

# Chapter 70

## Organizational Advantage, Social Capital and Organizational Learning

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**Abstract** According to the knowledge-based view, the organizational advantage of firms over market comes from their ability in acquiring and creating knowledge through learning. In this study, organizational learning is conceptualized as a process of social interaction, which is promoted and constrained by the structural, relational and cognitive dimension of social capital. Based on a dynamic perspective, we also distinguish the sources of social capital and argue that organizational learning is conducive to the development of social capital in return. A framework is provided to show how firms achieve organizational advantage through the coevolution of social capital and organizational learning.

**Keywords** Organizational advantage • Social capital • Organizational learning

### 70.1 Introduction

In contrast to the transaction cost theory, which views the organizational advantage as lying in the attenuation of market opportunism, more researches have emphasize on the firms' distinctive capabilities over other institutional arrangements, such as market (Nahapiet and Ghoshal 1998). Scholars are paying more attention to open the black box and figure out the differentials of firms. However, how organizational advantage is generated still remains to be a fundamental issue in the field of organization theory and strategic management. In this article, we attempt to address the problem on the basis of organizational learning and social capital.

According to the knowledge-based view, organizations could be conceptualized as a learning system for acquiring and creating knowledge. The accumulation of

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knowledge through learning would give rise to the sustainable growth of firms. Nowadays especially, many firms are facing with the diminishing competitive power in regime of rapid change, which makes learning a more important issue for organizational development. Besides, with the trend that firms are networking firmly with each other, learning confined to a single organization become inefficient. Different forms of organizational network appear, making the concept and pattern of organizational learning even broader.

As organizational learning is considered as a process of social interaction (Huber 1991), the role of social capital should not be overlooked. Based on literature review of social capital, we identify the sources of its dimensions (structural, relational and cognitive dimension): opportunity and motivation. Different components of social capital promote and limit organizational learning in different way. Furthermore, we propose that organizational learning would in turn conduce to the social capital's dynamics. The organizational advantage is achieved through the interaction of social capital and organizational learning.

## 70.2 Sources of Social Capital

For this study we define social capital as the set of resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit (Nahapiet and Ghoshal 1998). Differing from economic capital and human capital, social capital's sources lie in the structure of actors' social relationships (Coleman 1988). It's the relationships among actors rather than the focal actor that create value in the social capital research. While the impetus of market exchange is easily understood (people make resources accessible in order to get the pay), the exchange of social capital resources is more complicated. Especially, why do the donors share resources without immediate returns or even a symmetrical commitment? Goodwill, such as sympathy and trust has been regarded as the substance of social capital (Adler and Kwon 2002). The motivation of the donors, however, should be more essential than just that. Coleman emphasizes the effects of norms and sanctions on generating social capital, so that the crimes in city are inhibited (Coleman 1988). Portes distinguishes two classes of motivations. The first one is "consummatory", including value introjections, which is caused by the norm internalization during the process of socialization, and bounded solidarity, which is generated by the identification with one's own group and community. The other one is "instrumental motivations", including the reciprocity exchanges, where the expectation of repayment is based on the resources of the recipient, and enforced trust, where the obligations are enforced by the social structure.

Other than the motivation of the donors, Adler and Kwon also take the opportunity and ability into consideration (Adler and Kwon 2002). In their research, embedding in the network structure, which may be characterized as closed (Coleman 1988) or full of structural holes (Burt 1992), has great impacts on

the generation and possession of social capital. Besides, the abilities at other nodes of the network determine the potentially mobilizable resources. However, many researches doubt that abilities are only complements to social capital, because subsuming other form of capitals would make the concept social capital too broad (Portes 1988).

Following the “narrow” perspective towards social capital, this research identifies two sources of social capital: opportunity and motivation. The “opportunity” refers to whether and how the actor is embedded in the social structure. The “motivation” refers to the extent that other actors are willing to assist.

In this article, Nahapiet and Ghoshal’s three dimensions of social capital is adopted: structural (the configuration of relationships, including network ties and network configuration), relational (the content of relationships, including trust, norm, obligation and identification) and cognitive (the resources providing shared interpretation and representation, including shared language, codes and narrative) (Nahapiet and Ghoshal 1998). According to the connotation and denotation of the two concepts, we propose that “opportunity” is the origin of the structural dimension. Furthermore, as the motivated actors interact frequently and deeply, a high level of trust, norm and shared language would develop, suggesting that “motivation” is the origin of the relational dimension and cognitive dimension.

## 70.3 Organizational Learning

According to the knowledge-based approach, the firm is conceptualized as an institution for integrating knowledge and learning (Grant 1996). Former studies assume that the learning process has identified stages. For example, in Huber’s comprehensive review, four constructs are related to organizational learning: knowledge acquisition, information distribution, information interpretation, and organizational memory (Huber 1991). Similarly but more operationally, Nevis, Ghoreishi and Gould develop a three-stage model of learning: knowledge acquisition, knowledge sharing and knowledge utilization (Nevis et al. 1995). From a network perspective, Podolny and Page identify two ways of learning: first, network facilitates knowledge transfer among firms; second, network becomes the locus of knowledge creation (Podolny and Page 1998). Following these views, this article conceptualizes organizational learning in the context of network as a process of knowledge acquisition and knowledge creation.

### 70.3.1 *Social Capital and Knowledge Acquisition*

Network provides firm with access to various types of resources, information and technology. The informal ties in network play an important role on knowledge transfer and acquisition. The most valuable information is always obtained from

the acquaintance who is found to be reliable, rather than the market or the formal chain of command in an organization (Powell 1990). The effect of social capital should be considered seriously.

As mentioned before, we accept Nahapiet and Ghoshal's dimensions of social capital: structural, relational and cognitive (Portes 1988). They have impacts on firm's knowledge acquisition in different ways: who you reach and how you reach them (the structural dimension) influences the availability of the knowledge; how much you trust each other (the relational dimension) influences the openness of the knowledge; how well you understand each other (the cognitive dimension) influences the efficiency of the knowledge exchange. Several studies have examined the role of social capital in facilitating knowledge acquisition. Granovetter points out that the strong ties have greater motivation to assist than weak ties, and thus could promote the knowledge transfer (Granovetter 1983). Such positive association will increase with the tacitness of knowledge being transferred (Hansen 1999). Reagan and McEvily find that social cohesion and network range positively influence the ease of knowledge acquisition (Reagans and McEvily 2003). To the broader aggregates, Inkpen and Tsang distinguish three common network types (intracorporate network, strategic alliance and industrial districts) and argue how social capital affects the transfer of knowledge between network members (Inkpen and Tsang 2005).

However, some empirical researches show that the effects in different dimensions are not uniform. Based on the sample of 180 new high-tech Ventures in UK, Yli-Renko, Autio and Sapienza examine how social capital in key customer relationship affects the knowledge acquisition (Yli-Renko et al. 2001). The result indicates that the social interaction and network ties dimensions are positively associated with knowledge acquisition, while the relationship quality dimension is negatively associated with knowledge acquisition. In Presutti, Boari and Fratocchi's research about foreign development of high-tech start-ups, while structural dimension positively influence the knowledge acquisition, both relational and cognitive dimensions have negative effects (Presutti et al. 2007). One possible explanation for the negative effect may be that the overembeddedness in few relationships would insulate firms from other external resources and knowledge (Uzzi 1997). Furthermore, the high-lever trust and identification could lower managers' motivation and capability to monitor the changing environment, resulting in the failure of timely knowledge acquisition (Dyer and Singh 1998).

### ***70.3.2 Social Capital and Knowledge Creation***

Organizational knowledge is created through a continuous dialogue between tacit and explicit knowledge, requiring a high level of social interaction and mutual trust between individuals (Nonaka 1994). As a consequence, social capital has been considered as a key factor in knowledge creation. Nahapiet and Ghoshal suggest that social capital facilitates the creation of new intellectual capital

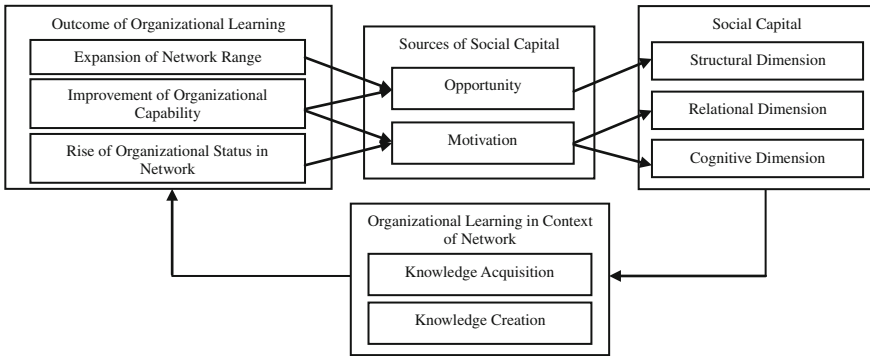
through combining and exchanging knowledge (Nahapiet and Ghoshal 1998), which has been supported by another empirical research (Tsai and Ghoshal 1998). In different dimensions, the number of exchange partners provides the actors with access to new resources and information, and the quality of the relationship is beneficial for establishing mutual trust and emotional support, and developing the jointly held knowledge. In the empirical research, Moran finds that both the structural embeddedness and relational embeddedness are positive with innovation (Moran 2005).

However, some researches also find a curvilinear relationship, suggesting that parallel increases of outcome may not come with increased social capital. Knowledge creation is the result of balance between social interactions and solo activities, but the establishment and maintain of more relationships may shorten the time for individual activities. Moreover, the strength of relations could produce strong norms, mutual identification and a similar knowledge stock among network members (Coleman 1988; Adler and Kwon 2002). At the individual level, McFadyen and Cannella's research reveals that both the number and strength of relations are quadratically related to knowledge creation (McFadyen and Cannella 2004). At the firm level, Molina-Morales and Martinez-Fernandez find an inverted U-shape relationship between trust and innovation creation (Xavier and Teresa 2009).

From these reviews, the optimal configuration of organizational social capital becomes an important issue for the managers, for the reason that insufficient relationships would limit the flow of social capital resources, while redundant ties may bring costs and risks. Besides, different components of social capital have dissimilar impacts on organizational learning. For example, in Yli-Renko, Autio and Sapienza's empirical research, social interaction between firms is beneficial to knowledge acquisition, and relationship quality has the opposite effect. One of the reasonable explanations may be that structural dimension of social capital reveals the power of weak ties, and the relational and cognitive dimensions show the importance of strong ties. As a consequence, the complex relationship between social capital and organizational learning should be explored cautiously.

## **70.4 Coevolution of Social Capital and Organizational Learning**

In this article, organization is the institutional setting for both the development of social capital and organizational learning. The potential advantage of organization over market might arise from its superior abilities of learning (Ghoshal and Moran 1996). The central argument is that firms could achieve organizational advantages through the coevolution of social capital and organizational learning. Figure 70.1 summarizes the overall conceptual framework that will guide the discussion. We have discussed about the path from social capital to organizational learning, so in this part our main focus is in the development of social capital.



**Fig. 70.1** Coevolution of social capital and organizational learning

### ***70.4.1 Dynamics of Social Capital***

How does social capital evolve over time? A dynamic perspective towards social capital is of significant importance. First, organizations are facing with various task and resource requirements at different development stages (Maurer and Ebers 2006). The relationships should be renewed to adapt to the evolving environment. Second, as network is conceptualized as a set of nodes and ties, the interaction of nodes' action and ties' structure would promote the development of network (Brass et al. 2004). Third, because of the tautology in social capital studies, a static research is unable to capture the antecedents and consequences of social capital (Portes 1988).

Though important, the challenge still remains about the factors that influence social capital's dynamics. In Brass's review, three conditions are considered to be influential to network evolvement: the joint effect of network's opportunities and constraints, the resources and capabilities of the network actors, and the cross-level pressure. Nahapiet and Ghoshal argue that time, interdependence, social interactions and network closure are the four necessary conditions for social capital's development (Nahapiet and Ghoshal 1998). Using a longitudinal case, Maurer and Ebers examine how "social capital inertia" is created and overcome. In their research, the internal organization of firms' management of relationships, through horizontal and vertical differentiation and integration, could contribute to the development of social capital (Maurer and Ebers 2006).

### ***70.4.2 Interaction of Social Capital and Organizational Learning***

We have suggested that social capital is regarded as a critical factor for firms' organizational learning. In the dynamic view of social capital, we propose that organizational learning is a way to overcome the so-called "social capital inertia".

Three outcome of organizational learning is identified in the context of network. The direct advantage of learning is the development of organizational capability. With unique capability, firms have the right to determine its network structure (more “opportunities”) and attract more desirable partners (more “motivation” of other actors). Second, firms seek to explore more knowledge through organizational learning, meaning that new relationships are built and network range is largely expanded. Third, as organizational learning is a process of social interaction, firms have more chance to organize relationships so that the organizational status in network would rise. Other actors are more motivated to establish ties, because high status always means trustiness and legitimacy in the network. It could be included that organizational learning conduces to the social capital learning though creating “opportunity” for the focal firms and “motivation” of other network actors.

It could be concluded that organizational advantage is achieved through the interaction between social capital and organizational learning. Generally, social capital promotes organizational learning through its structural, relational and cognitive dimension, while advanced organizational learning creates the opportunity and motivation for social capital’s dynamics. Thus organization is advanced and renewed in the process of coevolution.

## 70.5 Conclusion

The aim of this study is to provide another insight to understand the source of organizational advantages. Innovation is no longer constrained in a separate organization, provided that network is becoming the locus for knowledge transfer and creation. Except for the formal relationships in the form of hierarchical governance or contracts, managers should attach great importance to the establishment of informal ties, thus the organization could benefit from the emeddedness of the broader network.

Theoretically, we attempt to (1) identify the source of different dimension of social capital; (2) synthesize the effect of social capital on knowledge acquisition and creation; (3) adopt a dynamic view of social capital and identify the interaction of social capital and organizational learning. From the perspective of social capital and organizational learning, we seek to explore how organization produces its unique advantages. Still, some remained problem should be paid attentions. First, while structural dimension of social capital indicates the power of week ties, the relational and cognitive dimensions mainly focus on the importance of strong ties. So grouping all dimensions of social capital into one index may not lose some explanatory power. Second, the effects of intraorganizational and interorganizational social capital on organizational learning should be investigated separately, so as to comprehend the different mechanisms of various types of ties. Thirdly, although the model is presented, the empirical research of social capital’s dynamic is far from sufficiency. Especially, despite a lot of empirical researches, the mature scale for measuring social capital still lacks. Future researches could take these issues into consideration.

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