Recent years have seen a dramatic shift in the way companies organize. The shift is away from bureaucracies. Layers of formal control within and across functions are being replaced with fewer layers of negotiated informal control.

The shift away from bureaucracy means that managers cannot rely as much on directives from above. They are now more than ever the authors of their own work. The key is that firms can identify, and adapt more readily to, needed production changes and market shifts. The downside is new concerns for coordination. The coordination costs once borne by corporate bureaucracy — each person having responsibility for coordination within a limited domain of responsibility — are now borne by individual managers who have responsibility for coordination across broader domains of business activity.

Which is why the adage about working through others is taking more concrete form at leading business schools. Social science has made striking advances in theory and research over the last twenty years. We now have the ability to identify and develop needed skills in a broader range of younger managers, (c) identify the right people to manage cross-functional teams and transitions from the old to the new, (d) understand diversity issues, and (e) anticipate catalysts and bottlenecks to organization change (i.e., how reengineering, downsizing, merging, acquiring, and the like will be received by the organization).

There are two ways to understand social capital, relative to human capital, and as a form of network structure.

**SOCIAL CAPITAL RELATIVE TO HUMAN CAPITAL**

Human capital and social capital arguments explain why some managers add more value to their companies. Both arguments begin with inequality. Some managers earn more than others, and some managers are promoted faster. Some are leaders on the more important projects. The human capital story is that such inequalities result from differences in individual ability. The more rewarded managers are smarter, or better educated, or more experienced.

Social capital focuses on the value a manager adds through other people. The social capital story is that managerial ability is a contextual difference between people. Returns to intelligence, education, and seniority depend on a manager’s location in the social structure of an organization. Some portion of the value a manager adds to a firm is his or her ability to coordinate other people, where coordination refers to identifying opportunities to add value within an organization, and getting the right people to coordinate to take advantage of the opportunities. Certain network structures of relationships — deemed social capital — can enhance a manager’s ability to identify and develop opportunities.

The summary points are two: (a) Social capital differs from human capital. Social capital is a quality created between people while human capital is a quality of individuals. Investments that create social capital are fundamentally different from the investments that create human capital. (b) Social capital is the contextual complement to human capital. Where human capital refers to individual ability, social capital refers to opportunity. Managers with more social capital get higher returns to their human capital because they can identify and develop more rewarding opportunities.

**SOCIAL CAPITAL AS A FORM OF NETWORK STRUCTURE**

Social structure tells you the net value of the social capital metaphor. Hole theory describes how the structure of a network is a competitive advantage for certain people over others. In a perfect market, one rate of return clears the market. In an imperfect market, there can be multiple rates of return because disconnections between individuals, holes in the structure of the market, leave some managers unaware of the benefits they offer one another. Certain managers are connected to certain others, trusting certain others, obligated to support certain others, dependent on exchange with certain others.

In the above diagram, James has a network that spans one structural hole (the relatively weak connection between a cluster reached through contacts 4 and 5) and another. The structural hole between the two clusters does not necessarily mean that people in the two clusters are unaware of one another. It simply means that people in each cluster are focused on the other cluster. James is positioned to broker otherwise disconnected people (information access benefit of holes). That means they are more often aware of new opportunities, and aware earlier than their peers (information timing benefits). They are also more likely to be the people discussed as suitable candidates for inclusion in new networks (information access benefit of holes). They are also more likely to have sharpened and displayed their capabilities because they have more control over the substance of their work defined by relationships with subordinates, superiors, and colleagues (control benefits). These benefits become more apparent as time passes and cumulate over time.

Through their entrepreneurial opportunities, managers with contact networks rich in structural holes can add value above and beyond the value of their human capital. They monitor information more effectively than bureaucratic control. Gossip moves faster, and to more people, than memos. Entrepreneurial managers know the parameters of organization problems early. They are highly mobile relative to bureaucracy, easily shifting network time and energy from one solution to another. Entrepreneurial managers tailor solutions to the specific individuals being coordinated, replacing the boiler-plate solutions of formal bureaucracy. To these benefits of faster, better solutions, add cost; entrepreneurial managers offer inexpensive coordination relative to the bureaucratic alternative. In short, entrepreneurial managers operate somewhere between the force of corporate authority and the dexterity of markets, rushing coordination to disconnected parts of the firm that could be productively brought together.