

The Role of Organizational Social Capital in Performance Management

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Abstract

This paper introduces the concept of organizational social capital and connects it to research on performance management. It provides a conceptual definition and discusses related measurement issues. The paper theorizes that structural (“social interaction”), relational (“trust”), and cognitive (“common goals”) organizational social capital foster the use of performance information and thereby relates social capital to an outcome variable which has recently received much attention in research on performance management reforms. The paper’s merit is in bridging performance management studies to broader organizational science literature, pointing out a gap in prior work, and setting the stage for further research.

Introduction

Financial constraints and increasing citizen demand for high-quality public services have encouraged public administrations to implement performance-management practices. These practices require the development of an ‘ex-ante’ logic model of how objectives, resources, processes and results are supposed to be related to each other; the systematic collection of empirical data; and an ‘ex post’ evaluation of an organization’s goal achievement. Based on performance information which is collected, analyzed, and reported through these routines, managers can assess the success of different strategies and improve the efficiency and effectiveness of their programs (Bouckaert & Halligan, 2008; Hatry, 2006; Poister, 2010).

The success and failure of performance-management initiatives and reforms has been widely discussed (Behn, 2002; Holzer & Yang, 2004; Moynihan 2013a, 2013b). Much attention has been devoted to the use of performance data by managers, politicians, and external stakeholders, since most scholars and professionals agree that measuring performance is only worth its effort if tediously collected information is eventually considered in decision-making (Moynihan & Pandey, 2010; Van Dooren & Van de Walle, 2008). This paper contributes to the literature on performance data use. In particular, we argue that there is one important driver of this behavior which has been overlooked thus far – organizational social capital. This concept consists of the dimensions social interaction, trust, and common goals (Leana & Van Buren, 1999; Nahapiet & Ghoshal 1998), and this paper makes the case that all of them are highly relevant if organizations want to foster performance information use. In other words, we hypothesize that decision-makers in public organizations are more likely to utilize performance data for steering, controlling, and learning purposes if the managers and employees on different organizational levels 1) have

the opportunity to frequently interact, 2) share trust in each other, and 3) are committed to the same goals.

The paper unfolds as follows. It provides a brief overview of the literature on performance information use, followed by an explanation of the concept organizational social capital and a discussion on how to measure it. The second half of the paper theorizes about the relationship between organizational social capital and performance data use, reviews relevant literature, and ends by drawing major conclusions for future research.

Performance Information Use as a Measure of Reform Success

Performance management reforms have become popular and are widely adopted across OECD countries (Bouackaert & Halligan, 2008; Van de Walle & Bovaird, 2007). In the United States, reforms on the federal level, such as the Program Assessment and Rating Tool or the GPRA Modernization Act, have received a lot of attention (Moynihan 2013a, 2013b). However, performance-oriented initiatives have an even longer tradition on the local level, from where the Performance Stat approach and sophisticated benchmarking projects have originated (Ammons & Rivenbark, 2008; Behn 2006). One problem that most performance management reforms have in common is that it is very difficult to evaluate their success. This is why scholars have focused on one particular behavior when assessing whether reforms have been worth the effort – the use of performance information by public managers. There is general agreement that reforms can be labelled successful if managers consider performance data when making decisions with regard to their programs, staff, and organizations (Kroll 2014; Van Dooren & Van de Walle, 2008).

Performance information can be used in many ways (Behn, 2003; Van Dooren et al., 2008). Empirical studies have examined data use for strategic planning, budgeting, program evaluation, quality improvement, benchmarking, or the monitoring of daily activities (Julnes & Holzer, 2001; Poister & Streib, 1999; Wang, 2002). All of these functions are in line with the reform expectation to utilize performance information to better manage public organizations and their programs and services, which is why Moynihan (2009) has labelled this type of use “purposeful”. Though we can also think of other types of use (reporting compliance, political advocacy, or even manipulation and misuse), purposeful use appears to be the most promising variable to look at when we want to evaluate whether performance measurement has made a positive impact.

Research on performance information use has identified several drivers of this behavior. Ammons and Rivenbark (2008) find that managers’ attitudes towards benchmarking matter and that data need to be incorporated in existing management systems. A study by Moynihan and Pandey (2010) examines the effects of several variables, including individual beliefs, job and organizational attributes, and political influence. They conclude that managers’ motivation and the organizational culture play major roles. Other relevant factors are learning forums (Moynihan, 2008), stakeholder involvement (Berman & Wang, 2000); and political support (Yang & Hsieh, 2006). Similarly, De Lancer Julnes and Holzer (2001) in a study of U.S. state and local agencies seems to support the idea that the use of performance measures depends on their continuous support from politicians and from the community. A systematic literature review by Kroll (2014) concludes that organizational variables, if compared to individual or environmental factors, have most frequently shown to have a positive significant influence on managerial data use. These variables include measurement system maturity, leadership support, support capacity and resources, an innovative culture, and goal clarity.

Though research has focused on organizational factors in order to explain variation in performance information use, the concept of organizational social capital has been neglected thus far. The remainder of this paper will introduce this concept, and develop an argument as to why we should pay attention to it if we want to understand purposeful information use in public organizations. We will put forward the idea that organizational social capital – which consists of the sub-dimensions social interaction, trust, and common values – can foster data use. First, social interaction ensures that there are communication channels through which information can be shared. Second, trust among information users, analysts, and producers will reduce the ambiguity of performance information and make it appear more reliable to decision-makers. Third, common goals and values attach meaning to performance information and make it more likely that managers of different sub-divisions and at different organizational levels share an understanding of why certain measures are needed and why they provide useful feedback. The next section will explore the concept of organizational social capital in greater detail.

Organizational Social Capital

Though social capital has received increasing attention in research areas beyond sociology, there is no clear, unequivocal, established definition of this concept (Fukuyama, 2005). Putnam (2000, p. 19) defines social capital as “the connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them”. According to Portes (1998, p. 19) there are “potential benefits accruing to actors because of their insertion into networks or broader social structures”. Connections and interactions can occur at different levels: micro (individual), meso (group), and macro (society) (Coleman, 1988; Portes, 1998; Putnam, 1993). Two different types of social capital are acknowledged to

exist: organizational social capital and community social capital. This paper focuses on organizational social capital.

Leana and Van Buren (1999, p. 538) defined organizational social capital “as a resource reflecting the character of social relations within an organization”. Furthermore, organizational social capital can be considered an asset that can create positive effects to the organization itself and to the people that are part of those organizations (Leana & Van Buren, 1999). According to Inkpen and Tsang (2005, p. 151), organizational social capital is a public good because the “members of an organization can tap into the resources derived from the organization's network of relationships without necessarily having participated in the development of those relationships”. Studies on organizational social capital have examined the positive and productive interactions and relationships between members of an organization which turned out to be fundamental in order to create and share knowledge (Andrews, 2011). However, the downside of social capital has to be acknowledged as well. Organizations with a lot of social capital have been found to exclude actors or made onboarding more difficult for new members (Morrow, 1999). According to Nahapiet and Ghoshal (1998) three key components constitute organizational social capital: structural social capital which refers to the connections among actors, relational social capital which refers to trust among actors, and cognitive social capital which refers to the level of shared goals and values among actors. However, other categorizations of organizational social capital also exist (Uphoff & Wijayaratna, 2000).

Social Interaction: The Structural Dimension

Structural social capital refers to the “configurations of linkages between people and units” (Nahapiet & Ghoshal, 1998, p. 244). According to Andrews (2011) formal and

informal collaboration and coordination as well as interaction between colleagues, units and departments creates spillover effects that can ameliorate working conditions and individual and organizational performance. One important component of structural social capital are network ties which provide access to resources and information. Another component is the network configuration which constitutes the channels through which information is transmitted within an organization (Nahapiet & Ghoshal, 1998). It is important to note that the term “network” refers to collaborations within an organization and is therefore differently used than usually in public administration studies. Research has shown how network configuration, network ties, and high levels of social interaction are associated with more flexibility and easiness of information exchange within an organization (Granovetter, 1973; Jacobs, 1965). Burt (1992), for example, argues that personal contacts can have positive “timing effects”, since being in a network not only improves access to information but also makes it more likely to be informed promptly.

Trust: The Relational Dimension

Relational social capital refers to the level of trust and reciprocity between individuals within an organization (Nahapiet & Ghoshal, 1998). Trust can be defined as the “positive expectations individuals have about the intent and behaviors of multiple organizational members based on organizational roles, relationships, experiences, and interdependencies” (Shockley-Zalabak et al. 2000, p. 35). Trust has been widely studied by different authors and identified as one core component of social capital both at a community level and at an organizational level (Fukuyama, 1995; Putnam, 1993, 2000; Leana & Van Buren, 1999; Ring & Van de Ven, 1992).

Different types of trust that affect organizational social capital are acknowledged to exist: fragile and resilient trust (Ring & Van de Ven, 1992; Leana and Van Buren, 1999). Fragile trust is based on a formal and contractual basis and does not persist after a transaction has taken place (Leana and Van Buren, 1999). On the other hand resilient trust is based on the beliefs about moral integrity of the people belonging to an organization, thus creating much stronger and durable links (Leana and Van Buren, 1999). According to Leana and Van Buren, (1999, p. 543): “Organizations strong in social capital will exhibit resilient trust, even among individuals connected generally rather than personally. Organizations weak in social capital, conversely, will be characterized by fragile trust (if any), even among individuals who directly and frequently interact”. High levels of trust between organizational leaders and members in particular may permit the transfer of sensitive information, foster collaborative action in the absence of formal mechanisms for that purpose (Coleman 1988), and diminish resistance to organizational change (Kramer 1999).

Common Goals and Values: The Cognitive Dimension

Cognitive social capital refers to the capacity of the organization to share the same vision, mission and goals among members (Chow and Chan, 2008; Inkpen and Tsang, 2005, p. 542). Leana and Van Buren (1999) refer to cognitive social capital as the "willingness and ability to define collective goals that are then enacted collectively". Chow and Chan (2008, p. 460) define shared goals in the context of social capital as “the force that holds people together and lets them share what they know”. Inkpen and Tsang (2005, p. 153) use a similar definition, referring to shared goals as the “degree to which network members share a common understanding and approach to the achievement of network tasks and outcomes.” The sharing of the same goals can happen either through language and codes, the same

narratives, or a combination of both. Language is the primary tool for exchange in social interactions and relations. Codes help to create a common language that facilitates communication itself and the capacity to understand each other. Therefore, shared language and codes “may provide a common conceptual apparatus for evaluating the likely benefits of exchange” (Nahapiet & Ghoshal, 1998, p. 254). On the other hand, shared narratives such as “myths, stories, and metaphors also provide powerful means in communities for creating, exchanging, and preserving rich sets of meanings” (Nahapiet & Ghoshal, 1998, p. 254).

Measuring Organizational Social Capital

This section is on the measurement of organizational social capital. We want to start off with the note that most research on this concept has been theoretical and conceptual, which is why there is no widely established, empirically validated measurement scale. One way to operationalize this concept could be to borrow indicators from the related construct “community social capital”. However, a closer look at these measures suggests that community variables like associational density, voters’ turnout, response rate to the decennial census, and the number of tax-exempt non-profit organizations cannot be easily transferred to the organizational level (Rupasingha et al., 2006; Coffé & Geis, 2005).

There are studies by Andrews (2010; 2011) and Leana and Pil (2006) which provide operationalizations used in order to examine the effects of organizational social capital on organizational performance. The exact items can be found in table 1. An interesting first question is whether items, like the ones suggested by Andrews, represent the three distinct sub-dimensions or rather a single scale of organizational social capital, reflecting on one broad underlying latent concept. Empirical evidence has been inconclusive thus far. On the one hand, all three sub-dimensions have been found to load on a single factor (factor loadings

ranged between 0.68 and 0.86, Andrews, 2011), on the other hand, their correlations did not seem to exceed moderate values, ranging between 0.34 and 0.64 (Andrews, 2010). A similar issue came up in the study by Leana and Pil. They measured all three sub-dimensions separately and proved their convergent validity. However, since all three constructs were highly correlated (little discriminant validity), they were eventually treated as a single factor. Future research might therefore aim at clarifying whether organizational social capital should be measured using a single factor or three different ones. Another possibility is that this concept could be operationalized through a hierarchical variable, based on three measures of the sub-dimensions which at a second stage load on a single factor, but such an operationalization calls for further research using confirmatory factor analysis approaches.

[Table 1]

Another relevant question is how to measure a concept which is clearly an organizational-level variable. That is, different employees within the same organization might experience social interaction, trust, and common values differently, which is why surveys based on information from one respondent per organization might provide biased results. Measures of organizational social capital seem to be highly prone to individual bias because they ask for an employee's pure perceptions. Such a bias might be less problematic for other subjective measures, such as of organizational performance, because here managers' perceptions can be informed by more objective performance indicators or league tables (if existent).

One way to deal with this is to make use of multiple-informant surveys (Enticott, Boyne, and Walker, 2009). Instead of using only one respondent per organization, such surveys are addressed to multiple individuals, preferably representing different echelons. Subsequently, the responses can be aggregated for every organization and even weighted if some respondent's information are considered more reliable than others (for illustrative examples, see Andrews 2010, 2011 and Leana and Pil 2006). This approach would also add a new aspect to the research on performance information use. Previous research mainly focused on information use by managers as the dependent variable, thereby picking up on individual behavior. Multiple-information surveys, however, would make it possible to operationalize information use as an organizational routine which is more likely to have actual effects on an organization's performance and thus is an interesting variable to study. Another way to model the effect of social capital on individuals' performance information use if multiple responses per agency are collected is utilizing multi-level techniques. Since such research would be based on the assumption that the variation in organizational social capital between organizations is greater than within organizations, explicitly modelling group-level effects on individual behavior seems to be a promising research strategy.

What can we take from this brief measurement section? First of all, there is no established measurement scale of organizational social capital, but Andrew's as well as Leana's and Pil's items provide a good starting point. Secondly, we will need more research on the measurement construct and its validity, which is why studies comparing different measurement scales would have great merit. Thirdly, using multiple-informant surveys will be a promising strategy to operationalize organizational social capital and, at the same time, offer new ways to examine more established variables like performance information use.

Organizational Social Capital and Performance Information Use

In this paper we argue that organizational social capital is relevant to make performance management systems work. In this section we draw on literature to explain our reasoning, focusing on each of the three components of the concept and their relationship with performance information use. When speaking of performance information we refer to data which are produced as a part of the systematic routines associated with management-for-results reforms we discussed at the front of this paper: defining goals, identifying indicators to measure goal achievement, and regularly tracking performance against these indicators. However, there is also important performance feedback which does not fit this category and which has therefore been labelled “nonroutine” (Kroll, 2013). This type of feedback refers to “rich”, qualitative information managers often get from social interactions with employees and peers, including calls, meetings, and observational tours (Mintzberg, 1973).

Thus far, research on network ties, trust, and shared values has mainly focused on a positive effect on the dissemination and use of nonroutine information. Ouchi (1979, see also Simons 1995 for a more recent adaptation) was one of the first scholars who argued that organizations, which can be characterized by a strong focus on internal socialization, shared values, beliefs, and traditions (“clans”), tend to make use of informal information systems which “grow up as a natural by-product of social interaction” (Ouchi, 1979, 839). However, we do not yet know whether such organizations’ use of nonroutine information substitutes for or complements their use of systematic performance metrics, particularly if they are like many government agencies required to collect and report routine performance data. A study of public managers in local government found that managers who tend to pay attention to nonroutine feedback also consider routine performance data when making decisions, but the study also concluded that we need more research on this relationship (Kroll, 2013). In the

following sections we will argue that there is reason to believe that the existence of organizational social capital will foster the use of routine performance information (see figure 1 for a summary of our conceptual framework). We propose that this mechanism, which has been observed with regard to the use of nonroutine information, is also of relevance for the implementation of number-driven, systematic performance systems.

[Figure 1]

The Social-Interaction Effect

When describing the features of the structural dimension of organizational social capital, we have already pointed out the importance of network ties and network configuration for providing access to information and transmitting information within an organization (Nahapiet and Goshal, 1998). Similarly, Granovetter (1973) and Jacobs (1965) argue that density, connectivity, and hierarchy (i.e., network configuration and network ties) are all associated with the concept of flexibility and easiness of information exchange within an organization. Different studies show how effective internal communication fosters a stronger focus on organizational results (e.g., Moynihan and Pandey, 2006). The structural dimension of organizational social capital (i.e., collaboration, coordination, and interaction between members of an organization) not only makes information available, but also facilitates the exchange of performance information among the members of an organization, thus increasing its use for managerial decision making.

Routine performance systems have often been criticized to foster fragmentation, silo thinking and competition rather than learning from comparison (Hood, 2006). Such negative effects could be mitigated through the existence of structural social capital. If employees

collaborate across departments and interact on a regular basis, performance data are more likely to become a part of these collaboration and communication routines instead of just being reported and filed. Related research on organizational learning has shown that these routines will help employees and managers to make sense of otherwise often ambiguous information and to identify ways how to improve performance (Moynihan 2005).

Preposition 1: Structural organizational capital fosters the purposeful use of performance information.

The Trust Effect

Using the conceptualization of relational social capital and the definition of trust given in the previous section, here we focus our discussion on how trust can be used in explaining information exchange within an organization. According to Putnam (1993, p. 56) trust “enables participants to act together more effectively to pursue shared objectives”. Similarly, Coleman (1988) explains how higher levels of trustworthiness and extensive trust among members of an organization lead to better goal achievement. Leaders need valid and reliable information to make decisions, but acquiring this information can be very costly and difficult especially for “difficult-to-measure programs” (Coleman, 1988, Wholey, 1999, p. 291). Trust can be a catalyst for information sharing, and it facilitates the exchange of sensitive, nonpublic information and “hot gossip” (de Bunt, Wittek, and de Klepper, 2005).

The role of trust has been widely overlooked in performance management research. Performance measurement often requires managers to hold employees accountable based on information provided by exactly these employees. If there is a shared baseline level of trust in an organization, performance data produced in principal-agent relationships will have greater usability (Dirks & Ferrin, 2001; Nicolaou et al., 2013). Agents will be more open to share

negative information – necessary wake-up calls for error-based learning – because it is less likely that this feedback will be held against them. For the same reason, agents will be less prone to engage in gaming or manipulating numbers (Hood 2006). Furthermore, trust will keep transaction costs low. From a principal’s perspective, if there is trust, performance data are more likely to be considered accurate, and less resources have to be invested in validating and verifying information coming from performance measurement routines.

Preposition 2: Relational organizational capital fosters the purposeful use of performance information.

The Common-Goals Effect

As stated before, cognitive social capital refers to the ability and willingness to define shared goals and having a shared language that helps the organization to enact those goals collectively. The concept of shared goals is different from the concept of having a group goal. A shared goal “can be pursued independently as a personally or individually held goal. What makes it shared is simply that other in-group members are also experiencing that same goal” (Shteynberg & Galinsky, 2011, p. 1292). In an experimental study, Shteynberg and Galinsky (2011, p. 1293) found that “participants pursued goals more intensely when they were aware that similar others were experiencing the same individual goal.”

Shared goals will make performance management easier (Barzelay & Campbell, 2003; Olsen & Eadie, 1982). The backbone of performance measurement is the integration of indicators into a strategic plan driven by an organization’s long-term priorities. This will obviously be easier in organizations where managers and employees share a common understanding of what their mission and vision is. If members of an organization value the same goals, performance information will be widely considered as important feedback

regarding the extent to which these goals have been achieved. From a behavioral perspective, we could say that information about the achievement of shared goals is important in order to help quantifying employees' individual contributions (Fishbach et al., 2011). That is, if performance information can be related to shared goals which matter a great deal for an organization, these data will gain importance and can be used to motivate and manage employees. This is also why managers and employees will be less likely to oppose the use of performance data because they are jointly able to attach meaning to them. Essentially, performance indicators will be less contested if there is broad agreement on the goals they try to capture.

Preposition 3: Cognitive organizational capital fosters the purposeful use of performance information.

Creating Organizational Social Capital

Since this paper argues that organizational social capital is important to make performance management work, readers might wonder how public organizations can develop social capital. Though we will not be able to discuss this point at length, we want to summarize a few conclusions from prior research.

Sherif et al. (2006) argue that investments in knowledge management will also affect the development of organizational social capital positively. They conclude that a knowledge management system “creates dense and highly connected networks, whose members trust each other and feel obliged to carry out the responsibilities bestowed on them by the network with which they associate.” (Sherif et al. 2006, p. 802). Ellinger et al. (2010) make the case that managers need to make connections, enable trust, and foster cooperation in their organizations, but it remains awfully unspecific as to how they can achieve these goals. A

study by Korte and Lin (2013) about the socialization of newcomers in organizations examined typical patterns that newcomers experience when participating in building social capital. Based on their findings they suggest that newcomers should focus on understanding the structure of the groups and relationships already established (structural dimension), find a mentor who facilitates integration into the organization (relational dimension), and learn about the culture and values of the group (cognitive dimension). From a managerial perspective, we could argue that organizations need to establish on-boarding routines which support newcomers during this process, but this clearly calls for further research in order to identify more and less successful management strategies.

Some suggestions can be borrowed from research on community social capital. Rupasinga et al. (2006) finds that income equality, education, and community attachment have a positive influence on the development of social capital. Shifting the focus to organizations, we could speculate that fair pay and reward systems can have a similar impact. This does not mean that everyone has to be paid the same but that higher or lower performance needs to be rewarded or punished equally, fostering transparency and procedural justice. Community attachment could be translated into high organizational commitment and low turnover rates, both of which are variables that have been widely studied in public management research (e.g., Moon 2000).

Conclusion

This paper has argued that organizational social capital is a relevant but mostly overlooked facilitator of performance management practices. Examining the behavior of performance information use, we theorized that structural (“social interaction”), relational (“trust”), and cognitive (“common goals”) social capital fosters the collection, dissemination,

and usability of performance data. Though our hypothesis still requires empirical testing, we believe that our paper helps bridging the literature on performance management to broader organizational science research and offers ample opportunities for further research. These opportunities include research on variations in organizational social capital, its effects on performance management practices as well as the concept's construct validity. In particular, our three propositions that structural, relational, and cognitive social capital foster performance data use require empirical testing. These propositions can be further divided up in two more specific sub-questions: a) Does organizational social capital affect routine and nonroutine performance information in similar ways, or does it increase the use of only one type of information at the expense of the other? b) Is the effect of social capital, as it was hypothesized, a direct one, or does it facilitate information use indirectly through its influence on other mediators?

The paper has also pointed out that organizational social capital is not a feature which can be developed in the short term. Unlike managerial tools and innovations which are easy to adopt (but also less likely to facilitate changes which affect an entire organization), social capital needs to “grow”, similar to culture or organizational climate. It is therefore noteworthy that even if public managers believe in the “social-capital approach”, they cannot expect to use it like other managerial interventions and, instead, need a long-term strategy and organizational support. Another limitation that needs to be mentioned here is that we have not argued that organizational social capital is the most important driver of performance information use. In fact, we have stated that there are good reasons to believe that this variable is one impact factor among others, such as system maturity, leadership support, capacity, and resources, we discussed at the front of the paper. However, determining the actual relevance of organizational social capital – its direct and indirect effects on different types of performance information – can only be an empirical endeavor.

Studying organizational social capital gives public administration researchers the chance to take a lead in shaping the research on an innovative concept which still needs a lot more empirical exploration. We have made the argument that understanding organizational social capital will help to implement performance management initiatives more effectively, but would suggest that social interaction, trust, and common goals are organizational factors also relevant for other areas in public administration.

Figure 1: Conceptual Framework

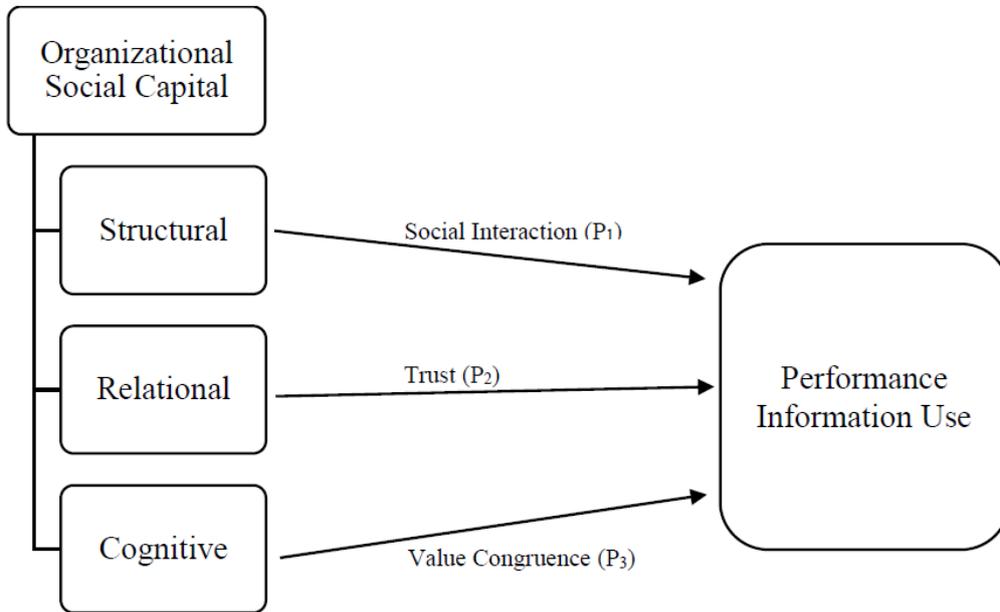


Table 1: Measures of Organizational Social Capital

Structural Dimension	Relational Dimension	Cognitive Dimension
<i>Andrew's (2010, 2011) Measures (All Items)</i>		
Co-ordination and joint working with other departments is a major part of our approach to the organization of services.	There is a high level of trust between top management and staff.	The authority's mission, values and objectives are clearly and widely understood and owned by all staff in the service.
Cross-departmental/cross-cutting working is important in driving service improvement.	There is a high level of trust between officers and politicians.	The authority concentrates on achieving its mission, values and objectives.
<i>Leana's and Pil's (2006) Measures (Three Exemplary Items for each Dimension)</i>		
Teachers engage in open and honest communication with one another.	I can rely on the teachers I work with in this school.	Teachers share the same ambitions and vision for the school.
Teachers willingly share information with one another.	Teachers in this school show a great deal of integrity.	There is a commonality of purpose among teachers at this school.
Teachers at this school keep each other informed at all times	Overall, teachers at this school are trustworthy.	Teachers at this school are committed to the goals of the school.

Note: Leana and Pil refer to the first dimension as "information sharing" which is not fully in line with ours and previous work's definition of "structural social capital".

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