



## ORGANIZATION THEORY UNDER THE CONSIDERATION OF ASPECTS OF SOCIAL CAPITAL

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**Abstract.** This paper describes the positive and negative aspects of social capital in and for organizations. The social capital theory gives the opportunity to explain and describe processes, behaviour, achievements and functionalities in organizations and of individuals. There are many issues regarding this research field which makes it impossible to provide a complete overview with this paper. The basis for this paper is an overview of the relevant literature regarding social capital and organizational theory. The result of the paper is the explanation of the influence of social capital on organizations and the impact of social capital on the result of processes, behaviour or action of organizations and individuals.

**Key words:** *social capital, organization*

**JEL code:** M10

### Introduction

Social capital is part of the organizational theories. Social capital describes the relationship between individuals and organizations. The results of the relationship are reactions, action and behaviour. The purpose of the theories is to explain organizations for the scientific work and to give practical implications. The result of the research helps individuals to understand their environment, processes and behaviour, especially the behaviour of real organizations. This knowledge is needed to improve, develop and to change the reality successfully. This paper identifies social capital and explains the impact of social capital in companies, networks or clubs for example.

Many scientists describe organizations and the processes, functionality and behaviour of organizations. There are different theories and explanations. This section concentrates on the natural system, rational system and open system under the consideration of social capital. In addition there are different ideas and explanations for social capital. The paper identifies social capital as a structure of relationships between individuals or organizations and social capital as a resource.

### Social capital theories under consideration of organizational theory

This chapter presents a short prelude to describe the different explanations of social capital. There are many scientific institutions and fields that use social capital for their research. The difficulty is that there does not exist a general understanding about the definition of social capital. In general social capital explains the consequences of relationships for the activities of the involved parties. This means the social capital theory provides an explanation regarding the relationships between members in organizations. A

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relationship is only possible if people exchange something with each other (Jans, 2003) (Nahapiet & Ghoshal, 1998) (Li & Luo, 2011) (Ibarra, Kilduff, & Tsai, 2005) (Lin, 2001) (Coleman, 1988). Burt and other authors mention in their papers that the informal and formal structure of organizations and the impact of the structure on the organization is social capital. Burt describes the relationship between organizations and individuals under the consideration of the structure of Networks. Scott and Davis mention that the performance of an organization depends on the structure of the organization (Burt, 2002) (Scott & Davis, 2007) (Nahapiet & Ghoshal, 1998) (Tsai & Ghoshal, 1998) (Oh, Chung, & Labianca, 2004) (Kilduff & Krackhardt, 1994). Granovetter explains in his paper the different relationships and the different kinds of relationships between humans. He is an advocate for the strong and weak ties concept between individuals. The differences of the tie influence the value of social capital e.g. reachable resources or information. Social capital describes the reasons for individuals to cooperate and the advantages and disadvantages of relationships between individuals and organizations (Granovetter, 1973) (Coleman, 1988). Individuals use their social capital to achieve their goals. They use resources and skills of other individuals or organizations. The access to the resources and skills of other sources enable them to achieve their goals and to satisfy their desires and needs. The social capital theory explains the reasons for individuals to share and to exchange their resources and skills with other individuals. The social capital theory has the focus on connections, mainly the relationship between individuals or organizations (Jans, 2003).

The focus of social capital is the relationship between individuals, how they organize their network and the transfer of resources. The connection is the channel for and to resources. The theory describes the consequences of behaviour and exchange of resources. The social capital theory explains the exchange of resources and the reason for the exchange of resources. The exchange of the resources based on trust to each other, reciprocity and sympathy. The exchange of resources and information has a social perspective and depends on the relationship (Jans, 2003) (Ibarra et al., 2005) (Powell, 1990) (Lin, 2001). The exchange depends on the kind of ties. Distance, centrality, age, clustering and structural holes are the main variables to describe the density and cohesions of networks or organizations. The density and cohesion is an important variable for the social capital and to measure the value of the social capital for the individual (Scott & Davis, 2007). The above mentioned points are indicators to describe networks and ties. The mentioned variables define the social capital of a person in a network.

Strong ties are very useful for complex issues and challenging tasks for teams. The strong ties support the exchange of information and decrease the transfer time. However the strong ties related individuals have a similar understanding about things and they communicate in the same language. Strong ties describe the relationship between people and all people in the network know each other. That means all members of the network have a direct access to each other without an agent between them. The social capital bonds the members in the network. In addition a strong tie is defined by the age, density and regularity of the relationship (Granovetter, 1973). This condition is very useful for the transfer of confidential or difficult information. The negative effect of strong ties can be that one member of the strong ties reflects on all individuals who are related with these strong ties. Weak ties have less cohesion and regularity. The structural hole means that a person has a relationship to two friends and the two friends do not have any contact. It is an advantage for organizations to fill the gap between the networks because that helps organizations to identify new solutions and to identify important information from another organization. The individual between the networks is defined as an agent. The agent can use his knowledge and access to resources to support the different networks and can use the position between the networks to have an advantage (Norris, 2002) (Beugelsdijk, 2003). It might be that weak ties give information only under certain conditions. In general it is difficult to measure the opportunity costs to cultivate and maintain ties.

The main point for the transfer of information or resources is the willingness and ability of the individuals involved. The functionality of organizations needs the transfer of information and resources. An



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organization cannot exist without any transfer of information or resources. This is the important point to increase the social capital in organizations. It has to be under the consideration of the mentioned aspects that the information or resource is valuable for the organization (Hansen, 1999) (Nahapiet & Ghoshal, 1998) (Li & Luo, 2011) (Bolino, Turnley, & Bloodgood, 2002) (Ibarra et al., 2005) (Coleman, 1988).

Organizational theory describes organizations with their structure, functionality, behaviour, achievements and processes. The organizational theory concentrates on organizations and the theory explains reasons for organizations to find decisions and their behaviour.

Coleman wrote in his paper on page 96: "...norms, interpersonal trust, social networks, and social organization are important in the functioning not only of the society but also of the economy" (Coleman, 1988)

This means social capital is important for the economy. Organizations are part of the economy and they need social capital to exist. Social capital supports the processes and functionality in organizations.

The natural system matches mainly with social capital. Social capital and the natural system are influenced by the environment. The advantage of social capital is to improve the situation of individuals. The development of the individual can improve the situation of the organization. The social capital theory explains the different opportunities for individuals to support each other and to solve problems with the support of the group or members of the individual network. The situation of an individual is influenced by the environment (Gerald F. Davis & Marquis, 2005). The natural system explains organizations as a construct for people. The second point is that the behaviour of individuals has a consequence for the organizations of the individual and the individual himself. Both points are described deeper in the social capital theory. There is mentioned that individuals need the access to resources from other network members to live and to change their situation. The essential points for social capital are trust, reciprocity and sympathy (Nelson, 1989). The critique and difference between social capital and natural system is that the natural system reacts to the environment. The individual and the reactions of the individual depend on the environment and the individuals do not have any engine to do something on their own. Social capital has an intrinsic motivation aspect and is controlled by the individual (Coleman, 1988).

Social capital does not explain the coordination of activities in organizations as the rational systems theory is doing (Scott & Davis, 2007). Another factor is the hierarchy. The hierarchy in the social capital theory is mainly mentioned by Burt who concentrates on the position of a member in a network. The social capital of individuals that are in the upper level of the hierarchy might amount to more than the social capital of people on the lower level of the hierarchy. However Burt demonstrates in his papers that it is not only the position in the hierarchy, that is important for social capital, the connections to other organizations or individuals outside of the organizations are important for the social capital too. His focus is on the structure of the network and the bridging functions between different networks of the individual. This means if an individual is the single contact between two organizations then the individual has the advantage of being the broker between both networks. This position in the structure gives the owner of the single contact an advantage because this individual has more access to resources than the colleagues of the individual might have. The main issue of social capital is the relationship between individuals and the result of this relationship. Burt describes formal and informal structures. Both kinds of structure have the opportunity for social capital (Scott & Davis, 2007) (Norris, 2002)(Beugelsdijk, 2003).

The organization as an open system define their members because they have unique behaviour or they are doing special activities. The social capital theory describes members of a network as humans with similar interests. Their human capital is an important part of their social capital and increases the interest of organizations to invite individuals to their organization. The achievement of the organization is to develop their organization with the knowledge, skills and resources of their members. The main focus is the information that members provide to organizations. Individuals invest time, money, power or another resource to reach their goal. They are investing their resources in the organization because they believe in the organization and trust each other. Trust is one of the most important indicators for social capital (Scott & Davis, 2007).



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The definition of network is ties between nodes. The node can be a group, individual or organization. The tie is the channel to exchange information or resources to another node. The network contact can be formal or informal. Open systems can describe the network as an organization but networks differ from organizations. The difference between an organization and a network is that in an organization resources can flow easily between the different members and the organization has processes to share resources. The network describes the whole systems of the world and organizations can be part of a network with other organizations. Members of organizations in an open system are individuals with the same interests or background. They have bonds around their networks and differentiate themselves from other individuals in regard to an individual indicator (Scott & Davis, 2007).

## **Advantages and disadvantages of social capital in organizations**

Different organizations with different goals have conflicts with each other because they have disjunctive goals (Van De Ven & Poole, 1995). Social capital decreases the conflicts in organizations. The decrease of internal and external conflicts results in an increase of performance because the organization concentrates on their core tasks. The reason for the decrease of conflicts is trust. Both parties trust each other and that reduces the conflict potential. The result is more efficient and effective processes and organizations. Another point for the increase of efficiency and effectiveness is that individuals with social capital have a similar understanding about processes and backgrounds or the organization provides a norm to improve the organization. Both support them to communicate faster and without much miscommunication. They have similar norms and values. The better performance is the result of strong and weak ties. (Jans, 2003) (Tsai & Ghoshal, 1998) (Nelson, 1989) (Powell, 1990).

Humans have expectations, abilities, needs and interests. These are the reasons for individuals to enter a group. Industrial organizations need access to the labour market to recruit employees. The motivating factor for organizations to recruit new members or employees is to increase the power of the organization, to develop the organization or to stabilize the growth of the organization. Any new member of the group has resources and these resources increase the social capital of the member and organization. The organization is interested in growth and developing. To maintain the growth of the organization or to increase the growth of an organization it is important for the organization to recruit individuals. The growth is important for different reasons like the power of organizations, assure the existence of organizations or access to resources for organizations. Turner mentions that social capital is needed to develop the economy in a society (Turner, 1999).

This is the reason why organizations recruit individuals. Social capital helps organizations to identify candidates and to hire employees. The individual decides about membership of an organization and organizations define which individuals are of interest to join the organization (Coleman, 1988). If potential candidates know members of the organization then it will be easier to identify suitable candidates. Organizations use their members to identify candidates or give their members the opportunity to provide potential candidates to the organization. Candidates with relationships to organizations and their members are more convinced to enter the organization because these candidates get more and tailored information about the organization. One important point is the trust between the member of the organization and the candidate that supports the candidate to find a decision for or against the organization. In addition Han and Han mention that the quality of recommended candidates is generally very high and valuable for the organization. The organization uses the social capital of the employee to hire new employees with a high quality for the organization. This increases the performance of the company because they have candidates that match the requirements of the organization (Han & Han, 2009) (Granovetter, 1973) (Brito, Waldzus, Sekerdej, & Schubert, 2010) (Hämmal & Vadi, 2010). There are several negative impacts of hiring candidates from the employee network. One is that the potential candidates do not have new resources



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because they have similar resources and information to the employees. It is not possible to find candidates that are “thinking out of the box” for the organization because the presented candidates by employees have a similar education, norms and cultural backgrounds. Social capital is the glue between members of organizations and between different organizations. The cohesion and density of the members of organization is an important point for the organizational theory (Stiglitz, 1999). Bolino, Turnley and Bloodgood write in their paper that organizations with a high satisfaction, provided by leadership and relationships increase the productivity of the employees (Bolino et al., 2002). Social capital is a kind of power and influences the leadership style in organizations. Another influence on efficiency and effectiveness is trust. As mentioned above trust is a part of social capital (La Porta, Lopez-de-Silandes, Shleifer, & Vishny, 1999) Social capital can influence members of organizations. This is an important issue for the organizational theory to explain leadership and further actions in organizations (Lin, 2001). The negative impact of strong cohesion and density is that other individuals are excluded. That can have a negative impact on societies. One more negative issue is the transparency of organizations with strong density and their behaviour for other organizations or communities. The Mafia is a group with a high density and cohesion for example (Putnam, 1995).

Individuals use their social capital because they are trying to reach a goal. This goal is created by themselves or the environment. An important influence on the environment is the market mechanism, that is another variable by which individuals define their goals (Scott & Davis, 2007) (Coleman, 1988). As humans depend on their environment they use their social capital to achieve their goals and to defend their status. Social capital provides capital to produce products or services. Social capital and the organization help them to maintain a better position against competitors, enemies or any other individuals. The organization supports them to achieve their goals. The goals of the organization and the individual members of the organization might be different. Individuals can misuse the organization to reach their individual goals. In reality it is not possible to separate the organization from a system which is given by the environment. This differences influence the kind and type of the organization (Scott & Davis, 2007).

Technological changes have led to new circumstances regarding organizations and networks. Internet networks work independently on a technological basis without the influence of individuals or direct nodes between individuals. The new technologies and resulting opportunities created by new technologies reduce corruption and other negative effects of social capital. Technologies react and evaluate situations without any emotions, prejudgments or other human effects. Technology works rationally and is unbribable. Modern technology reduces the transaction between individuals (Scott & Davis, 2007) (Ibarra et al., 2005) (G. F. Davis, 2010). However the technology gives organizations new opportunities to build new structures and to organize themselves. The quality and time spent to reach a decision changed for the better with the technological changes (Scott & Davis, 2007). The technology develops social capital and gives social capital new opportunities to transfer resources, to maintain relationships and to create new ties to individuals with interesting social capital. But not only technology changes the organizations. Davis and Marquis mention in their paper that organizations are permanently developing themselves and that changes are observable in organizations. Organizations need changes to reach their goals and to exist (Gerald F. Davis & Marquis, 2005) (Van De Ven & Poole, 1995). These changes are important for organizations to exist but the social capital persists and the social capital of the individual is independent from the organization.

Kilduff, Krackhardt and other authors identified in their paper that prestige is a part of social capital. Prestige for an individual or organization is described as the status, history, skill set, resources and presented solutions of a person. Individuals and organizations have prestige. Already a new member in an organization can increase the prestige of the organization or the prestige of the organization can reflect on the individual. Positive prestige influences the reputation of an individual or organization. The reputation helps the member or organization to get access to resources. The resources might not be accessible if the prestige of the individual or organization is negative. The place of an individual in the formal or informal



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structure of an organization might be an indication about the prestige of the member. Prejudgment is a negative aspect of prestige. If the prestige of an organization or individual is negative then the organization or employees have a disadvantage. The result is that the negative prestige is transferred to the organization and member of the organization (Scott & Davis, 2007) (Kilduff & Krackhardt, 1994) (Labianca & Brass, 2006) (Coleman, 1988) (Stiglitz, 1999).

The task of the organization is that the organizations advocate achievements of their members. That is one reason for individuals to be members of an organization. These achievements might be negative for the whole system. The network uses the social capital of their members to reach goals for their members. This is positive for the network but it can be negative for the whole system or for other individuals (Scott & Davis, 2007) (Nahapiet & Ghoshal, 1998) (Lin, 2001).

Social capital can serve as a competitive advantage for organizations. As mentioned above social capital help to develop organizations, provide them with additional information and resources, increase their knowledge and create new solutions. The members of an organization share norms, narratives, morals, and ethics standards. This might be very useful for an organization to be more efficient and effective. Social capital supports organizations to be successful and gives a benefit for the organizations or individuals. The negative impact of social capital on organizations is that the result of social capital is the disadvantage for other organizations e.g. corruption. The limitation of relationships and norms given by the organization can be a barrier for further development and changes. Ethic, norms and moral concepts are not only an advantage; they may prove to be a disadvantage for the organizations. The same history and an organization with only strong ties have difficulties in developing themselves and reacting to changes or new situations (Bolino et al., 2002) (Ibarra et al., 2005) (Labianca & Brass, 2006) (Coleman, 1988).

Some business is only possible with social capital. As mentioned the main aspect of social capital in business is trust. Trust increases the efficiency and effectiveness of organizations. There are several businesses that are based on trust. Businesses based on trust help the companies involved to make more profit. The second component is penalization that this business is possible. This means if a member misuses the trust that the involved individual can penalize the wrong doing person. In order to investigate the wrong behavior organizations need the opportunity to monitor the network. Obligations are the last part of this construct. Organizations need social capital to do business with each other. With less social capital business, functionality and action for organizations is more difficult. The diamond market in the Netherlands is a famous example for business on trust (Coleman, 1988). One other example is an investment in an organization; individuals invest more in an organization if they trust the organization.

## Social capital in Organizations

Social capital has the focus on many scientific fields e.g. economic, political or sociological. Their focus is on all kind of groups. Putnam's focus is on a political and society. Lin and Coleman are more focused on economic issues. Burt's explanations are focused on sociology. Burt concentrates on networks and the structure of networks is not only independent of the environment and situation. The network depends mainly on the individual. Social capitalist theorists identify through their work informal and formal organizations to explain behavior and consequences (Scott & Davis, 2007) (Putnam, 1995).

The social capital theory explains the individual as an independent active player with self interests. The social capital theory presents the individual as an independent acting actor with individual goals. Social capital can be obligations, expectations, information channels and social norms. Organizational theories use social capital theory as one theory to describe the rational behaviour and decision finding- and making process of individuals in organizations. The capital of social capital is not only the network or having contact to other humans. The social capital is the access to resources given by a contact or an



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organization. But it is not only access that is important for social capital. In addition it is important to get the resource if needed. This is the main issue for the social capital and to have the individual advantage of the social capital. Social capital is constrained by individual's resources, the opportunity to transfer the social capital and to "store" the social capital. The structure of social networks influences the existing social capital of the network. In addition the position of the individual in the network is important for the social capital. It is important to consider the situation and only in some situations does a social network constitute social capital. The social capital of a network depends on the objective of the social network and the objective of the individual. The interest of the individual is to use the network with the social capital to reach an objective. One indicator for social capital is that the social capital is transferable, needed and provided if required (Jans, 2003).

The organizations are initially created to reach a goal or to solve a problem. This is the main focus to found an organization. Social capital can be built without a direct goal. For example people may help or support another person though they do not know when and what they will get back for their support. They trust that they will get some benefit back in the future for their social capital. (Coleman, 1988)

The advantage of social capital is that it is autonomous. The individuals are responsible for their ties and the social capital is only accessible for them. Organizations can change their processes but social capital is independent of organizations. This is the interesting point for companies to hire employees from competitors to get their social capital. Social capital is transferable from humans to organizations and organizations can transfer their social capital to their members. The organization alters their number of relationships if members initiate a new relationship. Any new relation of a member of the organization changes the structure of relationships of an organization (Bolino et al., 2002). The members of organizations participate in the same project to find a solution which assists in reaching the goal of the organization (Browning, 1977). The owner of the social capital is mainly the single individual and the given social capital is permanently available. The individual gives the commitment that the organization can use the social capital of the individual. Human capital is one part of the social capital for example. Only the individual can decide about their own social capital (Turner, 1999). The reward of social capital is difficult. This means that if a resource is given the chance to get an equal resource back is sometimes impossible and often difficult. The difficulty is that social capital is not measurable as the value of the given resource depends on the individual and situation. The value of resources and information over ties between individuals is difficult to quantify. Some social capital is unique and depends on the situation and the individual. In addition the organization learns and has benefits from new members with interesting resources (Hansen, 1999) (Nahapiet & Ghoshal, 1998) (Li & Luo, 2011) (Tsai & Ghoshal, 1998) (Oh et al., 2004). All humans are responsible for their social capital. They have to create their own social capital. The creation of social capital for individuals needs the willingness and access ability from the owner of the social capital, the opportunity to give the social capital and the transferability of the social capital. Organizations can provide support to get more social capital but the single individual is responsible to maintain, cultivate and to create social capital. The social capital is not only guided by organizations, it is guided by the interests of the person and the sympathy to other individuals with interesting resources. The intangibility of social capital disables the transfer of social capital. That can be a barrier to exchange social capital. Organizations provide their members with processes and advice with whom they should cooperate or the organization enables their members to get in contact with other members of the organization. This is organized by the kind of organization and the individual does not have many choices. The organization regulates the relationships in the organization. Of course relationships in an organization between individuals or organization are social capital too (Bolino et al., 2002). Organizations have a goal and that is to produce products, to create knowledge or to provide a service. Most organizations have one main goal. The organization has special capabilities for regularly creating something that has a positive effect for individuals. Social capital is more passive. Individuals use social



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capital if they need resources or support. That is not regular and depends on the situation. The individuals use their social capital for different purposes and depending on the situation (Nahapiet & Ghoshal, 1998).

Emotions have a large influence on social capital. Relationships need emotions and emotions influence the quality of the relationship. Some connections do not have a rational reason or they are not rational explainable. As already mentioned, connections depend on the individual.

Organizations have a hierarchy and structure. Social capital has only a structure. The position in the structure is important for social capital. In organizations the position of an individual in the hierarchy is important from the perspective of power and influence. The position in the hierarchy supports the social capital because individuals at a higher level in the hierarchy have access to more resources and information. However the hierarchy does not substitute the position in the structure of the individual's network.

## Conclusion

The paper describes that social capital and organizational theory are related. The theories describe the advantages and disadvantages of individuals to be a member of an organization or network. Social capital explains relationships and organizations need relations between their members for their existence. In addition an organization needs bridges to other organizations to exchange goods or services, develop their organization, increases the wealth of the organization and members of the organization and to create new products or services. Social capital improves the situation of organizations because with social capital organizations can reduce their transaction costs between organizations and insight of organizations. Social capital reduces costs because conflicts are reduced, sanctions are lower and the monitoring of processes is not needed for example. Without social capital some business is not possible. Without the given business which is based on trust organizations are not able to exist. The transfer of confidential and "difficult to explain" information is easier with social capital. The negative impact of social capital in organizations is the barrier for individuals who do not benefit from the organizations goals. Another consideration is prejudice and negative prestige. Corruption is one of the main negative effects of social capital (Turner, 1999).

Social capital needs an exchange to exist. The social capital theory explains the behavior of members of networks. The social capital has a higher focus on the individual. The network of individuals can include different organizations and social capital theory describes the ties to the different organizations. The structure of the network can be an advantage or disadvantage for the individual. The structure of the individual's network is not formalized and does not depend on an organization. Social capital is created by the individual and the individual is responsible for their own social capital. The individual can use their social capital for their interests and decide themselves about their social capital. The benefit for companies with a high social capital is the better result compared with other companies (La Porta et al., 1999). To summarize the paper, social capital is needed by organizations to create value for the organization and the community. The decision finding process is influenced by social capital. Social capital enables organizations to exchange and provide advantages or disadvantages to their members. Social capital is focused on individuals and their relationships. Organizations are focused on goals which they reach with their social capital.

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