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Benefits and Risks of Social Capital – A Resource-Based Approach

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Abstract

This paper reviews concepts of social capital, resource-based view and resource dependence theory with the view of focusing on their most basic meaning as a basis for determining the benefits and risks of social capital. The benefits of social capital from the resource-based view were explored with focus on how firms achieve competitive advantage. The risks of social capital from the resource dependence perspective were likewise reviewed in the context of individual and corporate behavior. The review concluded with a recommendation for study on how to maximize benefits and reduce the risk of social capital in multidimensional situation.

Keywords: Social capital, Resource-based View, Resource dependence theory

1. Introduction

Social capital is a valuable resource that has been a focus of interest by researchers from a wide range of discipline and has even become popular beyond academic institutions. While there is a controversy as to what the term really means and the concepts it embraces, there is a need to evaluate to what extent the concept is of value to both private and government organizations or to business, political, and other entities. There is a need to define this value in terms of benefits and by way of avoidance, in terms of risks as well. To do that there is a need to clarify the basic meaning of the concept of social capital as well as resource-based view and resource-dependence theory that have both a bearing in determining benefits and risk of social capital.

2. Defining Key Concepts

2.1 Social Capital

In any society, social capital needed for success in organizational activities. Understanding of the essence of social capital results in several defining components, not always consistent. Thus, Burt (1992) defines social capital as opportunities open to individuals who cultivate relationships with others. Yet Coleman (1990) stipulates that social capital can only be realized where a relationship is complemented by similar values and norms. In either case, the purpose of social networking is to generate trust and value of the interaction facilitated by relationships (Standifird & Marshall, 2000). Importantly, this trust cannot be legislated to apply to a broader community, but depends on interpersonal relationships.

Bourdieu (1986) identified three forms of social resource: economic, cultural and social capital. Hence, social capital has two components: it is primarily connected with group membership and social networks. But just as importantly, social capital is s mutual sustained by mutual cognition and recognition. Bourdieu, in his more generalized theory on social capital, argues that enduring benefits continue where respect, appreciation, and friendship are manifest. Bourdieu's concept of social capital differs from Coleman's concept. Coleman (1988) approached the concept of social capital in the context of family and community. He examined the relationship between social capital and the probability of academic failure. For Coleman, social capital consists of different entities, comprising social structures that facilitate certain actions, and which provide a basis for interacting with other social structures (Coleman, 1988). Social capital is different from physical capital or human capital; it is a public good, open to the limited public or membership of the community, derived from specific social structures, that is profitable to individual interests. So the academic failure may be cushioned from the abject denigration that could occur to him in the wider community. Similar safeguards are available within guanxi, though the academic failure will not be engaged in functions for which he is not ostensibly able. That is, while there may be some degree of nepotism, it will not extend to bolstering incompetence that has damaging consequences for the entire social network.

Nahapit and Ghoshall (1998, p.243) defined social capital as "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" to achieve holistic benefits from combining social capital, intellectual capital, and organizational advantage. Thus social capital generates creation of new intellectual capital; organizations, including those based on relationships, as well as organizations like firms are able to form denser social capital over competitors.

Fukuyama (1995a, 1995b) treats social capital as trust, together with the capacity for cooperation. He concludes that high levels of sociability or social capital, and loyalty enable individuals work co-operatively in the corporations collectively propel an economy towards prosperity. Though these corporations compete with one another, the internal culture, that reflects the trust and cooperative spirit found in Guanxi, ensures the internal efficiency and productivity necessary for them to compete with rivals while contributing to the broader community.

In sum, social capital is argued from various sources. Firstly, much of social capital is embedded within networks of mutual acquaintance and recognition. Secondly, social capital is available through the contacts or connections networks bring. Thirdly, social capital can be derived from membership in specific networks, where such a membership is restricted (Nahapiet & Ghoshal, 1998). In short, from the variety of definitions of social capital, it is concluded that social relationships are a common element, as Astone et al. (1999) find, the use of term social capital to refer to the resources that emerge from one's social ties is exceedingly popular.

2.2 Resource-based View

The resource-based view (RBV) is a simple economic tool for determining a firm's resource position to attain a competitive advantage. Resource is "anything which could be thought of as a strength or weakness of a given firm" (Wernerfelt, 1984, p.172) includes tangible and intangible assets semi permanently tied to the firm. It comprises all assets, capabilities, organizational processes, firm attributes, information and knowledge acquisition, controlled by a firm that enable the firm to carry out strategies that advance its efficiency and effectiveness (Draft, 1983).

Barney (1991) defined competitive advantage as a firm's competitive position wherein any current or potential competitors are not simultaneously implementing the value creating strategy. This competitive advantage is sustained when the value creating strategy is not being simultaneously implemented and could not be duplicated by any current or potential competitors. Barney (1991) states that to be a potential source of sustained competitive advantage, a resource must have four attributes: it must be valuable, rare, imperfectly imitable, and not substitutable. A more precise definition of competitive advantage linked this to value creation and demand side concerns (Peteraf & Barney,

2003) while an analysis of sustained competitive advantage, to clarify the notion, focused on two causal conditions: uncertainty and immobility (Foss & Knudsen, 2003).

2.3 Resource-dependence theory

The impact of the environment on the organization has been at the core of organizational research with the innovative advent of social exchange (Emerson, 1962). In light of open-system strategies, central to any organizations' viability is self-stabilization in the face of disturbances stemming from the environment (Thompson, 1967). As Thompson (1967) has postulated, organizations attempt to manage their external dependencies or to control the environment. Thus, organizational structures are inevitably subject to the dynamic environment in which they exist and changes with the passing of time.

Resource dependence theory, derived from social exchange theory, contends that most organizations do not control all of the resources indispensable for survival and that they rely on other organizations to provide those resources (Pfeffer & Salancik, 1978). Pfeffer (1972) assumed that organizations as open systems become interdependent with elements in the environment when they transact with these elements. Accordingly, organizations are open systems whose structure, functioning, and fate are widely constrained by the environment (Scott, 1987). Organizations import most of their needed resources from the environment. Organizations cannot free themselves from external influences, notwithstanding that they strive to minimize environmentally induced external constraints.

Further, it is indicative of resource dependence that power relations among actors in pursuit of resources are commonly asymmetrical and that organizations endeavor to capture power, maintain autonomy, and reduce uncertainty in the context of external pressures and demands. Control over resources is significant in maintaining power and is therefore pursued by organizations. Since dependence symbolizes constraints or contingences, the challenge for organizations is to avoid becoming submissive to elements of the environment (Pfeffer & Salancik, 1978). Adaptation to these multiple influences becomes critical for survival in that resource scarcity is a ubiquitous condition.

3. Benefits of Social Capital

From a resource-based perspective, ”firms obtain sustained competitive advantages by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses” (Barney, 1991, p.99). Such a strategic perspective can be applied through focusing “on the firms as a primary context in which to explore the interrelationships between social and intellectual capital” (Nahapiet & Ghoshal, 1998, p.245) and seeing how social capital can benefit firms by facilitating acquisition of intellectual capital. Nahapiet and Ghoshal (1998) affirmed that “capital consists in a great part of knowledge and organization…knowledge is our most powerful engine of production” and acknowledged that “intellectual capital thus represents a valuable resource and a capability for action based in knowledge and knowing” (p.245). Intellectual capital exists as “socially and contextually embedded forms of knowledge and knowing as a source of value differing from the simple aggregation of the knowledge of a set of individuals” (p.246).

Uzzi (1997) found that “fine-grained information transfer benefits networked firms by increasing the breadth and ordering of their behavioral options and the accuracy of their long-run forecasts” and that “the social relationship imbues information with veracity and meaning beyond its face value” (p.46). He argues that “organizations gain access to special opportunities when connected to their exchange partners through embedded ties, such that the opportunity level is positively related to the degree to which a firm’s network partners use embedded ties” (p.59). In his study of structural embeddedness, he found plausible evidence from data on network ties of the New York apparel industry that organizational performance increase with the use of embedded ties link to network partners (p.59). Based on this, he proposed three network structures: under-embedded arm's-length network, integrated network and over-embedded network, with the integrated network structure, comprising of mostly embedded ties in the firm's 1st-order network and integration of arm's – length and embedded ties in 2nd-order network as the optimal, integrated structure (p.60). This integrated network structure results to a good number of beneficial effects both in the firm-level and net-work level (p.62).

The resource perspective proposed that growth strategy "involves striking a balance between the exploitation of existing resources and the development of new ones" (Wernerfelt, 1984, p.180). It is in the latter that social capital can contribute significantly through exploring and developing the resource generating potential of social exchange between partners. Molm, Takahashi and Peterson (2000) conducted an experimental research to test classical exchange theory that proposes that trust is the necessary component of social exchange. Their study shows that persistence and the form of social relationships matters and that "relationships characterized by both reciprocal exchange *and* the expectation of continued interaction are particularly conducive to building trust, and … can be valuable assets in even the most institutionalized economic settings" (Molm et al., 2000, p.1425). Trust is the primary element that brings about influence and by way of development, control and power.

The development of trust in reciprocal exchanges is one of the most intriguing concept and benefit of social capital. In reciprocal forms of exchange "actors individually provide benefits to each other without knowing what returns they will receive". It is only in this kind of exchange that the risk of giving without reciprocity allows true demonstration of trustworthiness and provides the conduciveness for the development of trust; something that is negated by the binding agreements that provide assurance in negotiated exchange (Molm et al., 2000, p.1422). It is the full fruition of reciprocal exchanges that leads to the solidarity benefits between firms or between actors.

Solidarity as a benefit of social capital, however, may be achieved through other means. Adler and Kwon (2002) stated that “strong social norms and beliefs, associated with a high degree of closure of social network, encourage compliance with local rules and customs and reduce the need for formal controls” (p.29) and that “people working in more highly cohesive subunits need to be . . . more attentive to the firm’s super ordinate goals” (p.30).

4. Risks of Social Capital

The conceptual model of social capital formulated by Adler and Kwon (2002) derived social capital from social relations, more specifically from “the formal structure of the ties that make up the social network” (p.23). Emerson (1962), however, remarked that “social relations commonly entail ties of mutual dependence between parties” (p.32) and that “power to control or influence the other resides in control over the things he values” (p.32). He refers to this as dependency. This relation can be balanced and unbalanced. In an unbalanced relation therein lies the risk in maintaining social capital. It requires cost, which Emerson has referred as “alteration in moral attitude”, using courting relation as illustrative example. He stated that in general, cost reduction is a process involving change in values (personal, social, economic) which reduces the pains incurred in meeting the demands of a powerful other” (p.35). In an experimental test to study risk and trust in social exchange, Molm et al. (2000) noted that networks “vary substantially in the amount of imbalance they create” and “provide opportunities for both benevolent and exploitative behavior” (p.1399).

The risk of social capital is no more clearly elucidated than in the study of relationship and unethical behavior in social networks (Brass, et al., 1998). They averred that “the strength, multiplexity symmetry, and status equality of a relationship, frequency of interaction and trust provide increased opportunities and payoffs for unethical behavior" (Brass et al., 1998, p.19). From a resource dependence perspective, any social interaction that enables actors to access resources either decreases their dependence or increases other's dependence to them and thereby acquires power. Such a scenario can be seen in higher level positions wherein they are often "the sole link between owners, boards of directors, or other outside stakeholders and other organizational personnel" and are "subject to greater opportunities and payoffs from unethical behavior" due to "less surveillance from those both inside and outside the organization". This scenario is modeled by triadic relationship involving a structural hole wherein actor A is separately linked to actor B and actor C while actors B and C are not connected. Power comes through the capture of structural whole control, and this situation increases the possibility of unethical behavior. (Brass et al., 1998, p.20-24).

In a study of embeddedness and organization networks, Uzzi (1997) illustrated the risk of embeddedness by citing the apparel retail trade in the 1980s wherein embedded relationships maintained by retail buyers with clothing manufacturers were broken when a shift from relationship buying to number buying was imposed by corporate conglomerates who buy out giant retailers resulting in permanent organizational failure (p.58). Another risk of over-embeddings is when "the social aspects of exchange" cause resource dependence by the weaker firm on the network in a way that depletes the resources of the stronger firm and cuts their capacity to rejuvenate (p.59).

5. Conclusion and Future Research

This short review suggests that the benefit of social capital centers on its capacity to provide competitive advantage through the acquisition of resources, particularly knowledge based resource, or more specifically intellectual capital, as well as other benefits accruing to firm level and network level – trust, solidarity, privilege access to resources and other economic benefits. Identifying contexts on which the risks of social capital emerge can further enhance these benefits by way of pro-active use of this knowledge to identify contexts by which such risk can be significantly reduced. This risk primarily involved unethical behavior that normally comes with power, but it includes over dependence, which negatively alters the balance of resources. Exploring further the context by which risks arise and conducting research on how this can be averted may be an interesting recommendation for future research. How can the risks of social capitals be mitigated if not totally avoided in the various social structures on which social capital is generated? Through this and similar research the benefits of social capital may be more firmly consolidated.

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