

Building Social Capital as an HR Competence

By Wayne E. Baker, Ph.D.



“Nothing is more powerful than an idea whose time has come,” said Victor Hugo. Social capital is one of those ideas. With the rise of the network society and the informational economy,¹ building social capital as a personal and organizational competence is more important than ever before. “The new currency won’t be intellectual capital,” says James Kouzes, chairman emeritus of the

leaders who want to develop social capital as business competence.

WHAT IS SOCIAL CAPITAL??

Social capital is a venerable concept. Its roots go back many years, when the term was used to describe the trust, cooperation, and collective action necessary for vibrant local communities. Political scientist Robert Putnam brought the

search recognizes social capital as trust, cooperation and goodwill, it also emphasizes social capital of a different type; access to information and entrepreneurial opportunities. These are two sides of the social capital coin. Together, the original definition of social capital and the more recent provide a general definition of social capital: “the resources available in and through our personal and business networks. These resources...include information, ideas, leads, business opportunities, financial capital, power and influence, emotional support, even goodwill, trust and cooperation.”⁷

Economists think of social capital as a personal asset, much like “human capital” (one’s knowledge, skills and experiences). However, sociologists emphasize that no single person owns the resources in networks. Rather, these resources reside in the networks themselves. Building the right kinds of networks — as a person or an organization — provides access to these resources. Fortunately, it is possible to improve networks. Social capital, like other forms of capital, is a productive asset; by investing in it, we are better able to get things done, achieve our goals and fulfill our missions in life. As I discuss in the last section of this article, social capital assessment, training, and changes in the architecture of the organization improve networks and build the social capital of individuals, groups and companies.

THE BUSINESS CASE FOR SOCIAL CHANGE

The business case for social capital stands on a scholarly foundation.⁸ Human resources and organizational behavior are often considered to be “soft” and unquantifiable. However, the facts about social capital that I summarize below are based on hard evidence — scientific findings from rigorous, quantitative

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competitors! company and co-author of *The Leadership Challenge*. “It will be social capital — the collective value of whom we know and what we’ll do for each other. When social connections are strong and numerous, there is more trust, reciprocity, information flow, collective action, happiness, and, by the way, greater wealth.”²

In this article, I describe the importance of social capital and the role HR leaders can play in building it as a competence for themselves and their companies. I begin by defining the concept and outlining the business case for social capital — scientific evidence gathered from many studies that demonstrate the importance of social capital for personal and organizational success. I also present the case beyond the business case: the links between social capital and happiness, health, and a meaningful life. Next, I describe the most important social capital principle: reciprocity. Reciprocity is the engine of networks. It is the ethical and practical answer to the question, How do I “use” social capital? I conclude with some of the challenges to HR

concept of social capital to popular attention with his studies of the link between social capital and democracy. For example, he learned in his 25-year study of democracy in Italy that the regions with rich social capital — networks of cooperation, norms of civic engagement and a spirit of trust — enjoy strong economic development and responsive local governments while the regions with poor social capital suffer.³ Recently, Putnam traced over time the American propensity to join voluntary groups and associations, coining the phrase “bowling alone” (from the observed rise of solo versus team bowling) to represent the downward trend in this form of social capital.⁴ While other analysts dispute his claims of a decline of American social capital,⁵ no one argues with his contention that social capital is critical for democracy.

During the past 20 years or so, sociologists and organizational researchers have focused on the role of social capital in business performance for individuals and companies.⁶ While this line of re-

research studies conducted by sociologists, psychologists, economists and political scientists. Here is a sample of benefits for individuals and companies:

► **Attracting, Keeping and Developing Good People.**

This is the number one pressing problem of business today, according to a recent survey of over 1,700 mid-level and senior executives, conducted by the University of Michigan Business School. Most people find jobs — and most employers find good people — by tapping networks. This finding is supported by a long line of scientific research, starting with Granovetter's seminal study.⁹ Job-person matches realized via networks yield better paying, more satisfying jobs that people stay in longer. Some companies boost the power of networks by creating employee referral programs, or ERPs, which reward employees who refer their contacts to the company.¹⁰ ERPs are the single most effective way to recruit new talent, according to a 1999 American Electronics Association (AEA) survey.¹¹

Once you get new employees, you have to keep them. Building social capital keeps new employees because it creates emotional bonds to the company, meaningful connections to others, and aids personal growth and professional development. Natural talent, for example, does not blossom in isolation; it is developed and expressed through relationships with other people. Human capital (such as knowledge) is created via social capital.¹² In fact, as much as 70 percent of organizational learning takes place via informal networks and social interactions.¹³ Even the emotions are relational.¹⁴ Happiness, Victor Frankl argues, ensues from the pursuit of worthwhile, meaningful activities.¹⁵ The best companies create an environment in which their people flourish, finding satisfaction and meaning in their work and relationships.

► **Earning Higher Pay, Faster Promotions, Better Evaluations and Bigger Bonuses.**

Several studies show that people with rich social capital are paid better, promoted faster, promoted at younger ages, receive better evaluations and earn

bigger bonuses.¹⁶ Why? The cynical interpretation is that these people “schmooze” the boss, getting rewards they haven't earned and don't deserve. Such behavior does take place, and it earns “networking” a well-deserved bad name. We've learned, however, that rich social capital is associated with pay, promotions, evaluations, and bonuses be-

above. Instead of introducing people from the two departments, one could take the solution from department A and foist it off on department B as one's own, taking the credit for oneself.

This disunion strategy dominates in traditional, fear-based cultures that measure and reward only individual performance. In contrast, the best compa-

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cause these are rewards for creating value. People with rich social capital are better informed, better problem solvers, more creative and more efficient — and they are rewarded accordingly.

One of the main findings from this line of research is that people who receive rewards have networks with lots of “structural holes” or gaps.¹⁷ A “structural hole” means a person is linked with two other people who are not directly connected to one another. For example, your network contains a structural hole if you are the link between two departmental silos, A and B. A structural hole is an opportunity to create value by introducing people, linking problems with solutions, sharing information and so forth. For example, if you discover that department A has solved a problem that department B is working on, you can create value by filling the hole, introducing the appropriate people from the two departments. Filling structural holes is one of the main ways to create value by “using” one's networks.¹⁸ Those who fill holes repeatedly are rewarded because they continually create value.

The holder of a structural hole has an advantage — superior knowledge. A structural hole presents a choice between two possible strategies for using one's network of opportunities: the “union” strategy versus the “disunion” strategy.¹⁹ The unethical alternative to filling holes (the “union” strategy) is to leave them open and exploit the opportunity for personal gain (the “disunion” strategy). Reconsider the scenario

creates a culture that encourages and rewards the union strategy. At GE, for example, if you discover a scenario such as the one described above, it is your duty to close the structural hole and share information. The widespread practice of the union strategy in an organization creates a culture of cooperation and boosts efficiency and productivity.

► **Shifting Sources of Power and Influence.**

Traditionally, the main sources of power and influence were the formal authority and control of rewards and punishments (coercion) that came with a position in an organizational hierarchy.²⁰ These traditional sources are declining, due to the transformation of organizations, which have downsized, delayed, outsourced, and restructured into flexible network designs,²¹ and the “individualization” of work — the replacement of long-term careers in the same company with a sequence of employers over time, short-term projects, flexible working time, telecommuting, part-time and temporary positions, contract work and so forth.²² For example, as one knowledge worker put it, “My work is a series of projects. My life is a series of moves. My parents had institutions they could connect to. What can I connect to? My community.”²³ In this brave new world, what we know (our human capital) and who we know (our networks) are the only real sources of power.²⁴ Building human capital and social capital are the keys to success in the network society.

► Securing Venture Capital and Ongoing Financing.

How do most startups and new businesses find angel financing? It's not through the formal venture capital market. Rather, 75 percent of startups and new businesses get financing in the "informal capital market" — the social networks of capital seekers and angel investors.²⁵ Networks are also critical for established companies. For example, mid-sized firms that cultivate personal ties with their bankers get lower rates compared with firms that have arms' length relationships.²⁶ Even economists have come to realize that social networks play a central role in investing. Investing is an intensely "social activity."²⁷ Instead of relying on technical analysis

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of stock prices or investigating the fundamentals of a company, most institutional and individual investors make decisions to purchase stock based on information from a friend or business associate, or because they know someone who bought the stock.²⁸

► Selling via Word-of-Mouth Networks.

How do people decide to buy products and services? Advertising is not so influential. Advertising increases awareness but doesn't lead to purchase. Rather, most of us buy products and services that have been recommended to us by our friends, colleagues and ac-

quaintances. There are more than 4,000 empirical studies that show conclusively that products and services diffuse through word-of-mouth networks.²⁹ So, the best marketers make "word-of-mouth marketing"³⁰ one of their key methods, tapping social networks to sell their products and services. Given the rise of the network society — and the consequent growth of personal and organizational networks — this form of marketing can only become more powerful in the future.

► Building Strategic Alliances.

The network design is the organizational blueprint of the network society and informational economy. Allying with other companies is part of the design. Indeed, it is difficult — if not impossible — for a single company to go it alone and succeed. Access to new technologies, markets, capital, distribution networks, manufacturing specialties, and so forth demands the use of strategic alliances.³¹ For example, small high-tech firms boost their status by allying with prestigious partners, while their partners gain access to new technologies.³² Social capital plays a central role in finding new alliance partners and making alliances successful.³³

All the elements of the business case I reviewed above fit into a well-researched theory about the best way to achieve business success. Put simply, this theory argues that "putting people first" — or, as I put it, developing social capital — builds profits and market share. The cover of the January 2001 issue of *Fast Company* makes the same point albeit a bit more colorfully: "Yes, you'd better rethink the Web. Sure, the stock market looks scary. But the best leaders know where all the great companies start. (It's the people, stupid!)"

► Knowledge Management and Organizational Learning.

The easy availability of computer-mediated communication (CMC) technologies lures many companies into investing huge sums in formal knowledge management systems. Many don't get much return on their investments. Why? Knowledge resides in the network, not a computer. Most knowledge management systems, argue Pfeffer and Sutton,

"rarely reflect the fact that essential knowledge, including technical knowledge, is often transferred between people by stories, gossip, and by watching one another work."³⁴ Indeed, a 1998 study by the Center for Workforce Development reports that 70 percent of learning takes place via informal networks.³⁵ Knowledge management is a social activity. "There's a personal paradigm shift," argues Jon Sidoli, principal of Knowus Communications, "that says I am more of a node on the network than anything else."³⁶ Knowledge managers generate and share knowledge in their social networks.

An organization is "a network of intersubjectively shared meanings that are sustained through the development and use of a common language and everyday social interaction."³⁷ Change and complexity call for an increase "intersubjective sense-making," Weick argues.³⁸ People make sense of change and complexity by interacting and talking about it, developing shared meanings and definitions of the situation. Narratives and storytelling are central to the sense-making enterprise. Given the relentless change that defines our times, face-to-face interaction — networks — is critical. The challenge is that people interact more and more via their computer screens than face-to-face. Requisite intersubjectivity is lost when managers stop walking around (MBWA) and start doing what Tom Peters calls "management by screening around."³⁹ The more complex the world becomes, the more organizational learning depends on developing rich social networks to support sense-making, propagate stories and narratives and create shared meaning.

► Building Profits and Market Share by Putting People First.

All competencies are important but different ones rise to prominence in different eras. As the world changes, so do the sources of competence. For example, finance was the preeminent competency in the business world of the 1980s. But in the emerging network society and informational economy, social capital is the key competence. Recognizing and acting on this change is critical for personal and organizational success. As Jeffrey Pfeffer warns, "If you seek success in

the wrong places, you are likely to waste a lot of effort, focus on the wrong things, and, in the end, overlook some of the real sources of competitive leverage — *the culture and capabilities of your organization that derive from how you manage your people*. This is a more important source of sustained success than many of those so commonly mentioned, because it is much more difficult to imitate or understand capability and systems of management practice than it is to copy strategy, technology or even global presence.”⁴⁰

A host of research demonstrates that so-called “high commitment” or “high performance” HR systems yield higher labor efficiency, improved productivity and quality, reduced employee turnover, better equipment efficiency, higher sales and faster sales growth, increased return on assets, increased return on equity, and higher market share.⁴¹ These systems include the HR practices that build social capital as an organizational competence: self-directed teams, job rotation, decentralization, training, skill development, performance appraisals, collective incentive systems, information sharing systems, quality circles, attitude surveys and so forth. In the last section of this article, I provide a list of the top 10 interventions used to build social capital as an organizational competence.

THE CASE BEYOND THE BUSINESS CASE: THE QUALITY OF LIFE

There are good business reasons for learning how to build and use social capital, but there are even more important ones. Studies in the fields of medicine, psychology, neuroscience, and epidemiology demonstrate the relationship between social capital and the quality, purpose and meaning of life. For example, a series of studies show that happiness comes from only two sources: meaningful work and the quality of relationships with others.⁴² Indeed, the new “relational theories” of psychology show we grow and develop not by gaining independence from one another but by participating in relationships.⁴³ Social networks, psychologist Barton Hirsch says, “involve far more than provision of narrow categories of ‘help.’ Instead, networks reflect the nature and value of our participation in the major life spheres.”⁴⁴

Building and participating in networks improves mental and physical health. People with solid networks lower their risks of everything from the common cold to serious illnesses.⁴⁵ Surprisingly, it’s not the size of the networks that counts but the diversity of the relationships. For example, an article in the *Journal of the American Medical Association* reports the findings of an experiment designed to study resistance to the common cold. As the researchers put it, “More diverse social networks were associated with greater resistance to upper respiratory illness.”⁴⁶ This held true even when they controlled for factors such as age, sex, season, body mass index, education, and race, as well as for health behaviors such as smoking, sleep quality, alcohol intake, and dietary intake of vitamin C. Other studies show that when people do get ill, those with good networks recover faster.⁴⁷

And, people with good networks live longer.⁴⁸ A series of more than a dozen studies around the world, beginning with Dr. Lisa Berkman’s study of the social networks, lifestyles, and health behaviors of 7,000 residents of Alameda County, California,⁴⁹ show that those who are well-integrated in their communities are less likely to die. For example, during the nine years of Dr. Berkman’s study, isolated people were three times more likely to die than the well-connected. The life-lengthening effect of networks persists even in the presence of unhealthy practices such as smoking or obesity.⁵⁰ And, like resistance to the common cold, diversity matters more than size. Having a variety of ties and connections is the important factor, as Dr. Hallowell summarizes in *Connect: 12 Vital Ties That Open Your Heart, Lengthen Your Life, and Deepen Your Soul*.⁵¹

USING SOCIAL CAPITAL: POWER OF RECIPROCITY

Probably the most common question I get when I give talks and workshops about social capital is this: How should we use social capital? The idea of using social capital invokes a lot of negative connotations and unsavory images. Everyone knows people who initiate relationships for the purpose of getting something. This common practice is what gives “networking” a bad name.

Similarly, attending events or joining associations for the primary purpose of making contacts backfires. Most people see right through such behaviors.

The best way to use social capital involves a paradox. The more we put our resources into action for the service of others, and the less we think about how we will be rewarded in turn, the greater the benefits we receive. This paradox is documented in both scientific research and ethics.⁵² The best prescription is to focus on contributions to others. For example, Fred Manske, Jr., CEO of Purolator Courier, a CDN\$1 billion Canadian

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company, attributes his success to the application of his “servant-leadership philosophy.” Leaders are more successful when they focus on serving and helping others.

Focusing on contributions to others works because it invokes a fundamental social principle: *reciprocity*. This principle is universal, including both animal and human societies, and ranging from interpersonal to international relations.⁵³ Reciprocity is the engine of social capital. Its basic form is two-person reciprocity. For example, if you want people to share information with you, give information to them first and they are likely to reciprocate. This is a powerful social psychological principle and it works.⁵⁴ But the highest form of reciprocity — and the most powerful — is generalized reciprocity. Here, the focus is contributions to others without expectations of a return. Paradoxically, the more we focus on helping others, and the less we are con-

cerned with getting something, the more we are helped in return, often far in excess of what anyone would expect. There are many examples of this level of reciprocity.⁵⁵ The sidebar presents an example from banking. I call it “Janet’s story.” Janet isn’t her real name but she’s a real person. And she achieved great success by focus on contributions to others.

When the practice of reciprocity is instilled in a company, it creates a powerful *network of reciprocity* that reaches far and wide. It means that people are more likely to get information when they need it, often without asking for it. It means that problems are solved quickly and efficiently, as people see and close structural holes with regard to how it will help them.

Janet’s Story: The Power of Reciprocity - A Case Study

I am acquainted with a bank loan officer in Chicago, Janet, whose behavior is the epitome of what I call “the paradox of taking yourself out of the equation.” Janet was successful, but she wanted to be extraordinarily successful. Her job was to make loans, and she was evaluated on the volume of loans she “produced.” One day she experienced a shift of perspective. She stopped trying to make loans and started trying to help. Instead of looking at the person across from her desk as a “loan” to be made, Janet saw the person as someone with needs that she might be able to help satisfy. If she thought they didn’t need a loan, she would tell them so, even if they “qualified” for one. If she thought her potential customers could do better by getting a loan at a competitor’s bank, she would give them the name of a loan officer at the bank. Eventually, she engaged potential customers in a broad conversation about lives, families, and their needs, and then worked hard to help them, no matter what kind of help they needed. She even began the practice of sharing cab rides with strangers, just so she could strike up a conversation and see if there was some way she could assist them. What happened? Everyone she helped was so grateful that they did everything they could to help her. Even if

It means people work productively because they get the information, ideas, leads, opportunities, and other resources they need when they need them as people unselfishly share them. Acts of contribution help to build long-last, profitable customer relationships. Creating a network of reciprocity turns a crowd of individuals into powerfully organized human activity.

HR CHALLENGES

Social capital is the key competence for both personal and organizational success in the network society and informational economy. Like any competence, building this one presents challenges. My research and consulting show that two levels of work are required to build

they didn’t get a loan at her bank, they would recommend Janet to all of their friends, family, neighbors, business associates, colleagues, and just about anyone else. The result was an explosion in Janet’s “loan productivity.” She made more loans, and made more money, than ever before. She had become extraordinarily successful by taking herself “out of the equation” — helping others without regard to how it might help her.

The ethics of social capital requires us to recognize our moral duty to consciously manage relationships. We can’t evade our duty — not managing relationships is managing them. Our only choice is how to manage our networks of relationships. To be an effective networker, we can’t directly pursue the benefits of networks, or focus on what we can get from our networks. The best prescription is to take ourselves out of the equation, focusing on how we can contribute to others. For us, “using” social capital means putting our networks into action and service for others. The great paradox is that by contributing to others, we are helped in return, often far in excess of what one would expect or predict.

Source: Baker, Wayne. 2000. *Achieving Success Through Social Capital* (Jossey-Bass): pp. 22-24.

social capital as a competence. The first aims to change individual behavior through education, evaluation and training. The second aims to create an organizational environment that enables people to build the personal and business networks they need. As Noel Tichy and Ram Charan prescribe, “The role of the leader is to *architect* these networks in a way that will lead to success in tomorrow’s environment.”⁵⁶ Business leaders at all levels have to become social architects, helping themselves as they help others build their social capital.

➤ Social Capital Education, Evaluation, and Training

Social capital is an old concept but it’s a new idea for business. Most business people are not aware of the concept of social capital, the need to evaluate it, or the many ways to build it. The first challenge, therefore, is education and advocacy: increasing awareness of the concept and benefits of social capital. Next comes evaluation. As I describe below, evaluating social capital is necessary because most people don’t have a good sense of their networks. Training helps to instill proper social capital principles, such as reciprocity, as well as practice and modeling.

Social capital is often mistaken as “networking.” Networking is only a small corner of the world of social capital. Better synonyms for social capital are contributing, relating, interacting, connecting, helping, reciprocating, and so on. Many people are aware of the traditional use of social capital — getting a job — but most are not aware of the business case and all the business benefits social capital produces. Reviewing the business case helps to answer the question most people have in the backs of their minds — “What’s in it for me?” I’ve found that telling the case beyond the business case — the link between social capital and the quality of life — is just as important. Indeed, getting people to think about the relationship of social capital and health, happiness, and meaning helps to move people beyond the what’s-in-it-for-me perspective and consider their larger roles as participants in and contributors to the world.

Education and advocacy are also necessary because common cultural myths

stand in the way of social capital. For example, an obstacle to the practice of reciprocity is the myth that competition is natural and cooperation is not. After re-examining Darwin's theory and evidence, social scientist and philosopher Helena Cronin concludes that the fittest who survive are *altruists*. "Doing what's immediately good for oneself has been understood by Darwinists for a long time," she says. "But what hasn't been understood until recently is that you can actually do better for yourself by being cooperative and altruistic than you can

by selfishly refusing to cooperate with others. It's not that you do as well. You actually do better — and all of you do better than if you had gone off on your own and refused to help others."⁵⁷ This is a tough lesson to learn for anyone who was schooled in the social virtues of self-interest and all-out competition.

A related obstacle is the myth of *individualism*: The cultural belief that everyone succeeds or fails on the basis of her or his own individual efforts and abilities.⁵⁸ Sociologist James Coleman calls individualism "a broadly perpetrated fiction in

modern society." "This fiction is that society consists of a set of independent individuals, each of whom acts to achieve goals that are independently arrived at, and that the functioning of the social system consists of the combination of these actions of independent individuals."⁵⁹ Individualism is a prized American principle but we have to unlearn the lessons of individual achievement⁶⁰ to survive and thrive in the network society.

Evaluating social capital is as necessary as educating about it. Research shows that people's mental maps of

The Humax Assessment-An Online Social Capital Assessment Tool

The Humax Assessment is a Web-based tool that diagnoses social capital along three dimensions: structure, composition, and focus. Structure refers to the pattern of connections in an ego-centric network. It ranges from cohesive, closed networks to expansive, open networks. The latter have lots of structural holes (defined above) and hence opportunities to create value by closing them. Composition refers to the demographic characteristics of people in the network. It varies from homogeneous to diverse. Focus is the concentration of a network in certain areas or activities. Focus varies from internally focused networks to externally focused networks.

The Assessment produces an "individual profile" for each person who takes it, along with a "composite profile" for the group or company as a whole. A profile is composed of three letters that correspond to the three dimensions of structure, composition, and focus. Each dimension is continuous but divided into thirds to provide categories for profiling. Figure 1 describes the dimensions and categories. Three dimensions and three categories yield 27 possible profiles. The two fundamental types are Profile CHI (the first column in Figure 1) and Profile XDE (the right column in Figure 1). Profile CHI is a cohesive, homogeneous network with an internal focus. This network profile rep-

resents social capital in the form of trust and cooperation among a closed network of similar people. This network is helpful for building group loyalty, identity, and a sense of common purpose. This network may make it difficult to get new information or other resources, or for influencing people outside the network. It is subject to group-think and an us-versus-them view of the world. Profile XDE is an expansive, diverse network with an external focus. It represents social capital in the form of entrepreneurial opportunities. This profile is helpful for getting new information, learning about new opportunities and finding resources. But it may make it difficult to build consensus, produce consistent expectations, or develop a sense of common mission. It can be subject to conflicts and tensions.

Which profile is "best"? One size does not fit all; the best profile depends on one's needs and goals. Generally, however, I've found that most networks are too closed, homogeneous and internally focused. In today's business world, networks closer to Profile XDE produce superior business performance. This prescription doesn't mean that everyone should build the largest, most diverse, most externally focused networks possible. Rather, it means that most people can benefit from moving in the direction of XDE.

Figure 1. The Three Dimensions of a Humax Profile.

Dimension 1 Structure	C ohesive network of closely connected people; strong relationships; below average number of people.	V ersatile network of somewhat interconnected people; mix of strong and weak relationships; average number of people.	E Xpansive network of mostly unconnected people; weaker relationships; above average number of people.
Dimension 2 Composition	H omogeneous set of people with similar demographics, such as age, education, gender, ethnicity.	B lended set of people with a mix of similar and different demographics.	D iverse set of people; most demographics are different.
Dimension 3 Focus	I nternal focus; your network is focused on work or family; network tends to be domestic; few ties to outside organizations or associations.	E qual internal and external focus; a balance of work and family ties; mix of domestic and global ties; some ties to outside organizations or associations.	E xternal focus; most relationships are not work or family related; network tends to be global; many ties to outside organizations and associations.

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their networks are inaccurate.⁶¹ While most people can recite their human capital (the facts on the résumé) with ease and accuracy, few can accurately describe the networks around them. Overconfidence confounds the problem of in-

how diverse is your organization? Demographic statistics tell only part of the story. An organization could be split 50:50 with respect to gender, for instance, but the informal networks could be segregated and separate. Do men and women

be experienced with others, preferably with groups that can benefit from building their social capital during the training experience. For example, post-merger integration is one of the biggest HR challenges after the two companies are combined. Training on social capital can help bridge the chasm, creating integrative social networks and the reciprocal relationships required to convert two cultures into one. Software programs may improve the *efficiency* of an existing network, but they don't change the *incentives* for investing in the network. Community can't emerge if the incentive remains "What's in it for me?" Only after social capital training provides a new principle, rationale, and model of community — the highest level of reciprocity — can software help to reinforce the community.

Software programs may improve the efficiency of an existing network, but they don't change the incentives for investing in the network.

accuracy — most people *think* they know their networks but most people don't. Inaccuracy and overconfidence create the need to evaluate social capital. Fortunately, an entire field is devoted to the measurement of social networks and social capital.⁶² (To learn about this field, visit the Web site of INSNA, the professional association of social network analysts, at www.heinz.cmu.edu/project/INSNA/.) I have developed an online social capital assessment tool for Humax Corporation, an assessment and training firm (www.humaxnetworks.com) (See sidebar). This tool surveys "egocentric networks" (a person and his or her direct contacts) as opposed to "whole networks" (all the connections among the members of a defined population). (See www.orgnet.com for tools that analyze whole networks.)

Technologies exist now to conduct "social network audits" of organizations (see sidebar). It is possible now to assess the current state of social capital in a company, as well as to benchmark and to monitor and track social capital changes over time. Network analysis can be applied to evaluate a host of HR issues. For example, network analysis can reveal patterns of inclusion and exclusion in a company's informal networks. With this knowledge, the company could take remedial action to create more inclusive networks. In fact, ignoring the network analysis could lead to charges that a company could have measured and improved networks but didn't. Network analysis could provide evidence to back a person's claim that he or she was excluded from the informal networks.

Evaluating networks also provides direct insights into issues that before could be measured only indirectly. For example,

actually interact with each other? Do you have what I call "relational diversity?" One company that used the Humax Assessment was proud to discover that their employees' *networks* were diverse. Men and women included each other in their core networks of work, advice, assistance and informal socializing.

Of course, it is possible that some employees might argue that tracking their social network "signature" is an invasion of their workplace privacy. This problem is averted when a third-party assessment company conducts the evaluation. Employees know their privacy is protected. For example, the Humax Assessment is password protected. Each person creates his or her own user name and password. Unless the person gives it out, no one at the company can view the person's reports. From a managerial point of view, the proper focus is the group or the company, not an individual.

Finally, experiential training is necessary to introduce, learn and reinforce new behaviors. This is true generally, but the principles of social capital, such as the highest level of reciprocity (helping others without expectations of return), are counterintuitive for many, so the principles need to be experienced to

► Building the Architecture for Social Capital

The companies that thrive in the future will be those that recognize the growing importance of social capital and build the architecture to support it. HR can and should play a leadership role in promoting awareness of social capital and establishing the mechanisms and practices that build social capital as an organizational competence. It won't be long, I predict, until we see an enlightened company creating the position of Chief Social Capital Officer! The Chief Social Capital Officer would be responsible for eliminating the mechanisms and practices that destroy social capital and for creating the mechanisms and practices that build it. This person would be the chief network builder and social network nurturer of the organization.

There are many mechanisms and practices that build social capital as an

The architectural blueprint for success in the network society is the network organization.

be learned. Training for social capital can't be done via computer. Even today there are software programs that claim to build "community" but community is built face-to-face, working together to build networks and contribute to one another. Social capital training has to

organizational competence. With Humax Corporation, I have identified over 55 "best practices." In the last chapter of my book on social capital, I describe 10 main interventions, which I list here. You can use this as a checklist for an "easy" measure of the richness of social

capital in your organization. These and others could be added to the “balanced scorecard” movement that is commonly used today.

1. *Facility design and location.* Proximity is (almost) everything, even in these days of computer-mediated communication. Co-location, open offices, the absence of physical barriers, and “campus” office designs facilitate the formation of social capital. “Hoteling” and similar practices inhibit it.

2. *Hiring.* Most people are hired on the basis of what they know, even in a world where networks are more important than ever before. Hire networks, not just on the basis of intellectual capital.

3. *Multidisciplinary teams.* It’s commonplace to argue for the use of multidisciplinary or cross-functional teams. But it’s still good advice. Multidisciplinary teams are the social architect’s basic building blocks.

4. *Rotation programs.* Rotation programs have been around for a long time and are even more important now. They are natural vehicles for building networks that crisscross organizational units, transfer knowledge across boundaries, and develop a global mindset. The trick is to avoid what Snyder and Duarte call *chaotic role movements*: “the rapid movement of professionals and managers into new roles within a company in which the number of roles exceed the number of qualified people available.”⁶³

5. *Education and training.* Education and training are necessary, as I discussed above, to build social capital as an individual competence. Making social capital an *organizational* competence requires a comprehensive and orderly program rolled out to all units and levels.

6. *Communities of practice.* The original communities of practice arose spontaneously. Today, companies that build social capital as an organizational competence actively foster, nurture, and invest in the construction and communities of practice. This is especially important in large companies where it’s easy to feel lost and alone. Communities of practice make the cold, big world of a global company much warmer and more personal. A community of practice gives people a home. Employees are happier and work smarter because they learn and share knowledge in their community

of practices. Another benefit is employee retention: When people feel an emotional bond to others at work, they are more likely to feel committed to the company and stay.

7. *Participatory processes.* The regular and routine processes of the corporation — budgeting, continuous improvement, quality programs and so on — contain great opportunities for building social capital. This potential often goes unnoticed and untapped. Making these processes participatory by involving people from various units and levels can build social capital naturally.

8. *Management networks.* A management network includes people who “are drawn from across the company’s functions, business units, and geography, and from different levels in the hierarchy.”⁶⁴ Jack Welch’s Corporate Executive Council is a good example.⁶⁵ These are natural vehicles for building ties and bonds across units, departments, levels and location.

9. *External networks.* Companies rarely go it alone any more. Those at the leading edge, like Corning, are evolving into a complex network of alliances with competitors, customer relationships, and supplier partnerships.

10. *Incentive systems.* The incentive system is often the biggest single obstacle to building social capital in a company. When people are measured and rewarded for individual performance, it’s difficult to practice the highest levels of reciprocity. Progressive companies use a combination of individual and collective rewards. These encourage bridge-building, sharing, helping, and contributing. That’s what builds social capital.

One by one, these interventions don’t work. They are powerful in combination — components of an overall organizational redesign that focuses on social capital as an organizational competence. Together, they help to build the *network organization*. One of the chief lessons of organizational theory is the importance of congruence: the design of an organization should fit its environment. The architectural blueprint for success in the network society is the network organization.

CONCLUSION

We really are living in a time of change. “We are living through one of the

most fundamental technological and social changes in history,” says sociologist Manuel Castells. “The revolution in information technologies that took shape in the early 1970s, and diffused throughout the economy, society, and culture in the last quarter of the twentieth century, has profoundly transformed the way we live, work, produce, consume, communicate, travel, think, enjoy, make war and peace, give birth, and die. It has also transformed, as have all major technological revolutions, the material foundations of human life, time, and space.”⁶⁶ What this means, as he writes in his monumental trilogy on the Information Age,⁶⁷ is the rise of a new form of society: the network society. Building and using social capital is the key to surviving and thriving in the network society.

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Since November 2000, it has been on every monthly business best-seller list compiled by 800CEOREAD. His first book, *Networking Smart*, was named "one of the thirty best business books of 1994" by Executive Book Summaries. *Networking Smart* was a main selection in the Newbridge and Business Week Book Clubs. Baker's research on social capital, networks, organizations, and culture is published in the American Sociological Review, the American Journal of Sociology, the Journal of Mathematical Sociology, the American Behavioral Scientist, and other places. Baker teaches courses on social capital and networks, organizational behavior, organizational design, and general management in all of the University of Michigan Business School's programs: Executive Education, Ph.D.,

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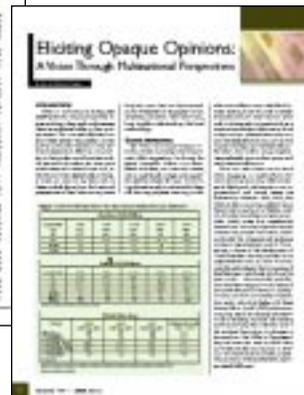
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