

The Capital Use of Social Capital or How Social Capital is Used to Keep Capital Concentrated

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ABSTRACT

This paper addresses the role of social capital networks in the accumulation of large sums of money for investment. In particular, the study undertakes an analysis at the micro level of individual actions involved in the actual process by which social capital is converted into capital, i.e. money. This analysis highlights the social-facilitating functions and processes of social capital networks, while focusing attention on the essential relationship between social capital and money. Our analysis clearly indicates that social capital is the means of production in a type of venture capitalism and is the real means by which the accumulation of capital itself is controlled. Perhaps even more importantly, our findings show that these networks exist to ensure that any profit made by the members of the network remains within the network and does not flow to other networks of financially elite individuals nor trickle down to individuals who are not financially elite.

Keywords: Social Capital Networks, Venture Capital, Forms of Capital, Micro Level, Concentration of Capital

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INTRODUCTION

Given an unusual set of circumstances, the authors, traditional academics—an anthropologist and a sociologist—were able to observe how social capital is manipulated by members of the financially elite to keep capital concentrated in the hands of this elite. These circumstances, which will be briefly described below, allowed the authors to observe, over a seven year period, the extraordinary lengths to which financially elite individuals rely on social capital networking to both bring large sums of money together for “investment” and to ensure that any “profit” does not flow to financially elite individuals who are not part of their particular network of social capital or trickle down to individuals who are not financially elite.

Unlike most research on the various aspects of social capital, we did not set out to study social capital. Quite the contrary, we were initially focused on obtaining capital—money that could be used to develop and then commercialize our patented technology.

However, we learned very quickly that social capital was essential in obtaining this money and that without an understanding of the role of social capital, we would not achieve our goals. Thus, our starting point was ground-up and exclusively atheoretical. We were observing the role of social capital in the world of venture financing and eventually participating in this world itself. Consequently, we had no choice but to learn how to function in this world, otherwise, we would fail in our goal of obtaining financing. As a result, it was only after the events we describe in the next section had occurred that we began to apply “theory” to our findings. We were not surprised that much of the literature on the role of social capital helped us explain and interpret these events, but we were somewhat taken aback to realize that there was very little work that focused directly on the relationship between social capital and capital¹ itself, particularly on the individual-network level. This is a relationship that we came to believe was an essential part of how a very large and important component of the American economy functions. So, we begin with some theoretical observations and indicate how much of this work aided us in our interpretations and also where it didn’t.

The concept of social capital has gained considerable currency over the past two decades in a wide range of fields. Despite competing conceptual

¹ For the purpose of this paper, we use capital in its original form and meaning: money used to make more money, through the accumulation, concentration and maintenance of capital investment.

definitions, there is a general consensus that social capital involves instrumental use of social networks in obtaining and controlling resources, whether these resources are economic, social, cultural, or, more narrowly, academic. Derived and influenced by the work of Jacobs (1961), Coleman (1990), Putnam (1995), and building on Bourdieu's (1986) seminal work on the forms of capital, "social capital" has been in recent years applied to an increasingly wide scope of social phenomena ranging from occupational attainment, to economic development, to political and civic engagement.

Contrasted with "human" or "cultural" capital, social capital is used with both a descriptive and explanatory framework focused on network-based interaction of individuals and groups pursuing commonly held interests and goals. Researchers have used social capital concepts to analyze several "dimensions" and "levels" of goal oriented social activity. Dimensions, such as "trust", "informal versus formal ties", "norms of collective action", "types of groups/networks", are commonly elaborated (Narayan and Cassidy, 2001; Liu and Besser, 2003) as instrumental patterns of action that enable network functions.

Putnam (1995) understands social capital as "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (p. 67). But this kind of analysis is usually not applied on the individual, small group and network levels. Although it appears that most recent social capital research focuses on the "macro" or "meso" (i.e., middle range) levels, there is consensus that social capital does operate on the micro level and that the process of how individuals within networks access, exchange and build social capital is especially interesting precisely because social capital is neither a property or a disposition of individuals actors.

With regard to entrepreneurial activity, there seems to be no studies focused on how financially elite individuals organize themselves into social capital networks for the purpose of making money. There is, however, a body of literature on community and institutional dynamics of how social capital is used in business activities within communities, ethnic groups and nations (Cohen and Fields, 1998). Social capital analysis has been applied to the venture capital community, exploring the aggregate level relationship between indicators of "success" and their correlation with indicators of social capital (Florin et. al., 2003). This correlation of social capital and money capital, so essential to the financially elite networks we have observed, is suggestive of Bourdieu's analysis of "forms of capital" (Bourdieu, 1986).

Bourdieu, building upon Marx's insight that capital must be understood "as a social relation", argued that social capital is understood neither as a "thing" nor an attribute possessed by an individual person. The implication of this is instructive. Since individuals cannot 'own' or 'possess' social capital, any real or potential use of social capital resides on the network level, the ties among individuals. This is an important point since it makes social capital quite different from capital in that it cannot be owned or possessed by the individual and therefore cannot be accumulated. Indeed, this last point has led some scholars to ask if social capital is a form of capital at all, leaving some to suggest that the concept be dropped in favor of social solidarity. However, the key point is that social capital is potentially convertible to capital—money used for investment—it is derived from the exchange of values which are produced by potential or actual labor, which in turn can be transformed into yet more money under the right conditions. It is this issue of the relationship between social capital and money that we will return to in the discussion.

Circumstances that Opened the Door

It is essential that we briefly discuss the circumstances that allowed us entry in a culture/environment that is usually closed to academic observation and research. As stated previously, we did not set off to conduct research on the role of social capital networks in the concentration and maintenance of capital, or for that matter, any other conventional academic topic. Quite the contrary, our initial goal was to try to develop an idea we had to help the elderly remain living in their own homes longer and more securely. The result of this attempt led us to be involved in a series of fields that we did not anticipate: patent law; working with engineers and software programmers; contracts with large corporations; and participating in the world of venture capital. Once again, we did not set out to interact with, let alone study, these various areas/cultures; it just turned out that in order to achieve our initial goal, we had no choice but to take this journey. However, since we are researchers and we had to learn the behavioral rules of each of these cultures in order to interact successfully, we observed, took notes and continuously analyzed the behavior. Perhaps most importantly, the fact that we "owned" something that others believed was valuable opened doors that are just never opened to academics simply because the inhabitants of the venture world do not want the doors to be opened. Thus, we have to briefly explain how we sneaked through the door and were allowed to observe the behavior associated with social capital at the highest levels.

1. The Idea

We have spent almost 15 years developing, testing and commercializing an automated behavioral monitoring system that non-obtrusively, passively and cost-effectively monitors the elderly and individuals with chronic health problems in order to track changes in behavior that may indicate a problem that needs to be addressed (see Glascock and Kutzik, 2009a; Kutzik and Glascock, 2004 for a fuller discussion of the technology). This system which we labeled the Everyday Living Monitoring System (ELMS) is comprised of an array of sensors and a base station connected, via the Internet, to a website that processes the sensor data and converts them to information that is then displayed with graphics and text for caregivers.

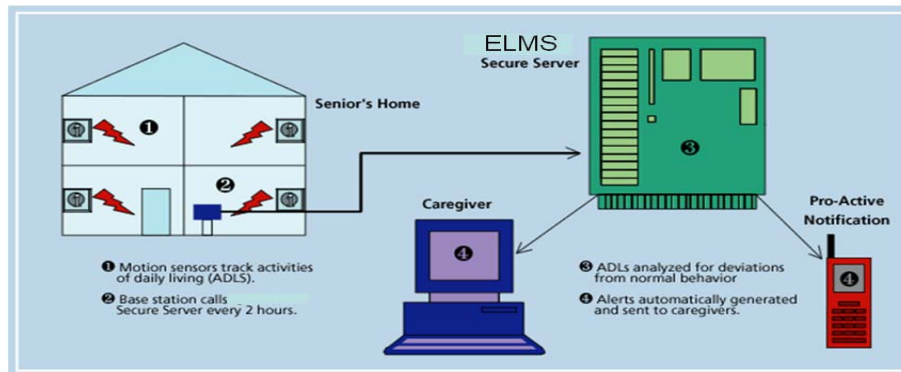


Figure 1: Diagram of ELMS

A PIN secure website provides a daily summary for each person being monitored for six activities: waking time; bathroom falls; the taking of medication; meal preparation; overall level of activity; and nighttime bathroom use, as well as ambient temperature. In addition, the ELMS provides emergency alerts for bathroom falls, non-wake-up and high or low temperature and has the ability to produce monthly summary charts for all monitored activities (see Glascock and Kutzik, 2009b; Glascock and Kutzik, 2006 for a fuller discussion of ELMS as a caregiving tool).

2. The Journey

In 1994 a single event triggered the journey that resulted in the ELMS being developed and, eventually, the ethnographic study of the role of social capital: the first author's mother started a new medication. Being an only child, it was his responsibility to make sure that she had taken the new

medication, but did not want to do it through a phone call that would thrust him into the “parental” role and could result in conflict. Thus, after making the call he asked the second author if it would be possible to simply “see” on a computer screen whether a person, in this case his mother, had taken her medication. The second author, caring for his very ill father who was living alone in a different city, was intrigued by the possibility of monitoring whether his father was unable to get out of bed. After much discussion over three days, we decided not only was it possible to see if medication was taken, but that other “behaviors” could also be seen, resulting in on-going monitoring. Being at Drexel University which has a well established record of success in engineering and the development of new products, we quickly formed a company in order to comply with the desires of the Head of the Office of Technology Transfer to write and file a patent on our idea. Although filing a patent was not our original intention, this was the norm at Drexel and we did what was expected. A patent was filed, funding was sought for development and we began to build the first prototype of what became the ELMS. It was also the beginning of what became the foundation of the fifteen year journey, the key points of which are summarized below:

- 1994 – Gerotech, Inc. formed and Drexel University files patent application
- 1995 – Funding sought from foundations and federal agencies
- 1996 – Funding proposals rejected, patents denied, University cede patents and IP to Gerotech
- 1997 – US patent issued
- 1998 – Gerotech again is unsuccessful in obtaining funding based upon newly granted patent
- 1999 – Authors buy out other partners and form Behavioral Informatics. Inc. (BII)
- 2000 – Second US patent issued and Canadian patent issued to BII
Monitoring system rebranded as Everyday Living Monitoring System (ELMS)
- 2001 – BII licensed patents to large corporation for research and BII begins consulting with company
- 2002 – BII licensed patents to venture capital start-up and BII begins consulting with company
- 2003 – A commercial product based upon the ELMS is developed Patents filed in New Zealand, Australia, South Korea, South Africa, Israel and European Union
- 2004 – BII becomes a money-making company with income from royalties, consulting and licensing
- 2005 – BII enters into consulting relationship with several care provision companies
- 2006 – Further development of information products based on monitoring system
- 2007 – Patent issued in South Africa and patents on informatics product filed

- 2008 – Major corporation invests in the start-up and mergers product development and marketing
- 2009 – Major corporation purchases start-up, BII sells patent stream and ceases to exist.

3. Unique Opportunity

Although we learned much about many things from the entire journey, in this article we confine ourselves to events that began in 2002 with the licensing of our patents to a venture start-up. It was this licensing that allowed us to enter a world that we barely knew anything about and one with which we actually had previously refused to work. We had heard, during the early part of our journey, horror stories about the rapaciousness of venture capital and how they would eat us alive, steal our ideas and leave us with nothing. However, since we were out of other options, we decided to license the patents and work with the new company to develop a commercial product based on our ideas. Since we possessed something of value and good legal and investment representation, we forced our way into this world. And although, as we discuss later, we were never members of the social capital network, the workings of which we describe, we did participate for the next seven years in this network and had to quickly learn its cultural rules in order not to be eaten alive.

4. Issues Surrounding Confidentiality

The issue of confidentiality is always a concern for anyone undertaking social science research and this is especially true for ethnographers who live for long periods with the people they study. Although we did not actually move into the neighborhoods in which the financial elites who form these social networks live, we did “live” where the activity associated with the use of social capital took place: at their offices; in the Board Room; at the restaurants when business was discussed; in the meeting rooms of plush hotels; at private clubs; in conference calls; in the offices of attorneys as deals were negotiated and some consummated. In addition, our research was “real” participant observation, as we involved ourselves fully in the activities on which we report. We were full participants in the endeavor which had as its ultimate goal to make money. And this participation lasted for over seven years.

Since each field site has distinct historical, political and social conditions, there is no hard and fast rule as to how individual researchers should handle the issue, other than, everything should be done to avoid exposing individuals to any form of “harm”. Harm is also a culturally determined

concept and will, of course, vary from one location to another. Consequently, some researchers use pseudonyms for all informants and even for the community they studied, while others use no pseudonyms for anyone or any locations while a third group employs a bit of both approaches. It is our choice to use pseudonyms for everything—names of people, companies, care organizations—except for ourselves and Drexel, our university. However, the use of a pseudonym does not ensure confidentiality, and this is especially the case today given the power of the Internet.

There are also a series of “business” rules that limit our ability to be forthcoming, even with the use of pseudonyms, and as a result, impact the documentation that we can use to support our argument. These include, but are not limited to: 1) anything that takes place in meetings of the Board of Directors of the company that licensed our patents; 2) all issues surrounding proprietary or “ownership” of the patents; 3) everything that is covered by a non-disclosure agreement (NDA)—we have over 30 such NDAs; 4) the content of any business plans, whether we developed them, others developed them for us or plans that we encountered along our journey, e.g., several plans were presented to us by individuals who wanted either to invest in, purchase or manage a business; and 5) details of specific business strategy and/or tactics, i.e., how a product is to be marketed, specifics about return on investment (ROI). When there was a question as to whether we could specifically discuss an issue, we have relied on our business attorney and his firm for advice.

Does adhering to the counsel of our advisors ensure that we have not violated any confidentiality or that knowledgeable people cannot figure out who is being discussed, even with the use of a pseudonym? Of course not. However, this is not dissimilar to any ethnography, in which knowledgeable, or just persistent, individuals can deduce names and details that the author has tried to keep confidential. However, this does mean that we are forced to ask the reader to, occasionally, give us the benefit of the doubt rather than violate confidentiality. We have done our best to clearly indicate in the article when we are unable to back up an assertion with concrete data due to confidentiality issues.

Findings

The circumstances described in the previous section allowed us to observe how a group of financially elite² individuals used social capital networks to invest in a new venture in order to potentially reap huge financial benefits. In the following discussion we use network to stand for the larger category of social capital networks or groups and SN (Studied Network) to indicate the specific network that we observed and in which we participated. This observation took place in many different situations, ranging from formal meetings of a Board of Directors, to more informal business meetings with one or more members of the network, to lunch and dinner conversations, to phone calls, to email exchanges. In addition, there were countless “interviews” with members of the network about business and investment strategies. We recorded “field notes” during each of these interactions for two reasons: 1) we viewed our relationship with the SN as an ethnographic experience that required learning the cultural rules that governed the behavior of the members and thus, we systematically recorded the events and 2) our various attorneys told us to take notes.

However, we did more than just observe and record, we actively participated in the SN, even though we were not full members. We were contractually part of the SN because we brought something of value—the patent stream—but, since we did not bring capital, we could not be full members. This distinction between members and what we term participants was the starting point of our awareness of the SN and the key to understanding how social capital is used to create, maintain and justify such a network. It is also the starting point of our description of the functioning of the SN.

Membership in the SN was based on five criteria: 1) being a recognized member of the financially elite, i.e., having a lot of money and being willing to invest it in risky ventures; 2) being part of a geographically defined social network, i.e., living and/or working in NYC and environs; 3) paying an entrance fee, i.e., investing in a certain number of ventures; 4) paying dues, i.e., continuing to invest as a particular venture goes forward; and 5) bringing good deals to the network; i.e., ventures that will make money for network members. As was the case for us, there were other participants in the SN, individuals who were not considered members, but because they brought something of value, e.g., a one time deal that was too good to pass

² For the purpose of this study, we defined financially elite as individuals who have: a net worth above \$50 million; an institutional expertise they can bring to the network; and regularly invest large sums of money in venture deals.

up, management skills, could “play” in one specific venture. However, it was made clear by words, actions and often contracts that these participants were not members and could not become members. Several of these participants actually chose not to “apply” for membership in the SN, either because they belonged to other networks or for personal or professional reasons, while others wanted to become members but couldn’t, since they did not meet the membership criteria.

Understanding the rules of membership allowed us to recognize that there were more members of the SN than the individuals who were playing an active role in this specific venture. In other words, the SN is comprised of latent members some of whom are activated for a given venture, because of particular expertise, or the amount of money they are prepared to invest, while other latent members either chose not to invest in the given deal – they may be going through a messy divorce – or are not asked because they do not “fit” the particular venture – they do not like to undertake the degree of risk involved.

The role of activation raises the question of who does the activation; in other words was there a leader of the SN? The answer is yes, but it is a complicated yes. Certainly, for the venture in which we participated, there was a leader – an individual who “found” the idea and activated the other members by inviting them to invest. He continued to be the leader throughout the venture as he was the person who raised more money from the members and eventually sought an established company to take over the venture. He had a track record of successful ventures and initially it was easy for him to activate the necessary members to invest the money required. However, as the venture lingered in a liminal state, neither being successful enough to flip and give the high ROI that the members expected, nor failing outright, it became harder for the leader to raise the money required to keep the company afloat.

Over time, other members of the SN took the lead in different ventures, so leadership is actually based on who brings the deal to the group and how effective he/she is in activating the other members. Ultimately, leadership is based on success, making money for its members. In many ways this type of leader is similar to that of leadership positions in foraging societies in which acquiring and keeping these positions are largely based upon skill and expertise. As a result, leadership in foraging societies is transitory, as an individual remains a leader only as long as he/she is able to be successful. The lead hunter is only regarded as such as long as the hunts he leads are sufficiently successful; when his leader fails to produce the expected kills,

another hunter assumes the position of leader. Within the SN we observed, leadership is much the same, as an individual only remains a leader if he/she brings in enough game – deals that make money for the members.

The issue of success and failure of the SN necessitates a brief discussion of what constitutes success. There is a formula used in the venture world that encapsulates how things work: 80/15/5. Eighty percent of all venture deals fail completely and all members lose everything they invested, 15% of the ventures limp along being unable to be flipped³, and 5% are able to be flipped. The large profits paid to the members from this 5% royally compensate the investors for the losses from the other 95%. Therefore, an individual only becomes a leader and only remains a leader if he/she is able to bring ventures that fall into the 5% and create the returns expected by the other members.

The general acceptance of the 80/15/5 formula poses questions about risk in the context of the SN: how is risk defined; what is an acceptable level of risk; and how is this type of risk related to gambling? We briefly take up each question in turn. Risk is defined by members of the SN pretty much the way everyone defines risk; you take your chances, you may lose everything but you might gain big – no risk no gain. However, the members of the SN take steps to mitigate and reduce the risk. Just being members of the SN reduces the risk they take in a particular venture simply because they know each other, they have invested together in the past and they trust each others' judgment about the level of risk in any given venture. In addition, they are able to judge risk by their individual and collective experience with the "leader" who is bringing the venture to them. They know his track record and can assess the likelihood of the venture being successful. It is important to remember that one way an individual becomes a "leader" is by bringing good deals to the network and thus, mitigating risk. Finally, how does this type of risk-taking relate to gambling? It is not gambling in the conventional sense, e.g., roulette in which randomness is the norm, but instead more like being the "house" with the odds stacked in the favor of the SN. "Good" deals are brought to the group by its members, the track record of the leader is assessed and the members of the network have the experience to vet the deals, but perhaps most importantly, the members of the SN have the capital to risk; they can afford to lose repeatedly until the one great deal affords them huge profits.

³ Flip means selling the venture to other investors or an established company, or completing an IPO, becoming a member of one of the stock exchanges, e.g., Dow, NASDAQ and selling shares on the open market. In either case the flip has the potential of earning a huge profit for the members.

Finally, the type of business in which the SN invests is completely unimportant. The only really important issue is that the deal makes a high ROI and makes it quickly. It is all about flipping, not about business. In other words, it is exclusively about capital, not sustainable business models, the long term viability of a particular company, the “product”, or whether the company is sold or it goes public. And certainly no one thinks about how entrepreneurship is the driving force of American capitalism and the incubator of job creation. It is ultimately only about making, concentrating and maintaining capital.

It is this imperative that drives the entire venture deal cycle: find a potentially profitable deal; activate members; raise capital; start business; reach short-term goals; flip company; make money; start over. The question then becomes why? Why do these already financially elite individuals work so diligently to make more money and to take steps to ensure that the money they make stays within the SN? Our observations lead us to two somewhat different, but we believe interrelated, answers. The first, it’s all about winning the game and the way you judge winning in the financial world is by accumulating more capital. Ergo, investing in risky ventures within the SN increases the odds of winning and making more money. It is a clear use of social capital networks to bring about the desired result of winning. We believe that this desire to win the game plays a definite role in the creation and maintenance of such networks. However, there appears to be an even more compelling reason for the role of the SN: keeping capital from draining away and flowing into the hands of non-members.

Like water, capital flows to the lowest point and then has the tendency to drain away. As a result, the members of the SN use the social capital inherent within the network to try to stem, or at least slow, the flow of capital out of the SN. From the perspective of its members, there are three low points to which the capital can flow. First, to other social capital networks. This is the most dangerous, because these other networks work within the same culture and thus, have the same goals, objectives, structure and, most importantly, access to similar financially elite individuals. As a consequence, the members of the SN are very careful not to allow information about deals to reach the ears of members of other networks and when a certain deal appears worthy of investment, they act quickly. It is at this stage that the membership is activated and this activation reveals the SN’s concentric circle structure. The inner circle of this structure is comprised of the core members who make a large investment and are willing to commit their time and energy to the endeavor, e.g., become members of the Board of Directors. These individuals also are the most likely to continue to invest in the venture as the new company moves

forward. The outer circle is comprised of members who make an initial investment, who may or may not invest additional sums as time goes on and who play no other role in the venture. These investments not only activate the latent social capital imbued in these individuals, but also limit the ability of these individuals to play a similar role within other networks.

The second low point that could result in the loss of capital is that it can trickle down to those who are not financially elite. What makes stemming this flow difficult is the fact that the SN needs individuals who fall into this category to achieve the success of the venture: individuals who have valuable intellectual property, i.e., patents; individuals who have needed business skills, i.e., CEO, CFO; individuals who have the ability to raise additional capital, i.e., institutional venture firms; and ultimately individuals who may participate in the flip, i.e., Wall Street firms, established companies. Thus, the trickling down of capital to such individuals cannot be completely stemmed, but it can be limited. First, the trickle can be limited by contractually restricting the amount of stock, options and long-term income that these workers⁴ can obtain. Secondly, even if some of these workers have to be included as part of the SN, i.e., members of the Board of Directors, it can be made clear to them, in words and deeds, that their participation is limited solely to this one venture; they will not be asked to invest in other deals. Third, the workers can always be fired if they become too aggressive or forget their role as labor.

The third low point that could result in the loss of capital is that it can seep to the government in the form of taxes. The effort to prevent the potential loss of capital to the government extends far beyond the SN and other similar networks, but that does not mean that it is not constantly on the collective minds of the members. From the very first discussion of any new venture, it is made clear that everything will be done to ensure that any profit made is capital gains and not ordinary income (15% tax rate versus over 35%) and that any losses that might occur will be a capital loss and thus, can be counted against other capital gains. There are other benefits, especially for the core members of the SN that impact the payment of taxes and the ability to ensure deductions. These range from meals, travel expenses to attend meetings to limousine services and holiday parties, all of which are deductible as business expenses.

⁴ The members of SN view these individuals as workers or labor because the workers do not bring capital to the venture. In the culture of the SN, a person is either capital or labor; there is no in-between.

Therefore, perhaps the most important feature of the SN is its ability to, not just make money, but to contribute to the concentration of this capital by limiting the flow of capital to both the non-financially elite and to the financially elite members of other networks. This feature, when combined with the keeping score as to who is winning aspect of the venture, gives the *raison d'être* for the existence of the SN and other similar networks: birds gotta fly, fish gotta swim and capitalists gotta make capital; it is just the nature of the beast.

Discussion

In summary, our observations and participation revealed six main findings about the reasons for the existence of social capital networks, how they are structured and how they operate. Our first finding is that they actually exist and they are mechanisms that use social capital to make, maintain and concentrate capital. Second, their membership is made up of individuals who are financially elite, are willing to risk capital to make more capital and who are linked to each other, both by this desire to make money, and by the fact that they can bring social capital to the network. Additionally, membership is latent until it is activated by a member bringing a "deal" to the network and although non-members may be allowed to participate in a given deal, they cannot become true members of the network because they do not bring capital and are therefore regarded as labor.

Third, leadership exists on a deal by deal basis. In other words, an individual becomes a leader because he/she brings the deal to the network and has a track record of success, i.e., has made money for the network in previous deals. Fourth, most deals fail, but when a deal does succeed the ROI is so large that members of the network make back the money they have lost in unsuccessful deals and much more. Fifth, the type of business in which the network invests is largely unimportant. The network is all about making money, not about starting and running a business. Finally, although winning is important to the members of the network, as indicated by a high ROI from the network's investments, the ultimate reason for the existence of social capital networks is to keep capital in the hands of the members of the network. These networks are created to exclude non-members from the possibility of the high returns and to limit the flow of capital to individuals, including the government, who are not members of the network.

These findings raise two important questions: how do our findings relate to other research on the role and function of social capital; and are they corroborated or are they contradicted by other researchers working in this

field? To answer these questions requires that we briefly assess our findings in relationship to: 1) the social capital theoretical framework broadly developed by Coleman and Putnam; and, 2) the relation of social capital to the social activity of capitalists as framed by Bourdieu and Marx.

Our findings, in a broad and somewhat descriptive sense, corroborate the propositions put forward by both Coleman (1990) and Putnam (1995) concerning the facilitating function and network structure of social capital. More specifically, in a manner paralleling the work of Cohen and Fields (1998), our findings corroborate the existence of a process by which network members are recruited and activated from a pool of personally known individuals connected by close social and economic ties. We find clear differentiation among active network members, latent members, participants, e.g., employees, facilitators, e.g., lawyers, investment bankers, as well as the process by which these individuals are “activated” in an orchestrated way to maximize control over the capital invested by the network members. In addition, the personal history and close ties among the members are of great importance to who is invited by the leader to become a member of the network. We have been able to substantiate network membership criteria in terms of ongoing personal involvement in prior deals with the leader or referred associates, as well as having a net worth of at least 50 million dollars that allows them to invest in potential deals.

The fact that we were able to observe and participate first hand in one particular network gave us a clear picture of the norms of collective action required for membership for the financially elite network, i.e., putting money in and repeatedly paying dues. We observed how these activities relate to the dynamics of trust building through shared risk taking: the very public act among network members of putting up money and ponying up additional large sums of money at various points in time. This is a very powerful motivator of interpersonal trust and social bonding essential to the functioning of social capital (Coleman, 1990; Adler and Kwon, 2002).

It is apparent from the above that many of our findings confirm the general features of Coleman’s and Putnam’s view of social capital. However, their framework does not adequately explain the role of motivation in the actions of the members of the network we studied. To understand the factors that govern the motivation of these members, it is necessary to turn to Bourdieu and Marx; in particular, to Bourdieu’s conception of social capital and Marx’s original insights into the social nature of capital (Bourdieu, 1986; Marx, 1977).

One of our clearest findings is that social capital is mobilized on the basis of close ties among financially elite individuals and is used to activate specialized groups and networks created solely for the purpose of accumulating, concentrating and maintaining capital, i.e., money to be used for investment. In fact, the entire venture capitalist endeavor is only about money and neither the product nor the business plan nor the marketing campaign nor the management nor job creation have only a tangential role to play in achieving the goal of accumulating more money. This is not to argue that these attributes are unimportant to achieving the goal of flipping the business and producing a high ROI. The attributes do bring value into the network which is necessary for success—without management, there is no one to run the company—but these attributes can only be converted to capital after they are bought and sold by capital. On the other hand, the money that the financially elite members of the network bring to the deal is transformed directly into capital by entering the deal, making the investment, ponying up the dues and taking the risk.

However, the active capitalist's work is not done. Taking the capital from the initial investment to the flip requires the skilled use of the right kind of social capital at the right time. Getting to the flip requires an ongoing, highly skilled process of keeping the invested capital from flowing away. This process, orchestrated by the leader, is in a sense "capitalist labor". The means of production of this labor, we would argue, is social capital. The value produced by this capitalist labor is risk reduction by increasing the odds of the successful flip. This process illustrates how that without the skilled use of social capital, venture capitalism would be impossible. It takes living, breathing, working capitalists as active agents of capitalism to turn values into capital by working with social capital.

In summary, our findings relate to research on social capital theory in two ways. First, we found that the general network social-facilitating functions and processes described by Putnam and Coleman to exist among financially elite individuals and most importantly, to form the essential features of the capitalist activity of these individuals. Second, the findings support the combined insights of Bourdieu and Marx that social capital and money capital, respectively, are key to understanding the underlying causes of both the network processes and the capitalist goals that drive them. Additionally, our research clearly indicates that social capital is the means of production in the type of venture capitalism we observed and that, as a result, beyond representing the facilitation of resources, is the real means by which the accumulation of capital itself is controlled.

Conclusion

Unlike the majority of other research on the relationship between social capital and capital, which are largely focused on the macro and meso levels, our study is firmly situated at the micro level: the level at which individuals act. In this particular case, the action is investing in risky entrepreneurial deals that, if successful, can result in a huge return on investment. Thus, our study concerns the actual process by which social capital is converted into capital, i.e., money that can be used for investment. This conversion highlights the fact that social capital networks, in this context, are latent and are only activated when someone, a leader, brings a deal to the members of such a network. Therefore, the study of social capital networks in abstract has nothing to do with the study of capital. It is only when this process of conversion begins that there is something to study; and this process only takes place when people take actions that lead to the accumulation of capital to be used for investment. We are not arguing that research on social capital without a consideration of this conversion is of no value, only that to gain an understanding of how social capital operates in the real capitalist world, studies on the micro level are essential. Without such studies the analysis of social capital remain limited to static depictions of the structure of the networks, with only a limited, abstract understanding of the motivations and goals that drive individuals to undertake the conversion of social capital into capital.

The problem with undertaking this type of study, however, is getting in the door. Since membership in these networks is based upon exclusive criteria – wealth, geography, social position – entree to the social scientist is barred. Unless, that is, the social scientist has something of value that is needed by the members of the network; in our case this something of value was a patent stream. Thus, our entry had nothing to do with being social scientists who wanted to do micro level research on the conversion of social capital to capital. In fact, even if we had known that such networks existed and made a request, the request would have been rejected. It was clear to us from the very beginning that the members of this particular network had no interest in directly discussing the reasons for the network's existence, how it operated, the goals of the respective members or past investment experiences. They would talk about these issues in the context of business discussions and contract negotiations, but would have been repulsed if we had asked to formally interview them. This is partly a reluctance on their part to keep the operations of the network confidential because of a fear that some investment advantage could be lost, and the desire to remain focused on the specific concerns of the current deal. Additionally, it is important to remember that the members of the network knew the answers to these

questions and by us asking the questions, we would have been reinforcing the fact that we were only participants and not members.

Finally, it is necessary to raise the issue as to whether the type of micro level study of social capital networks within the venture world that we were able to undertake can be replicated. We are reluctant to suggest that the circumstances that allowed us to enter, observe and participate in this world are unique. However, we are hard pressed to come up with a model that others, or even we, could employ to gain entry to the inner workings of similar networks. For even we would have to come up with another idea that could be protected by a patent, somehow free ourselves from the constraints of our university and then persuade a "leader" of a network to activate its membership to raise money to start the entrepreneurial cycle. Even if this was possible, would we have the time (15 years in this exercise), the perseverance, the luck, which it would take to replicate the journey? So, if exact replication is very difficult, if not impossible, is there another way to study the process by which social capital is converted to capital? Perhaps by gaining access to key informants, through the activation of other types of social networks, e.g., college/prep school ties, family connections. However, even if this was possible, would these key informants be willing to answer the key questions? And even if they were willing to answer the questions, it is our opinion that the members of the network would not let the researcher observe the actual process of the conversion of social capital into money, simply because allowing such observation by an outsider violates network norms.

Although the above conclusion appears somewhat disheartening, we do not want to end this article on a discouraging note. We do believe that our findings indicate that the study of such networks is both practically and theoretically important and we have suggested that, through the study of the process by which social capital is converted into capital, a better understanding of the role of social capital can be gained. Therefore, we are guardedly optimistic that other scholars will employ creative techniques to study this phenomenon and as a result, there will be a better understanding of the relationship in the future.

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