Trust, Social Capital, and Organizational Effectiveness

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Major paper submitted
to the Faculty of the Virginia Polytechnic Institute and State University in partial
fulfillment of the requirements for the degree of

Master of Public and International Affairs

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April 22, 2004

Blacksburg, VA

Keywords: trust, social capital, organizational effectiveness

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ABSTRACT

Many authors have argued that social capital is positively related to economic prosperity, regional development, collective action, and democratic governance. But it alone can not explain all of these phenomena in societies. The concept of trust can not be neglected in the social capital literature. Considerable confusion exists concerning the relationship between social capital and trust, namely whether trust is a precondition of social capital or a product of it. This paper begins to explore their relationships by tracing the origins and development of the concept of social capital. It then discusses the relationship between social capital and trust by comparing their origins or sources. Finally, these two ideas are placed in organizational context to develop an analytical distinction between trust and social capital while clarifying and exploring the implications of these two primary perspectives on organizational effectiveness. The paper concludes that trust and social capital are mutually reinforcing—social capital generates trusting relationships that in turn produce social capital.

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I. INTRODUCTION

Social capital has commonly been studied in recent years from the perspective of sociology and political science. Through the very different work of Pierre Bourdieu, James Coleman, and Robert Putnam, the social capital construct has evolved rapidly into a complex account of people's relationships and their values. Having achieved considerable, even worldwide salience, it has been regarded as a constructive element in the creation and maintenance of economic prosperity (Fukuyama, 1995), regional development (Grootaert & Bastelaer, 2002), collective action (Burt, 1992) and democratic governance (Putnam, 1993; 2000).

But social capital alone can not explain all of the phenomena to which it has been related. Much more needs to be known about how social capital is related to various factors so as to clarify its role in engendering such significant and significantly different effects. Social researchers are increasingly using trust to explain various levels of cooperation evidenced in differing social and political environments. In order for people to cooperate to achieve their goals, they need not only to know one another, but also to trust each other so that they will not exploit or cheat in their relationship, and can expect truly to benefit from their cooperation (Field, 2003). So the concept of trust can not be neglected in the social capital literature.

The social capital literature evidences some confusion concerning that concept's relationship to trust. In particular, two issues have persistently led to questions about the coherence of the concept --- whether trust is an integral element of social capital as represented by scholars like Coleman (1988), Putnam (1993), and Fukuyama (1995); or alternatively is one of social capital's products and consequences as represented by scholars like Woolcock (1998) and Field (2003). The close relationship between trust and social capital is partly due to their similar origins or sources. Thus, drawing an analytical distinction between trust and social capital makes it possible to examine their relationship more closely and parsimoniously.

There are powerful reasons for placing these ideas in organizational context to develop an analytical distinction between trust and social capital while clarifying and exploring the implications of the two different perspectives for organizational effectiveness. Most literature on social capital has focused on individuals (Baker, 2000), nations (Putnam, 1993), cultures or regions (Fukuyama, 1995), rather than on organizations. Analysts often see organizations as machines producing goods, services or knowledge or as companies that manage resources and coordinate individuals to accomplish a task. Some point to many organizations with high social capital that have survived for a long time without paying much attention to what social capital means. That is, organizations themselves often ignore social capital, and seldom understand, analyze or even discuss the networks and communities integral to it. Besides changes in organizations, the economic, social, and technological worlds they inhabit make an understanding of organizational social capital more important than ever (Cohen & Prusak, 2001).

Similarly, the importance of trust is often acknowledged but seldom examined.

Gambetta (1988), for example, has argued that scholars tend to mention trust, to allude to it as a fundamental ingredient or lubricant, an unavoidable dimension of social interaction, only to move on to deal with less intractable matters (p. ii). Luhmann (1988) contends that trust has never been a topic of mainstream sociology. Dasgupta (2000) argues that “it is not easy to model the link between personal, groups and institutional trust. However, the link needs to be studied if we are to understand the ideal of social capital (p. 333).”

Trust and context are inextricably linked. We experience trust in numerous contexts, such as within family, between and among friends, and colleagues, with organizations and institutions. Any discussion of trust must be contextualized to have meaning and relevance. Trust within the context of family differs from the trust we experience within civil society. Organizational trust is more than simply the personal trust that exists between individuals based on reputation and experience (Cohen, 2001). It can be seen as deriving as well at least partly from the roles, rules, and structured relations of the organization (McCauley & Kuhnert, 1992).

On the other hand, I myself was confused about the nature of organizational trust and social capital and their relationship. Therefore, from a personal intellectual-growth perspective, analysis of the relationships between trust and social capital within organizational contexts may portend how useful it would be to assess these related literatures, while helping me understand better what each suggests for organizational effectiveness.

To achieve this goal, the second section of this paper introduces the concept of social capital by discussing the arguments of three leading figures concerning it; Bourdieu, Coleman, and Putnam. The third section compares the origins and sources of trust and social capital and presents two different perspectives on the relationship between them, namely whether trust is a precondition or a product of social capital. The fourth section places these two ideas in organizational context to develop an analytical distinction between trust and social capital while clarifying and exploring the implications of the two primary perspectives for organizational effectiveness. The paper concludes that trust and social capital are mutually reinforcing—social capital generates trusting relationships that in turn produce social capital.

II. THE CONCEPT OF SOCIAL CAPITAL

The term “capital”, according to the *Merriam--Webster Dictionary,* refers to “accumulated wealth, especially as used to produce more wealth (p. 115).” It is usually identified with tangible, durable, and alienable objects, such as buildings and machines, whose accumulation can be estimated and whose worth can be assessed (Solow, 2000). As Field says, “in economic thought, the term ‘capital’ originally meant an accumulated sum of money, which could be invested in the hope of a profitable return in the future (Field, 2003: 12).” Bourdieu has argued that capital exists in three fundamental forms: economic capital that can be directly convertible into money and institutionalized in the form of property rights; cultural capital that may be convertible into economic capital and institutionalized in the form of educational qualification; and social capital, made up of social obligation that can be convertible into economic capital and institutionalized in the form of a title of nobility (Bourdieu, 1986, 243). So different forms of capital are inter-convertible.

The concept of social capital has received considerable attention recently among sociologists, economists, and political scientists. Irrespective of disciplinary focus, there is growing consensus among researchers that three leading figures, Bourdieu, Coleman, and Putnam, have made great contributions. These three writers have been described as having created “relatively distinct tributaries” in the literature on social capital (Foley & Edwards, 1999: 142). Bourdieu and Coleman emphasize the role of individual and organizational social ties in predicting individual advancement and collective action. By contrast, Putnam has developed the idea of association and civic activities as a basis for social integration and well-being (Edwards, 2001). Despite these differences, all three of these scientists argue that social capital inheres in personal connections and interpersonal interactions, together with the shared sets of values that are associated with these contacts and relationships. Lin (2001) refers to these connections as social networks "the social relationships between individual actors, groups, organizations, communities, regions and nations that serve as a resource to produce positive returns (p. 6)." The major composition of network is size (the number of ties that a person has in his personal network) and heterogeneity (the tendency toward similar or diverse actors within a network). The structure of a network refers to the relative density of links among people within it that facilitate the flow of information and the provision of social support to the social structure in which a person or a tie is embedded (Wellman & Frank, 2001).

Bourdieu developed his concept of social capital during the 1970s and 1980s as one of three forms of capital (economic, cultural and social) present in the structure and dynamics of societies. For him, social capital represented an "aggregate of the actual or potential resources which are linked to possession of a durable network (Bourdieu, 1986: 248)." He stressed that access to social capital occurred via the development of durable relationships and networks of connections especially those among prestigious groups with considerable stocks of economic and cultural capital. In many ways, his thinking on social capital was deeply influenced by Marxist sociology. He argued that "economic capital is at the root of all other types of capital (Bourdieu, 1986: 252)" and that it combined with other forms of capital to create and reproduce inequality. For Bourdiue, inequality could be explained by the production and reproduction of capital in obeisance to the social hierarchy. His work on social capital remains relatively undeveloped but it was crucial in establishing social capital as a field of study.

Sociologist James Coleman's study of social capital has been particularly influential. He incorporated his insights on sociology and economics into a rational choice theory of social capital. Based on his empirical studies of youth and schooling, he defined the concept of social capital as a "variety of entities that all consist of some aspect of social structures and facilitate certain actions of actors—whether personal or corporate actors—within the structure (Coleman 1988)." He highlighted the difference between social capital and human capital. The first, he argued, was relational, embedded in social structure, and had public good characteristics: "Unlike other forms of capital, social capital inheres in the structure of relations between persons and among persons (Coleman 1990: 302)." The structure of relations could help establish obligations between social actors, create a trustworthy social environment, open channels for information, and set norms and impose sanctions on forms of social behaviors (Coleman, 1988: 102-104). For Coleman, social structure becomes social capital when an actor effectively uses it to pursue his interests (Coleman 1990: 305).

Both Bourdieu and Coleman focused on individuals and their roles and relationships with other individuals within a network as their primary unit of analysis of social capital. The view that the actions of individuals and groups can be greatly facilitated by membership in specific social networks, specifically by their direct and indirect links to other actors in those networks, is most common among sociologists. In contrast to the view that social capital exists as an external factor, many sociologists and some political scientists believe that social capital arises from the positive interactions that occur between individuals in a network (Lesser, 2000). They consider social capital to be "a feature of the internal linkages that characterize the structures of collective actors and give them cohesiveness and its associated benefits (Adler & Kwon, 2000:92)." Putnam, Fukuyama, Woolcock, Nahapiet and Ghoshal are examples of such researchers.

Robert Putnam has played a leading role in popularizing the concept of social capital. He began his work on social capital studying institutional performance in Italy where he explored the differences between regional administration in the north and south of the country (Putnam, 1993). After analyzing the evidence of institutional performance and levels of civic engagement, he used the concept of social capital to explain the differences in civic engagement he discovered. He defined it as "features of social organizations, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions (Putnam 1993:167)." After studying American civil society, he modified his definition of social capital to "features of social life—networks, norms, and trust—that enable participants to act together more effectively to pursue shared objectives (Putnam 1995: 664-665)." He identified 'participants' instead of 'society' as the beneficiaries of social capital. In his book *Bowling Alone,* Putnam (2000) argued that "the core idea of social capital is that social networks have value…social contacts affect the productivity of individuals and groups (pp. 18-19).” He referred to social capital as “connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them (Putnam, 2000: 19).” In addition, to treating social capital as the relations that characterize the structure of social networks, Putnam regarded trust as an essential element of the norms that arise from social networks; therefore social capital had two primary components for him; networks and norms, rather than three components: networks, norms, and trust.

Similarly, Fukuyama has analyzed the link between trust, social capital and national economic success. He defined social capital as “the ability of people to work together for common purposes in groups and organizations (Fukuyama, 1995: 10).” He further expanded the definition of social capital “as the existence of a certain set of informal values or norms shared among members of a group that permit cooperation among them (Fukuyama, 1999, p. 16).” Woolcock (1998) has referred to social capital as “the information, trust, and norms of reciprocity inhering in one’s social networks (p. 153).” Nahapiet and Ghoshal (1998) have further elaborated the concept and defined it 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. Social capital thus comprises both the network and the assets that may be mobilized through that network (p. 243).”

III. THE RELATIONSHIP BETWEEN TRUST AND SOCIAL CAPITAL

Trust is closely related to social capital. Coleman (1988) contends that a system of mutual trust is an important form of social capital on which future obligations and expectations may be based. Putnam (1993) regards trust as a source of social capital that sustains economic dynamism and governmental performance. Nahapiet and Ghoshal (1998) treat trust as a key facet in the relational dimension of social capital. These different but related perceptions of the relationship between trust and social capital are partially the result of the close relationship between the sources of trust and the sources of social capital (Adler & Kwon, 2000).

A. Sources of Social Capital

Many researchers refer to networks as an important source of social capital. This view of social capital is influenced by network theorists and reflects both egocentric and sociocentric perspectives (Lesser, 2000). The egocentric perspective focuses on the connections that individual actors have with one another in a network. Sandefur and Laumann (1998) define social capital from an egocentric perspective, in which "an individual's social capital is characterized by her direct relationships with others and by the other people and relationships that she can reach through those to whom she is directly tied (p. 484)." The sociocentric approach, meanwhile, suggests that social capital is based on a person's relative position within a given network, rather than the individual's direct relationship with people in it (Burt, 1997). Burt (1992) has argued that the concept of 'structural holes' explains how social capital is a function of brokerage opportunities in a network. For him, "the structural hole is an opportunity to broker the flow of information between people and control the form of projects that bring together people from opposite sides of the hole (Burt, 1997: 340)." This argument suggests that social capital is created by a network in which people can broker connections between otherwise disconnected segments (Burt, 2001). That is structure is permanent but may be mediated by human agency.

Bourdieu and Coleman argue that a network tends to reproduce an inherited pattern of relationships via individuals' efforts to preserve social capital. Coleman (1988), in particular, argues that a closed social network-- the existence of strongly interconnected and mutually reinforcing relations between different actors and institutions — maintains the existence of effective norms and the trustworthiness of others, hence strengthening social capital. By contrast, a more open structure is less likely to allow individuals within it to detect a violation of norms, which may result in less trust among network members and thereby weaken social capital. Putnam (1993) argues that dense networks in a community foster norms of reciprocity, facilitate communication and strengthen trust, which results in citizen cooperation for mutual benefit. Lin (2001) defines social capital as "resources embedded in a social structure which are assessed and mobilized in purposive actions (p. 12)." Thus for Lin, structure itself serves as a source of social capital. He proposes that access to, and use of social resources (resources embedded in social networks), that are in part determined by positions in the hierarchical structure, can lead to higher socioeconomic status. Nahapiet and Ghoshal (1998) define social capital as the "sum of the actual and potential resources embedded within, available through, and derived from the network of relationships (p. 243)." Hence, for these researchers, social capital is an attribute of networks.

A number of theorists argue that social capital is based on shared norms, mainly generalized reciprocity. Generalized reciprocity is based on the assumption that today's good turns will be repaid some time in the future and is directly contrary to rational-choice theory. Putnam (1993), for example, argues that each individual act in a system of reciprocity is usually characterized by a combination of "short-term altruism (benefiting others at a cost to the altruist)" and "long-term self-interest (making every participant better off) (p. 172)." He believes that reciprocity can resolve problems of collective action and reconcile self-interest and solidarity. Portes (1998) sees social capital as "primarily the accumulation of obligations from others according to the norms of reciprocity (p. 7)." He divides reciprocity into consummatory motivation that is bounded by the limits of specific community and instrumental motivations that emphasize reciprocal exchanges (Portes, 1988). Reciprocity can bind the community via shared interests, create the environment that encourages voluntary collective behavior and generate the good will necessary for peaceful resolution of conflict (Newton, 1997).

Shared belief is another source of social capital. Portes (1998) refers to it as "bounded solidarity", a sense of community solidarity which results from collective shared experiences of community. "Identification with one's own group, sect, or community can be a powerful motivational force (p.8)." Nahapit and Ghoshal (1998) suggest that this shared cognitive dimension serves as a resource and provides shared representations, interpretation, and systems of meaning among parties (p.123). The shared ways of thinking and interpreting events support the generation of social capital that helps people exchange ideas, understand each other better, and more effectively share views and expectations. These together, meanwhile, facilitate joint action in communities.

Adler and Kwon (2000) argue that formal institutions and rules which help to shape network structure and influence norms and beliefs, have a strong effect on social capital. Transparent governments that are responsive to people's needs are a key factor in establishing formal community rules and institutions in government. As Levi (1996) has argued "governments provide more than the backdrop for facilitating trust among citizens; governments also influence civic behavior to the extent they elicit trust or distrust towards themselves (p. 51)."

Table 1 summarizes various sources of social capital identified by the authors mentioned above. The categories that the different authors identify appear to depend on their disciplinary background and on the questions they address with the social capital concept.

Table 1: Sources of Social Capital

Authors	Networks	Norms	Beliefs	Formal Institution
Sandefur & Laumann (1988)	Direct relationship; egocentric			
Burt (1992;1997)	Structural holes			
Coleman (1988)	closure			
Putnam (1993)	Facilitate cooperation	Generalized reciprocity		
Lin (2001)	Resource embedded			
Nahapiet & Ghoshal (1998)	Resource embedded		Cognitive dimension	
Portes (1998)		motivation	Bounded solidarity	
Adler & Kwon (2000)				Shape network; influence norms & beliefs
Levy (1996)				Facilitate trust; Influence behavior

B. Definition of Trust

Trust involves risk taking; that is, both parties know that the actions of one party can materially affect the other, but both share ideas, concerns or issues candidly notwithstanding. The sociological literature conceptualizes trust as either the property of individuals, social relationships, or the social system with disproportionate attention to behavior based on actions at the individual level (Misztal, 1996). When seen as a characteristic or property of individuals, trust is a personality variable, thereby placing emphasis on individual characteristics like feelings, emotions, and values (Wolfe, 1976). A second perspective regards trust as a collective attribute that can be drawn upon to achieve organizational goals. It may therefore be applied to the institutional fabric of society (Misztal, 1996). The third treats trust as a valued public good facilitated and sustained by a social system. Putnam (1993), for example, has argued that trust within the community is what has made democracy work in northern Italy.

These three different levels of trust are interconnected. On the individual level, you trust an individual to do something based on what you know of his disposition, his ability, his reputation and so forth not merely because he says he will do it. On the collective level, if you don't trust an agency or organization with which the individual is affiliated, you will not trust him to fulfill an agreement (Dasgupta, 1988). In addition, individuals consider the background, culture, and social system of another when seeking to determine whether to trust him. It is the interconnectedness that suggests how building trust on the micro-level contributes to the determinant of a more abstract form of trust on the macro-level (Luhmann 1988).

C. Sources of Trust

Many scholars contend that trust is rather difficult to produce intentionally. For example, Coleman suggests that as a rational account of human behavior, trust can only be produced in informal, small, closed and homogeneous communities which are able to enforce normative sanctions (Coleman 1990). It is unclear how; precisely, to create trust within communities, especially in diverse or heterogeneous societies. Still, many researchers continue to search for conditions that may help to facilitate trust and thereby allow efforts to create it deliberately.

Different scholars have offered differing definitions of trust but the main characteristic of each is “confidence in or reliance on some quality or attributes of a person or thing, or the truth of a statement (Oxford English Dictionary, p. 432).” From an economic perspective, trust is “confidence in the ability and intention of a buyer to pay at a future time for goods supplied without present payment (Webster’s Third New International Dictionary, p. 2456).” Under either of these two definitions, trust is based on an individual’s belief concerning how another person will perform and behave on some future occasion. It indicates a willingness to be vulnerable to another party either as a consequence of a belief in a partners’ good intent, belief in their competence and capability, belief in their reliability, or belief in their perceived openness (Nahapit and Ghoshal, 1998).

Trust is a social mechanism that is embodied in structures of social relations. Granovetter (1985) has stressed that social relations are mainly responsible for the production of trust in economic life. He believes that trust is generated when agreements are “embedded” within a larger structure of personal relations and social networks (p. 488-493). Social structure is important not only for the formation of social capital but also for the generation of trust itself. It allows for more rapid proliferation of obligations and expectations, imposes sanctions on defection from an obligation, and helps to generate reputation (Coleman, 1990). In addition, familiar and stable relationships with friends and relatives can relieve participants in a social structure of the uncertainty about other people’s motivations and anxiety of others’ actions not meeting their expectations.

In addition to social relations, shared norms are a source of trust. Granovetter (1985) has argued that social relations and the obligations inherent in them are two main sources of trust in economic life (p. 491). Wolfe (1989) argues that individuals create their moral rules – that is, mutual obligations—through the social interactions they experience with others. Putnam (1993) has argued that social trust can arise from norms of reciprocity, which is similar to the creation of social capital. Fukuyama (1995) defines trust as "the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms, on the part of other members of the community (p. 27)." Reciprocity is a compelling obligation that reflects the normative standards that sustain exchange (Misztal, 1996).

Trust needs to be embodied in social institutions and cannot be fully understood and studied without examining how institutions influence human being's duties and obligations. Trust is necessary for social order and human action to continue (Misztal, 1996). Fukuyama argues that trust is a characteristic of systems. He claims that "a nation's well-being, as well as its ability to compete, is conditioned by a single pervasive cultural characteristic: the level of trust inherent in the society (Fukuyama, 1995: 33)." In his view, Japan, Germany and the United States are characterized by their development of large-scale corporations out of family firms through the medium of a "rich and complex civil society (Fukuyama, 1995: 130)." All are high-trust societies. Low-trust societies include China and Italy which are characterized by the restriction of trust to the family and France whose rich civil society has been engraved by a centralizing state (Fukuyama, 1995). Fox (1974) also regards trust as a characteristic of social systems. He argues that trust and distrust "are embodied in the rules, roles and relations which some men impose on, or seek to get accepted by, others (p. 67)." Farrell and Knight (2003) argue that institutions create rules, incentives and sanctions for people to behave in a trustworthy manner, thereby fostering trust. In addition, institutions can disseminate information about expected behavior to affect social beliefs about trust.

Table 2 outlines the various perspectives sketched by different researchers above on the sources of trust based on different types. The four categories are similar to those identified above for social capital.

Table 2 Sources of Trust

Trust Type	Belief	Structure	Norms	Social Institutions
Individual	Belief in good intent, competence, reliability, openness (Nahapit and Ghoshal, 1998)			
Collective		Embedded with structure (Granovetter 1985); Social structure (Coleman, 1988)	Mutual obligation (Wolfe, 1989); Reciprocity (Putnam 1993; Misztal 1996);	
Social System				Characteristics of system (Fukuyama 1995; Fox 1974); Create rules & incentives (Farrell & Knight 2003)

To sum up, the close relationship between trust and social capital is partially explained by the fact that the four primary sources of social capital also influence trust. Social networks and norms appear to be determinants of both; calculative trust rests on shared beliefs, and the role of system trust is similar to the roles that formal rules and institutions play in the constitution of social capital.

D. The Relationship between Trust and Social Capital

A number of researchers offer different arguments on the relationship between trust and social capital. One school of thought considers trust a precondition of social capital while a second one regards trust as a product or a benefit of social capital.

For many researchers, social capital depends on trust. The relationships, communities, cooperation, and mutual commitment that characterize social capital could not exist without a reasonable level of trust. Without some foundation of trust, social capital cannot develop. While Bourdieu (1986) does not specifically mention trust, it is clearly implicit in his argument concerning social reproduction -- "the reproduction of social capital presupposes an unceasing effort of sociability, a continuous series of exchanges in which recognition is endlessly affirmed and reaffirmed (p. 250)" -- people must base their commitments on trust to expand their useful connections. Both Coleman (1988) and Putnam (1993) define trust as one key component of social capital. Trust also plays an important role in Fukuyama's concept of social capital. He defines trust as a basic feature of social capital, "social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it (Fukuyama 1995: 26)." Likewise, Francois (2003) argues that trustworthiness is the economically relevant component of a society's culture and hence comprises its social capital. Trust is considered to be a precondition of healthy social capital for these researchers.

A number of analysts, however, doubt whether trust should be treated as an integral component of social capital. They argue that trust itself is a complex and varied phenomenon. For these analysts, the integration of trust, network, and norms make the concept of social capital an extremely complicated one. Misztal has accused Putnam of adopting a "rather circular" definition of social capital and lacking theoretical precision by incorporating the concept of trust into his definition of social capital (Misztal 2000: 121). In Putnam's model, trusting relationships among economic actors evolve from shared cultures and become embedded within a localized economy, which then forms the possibilities and result in the fact of networks of civic engagement. This thought "takes for granted" the "causal link that connects trust and a rich network of associations (Sztompka 1999: 196). For example, in the case of the Silicon Valley, the building block of their particular brand of social capital was a performance-generalized trust based on frequent commercial contacts rather than based on civic engagement that makes for economic success in some regions. Cohen & Fields (1999) have argued that this form of trust might be a superior form and can be extended to people from other places and other cultures, and even to people with different ideas. "Putnam's concept of social capital obscures the specific nature of the social capital on which the Silicon Valley was built and through which it continues to construct itself (Cohen & Fields, 1999: 109)."

Similarly, Coleman equates mutual trust with social capital and defines it in functional terms as the reduction of transaction costs in risky social interactions. But it appears that both Putnam's social capital and Coleman's rational choice descriptions of social capital underspecify the causal mechanisms between its origins and its presumed benefits for political and economic performance (Farrell and Knight, 2003, p. 338).

Unlike Coleman, Putnam and Fukuyama, Woolcock (1998) has argued that definitions of social capital should focus primarily on resources rather than consequences. "Trust and norms of reciprocity, fairness, and cooperation are 'benefits' that are nurtured in and by particular combinations of social relationships; they are undeniably important for facilitating and reinforcing efficient institutional performance, but they do not exist independently of social relationships. Consequences may be one indicator of the types social capital that are present, but they are not to be confused with social capital itself (Woolcock, 1998: p. 185)." Woolcock (2001) proposes that trust may better be seen as "a consequence of social capital rather than as an integral component of social capital (p.13)." Axelrod (1984) reinforces this view by relying on game theory to suggest that even where trust is very limited and the opportunities for communication very slim, cooperation may still evolve if other conditions obtain. Axelrod has argued that trust should exist in societies and groups that are successful because of their ability to cooperate, and should consist in nothing more than trust in the success of previous cooperation (p. 225). Similarly, Field (2003) has argued that trust may not be treated as a component variable because many relationships can operate perfectly well with a minimum of trust, including many of those which rest on institutional sanction (p. 64). In his view, trust is best treated as an independent factor, which is generally a consequence, rather than an integral component, of social capital (p. 65).

IV. COMPARING THE TWO PERSPECTIVES WITHIN AN ORGANIZATIONAL CONTEXT

A. Trust is a Pre-Condition of Social Capital

Leana and Van Buren (1999) define social capital at the organizational scale as "a resource reflecting the character of social relations within the organization, realized through members' level of collective goal orientation and shared trust (1999: 540)." Organizational trust is the employee's confidence that the organization will perform an action that is beneficial to him (Gambetta, 1988). Much organizational trust is the same kind of trust that exists between individuals based on reputation and experience, but it is more than simply individual trust (Cohen, 2001). Fox (1974) points out that organizational trust consists of "lateral trust"-- trust relations among peers who share a similar work situation and "vertical trust"— relationships between individuals and their immediate supervisors, subordinates, and top management.

Higher trust levels often typify organizations strong in social capital. An alteration in trust and shared values can change the amount of social capital that exists in organizations. Fukuyama (1995) argues that increasing social inter-personal trust might result in deeper and more sustainable social capital while destabilizing shared values could lead to distrust, resulting in a decrease in social capital.

A substantial literature demonstrates that where relationships are high in trust, people are more willing to engage in social exchange and cooperative interaction. Trust has been at the center of theorizing about cooperative and productive interaction for some time and is central to successful social cooperation both between and within organizations (Cohen & Prusak, 2001). Gambetta (1988) regards trust as a precondition of cooperation. Trust facilitates cooperation because it is like a pre-commitment, a tool “that we can use to impose some restraint on ourselves and thus restrict the extent to which others have to worry about our trustworthiness (Gambetta, 1988, p. 221).” Organizations that use Deming’s management and leadership system depend on trust. His management system advocates that departments should cooperate instead of building their own kingdoms as before (Latzko & Saunders, 1995).

Organizations based on generalized trust, shared norms and cooperation instead of hierarchy or hierarchically defined carrots and sticks, formal monitoring and economic incentives, facilitate the adoption and effectiveness of flexible or high-performance work practices (Cohen & Prusak, 2001). Trust can strengthen norms of reciprocity, diminish the amount of energy lost to suspicion, unresolved issues, and associated uncertainty anxiety that otherwise often results in blame, gossip, resentment, and frustration. It also reduces the time spent in the slow, expensive process of defining, monitoring, and guaranteeing compliance—the detailed process of enforcement (Nahapiet & Ghoshal, 1998). Broadly shared understandings of work organization and norms permit members of an organization not to have constantly to negotiate a set of operating values and a rationale for the organization's existence. General understandings among employees of work organization and norms present opportunities to organizations for effective collective action. These substitute for the formal contracts, incentives, and monitoring mechanisms that are otherwise necessary in systems with little or no social capital among organizational members (Fukuyama, 1995). Trust lowers transaction costs and frees energy that can be put to productive use.

Moreover, trust appears to be a key factor in determining whether people will voluntarily leave an organization. The causal relationship between voluntary turnover and trust is difficult to isolate. But employees are less likely to leave a position when they trust their organization. Costigan and Berman (1998) found that trust was related to an employee's perception of the effectiveness of an organization's reward practices: the higher this level of perception, the more likely the employee was to remain in her position. Mishra and Morrissey (1990) found that reduction in employee turnover is one of the advantages of trust. Sonnenburg (1994) also has argued that a high level of trust within an organization can help to reduce employee turnover. Konovksy and Cropanzano (1991) find that trust in management is significantly correlated with turnover rates. In Japan, the most important characteristic of organizational management is the notion of lifetime employment. Fukuyama (1995) argues that the relationship between employment security and productivity is mediated by trust.

Trust is correlated with organizational commitment which refers to the psychological attachment that employees have towards their employing organization, including the widespread feeling among employees that they are proud to be members of an organization (O'Reilly & Chatman, 1986). Watson (2002) argues that the levels of trust perceived by members and employment assurances will directly influence organizational commitment. If a person does not trust that his work efforts will be recognized and appreciated, he is less likely to be committed to the organization.

The development of social capital within organizations is necessary for the creation of intellectual capital and hence innovation. Nahapiet and Ghoshal (1998) argue that innovation is the product of collective problem-solving leading to the development of new ideas. These are facilitated by three dimensions of social capital: the structural, which refers to network ties and the way they are configured; the cognitive, of shared codes, meaning and narratives; and the relational, of trust, norms, obligations and the personal identity which emerges from being part of a network. Relational trust can facilitate exchange of information and knowledge among parties and encourage flexibility and risk taking, which contributes to the development of intellectual capital within an organization.

The cooperative and committed organizational environment that evidences high-standards of performance and intellectual development that yields social capital can not exist without a reasonable level of trust. No other management device can compare to trust in its importance to promoting organizational effectiveness. Cook and Wall (1980) conclude that "trust between individuals and groups within organizations is a highly important ingredient in the long term stability of the organization and the well being of its members (p. 39)."

B. Trust is a Product of Social Capital

Trust-based connections that characterize social capital lead to the development of increased trust as people work with one another over time, so trust is also a product or benefit of social capital. Employment practices in organizations with high social capital may enjoy longer job tenure and more reciprocal labor-management relations that lower transaction costs and bring about higher-performance work practices (Levine & Tyson, 1990). Stable employment relationships can serve as efficient solutions to the uncertainty and hazards of economic transactions. Employees in stable employment relationships have some insurance against exploitation and a rationale for developing specific knowledge and skills.

Employers, in turn, can benefit from human capital development and achieve lower turnover rates because of the heightened job security employees feel. (Leana and Buren, 1999). Professional development opportunities and job security demonstrate an organization's willingness to place trust in its employees. In return, employees are more likely to exhibit high trust in management since they are offered opportunities to develop professionally (McCauley & Kuhnert, 1992). Therefore, there will be less "voluntary turnover", avoiding losses to organizations when individuals who are successful in creating social capital decide to terminate an employment relationship (Dess & Shaw, 2001). Loss of human and social capital resulting from voluntary turnover may dramatically damage social capital with consequent negative effects on organizational performance, since these high-performing individuals might maintain strong network ties to external stakeholders, customers and suppliers (Dess & Shaw, 2001).

Trust grows from and contributes to transparency at a firm. Meetings, weekly reports, and detailed information concerning works in progress will let colleagues know what people are doing. Clear and consistent promotion and compensation policies will also lower suspicion among employees. All these help build trust not only among colleagues but also trust towards the “system” of organizations (Cohen & Prusak, 2001).

Leaders in organizations with high social capital establish trust by behaving fairly, reasonably, and consistently. Appropriate and respectful employee monitoring policies can also support trust between employers and employees (Cohen, 2001). Fulk, Brief, and Barr (1985) examined the relationship between trust-in-supervisor and performance evaluations. They found that "perceptions of fairness and accuracy in performance evaluation may depend as heavily on the level of trust in the ongoing supervisor-subordinate relationship as on characteristics of the performance appraisal system itself (p. 31)."

Higher levels of organizational social capital justify individual commitment to the organization by employee’s involvement in, and identification with, the organization (Mowday, Porter, and Steers, 1982). Mutual commitment between organizational members—“relational trust and norms, rather than transactional agreements and formal rules, are the operational underpinnings of behavior between employer and employee (Leana and Buren, 1999).” Employees who evidence strong relational norms evidence more belief in their organization’s goals and values (Porter, Steers, Mowday & Boulian, 1974). Consequently, they are more likely to spend time doing things the organization finds useful and less time doing things that benefit themselves alone. Thus, as organizational commitment among employees increases, transaction costs are reduced, thereby creating competitive advantages for the organization (Watson & Papamarcos, 2002).

V. CONCLUSIONS

Social capital appears to be positively related to organizational effectiveness and to play a central role in reducing organizational transaction costs (Fukuyama, 1995). It also facilitates coordinated action to achieve desired goals (Leana and Buren, 1999), justifies organizational commitment (Watson & Papamarcos, 2002), and results in a significant positive impact on product innovation (Nahapiet & Ghoshal, 1998). Yet none of these benefits that result from social capital can exist without a reasonable level of trust among employees and between employees and their managers. Without some foundation of trust, social capital cannot develop – the essential connections will not form. So trust is a precondition of healthy social capital. On the other hand, the trust-based connections that characterize social capital lead to the development of increased trust as people work with one another over time. Consequently, there will be less voluntary turnover (Dess & Shaw, 2001), stronger organizational commitment (Mowday, Porter, and Steers, 1982), and more organizational transparency (Cohen & Prusak, 2001). Within an organizational context, it doesn't matter much whether trust is a pre-condition of social capital or a product of social capital because what the organizational effectiveness literature suggests is that trust and social capital are mutually reinforcing—social capital generates trusting relationships that in turn produce social capital (Adler and Kwon, 2000).

The positive returns from trust and social capital within an organizational context is partly attributed to the incorporation of the role of personal relations in establishing trust between parties. Personal trust makes information exchange easier, facilitates a quicker adaptation to the environment, and contributes positively to cooperation. But the larger social context cannot be ignored because it provides a foundation to better analyze individual actions, societal constraints and opportunities. Besides, individuals are not placed in a fixed social setting and a sustained belief in the ability of systems, rather than personal trust, is required to maintain the conditions of expanded choices and opportunities. As Luhmann argues that modern societies are characterized by the increasing importance of system trust, which is built upon the life that others also trust, not simply rest on bonds between people (Luhmann 1979: 66). This conception is also consistent with a general sociological tradition that social mechanisms can help organizations solve problems of coordination and enhance economic performance (Burt 1992; Coleman 1990).

And both of these perspectives illustrate that the positive returns from organizational trust and social capital are process-based instead of outcome-based. Many researchers have been more interested in tracing the implications of social capital and trust for organizational decision processes than for their implications for mission accomplishment. The major reason for this fact is that social capital based outcomes are not easy to measure since social capital is a part of the fabric of people's working lives and deeply rooted in local circumstances. In most circumstances the outcomes of social capital are measured indirectly by "variables" which may appear to have some connections to it. But if the variable is not well fit, the result will mislead rather than inform (Field, 2003).

Concerning how human beings make a choice in society, some researchers stress egoistic self-interest, while others underline norms as determinants of human behavior. In the case of trust, some stress that trust can be generated by the rational pursuit of self-interest alone and others emphasize the role of normative contexts in the construction of the trust relationship (Misztal, 1996). Some use rational choice theory to highlight the relationship between trust and rationality, based on the simple relationships between a person's expected gains and the expected losses from another person. That is, people will not trust unless they have some assurance that the other party will not defect. Coleman tries to combine moral questions and the rational choice theory by equating interest with goals and seeing them as the driving forces of action, motivated by the rationality of maximizing utility (Coleman, 1990). Being aware of the limitation of rational choice theory, Elster acknowledge that it needs to be complemented with analysis of social norms which can contribute to social stability and cooperation (Elster, 1989).

The dividing line between individual liberty to act as desired and social responsibility is hard to define. Citizens underscore their individual existence, but a society composed of egoistic, self-interested and calculating individuals would not be a society since acquisitiveness and rational self-interest destroy social solidarity (Durkheim 1973). Individuals must consider not only their interest but also their duties to the community. Solidarity is possible only when individuals share their values and norms. Durkheim argues that feelings of obligation and altruism as well as moral pressure are the bases of solidarity, which restrains egoistic behavior (Durkheim 1973). But it is not easy to see how this can be extended to the broader population unless individuals are raised to believe in such a possibility. Williams (1988) argues that moral principles, together with a general self-regulating and self-preserving structure, may develop and maintain trust in broader society (Williams, 1988: p. 12).

Of course, social capital is not the cure-all for many of the ills of society. Likewise, for organizations, it is not the only key to organizational success. Some organizations succeed despite the negative effects of low social capital because organizations are complicated and operate in complicated environments (Cohen and Prusak, 2001). In civil society, social capital may result in power inequality because its possession does not guarantee equal access to social and economic resources. That is, access to different types of social networks is often very unequally distributed to the wealthy and the poor. Bourdieu (1986), for example, has stressed that the most prestigious and affluent with considerable stocks of economic and cultural capital have more social connections so that they are more likely to be able to gain access to social capital. Democratic policy makers interested in furthering the potential for democratic deliberation and in securing an increased measure of equal opportunity in their societies should be aware of this potential influence of social capital on inequality.

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