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# The Development of Organizational Social Capital: Attributes of Family Firms*

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ABSTRACT We develop and extend social capital theory by exploring the creation of organizational social capital within a highly pervasive, yet often overlooked organizational form: family firms. We argue that family firms are unique in that, although they work as a single entity, at least two forms of social capital coexist: the family's and the firm's. We investigate mechanisms that link a family's social capital to the creation of the family firm's social capital and examine how factors underlying the family's social capital affect this creation. Moreover, we identify contingency dimensions that affect these relationships and the potential risks associated with family social capital. Finally, we suggest these insights are generalizable to several other types of organizations with similar characteristics.

## INTRODUCTION

When a resource is valuable, rare, costly to imitate and without substitutes, it provides the basis for a competitive advantage (Barney, 1991). Social capital, which is the goodwill and resources made available to an actor via reciprocal, trusting relationships (Adler and Kwon, 2002; Hitt et al., 2002; Lin, 2001), is often argued to possess such characteristics and thus to make a positive contribution to a firm's outcomes (Nahapiet and Ghoshal, 1998). Social capital's contribution is derived from both intra- and inter-organizational relationships. Inside the organization, social capital can reduce transactions costs, facilitate information flows, knowledge creation and accumulation (Burt, 2000; Lin, 2001; Nahapiet and Ghoshal, 1998), and improve creativity (Perry-Smith and Shalley, 2003). External to the organization, social capital increases alliance success (Ireland et al., 2002; Koka and Prescott, 2002). However, Bolino et al. (2002) suggest that little attention has been paid to how organizational social capital is created. Thus, herein we attempt to fill this gap in our knowledge, using the context of family firms.

An implicit assumption in most organizational social capital research is that organizational members view their environment through similar lenses, thus helping to support

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functional relationships and the organization's social capital. However, an organization is not necessarily internally homogeneous; different social groups coexist in most organizations, including formal groups such as project teams, departments, divisions, subsidiaries, strategic business units, and informal groups such as founders, communities of practice, or even family members. Significant group heterogeneity in an organization coupled with complex social interconnections among group members likely have important effects on organizational social capital creation. Specifically, the development of organizational social capital is affected by the dynamics within and between these groups and, as a consequence, can limit or enhance any advantages that capital renders. Therefore, this work focuses on the interactions between and within diverse groups operating in the firm with special attention on how the intra-group dynamics of a potentially dominant group in the firm affects the development of the firm's organizational social capital.

To examine organizations in which intra-group characteristics have high potential to affect the firm's organizational social capital, we focus on an important type of firm: family firms. While there are many definitions of a family firm (Chrisman et al., 2005; Westhead and Cowling, 1998), we use the definition of family firms posed by Litz (1995): 'a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve and/or maintain intra-organizational family-based rclatedness' (Sharma et al., 1996, p. 185). This definition is effective for this research because it considers family involvement in the firm and the intentions to retain such involvement. As our analysis concentrates on the interactions between the family and the organization, identifying the importance of the family social group in the firm is important.

These firms are important for two reasons. First, family owned and controlled firms are an important and pervasive form of business in the USA and throughout the world (e.g. Morck and Yeung, 2004). In the USA, *Business Week* (2003) reports that one third of the S&P 500 firms have founding family members still active in their management. Furthermore, family firms employ up to 80 per cent of the workforce and produce 40—60 per cent of the USA's GNP (Neubauer and Lank, 1998; Sharma et al., 1996). These numbers are even higher in other parts of the world, due to the global prevalence of this organizational form (*Business Week*, 2003). For instance, Claessens et al. (2000) found extensive family control in more than half of the 2980 East Asian corporations they studied, while Faccio and Lang (2002) identified that slightly over 44 per cent of the firms in their sample (5232 corporations) from 13 Western European countries were family controlled. Despite their prevalence and enormous effect on economies, only recent research has emphasized family firms (e.g. *Entrepreneurs hip Theory and Practice* (May 2005, special issue, vol. 29, no. 3); *Journal of Business Venturing* (September 2003, special issue, vol. 18, no. 5); Sharma et al., 1996).

Second, family firms exemplify organizations that likely have a dominant group (i.e. family) whose members occupy or even accumulate diverse positions as employees/managers or members of the board of directors (Gersick et al., 1997). This dominant group is inextricably linked to and also interacts with the firm's other groups (e.g. non-family employees and managers). Therefore, at least two social groups are present within most family firms: family and non-family managers/employees, which provide the potential for conflict, while the family group is commonly dominant. These characteristics create a context where inter-group heterogeneity and the intra-group interaction within the family are identifiable and may strongly influence the firm's organizational social capital.

By studying the dynamics of social capital creation in family firms, we advance research on organizational social capital and family firms in three ways. First, we move beyond a focus on the benefits of social capital by studying its creation. We investigate the mechanisms that link a family's social capital to the creation of social capital in the family firm. Second, we examine how the factors underlying the family's social capital affect this creation. Third, we contribute to the analysis of family firms' uniqueness while suggesting that our theoretical framework can be applied to other types of organizations characterized by a dominant social group — any group possessing its own values and norms of behaviour — especially where this dominant group has a strong commitment to the organization. Religious organizations (e.g. churches), special types of non-profit organizations (e.g. organizations dedicated to environmental greening) and new venture firms formed by non-family partners exemplify such organizations.

We begin the study with a description of social capital in general, after which we describe both family and organizational social capital. Thereafter, we develop several propositions that explain the relationship between the family's social capital and the family firm's organizational social capital; we describe how qualities of the family's social capital and inter-group relations affect the creation *of the family firm's* organizational social capital. We then discuss contingency variables that influence our framework and the potential risks associated with a strong family social capital. We end by reflecting on the implications of the theory for family firms and social capital research, and potential extensions to other types of organizations.

## SOCIAL CAPITAL

The first systematic analysis of social capital was completed by Bourdieu (1980). He defined social capital as 'the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition' (Bourdieu, 1980, p. 2). While several other definitions have been presented, they commonly suggest that the goodwill of others toward an individual is a valuable resource; social resources inherent in relationships may be used to pursue economic ends (Biggart and Gastanias, 2001; Burt, 1992; Coleman, 1988. 1990). Therefore, we define social capital as the relationships between individuals and organizations that facilitate action and create value (Adler and Kwon, 2002).

Based on this definition and the focus on the creation of social capital, we emphasize the process as opposed to the content of social capital. While a content perspective generally includes three dimensions of social capital, structural (i.e. the network connections between actors), relational (i.e. the nature and the quality of connections), and cognitive (i.e. shared representations, interpretations and systems between actors yielding durable connections) (Nahapiet and Ghoshal, 1998; Yli-Renko et al., 2001), a process perspective is more dynamic in nature. From a process perspective, Nahapiet and Ghoshal (1998) propose that four dynamic factors influence the development of social capital: stability (i.e. time), interaction, interdependence, and closure. These factors help shape the creation and development of a group's social capital. Stability is critical because social capital reflects the accumulation of goodwill over time (Bourdieu, 1986). Increased stability allows for a level of continuity in social structures, which in turn increases the clarity and visibility of mutual obligations (Misztal, 1996), as well as the development of trust and norms of cooperation (Granovetter, 1985; Hitt et al., 2002; Putnam, 1993).

Developing and protecting social capital requires interdependence between the members of the network; social capital erodes when people in the network become more independent of one another (Coleman, 1990). Higher levels of social capital are generally developed in contexts with substantial mutual interdependence (Nahapiet and Ghoshal, 1998). Additionally, increased interactions between actors aid the development and maintenance of mutual obligations in a social network (Bourdieu, 1986).

Closure is the extent to which actors' contacts are interconnected (Adler and Kwon, 2002), which affects the observance of behavioural norms (Fortes, 1998). More precisely, closure refers to the existence of a sufficient level of ties between members such that the adherence to norms is highly likely (Coleman, 1988). For example, the possibility of opportunistic behaviour within a social group (i.e. a group with closure) is minimized by high density of ties among members and the accompanying threat of group sanctions against violators (Fortes, 1998, p. 6). The existence of strong group norms facilitates transactions without the need for cumbersome legal contracts or control procedures (Coleman, 1988). Therefore, closure refers to the existence of dense social network boundaries that distinguish members ('us') from non-members ('them') (Bourdieu, 1994; Etzioni, 1996). It facilitates the development of trust, norms, identity (Coleman, 1990; Ibarra, 1992), and unique codes and language (Boland and Tenkasi, 1995).

Together, these four factors affect the flow of social capital that in turn influences the stock of social capital. Alterations in any of these factors will likely affect (e.g. maintain, reinforce, modify or destroy) the stock of social capital over time.

## Family Social Capital

Bubolz (2001, p. 130) suggests that 'the family is a source, builder and user of social capital'. In fact, the relationships among family members create an ideal environment in which to create social capital (Coleman, 1988). By modelling trust, the family provides the foundation of moral behaviour on which its guidelines for cooperation and coordination as well as principles of reciprocity and exchange are developed (Bubolz, 2001). Increased reciprocity and exchange reinforce the creation and use of social capital that stems from the dynamic factors of stability, interdependence, interactions, and closure common in families. We term the social capital developed among family members as Family Social Capital (FSC).

Because children receive their primary socialization from their family during childhood (Berger and Luckman, 1967), stability in terms of time spent under the family's influence is present in many family settings. Increased family stability enhances the understanding of the values, behavioural norms and cognitive schemes used by family members. This understanding facilitates integration, cohesion and survival of the family unit (Bourdieu, 1994, p. 139). Further, closure exists as the family provides a boundary to the network (Bubolz, 2001; Coleman, 1988; Hagan et al, 1996; McLanahan and Sandefur, 1994; Parcel and Menaghan, 1994; Portes, 1998). And, as family relationships continue, increasing interdependence and interactions produce greater levels of trust (based on shared norms and values), principles of reciprocity (obligations) and exchange among family members. For example, grants (i.e. support without specific repayment plans) given by parents to their children often are exchanged with love and gratification, and with the implicit promise that children will eventually care for ailing parents (Bubolz, 2001).

Consequently, within the family, each member has the opportunity for social transactions with other members; the other family members can act as 'donors' in their favour. The family member, thus, benefits from available information, influence, and solidarity provided by other members of the family. Therefore, unless substantial problems exist, these characteristics 'create devotion, generosity, and solidarity' within the family (Bourdieu, 1994, p. 140), allowing the family to operate more as a team. The family is also sensitive to economic motives because it has a patrimony that unifies family members while it simultaneously instils a competitive spirit among members. Thus, enhancing the strength of a family's social capital increases the probability of its survival and helps its members prosper. All these unique characteristics explain why social capital developed in the family is probably one the most enduring and powerful forms of social capital.

## Organizational Social Capital

Contrary to families, the members of a business organization, especially newer ventures, often do not possess well-established factors of stability, interdependence, interaction and closure. However, organizations still desire effective social capital; actually they are likely to need even more than families due to the complexities and environmental hazards faced. Thus, organizational social capital (OSC), 'a resource reflecting the character of social relations within the firm' (Leana and Van Buren, 1999, p. 538), is a critical resource for organizations.

OSC benefits the firm both in the access it provides to external resources (Hitt et al., 2002) and in facilitating internal coordination (Sirmon et al., 2007). First, almost no firm controls all of the resources that it needs to compete effectively in the marketplace, thus it must acquire or gain access to needed resources from external sources. OSC assists the firm by increasing the availability of resources such as information, technology, knowledge, financial capital, distribution networks, and relationships with critical, constituencies (e.g. government contacts in a foreign market). These resources may have direct effects on the firm's productivity or they may have more indirect effects, such as facilitating the development of innovation (Rothaermel, 2001). Second, OSC affects how a firm's resources are bundled and leveraged (Sirmon et al., 2007). OSC can facilitate the coordination of activities and projects across various functional units, effective decision making processes, and the implementation of the resulting decisions (Hitt et al., 2002). And when integrated, the externally derived resources can help the firm to leverage its other valuable and unique resources more effectively (Sirmon and Hitt, 2003). Thus, OSC can positively affect both internal and external activities of the firm and thereby contribute to a competitive advantage.

Similar to many resources that may be a source of advantage, OSC is not easily acquirable; instead it must be developed (Dierickx and Cool, 1989). Initially, an organization's need for social capital may be satisfied, in some limited fashion, by 'borrowing' another actor's social capital. But in order to avoid the risks of losing the actors' support or the spill over of any of those actors' mistakes, a firm must develop its independent OSC. Additionally, it is unlikely that borrowing from other actors' social capital will convey the same degree of inclusion, trust and resulting benefits as the development of an organization's independent social capital. Thus, the question becomes: How do firms build OSC? Using family firms as our context, we explore this issue in detail next.

## FAMILY SOCIAL CAPITAL'S INFLUENCE ON THE DEVELOPMENT OF ORGANIZATIONAL SOCIAL CAPITAL

Many scholars maintain that family firms' uniqueness arises from the integration of family and business life (Gersick et al., 1997; Habbershon and Williams, 1999; Sirmon and Hitt, 2003; Tagiuri and Davis, 1996; Wortman, 1994). Recent works have shown that the classical theories designed for widely-held public firms need to be altered to help us understand the operation of family firms. For instance, parental altruism influences agency relationships in family firms, indicating that both family concerns and business concerns are considered simultaneously (Schulze et al., 2003). The integration of family and business is a basic thesis of our research: that family dynamics can largely affect the development of the family firm's organizational social capital - that is, FSC affects how OSC is built. Two important characteristics of the family afford it this influence: power and time. Interestingly, these two points resurface in the discussion of the generalizability of our framework to several other non-family-based organizational contexts.

Power is given to the family due to family firms' governance structures. According to the definition of family firms (Litz, 1995), family members are shareholders and top managers of the firm, thus they can decide, without much negotiation with partners or other stakeholders, the direction of the firm. In short, they arc the dominant group in the firm. This is often true even for larger, publicly traded family firms. Additionally, when family members span levels of management, the family's influence reaches beyond decision making to implementation concerns, thereby increasing the family's power. The influence of time accrues because of many families' generational outlook with their businesses (Anderson and Reeb, 2003; Bauer and Bertin-Mourot, 1996; Fiegener et al., 1996). Long-term involvement with the firm allows for family influences to be deeply engrained in all aspects of the firm.

Our theoretical model addresses the nuances of FSC's influence on OSC development. With FSC as the beginning, we first propose the mechanisms that allow for FSC to influence the development of OSC. Here, we address how social capital developed in one context can be transferred from one social group to another (Nahapiet and Ghoshal, 1998). Specifically, we address the roles that institutional isomorphism, organizational identity and rationality, human resource practices, and overlapping social networks play in this transfer. Together these concepts provide complementary lenses to the analysis of how FSC influences the development of the family firm's OSC. Although interconnected, for analytical reasons, we discuss them separately. Then, we discuss how the dynamic factors (i.e. stability, interdependence, interaction, and closure), which determine the strength of FSC, affect the development of OSC. We expect increasingly strong FSC to exert more influence on the development of OSC. Then, we explore several important factors that moderate FSC influence on OSC. Lastly, as this influence yields disadvantages as well, we present the main risks of a strong FSC for family firms.

## Mechanisms Linking FSC to the Development of OSC

*Institutional isomorphism of the family institution.* Prior research suggests that three basic types of institutional influences exist: coercive, mimetic, and normative (DiMaggio and Powell, 1983; Scott, 1987). Coercive pressures are induced or imposed by powerful agent(s) or stakeholder(s). They result from 'formal and informal influences exerted on an organization by other organizations upon which they are dependent' (DiMaggio and Powell, 1983, p. 67). Mimetic influences result as the firm purposely imitates the best practices of those institutions perceived to be more legitimate. Often, this form of institutional influence becomes more salient as the focal organization encounters increasing uncertainty. Finally, normative influences and pressures develop from shared basic tacit beliefs among actors or organizations. As a consequence of sharing tacit beliefs, the actors have a tendency to view problems similarly, accept the same policies or behaviours as legitimate, and approach decisions in similar ways (DiMaggio and Powell, 1983). The strength of these influences partially depends upon the type of institutions involved.

Researchers argue that there are two major types of institutions (Calori et al., 1997; Whitley, 1992): proximate and background social institutions. Proximate institutions, such as the legal or financial systems, often apply coercive influences to management as they define a set of constraints and opportunities for the firm (Calori ct al., 1997). However, background social institutions, such as schools and families, exert more mimetic and normative influences. These institutions yield implicit, collective knowledge that represents shared social values pertaining to 'how things ought to be' (Calori et al., 1997, p. 684; Schein, 1985). This shared understanding then exerts a normative influence on managers' behaviours. For any firm, proximate and background institutions exist and have influence on its management and behaviour, but when a background institution is actively involved in the management of a firm, as is the case with family firms, these isomorphic influences can be especially salient to the development of the firm. Thus, applying this institutional framework to family firms illuminates one mechanism linking FSC to the development of the family firm's OSC.

Institutional theory asserts that, 'the greater the dependence of an organization on another organization, the more similar it will become to that organization in structure, climate, and behavioral focus' (DiMaggio and Powell, 1983, p. 74), and 'the greater the centralization of organization A's resource supply, the greater the extent to which organization A will change isomorphically to resemble the organizations on which it depends for resources' (DiMaggio and Powell, 1983, p. 74). Both effects suggest that a family firm's OSC will begin to resemble the FSC because the firm is usually dependent on the family for critical resources (e.g. funding, personnel, and legitimacy) (DiMaggio and Powell, 1983; Thompson, 1967). As a consequence of these institutional pressures, the firm will be similar to the family in structure, climate, behavioural focus, and, as a consequence, OSC. Put simply, the family firm's OSC is likely built, mimetically, from the family's social capital.

In addition to serving as a background institution, the family is also a proximate institution to the family firm. As a consequence, in addition to strong normative and mimetic influences, it also has an equally strong coercive influence on the firm's development including its OSC. Because the family often owns a significant portion of the firm, it wields significant influence in setting constraints on firm behaviour as well as approving the pursuit of new opportunities. Thus, in a coercive manner the family may actively intervene in protecting its interests in the firm. Importantly, these interests often balance the desire to pursue new gains, protect previous wealth creation, and future employment opportunities for family members (Sirmon and Hitt, 2003). In total, this logic suggests that the family influences the development of the family firm's OSC via coercive, mimetic and normative isomorphic pressures. Hence the following proposition:

*Proposition 1:* Family social capital influences the development of a family firm's organizational social capital through isomorphic pressures.

*Organizational identity and rationality.* Family members usually play multiple roles in governing and managing the firm and they often make the most important executive decisions (Gallo and Sveen, 1991; Mustakallio et al., 2002; Tagiuri and Davis, 1996). Because these family members are embedded in their family's social capital, and due to their privileged (and long lasting) positions in the family firm, they transmit its main characteristics (norms, values, narratives, etc) to the firm through two specific constructs: the firm's organizational identity and rationality.

Organizational identity is crucial for a firm and is a central, distinctive, and enduring characteristic of an organization (Albert and Whetten, 1985; Scott and Lane, 2000). It is strongly linked to the missions, values and practices of the firm; each one a component of the OSC. Scott and Lane (2000, p. 44) suggest that organizational identity is best understood as contested and negotiated through interactions between managers and stakeholders; they defined organizational identity as 'the set of beliefs between top managers and stakeholders about the central, enduring, and distinctive characteristics of an organization'. Other organizational members have a role in this creation but their role is minor compared with that of top managers. In family firms, the main stakeholder (and shareholder) is the family and top managers also belong to the family. Therefore, the family is instrumental in the firm's organizational identity which in turn influences the creation OSC in the image of the FSC.

Similarly, the managerial rationalities (i.e. the systems of shared meaning) in the family firm are shaped by FSC. Managerial rationalities of the top management team (TMT) usually play a crucial role in determining the type of strategies chosen (Fligstein, 1990; Gunz andjalland, 1996; Hambrick and Mason, 1984; Whitley, 1987). These rationalities are affected by the composition of the TMT and the top managers' individual characteristics (Gunz andjalland, 1996, p. 742). Specifically within family firms, family member decision makers share the same, or at least relatively similar, rationalities affected by their shared FSC. Therefore, specific dimensions of the FSC (especially the cognitive and relational dimensions) are transferred to the family firm and its OSC. Formally:

> *Proposition 2* Family social capital influences the development of a family firm's organizational social capital through organizational identity and rationality.

*Human resources practices.* Leana and Van Buren (1999) suggest that OSC is defined and supported by the organization's employment practices. For example, stability and a long-term orientation in employment relationships and organizational reciprocity norms favour a productive OSC. Research on human resources in family firms has shown their attributes on these dimensions (Fiegener et al., 1994; Handler, 1992; Levering and Moskowitz, 1993; Lyman, 1991; Tagiuri and Davis, 1996; Ward, 1988). An important influence in the perpetuation of a developing OSC is the selection and promotion of employees (Bigley and Pearce, 1998; Leana and Van Buren, 1999). In a family firm, this choice is made by the top managers (i.e. family members in the firm) and probably, other family members in the case of executive positions. Therefore, it is likely that these members will select and promote employees that support and share family's values and goals, supporting the development of an OSC that is similar to the FSC's values and norms. The FSC and, especially, its relational and cognitive dimensions, also shape other human resources practices related to OSC, such as compensation policies. More generally, these employment practices are designed and modified by the family members (founders and managers) and reflect their values and norms. In that way, FSC drives OSC creation and development through employment practices, as stated hereunder:

> *Proposition 3:* Family social capital influences the development of a family firm's organizational social capital through human resource practices.

*Social networks overlap.* A family firm's OSC is likely to be strongly influenced by the family's social capital (FSC) because the firm's network is often initially based on the family members' networks (e.g. Anderson et al., 2005). The intent of the educational role of the family is in part to ensure the family's survival and as such it is likely to be brought into the family firm to help improve the odds of the firm's survival. For example, Aldrich and colleagues (Aldrich, 1999; Dubini and Aldrich, 1991; Renzulli et al., 2000) argue that entrepreneurs mobilize their family's social capital to help their ventures' economic success. Anderson et al. (2005) andJack (2005) confirm this result in their research on the amount of family support for entrepreneurs: family outside the boundaries of the firm is highly important for support and resources. Similarly, family members involved in the firm generate the firm's initial network structure that in turn influences the development of family firms OSC. The strong ties among these family members, resulting from FSC, play an instrumental role in the current and future activities of the family firm (Jack, 2005). Their centrality to those activities stems from the support, knowledge and information that they provide for the business (Jack, 2005). Moreover, they strongly influence resource acquisition, growth, and firm management (Jack, 2005, p. 1253). As a result, these overlapping networks initiate and then modify the institutional dimensions of the family firm and shape social convention, habit, tradition and, more generally, the social framework in which the firm operates. Therefore, the networks have a substantial influence on the firm (Bartlett and Ghoshal, 1995). Importantly, the social network brought to the firm by family members also includes external agents consisting of religious organizations and members, school ties, professional organizations, and community groups, for example. Accordingly, these external agents can be described as weak ties that bring other resources or knowledge to the firm (Jack, 2005). They are connected to the family firm by family members and gain access to broader social networks (Jack, 2005). Overall, the network overlap between the family and the firm yield important linkages between the FSC and the development of the family firm's OSC. As a result a family's social capital and the family firm's social capital are inextricably interwoven. Based on this conceptual perspective, we propose:

*Proposition 4:* Family social capital influences the development of a family firm's organizational social capital through social network overlaps.

Moving beyond the mechanisms by which family social capital is linked to the development of the family firm's organizational social capital, we argue how the strength of the family's social capital, as determined by the family's stability, interactions, interdependence, and closure, influences this development.

**The Drivers of FSC and their Effect on OSC Development**

*Stability.* Stability is a necessary condition for strong social relations to emerge. Stability in a family firm can be analysed from two perspectives: family nucleus stability independent of the firm and the preservation of the firm in the family (dynasty).

Firstly, a function of the family as an institution is to endure through generations maintaining social ties and educational principles (Bourdieu, 1994). Therefore, stability is created among family members to preserve family cohesion. The primary socialization process described earlier creates cognitive similarity among family members and produces stability in their mental schema, contributing to social capital within the family. For example, norms used within a family play an important role in recurring behaviours that are expected by other family members (Bettenhausen and Murnighan, 1991). These norms are developed based on the historical precedence in the family represented by traditions. Depending on the family's characteristics, these traditions encompass strong norms that change slowly, thereby resulting in stability for the family's values and relationships. This stability is also increased by intergenerational reciprocity: 'the behavior of previous generations influences how a present generation treats future generations' (Wade-Benzoni, 2002, p. 1011). A path dependency exists in family decisions across generations that maintain stability in the allocation decisions made by family members. Moreover, the family social group evolves slowly with marriage, divorce, birth and death. Therefore, this group also tends to be relatively stable. These characteristics increase the strength of the family's social capital, which in turn enhances the linkage between FSC and OSC.

Secondly, family firms arc often characterized by possessing more stable ownership than non-family firms. There is a dynasty rule in many family firms. Thus, the future CEO of a large family firm is likely to be a family member (Anderson and Reeb, 2003; Bauer and Bertin-Mourot, 1996). Even when the transfer between generations is difficult due to succession problems among family members, this provides stability and durability for social capital development and maintenance in the firm. Thus, as stability increases the strength of the family's social capital, this strength in turn heightens the influence that its social capital has on the development of the family firm's OSC via the four mechanisms described above. These arguments lead to the following proposition:

*Proposition 5:* Family nucleus and dynasty stability positively contribute to the development of the family firm's organizational social capital.

*Interactions.* Frequent interactions among family members affect the family firm's strategy formulation, even when the interacting members are not part of the firm's top management team (Nordqvist and Melin, 2001). Krister Ahlstrom, CEO of the Finnish family group, Ahlstrom, explained that creating a family council to structure family interactions regarding important firm issues was necessary to effectively negotiate issues and arrive at specific decisions that comply with family members' common interests (Magretta, 1998). Family members working in the family firm also generally have more frequent social relations outside of work (e.g. family gatherings) than typical managers and employees in non-family firms (Mustakallio et al., 2002). Here the boundaries between work and family social relationships and events blur.

Moreover, this overlap between these two social groups integrates multiplex networks (Boissevain, 1974) in the FSC and OSC. Multiplexity means that two social networks are overlapping with the same people linked together across different roles (Boissevain, 1974; Fortes, 1998). Family firms' managers and shareholders belong simultaneously to two social groups: the family and the firm. Multiplexity allows an intense community life and strong enforcement of norms (Fortes, 1998), higher levels of obligation and trust-based norms (Coleman, 1990) in the two social groups. Thus, the family firm's OSC is strengthened and benefits from this multiplexity that is based on a strong FSC.

Beyond internal interactions between family members, family members' interactions with customers, bankers and other external stakeholders, which often are numerous and intense (Yeung and Soh, 2000), contribute to the development of organizational social capital. Family members in the firm often have strong relationships with, their clients (Longenecker et al., 1989; Lyman, 1991). For example, research shows that Chinese family firms have strong interactions with their clients, suppliers and bankers (Redding, 1995; Yeung, 2000a, 2000b). Moreover, the succession process in family firms facilitates the preservation of these intense relationships with major stakeholders (Drozdow and Carroll, 1997; Fox et al., 1996). Thus, OSC is actively developed by increased strength in FSC originating in part from family members' internal and external interactions with stakeholders.

> *Proposition 6:* Family members' internal and external interactions strengthen family social capital and simultaneously contribute to the development of the family firm's organizational social capital.

*Interdependence.* Family members are concerned about the firm because it is a part of their collective patrimony and is often the main asset of the family (Bauer, 1993; Gersick et al., 1997). Even when family members have different perspectives, issues regarding the management of the firm depend on the shared goals of the family and not other groups (Gersick et al., 1997). Belonging to the same social group whose members are similarly interested in the success of the family firm increases family members' interdependence. The family firm is often one of the main assets of the family that encourages an intergenerational allocation of decision processes (Wade-Benzoni, 2002) and interdependence, because the current family members make decisions and take actions that affect the resources of future generations. Therefore, family members who pursue similar goals are often more interdependent, thereby producing stronger FSC.

Schulze et al. (2003) suggest the pre-eminence of a common family interest develops through the integration of family members' preferences in managers' utility functions. Moreover, psychological costs exist if members decide to withdraw their investment in the family firm; other family members may perceive this action as a betrayal of the family and its values (Gotman, 1988; Masson and Gotman, 1991). The exit problem is reinforced by the difficulty of valuing and selling shares of non-public firms, a condition relevant to many family firms, although not all. Thus, interdependence among family members is likely to exist within and across generations. As a result, family firms usually experience a higher interdependence among their (family) shareholders and managers compared to non-family firms. The strengthened family social capital then positively contributes to the development of OSG. Formally:

> *Proposition 7:* Family members' interdependence strengthens family social capital and thereby contributes to the development of the family firm's organizational social capital.

*Closure.* Closure of family social capital is structured by the family. Only family members can participate in the intra-group network through kinship. However, the density of interactions can vary between families, depending on the number of family members, how each family conceives of its educational role and defines its boundary (e.g. do spouses of family members have the same access to shares or executive positions in the family firm?). Therefore, the density of the linkages inside the family network is family specific. The more dense the network is, the stronger the boundaries of the family network tend to be. However, even in families with less dense networks, the boundaries tend to be stronger than those of many traditional management teams in non-family firms. This degree of closure strengthens the family's social capital as well as the family firms' OSC because of overlap in the social networks and/or the FSC's effects on the firm's human resources practices and organizational identity. For example, the density of FSC affects the positions open to family and non-family members in the firm, and the extent of similarity or differences in compensation practices for family and non-family members. Therefore, density, hence closure, of the family's social capital affects the family firms' organizational social capital. This conclusion leads to the following proposition:

*Proposition 8:* Closure within the family strengthens family social capital; thus it contributes to the development of the family firm's organizational social capital.

Although we argue in the preceding propositions how FSC positively influences the development of the family firm's OSC, this influence is contingent on several factors, including the involvement and size of the family in the firm's management, and the family's ability (self sufficiency) to obtain crucial resources needed by the family firm. We explore these factors next.

## Important Contingencies in the FSC/OSC Linkage

*Family's involvement and size.* Family firms vary in the amount of family commitment to the firm and by the actual number of family members (or percentage of total family members) involved in the firm. Birley (2001) and Birley et al. (1999) identified a typology of family businesses based on the owner-managers' attitudes toward their business. For these authors, family firms are not homogeneous in the amount of family involvement. Based on survey data, they identified three clusters of family businesses, which included the family in, family out, and family-business jugglers. Their findings showed that these clusters exist in roughly similar sizes (33.5 per cent 'family in' firms, 28.3 per cent 'family out' firms, and 38.2 per cent business jugglers) regardless of country.

The 'family in' cluster was characterized as actively integrating the family with the business. These families perceive advantages arising from the involvement of family members in the business. Specifically, they attempt to: (1) introduce children to the business at a young age; (2) gear their education toward the business; (3) create succession plans based on promoting family members; (4) keep the founder or older generations active in the firm; (5) keep ownership within bloodlines; and (6) build the business in order that it should provide pension benefits for all members of the family. In contrast, the 'family out' cluster holds opposing views on the above dimensions. The overriding position of this cluster is to provide freedom to family members, allowing, but not pressuring, members to join the business and take responsibilities. These firms are more likely to be managed by non-family members. Lastly, the 'family-business jugglers' cluster is neutral on the above dimensions. Those in this cluster fall in neither camp, but instead are 'concerned to arrive at an appropriate balance between family and business issues' (Birley et al., 1999, p. 603).

Differing levels of commitment by the family to the business and family size help explain how a family's social capital can influence the creation of organizational social capital. First, if the family has not been highly influential in and concerned with the firm's management (e.g. the family out cluster), the linkages between the FSC and OSC are likely to be weaker, while if the family has shown great commitment to the firm through management and ownership (e.g. the family in cluster), the linkages are expected to be stronger, regardless of the strength of the family's social capital (as determined by stability, interaction, interdependence, and closure). Second, if a degree of commitment is held at a high level for an extended period of time, the relationship is expected to grow stronger because of the path dependency of social capital that 'constitutes a form of accumulated history' (Nahapiet and Ghoshal, 1998, p. 257). Third, if the family lacks the members to fill key positions within the firm, it losses some ability to shape the development of the firm's OSG, while a larger family where the members are involved allows that influence to grow.

*Self-sufficiency.* A family governance structure does not reduce a family firm's need for critical resources to be successful. Family firms, similar to other firms, grow increasingly dependent on actors who provide them with critical inputs (Pfelfer and Salancik, 1978). However, family firms may differ from non-family firms in terms of to whom they turn for resources. While both family and non-family firms may share similar resource providers (e.g. banks, suppliers, consultants), only family firms have the ability to approach the family for critical resources. We suggest that a family's ability to sufficiently provide critical resources (e.g. financial and human capital) increases their firm's dependency on the family while simultaneously reducing its dependency on external sources. In short, family firms often are relatively more self-sufficient; they depend less on other 'proximate institutions' as do their rivals, and thus they do not experience or have to respond to the same coercive pressures as their rivals. Supporting this conclusion, recent work by Sirmon and Hitt (2003) argued that the family members are especially likely to provide needed capital when firm survival is at stake. They also noted that financial capital from family members was patient; payback requirements tend to be lenient. Therefore access to survivability capital and patient capital are sources of competitiveness for family firms. Thus, as a family's self sufficiency increases, the influence of the family's social capital on the organization's social capital grows.

We have analysed the effects of FSC as a major force in the development of a family firm's OSC. As suggested above, depending on two contingency dimensions, a strong FSC facilitates a family firm's OSC development. However, as we explain next, a strong FSC also creates risks to the firm.

## Strong FSC: Definitions of Family Firms and Risks

Several studies have helped to identify family firms' specific advantages over non-family companies (see Habbershon and Williams, 1999 for a review). The nature, creation and dynamics of these family firms' advantages are deeply affected by a unique OSC rooted in a strong FSC and its characteristics as explained herein. However, when the family has weak FSC, the family firm's OSC development will be influenced more strongly by other proximate institutions and non-family employees. Therefore, a 'family owned and family managed' firm with a weak FSC is likely to be more similar to a non-family firm than to a family firm with strong FSC. In such firms, organizational advantages are likely not based on a family governance structure. Hence, we conclude that many of the special or unique attributes of family firms depend on the existence of strong FSC and that if family firms perform better than most of their non-family competitors, it is in part because they possess strong family social capital. This conclusion is supported by data reported in *Business Week* (2003) and by Anderson and Reeb (2003).

Thus, family firms exist along a continuum with the degree of FSC as part of the determinant of a family firm. In fact, the FSC helps to specify family firms' uniqueness from a strategic point of view. Family firms are usually identified using one of two approaches: a 'component-of-involvement' approach or an 'essence' approach (Chrisman et al., 2005, p. 556). The 'component of involvement' approach is based on the implicit belief that family involvement is sufficient to identify a firm as a 'family firm', but the 'essence' approach considers involvement as a necessary but insufficient condition. The 'essence' approach emphasizes the distinctiveness of the resulting behaviour, i.e. family involvement must produce a specific and unique behaviour/outcome for the firm to be identified as a 'family firm' (Chrisman et al., 2005, p. 557). Litz's definition (1995) considers the role of the family social network in the firm along with the intention of the family. As presented in this article, a strong FSC helps to develop a unique OSC and a distinctive behaviour in family firms. Thus, we extend this definition of family firms to be: 'a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, to the extent its members strive to achieve and/or maintain intra-organizational family-based relatedness', *and to the extent to which the family unit has strong family social capital.*

However, although an increasingly strong FSC influences the development of the family firm's OSC, strong FSC also has potential negative consequences (Adler and Kwon, 2002; Leana and Van Buren, 1999; Nahapiet and Ghoshal, 1998; Fortes, 1998). At least three risks or problems can emerge from strong FSC for family firms: overdeveloping OSC, a transfer of dysfunctional family realities to the family firm's OSC, and a tendency for the family to inappropriately capture the goodwill of external actors intended for the family firm.

Leana and Van Buren (1999) documented the potential costs of a strong OSC. Briefly, the risks of such strong OSC are its maintenance costs, its action as an impediment to innovation as people are embedded in established practices (e.g. 'groupthink'; Janis, 1981) and/or ignoring new sources of information (Staw et al., 1981), and its role in causing dysfunctional power arrangements within the firm (e.g. overly stable) (Leana and Van Buren, 1999, p. 551). Strong FSC can also support and nurture an overly strong OSC based on the aforementioned propositions. If a strong FSC which helps to nurture an OSC, leads to the high costs noted above, eventually the cost is likely to exceed the organizational advantages.

The second potential negative effects of strong FSC comes from the transfer of dysfunctional family characteristics to the family firm's OSC. If conflicts, family.issues or crises develop within the family social group, they can transfer to the firm without any remedial actions. For example, if family members have dysfunctional communication skills, they may cloud proper communication channels in the firm. Or, strong norms of closure in the family social group could result in free-riding (Fortes, 1998). Finally, competitiveness within the family can lead to concerns about who is selected for promotion, thereby creating even more intense internal rivalry. This problem could be especially significant as turnover and advancement in family firms traditionally is slow.

Such behaviours undermine OSC and a family firm's success; family firms must develop protective mechanisms to limit these problems.

The third potential risk is the potential for a strong FSC to dominate OSC. This condition can result in two primary problems. The first is overdependence: if the strong FSC collapses, for example, the OSC could also decline because of its dependence on FSC. As a consequence, organizational advantages based on family involvement could also vanish. Such problems can appear suddenly with succession in leadership positions or events such as divorce, death, sale of shares to non-family members, or a new repartition of the shares among family members. Second, relying on a strong FSC to develop OSC is a 'double-edge sword'; it provides unique advantages but there is a risk of opportunism. A strong family can inappropriately capture for the family the goodwill intended for the firm by external actors. This type of appropriation does not allow the OSC to flourish or grow independent of the FSC. Moreover, in such a case, potential dissension can occur between family and non-family employees. Non-family employees can feel like outcasts and resent the family, thereby reducing the benefits for the firm based on the family's social capital.

## DISCUSSION

There are three general implications from our analyses: research on family firms, research on social capital, and extensions beyond family firms. Research on family firms' competitiveness often has focused on identifying advantages of this structural form over other types of firms (e.g. Habbershon and Williams, 1999). Many criteria have been identified by different researchers, thereby providing a fragmented perspective about family firms in strategic management research. Habbershon and Williams (1999) coined the term 'familiness' to describe the unique bundle of resources created by the interaction of family and business as the underlying dimension supporting family firm advantages. Herein, we offer a more precise examination of this approach by exploring the origins of the family firm's OSC. First, we link the development of a family firm's OSC with FSC through the mechanisms of isomorphic tendencies, shared organizational identity and rationality, human resource practices, and overlapping networks. Then, by considering the role of FSC's stability, interactions, interdependence, closure, along with family's size, commitment and ability to provide critical resources for the firm, we propose how FSC influences the development of OSC. Doing so has made the black box more transparent and offers to disentangle and identify the process of OSC creation. The analyses presented herein give managers and researchers a better understanding of how OSC develops.

However, our framework suggests new research questions for which additional study is needed. For example, the conceptual framework presented could provide additional explanations for the difficulties experienced by many family firms. Take, for instance, a family firm building its success in part with a strong FSC. Many strategic alternatives to help spur ongoing growth (e.g. mergers, acquisitions, or alliances) may not be fully considered because of how they dilute the influence of the FSC on the family firm's OSC. As a consequence, the family firm's evolution is unlikely to include strategies that are incompatible with FSC, thereby constraining its growth. Another interesting research social capital is homogeneous at a specific level of analysis (e.g. team, unit, division) and independent of other social groups within the organization. In other words, these works overlooked heterogeneity within the firm with regard to social capital. While assessing social capital, ex-post, may illuminate the potential advantages of OSG, this approach likely will not provide insight into how social capital develops or evolves. Alternatively, considering the heterogeneity of social groups within the firm, as has been done here, could enrich social capital research.

Additionally, our framework opens new research questions on this topic. By exploring the relationship between FSG and OSG, we have taken the first steps to better understand how social capital develops, but more can be done. For instance, the predominant view of a firm's social capital emphasizing an integration process which positively affects that firm's organizational advantage could be questioned. Docs more social capital(s) in a firm yield greater levels of advantage? And how does the process of social capital development influence organizational outcomes? By considering how different social groups influence the development of a firm's organizational social capital, new insights may be discovered. Moreover, analysing influences and interactions between social groups over a long time period could help us to understand why family firms develop both organizational advantages and disadvantages, either simultaneously, or at different points in time. Therefore, future research on organizational social capital creation and development requires a 'broader focus' examining multiple groups within a single firm. It also introduces a new research issue about the balance and synergies that could exist among these different groups' social capital, its results on firms' organizational advantages, and how managers can act upon them.

Lastly, the family firm is not considered the typical case by many management researchers and yet it is the most common form of business in the USA and the world. However, many of the characteristics of the relationship between families and their firms could generalize to other organizations. The development of organizational social capital in non-family firms that have a dominant leadership group with strong intra-group bonds may be similar. Examples include entrepreneurial firms with a strong founding group, or local churches where the clergy group members have strong bonds with each other and an external governing body. In both cases, the dominant group's influence in the development of the organization's social capital may be similar to the influence the family has on the family firm's OSC.

Furthermore, several characteristics of family firms also apply to hybrid organizations (Borys and Jemison, 1989) and hybrid-identity organizations (Foreman and Whetten, 2002). Hybrids are organizations that 'use resources and/or governance structures from more than one existing organization' such as joint ventures (Borys and Jemison, 1989, p. 235). Although our model focuses on family firms it may effectively apply to the social capital creation and development of hybrids: for instance, a new joint venture's OSC creation and development may be affected by each parent's social capital in similar ways as the family firm's OSC is influenced by FSC. Moreover, as joint ventures have two parents, the relative impact of each parent's social capital on the hybrid's OSC will depend on contingency variables described in this article.

Hybrid-identity organizations contain two seemingly incompatible value systems (Etzioni, 1961; Foreman and Whetten, 2002): they arc organizations 'whose identity is composed of two or more types that would not normally be expected together' (Albert and Whetten, 1985, p. 270). They have a normative system like that of a church or family and a utilitarian system like that of a business (Foreman and Whetten, 2002, p. 621). Family firms are an archetype of such organizations. In the case of an ideographic hybrid-identity, two identities are associated with two different groups existing in different parts of the firm (Albert and Whetten, 1985). Alternatively, a holographic hybrid-identity exists when each of the multiple identities is held by all organization members. An ideographic hybrid-identity organization's OSC probably develops in relation to each group's social capital as explicated herein for family firms' OSG and FSC. Moreover, the contingency variables explain which one of the two groups' social capital will have more or less impact on OSC. In this way, the model presented herein holds significant potential to describe how the social capital of many organizations in the world develops.

In conclusion, understanding where and how resources, such as organizational social capital, are developed is an important stream of research for many domains, including entrepreneurship, strategic management and family business. Exploring the interaction of different groups and their social capital offers an avenue for analysing how organizations such as family firms are able to create specific competitive advantage — or disadvantage! We hope that researchers will pursue this avenue because doing so will likely contribute to our understanding of internal sources of competitiveness and the role of social relationships in the creation of value.

## NOTE

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