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## **The Dark Side of Social Capital**

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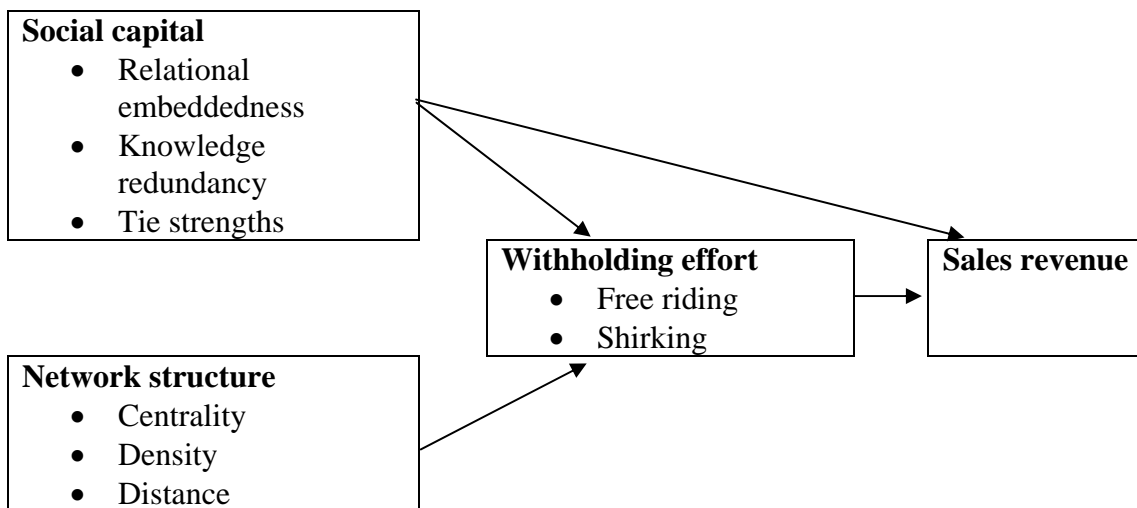
## **The Dark Side of Social Capital**

Research within social capital tend to focus on value created through an actor's network, hereof career success (Seibert, Kraimer and Liden 2001), finding jobs, facilitating interunit resource exchange (Tsai and Ghoshal 1998) and product innovation (Rindfleisch and Moorman 2001), turnover rates (Shaw, Duffy, Johnson and Lockhart 2005), knowledge transfer (Inkpen and Tsang 2005; McFadyen and Cannella 2004) and strengthen supplier relations (Adler and Kwon 2002), to mention some. However, overlooking the dark side of social capital might harm actors in a network (Adler and Kwon 2002; Portes and Landolt 1996). Of these, free riders or nonperformers transfers costs and risk to the other actors within business networks (Coase 1960).

The literature seems to take for given that opportunistic businesses can be excluded from a network (Coleman 1988). However, Colemans (1990) picture of smooth diamond trade darkens by comparison with the Mafia, having their own methods to manage disloyal members. Therefore, difficulties occur when disloyal businesses operate within a network, although Ahuja (2000) predict that the social pressure from other network actors moderate opportunistic behavior. Also, monitoring difficulties complicates the identification of the opportunistic parties (Jones 1984).

Unfortunately, few studies investigate harmful effects of social capital *within* business networks. As a consequence, failures caused by social capital remain unknown. Portes (1998) highlights the necessity to include negative effects of social capital "to keep the analysis within the bounds of serous sociological analysis rather than moralizing statements" (p. 15). Knowledge of contraproductive effects of social capital is necessary to fully understand its effect on network partners.

In this paper I investigate the destructive effects of social capital and networks structure. I test the research model on a sample containing 321 relations among traveling businesses, based on paired psychometric and objective firm and demographic data. The structural equation modeling reports significant relationships among 12 out of the 16 hypotheses. First, I find that when one business in a collectivity withholds effort, this negatively affects sales revenue for the other businesses in the network. Secondly, the findings support the notion that social capital reduces sales revenue. The element of reciprocity in relational embeddedness implies that an actor is willing to omit short term profit for the common best. In addition, the introvert focus in knowledge redundancy restrain actors from discovers and exploits market opportunities. Thirdly, I found that social capital, to a varying degree, affect actor's tendency to withhold effort. Finally, the social network's characteristics, hereof centrality, density and distance, also affect actor's tendency to withhold effort.



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