

# Editorial

by Gurumurthy Kalyanaram

## **The Negative Effects of Social Capital in Organizations: A Review and Extension by Gurumurthy Kalyanaram**

In this issue, we are reproducing the introductory section of an important research article, *The Negative Effects of Social Capital in Organizations: A Review and Extension*, by Pillai, Hodgkinson, Kalyanaram and Nair published in *International Journal of Management Reviews* (DOI:10.1111/ijmr.12085). This manuscript offers many opportunities for further research and reflection. Accordingly, we are presenting part of this manuscript.

**Pillai, Hodgkinson, Kalyanaram and Nair (2015), "The Negative Effects of Social Capital in Organizations: A Review and Extension," in *International Journal of Management Reviews* (DOI:10.1111/ijmr.12085).**

### **Abstract**

Numerous studies have examined the positive effects of social capital in organizations, whereas the possible negative effects have attracted considerably less scholarly attention. To rectify this imbalance, this paper first undertakes a rigorous review of the published scholarly empirical evidence pertaining to the negative effects of social capital in organizations through a search of Web of Knowledge and Scopus, and then enumerates six potentially negative effects arising from increased levels of social capital. Our analysis focuses on negative effects arising from bonding social capital and those arising from dense networks and closure, advancing new theory to elucidate the generative mechanisms that give rise to the proposed negative effects. Finally, we identify potential moderators of the negative effects thus theorized. Using the lens of social identification theory, we argue that dysfunctional identification processes restrict the processing of information and stimulate over commitment to established relationships, diluting in turn the dialectical process, and inhibiting individual learning within organizations, culminating in groupthink, the postponement of structural adjustments, the non-rational escalation of commitment, and the blurring of firms' boundaries. Our analysis thus furthers the agenda of a more balanced inquiry into the effects of social capital in organizations.

### **Introduction**

The notion of social capital (SC), first introduced by Coleman (1988), has attracted significant scholarly attention in recent years. The core insight of this body of work is that networks of relationships and connections constitute an important resource for the conduct of social affairs (Burt 1997; Kostova and Roth 2003; Nahapiet and Ghoshal 1998; Portes 1998; Uzzi 1996), affording their members, "collectivity-owned capital, a "credential" which entitles them to credit, in the various senses of the word" (Bourdieu 1986: 249). An impressive volume of evidence supports SC theory's central predictions (for recent overviews, see Kwon and Adler, 2014; Lee 2009; Portes and Vickstrom, 2011). Inter alia, higher levels of SC have been associated with: (a) greater career success and executive compensation (Belliveau, O'Reilly, and Wade 1996), (b) knowledge access, inter-unit resource exchange, and product innovation (Huggins 2010; Maurer, Bartsch, and Ebers 2011; Pittaway et al. 2004; Tsai and Ghosal 1998; Zheng 2010) and intellectual capital creation (Nahapiet and Ghoshal 1998), (c) the effectiveness of workgroups (Oh, Chung, and Labianca 2004), and (d) superior managerial (Moran 2005) and organizational (Acquaah 2007; Batjargal 2003) performance.

These achievements notwithstanding, the central message of this paper is that the contribution of SC theory to the analysis of behavior in organizations needs rethinking; for in parallel to the above advances, scholars have also identified a number of potentially serious negative effects (see, e.g., Adler and Kwon 2002; Kwon and Adler, 2014; Locke 1999). However, this antithetical work has lacked theoretical depth, relative to the substantial body of work examining the positive effects of SC. Accordingly, in this paper we set out to advance a more balanced account of SC, through a deeper consideration of its potential negative effects within and between organizations. Our analysis identifies six such effects, namely: (1) dilution of the dialectical process, (2) the inhibition of individual learning, (3) groupthink, (4) the postponement of structural adjustments, (5) the non-rational escalation of commitment, and (6) the blurring of firms' boundaries. We maintain that these negative effects arise from fundamental (dysfunctional) processes of social identification (Ashforth and Mael, 1989), restricting in turn the processing of new information by directing attention inward to selected aspects of the information environment. Our analysis thus deepens understanding of the generative mechanisms underpinning the potentially deleterious consequences of SC for organizations and in so doing, responds to recent calls to deepen understanding of the processes underpinning its

development (Jordan and Munasib, 2006).

For the purposes of this review, we adopt Inkpen and Tsang's (2005, p. 151) definition of SC: "[the] aggregate of resources embedded within, available through, and derived from, the network of relationships possessed by an individual or organization." Within the confines of this definition, SC is characterized by a number of attributes, which, following Nahapiet and Ghoshal (1998), can be analyzed conveniently along three major dimensions, reflecting its structural, relational, and cognitive properties. The structural dimension refers to the overall pattern of connections among a given group of actors (Nahapiet and Ghoshal 1998). The relational dimension, in contrast, distinguishes the varieties of personal relationships identified by researchers and comprises trust, reciprocity, expectations, and obligations (Lee 2009; Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998). The cognitive dimension differentiates the resources that variously provide, "shared representations, interpretations, and systems of meaning among parties" (Nahapiet and Ghoshal 1998, p. 244). The bulk of recent work on SC in organization studies has been based on this three dimensional conceptualization (see, e.g., Inkpen and Tsang 2005; Tsai and Ghoshal 1998).

Scholars addressing the structural dimension distinguish the notions of closure (Coleman 1990) and structural holes (Burt 1992), highlighting respectively the value of close ties and interconnections among actors (often measured as network density) and the brokerage benefits derived from the bridging of gaps in the focal network. In a similar vein, Putnam (2000) distinguishes between bonding and bridging SC, the former referring to ties among actors who are members of the focal network, the latter to ties that interconnect actors from otherwise separate networks.

Recent research has sought to reconcile these differing views by demonstrating that the closure and structural holes perspectives are complementary and the benefits arising from the membership of dense networks are enhanced in the context of seeking to bridge structural holes (Rost 2011). In this review, however, we focus on the negative effects arising from dense networks and closure. Hence, we do not address the structural holes perspective. In terms of Putnam's (2000) distinction between bridging and bonding SC, our focus is mainly on the latter. Higher levels of SC, as used subsequently in this paper, imply greater density and closure.

Prior research has documented evidence of a series of 'dark side' effects (e.g. Edelman et al. 2004; Locke 1999; Tura and Harmaakorpi 2005; Westlund and Bolton 2003) and several alternative perspectives, reviewed in the next section, have been advanced to account for them. Like Jordan and Munasib (2006), we maintain that the underlying processes that manifest these effects need better explication and we further this agenda using the lens of social identification theory (Ashforth and Mael 1989).

Social identification is said to occur whenever actors internalize a particular social identity; it entails the perception of being psychologically intertwined with the fate of the pertinent social unit(s) (e.g. group, organization, profession, industry, and/or country) with which the actor identifies (Ashforth and Mael 1989). Social identification promotes self-definition in terms of the social unit of identification (cf. Ashforth and Mael 1989). Identity researchers have conjectured that social identification can be thought of as a particularly potent form of SC (Haslam, Eggins, and Reynolds 2003). SC theorists have observed that social identification is an important facet of relational SC (Nahapiet and Ghoshal 1998). Frequent interactions and being embedded in a dense, high closure network can also facilitate identification processes (Ibarra, Kilduff, and Tsai 2005). Potentially, therefore, all three dimensions of SC (structural, relational, and cognitive) are underpinned by social identification processes.

Social identification theory is an especially attractive lens through which to examine dark side effects because it explicates clear bridging mechanisms that interconnect individuals and social structures (cf. Haslam, Eggins, and Reynolds 2003; Maghrabi, Oakley, and Nemat, 2013; Jensen and Jetten, 2015), an issue that requires more attention in the SC literature (Ibarra, Kilduff, and Tsai 2005; Kilduff and Krackhardt 1994). We maintain that social identification is the main generative mechanism that ties together the various negative effects highlighted in our review, directing actors' attention and restricting the processing and acceptance of potentially novel insights that would otherwise stymie those effects. Extant accounts have focused selectively on particular negative effects addressed in our review, treating them in a relatively superficial and disparate fashion rather than incorporating them into a more unified and integrated account of the sort attempted in the present paper.

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