

SOCIAL CAPITAL: FROM CONCEPT TO THEORY

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ABSTRACT: According to Resource based view theory, firm's unique assets are crucial determinants of sustainable competitive advantage for its ultimate performance. Consequently, different types of assets in the forms of various capitals are emerging. These mainly include intellectual capital, environmental capital, cultural capital and social capital. Some of these either are identical but are used rationally whereas, others symbolically. However, it has been well established that competitiveness depends on the effective use of both tangible and intangible assets. The concept of social capital has now gained currency amongst the researchers of social sciences. A never increasing number of social scientists have been attracted to study social capital to unearth a wide range of causal effects in their respective domains. The primary objective of this paper is to explore the journey of social capital from a concept to theory and currently as an attractive field of research. Further the study aims to identify the process through which social capital is created in the organizations and how this asset can be applied in work processes for sustained organizational performance.

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INTRODUCTION

In the last few decades Social Capital (Coleman 1988, Burt 1992, Putnam 1996) has attracted quite an extensive intellectual discussion. Various researchers have discussed it to explicate the knowledge creation and knowledge sharing in the perspective of knowledge-based view of the firm (Nahapiet and Ghoshal 1998, Adler and Kwon 2002, McFadyen and Cannella 2004). Knowledge Economy has now shaped into economic prosperity, globalization, superior and ever enhancing technology, service dominant logic, fast changes in life cycle of products due to awareness and changes in the customers' orientation (Dean and Kretschmer, 2007). This phenomenon has intensified the competitive dynamics (Leitner, 2005) and highlighted the significance and impact of intangible resources and capabilities. Knowledge economy has tilted the balance of business resources towards intangible for value creation (Roos et al., 1999). Consequently, knowledge has been recognized as key factor leading to competitive advantages (Galende, 2006). Patton (2007) also endorses the importance of unique capitals/assets for sustainable competitive advantage for firm's ultimate performance. Consequently, different types of capitals are evolving in addition to natural, physical and financial capitals. These include "intellectual capital i.e. comprising human capital, structural capital and relational capital" (Bontis, 1998:57), environmental and many others. Some of these either are identical but are used rationally whereas, others symbolically. However, it has been well established that

competitiveness depends on the effective use of both tangible and intangible assets.

There is a great opportunity for researchers to comprehensively examine various capitals contributing towards success. The notion of social capital mainly emerged from Robert Putnam (1996), James Coleman (1988), and Francis Fukuyama (1996), and sponsorship of the World Bank (Narayan and Pritchett, 1997). Its origin can be traced back but as an area of research has gained recognition in the last few decades. Many scholars describe it in terms of networks, social norms and trust, and the way these allow individuals and organizations to be more operative in achieving their goals. From the knowledge-based view of the firm social capital help explaining the knowledge creation and sharing in the organizations (e.g. Adler and Kwon 2002; Kwon and Adler, 2014; McFadyen and Cannella, 2004 and Nahapiet and Ghoshal, 1998). Research also reveals that that over the years social capital has been developed from an "emerging excitement" (Adler and Kwon, 2002) into a field of research and was termed as "growth industry" by Baker and Faulkner (2009). According to Woolcock (2010) apart from management and organizations, social capital theme is present in research in at least eight fields i.e. schools and education, public health, management and economic development etc. Some of the areas where social capital has influenced management and organizational research include inter-organizational relationships and knowledge management (Maurer *et al.*, 2011).

The discussion on social capital has become progressively pervasive in a varied array of social

sciences subjects thus attracting intellectual discussion from quite a significant number of scholars and researchers. A stream of research asserts that success of various individuals and organizations can be credited to the effective use of social capital. This concept proposes that the network of relationships support the people in performing social affairs and advancing in their careers. To date a significant number of conceptual and empirical studies have discussed that how social capital creates values in various contexts as mentioned below:-

- “New Intellectual capital formation” (Nahapiet and Ghoshal, 1998)
- “Knowledge creation” (Krause, *et al.*, 2007) and sharing (Chow and Chan, 2008; Monnavarian and Amini, 2009; Wasko and Faraj, 2005; Weber and Weber, 2007)
- “Indicators of organizational performance” (Bolino, *et al.*, 2002; Krause, *et al.*, 2007; Yang, *et al.*, 2011)
- “Competitive advantage” (Bolino, *et al.*, 2002)
- “Customer loyalty” (Jones and Taylor, 2012)
- “Better team performance” (Rosenthal, 1997)
- “Attainment of better status” (Lin, 1999)
- “Better hiring performance” (Fernandez, *et al.*, 2000)
- “Reduction in stress” (Savage and Torgler, 2010)
- “Reduction in transaction costs” (McCallum and O’Connell, 2009)
- “Citizenship behavior” (Bolino, *et al.*, 2002)

EVOLUTION OF SOCIAL CAPITAL THEORY:

Currently social capital has been acknowledged as an important asset to enhance the innovation potential of the organizations through revitalization of intellectual capital. Researchers conceptualized it as a set of social resources which are in built in networks and relationships (Tsai and Ghoshal, 1998 and Putnam, 1995). It includes socially acceptable values and norms which are reflected in behaviors during socialization and interactions amongst individuals of the society, firm or any organization. This leads to teamwork and coordination for mutual benefits while working together. Research has revealed the contribution of social capital towards success in careers at individual and organizational level. Burt (2000) viewed social capital as an asset associated with different positions where an individual or groups are reliant on it in the structure of exchanges. In such an arrangement an individual or groups inherently mutually trust and support each other. In a broader aspect social capital has also been viewed as a precious asset of civic society leading to peace, safety and prosperity of that community (Timberlake, 2005).

In the same vein social capital can be extended to firms, organizations and institutions as an antecedent of competitive advantage, eventually leading to growth and

success through these relationships. In today’s competitive era it has attained a dominant role contributing to the successful survival of individual’s carrier in organizational success. Social capital facilitates knowledge sharing and value creation, leading to development of organizations and better performance (Abili and Faraji, 2009). Taking a lead from literature this study through an extensive synthesis of existing literature has explored the journey of social capital from a concept to an attractive field of research and further made an effort to identify the process through which organizations create social capital and how this asset can be applied in the work process for superior sustained performance.

Organizational Social Capital: Nahapiet and Ghoshal, (1998) in their seminal work at the infancy stage of concept of social capital contributed to this field by identifying the “role of social capital” in the creation of “new intellectual capital” which eventually gives an edge over competitors. Nahapiet and Ghoshal (1998) have explained “social capital” as a resource which is located within the network of relationships at various levels ranging from people to society or organization. They had characterized social capital into “three dimensions; namely, structural, cognitive and relational”. These scholars further explained their influence on four variables, which were “anticipation of value, motivation of individuals, ability of organizations, and access to parties” with ultimate outcome as the knowledge creation in the organization. The structural dimension referred to how the organization was structured with regards to the patterns of connections between employees in that organizational network. The cognitive dimension was based on the elements which reflect knowledge sharing among individuals through language, various codes and the organizational culture. The last dimension was merely reflection of social norms, values, mutual trust leading to expectations for nurturing of lasting relationships. Further elaboration of these “three dimensions of social capital” is as following:

- **Relational.** The degree of trust and respect emerged as a result of social values and norms arising through frequent connections within that entity.
- **Structural.** The general arrangement of the existing network with an ease to access to resources for cultivation of social capital.
- **Cognitive.** The overall socio-facts reflected in culture, routines, codes and languages.

Forms of Social Capital: There can be many other forms that social capital takes, however literature mainly categorized into following:

- **Bonds:** It refers to linking of individuals on the basis of common identity. Examples of bonds include family, friends and a group of

individuals with same traditions, customs, culture, language or background.

- **Bridges:** It relates to relationship a step forward, which may not have a shared sense of identity. Examples are coworkers and acquaintances.
- **Linkages:** It relates to individuals or groups which are not socially in the same set up, rather up or lower down the social ladder.

According to Gabbay and Leenders, (2001) social networks can be viewed as relationships which form the core of social capital and facilitate the coordination and cooperation in a network. Moreover, these relationships allow accessing, transferring, and creating pertinent resources such as financial or non-financial and tangible or intangible (Inkpen and Tsang, 2005; Yli-Renko *et al.*, 2001; Leana and Van Buren, 1999 and Burt, 2005). Adler and Kwon (2002) summarized the extant literature on social capital and clarified the concept particularly in the context of organizations. They synthesized the theoretical research conducted in various domains and established a framework while highlighting the areas to be future explored. According to Adler and Kwon, (2002) social capital can emerge from various relations. Those included market, hierarchical and social relations. Adler and Kwon, (2002) identified three sources of social capital: opportunity, motivation and ability (OMA). Salients of these three sources and their enablers' areas are as follows.

- **Opportunity:** It reflects the accessibility for social capital transactions. Relationships become the central theme for benefits to be offered to each other. Organizational structure or a network within a society serves as a platform.
- **Motivation:** It reflects the incentives to contribute in a social capital transaction. This may tempt the individual to exchange favor without an in stant give-and-take. According to Adler & Kwon (2002) mutual trust amongst the people in that network is the pre requisite for motivation.
- **Ability:** It includes the possession of capabilities and resources that individuals can offer to participate to the social capital.

Trust in Social Capital: While dwelling on the model of Nahapiet and Ghoshal, (1998) and model of competence proposed by Le Boterf (2003), Fandino and de Souza (2013) examined the trust, the basic resource contributing the social capital and competences while focusing on knowledge transmission in organizations. According to Fandino and de Souza (2013), it is the context which elucidates that why people trust some individuals and organizations, and not others. Therefore, by taking trust as a dynamic phenomenon underlying relationships among individuals, expanding or restraining it due to

attitudes and expectations, the study validated trust as a common element to social capital and competence formation. Fandino and de Souza (2013) highlighted the need to better understand the mechanisms that build trust in different contexts and levels.

Social Capital and Knowledge Management: Hoffman *et al.*, (2005) through literature review of resource advantage theory of the firm (Hunt, 1999), identified that organizations with more social capital had additional knowledge management capabilities which ultimately contributed to achieve a sustained superior performance. Hoffman *et al.*, (2005) asserted that social capital governed the level of organizational knowledge management capacity. Hoffman *et al.*, (2005) while supporting from literature had described social capital into five dimensions; information channels, social norms, identity, obligations and expectations, and moral infrastructure. However, all these were dependent on each other for their development. Thus existence of social capital contributed to knowledge management processes and eventually resulted into value creation in the form of innovation by utilizing the blend and exchange of resources.

Social Capital and Human Resource Management: While highlighting the importance of social capital, Krebs, (2008) asserts that, to remain relevant and successful in the knowledge economy, only competence and skills will not suffice rather the new advantage is the "context". To interpret and combine the internal and external content, social capital is required to convert into new products and services. This advantage of social capital was not only restricted to the individuals and groups achievements but organizations do accrue benefits from social capital. Empirical studies have validated that organization having more interaction in the industry alliances and joint ventures were found appreciable number of patents, more innovative products/services, enhanced profits with rapid growth and survival (Krebs, 2008).

Benefits of Social Capital: Research has validated the efficacy of social concept in multidimensional areas. The same are elucidated below:

- Influences the career success (Burt, 1992 and Gabbay and Zuckerman, 1998).
- Facilitates in finding jobs (Lin and Dumin, 1996) and ensures in better recruitment for the organizations (Fernandez, Castilla, and Moore, 2000).
- Facilitates product and service innovation (Gabbay and Zuckerman, 1998; Hansen, 1998; Tsai and Ghoshal, 1998), the formation of intellectual capital (Nahapiet and Ghoshal, 1998), and team efficiency (Rosenthal, 1996).

- Minimizes turnover (Krackhardt and Hanson, 1993) and organizational dissolution rates (Pennings, Lee, and van Wit-teloostuijn, 1998), and promotes entrepreneurship (Chong and Gibbons, 1997).
- Reinforces relationships with suppliers (Asanuma, 1985; Baker, 1990; Uzzi, 1997), production linkages in the region (Romo and Schwartz, 1995), and learning opportunities with other firms (Kraatz, 1998).

Kwon and Adler (2014) are of the view that the ever increasing interest of researchers on social capital underlines that social ties can be effectual in providing information, influence, and solidarity as the concept has matured into a field. Review of literature revealed a unanimous usefulness of social capital in enhancing cohesion at all levels, may it be society, community, institution or any or any business organization. Conceptual models in research may differ but outcome is benefit in any shape as per the context (Table 1, below).

Table-1: Summary

Authors	Benefits	Research Model	Methodology
Nahapiet and Ghoshal (1998)	intellectual capital is created	Social capital based on - Structural Dimension - Cognitive Dimension - Relational Dimension facilitates inter unit resource exchange and product innovation	Conceptual and synthesis of literature of various disciplines
Kwon and Adler (2002, 2014)	-Value creation in multi disciplines - Information - Influence - Control - Power	Social Capital developed from market, hierarchical or social relations through - Opportunity - Motivation - Ability	Conceptual and synthesis of literature of various disciplines
Fandino and De Souza (2013)	Sustained superior performance	Social Capital facilitates Knowledge transmission in organizations - Structural Dimension - Cognitive Dimension - Relational Dimension & Competence Model	Conceptual and synthesis of literature of various disciplines
Krebs, (2008)	Key to Success for Organizations	- Identification, - Development, - Retention, and - Enhancement	Theoretical
Hoffman et.al., (2007)	Superior sustained performance	- Information channels - Social norms - Identity - Obligations and expectations	Conceptual and literature review

Human Capital and Social Capital: The performance differences in organizations can be attributed to various, reasons and resources including intangible resources. Researchers of intellectual capital highlighted that human capital was the most significant component of intellectual capital which contributed towards the success of organizations. This was due to differences in the knowledge, skills and abilities of individuals working in the organizations. However, Burt, (1997) underscores the importance of “social capital” contributing towards the human capital of a person. Adler and Kwon, 2002 also highlighted that it was the congenial relationships developed through social capital which facilitated the favors. In sum it can be concluded that network of relationships support the people in performing social affairs. This mutually developed capital by both is due to

shared acquaintances (Nahapiet and Ghoshal, 1998) and therefore, helps in achieving personal and individual objectives (Tsai and Ghoshal, 1998). Adler and Kwon (2002) suggested that mutual benevolence between people is a precious asset composed of sympathy, trust and forgiveness. It is evident from contemporary literature that in an era of globalization and knowledge management, the firms will have to utilize knowledge for sustained superior performance (Hoffman et.al, 2005). The knowledge, skills and abilities being part of human capital coupled with social capital leads to success (Tohidinia and Mosakhani, 2010).

Conclusion: Out of many types of capitals, social capital has also secured a firm position in business environment as an important intangible asset for superior

organizational performance. In the current competitive environment organizations have to employ all the assets, including intangible resources like social capital. Social capital which resides in networks, norms and trust, allow people and institutions accomplishment of their goals including general economic performance. At a larger canvas, the social capital aims at achieving social harmony to be manifested in civic activities. Having reviewed the literature, an effective use of social capital at all the levels, ranging from individual to groups and organizations will pay rich dividends. The knowledge-based view attributes a new capability to the organization which is the capability of creating and sharing knowledge which has been validated as an important organizational resource to gain and sustain competitive advantage and its effective management has emerged as an antecedent to success. In the current competitive era, where every organization strives for performance differences and employ all possible means for accomplishment of its objectives, the application of social capital theory in tandem with knowledge management can foster knowledge asymmetries ultimately leading to performance differences.

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