strategies, profit margins, as well as knowledge gained through personal experience.

Unlike the previous understanding that the price system is the most effective system of coordination of economic transactions, there are cases of social arrangements that include mechanisms for resolving problems that allow the actors to coordinate their activities and solve problems "on the fly". These arrangements include the steady routines of negotiation and mutual adjustment which provides flexibility in solving problems. Through the establishment of personal relations, companies are working together to solve problems and get direct feedback, new knowledge and discovery of new combinations. Joint problem solving reduces the possibility for mistakes and shortens the development cycle, promoting learning and innovation.

THE BENEFITS OF SOCIAL TIES FOR SMES

In explaining how the social structure governs processes that regulate the key outcomes of the firms, Uzzi (1999) states the following: economies of time and allocative efficiency are achieved, the search process is facilitated, investment is encouraged and risk reduced, while the capacity for adjustment to changing conditions is increased.

The assumption that personal relations between economic actors contribute to the saving of time as the limited resource in the economy and allows quick response in terms of capitalizing new market opportunities, is based on the fact that time is not wasted on details in order to protect oneself against opportunistic behavior (contracts, price negotiation, arranging the order of activity). This reduces transaction costs, and the transfer of privileged information speeds up decision making. Joint action of firms also reduces the time required for the delivering a new product on the market, owing to continued cooperation during production.

In addition to tangible benefits for the individual firm, personal relations have important implications for allocative efficiency and pricing. Compared to the atomized market that is governed by price mechanism, personal relations between companies solve the problem of resource allocation more easily by allowing manufacturers to match product design and production levels more closely to consumer preferences. In terms of coordination through the price-mechanism, there is a lag between the market response and adaptation of the firm to that response, so the market spends some time in disequilibrium and resources are allocated suboptimally - in case of a less production there are shortages and higher prices, and as a result of excessive production there is a necessity to be sold at lower prices on sale. Social ties help producers to predict future market demands more accurately. This is a benefit also for consumers, since they get access to a larger quantity of goods that best meet their needs; production of less demanded goods is reduced, even before than the price mechanism reveals the actual market needs. This improves allocative efficiency in the market, given that it reduces waste, and fast selling items do not run out of stock. This is particularly true in terms of accelerated innovation of products and changing consumer preferences. Moreover, the above statements do not deny the ability of the price mechanism to provide valuable information, but it is pointed out that the less able the prices are to distil information about market needs, especially when it comes to long-term adjustments, the more important are social relations.

Personalized links between companies within the network can also produce certain effects on the search process. In the neoclassical model, in which efficiency and profit maximization depends on the individual behavior, search process stops when the marginal cost of search and the expected marginal gain of a set of alternatives is equal to zero. Economic agents in a neo-classical model first look for competitive prices and then negotiate other details of the transaction. Embeddedness of economic relations affects the search process in a way that firms that are interconnected by special relations often do not search for competitive prices, but they first enter the job, and negotiate key elements after. Search procedures do not depend only on the cognitive abilities of individuals but also on the type of social relations they maintain. Personalization of relations between economic actors affects the search process to spread into the depth of concrete relations, rather than searching through a large number of contacts. Multiple links between economic entities allow negotiations between the actors with different interests that are not easily communicated by market ties, increasing the likelihood of integrative agreements that promote mutually beneficial solutions, rather than distributive agreements, which aim for zero-sum solutions. Within the developed social relation, multiple links between network partners reveal their interests and increase the number of possible outcomes of negotiation.

Network relations between companies can produce a significant effect on the level, structure and dynamics of investments, in addition to conventional factors - tax policy and interest rates policy. By signaling reliability and competence of potential partners, personalized relations can increase the level of investment compared to the level of capital generated by mechanisms of capital and factor markets. First of all, social networks create expectations of long-term fair play relationship - that noncontractual, non-binding exchanges will be reciprocated, and that the resources will be shared cooperatively, which will initiate investments that could not have been realized through impersonal market relations, based on the goal of achieving short-term profits (Portes, Sessenbraun, 1993). Furthermore, they facilitate risk sharing by creating a social structure that connects investors in different ways, so that resources from one relationship can be applied to other purposes. In situations of risky investments, these factors strengthen the capacity of investors for adaptation to unforeseen events and provide access to various resources. In the same direction, and joint investments are encouraged, thus deepening the relations of trust. Joint ventures play the role of structural ties that strengthen interdependence between the partners. Transaction costs are reduced to a minimum, given that resources are not spent on monitoring, control and detailed negotiation.

PARTICULAR FORMS OF SOCIAL RELATIONS IN ORGANIZATIONS

Social ties have different manifestations and different forms of expression that cause different social outcomes. Although there is evidence that the structure of relations (usually this refers to the relations of trust, reciprocity and cooperation) between the economic actors has an impact on economic performance, it is difficult to operationalize these relationships and put them into specific mechanisms that encourage collective action. One of the attempts to circumvent the highly abstract level of social capital and to turn it into a concrete organizational format is the so called entrepreneurial social structure (abbreviated ESI) (Flora et all, 1997). The concept of ESI is based on the idea of collective community action aimed at improving economic performance, where the community will be more successful if the relations of reciprocity and trust encourage access to various resources and information both within and outside the community, and if such community encourages the use of different skills and knowledge of various social groups within it. This way, ESI maximizes the potential of social diversity of a community as well as resources that are derived from it. Entrepreneurial social infrastructure is based on trust, social networks and norms of group reciprocity, thus making the social capital necessary but not sufficient condition for the development of such infrastructure. ESI allows the interaction between members of the community not to take place exclusively through market relations (contracts and lawsuits), to intensify and to mitigate conflicts between members.

Basic social structures that contribute to the effective use of social capital at the community level for the purpose of economic and social development are (Flora, 1993): the legitimacy of alternatives, the mobilization of diverse resources and network qualities.

Legitimacy of alternatives refers to the structures and patterns of social relations involving diversity and acceptance of different symbolic meanings in the community. It is related to high institutional openness and transparency. Although symbolic meanings of objects and interactions within the community may differ in interpretations by different groups, there is acceptance and respect of these different meanings within the community. In this case, members may diverge in opinions, but still respect each other, and due to the acceptance of different opinions, the problems are raised early and alternative solutions discussed. Raising an issue does not lead to accusations of causing the problem, but to a healthy discussion of the positive and negative aspects of alternative solutions. This situation creates depersonalized politics, because members of the community do not avoid taking a public position on a particular issue, which does not call into question their moral status and personal identity. Communities that represent such views are more focused on processes than on the final outcomes. Building individual and organizational capacity is more important than any specific developmental success.

The ability of communities to mobilize resources is of crucial importance for collective action and is an essential part of the social infrastructure of the community. There are two components of the resource mobilization: individual, which implies the willingness of individuals to contribute money, expertise or work in community projects for the common good, and collective, which refers to the willingness of people to invest their own resources to help the collective effort. It is the presence of organizations such as state and private banks and funds that are committed to investing local or regional projects.

Social infrastructure of communities encourages creation, developing and using social networks, so network quality becomes particularly important for the community. ESI is characterized by the diversity of networks within the community. Namely, as there are heterogeneous social groups within the community, it is essential that there are networks that connect groups with different characteristics - young and old, men and women, members of different racial and ethnic groups, social classes. This is in line with Granovetters theory of "weak ties", where he emphasizes that individuals with whom we are weakly connected circulate in different social circles than ours, and have access to different sources of information. It would be optimal for the networks within the community to be inclusive: in addition to merging differences, it is necessary that each member of the network has a chance to be heard and has the opportunity to be a leader, that individuals of different backgrounds are accepted as active members of bridging networks. This way, it is more likely to reduce the cost of searching and negotiation, through a more intensive flow of information and increased number of alternatives in decision-making structures. Inclusion of different perspectives increases the number of possible options and allows easier negotiation and decision making. Horizontal networking with other communities can significantly contribute to development of local communities, as well as vertical networks with regional, state or national centers. That way a large number of individuals and groups within the local community can access resources and markets outside the community, becoming part of multicommunity and regional efforts, without sacrificing the identity of their community, but expanding it. This leads to cheap or even free transactions, effective channels of information and knowledge capital for innovation.

Empirical research of relation of ESI and concrete economic results (Flora, 1997) has shown that communities that have implemented a large number of successful economic projects are those with the highest measured parameters that characterize these dimensions of entrepreneurial social structure. This suggests that economic development is not something that happens as an isolated activity of the community, but is part of a broader social perspective - embedded in the norms and relations in the community.

THE ROLE OF INTER-FIRM NETWORKS IN FOSTERING INNOVATION

Within the lively discussion on the social dimensions of economic development, in relation to the potential role of social capital in facilitating flows of information and knowledge within social networks, there is also the assumption that social capital could play a significant role in the process of innovation. Namely, in order to gain and maintain competitive edge, companies must constantly innovate its products, technologies and forms of organization, methods of production and marketing. Social capital, which is usually presented through relations of trust and reciprocity in social networks, acts in the direction of promoting cooperation between SMEs which strengthens their capacity for innovation (Cooke, Wills, 1999).

In fact, the concept of innovation in the last half of the century has evolved dramatically, so the innovation does not involve a discrete event that has arisen from the knowledge developed by isolated innovators and researchers, but the result of a process that involves interaction and exchange of knowledge among many actors (Landry et al, 2000). So the creators of innovation are no longer individual companies but interactive learning networks, which transcend organizational boundaries. Here the interactivity means that innovation is a social process, that includes scientists, technologists, marketing specialists, designers and end users, from different organizational bases, public (universities, public research laboratories) and private (consultants, end-users and product specialists). The specific mechanisms of influence of social capital in the process of innovation can be explained by the role of trust and communication - in networks governed by trust, knowledge is easily transmitted, disclosure of information is encouraged and the efficiency of their diffusion is increased. In the absence of trust, members of the network are reluctant to share their knowledge and they reduce their exposure to other members. Communication across professional boundaries is in it's essence a social interactive process, where it is necessary to express an enormous attention and patience, and during which new skills that strengthen competitive advantage are adopted, mobilized and used, through a learning process. Environment that favors interactive learning and innovation is particularly important for SMEs who often lack the resources for its own research and development (Ruuskanen, 2004). They can only acquire competitive advantage if they connect with the environment and social networks that support continuous interactive process of learning and exploitation of existing knowledge.

In this regard, in addition to geographic, the social roots of the diffusion of knowledge and innovation are emphasized. On the one hand, knowledge is transferred outside the organizational boundaries through informal social networks; while on the other hand, the processes of learning and innovation are embedded in social relations, structures and institutions.

Besides embeddedness of economic relations between SMEs, the autonomy, as a practical result of embedded relations should not be neglected either. Namely, the strong ties between the companies could capture them in the situation of a blocked development, so the companies need also to create links outside the local community (it could be borrowing large sums of money for investment or the pursuit of external sources of knowledge). Each of these two concepts, embeddedness and autonomy has two dimensions (Woolcock, 1998): the dimensions of embeddedness are integration (links between the firms within the community) and synergy (strong links with government bodies that are realized through the external network); Autonomy involves integrity (institutional capacity and credibility) and linkage (with networks outside the local community). In this regard, SMEs that want to advance in innovation with the help of networking, should be characterized by low integration with other firms in their immediate environment, good synergy in the form of access to public funds to finance innovation, high integrity in terms of membership in professional or other associations and low linkage, as they are actively seeking links with networks outside their community (Cooke, Wills, 1999). The success of SMEs in the process of innovation, due to interactive nature of this process, essentially depends on the establishing links with networks outside the local community.

If we accept the assumption that social networks are repositories of knowledge about innovation for SMEs, and that innovation is the main source of competitive advantage, the question is whether state programs can affect the stimulation of collaboration between SMEs and the creation of networks between them, ie. is it possible that such programs generate and develop a network interaction in order to improve innovation capacity and business performance. There are empirical studies (Cooke, Wills, 1998) which confirmed that the participation of SMEs in the public, European and domestic programs for the promotion of cooperation in innovation reflected positively on their business performance, such as the exploitation of knowledge, innovation of products, processes and organizations, as well as business indicators - turnover, employment, market share, profit. By participating in such government programs, SMEs directly strengthen the dimension of synergy, necessary for the implementation of innovation, as well as linkage to the external dimensions of networks.

CONCLUSION

According to the basic assumptions of economic sociology and institutional economics, economic activities are embedded in the social environment, which is contrary to the assumptions of neoclassical economics about atomized markets in which individuals make decisions in isolation, following their own rational interests. This not only applies to traditional, but also for the modern, industrial society. The argument of embeddedness basically means that economic organizations do not develop in the social vacuum, but economic activity is determined by socially constructed institutions, personal relations of actors and structures of network relations. With increasing networking between companies in order to realize common benefits, embeddedness becomes an attractive concept, which is specifically applicable to the study of network relations between economic entities. The basic argument is that the features of social structure, such as trust and social networks can improve social efficiency by encouraging the coordination between economic actors. The embeddedness of economic relations provides economic opportunities that could hardly be acquired through the market and traditional contractual relations.

In the light of the theory of social capital, which combines the relations of trust, reliability and reciprocity in social networks, economic performance of firms can be interpreted not only in terms of firm's individual attributes, but also including the quality and structure of social relations that the firm develops with its environment. These relations are gaining importance particularly in terms of intensifying competition in the global market and rapid changes in technologies, markets, and government programs. Also, due to scarce availability of tangible resources, recourse to social capital as intangible resource that can be derived from personal connections becomes inevitable. On the other hand, as the SMEs are considered to be primary carriers of employment, innovation and prosperity in modern terms, the research of social relations between firms and their impact on economic performance gains special importance. That is why it is said that social capital can be a critical aspect of the life of SMEs, which are no longer viewed as separate entities, but as parts of a wider social and economic environment.

Certainly the existing formal links between companies, based on contracts, should not be ignored, since they represent most of the business relations. However, personal relations and contacts in some cases may have a more significant role. The core components of such relations between SMEs are: trust, the transfer of critical information, and joint problem solving. Trust is a supplement to the existing formal mechanisms that ensure reciprocity, regulating behavior and expectations of partners in the transaction. Since trust is a belief in the good will of partners, it saves time and resources during the process of decision making, at the same time allowing access to privileged and hard-to-measure resources. Further, the informal links between companies allow the transfer of information, which is of essential importance to the SMEs that do not have access to expensive professional information. Also, it is a special type of information, which could not be collect through formal channels, because it is about sensitive topics such as strategy, profit margins or tacit knowledge gained through personal experience. Through the establishment of personal relations, companies are working together to solve problems and get direct feedback, the new knowledge and discovery of new combinations. Joint problem solving reduces the possibility of errors during production and shortens the development cycle, promoting learning and innovation.

Specific benefits SMEs can achieve on the basis of personalized relations are numerous. It is primarily savings in time, achieved due to the fact that time is not wasted on negotiating small details regarding the transaction, in the presence of trust, while transfer of privileged information enables faster decision making. Also, personalized relations between the firms induce the increase of allocative efficiency, since they allow the adaptation of products to customer preferences and market demand, eliminating the time lag that would be present in terms of the coordination by price mechanism. Firms adapt to market demand more quickly and therefore the consumers are offered those products that truly meet their needs. Embeddedness of economic relations affects the search process in a way that firms that are interconnected by special relations often do not search for competitive prices, but they first enter the job, and negotiate key elements after. Multiple links between economic entities allow negotiations between the actors with different interests that are not easily communicated by market ties, increasing the likelihood of integrative agreements that promote mutually beneficial solutions, rather than distributive agreements, which aim for zero-sum solutions. By signaling reliability and competence of potential partners, network relations can increase the level of investment compared to the level of capital generated by mechanisms of capital and factor markets. Furthermore, they facilitate the risk sharing by creating a social structure that connects investors in various ways, thus strengthening the capacity of investors to adjust to unforeseen events and provide access to various resources.

Social capital, that is usually presented through relations of trust and reciprocity in social networks, acts towards promoting the cooperation between SMEs which strengthens their innovation capacities, which is another area where the social structure can affect economic performance. As today innovations are considered to be the result of a process that involves interaction and knowledge exchange among many actors, creators of innovations are no longer individual companies but interactive learning networks, which transcend organizational boundaries. Environment that favors interactive learning and innovation is particularly important for SMEs which often lack the resources for their own research and development. If we accept the assumption that social networks are repositories of knowledge about innovation for SMEs, and that innovation is the main source of competitive advantage, there opens up a space for creating government programs that will focus on stimulating business networking in order to strengthen innovation capacity and improve economic performance of SMEs.

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MALA PREDUZEĆA, DRUŠTVENE MREŽE I EKONOMSKI REZULTATI

Marija Džunić

Polazeći od teorijske koncepcije o ukorenjenosti ekonomskih odnosa u društvenoj strukturi, u ovom radu prikazan je pokušaj da se ispitaju efekti različitih formi socijalnih relacija između preduzeća na njihove poslovne performanse. Kao okvir za proučavanje tih efekata korišćen je koncept društvenih mreža i socijalnog kapitala, uz pokušaj da se prikažu konkretne organizacione forme socijalnog kapitala i direktne posledice njihove upotrebe u vidu poslovnih rezultata malih i srednjih preduzeća. Takođe, ukazano je na moguću ulogu države u kreiranju kooperativnih veza između preduzeća, naročito na polju inovacija, kroz ohrabrivanje i podsticanje saradnje i umrežavanja.

Ključne reči: *društvene mreže, mala i srednja preduzeća, ekonomski rezultati, socijalni kapital*