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Knowledge and Social Capital: Foundations and Applications

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Chapter 5

Social Capital: The Good, the Bad, and the Ugly*

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Abstract—*A growing number of sociologists, political scientists, development economists, and organizational theorists have invoked the concept of social capital in their search for answers to a broadening range of questions confronting their own fields. Seeking to clarify the utility of the concept for organizational theory, this paper synthesizes the theoretical research undertaken in these various disciplines and develops a common conceptual framework that identifies the sources, benefits, and risks of social capital.*

INTRODUCTION

During recent years, the concept of social capital has become increasingly popular across a range of social science disciplines. A growing number of sociologists, political scientists, and development economists have invoked the concept of social capital in their search for answers to a broadening range of

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questions confronting their own fields. Social capital—understood broadly as the features of social structure that facilitates action—has informed the study of families and youth behavior problems, schooling and education, community life, democracy and governance, economic development, and general problems of collective action.

In organization studies, too, the concept of social capital is gaining currency. Researchers have used it to help explain phenomena such as career success (Burt, 1992; Podolny and Baron, 1997), organizational dissolution rates (Pennings, Lee, and van Witteloostuijn, 1998), the level of interunit resource exchange and product innovation (Tsai and Ghoshal, 1998), the creation of intellectual capital (Nahapiet and Ghoshal, 1998), CEO compensation (Belliveau, O'Reilly, and Wade, 1996), the network formation of start-up companies (Walker, Kogut, and Shan, 1997), and supplier relations (Baker, 1990). For a growing number of organizational researchers, the concept of social capital offers a way to bring more theoretical specificity to the broad range of phenomena that have long been at the heart of organization studies under the label "informal organization." The lineage can be traced back to the original Hawthorn studies (Roethlisberger & Dickson, 1939) which mapped cliques among workers and showed their influence on work norms and performance.

The growing interest in social capital has, however, not been matched by a corresponding degree of theoretical integration across the disciplines. In order to benefit from the insights into the sources, benefits, and risks of social capital developed by the various social science disciplines, we need a common conceptual framework. This paper proposes such a framework. We leave aside much of the empirical research on social capital to focus here on its conceptual foundations.

DEFINING SOCIAL CAPITAL

Over the years, social scientists have offered a number of definitions of social capital—see Table 5.1. These definitions fall into two broad types depending on whether they focus primarily the relations an actor maintains with other actors or the relations characterizing the internal structure of an organization.

The first group focuses primarily on social capital as a resource facilitating action by a focal actor, a resource that inheres in the social network tying that focal actor to other actors. This view, more common among sociologists, begins with the idea that the actions of individuals and groups can be greatly facilitated by their membership in social networks, specifically by their direct and indirect links to other actors in these networks. Under this view, social capital can help explain the differential success of individuals and firms in their competitive rivalry. Sociological social capital research has been strongly influenced by network theorists, and this view of social capital is reflected in the ego-centric variant of network analysis.

TABLE 5.1 Definitions of Social Capital

AUTHORS	*DEFINITIONS OF SOCIAL CAPITAL*	*EXTERNAL VS INTERNAL*
Baker	"a resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors." (1990: 619).	external
Belliveau, O'Reilly, & Wade	"an individual's personal network and elite institutional affiliations" (1996: 1572).	external
Bourdieu	"the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition" (1985: 248). Social capital is "made up of social obligations ("connections"), which is convertible, in certain conditions, into economic capital and may be institutionalized in the form of a title of nobility" (1985: 243). "the sum of the resources, actual or virtual, that accrue to an individual or a group by a virtue of possessing a durable network of more or less institutionalized relations of mutual acquaintance and recognition" (Bourdieu and Wacquant, 1992: 119).	external
Boxman, et al.	"the number of people who can be expected to provide support and the resources those people have at their disposal" (1991: 52).	external
Burt	"friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital" (1992: 9). "the brokerage opportunities in a network" (1997: 355).	external
Coleman	"Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence" (1990: 302).	external
Portes	"the ability of actors to secure benefits by virtue of membership in social networks or other social structures" (1998: 6).	external
Brehm & Rahn	"the web of cooperative relationships between citizens that facilitate resolution of collective action problems" (1997: 999).	internal

TABLE 5.1 *Continued*

Fukuyama	"the ability of people to work together for common purposes in groups and organizations" (1995: 10). "Social capital can be defined simply as the existence of a certain set of informal values or norms shared among members of a group that permit cooperation among them" (1997).	internal
Inglehart	"a culture of trust and tolerance, in which extensive networks of voluntary associations emerge" (1997: 188).	internal
Thomas	"those voluntary means and processes developed within civil society which promote development for the collective whole" (1996: 11).	internal
Portes and Sensenbrenner	"those expectations for action within a collectivity that affect the economic goals and goal-seeking behavior of its members, even if these expectations are not oriented toward the economic sphere" (1993: 1323).	internal
Putnam	"features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (1995: 67).	internal
Loury	"naturally occurring social relationships among persons which promote or assist the acquisition of skills and traits valued in the marketplace . . . an asset which may be as significant as financial bequests in accounting for the maintenance of inequality in our society" (1992: 100).	both
Nahapiet and Ghoshal	"the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network" (1998: 243).	both
Pennar	"the web of social relationships that influences individual behavior and thereby affects economic growth" (1997: 154).	both
Schiff	"the set of elements of the social structure that affects relations among people and are inputs or arguments of the production and/or utility function" (1992: 160).	both
Woolcock	"the information, trust, and norms of reciprocity inhering in one's social networks" (1998: 153).	both

In contrast to this view of social capital as a resource located in the external linkages of a focal actor, other strands of social capital research focus on social capital as a feature of the internal linkages that characterize the structures of collective actors (groups, organizations, communities, regions, nations, etc. as distinct from individual actors) and give them cohesiveness and its associated benefits. This view is more common among political scientists and developmental economists. It is reflected in the socio-centric (Sandefur and Laumann, 1998) and much of the "whole-network" (Wellman, 1988: 26) variants of network sociology.

To a large extent, the distinction between the individual resource, external view and the collective characteristic, internal view is a matter of perspective and unit of analysis. Some definitions are therefore neutral on this dimension. Moreover, these two views are not mutually exclusive. A collective actor such as a firm is influenced by both its external linkages to other firms and institutions and the fabric of its internal linkages: its capacity for effective action is typically a function of both. Research on social capital has, however, tended to focus on one or the other (for a notable exception, see Gabbay and Zuckerman, 1998. We should note in passing that much of the more recent network theory has embodied a commitment to methodological individualism in theory-building, and is therefore skeptical of the explanatory as distinct from descriptive value of socio-centric analysis). We thus adopt a definition that allows such an integrated view:

> Social capital is a resource for individual and collective actors created by the configuration and content of the network of their more or less durable social relations.

THE RELATION OF SOCIAL CAPITAL TO OTHER FORMS OF CAPITAL

In what sense is this resource a form of capital? Baron and Hannan (1994) complain about the indiscriminate and metaphoric import of economic concepts into sociological literature and refer to the social capital literature as an example of "a plethora of capitals." Social capital exhibits a number of similarities with, as well as differences from, other forms of capital. We review these relations, starting with the commonalities and moving progressively towards the stronger differentiators.

First, like all other forms of capital, social capital is a resource into which other resources can be invested with the expectation of future, albeit uncertain, returns. Through investment in building their network of external relations, both individual and collective actors can augment their social capital and thereby gain access to valuable contacts and information; and by investing in the development of their internal relations, collective actors can strengthen their collective identity and augment their capacity for effective governance. While social capital can reasonably be assumed to be an exogenously given "endowment" for the purposes of some analyses, taking the longer and broader view, it is "constructible" (Evans, 1996; see also Sabel, 1993, on the constructibility of trust.)

Second, like other forms of capital, social capital is "appropriable" (Coleman, 1988) and "convertible" (Bourdieu, 1985). Like physical capital which can typically be used for different purposes (albeit not necessarily equally efficiently), social capital is appropriable in the sense that an actor's network of, say, friendship ties, can be used for other purposes, such as information or advice. Moreover, the advantages conferred by one's position in a social network can be converted to economic or other advantage. Among the many forms of capital identified by Bourdieu, economic capital is most liquid; it is readily convertible into human, cultural, and social capital. By comparison, the "convertibility rate" of social capital into economic capital is lower: social capital is less liquid and more "sticky" (Anheier, Gerhards, and Romo, 1995).

Third, like other forms of capital, social capital can be a substitute or a complement to other resources. As a substitute, actors can sometimes compensate for a lack financial or human capital by excellent "connections." More commonly, social capital is complementary to other forms of capital. For example, social capital can improve the efficiency of economic capital by reducing transaction costs.

Fourth, like physical capital and human capital but unlike financial capital, social capital needs maintenance. Social bonds have to be periodically renewed and reconfirmed, or else they lose efficacy.

Fifth, like human capital but unlike physical capital, social capital does not have a predictable rate of depreciation, and that for two reasons. First, while it may depreciate with non-use, as suggested in the previous paragraph, it does not depreciate with use. Like human capital and some forms of public goods such as knowledge, it normally grows and develops with use: trust demonstrated today will be reciprocated and amplified tomorrow. Second, while social capital is sometimes rendered obsolete by contextual changes (see Sandefur and Laumann, 1998, for examples), the rate at which this happens is most typically unpredictable, so that even conservative accounting principles cannot estimate a depreciation rate.

Sixth, like clean air and safe streets but unlike many other forms of capital, social capital of aggregate actors is a "collective good," in that it is not the private property of those who benefit from it (Coleman, 1988). Hence, it is vulnerable to "tragedy of the commons" risks. While it takes mutual commitment and cooperation from both parties to build social capital, a defection by only one party will destroy it.

Seventh, unlike all other forms of capital, social capital is "located" not in the actors but in their relations with other actors. This is perhaps the most general and fundamental difference. "No one player has exclusive ownership rights to social capital. If you or your partner in a relationship withdraws, the connection dissolves with whatever social capital it contained" (Burt, 1992: 58). (We might note in passing that in this sense, social capital echoes the Marxist concept of capital as a social relation: for Marx, productive capital creates value only because of its intimate, mutually-constitutive relation to wage-labor. Social capital, however, unlike Marxian capital, is not essentially asymmetrical.)

Notwithstanding these differences, the designation "capital" therefore seems appropriate. Solow (1997) objects to the dressing up social capital in the language and apparatus of capital theory: "what are those past investments in social capital? How could an accountant measure them and cumulate them

[even] in principle?" However, such measurement concerns do not constitute a conceptual critique. To Baron and Hannan (1994) complaint about "a plethora of capitals," we therefore respond that if research reveals more numerous sources of effective agency, such a proliferation is to be welcomed.

THE SOURCES OF SOCIAL CAPITAL

There is considerable confusion in the research to date on the sources of social capital. We present the various sources of social capital identified by different authors in Table 5.2. The views of the different authors appear to depend on their disciplinary background and on the questions they address with the social capital concept.

In the sociological literature, Coleman presents a network-based interpretation of the sources of social capital. Locating the source of social capital in the structure of social networks, Coleman highlights the way in which networks characterized by closure and multiplex ties facilitate the emergence of various forms of social capital such as obligations, information channels, trust, norms, and effective sanctions.

Portes (1998) shifts the explanatory focus from networks to norms, differentiating the sources of social capital according to actors' motivations to honor its obligations. In the first type of motivation, which he calls "consummatory," action is based on internalized norms. People feel an obligation to behave in certain ways because they have internalized the corresponding norms. These internalized norms can be engendered through socialization in childhood or through common experience later in life. The second type of motivation is "instrumental": it too is based on norms, but norms of the different kind, namely, the norms of reciprocity. Unlike consummatory motivation, instrumental motivation is more calculative and rational and is based on enforceable trust of others. Therefore, in Portes' version, social capital can be engendered either through noncalculative processes of generalized norms or through calculative processes of social exchange.

The political science and development economics literatures are more eclectic in their characterization of the sources of social capital. Putnam (1993) for example, lists network ties, norms, and trust. Other political scientists, criticizing Putnam's excessively "bottom-up" view of social capital, have stressed the "top-down" role of formal institutions, such as government structure and legal rules, in facilitating the emergence and maintenance of social capital and trust in civil society (e.g., Berman, 1997; Evans, 1996; Kenworthy, 1997; Levi, 1996; Pildes, 1996; Portney and Berry, 1997; Schneider, et al, 1997; Woolcock, 1998; Youniss, McLellan, and Yates, 1997). Synthesizing and summarizing this literature, Ostrom (1994) identifies four key sources of social capital: networks, norms, social beliefs, and rules.

TABLE 5.2 Source of Social Capital

AUTHORS	*NETWORK*	*NORMS*	*BELIEFS*	*RULES AND FORMAL INSTITUTIONS*
Nahapiet & Ghoshal (1998)	structural dimension	relational dimension	cognitive dimension	
Ostrom (1994)	networks	norms	social beliefs	rules
Portes (1988)		value interjection; norms of reciprocity	bounded solidarity	
Putnam (1993)	networks	norms		
Coleman (1988; 1990)	closure; multiplex ties			
Brehm & Rahn (1997)	civic participation			
Newton (1997)	networks	norms and values		
Evans (1996)				integrity and synergy of state
Pildes (1996)		social norms		formal state law
Woolcock (1998)	community integration and linkage			government integrity and state-society synergy
Berman (1997)				political institution
Schneider, et al (1997)				government institutions
Levi (1996)				government
Fellmeth (1996)				rule of law
Kenworthy (1997)				institutions
Minkoff (1997)				national-level social movement organizations
Portney and Berry (1997)				government
Youniss, McLellan, & Yates (1997)		values inculcated by schooling	beliefs inculcated by schooling	schooling
Greeley (1997)		religion	religion	
Burt (1997)	structural holes			

Finally in the organizational research literature, Nahapiet and Ghoshal (1998) discuss three dimensions of social capital: structural, relational, and cognitive. Under the structural dimension, they list network ties, network configuration, and appropriable organization. The cognitive dimension includes shared codes, language, and narratives. The relational dimension includes trust, norms, obligations, and identification.

We believe that these various accounts can be integrated within a single conceptual model without doing too much violence to their respective arguments. We propose to highlight the three primary direct sources of social capital most prominent in the extant theory: network, shared norms, and shared beliefs. Each of these sources makes a distinct contribution to the formation of social capital, although all three are mutually interdependent. Rules, or more generally formal institutions—government at the societal level, and formal structure at the organizational level—have a strong effect on all three direct sources of social capital, and may arguably also have a direct effect on social capital. The role of trust in this conceptual model is more complex, reflecting the considerable confusion in the literature as to whether the notion of social capital includes trust (per Fukuyama and Putnam) or social capital is the source of trust (per Coleman). In the subsections below, we review these factors in turn and identify a number of features within each.

Networks

Some authors focus on the social networks of individuals, groups, and organizations as the crucial source of social capital because social capital is essentially about the relationships between individuals and groups. For network sociologists, the focus on networks is also motivated by a prior commitment to basing explanation on behaviors rather than subjective phenomena such norms and beliefs (see Wellman, 1988: 23).

While many researchers cite networks as an important source of social capital, what they mean by networks varies considerably. Among such theorists as Putnam, Brehm and Rahn, Ostrom, and Evans, who have focused on internal ties within a given society, the term networks often simply means informal face-to-face interaction or membership in civic associations or social clubs. By contrast, network theorists argue that an understanding of social capital requires a finer-grained analysis of the specific structures of these networks.

According to network theorists, social networks influence a focal actor's social capital both through the actor's direct ties and through the indirect ties afforded them by virtue of the overall structure of the broader network within which they are embedded (Tichy, 1981; Scott, 1991). Burt (1992), Coleman (1988), Granovetter (1973), and Lin (1998), among others, point out that direct and indirect network ties provide access both to people who can themselves provide support and to the resources those people can mobilize through their own network ties.

In addition to the number of network ties, the structure of these network relationships have been studied by several researchers. Coleman's (1988) discussion of "closure" as a source of social capital is one such argument based on network structure. Coleman argues that closure of the network structure—the extent to which my contacts are themselves connected—facilitates the emergence of effective norms and maintains the trustworthiness of others, thereby strengthening social capital. In a more open structure, violations of norms are more likely to go undetected and unpunished. People will thus be less trusting of one another, weakening social capital. Putnam draws on Coleman's closure argument and argues that dense networks strengthen trust and shared norms, thus making democratic institutions function effectively.

In other research on the social capital effects of network structure, but in contrast with Coleman's focus on closure, Burt (1992) argues that a sparse network with few redundant ties often provides greater social capital benefits. If the opportunity to broker the flow of information between groups constitutes a central benefit of social capital, and if in general information circulates more within than between groups, then a key source of social capital is a network of ties characterized by many structure holes—linkages to groups not otherwise connected. One of the pioneers of the concept of social capital, Jane Jacobs (1993/1961) also notes the importance of brokers in public community life. She argues that brokers who interact with many different community members facilitate the circulation of news that is of interest to communities, without imposing extensive sociability among people.

In part, the difference between Coleman and Burt reflects the difference between their respective internal and external focii. Closure provides social capital's cohesiveness benefits within an organization or community; structural holes in the focal actor's external linkages provides cost-effective resources for action. We believe that both closure and sparse networks can yield benefits. Which is more valuable depends on the state of the other sources of social capital (e.g., norms, beliefs, and rules) and on the task and environment confronting the actor. We return to this and other interdependencies below.

Norms

Much network theory in sociology has worked towards Simmel's vision of a "formalistic sociology" which can reveal how the structure of social interaction generates its content (Wellman, 1988: 23): it has thus downplayed the importance of the content of network ties as an independent sources of social capital (Emirbayer and Goodwin, 1994). By contrast, research in other disciplines has emphasized the role of shared norms and beliefs in determining the amount of social capital embodied in these ties. As Edwards and Foley (1997: 671) put it, "it is precisely this sociocultural component of social capital that provides the context within which it acquires meaning and becomes available to individuals and groups in a way that can facilitate an individual or collective action not otherwise possible."

A number of theorists see social capital as primarily based on shared norms. Portes (1998) and Putnam (1993) focus on the norm of generalized reciprocity. As Putnam (1993) puts it, generalized reciprocity involves "not 'I'll do this for you, because you are more powerful than I,' nor even 'I'll do this for you now, if you do that for me now, but 'I'll do this for you now, knowing that somewhere down the road you'll do something for me.'" (pp. 182–183). This norm of generalized reciprocity resolves problems of collective action and binds communities. It thus serves to transform individuals from self-seeking and egocentric agents, with little sense of obligation to others, into members of a community with shared interests and a sense of the common good.

While Putnam and Portes focus on shared norms as a key source of social capital, there is some ambiguity in the literature as to exactly what it is about norms that makes them a source. In the classic study by Banfield (1958) of "amoral familism" in southern Italy, norms are strong and shared but are such as to undermine rather than create social capital. For other scholars, therefore, it is the specific nature of the shared norms that determines whether they function as a source of social capital. We return to this concern below.

Beliefs

In the literature on social capital, the role of beliefs has received relatively little attention. However, we find compelling the arguments for the inclusion of beliefs presented by Nahapiet and Ghoshal (1998) and Portes (1988).

Nahapiet and Ghoshal argue that beliefs, in the forms of shared strategic visions, interpretations, and systems of meaning, play a critical role in the generation of social capital, and that such beliefs are theoretically and practically distinct from normative value orientations. Social capital is unlikely to arise among people who do not understand each other. In the absence of shared meanings or goals, it is difficult to see why or how people would collaborate. Social capital stems in part from the availability of common belief system that allows participants to communicate their ideas and make sense of common experiences. Such communicative resources allow common world-views, assumptions, and expectations to emerge among people and facilitate their joint action.

Portes (1998) makes a similar argument. Shared experiences and the common beliefs that typically result from these experiences contribute to social capital because they create a strong sense of community and solidarity. For a prototypical example of such a story, Portes cites Marx's analysis of emergent class consciousness in the industrial proletariat: workers learn to identify with each other and support each other's initiatives because they are thrown together in a common situation of adversity and therefore form similar beliefs. In a case study of community organizing among low-income, ethnically diverse residents of Oakland, California, Wood (1997) found that not only shared values, but also symbol systems and assumptions about the world play a crucial role in determining the success of organizing.

As with norms, the specific content of the beliefs that are shared may also play a role in determining whether they add or detract from social capital and whether this social capital acts as a facilitator or constraint on action.

Rules

Formal institutions and rules also have a strong effect on social capital. It is therefore unfortunate—perhaps a function of what Nohria and Berkley (1994) called the "ideological foundation of network analysis"—that network theorists have largely ignored this effect. In organizational research, calls by Tichy (1981) to study this relationship have been echoed by Ibarra (1992) but have largely gone unanswered (Gittell and Weiss, 1998).

Formal institutions and rules can have a powerful indirect effect on social capital via their influence on the first three sources. They can also have a significant direct effect.

First, formal rules and institutions can shape the network structure and the content of the ties (Salancik, 1995). Podolny and Baron (1997) note that formal organization shapes and determines much of informal organization because many ties come with positions and are not voluntarily chosen. Such an impact of formal structure on network structure will in turn influence social capital.

Second, formal institutions can influence norms and beliefs. For example, we can reasonably conjecture that the passage of civil rights legislation contributed to setting in motion a process which—while complex and contradictory in its effects—led not only to a reduction in the extent of racial segregation in Americans' social networks but also and more directly to a reduction in the prevalence of racist norms and beliefs, all of which in turn increased American society's social capital.

Formal institutions can arguable also affect social capital more directly. In her criticism of Putnam's and Fukuyama's research, Levi (1996) argues that government is a major source of social capital: "governments provide more than the backdrop for facilitating trust among citizens; governments also influence civic behavior to the extent they elicit trust or distrust towards themselves" (p. 51). She argues that government with transparent and procedurally fair rules and mechanisms for ensuring the credibility of government actors' policy promises can create social capital (Levi, 1996: 51). Other political scientists (e.g., Berman, 1997; Kenworthy, 1997; Ostrom,1994; Pildes, 1996; Portney and Berry, 1997) all agree that strong government responsive to people's needs plays a direct role in building social capital in community.

We note in passing that if rules' effects on social capital were only indirect, this might encourage us to think of them as a distinct construct—as "institutional capital" (Hardin, 1998). If, however, rules also have a direct effect on social capital, such a distinction is less fruitful.

To characterize rules as source, direct or indirect, of social capital runs counter to a powerful anti-authoritarian ideology within social research. This ideology has tended to encourage the assumption that the effects of formal structure (such as bureaucracy within organizations and government within societies) on social capital (in the form of informal organization within organizations and civil society within societies) are primarily negative. A more objective assessment reveals the possibility of a positive contribution (see Hyden's, 1997, review of the literature on the different possible relations between civil society and state, and Evan's, 1996, contrast of crowding out vs. synergy views).

What features of formal institutions explain these positive vs. negative effects? Adler and Borys (1996) distinguish "enabling" and "coercive" forms of bureaucracy within organizations, and argue that these forms have contrasting effects on the employee commitment and the informal fabric of cooperation. They identify differences in the two forms in both how the formal structures are designed and how they are implemented. Their analysis parallels the work of Evans (1996) in development economics, who argues that the state can buttress rather than undermine civil society's social capital on two conditions: internally, its structure and process must display sufficient integrity, and externally, its relations with actors in civil society must display sufficient synergy. Clearly, these conditions are not always (perhaps not even often) met; but just as clearly, when they are met, rules act as a powerful source of social capital.

Trust

There is some confusion in the literature as to the relationship between trust and social capital. Some authors equate trust with social capital (Fukuyama, 1995, 1997); some see it as a source (Putnam, 1993); some as a form (Coleman, 1988). We believe that trust is conceptually distinct from social capital and that it is both a source and an effect.

Trust is conceptually distinct: it is a psychological state of individuals, whereas social capital is feature of social structure. Granovetter's (1973) demonstration of the importance of weak ties in facilitating access to jobs is simultaneously a demonstration that social capital—in this case, the strength of weak ties—does not require high trust—since these weak ties are characterized by levels of trust that are close to neutral.

We believe that trust and social capital are mutually reinforcing. Social capital often generates trusting relationships, and the trust generated will in turn produce social capital. Using indicators of trust and civic norms from the World Values Surveys from 29 countries, Knack and Keefer (1996) find that trust in people is correlated with civic norms. Using the General Social Survey data from 1972 to 1994, Brehm and Rahn (1997) also find that civic engagement as measured by membership in civic and political organizations and interpersonal trust are in a reciprocal relationship: "the more that citizens participate in their communities, the more that they learn to trust others; the greater trust that citizens hold for others, the more likely they are to participate" (pp. 1001–1002). Brehm and Rahn use structural modeling to tease out this reciprocal causality, and find that the relationship between civic engagement and trust is significant and positive in both directions, though the direction from civic engagement to trust is stronger than the reverse.

The positive correlation between trust and social capital is partially explained by the fact that the three sources of social capital also influence trust. Interpersonal trust is the result of familiarity, shared norms, and calculation, and it is buttressed by system trust (Adler, 1998; Lewicki and Bunker, 1995; Shapiro, Sheppard, and Cheraskin, 1992). There is therefore a close relationship between the sources of trust and the sources of social capital: familiarity as a source of trust refers to the central feature of network ties as a source of social capital; shared norms appear as a determinant of both; calculative trust rests on shared beliefs; and the buttressing role of system trust is close to the role we have ascribed to formal rules and institutions in the constitution of social capital.

Complementarities Between Social and Human Capital

We should note briefly that there are important complementarities between the various sources of social capital identified above and human capital.

First, human capital is complementary to networks in the formation of social capital. In his discussion of the role of social capital within the family in a child's intellectual development, Coleman argues that if human capital (in the form of parents' education) is not complemented by social capital (in the form of both parents in the home, greater number of siblings, and higher expectations by parents for the child's education), the parents' human capital contributes little to the child's educational growth (1988: S110). While human capital in the absence of social capital is not productive, Coleman argues, there are cases where social capital in the absence of human capital can be still productive: he cites the example of Asian immigrant families who have high expectations and investments for their children.

Second, human capital can considerably enhance the contribution of shared norms and beliefs to social capital. Nebus (1998) develops a conceptual model of the inter-unit technology transfer within multinational firms. He argues that this transfer is facilitated by shared norms and beliefs, and that the efficacy of these factors is considerably augmented by the characteristics of the respective actors. Reinterpreting his argument slightly, we can see that the actors' motivation and openness augment the effect of shared norms, and their absorptive and communicative abilities augment the effect of shared beliefs.

Finally, human capital can augment the contribution of formal rules to social capital. While the anti-authoritarian tradition of social theory has encouraged the assumption that strong rules and institutions substitute for human capital, a more plausible generalization is that the relationship is more often one of complementarity. Bureaucracy is more often associated with higher rather than lower levels of skill and professionality (Kohn and Schooler, 1983).

Social Capital and Market Relations

Before leaving the theme of the sources of social capital, we should at least note the importance of the question of whether market relations promote or undermine social capital. Several currents of social theory that have argued the market tends over time to corrode community and social capital. Hirschman (1982) reviews the many incarnations of this "self-destructive" view of market-based society expressed in both Marxist and classical reactionary thought as well as in numerous strands of sociological theory associated with Weber, Simmel, Durkheim to name but a few. In this view, the market undermines the traditional bonds of community and extended family, leading to the anonymity of urbanization.

Hirschman points out, however, that this self-destructive view has competed with another, more benign view of the effect of the market of society, a view he labels the "*doux commerce*" (Fr: gentle commerce) thesis. Thomas Paine in *The Rights of Man* (1951 [1792]: 215) expressed it in the proposition: "[Commerce] is a pacific system, operating to cordialise mankind, by rendering Nations, as well as individuals, useful to each other." Echoes of this view are heard in contemporary scientific and ideological discourse on the way economic "liberalization" fosters "democracy."

It is beyond the scope of the present article to attempt a synthesis of these two strands (for further discussion, see Adler, 1998). We note simply that research on social capital has varied in its sensitivity to this theoretically and historically broader framing of its significance. Organizational research might find opportunities to link to the broader concerns of historians and sociologists by considering this broader framing (for one fruitful linkage, see Howard, 1988).

BENEFITS OF SOCIAL CAPITAL

For our discussion of benefits, we draw on Sandefur and Laumann's (1998) distinction between information, influence and control, and social solidarity benefits. We will consider each of these benefits for the focal actors as well as positive externalities engendered for the broader aggregate. Table 5.3 summarizes our points.

For the focal actor, social capital facilitates access to broader sources of information at lower cost. Coleman (1988) illustrates this benefit with the example of a social scientist catching up on the latest research in related fields through everyday interaction with colleagues. Network research has shown that network ties help actors gain access to information about job opportunities (Boxman, De Graaf, and Flap, 1991; Burt, 1992; Fernandez and Weinberg, 1997; Granovetter, 1973; Lin, Ensel, and Vaughn, 1981; Meyerson, 1994), and about innovations (Rogers, 1995; Coleman, Katz, and Menzel, 1966). Research on ethnic entrepreneurs and ethnic firms (as reviewed in Portes and Sensenbrenner, 1993) has also

TABLE 5.3 The Benefits and Risks of Social Capital

	BENEFITS	*RISKS*
FOR THE FOCAL ACTOR	* Information access	* costs of creating and maintaining relationship
	* power	* tradeoff between power benefits and information benefits
	* solidarity	* overembedding due to excessive external ties * excessive claims * restrictions on freedom *lower creativity and innovation * downward leveling of norms
EXTERNALITIES FOR THE BROADER AGGRGATE	* information diffusion	* excessive brokering
	* task accomplishment adds to social welfare	* negative externalities of successful task accomplishment for broader aggregate
	* civic community/ organization citizenship behavior	* fragmentation of broader whole due to excessive identification with focal group * collusion by focal actors against broader aggregate interests * restricted access by outsiders to focal group's knowledge and resources

shown that the information provided by community ties are critical for the mobility opportunities of newly arrived immigrants. The informational benefits of social capital have also been studied in interorganizational research. Powell and Smith-Doerr (1994) and Podolny and Page (1998) review the research showing that interorganizational networks have a considerable benefit in helping firms acquire new skills and knowledge. Uzzi (1997) found that social embeddedness allows firms to exchange fine-grained information.

Information benefits at the focal group level can also lead to positive externalities for the broader aggregate. In Burt's (1997) view, social capital enables brokering activities that bring information from other actors to the focal actor; but if this brokering activity relies on a reciprocal outflow of information, the entire network will benefit from the diffusion of valuable information. Drawing on ethnographic fieldwork of apparel industry, Uzzi (1997) finds that transfer of fine-grained information among firms helps them all better to forecast future demands and anticipate customer preferences. Nebus (1998) argues that social capital between independent units within a multinational corporation facilitates the transfer of information, and Hansen (1998b) shows that weak ties facilitate the cost-effective search for new information and that strong ties facilitate the cost-effective transfer of complex information and tacit knowledge.

Power and influence is a second benefit of social capital. In Coleman's example of the "Senate Club," some senators are more powerful than others because they have built up a set of obligations from other senators and they can use those credits to get legislation passed (Coleman, 1988: S102). While Coleman looks at power benefits originating within the same social circles, Burt (1992) focuses on power benefits that accrue to entrepreneurs who bridge disconnected groups. Because these entrepreneurs have a say in whose interests are served by the bridge and can thus negotiate terms favorable to these interests, they become powerful actors. In a related study, Burt (1997) argues that managers spanning structural holes are more powerful because they can control the form of projects that connect other groups.

These power benefits can also have positive externalities for broader aggregate level. Power facilitates the completion of tasks. Power in the positive sense of the word enables people to lead others toward a common goal and facilitates collective action. The Senate Club is arguably a more effective legislative body than an ideal-typical egalitarian-collegial organization because some of its actors have accrued more power and can thus play a leadership role.

The third benefit of social capital is solidarity. Strong social norms and beliefs, associated with a high degree of closure of the social network, encourage compliance with local rules and customs, and reduce the need for formal controls. The effectiveness of rotating-credit associations (Geertz, 1962) and the low dropout rate among Catholic-school students (Coleman, 1988) illustrate these solidarity benefits. In the organizational culture literature, we find similar phenomena in organizations with strong culture and solidarity. Ouchi (1980) argues that clan organizations with strong shared norms benefit from lower monitoring costs and higher commitment. Nelson's (1989) study of intergroup ties in organizations supports this interpretation. He shows that frequent interactions among groups permits faster dispute resolution and prevents the accumulation of grievances and grudges. Krackhardt and Hanson (1988) point out that the trust network can transmit more sensitive and richer information than other types of networks because of its solidarity benefit.

For the broader aggregate, the positive externalities associated with a collective actor's internal solidarity include civic engagement at the societal level and organizational citizenship behavior at the organizational level. Putnam articulates these externalities in his analysis of the sources of civic engagement: "Internally, associations instill in their members habits of cooperation, solidarity, and public-spiritedness" (Putnam, 1993: 89–90) and these habits in turn spill over into members' involvement with other associations and more broadly into a higher level of generalized trust. In business organizations, such externalities would lead people working in more highly cohesive subunits to show higher commitment to the firm's superordinate goals.

RISKS OF SOCIAL CAPITAL

While a large body of research has focuses on the benefits of social capital, the literature on its risks is much sparser. However, social capital sometimes can be profoundly dysfunctional and counter-productive. As with physical capital, investments in social capital are not costlessly reversible or convertible, and therefore unbalanced investment or over-investment in social capital can transform a potentially productive asset into a constraint and a liability. This section explores the nature of these risks, using the same analytical structure as the previous section's discussion of benefits to distinguish the risks for the focal actors and the risks of negative externalities for the broader aggregate—respectively the bad and the ugly aspects of social capital referred to in this paper's title.

Let us begin with the risks for focal actors. First, building social capital requires considerable investment in establishing and maintaining relationships. As with any expensive investment, social capital investment may not be cost-efficient in certain situations. Hansen's (1998a) research on social capital's information benefit shows that project teams with too many direct ties with other units took longer to complete their tasks than those with fewer ties. Though these ties had information benefits, they were too costly to maintain. He argues that weak ties are more effective, not because they provide access to nonredundant information (as Granovetter would argue), but because they are less costly to maintain than strong ones.

Second, the information benefits of social capital may in some cases cancel out its power benefits. Ahuja (1998) argues that while an actor gains information benefits by having many contacts who themselves have many ties with many other contacts, the focal actors' direct contacts will be less dependent on the focal actor than if these direct contacts had few other contacts.

Third, for the focal actor, solidarity benefits may backfire in several ways. Strong solidarity with in-group members may overembed the actor in the relationship. Such overembeddedness reduces the flow of new ideas into the group, resulting in parochialism and inertia. As Powell and Smith-Doerr put it, "the ties that bind may also turn into ties that blind" (p. 393). Uzzi (1997) shows that overembeddedness increases feuding, blocks access to new information, and increases vulnerability of whole network to extinction from large-scale changes in the environment. Kern (1998) makes a similar argument about the current state of German industry. He notes that there is too much trust in Germany today to support radical innovation—firms are too loyal to established suppliers, and are thus slow to seek out and adopt more novel ideas.

In a similar vein, Portes (1998) notes that social capital may create free-riding problems and hinder entrepreneurship. Strong norms in a community may dictate the sharing of resources among extended family members, which may in turn reduce the incentives for entrepreneurial activity and thus slow the accumulation of capital. This argument is reflected in Uzzi's finding that, in overembedded relationships, "feelings of obligation and friendship may be so great between transactors that a firm becomes a 'relief organization' for the other firms in its network" (1997: 59).

For the broader aggregate too, social capital presents real risks of negative externalities. In Coleman's example, closure of the network of ties among children is bad for the broader community, because it weakens control by adults (parents, teachers, etc.) and increases dropout rates. Brokering for informational benefits for lower-level units may lead to a tragedy of the commons for the broader aggregate. Even if some reciprocity is required of the broker, there is no guarantee that what is offered in exchange for the information valuable to the subunit will be what the larger organization requires to thrive. Gabbay and Zuckerman's (1998) analysis of networks of R&D scientists suggests that in units whose effectiveness depends on broad sharing of information, excessive brokering by individuals may hamper innovation.

The risks of negative externalities to the focal actors' search for the power benefits of social capital are all too obvious. While some degree and configuration of power differentiation in the Senate Club may be effective, it is obvious that even slight changes from that optimal configuration can lead to gridlock or diversion.

Solidarity benefits for the lower-level too can have downsides for the aggregate. Strong identification with the focal group may contribute to the fragmentation of broader whole. The broader aggregate may split into "warring factions or degenerate into congeries of rent-seeking 'special interests'" (Foley and Edwards, 1996: 39). Portes (1998) points out that by bringing together dissatisfied actors, associational activity in civil society may deepen social cleavage. A gang derives considerable benefit from its social capital, but may use that social capital to exploit and weaken the surrounding community.

Woolcock's (1998) analysis of social capital in economic development provides a useful general framework that captures many of the points in the preceding paragraph. He constructs a two-by-two matrix of high versus low and internal versus external linkages. Obviously, the actors that have few internal or external ties will suffer from a low stock of social capital; and it is equally obvious that the high-high configuration holds great promise. The two off-diagonal cells point to two generic risks of social capital. First, strong internal linkages combined with sparse external linkages will create a situation where internal solidarity is likely to be detrimental to the actors' integration into the broader whole. Such configuration of ties may lead to isolation—such as reflected in the "Not Invented Here" (NIH) syndrome—and fragmentation of the whole. The other potentially dysfunctional configuration is one with high external ties but low internal ties. Durkheim's analysis of "anomie" provides an example: city life simultaneously increases contact with outsiders and undermines community solidarity.

While shared norms and beliefs are a source of the strength of social capital, this discussion reveals the extent to which the risks of social capital flow from the specific content of the norms and beliefs that are shared. Depending on its norms and beliefs, a group with strong internal ties but only few external ties can become insular and xenophobic or maintain an openness that affords the possibility of integration into the larger aggregate at a later date. Portes and Sensenbrenner (1993: 1343) note entrepreurship is often encouraged among Asian, Middle-Eastern, and other immigrant communities by social capital based on solidarity, but that in the inner city this solidarity has the opposite effect because it encourages a downward levelling of norms. Conversely, depending on their culture's norms and beliefs, some ethnic communities whose children develop strong external ties will assimilate rapidly while others manage to reproduce a collective identity.

The balance of positive and negative externalities also depends on the specific norms and beliefs that are the source of the subunit's social capital. Depending on the norms and beliefs that guide its action, the street gang can wreak havoc on the neighborhood or serve as a powerful force assisting its social integration. Adler (1998) distinguishes "modern" and "traditionalistic" forms of trust and argues that the latter will tend to induce rigidity for the focal actors and fragmentation of the broader aggregate.

CONTINGENCY FACTORS

The two previous sections outlined the key benefits and risks of social capital, but the net value of a given form of social capital depends in large measure on the context, and in particular on the tasks of the focal group and on its fit with environment. Both factors will influence the relative importance of social capital's benefits and risks.

Task Contingencies

In discussing informal networks in organizations, Krackhardt and Hanson (1993) write, "what matters is the fit, whether networks are in sync with company goals." We agree that the fit between the network features that contribute to social capital and the organization's objectives—its "task"—is critical to understanding the value of that social capital.

Task contingencies help explain, first, whether strong or weak ties are more valuable. Hansen (1998) provides a nice example in the study we have already cited, showing that weak ties facilitate the cost-effective search for new information and that strong ties facilitate the cost-effective transfer of complex information and tacit knowledge. Uzzi (1997) makes a similar point: if the task requires trust and cooperation, embedded ties with repeated exchange history is preferred, but if the task requires economic rationality and market competition, arm's length market relations are more effective. Depending on the mix of tasks facing a network of firms, strong social capital will be more of a blessing or a liability.

Second, a task-contingency view clarifies the tension between Coleman's thesis that the closure of social network is the key source of social capital and Burt's theory favoring sparse networks with many structural holes. Coleman's analysis highlights solidarity benefits, while Burt's focuses on information benefits, and depending on which benefit is more important in a given situation, one or the other network configuration will be more desirable. Gabbay and Zukerman's (1998) study of scientists' mobility in R&D settings illustrates this tradeoff nicely. They found that, in basic research units where individual contribution and autonomy are more critical, scientists with sparse network with many holes are more likely to be successful. In applied research and development units, where cooperation and group contribution are more important, individuals with high contact density are more likely to be successful.

Walker, Kogut, and Shan (1997) examine the changing value of social capital over the lifecycle of interfirm networks. They found that structural holes are more valuable during the early history of the network formation, since the key tasks facing the network at that stage are informational. However, as the network become better established, more densely connected, and stabilized, cooperative network relationships become more valuable than brokerage opportunities.

Third, task contingencies influence the relative value of internal and external linkages. Krackhardt and Stern (1988) show that friendship links extended across groups (external ties) facilitate interunit cooperation, whereas within-group friendships (internal ties) produce cooperation only within single units. Which is more important? It depends. When the task requires cross-unit organization-wide cooperation—such as in an organization-wide crisis—the relative value of the second form of social capital is reduced, and indeed it may become a liability, serving to anchor parochial resistance.

Symbolic Contingencies

Norms and beliefs figure in the analysis of social capital not only because they function as sources but also because the norms and beliefs in the surrounding environment influence the value of a given stock of social capital. For example, entrepreneurship may be seen as legitimate in one context whereas in another context such activities might be seen as opportunistic and self-seeking. In Burt's (1997) analysis of corporate managers, he finds that brokering by senior managers is perceived as legitimate and thus rewarded, but less senior managers may actually suffer if they engage in such activities. Similarly, in Gabbay and Zukerman's (1998) study, organizational settings where norms encourage cooperation often shun entrepreneurs, and brokering activities are less likely to rewarded. Fernandez and Gould (1994) also emphasize the role of norms and beliefs in determining the effectiveness of brokering: widely-shared norms in the US frown on advocacy by government agencies, so agencies' effectiveness in brokering new arrangements depends on their ability to preserve a neutral role.

These considerations remind us of the lesson of institutionalization theory: that the success of organizations depends on their ability to meet not only the tasks imposed on them but only the symbolic constraints. From this perspective, we can see that social capital theory and institutionalization theory are largely complementary. Whereas institutionalization theory is a story about how higher-level aggregates—through the diffusion and imposition via networks of norms, beliefs and rules—shape choices for lower-level aggregates (see Scott, 1995, pp. 141–143), social capital is a story about the networks, norms, beliefs, and rules provide social capital resources needed by lower-level aggregates—organizations within societies and individuals within organizations—in their efforts to reshape and renegotiate the higher-level aggregates.

CONCLUSION

In this article, we have attempted to synthesize the theoretical research undertaken in various disciplines and to develop a common conceptual framework that identifies the sources, benefits, and risks of social capital. Figure 5.1 summarizes our overall model. We have argued that the sources of social capital can be broadly summarized as networks, norms, beliefs, and rules. Each of these sources can lead to benefits and risks, both for the focal unit and in the form of externalities for the broader aggregate of which it is a part. And finally, the net value of social capital is further contingent on its fit with the task and symbolic environment.

Our synthesis has revealed a strong tendency of research to bifurcate between internal and external views of social capital. While both focii have

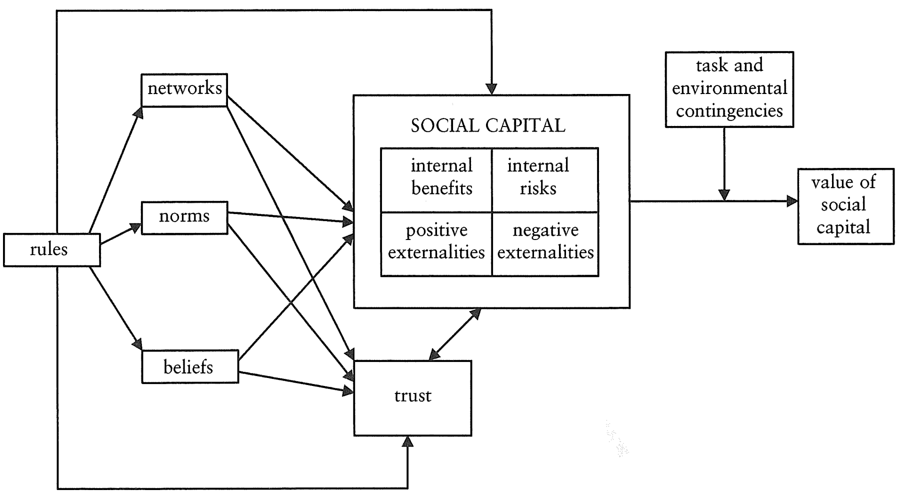

FIGURE 5.1 Sources, Benefits, and Risks of Capital

generated important insights, we conclude this paper with a call for more research that integrates them. The firm needs both kind of social capital. In the field of organizational studies, externally-oriented strategy research and internally-oriented organization research are tied at the hip.

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