Introduction: the yet undiscovered value of social capital

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At heart, social capital is a simple concept – that is, relationships matter. Every day we build and maintain relationships with family, friends and colleagues, relationships which we enjoy in their own right, but which also serve to help us through tough times or enable us to achieve our goals. We also intuitively understand that excessive solidarity within a community can become a liability and lead to discrimination and prejudice.

Despite its simplicity, social capital has taken the social sciences by storm. However, it has also remained controversial, even with regard to its basic definition – a rare achievement after two decades of vibrant debate. The question arises – why do scholars bother when resolution eludes the field? In other words, why does social capital generate so much interest?

At their core, social capital theories help explain behavior. Economic, political and sociological models of human behavior are often unable to explain significant differences in human performance. By examining social capital, scholars hope to overcome the limits of these paradigms. Social capital scholarship contributes crucial theoretical insights by expanding the inquiry into the causes of behavior to include a wealth of new additional factors – such as trust, networks and norms. In effect, social capital scholarship provides a distinct lens that can explain human motivation and actions, especially collaboration, and outcomes. Moreover, this research explores the paradox of cooperative behavior without sacrificing the micro-assumptions that are the foundation for explanations of macro-phenomena. Despite its complexity and conceptual difficulties, the persistent interest in social capital thus arises from the fact that it helps us make sense of why people do what they do.

The overarching objectives of this Introduction – and of the entire book – are to highlight the potential, undiscovered value of social capital and to revitalize an interdisciplinary dialogue that builds our understanding of that value. An overview of the manifold ways to define social capital sets the stage for an argument regarding its major theoretical contributions and a discussion of the inevitable controversies that follow. The scholarship in

the rest of the chapters contributes ground-breaking thinking on many of the controversies – whether around social capital’s conceptualization, impact, creation mechanisms or measurement. After highlighting the most provocative insights from each chapter, the Introduction closes with a few hopes for the book and social capital research in general.

HOW DO SCHOLARS DEFINE SOCIAL CAPITAL?

Progress in accumulating knowledge requires parsimonious theories supported by quantifiable measurement and assessment. This aspiration, however, can sometimes prove difficult to achieve in the social sciences. A theoretically meaningful definition of social capital is essential if we are to build successive waves of research on a sound foundation. But before adopting such a definition, scholars must be convinced that the benefits associated with using it for future research outweigh its inherent limitations or costs. Table I.1 represents a broad snapshot of current definitions for social capital.

At an intuitive level, social capital represents the resources that arise from relationships and that can accrue to either the individual or the collective. These assets can help individuals reach their own goals or assist members of the collective in working toward the common good. Even in this most basic sense, multiple challenges to the definition of social capital emerge around the type of construct, level of analysis (individual vs collective) and separation of sources from effects.

Most researchers treat social capital as a construct with two factors: relationship structure – for example, network size, configuration and density; and relationship content – for example, norms, institutions and values. This is because neither structure nor content can provide meaningful insights on their own. Investigation of both aspects is critical to understanding social capital’s potential impact.

Unlike many other concepts in the social sciences, social capital faces issues around the appropriate level of analysis. As illustrated in the following example, the collective’s social capital can benefit the individual, who can use his relationships to learn enhanced skills, gain new information or access opportunities. Alternatively, in the context that Burt (2005) describes as ‘closure’ and Putnam (2000) as ‘bonding social capital’, the benefits may accrue to an in-group, a subgroup of the collective, by increasing the overall trust in the group through faster information flows and better surveillance and sanctioning of unacceptable behavior. Finally, the broader collective may benefit. Burt describes the situation of ‘brokerage’ and Putnam ‘bridging social capital’ in which the broader collective accesses a greater variety

Table I.1 Definitions of social capital

David Hume (1751, in McNally (1994), p. 169)	‘Self-interest is the original motive to the establishment of justice. [As society develops], a sympathy (or moral sense) with public interest is the source of the moral appropriation, which attends that virtue.’
Alexis de Tocqueville (1945 [1840])	‘Americans of all ages, all conditions, and all dispositions constantly form associations . . . Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you would be sure to find an association.’
Lyda Judson Hamifan (1920), p. 22	‘. . . that in life which tends to make these tangible substances count for most in the daily lives of a people; namely, goodwill, fellowship, sympathy, and social intercourse among the individuals and families that make a social unit.’
Glenn Loury (1992), p. 100	‘. . . naturally occurring social relationship among persons which promote or assist the acquisition of skills and traits valued in the marketplace.’
Pierre Bourdieu (with Wacquant, 1992), p. 19	‘Social Capital is the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.’
James Coleman (1994), p. 302	‘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 consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure.’
Robert Putnam (1993), p. 169	‘. . . features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated action.’
Burt (1992), p. 9	‘. . . friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital.’
Nahapiet and Ghoshal (1998), p. 243	‘. . . 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.’
Woolcock (1998), p. 153	‘. . . the information, trust, and norms of reciprocity inherent in one’s social network.’
Ostrom and Ahn (2003), p. xiv	‘. . . social capital as an attribute of individuals and their relationships that enhances their ability to solve collective action problems.’
Adler and Kwon (2002), p. 23	‘Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its efforts flow from the information, influence and solidarity it makes available to the actor.’

of information flows, opinions and opportunities. Social capital research will forever face this complexity. But part of its inherent value lies in its ability to connect these different levels in a meaningful way.

Scholars' definitions tend to emphasize either social capital's sources or its effects. With regards to its sources, a lively discussion persists, for instance, regarding whether relationships should be treated as instrumentally focused actions (means toward ends) or actions taken for their own merit or value (ends in themselves). Both motivations can create the relationships and social structures on which social capital depends.

For our purposes, we define social capital using both Putnam's functional approach and Nahapiet and Ghoshal's descriptive one. For Putnam, social capital represents 'the features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated action' (Putnam et al., 1993, p. 169). For Nahapiet and Ghoshal, social capital is 'the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit' (1998, p. 243). Both definitions are critical to understanding the concept as broadly as possible and highlighting its contributions to the social sciences.

HOW DOES SOCIAL CAPITAL CONTRIBUTE TO EXPLAINING HUMAN BEHAVIOR?

As argued earlier, social capital theories expand the factors – such as trust, networks and norms – that we can use to explain troublesome human behaviors such as cooperation. These new elements place it in strong contrast to neoclassical economics, a discipline that applies the rational choice model of human decision-making. This paradigm originally modeled motivation on an assumption of atomistic, selfish and rational human beings. Although economists have already unraveled some of its assumptions, the model still treats cooperation – except under severely prescribed conditions – as a seemingly irrational endeavor. Yet, as one colleague pointed out, even economists cooperate.

Social capital's addition of new factors has systematically chiseled away at some of the neoclassical economic assumptions about cooperation. We begin our exploration of social capital's contributions with grounding conditions for cooperation: that it must rest on some underlying trust in behavior, where trust means a belief about another's intrinsic motivation, indeed about their trustworthiness.

Two aspects of social capital – the networks and norms in which individuals are embedded – reinforce cooperative behavior by changing the

pay-offs for certain actions. They also challenge the neoclassical assumption of atomistic humans. Not many of us have lived the life of Robinson Crusoe, alone on his island for 17 years before encountering his new friend and companion, Friday. Community networks, norms and ongoing relationships directly affect how individuals make decisions about cooperation. Networks particularly can reinforce trustworthy behavior. Burt (2000) argues that dense horizontal relationships, which he calls closure networks, transmit information, encourage surveillance and enforce sanctions on deviant behavior. However, one could be 100 percent selfish and 100 percent rational, as neoclassical *homo economicus* may be, and still cooperate in this context of strong incentives for appropriate behavior associated with closed social networks.

Norms provide further reasons for members of a community to interact in a trustworthy manner. These rules prescribe acceptable behavior and provide the mechanism to punish or reward unacceptable behavior. James Coleman (1990) argues that when a norm or rule exists, members of a group willingly transfer some authority over their behavior to their fellow members. Putnam (1993) argues that the degree to which a community adopts the norm of reciprocity indicates the proportion of its members who act in a trustworthy manner. Once again, the selfish and rational *homo economicus* would act in a trustworthy manner when faced with strong, well-enforced norms.

Significant ongoing research has provided empirical evidence to moderate neoclassical assumptions of universal selfishness. Some individuals have been shown to be as concerned with another's welfare as their own. The University of Michigan World Values Survey, which asks: 'Do you believe that most people can be trusted or that you cannot be too careful in dealing with people?' consistently shows wide variation in responses. This information supports the idea that different people, communities and societies display different levels of trustworthiness. Social capital theories thus seem to moderate further rational choice assumptions on human behavior. The incentives set up by networks of relationships and norms of reciprocity would encourage members of a collective to act in a trustworthy manner.

WHAT ARE THE CONTROVERSIES SURROUNDING SOCIAL CAPITAL?

Perhaps it is not surprising that social capital still faces vehement criticisms. Social capital research has introduced concepts such as trustworthiness, trust, networks and norms into the field of economics, and into the broader

social sciences. These concepts are difficult to define and even more difficult to quantify, thus going against the tradition of the social sciences, and in particular economics, which have long prided themselves on their rigor, analysis and quantifiable measurement. It is time we turn our attention to these criticisms.

The major direct criticisms of social capital center on whether it is capital at all; that it lacks the required building blocks to be considered capital. These issues include the inability to invest in social capital at time t and gain the benefits in $t+1$, the inability to alienate or, in other words, 'sell' social capital, and the problem of its measurement. Scholars continue to debate the appropriate conceptualization of social capital and to disagree on its impact and the mechanisms that can create it. They also continue to debate the intricate relationship between social capital and trust.

The scholarship collected here provides new and pioneering insights into each of these fundamental questions. In Part I, Elinor Ostrom, Ronald Burt and Robert Fishman provide overviews of social capital research. They assess its current contributions and challenges in order to provide a 'State of the Union' perspective. In so doing, each advocates a starkly different point of view about social capital's conceptualization.

Their debate is between an expansionist view and a minimalist one (Ostrom and Ahn, 2003). In Chapter 1, Ostrom argues for a more expansive view of social capital that emphasizes the importance not only of networks, but also the institutions or norms that they foster. Carefully placing social capital in the context of all human-made capital, she contends that scholars must study the diverse forms of social capital if they want to understand its underlying design principles and use these to create tailored forms of social capital that can address specific collective action problems.

By contrast, Ron Burt advocates a more minimalist approach. He contends that limiting the inquiry to the structure and characteristics of networks is the way that scholars can begin to understand the mechanisms by which social capital affects outcomes. Burt's closely argued theory (2005) contends that social capital benefits lie in managing between brokerage and closure relationships. Building new connections among individuals and groups where none exist, brokerage concerns the advantages associated with greater exposure to different ideas, practices and opinions. Closure is about the benefits of efficiency – the productivity associated with all members of a community knowing one another.

Robert Fishman takes an even more focused approach by arguing that the substantial costs of conceptualizing social ties and associated norms as social capital far outweigh the benefits. The complexity of disparate sources, effects and levels of analysis prevents such an approach. Rather, he suggests that scholars should analyze types of connections and their

associated types of effects. Although few scholars think of social capital as undifferentiated stock or infer its existence through overarching effects, Fishman's caution is a wise one.

HOW DOES SOCIAL CAPITAL INTERACT WITH OTHER DISCIPLINES?

Social capital as a concept both 'reaches out' and 'reaches in'. Part II investigates how social capital 'reaches out' to other disciplines to help understand their dynamics better. John Helliwell, Haifang Huang, Robert Putnam, Maureen Hallinan, David Campbell, David Nickerson and Janine Nahapiet investigate how social capital impacts upon workplace productivity, economic development, education, governance and competitive advantage. Part III, in contrast, traces how other disciplines such as psychology, network analysis, and normative and trust research can 'reach in' and can help elucidate the building blocks on which social capital rests. Roderick Kramer, Daniel Brass, Roy Lewicki, Chad Brinsfield, Darryl Stickel, Roger Mayer, Sim Sitkin, James Davis and Viva Bartkus investigate social capital's formation by studying its structural, relational and cognitive antecedents.

In Part II of this volume, authors re-examine some of the long-standing beliefs that underpin economics, sociology, political science and business through the lens provided by a social capital perspective. In Chapter 4, John Helliwell, Haifang Huang and Robert Putnam employ a social capital perspective to question orthodoxies in the labor market. They argue that wage differentials may be based more on workplace trust than on the arduousness and hazard of the job – an explanation first advocated by Adam Smith. The authors demonstrate that a climate of trust in the workplace – that is, social capital – enhances the subjective well-being of employees. Indeed, their research indicates that moving one point on a ten-point scale of workplace trust has the same effect on life satisfaction as a 40 percent change in income. While social capital in the workplace is difficult to build and relatively easy to destroy, the size of this compensating differential raises the question of why companies are not doing more to increase trust. Perhaps some of the yet undiscovered value of social capital lies in the possibility that building workplace trust can help managers and employees make tremendous gains in productivity and satisfaction.

In some of the earliest scholarship regarding social capital, James Coleman (1988) argued that the superior academic results of Catholic school students were generated by the intergenerational closure and strong bonds among the Catholic community surrounding the school. After being

normalized for socio-economic class, race, age and other factors, this superior academic achievement became known as the 'Catholic school advantage'. In the first ever replication of Coleman's massive study, Maureen Hallinan retraces Coleman's steps by conducting a longitudinal study of Catholic and public (that is, state-funded) school children in Chicago. Her findings in Chapter 5 question Coleman's results in terms of academic achievement, but indicate that strong social capital networks do impact upon non-academic factors such as liking school, feelings of safety, trust in the neighborhood, participation in clubs and helping others in the community.

In a comparable assault on orthodoxy – this time in political science – David Campbell proposes an explanation for voting behavior. He does not use the reigning paradigm of *homo politicus* – that people vote to defend their interests when elections are close; rather, he poses the theory of *homo civicus* – that people vote because they believe it is their civic duty. In Chapter 6, Campbell argues that voting is a civic-motivated activity and that social norms facilitating civic-mindedness are transmitted through the social closure network fostered in school. As a consequence, students demonstrate these learned norms – such as voting – for years to come.

Although Hallinan and Campbell come from different disciplines, they broadly agree on two major insights: first, that social capital requires both networks and norms; and second, that schools are causal agents that can lead to more public engagement, collective identification and, therefore, the future creation of social capital. They also concur that only those networks in which parents and educators enforce strong norms of either scholarship or civic-mindedness can be expected to increase academic achievement and civic-oriented behavior.

Most social capital theory rests on the assertion that networks of dense relationships create and reinforce norms. However, a 'chicken vs egg' issue exists when examining communities: what portion of norm strength comes from self-selection into a network versus transmission of norms through the network? We are drawn to those with whom we share similarities of background, experience or values. Yet we also take on the values of those with whom we interact. In Chapter 7, David Nickerson uses a series of controlled field experiments to address these critical questions.

In Chapter 8, Janine Nahapiet extends her previous scholarship regarding the ways in which a firm's social capital creates intellectual capital, and ultimately competitive advantage. She contends that a series of developments at the close of the twentieth century – including increasing connectedness due to technology change and deregulation, a shift from tangible to intangible assets and in particular the increased importance of human capital, knowledge management and relationships – has resulted in shifting

organizational boundaries and even entirely new ways of organizing economic activity. Consequently, driving competitive advantage through innovation depends even more centrally on the appropriable resources latent in the relationships that social capital represents.

HOW CAN WE CREATE AND MAINTAIN SOCIAL CAPITAL?

If many scholars of multiple disciplines argue for its tremendous impact, as they do in Part II, why then is there not more social capital? In fact, why do leading experts such as Putnam (2000) argue that – at least in the US – social capital is low and falling?

Part III explores the actual mechanisms – cognitive, structural and relational – by which we foster and maintain social capital. Each author develops insights into the puzzling question of how we can create social capital. In Chapter 9, Roderick Kramer argues that cognition – to identify with others in a group – is a critical initial step to building social capital. He advances an integrated framework that shows how individuals' social identities influence their willingness to collaborate, to help each other and to contribute to the collective's reservoir of social capital in general. Their identification with the entire collective – rather than personal or subgroup identification – facilitates this behavior. He then describes in detail how such psychological transformations of identity can occur.

By contrast, in Chapter 10 Daniel Brass argues that the strategy behind creating social capital should be more structural – focused on the structure and type of one's relationships – rather than cognitive. He analyzes the structural conditions under which it may be to the individual's advantage to connect to brokers, who usually stand to gain more from the relationship than the individual. However, by creating relationships through strategic actions, individuals can benefit from the resulting social structure and create social capital.

Trust among members of a collective is critical to any discussions of cooperation, and a collective's resulting social capital. To address the many difficulties with trust's conceptualization, Mayer et al. (1995) develop a parsimonious model of trust – as a phenomenon between two people – and its causes and outcomes. They argue that the antecedents to trust are the trusting party's perception of the other party's ability to do what they say they can do, of their integrity, and of their benevolence toward the trusting party. Yet the question remains: how to scale dyadic trust to the level of the entire collective, especially in circumstances where one neither knows all other members nor can monitor and perhaps sanction their actions?

In Chapter 11, Roy Lewicki and Chad Brinsfield briefly profile recent theoretical and empirical research regarding trust, more specifically characterizing the types of trust and distinguishing between trust and distrust. Because trust and distrust are different from each other, Lewicki and Brinsfield argue that both can coexist within relationships. They then draw the implications of building trust and managing distrust for creating and sustaining social capital within a community.

Darryl Stickel, Roger Mayer and Sim Sitkin investigate the specific decision as to why an individual would invest in social capital. In Chapter 12, the authors argue that individuals must trust in the collective prior to making such investments, and thus they explore in detail how individuals make the decision to trust others. They then examine the social changes which may be leading both to declines in trust specifically and to increases in the perception of the risks associated with such social investments more broadly, as a way to begin to understand the general decline in social capital, at least in the United States.

Regardless of the challenges trust adds to the social capital equation, its importance is without doubt. Kenneth Arrow called our attention to it by pointing out (1972, p. 357): 'Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time.' Lewicki, Brinsfield, Stickel, Mayer and Sitkin add important insights into the complicated relationship between trust and social capital.

HOW DO WE MEASURE SOCIAL CAPITAL?

Among the many factors critical to the widespread adoption of any new concept is its measurability. Comprehensive definitions of social capital are extremely problematic in this regard. They are multidimensional with varying levels and units of analysis. In addition, their forms change over time. Scholars have therefore measured social capital both through direct measurement and by capturing the positive or negative externalities or consequences that social capital causes.

At the macro level, Putnam (2000) and the other scholars have used composite indices to attempt direct measurement. For Putnam, social capital is the aggregate of associations in a society and their membership. By contrast, Partha Dasgupta and Ismail Serageldin (2000) argue that the fact that no 'natural system of units' of social capital exists 'does not matter in principle, because in any given context, you can measure their worth by the extent to which mutual benefits can be realized'. At the macro level, Dasgupta argues that social capital can be measured from its generated

externalities, more specifically in total factor productivity. Proxies for social capital using trust and civic engagement have also been attempted. At the micro level, World Bank scholars attempted to create an index of social capital at the family and community levels based on the density and characteristics of formal and informal networks.

Entering into this varied landscape of proposals for social capital measurement, James Davis and Viva Bartkus conduct empirical tests of their theoretical model of social capital. The authors argue that organizational trust creates the environment that community members need if they are to engage in activities together. This atmosphere mitigates the risks that individuals take in collaborating. They further argue that a community's level of organizational trust, and thus, social capital, depends directly on the strength of its networks, the depth and breadth of its norms, and the abilities of its members and the group itself. This approach enables them to use social capital's antecedents to predict its presence rather than inferring its existence from a composite index of factors or an assessment of its associated positive or negative externalities. By combining the theoretical model with its empirical test on a sample of students and study teams in a business college, Davis and Bartkus indicate ways that social capital can be better understood and measured.

In closing, the time has come to pause for theoretical reflection and clear empirical testing of the integrity of the social capital concept. The fact that social capital effects have occurred in areas as disparate as democracy and governance, economic development, education and labor economics suggests that further insights will likely arise by building bridges and conversations among researchers across the social sciences.

It is with these goals in mind, as well as a willingness and commitment to learn each others' languages, that leading scholars on social capital converged on the University of Notre Dame on 1–3 April 2006 to foster just such a dialogue. They were determined to overcome the increasing degree of specialization within academic disciplines that can preclude a natural and free-flowing dialogue. This book is a product of those discussions. It showcases new innovative research, but also enables leading scholars to continue their dialogue on the themes outlined here. Our goal is to generate further debate regarding social capital; if we achieve this, then we will consider the book a success.

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