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**Northwestern Institute on Complex Systems
Distinguished Speaker Series Event**

Ronald S. Burt

February 15, 2007 – 5:00pm – at the James L. Allen Center



Ronald Burt is the Hobart W. Williams Professor of Sociology and Strategy at the University of Chicago Graduate School of Business. In addition to teaching courses in the Chicago GSB MBA programs, Professor Burt teaches Strategic Leadership, a capstone course in Chicago's Executive Education programs. Past positions held by Dr. Burt include the Shell Professor of Human Resources at the Institute European d'Administration d'Affaires (INSEAD), 1998-2001; Director of Raytheon's Leadership Institution, 2000-2003; and Vice President of Strategic Learning, Raytheon Company, 2001-2003, with the broad task of establishing a Leadership Institute to enhance the strategic thinking of middle and senior managers in a collaborative network across the company. Dr. Burt's consulting,

research, and teaching concern the social structure of competitive advantage. Applications focus on manager networks (how people of diverse backgrounds create social capital and its effect on their careers) and the network structure of market profits (how the structure of producers, suppliers, and consumer relations define competitive advantage among producers). Recent research and teaching materials can be downloaded from the Chicago GSB website at <http://chicagogsb.edu/fac/ronald.burt>

SECOND-HAND BROKERAGE

Abstract: This chapter is about a surprisingly local nature to social capital. The social capital of brokerage is evident from higher compensation, more positive recognition, and broader responsibility given to people who coordinate across the structural holes in a network. The evident benefits raise a question about distribution: How much benefit comes to people who merely affiliate with people rich in access to structural holes? I make a broad, initial distinction in this analysis between direct versus indirect contacts. Information moved between direct contacts I discuss as direct brokerage, to distinguish it from information moved between friends of friends - people to whom one is only connected indirectly - which I discuss as second-hand brokerage. I estimate returns to brokerage in four study populations: the Asian product-launch network in a large software company, the network of supply-chain managers in a large American electronics company, and the networks of investment bankers and analysts in a large American financial organization. These are diverse populations, but in all four, I find that second-hand brokerage has little or no value. Brokerage benefits are dramatically concentrated in the immediate network around a person. Why that is so, and conditions under which it is more or less so, are the subjects of the chapter. The implication for research design is that brokerage can be measured using designs in which data are limited to the immediate network around an individual. The theory implication, with immediate relevance to navigation in small worlds, is that the social capital of brokerage is a local phenomenon as in the Austrian market metaphor with its emphasis on tacit knowledge about local norms and practice.