What Can Executives Take From Social Capital Theory?

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The absence of a systematic approach towards social capital theory could inhibit the development of social capital as a vital driver of business success (Villalonga-Olives & Kawachi, 2015). Exploring organizational factors and how they may impact social capital offers practical implications for executives and top managers to improve outcomes at the organizational level and meet their business objectives (Akintimehin et al., 2019). Executives willing to succeed in today’s hypercompetitive global environment will need to consider social capital as a foundation that helps organizations prosper. This article contributes to practice by identifying the ways in which to build social capital in companies. In addition, the contribution to the management literature lies in presenting a theoretical framework that incorporates the organizational factors that may impact the three dimensions of social capital. The literature, to date, has failed to provide a comprehensive framework which incorporates all of the contextual factors that may simultaneously impact social capital. In this article, I use Nahapiet and Goshal’s (1998) application of social capital theory as a theoretical underpinning.

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Social capital inheres in numerous earlier concepts associated with social and economic sciences (such as social capability and civic virtue), and to some extent is driven from political theorists (such as Alexis de Tocqueville and James Madison) who have focused on the importance of pluralism and federalism in developing democratic societies (Gordon, 2002). Executives may not be as interested in social capital theory as much as scholars are but there is a kernel worth looking it in this theoretical framework for executives. Social capital theory is one of the many theoretical foundations that contribute to impacting the social environment within, among, and throughout stakeholder interaction. This theory enables executives to increase business performance and help lessen the gaps between success and possible failure. This article is set in place to answer the question of how to lead as a social architect. This question has remained unexplored. The answer to this question relies on facilitating constructive changes at the organizational level and creating a better situation to develop relationships in companies. To answer this question, this article indicates how the three important dimensions of social capital (i.e. structural, cognitive, and relational dimensions) are affected by internal characteristics of organizations such as the structure, the culture, the strategy, the inter-company networks, and the stakeholder orientation. With this view, executives can install major changes at the organizational level to enhance social capital and effectively serve the customer needs. Practical guidelines for management executives can provide a more effective facilitation of social capital in organizations.

Social Capital Theory

In Coleman’s (1988) view, organizations need to improve social capital to succeed in business. Social capital stresses play a critical role in their one-to-one and group relationships (McEvily & Marcus, 2005; Ostrom, 2009; Mustafa & Chen, 2010; Light & Dana, 2013), not only in interpersonal relationships, but also, in influencing the behavior of both subordinates and other executives (Washington, 2008). Trust-based relationships and social networks are two stressors of social capital, which can improve knowledge sharing and enhance customer and employee relationship management in organizations (Nahapet & Ghoshal, 1998). Lines et al. (2005) argue that trust-based relationships are ideal for sharing knowledge and generating new ideas. Social networks are also central to social capital that can lead to communities of practice that are “relatively tight-knit groups of people who know each other and work together directly” (Brown & Duguid, 2000, p. 143). Mabery, Gibbs-Scharf and Bara (2013) say that communities of practice members frequently solve technical problems and share their ideas and knowledge. This frequent contact and keenness to share existing practice and knowledge in solving daily technical problems can enhance shared understandings among members.

Burt (1997, cited in Foley & O’Connor, 2013, p.278) defines human capital as an individual quality, and highlights social capital as a quality that appears in interactions. In fact, human capital, while very important, not only because an organization cannot survive without its workforce, but also, an employee has colleagues and friends who provide further opportunities and information for the employee knowledge and experience. The reason for the shift from human capital to social capital is based on the empirical studies that indicate that human capital focuses on individual behavior and knowledge while social capital emphasizes relationships and assets created by these interpersonal exchanges with people both above and below them (Burt, 2002; Gordon, 2002).

Putnam argues that social capital is “a set of horizontal associations between people consisting of networks”. Networks today not only exist in texting and email but have involved skyping and using video conferencing as tools to reach people in remote areas of the world and throughout the globe. Relationships and interactions are a form of capital that can be “productive, making possible the achievement of certain ends that would not be attainable in its absence” (Coleman, 1990, p. 304). The key for executives is that social capital theory provides the impetus for executives to development relationships to provide further information and opportunities for all stakeholders, and subsequently, generate value for companies.

Coleman (1981) and Putnam (2000) have provided significant contributions to the development of social capital theory. This article is more focused on Coleman’s and Putnam’s work due to they present very beneficial managerial implications of social capital and extend it to not only for individuals but also groups and communities. Coleman (1981) began his work on social capital theory from Catholic school achievement studies he conducted in the 1980s where he found that higher degrees of social capital in religious schools played a role in propelling student achievement. Later, Coleman (1990) defined social capital as those resources found in
social structures. Even though this study was conducted in a school setting, it provides the managerial implications that can enhance organizational performance. Also concluding that social capital is beneficial in increasing the chance of success in a community and this success can be the same in organizations. For example, “a group whose members manifest trustworthiness and place extensive trust in one another will be able to accomplish more than a comparable group lacking that trustworthiness and trust” (Coleman, 1990, p.304). Trust is the basis of all leadership-follower relationships because followers want to be able to feel safe and trust in their leaders (Coleman, 1990). Leaders want to ensure that followers feel a sense of trustworthiness as they conduct their day-to-day activities. This sense of safety and security allows them to flourish, create, innovate, and do this without being concerned about failure and facing criticism. Coleman (1990) views social capital as a product of investment in interactions and collective actions, which in turn improve the effectiveness of communities.

Unlike Coleman (1990), Putnam’s (2000) work in aligning social capital to increased trust is important to managers. Putnam (2000) presents his twenty-year longitudinal findings on social capital in which he illustrates that participation in group-associated activities can internalize reciprocity to enhance trust among participants. This important finding, while coming natural to some executives, is an important concern for the executive that is technologically savvy but lacks the interpersonal skills necessary to build a team of professionals to carry out the organizational mission. The reason why executives are interested in Putnam’s (2000) viewpoint is because he developed a new approach to social capital that takes on more of a group perspective. Since executives manage and communicate with groups as a large part of their responsibility, they understand the importance of group development and cohesiveness. Also, Putnam (2000) highlights that groups are entities that build social capital and as by-product of cooperation and participation, organizations can communicate and accomplish tasks in a more effective manner.

Has Putnam’s (2000) viewpoint been criticized? Of course, like any other research, there are contrary points of view that surface. For example, Uslaner (2001) has critiqued Putnam’s (2000) central hypothesis, and argues that people do not engage in networks to generate trust. He argues that people participate in creditable groups and communities to interact with others, but trust correlates with other factors such as equality or inequality in societies. As a consequence, it can be argued that although Putnam’s (2000) approach has been challenged for its fundamental assumption, but Putnam (2000) goes further and understands social capital as a result of trust in communities and social organizations that leads to mutual benefits, and thus, this approach advances the social capital theory through extending it not only for individuals but also groups which is an important consideration for organizations competing in a hypercompetitive environment.

**Discussion**

Nahapiet and Ghoshal (1998) determine three dimensions for social capital, and categorize them as structural, cognitive and relational dimensions. The structural dimension portrays an “overall pattern of connections” among actors (Choi, 2002, p.35). This dimension could possibly be improved by having access to other actors quickly (Arling, 2006; Filieri et al., 2014; Villalonga-Olives & Kawachi, 2015), and enhanced through highly flexible structures (Ibarra & Andrews 1993). The empirical study by Wang and Ahmed (2003) indicates that highly flexible structures such as organic structures may be prone to better socialization among organizational departments and business units. Wang and Ahmed (2003) indicate that structural aspects of formalization and centralization may negatively relate to the structural dimension of social capital theory. Executives can act as change agents who develop flexible structures with the aim of developing relationships to create valuable resources. This argument can be justified by accounting the crucial role of flexible structures in facilitating the exchange of ideas and solutions based on stipulating the power of decision-making around the organization.

The cognitive dimension is defined as resources developing shared vision, interpretations and feelings among actors (Nahapiet & Ghoshal, 1998). Similarly, Schein (1985, p.12) defines organizational culture as “the correct way to perceive, think, and feel” in order to solve organizational problems. Putnam, Leonard and Nanetti (1993, p.170) found that “trust is an essential component of social capital,” and argue that trust enhances interactions among employees. In agreement, Do (2010) and Villalonga-Olives and Kawachi (2015) consider trust as an important facilitator of social capital. The link presupposed here provides significant evidence that social capital...
requires cooperation, and cooperation demands collaborative behaviors (Avila Cobo, 2005; Villalonga-Olives & Kawachi, 2015). Furthermore, Avila Cobo (2005, p.18) argues that collaboration is a strong determinant of “the very existence, strength, and durability of social capital.” The assumption made by this literature review is that the cognitive dimension seeks to achieve a shared vision. Inkpen and Tsang (2005) and Nilsson (2017) define shared vision as a mutual understanding toward determined goals, and Stein et al. (2007) and Salamonson et al. (2009) highlight that this common perception could be reached through developing learning opportunities. These results suggest that cultural aspects of collaboration, trust, and learning may be positively associated with the cognitive dimension of social capital theory. This is not enough, however, for executives. They need to see how to inculcate a culture of collaboration, trust and learning in organizations. Executives can enhance collaboration through diminishing isolation and providing opportunities for further dialogue. They can cultivate trust in organizations by showing concern for both organizations’ needs and employees’ interests at the same time. Executives instill trust in subordinates to enhance commitment and support towards achieving their vision. Furthermore, they can provide the freedom for employees to investigate new ideas and develop learning climates.

The relational dimension focuses on the importance of relations, and develops relations based on obligations, reciprocity and identification that lead to developing organizational assets (Nahapiet & Ghoshal, 1998). Nahapiet and Ghoshal (1998, p.255) define obligations as “a commitment or duty to undertake some activity in the future”. Sort of a due diligence of each employee to put in the necessary effort to help the organization prosper. In order for an organization to prosper, executives must develop a strong organizational strategy (Zheng, Yang & Mclean, 2010). Organizational strategy is defined as “a plan for interacting with competitive environments to achieve organizational goals” (Daft, 1995, p.49). Strategy highlights the critical role of relations with external actors, and enhances social interactions with business units and the organizational environment in order to attain goals in the future. Furthermore, various authors argue that organizational strategy develops a shared interpretation among organizational members and positively relates to the cognitive dimension of social capital theory (Nahapiet & Ghoshal, 1998). As a result, organizational strategy can be positively connected to the cognitive and relational dimensions of social capital theory. Executives can manifest themselves as change agents who reshape organizational strategy to develop a more comprehensive vision for future, incorporate upcoming trends in the business environment, efficiently use organizational resources, decrease costs and control the resources. They can also set high expectations and provide a suitable situation for employees to identify new opportunities.

Reciprocity, another aspect worth noting, stresses helping behavior and knowledge contribution between resources and recipients (Wasko & Faraj, 2005). The empirical study by Argote and Fahrenkopf (2016) illustrates that inter-company networks are a key part of this relationship and play a critical role in enhancing knowledge transference among actors. Furthermore, Ostrom and Ahn (2003) posit that inter-company networks are crucial conditions for reciprocity, and Kachra (2002) and Surma (2016) highlight the importance of inter-company networks in creating reciprocity. Coleman (1988) argues that inter-company networks provide open access to other people, and this could enable the structural dimension which is highly affected by developing access to other actors. Therefore, it may be established that inter-company networks have a positive relationship with the relational and structural dimensions of social capital theory. This idea is capsulated by Putnam (2000, p.18) who states that “the core idea of social capital theory is that networks have value”. However, executives want to know how networks can be used in organizations. Executives are aware of networking with business partners is a key activity for organizations to enhance social capital. A critical concern for executives in this step is developing alliances with partners in external environments. Executives and their expert groups and/or steering committees are the ones who can make final decisions about developing alliances with business partners. The stakeholder orientation is about enhancing the exchange of knowledge with various stakeholders (Wiig, 2002; Riege & Lindsay, 2006; Dentoni, Bitzer & Pascucci, 2016). Giuri et al. (2019) maintain that much of the knowledge exchanged with stakeholders is a result of social interactions between organizations and their stakeholders.
actions with stakeholders. Accordingly, stakeholder orientation may be positively related to all the three dimensions of social capital. Executives can promote stakeholder orientation by developing relationships with stakeholders and build a climate of openness leading to take better care of stakeholders. Therefore, factors affecting social capital theory are depicted in Figure 1.

Beyond illustrating that executives can manifest themselves as change agents within organizations, the nature of the interactions between organizational factors and social capital can suggest several complementary insights for executives. The focus of this article is based upon the critical role of organizational factors which allows a rich basis to understanding the mechanisms by which a firm’s social capital is influenced. Scholar’s repeatedly uncovered leadership’s direct impacts on organizational factors. This article articulates a different approach. I simply extended the current literature by showing how executives can contribute to social capital by fostering effective culture, structure, strategy, inter-company networks and stakeholder orientation. These five factors coupled with change leadership and social capital is presented as a new approach for executive implementation. Furthermore, insufficient consideration of the impact of organizational factors on the organization’s social capital has been exposed and I attempt to address this concern for the first time. Thus, this article can portray a more detailed picture of the effects of organizational factors on social capital that have been mentioned but not placed in a model in the past.

**Conclusions**

This article extends the current literature and provides novel insights for executives and senior managers by modeling how the three dimensions of social capital theory can be affected by company characteristics such as the structure, the culture, the strategy, the inter-company networks and the stakeholder orientation. These three dimensions include
the structural, cognitive and relational dimensions. This study can add to a relatively small body of literature and develops our understanding of the direct impact of company characteristics on social capital. In this article it is theorized that executives can cultivate an effective culture, structure and strategy, which enable social capital within organizations to some extent. In fact, this article highlights the vital importance of change leadership in affecting social capital. It follows that cultivating an effective culture, structure, strategy, inter-company networks and stakeholder orientation requires the development of change leadership within organizations. Therefore, both in theory and in practice, executives can manifest themselves as change agents who have developed competencies to better manage organizational factors with the aim of fostering social capital within companies.

Furthermore, this article suggests that managers should develop a supportive workplace to promote social capital. In this way, organizational culture, structure and strategy constitute the foundation of this supportive workplace. In fact, it can be seen that if firms’ culture, structure, strategy, inter-company networks and stakeholder orientation are not completely in favor of supporting social capital, organizations cannot achieve a higher degree of social capital. Accordingly, this article suggests that social capital formation efforts depend on a supportive culture, structure and strategy in organizations.

References


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