

Social capital in the workplace: Evidence on its formation and consequences [☆]

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Abstract

The existence of social ties between co-workers affect many aspects of firm and worker behavior, such as how workers respond to a given set of incentives, the optimal compensation structures for workers at different tiers of the firm hierarchy, and the optimal organizational design for the firm. This paper presents evidence on the social capital in one particular firm, as embodied in the friendship ties among its workers. We describe the structure of the friendship network as a whole and present evidence on the determinants of social ties. Finally, we review evidence from a field experiment we conducted in the firm to highlight one particular mechanism through which social capital significantly affects worker performance.

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1. Introduction

This paper studies the formation of social capital in a firm - as embodied in the network of friendship ties between its workers. The idea that human relations affect performance in the workplace has been long recognized (Marshall, 1890; Mayo, 1933; Barnard, 1938; Roethlisberger and Dickson, 1939; Roy, 1952; Bewley, 1999), and there is now a burgeoning theoretical literature incorporating such social concerns into the analysis of behavior within firms (Encinosa et al., 1997; Kandel and Lazear, 1992; Rotemberg, 1994).

Moreover, the increasing availability of personnel data has allowed progress to be made in identifying the qualitative importance that social ties between co-workers have on worker behavior (Ichino and Maggi, 2000; Bandiera et al., 2005; Mas and Moretti, 2006).³

The existence of social ties between workers can be beneficial to the firm's overall performance if socially tied workers are, for example, more likely to cooperate and share information with each other (Lazear, 1989; Ichniowski and Shaw, 2005), more likely to trust each other and so not engage in opportunistic behavior (Nagin et al., 2002; Fehr and List, 2004), more likely to internalize any positive externalities their behavior has on their friends within the firm because of social pressures or mutual monitoring (Mas and Moretti, 2006), or because workers are compensated according to team pay (Jones and Kato, 1995; Knez and Simester, 2001; Hamilton et al., 2003; Hayes et al., 2006).

On the other hand, such social ties may be to the detriment of the firm if, for example, socially tied co-workers exert peer pressure on each other to enforce norms of low effort (Roy, 1952; Ichino and Maggi, 2000; Bandiera et al., 2005), workers engage in collusive behavior against the principal (Tirole, 1986; Kofman and Lawarree, 1993), workers engage in influence activities with managers they are socially tied to (Milgrom, 1988), or managers display favoritism towards workers they are socially connected to (Prendergast and Topel, 1996).⁴

In short, the existence of social ties between workers impacts on nearly all aspects of firm and worker behavior, including how workers can be expected to respond to a given set of incentives, the optimal compensations structures for workers at different tiers of the firm hierarchy, and the optimal organizational design of the firm. Taking account of social capital within the firm may therefore help explain differences in the behavior of workers in the same workplace, as well as differences in the structure and performance of otherwise observationally similar firms.

In this paper, we first analyze the formation of social capital - as embodied in the network of friendship ties among co-workers - in a leading UK farm producer of soft fruit. We then review evidence from a field experiment we conducted on the farm to highlight one particular mechanism through which social capital significantly affects worker performance (Bandiera et al., 2006).

By focusing on social ties within the firm, we build on the previous literature which has emphasized the role that social networks play in enabling individuals to find employment in the first place. In Granovetter's (1974) seminal study, he found the majority of surveyed residents of a Massachusetts town had obtained their jobs through social contacts, a finding confirmed by international comparative evidence (Pellizzari, 2004). There is also evidence of the importance of

³ Relatedly, Fehr and Fischbacher (2002) provide an overview of the laboratory evidence on social concerns in workplace environments.

⁴ Both the positive and negative effects of social connections have been stressed in the organizational behavior and sociology literatures. Examples of such work includes that on the effect of manager-subordinate similarity on subjective outcomes such as performance evaluations, role ambiguity, and job satisfaction (Tsui and Oreilly, 1989; Thomas, 1990; Wesolowski and Mossholder, 1997), and on how social networks within the firm influence within firm promotions (Podolny and Baron, 1997).

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