

How Does Social Capital Affect Operational Efficiency?

ABSTRACT

The purpose of this study is to investigate whether firm's social capital has an impact on firm's operational efficiency. We employ multiple proxies for social capital at the state level based on [Putnam \(2000\)](#): (i) Putnam Social Capital Index, (ii) Putnam honesty, and (iii) Putnam trust. We use data envelopment analysis (DEA) to measure the operational efficiency. Using a large sample of US firms from 1995 to 2016, this paper finds that a firm's operational efficiency is positively associated with the level of social capital in the state in which its headquarter is located. This positive association is more pronounced when product market competition is high, when firm reputation is low, and when the monitoring effect of auditors on firms is high. An instrumental variable approach is used to mitigate endogeneity concerns, and consistent results are found. Robustness test results are also consistent with the baseline results.

Keywords: Data envelopment analysis, efficiency, social capital, corporate governance, product market competition, firm reputation, external monitoring, Big-N auditor