Chances are, unless you’re a student of history, the name William Dawes won’t sound as familiar as another name: Paul Revere.

Yet both men set out on horseback the night of April 18, 1775, in Colonial Boston, sounding the alarm that the Revolutionary War had begun. Dawes rode south, while Revere rode north. But today it’s only the latter’s cry of “The British are coming!” that American children read about in grade school.

Why? The short answer is that Revere’s social capital — the resources available in his personal network — proved greater than Dawes’, even though Dawes actually encountered more people on his nocturnal ride. (Revere was captured shortly after midnight.)

“Revere chooses ‘information brokers’ to talk with on his ride,” says Kellogg School Professor Brian Uzzi, explaining that brokers occupy key nodes in a social network, allowing information to disseminate more widely more quickly. “Dawes, on the other hand, has redundancy built into his networks, so the information eventually turns in on itself instead of expanding outward as Revere’s does.”

The episode powerfully illustrates the role of social capital, says Uzzi, a sociologist and organization theorist whose award-winning research includes the study of how relationships create unique information and leadership benefits. He has investigated how social networks promote creativity and financial success in banking and law, developing a framework to explain the dynamics of “embeddedness” — the linkage of economic transactions and social relations that “differentially affect the allocation and valuation of resources.”

This embeddedness, he argues, benefits firms seeking financing by promoting “distinct governance mechanisms and the transfer of private information.” In other words, informal relationships can result in better distribution of financial capital at lower cost. And, in general, good networks enable one to transcend personal limitations by leveraging the talents of others to mutual benefit.

Uzzi says that Revere’s example should help dispel what he calls the “myth of individualism” in American social life, and reveal the importance of social capital, which can result in more frequent promotion and salary increases, not to mention the happy byproduct of friendships, he says.

Both Uzzi and Kellogg School Finance Professor Paola Sapienza, an economist whose research has explored the role of religion in financial attitudes and development, regard social capital as foundational in establishing social stability and prosperity.

“You can think of social capital as a kind of nonlegal mechanism influencing trade and commerce by encouraging trust,” Sapienza says. “In all our activities, including business transactions, we feel more obliged to cooperate with others when we are also involved more deeply with each other’s schools, daycare facilities, etc.”

Uzzi and Sapienza cite the work of political scientist Robert D. Putnam who, in his 1995 text Bowling Alone, examined the importance of social capital in America and advanced his thesis that this capital is waning. Using, among several other metrics, the decline of membership in communal bowling leagues, Putnam argued that “there is striking evidence...that the vibrancy of American civil society” has significantly diminished. Reasons are
THE WAY MONEY FLOWS INTO A COMMUNITY

DEPENDS ON WHETHER ITS CITIZENS LAY THE
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A RICH CULTURE

varied, and contested, but they include suburban sprawl, time constraints related to employment, and the proliferation of isolating electronic entertainment.

Higher social capital, says Sapienza, results in people trusting each other more, which has major implications for commerce. Uzzi points out that network dynamics are also impacted, because shared activities such as league bowling bring together diverse groups of people in ways that contribute to the more effective “Revere” networks.

Sapienza says that other measures of social capital, such as rates of electoral participation or blood donation, also serve as reliable indicators of community prosperity.

“It’s fascinating to see the high correlation between these social factors and the use and availability of financial contracts,” she says. “In areas with little trust, people keep their money in cash, not banks, so additional investment is hampered.”

Financial transactions intrinsically need trust, Sapienza explains. “The less educated you are, the less your ability to read the fine print of contracts, so this trust is especially important in communities where the legal enforcement doesn’t work.”

Comparatively, she says, northern European nations score highest on the social trust and capital scales, while Latin America scores lowest. The United States falls in between, but above average.

Building on Max Weber’s seminal 1905 “The Protestant Ethic and the Spirit of Capitalism,” in which Weber argued that the religious doctrine of salvation and “good works” influenced capitalism’s growth, Sapienza has found evidence of religion’s role in creating prosperity. Economic attitudes toward cooperation, government, working women, legal rules, thriftiness and the market economy were all variously influenced by religion, she found.

The role of religion in financial transactions is an “informal institution” that Sapienza says is historically understudied. Only recently have economists — traditionally advocates of a more rationalist social model, according to Sapienza — turned their attention to behavioral models, including religious beliefs, which, she says, “are not particularly rational.”

Religion’s importance as a source of social capital illustrates one of the ways Uzzi says good networks help to circulate valuable information and contribute to prosperous community life. As a meaningful shared activity, religious worship can bring people together in a way that encourages trust — and transactions.

“Parties are not enough,” says Uzzi. “You build good networks and establish trust around shared activities that people feel passionately about, but which also create an interdependence and a sense that something’s at stake.” Sports, professional associations and clubs can also fill this role, he says, though it is important to avoid the “self-similarity problem” which can introduce too much redundancy in networks that are populated largely by people with nearly identical traits and interests.

The Kellogg professors’ research into the importance of social capital is illustrated in real-world ways in the work of Greg Casagrande. The Kellogg alum is founder and president of South Pacific Business Development (SPBD), a microfinance organization located in Samoa, one of the world’s least developed countries, according to the United Nations Development Program. Some 48 percent of Samoans live in poverty, and the island nation has one of the world’s worst health-care systems.

“No jobs plus no credit equals no opportunity,” says Casagrande, who has traveled throughout the developing world and seen that this is the equation facing poor women.

Founded in January 2000, SPBD has distributed more than 2,600 loans and helped finance some 2,000 small businesses, primarily female-owned ventures, such as bakeries and general stores.

Because SPBD works so closely within a relatively small community — Samoa has only approximately 200,000 citizens spread over two islands — the organization can influence the economic lives of its clients on a very personal level.

“The most gratifying aspect of my work has been to witness firsthand the significant impact we have had on the lives of so many women and their families,” Casagrande says. “This impact extends beyond the increased income that each woman is able to generate. It also improves their self-esteem and living conditions, and provides a better education and brighter future for their children.”

Because microfinance institutions “get the poor directly involved in alleviating their own poverty,” according to Casagrande, the lenders can create valuable social and financial capital. By keeping money within the community and continually recycling loans from one microentrepreneur to the next, SPBD is instrumental in building self-respect among its clients, as well as creating the trust and security that Uzzi and Sapienza’s research indicate is essential to a prosperous community.

Without this social capital, community members won’t bowl strikes. They’ll strike out.