**TITLE**

Corporate Social Capital: The Bright Side and the Dark Side

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**ABSTRACT**

This developmental paper contributes to two opponent views on corporate social capital which is identified as the resources, inherent in the social structure, that accrue to corporate actors. While the traditional view of social capital stresses the positive effects of network closure, others indicate that the enthusiasm with this ‘bright’ side is too one-sided. We address this issue from a resource-based view through a multiple-case study in the Turkish automotive industry. Preliminary results suggest that (1) while corporate social capital facilitates information/knowledge benefits, it leads to an asymmetry of power; (2) solidarity drives better inter-firm cooperation, but strong solidarity hampers innovative capability. We show how the dilemma was managed in the automotive industry. We evidence a trade-off between the safety of cooperation and the flexibility in structural holes in inter-organizational cooperation.

**Key Word:** Corporate Social Capital, Automotive Industry, Turkey, Multiple-case Study

**Corporate Social Capital: The Bright Side and the Dark Side**

Scholars of inter-organizational relationships have long been concerned with why some firms are more successful than others. The theory of social capital has been used as a recent approach in the study of success and failure in the competitive marketplace. The notion that social capital creates economic prosperity has long been recognized (Coleman 1988; Putnam 1993; Fukuyama 1995; Nahapiet and Ghoshal 1998). Given the benefits of inter-organizational cooperation, a growing number of scholars place emphasis on the importance of understanding the dynamics of social capital that accrues to corporate actors (Wilson 1997; Nahapiet and Ghoshal 1998; Adler and Kwon 2002). In the literature, this is termed as corporate social capital (CSC) – the focus of this paper. Corporate social capital theory is fundamentally concerned with the resources inherent within corporate structures and corporate social exchange (Gabbay and Leenders 1999). Research on CSC has stressed the benefits that inter-firm networks can bring to managers and other economic actors (Padilla-Meléndez et al. 2012; Kemper et al. 2013). On the other hand, Gabbay and Leenders (1999), Gargiulo and Bernassi (1999) and Hansen, Podolny and Pfeffer (1999) all point out that the enthusiasm with this ‘bright’ side of SCS neglects the fact that social bonds may at times have detrimental effects for a manager and produce corporate social liability. However, while a large body of research focuses on the positives of social capital, the literature on its risks is much sparser (Adler and Kwon 2002; Gargiulo and Ertug 2006), suggesting that little progress had been made in this respect. This paper contributes to the two opponent views on social capital in inter-organizational cooperation.

To address the issue, this developmental paper critically reviews the existing literature of CSC on its benefits and its risks in particular. Results of the literature review suggest that while researchers have made massive theoretical contributions, empirical study on the benefits and risks of CSC is rather limited (Adler and Kwon 2002). This intrigues us to conduct an exploratory multiple-case study. Our field work was set in the automotive industry where inter-firm cooperation is a common phenomenon.

CSC has its roots in the theory of social capital. In general, there is a lack of consensus on a precise definition of social capital (Nahapiet and Ghoshal 1998; Adler and Kwon 2002). Nahapiet and Ghoshal define social resources 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 (1998: 243). Adler and Kwon view social capital as ‘the goodwill available to individuals or groups (2002: 23). ‘Goodwill’, as Adler and Kwon (2002) suggest, refers to the conceptual notions such as trust, sympathy, and social support embedded within networks of mutual acquaintance and inter-organizational relationships. The central proposition guiding social capital research is that the goodwill that one organization has toward another organization is a valuable resource. Research on social capital studies both external and internal ties and both individual and corporate actors. For the purpose of this paper, we focus on the corporate inter-firm relationship. Aligned with this line of thought, Gabbay and Leenders view CSC as ‘the resources, inherent in the social structure, that accrue to corporate actors. Social structure refers to a network of actors who are in some way connected via a set of relationships (1999: 1). For our discussion of the bright and dark sides of CSC, we borrow an analytical structure from the social capital literature and consolidate the distinction among three aspects: information/knowledge, power and solidarity (Coleman 1988; Putnam 1995; Burt 1997; Fukuyama 1997; Nahapiet and Ghoshal 1998; Sandefur and Laumann 1998; Woolcock and Narayan 2000; Adler and Kwon 2002).

The first benefit of having SCS lies in information and knowledge. Coleman (1988) stresses that social capital facilitates access to wider sources of information and improves the quality, relevance and timeliness of information. Nahapiet and Ghoshall (1998) emphasize that social capital facilitates the creation of new knowledge. The literature suggests that relevant areas of knowledge sharing, inter-firm learning and intellectual capital are among the most studied topics in the social capital literature. Another studied topic is associated with ‘influence, control and power’. Indeed, power gets things done. For example, Burt (1992, 1997) highlights that managers spanning social capital tend to be more powerful because they can control projects that connect other groups. Zhang and Wu (2013) show that power, as an effect of social capital significantly contributes to a firm’s new product development performance. Solidarity is another important dimension in social capital research. Solidarity emphasizes the benefits of collective goal attainment and cooperation rather than individual achievements in a network or dyadic relationship (Atuahene-Gima and Murray, 2007). Granovetter (1982) who studies structural and relational embeddedness suggests that strong social norms and beliefs, associated with a closure of the social network, encourage compliance with local rules and customs and reduce the need for formal controls. Kemper et al. (2013) demonstrate the benefit of solidarity in collaborative product development and suggest that managers promote solidarity among network members by providing opportunities for social interactions and by striving for a shared vision.

While some scholars identify social capital as a resource with only positive outcomes, others increasingly see this position as too one sided (Hansen et al. 1999; Leana and Van Buren 1999; Adler and Kwon 2002). For example, Hansen (1998) and Granovetter (1992) point out that firms enjoying more information benefits through strong ties tend to be less effective in searching new ideas than firms with weak ties. Researchers have found that inter-firm actors, who enjoy a high abundance of knowledge resources, appear to rely less on the support of social networks, in which case investment in social capital may have detrimental effects (Granovetter 1995; Munshi 2003; Ioannides and Loury 2004). Furthermore, the literature suggests that there is a dynamic complexity between information benefits and power benefits of social capital. For example, Ahuja (1998) has found that a focal firm’s cooperative partner will be less dependent on the focal firm if its partner has a few other firms from which to gain information benefits. This leads to a paradox between value-creation and value-appropriation (Brandenburger and Nalebuff 1995; Lacoste 2012). Cooperative parties not only increase the ‘pie’ but also try to maximize their share of the ‘pie’ (Jap 2001). The solidarity benefits of social capital may backfire for the focal firm in several ways. Frist, strong solidarity may risk the flow of new ideas. For example, Kern (1998) notes that in Germany today firms are too ‘loyal’ to established suppliers, and thus are slow to look around and adopt more novel ideas. This is the syndrome of ‘the ties that bind may also turn into ties that blind’ as Powell and Smith-Doerr describe (1994: 393). Portes (1998) also notes that social capital in tight-knit communities may create ‘free-riding’ problems and hinder entrepreneurship. Furthermore, the issue of ‘tragedy of the commons’ challenges the value of solidarity. Social capital is essential for maintaining and enhancing the value of public goods. Public goods are maintained through co-operation and trust, and jeopardized through the pursuit of individual self-interest. Those systems where the rationality of individual short-term gain leads to collective irrationality are known as the ‘tragedy of the commons’ (Senge 1990). There is a rich literature deploring the lack of civic commitment and the rise of individualism, and sceptics of social capital argue that social networks can promote unethical behaviour and conspiracies (e.g. Brass, Butterfield and Skaggs 1998). All these lead us to question whether CSC is an asset or liability, and how it is managed.

To better understand about how firms manage the benefits and risks of social capital, a case-based exploratory study is conducted in the Turkish automotive industry. We chose the Turkish automotive industry for several reasons. The automotive industry is one of the prominent industries where inter-organizational cooperation for R&D and resource is crucial for its industrial development. Turkey, an important emerging market, has now become one of Europe’s major automotive exporting countries. It provides a rich platform for us to investigate how CSC is managed in its industrial development. Furthermore, Turkey, geographically, is located between the East and the West. Its mixed-cultural background between individualism and collectiveness provides us a unique setting in which to study our topic. Three cases were carefully selected to enable distinct comparison of the studied topics. Case one studies the inter-organizational cooperation between a local Turkish automobile manufacturer and its Italian MNE partner. Case two involves a local automobile company and its Korean MNE partner. The research project is a longitudinal study between 2008 and 2014.

Preliminary results suggest that CSC plays an important role in promoting knowledge sharing and inter-firm learning. Our cases suggest that while CSC promotes information/knowledge benefits for better R&D development, it leads to an asymmetry of power (Czakon 2009). From a resource-based view, the resources gap (e.g. knowledge) motivates inter-organizational cooperation; it however also establishes an actor’s (the more knowledgeable one) power to impose its will on others (the less knowledgeable ones), irrespective of their wishes (Macneil 1980). In our cases, for example, there is an obvious knowledge gap between the local Turkish firms and their MNE partners. The MNEs (the more powerful side) decide how and when to cooperate with local Turkish firms solely for their (MNEs) own advantage. This power-asymmetry is a painful dark side for the local Turkish firms. Interestingly, two local Turkish firms apply a totally different approach in managing CSC when dealing with this ‘power’ issue, resulting different performance. Furthermore, our study aligned with the literature (Granovetter 1992; Kemper et al. 2013) that a collective goal (i.e. solidarity) drives better inter-firm cooperation. However, our study indicates that strong solidarity hampers the innovative capability and jeopardizes the subsequent ability to pursue new opportunities. The finding coincides with the study by Gargiulo and Benassi (2000) who have found that social capital embodied in inter-firm cohesive networks can turn into a liability that hindered, rather than helped, firms’ performance. Our study suggests that the issue of CSC is a complex one. We show that CSC may hamper the opportunity for co-evaluation of cooperated parties. There exists a trade-off between the safety of cooperation and the flexibility in structural holes in inter-organizational cooperation. And the ‘optimal’ balance between safety and flexibility seems to be contingent to firm’s assessment between the risk of opportunism and the cost of malfeasance. Finally, CSC has its bright side and dark side. We call for further research on how to maximize CSC’s benefits and minimize CSC’s risks. Investigation of moderators and mediators on the contingencies of these effects is recommended.

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