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Accessing Social Capital through Conformity: Investigating Network Culture

by

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Introduction

Research has repeatedly documented that dense networks with strong ties between managers are counterproductive to managerial performance (e.g. Burt 2000, Gargiulo & Benassi 2000, Gabbay & Leenders 2001). Nevertheless, we observe in practice that top managers continue to form small, tightly coupled cliques within larger network settings. From an instrumental perspective, we should expect the motives behind the forming of these cliques to be the anticipation by the managers of some kind of benefits connected to them. This article is an attempt to outline a theory explaining this apparent paradox.

The instrumental view justifies a functional explanation of the existence of a clique, and I shall investigate the nature and function of such cliques, described as a "network within the network". The discussion will include functions at the individual, firm and industry level. Guiding the discussion is the assumption that a clique may be the source of different kinds of resources, in the form of social capital. Further, in accordance with the instrumental perspective on social capital (Bourdieu 1986), I base the discussion on the anticipation of managers as rational actors. The analysis will show that, first, a clique is a source of social capital for the individual manager, in the form of information, power and status. Second, the clique represents social capital as an institutionalised collective, in the form of its influence towards the larger industry network, and the political authorities as well. However, a substantial body of research has addressed the costs and liabilities of dense networks, and I shall address this question in turn. The main liabilities mentioned in the literature are structural constraints in the form of limited access to diverse information and alternative knowledge, and behavioural constraints stemming from social norms and sanctions (Portes 1998, Burt 2002). I shall broaden the analysis to include liabilites from cultural aspects of the clique. Further, I shall discuss the benefits and constraints of managerial network cliques at the individual as well as the network level. Finally, I shall analyse the effects of such cliques at the industry level, specifically the effects on the industry's ability to adapt, change, innovate and learn.

The inner group: The central clique of an industry network

The phenomenon of interest is how the centre of an industry network tends to form into a small, densely tied group of top managers. In general, tightly coupled groups within a wider network are called a clique, and the definition of a clique is a group where each of the participants is directly connected to all the other actors in the group (Grønmo & Løyning 2003). The subject of this study is a specific kind of clique, comprising the group of managers at the centre of an industry network. Thus, the group in question is an elite group of high-status top managers, which I shall denote the inner group (Useem 1979) throughout the article.

The anecdotal evidence for the existence of inner groups within industry networks is ample, but systematic scientific studies of the phenomenon are scarce. Useem (1979), in his study of interlocking directorates in USA, found evidence of an inner group of top managers that occupied top positions in several institutions outside the business sector. In a similar study of the financial sector in Norway, Grønmo & Løyning (2003) found a persisting group of centrally positioned managers with direct, strong ties that formed a central clique. No such systematic empirical study of network structures has been conducted within the fish farming industry; however, results from qualitative research suggest that a group of top managers with similar background and experience are occupying central positions within the industry, influencing the further development of the industry as a whole (Frisvoll 2003). Despite the scarce empirical evidence, the fish farming industry is selected as an example because of its nature as a fast-growing industry undergoing huge structural changes, with strong dependence on networking for information and knowledge exchange. The theoretical discussion in this article will form a framework for a more systematic empirical analysis of how an inner group within will affect the development of knowledge-based industries in general.

I conduct the theoretical analysis from a social capital perspective. Thus, the first part of the paper describes the social capital of an inner group and the benefits at the individual level. These benefits are suggested to represent the very motives, at the individual level, for forming the group. I continue to describe the social capital at the group level and its effect at both the individual, group and industry level. Finally, I discuss the benefits and liabilities associated with an inner group of an industry network, at all three levels.

The social capital of inner groups: Individual benefits

Information

One of the core functions of a network is the exchange and coordination of information and knowledge (Burt 2001, Lin 2001). In accordance with mainstream research within the management, organisation and strategy field, one of the major roles of a top manager is to collect and diffuse information between the organisation and its environment. Building networks is an efficient tool for conducting this role. The market for information is costly to monitor, and large parts of the relevant information will not be publicly available without substantial costs. A network can provide relevant information faster and more precisely, and the ability of a top manager to create and maintain network relations is thus essential for her or his performance. Specifically within industries where the knowledge is dispersed and develops at a high speed, networks are a condition for success in everyday business conduct. (Powell et al 1999, Stuart & Podolny 1999). Norwegian managers also report wide access to information and knowledge as a main benefit of networking from several different industries (Grønmo & Løyning 2003, Nesheim 1994)

Within social network research, scholars are disputing on what *types* of networks that give the most information benefits, through comparisons of different network structures and their benefits. It appears that within industries where the companies are dependent on rapid diffusion of information from a variety of sources, a network rich in structural holes, i.e. many disconnected actors, are the most beneficial. The benefits associated with structural holes (Burt 1999 p.3), are the ability of actors to combine information from separate, disconnected sources, facilitating discovery of new opportunities and better coordination, i.e. control and information benefits. Several empirical studies report that managers who span structural holes are more successful than managers with smaller, dense networks (Burt 1999, Gargiulo & Benassi 2000). Dense networks also create so-called structural constraints, i.e. the structure impose constraints on the actors' access to novel information from disconnected actors, and further reduce their flexibility in adapting to changing circumstances (Gargiulo & Benassi 2000, Burt 2000).

On the other hand, there are also empirical indications that strong ties produce information benefits, e.g. through facilitating cost-effective transfer of complex information and tacit knowledge (Hansen 1999, Nahapiet & Ghoshal 1998). In dense networks with strong ties, the actors know each other well, the direct ties implies a high degree of transparency within the network, and the strong ties imply the development of norms and rules of behavior, that may create trust and reduce transaction costs and risks for the participants (Burt 2001 s. 208, Coleman 1988). Further, the close connections between the actors facilitate the transfer of tacit knowledge (Nahapiet & Ghoshal 1998), and in addition it is reasonable to infer that the actors within tightly connected groups exchange information that is exclusive for the participants, i.e. not shared with the external network in the industry. Thus, the information exchanged within the group may have the character of exclusiveness, which makes it more valuable for the actors.

In sum, research indicates that the most important individual benefits associated with an inner group, is access to information: rich information, exclusive information and tacit knowledge. The strong ties between the actors in the group further enhances solidarity and make the actors willing to exchange gifts involving a high degree of risk, they make communication richer, and more complex information is exchanged in the group.

Power and influence

Networks are generally considered as a source of power. An actor has influence through the goodwill from other influential actors in a network, or through other actors owing him a favour (Coleman 1988, s. 102). The strength of influence of a focal actor is conditioned on the actor's position within the network structure. Burt (2001) asserts that actors who are directly connected to other actors who are disconnected (or actors who are spanning structural holes) are more powerful through the ability to control the information flow between other actors, and to control that gets access to the information. Further, several empirical findings indicate that being centrally positioned within a network increases the power of an actor (Grønmo & Løyning 2003).

Actors with many ties, and positioned between many other actors (which is a measure of centrality) have more control over information and hence more power (Freeman et al. 1980). It is thus a general assumption that centrally positioned actors have more power, despite the fact that the specific relationship between centrality and power is not yet clearly defined (Grønmo & Løyning 2003).

I propose that the inner group of a network have more powerful actors than is the case for the actors in the general industry network. However, the causal direction may well be the opposite of argued above. I have defined the inner group as an elite group centrally positioned in a larger network, with strong ties and closure. In order to maintain the exclusiveness of the group, it is reasonable to believe that potential new members are screened before entrance is granted. The maintenance of strong ties requires effort and resources, and I shall argue that actors attractive for membership are players with a certain amount of human and social capital prior to entering into the group.

Thus, I propose that the different power mechanisms are mutually reinforcing. Through being centrally positioned within the network, the inner group members have more control over information flow, they are connected to other powerful players, and they restrict entrances into the group to influential other actors. The conclusion is that the inner group of an industry network represents social capital that produces benefits for the individual actors in the form of power, both through the individual position in the network, as well as through goodwill from other actors.

Status and identity

Networks serve as bases for recruitment to managerial positions. A range of empirical studies has shown how an actor's position within a network affects job opportunities (Granovetter 1974) and promotion (Burt 2000). A study of recruitment to positions in Norwegian boards of directors revealed that more than 75% of the board members are recruited through personal and professional networks (Econ 2003). Researchers broadly agree that managerial networks represent social capital in the form of access to career opportunities for high status jobs. Empirical findings indicate that a manager with a network rich in structural holes achieve faster promotion (Burt 2000). Further, actors with high status contacts are more successful in the attainment of higher status jobs (Lin 1999). Overall, empirical evidence seems to indicate that weaker ties reach higher-status contacts, and hence are more effective in status attainment (Lin 1999 p. 475).

There are also arguments supporting that dense networks produce benefits in the form of status and social credentials. A network is commonly considered as a means to get access to new, or more, resources, such as high-status jobs, but it may also be an arena for the preserving and maintaining existing resources. A network may function as a confirmation of the actors' social credentials, and this is what Lin (2001 s.10) defines as the expressive function of a network. Similarly, Gabbay and Leenders (2001) suggest that "...actors may attempt to “freeze” favourable social structures, for the purpose of securing future social capital". The expressive function of a network is stronger in dense structures, because the network and its members are more easily identified, and they are more tightly connected and thus interacting more intensely. The expressive function is also addressed by Bourdieu: "..Exchange transforms the things exchanged into signs of recognition and, through the mutual recognition and the recognition of group membership which it implies, re-produces the group." Thus, the internal interaction within the network acts to reinforce the status and identity of the participants, and in elite networks as the inner group, the existing status of the actors is a value worth preserving.

Another mechanism affecting status associated with dense networks is the referral function towards the external environment. An elite group of managers centrally positioned within the larger industry network may, to the degree that it is identifiable as a group, function as a referral for the status and social credentials of a focal actor. Consequently, membership in the group as a collective will represent a benefit *per se*, and maintenance and reinforcement of the group as an institution will be instrumental for the actors.

To conclude, the inner group is a source of status and identity at several levels. First, the managers have more high status contacts, facilitating access to higher status jobs and career opportunities. Second, through the internal exchange and interaction within the group, the status and identity is continuously reinforced. Third, the group is a referral towards external actors for the social credentials of the managers, and the stronger the status image of the group; the more valuable is this referral function.

Social capital at the collective level

I have discussed how the inner group represents social capital for a focal actor, through the structural position and ties connecting the actor. However, the group may also represent social capital at a collective level, producing benefits both at the group and industry level. I shall address this issue through discussing the benefits accruing from the inner group's ability to act as a collective, and attract resources to the group, and the industry as well, from external sources, such as the political authorities.

The relationship between the network and its environment has been less addressed within the social capital literature. Useem (1979) found evidence for the existence of an inner group within American business elite, and the members of this group had top positions within several organisations and institutions outside the business sector. There are indications that the Norwegian business elite has strong interconnections with several governmental agencies and political institutions (Tvedt 2003). The Norwegian policy makers are purposively including business actors in discussions and advisory boards on a regular basis, and there are broad opportunities for powerful actors to affect the policies towards different industries. Emerging industries with national significance, such as the fish farming industry, have extensive opportunities to exert influence towards the government concerning legal and financial policies in the future. Thus, an inner group may represent social capital convertible to financial and human capital benefiting both the group itself, as well as the industry as a whole.

The success of the inner group in shaping the future of the industry through political influence is dependent on two factors. First, the group must be perceived as unified and having common goals, as well as being able to act jointly to pursue these goals. Second, the members of the group must be perceived as legitimate representatives for the larger industry network. This points to certain collective properties of the inner group as and institution, or its collective social capital. I shall in the following describe how this collective social capital may be developed and sustained within an inner group, in order to be able to fulfil these two conditions.

A group's ability for joint actions must be assessed through an investigation of its "inner life". There is a substantial body of research focusing on the properties of collectives and their ability to produce social capital for its members, at the organisation as well as the society level (e.g. Putnam 1995, Coleman 1998, Nahapiet & Ghoshal 1998). The main property at the organisational level producing social capital is its cohesiveness, facilitating the pursuit of common goals (Adler & Kwon 2002 s.21). According to Nahapiet & Ghoshal (1998), the social capital of the organisation has three dimensions: the structural, the relational and the cognitive dimension. All three dimensions facilitate cooperation and coordinated action. The structural dimension is mainly comprising strong ties and closure. The relational dimension concerns the quality of the internal relationships, and comprises attributes as trust and sanctions, reciprocal expectations and obligations, as well as identity and identification (Nahapiet & Ghoshal 1998 p. 244). The cognitive dimension refers to the resources producing shared representations, understanding, and systems of meaning within the group. Nahapiet & Ghoshal is addressing the ability of an organisation, through the three dimensions of social capital, to create intellectual capital in the organisation, and they denote this "the organisational advantage".

In sum, the three dimensions of social capital as described by Nahapiet & Ghoshal are more or less equivalent to what has been described as organisational culture in traditional organisational research. For my purposes, specific cultural elements of social capital are of interest. I shall investigate how it contributes to the inner group's ability to develop common goals, act jointly towards the political authorities, and to legitimise itself as a true representative for the industry as a whole, both towards the industry actors and the political authorities. There are specific elements of the three dimensions of collective social capital defined by Nahapiet & Ghoshal that are of relevance for these functions. The structural dimension is a property of the group by definition, as I have defined the inner group as a small, dense network with closure and strong ties. Thus, in the following I shall concentrate on the relational and cognitive dimensions of the collective social capital, through describing how the attributes they comprise are developed within the group, through two distinct processes. The first is the institutionalisation of knowledge and actions; the other is the development of norms and sanctions guiding behaviour in the group.

Institutionalisation: The cognitive dimension of social capital

Bourdieu's well-known definition of social capital relates the concept to an institutionalised social setting: "...Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance and recognition" (Bourdieu 1986 p. 248). Although Bourdieu's contribution to the development of the concept of social capital has been widely acknowledged among scholars (see e.g. Portes 1998, for a review), later research has not specifically addressed the question of institutionalisation of the social setting in which social capital is embedded. The question of degree of institutionalisation may be regarded as the cultural equivalent to the degree of density in structural analyses of networks, and Berger and Luckmann (1966) have given an excellent analysis of this phenomenon from a sociology of knowledge perspective. The following is based on their work, and is an outline of how the cognitive and relational dimensions of social capital is created within the inner group. The theory of institutionalisation applied in this setting explains how the cognitive social capital represents a resource in unifying the group, and theories of social norms are applied to to explain how the relational dimension of social capital facilitates common goals and joint action.

Generally, institutionalisation is a phenomenon occurring through social interaction over time. When people interact, certain patterns of own actions as well as those of others arise, that are manifested in common bases of knowledge. This common knowledge further enhances shared typifications of actions, experiences and actors. Any such typification comprising both actors and actions may be called an institution. An important characteristic of institutions is the degree of diffusion of typifications between the members of the specific social group in which the interaction takes place. The typifications produce gains through e.g. predictability, facilitating efficient use of resources in decision processes, and stable expectations. The results of these institutionalisation processes are manifestations of certain cultural elements within the social group, and an investigation of the process will enable us to predict cultural elements we could expect to find within the inner group of a managerial network, as well as their value as social capital.

Externalisation and objectivation

The first stage of the institutionalisation process is externalisation of individual, subjective behaviour. "What I do now" becomes " this is how we do this". A shared knowledge of how things are done arises within the group. The second step is the transfer of this shared knowledge to other groups not originally participating in the knowledge creation, i.e. to newcomers in the network. For newcomers, the existing knowledge will be objectivated and be perceived as "this is how things are done"; the knowledge has a historical aspect. The historical aspect implies that the institutionalised reality existed before their entrance into the group, and it will continue to exist after their exit. The specific reality or knowledge is thus perceived as external and objective. This is, however, a belief; the institutionalised reality does not necessarily exist outside the group, it is created and re-created continuosly by the individuals between whom it is shared. Over time, the perceived objective reality will be internalised by the members of the group, so that it becomes rooted in each members own values and beliefs.

A crucial point is the newcomers' judgement of *how* fixed and unchangeable the reality is. The degree of institutionalisation at the individual level is determined by the degree of objectivity assigned to the reality as perceived by newcomers. It is a human fact that we in certain situations tend to perceive realities created by people as objective and given. The dialectical re-creation between the individuals and the institution implies that the group members continuously maintain and reinforce the institutionalised elements through their language and behaviour. Further, the individual degree of institutionalisation is determined by the degree of internalisation of the reality by each individual actor in the network. Thus, the assessment of degree of subjective (individual) institutionalisation within a specific group should, first, comprise a definition of what elements of reality are included as objectified elements. Second, the subjective beliefs about degree of objectivation and internalisation by each actor should be assessed.

The institutionalisation process within an inner group of an industry network is proposed to centre on business issues. I suggest that it will comprise topics at the industry level, such as criteria for the industry's international competitive advantages and conditions for further successful development of the industry. Further, it is proposed to comprise firm level issues, such as basic principles for survival and profit maximisation and investment preferences. Shared knowledge and opinions of these matters are objectified and internalised, so that they come to be perceived within the group as the true recipee for development and success of each firm, as well as for the industry as a whole. It is this shared knowledge base that serves as a condition for common goals and unified action towards the external environment of the group to be developed. I propose that the higher the degree of institutionalisation at the individual level, the stronger is the group's ability to engage in the pursuit of common goals, and the stronger its capacity for joint actions.

Maintaining the institution: Developing norms

At the group level, degree of institutionalisation is determined by two factors (Berger & Luckmann 1966). The first factor is degree of diffusion, i.e. to what degree the institutionalised elements are shared between the members in the network. In a totally institutionalised network, all knowledge is shared by all the members; the opposite is a society where all knowledge is subjective and idiosyncratic. This is parallel to the closure argument in structural social capital theory: In a network where everyone is directly connected, all participants share the same information and knowledge (Burt 2001). The second factor is degree of internal legitimacy of the social constructed reality. This is assessed by investigating to what degree authority and sanctions are required to maintain the institution. If authority is required to enforce the institutionalised elements, the degree of legitimation is weak. Further, if strong sanctions to deviant behaviour are present, the degree of legitimation is also weak because the institutionalised elements are not internalised by the participants. I shall approach this issue through discussing how social norms within the group may serve as the mechanisms through which degree of institutionalisation is maintained and reinforced. Social norms may act as an alternative means to authority in governing behaviour. Social norms do in general imply sanctions to deviant behaviour as well. Thus, I turn to the investigation of the relational dimension of social capital within the inner group.

Any group of people, who interact regularly over time, will develop behavioural norms. According to Portes, the very definition of network closure is the existence of norms: "...Closure means the existence of sufficient ties between a certain number of people to guarantee the observance of norms" (Portes 1998 p.7). Hence, the instrumental explanation of the formation of the inner group is complemented by an assumption of the existence of norms guiding and governing behaviour in the group. Norms function as a mechanism for maintaining and reinforcing the institutionalised reality of the group, and hence affect the group's ability to agree on common goals and act as a unified group towards its environment. This refers to the relational dimension of social capital as defined by Nahapiet & Ghoshal (1998). At the inner group level, the role of social norms in maintaining and reinforcing the group as an institution can be defined at three levels (Fine 2002). The three levels are framing, negotiating and narrating, and I shall address them in turn.

Framing is defined as the contextualisation of meaning. According to Fine (2002 p.145), framing is the main mechanism through which behaviour is justified. By framing, managerial behaviour is installed with meaning, giving it a higher ground. The framing process as creation of meaning includes development of shared perceptions of reality that serve as the basis on which the contents of the norms are developed. Social norms have also been defined as "...meanings produced through negotiations. For people to interact successfully they must share common understandings of the situation they are in, their behaviours, and their roles – for example, it is helpful for the parties to speak the same language" (Horn 2001, p.11). This is in line with the externalisation and objectivation mechanisms described earlier as the institutionalisation process. Framing thus provides the group with a shared common ground for the contents of the norms, and it also serves as a basis for the internal legitimation of the institutionalised reality as discussed in the section above. I shall further address the legitimation function in a later section, turning to the external legitimation of the realities and activities of the group.

Negotiating is defined as the coordination of lines of action, and is the mechanism through which the core of the norms' contents is constituted within the group. It comprises the specific rules for behavior that are tied to rewards and punishments within the group, and is thus the basis on which a focal actor's general goodwill (or access to the group's social capital), is assessed by the alters. For norms to be effective in governing behaviour, some kind of social enforcement must exist. The enforcement mechanisms have the nature of sanctions, that are "...rewards for carrying out those actions regarded as correct or punishments for carrying out those actions regarded as incorrect" (Coleman 1990, p.242). The stronger the norms, the more coordinated action is possible. Research on social capital has so far mainly addressed general relational norms that reduce uncertainty and risk, foster trust, and reduce transaction costs (Burt 2001). However, within the managerial network in question here, I propose that even more specific behaviours are guided by norms, such as

- Managerial role expectations, i.e. principles of business management within the industry
- Behavioural expectations concerning the relationships to other companies within the industry, such as cooperative vs. competitive strategies
- Expressions of industry strategies

Thus, the behavioural norms in the inner group both serve as facilitators of coordinated action, i.e. the collective social capital, and in addition it serves as a basis for judgment of the individual goodwill within the group. Failure of an actor to comply with the norms will reduce his or her goodwill and thus the access to the groups' social capital. In the extreme case it will have the consequence of exclusion from the group. Similarly, the condition for newcomers' entrance in the group will be compliance with the norms. Thus, in effect the norms have a unifying and stabilising function in the group, through their effects at both the individual and group level.

Narrating is defined as making public claims about the nature of the "ought". Fine (2002, p. 145) calls it the "educational process", i.e. it is the means through which newcomers are socialised into the group. A strong cue for newcomers will e.g. be the existing participants as role models. Narrating refers to how the norms are communicated, and may have a variety of expressions as cultural artefacts. The main function is to buffer the group towards external influences, and serves as a reinforcement function for the group as an institution.

In sum, norms are powerful mechanisms in maintaining and reinforcing the inner group as a social community. Within a group, engaging in specific behaviours has two types of consequences: It generates instrumental outcomes for the actor(s), and it signalises messages about the actor(s) (Horn 2001). The norms thus have both an expressive and an instrumental function, and they affect the group both at the individual as well as at the group level. The expressive function at the group level serves to maintain the shared reality of the group, it constitutes the group as an institution and gives it meaning. At the individual level, the expressive function contributes to reinforcing the actors' status and identity within the group. The instrumental function of the norms enable the group to develop relational qualities, such as trust and reduced transaction costs, as well as the ability to act towards its environment as a unified group. At the individual level, the instrumental function of the norms act to regulate the goodwill towards ego, and thus the access to the social capital of the group defined as information, power and status.

In sum, the institutionalisation of the group through the social construction of reality, as well as the development of norms, constitutes the cultural elements referring to the cognitive and relational dimensions of social capital. The cultural elements are properties of the group, but the benefits from them accrue to both the individual and the group. For the group as a collective, the shared reality as well as the norms will produce relational quality through the ability to build stable expectations, trust and reduced transaction costs. But perhaps more important, these cultural elements will enable the group to act jointly, to pursue common goals. This is the first prerequisite for the group's ability to attract external resources. The second is the ability of the group to establish the internal social constructed reality as externally valid, i.e. transfer the institutionalised elements to apply to the industry as a whole. This requires a legitimation process. External legitimacy will enable the group to play the role as a reference group towards the industry as a whole, providing the group with a substantial amount of power. The role of the group as representing "the industry reality" is also the basis on which political influence is obtained. I shall address the question of external legitimacy as social capital in the next section.

Legitimation: social capital in external relations

The transfer to external groups of a reality belonging to a focal group requires this reality to be given a meaning and a language. The knowledge is transferred through certain "formulas", i.e. language, physical and social artefacts, similar to the narrating process in the above section. Within a larger network, these transfers will typically happen on social arenas where managers normally gather, such as meetings and conferences, as well as in board rooms and private gatherings, and the transfer is made through language, symbolic behaviour and ceremonies. These "carriers" of meaning are observable through e.g. speeches, discussions, specific rituals, dress codes, and other cultural artefacts, and they are the external equivalent to the internal narrating function of norms described in the above section. These behaviours are both reinforcements of the reality within the focal group, as well as means of transferring this reality to the external environment. For the reality to be accepted by other actors, a logic consistency is required, i.e. the reality needs legitimacy. This legitimacy is normally created through referring to common, basic beliefs in a society. In general business settings, legitimation will typically be created through referring to economic terms, market mechanisms, scientific terms, or other general economic beliefs regarding business life. Managers often legitimate their less desirable decisions, such as downsizing, through referring to sustained employment, value creation or survival of the company.

The main purpose of legitimation is thus to sustain an institutionalised reality, and to provide this reality with a form and expression which makes transfers to other social settings feasible. The legitimation process strengthens the picture of a specific social reality as given, and by means of language, symbols and myths, it is made more accessible for outsiders. In addition, a further outcome of the legitimation process is a tendency for the institutionalised reality to become normative. In order to defend specific beliefs and make them valid for other people, arguments of what is good or bad, right or wrong, may be effective. A specific institution, such as the inner group of an industry network, will have strong influence towards other groups if it includes a normative aspect in their behaviours. The legitimation is like the two sides of a coin: The institutionalised elements must be perceived as legitimate for others to accept them, and people accept them in order to obtain legitimacy towards the group. An interesting example of the normative aspect of this legitimation process is the case of foreign policy and aids business in Norway. In his extensive study of the network connections between central actors within these two policy spheres, Tvedt (2003) documents how the development aid policy is used to legitimate foreign policy decisions, through establishing the image of Norway as the “helping nation”. This is also in line with the “framing” process underlying the development of norms, as mentioned above, which provided the group with a “higher ground” for its identity and behaviour. This “higher ground” is communicated to other actors in the industry, as well as to the society in general through public discourses.

The more the specific knowledge and reality belonging to the inner group is spread across the industry, the more institutionalised industry will be, as a whole. And the more objective the reality will appear, the more it will be approved by the government as the basis for their policy towards the industry. Thus, the group’s ability to legitimise their reality, the more power it will have, both within the industry and towards the political authorities. The fact that the inner group is an elite group, contributes to the legitimation. Furter, the ability of the group to agree upon common goals and to act jointly, will enhance its legitimacy, as will it’s framing an narrating ability. Thus, the sum of the social capital of the group also includes degree of external legitimation, adding benefits of power and status.

Social capital and social liabilities

Some scholars define network density as a structural constraint, producing liabilities rather than benefits (e.g. Burt 2000, Gargiulo & Benassi 2000, Krackhardt 1999). In line with Gabbay & Leenders (2001,), I assert that we should make an explicit distinction between social structure and social capital: ”...In some situations, the same social structure can be beneficial for the attainment of one goal, while obstructing the attainment of others. For example, social networks can have the positive effect of providing network members with access to privileged resources, while lowering transaction costs. However, at the same time, the social network may place high demands on members in these networks and restrict their individual behaivor and opportunities” (Gabbay & Leenders 2001, p. 5). Thus, I make a distinction between the network structure and the outcome it produces. Further, we need to make a distinction between the positive vs. negative outcomes of network structures. I have so far adressed the positive outcomes, and defined these as social capital. Based on earlier research, the social structure in question here also may produce negative outcomes, and I shall define these as social liabilities. Interestingly, is seems like it is the very same properties of a network that produce social capital, that also produce liabilities. This makes it even more important to distinguish the two types of outcomes, and I shall adress the liabilities of the inner group network in the following.

The outcome of a specific network structure may e.g. vary with the task at hand (Hansen 1999), with changes in environmental conditions (Gargiulo &

Benassi 1999), or with time (Gabbay 1997). Further, it may vary according to the level of analysis (Gabbay & Leenders 2001). Individuals representing their company manage most relationships between organisations. A network producing benefits for an individual manager may well represent liabilities for the company he or she is representing. In the following, I shall discuss how the social capital of the inner group may turn to liabilities over time for the companies in the group, through constraining entrepreneurial activities. These I label the structural constraints. Further, I shall address the liabilities stemming from the institutionalisation process within the industry. The cultural effect of the influence from the inner group may be that the corporate players of the industry over time converge to a unidirectional culture, which in turn hampers the industry's ability to innovate and change. These I shall label the cultural constraints. Basically, the two types of liabilities I discuss have the same type of effect, but at different levels of analysis.

From the instrumental perspective on social capital, we would expect that managers build network structures that produce the strongest benefits. Thus, given the large body of evidence of the liabilities of dense networks, why should managers use resources and efforts to build an inner group as described here? So far, I have proposed that the inner group produces social capital at the personal level. I further suggest that this over time acts as constraints or liabilities for the companies involved. I thus suggest that the personal interests of the managers might diverge from those of the company. From previous studies, it appears that the social capital that is most beneficial for the corporate players is information. Within a knowledge based industry, continuous innovation and entrepreneurship are the basis of its competitive advantages (Powell et al. 1999). Under such conditions, a dense network will produce social liabilities through constraints on information flows and learning abilities of the firms within the industry (Stuart & Podolny 1999). At the individual level, however, a dense network produces personal benefits, such as power and status, which further enhances career opportunities. We could argue that the information constraints would reduce the individual manager's performance within his or her company (Burt 2000). At the same time, there are reasons to believe that a manager and the company as more loosely coupled than we could expect. In an extensive longitudinal study of interlocking directorates in the financial industry of Norway, Grønmo and Løyning (2003) found a stable, dense network of 23 male managers, constituting a clique. However, there were no stable patterns of companies related to the clique of managers. This indicates that the inner group of an industry network may be a stable group of individuals, representing various companies at different points of time. This decoupling of the individual manager and the company is also addressed by Gabbay and Leenders (2001), stating that a distinction between the company and the manager representing it is necessary in order to better detect the benefits and costs of specific network structures.

I have outlined two specific cultural elements of an inner group:The institutionalised reality of the group, and the behavioural norms within the group, referring to cognitive social capital and relational social capital, respectively (Nahapiet & Ghoshal 1998). The liabilities related to the cultural elements refer to the same dimensions, and I suggest that they produce negative outcomes both at the firm level and the industry level. At the group level, one of the main functions of norms is to regulate individual access to the social capital in the group. Hence, the norms will not only facilitate coordinated action, but also produce conformity among the group members. From an instrumental point of view, the managers comply with norms in order to secure access to the personal benefits of social capital. Cultural conformity directs the manager's activities away from entrepreneurial activities, such as searching for new ideas, diverse and novel information, and experimental and change-oriented behaviour in general. These effects add to the structural explanation of the liability effects of dense networks mentioned above, and further strengthen the argument through the decoupling of the individual manager from the company in the analysis. The cognitive dimension of the social liabilities at the group level goes along the same line of reasoning: The perceived objective nature of the social constructed reality in the group will reduce the cognitive abilities of the individuals to imagine and create alternative realities, i.e. innovations and novel principles of business management. Further, the group's cohesiveness and strength of norms will act to exclude participants with deviant behaviour, as well as deny access for potential dissidents. This gate-keeping function may be non-purposive as well as instrumental; the latter defined as a "freezing" process by Gabbay & Leenders (2001). The freezing process "...effectively decreases the extent and nature of network change that would occur under non-purposive natural network activity" (Gabbay & Leenders 2001, p. 5).

At the industry level, the social liabilities are mainly stemming from the institutionalisation and legitimation processes. The inner group is a group of high status managers, facilitating the process of legitimation and transferring the internal reality to the industry in general. On the one hand, the power of the legitimacy of the group will enhance the group's ability to attract resources from political authorities. On the other hand, the resources will be granted on the basis of the realities of the inner group, and may not benefit companies with deviant strategies and realities. Thus, the internal cohesiveness will interact with the external power to direct the industry as a whole towards increased conformity and less innovation and knowledge creation.

Conclusion

The preceding discussion points to the complexity of the phenomenon of social capital, as well as the importance of distinguishing social structure from social capital and social liabilities. I have shown how a specific network structure may produce benefits at some levels and, at the same time, liabilities at other levels. It is clear that a differential analysis is needed in order to empirically detect the benefits and liabilities of inner groups in practice.

First, we need to investigate more closely the expressive vs. the instrumental functions of a network. I have suggested an approach to this through institutionalisation theory, and theories of social norms. The social construction of reality theory explains how shared representations and realities emerge. But it is not suitable for predicting the substance and quality of this reality. It is my opinion that this is an empirical question that needs to be adressed through qualitative data methods. Similarly, predicting the existence of norms is pretty safe, as norms prevail in any institutionalised social setting. Predicting the contents, however, requires deeper investigations than is theoretical possible. I would suggest that both norms and the institutionalised realities are to some degree idiosyncratic, in the sense that some of the contents of these cultural elements probably will be industry specific. But some may also be generalisable to business settings in general. My main contribution to the further research on dense networks is the cultural approach, and it is my opinion that the present framework is suitable for further efforts to develop the whole picture of networks, complementing the structural approach.

I have outlined a framework that will be useful for the development and conduct of an empirical study of this theme. As there is no research to my knowledge adressing the phenomenon of inner groups within specific industries, this would be an interesting project. In practice, a further knowledge on how inner groups are functioning, will add substantially to our knowledge of the forces behind industry development.

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