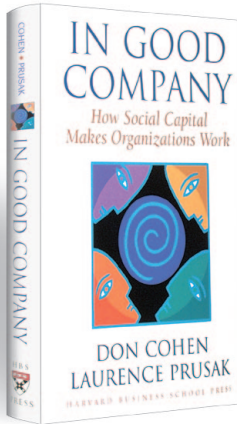


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HUMAN RELATIONS

by Don Cohen and
Laurence Prusak

How Social Capital Makes Organizations Work

IN GOOD COMPANY

THE SUMMARY IN BRIEF

Knowledge has always resided in organizations, but it wasn't until the Information Age put a premium on ideas that intellectual capital was recognized as a critical resource. Now, forces like technology, globalization and the rise of free agency and the virtual work place are bringing another form of "hidden capital" to the forefront. That resource is social capital. In this summary, you will learn how to build the human connections that make up social capital, such as trust, networks and a sense of community. You will learn to:

✓ **Recognize social capital for what it is and what it is not.** You will see how to build a sense of commitment and community among members of your organization by letting them engage in activities that connect people. These activities include regular access to one another in ways that allow people to connect and form deep relationships.

✓ **Develop a sense of trust in one another and the organization.** People who don't trust one another or the company they work for will not be productive, loyal or cooperative. But trust often requires a leap of faith. You will see how organizations can earn the trust of workers and receive it in return.

✓ **Allow networks and communities to develop naturally.** You will see why you must provide money, space and permission for workers to build networks and communities.

✓ **Encourage talk and storytelling.** People learn more from the telling of a story that illustrates the way things are done in an organization than from reading the employee manual mission statement. Storytelling is an integral part of connecting people to the values of a company and setting behavioral standards.

✓ **Meet the challenge of an increasingly virtual world.** Social capital can only thrive in an organization that allows time for face-to-face interaction. Distance technology cannot replace contact. You will learn how to balance the need for contact with the appropriate use of technology.



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— THE COMPLETE SUMMARY

Why Social Capital Is Important to Your Company

Social capital is defined as “the stock of active connections among people: the trust, mutual understanding and shared values and behaviors that bind the members of human networks and communities and makes cooperative action possible.” Social capital makes an organization more than a collection of individuals intent on achieving their own private purposes. It bridges the space between people.

Despite the recent hype over workers engaged in “free agency” and the idea of “companies of one,” humans have a need for membership and identification, the satisfaction gained from recognition by peers and the pleasure of giving as well as getting help. Other popular theories of management that focus on processes and technology leave out the essential connections among people without which purposeful cooperation won’t happen. That’s why some organizations have talented people, sensible and efficient processes and the best technology money can buy, but still perform poorly, hampered by suspicion, rivalry and rapid turnover. What’s missing is an understanding of the dynamics of social capital.

What Social Capital Is Not

Social capital is not about everyone in an organization liking and accepting one another; it is not about being “nice.” Nor is social capital about employees sharing details of their personal lives, erasing the line between work and home. That kind of coerced intimacy is as likely to damage trust and connection as it is to build it. Nor is social capital enhanced by paying lip service to equity and respect. Calling everyone in the organization an “associate” while the decision-making remains at the top merely breeds cynicism. Since social capital is about trust, relationship and commitment, it thrives on authenticity. Hypocrisy kills it.

Weekend team adventures, company picnics and similar one-shot bonding activities don’t build social capital, either. They are ineffective because they are brief and occur outside the context of daily work. They are particularly destructive when they inadvertently highlight the distance between the togetherness activity and the firm’s real character.

The Erosion of Social Capital

Organizations today face constant external and internal change. Companies must attract and retain workers whose talents are often in short supply and high demand and who may be wooed away by competitors in a talent war. To survive, they frequently must undertake major internal change to respond to and anticipate environmental shifts. Partnerships, mergers, acquisitions and changes in products and focus lead to rapid change. Change can erode social capital, especially when changes involve reorganizations or downsizing.

Just as investment in other tangible capital produces returns, so does an organization’s investment in its social capital. It exists in every organization, but in widely varying amounts. It can be depleted or enhanced, squandered or invested in. Social capital can benefit companies by:

- **creating an environment where knowledge sharing happens because relationships are built on trust, common frames of reference and shared goals;**
- **lowering transaction costs thanks to trust and a cooperative spirit;**
- **reducing turnover rates, resulting in reduced severance costs and hiring and training expenses;**
- **creating greater coherence due to organizational stability.**

The Age of Interdependence

We are long past the time when one individual can know virtually everything worth knowing. We are even past the point where one person can know everything

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Why Social Capital Is Important To Your Company

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about how to do his or her own job well. Thus, belonging to the networks that can coordinate and enhance our limited knowledge has become essential. In the sciences as well as in the corporate world, individual genius, though not extinct, has become rarer than ever. This is the age of interdependence.

In many endeavors, collaborations involving numerous people in multiple locations has become unquestionably necessary. We no longer operate with industries that produce goods by repeatedly carrying out the same standard, well-defined tasks. Instead, today's service-based industries are knowledge-intensive organizations. Treating people like cogs in a machine only works when you want them to do machine-like work. Today, work requires workers to be responsive, inventive and cooperative.

Perhaps no better, recent example of the power of social capital exists than the story of Malden Mills. In December 1995, the Malden Mills factory in Lawrence, Mass., was destroyed by fire. The factory had produced the company's polar fleece fabric. The fire left 3,000 workers with nothing to do. CEO Aaron Feuerstein announced that he would continue to pay the workers their full salary while the factory was rebuilt.

The public and business world were shocked at the apparently "unbusinesslike" action. But those who understood the value of social capital were not. The decision in fact made good business sense. He held on to a work force that had proven its reliability and skill. By being loyal to that work force, he ensured an even greater commitment on their part to doing good work for the company. It is no accident that the company has a retention rate of more than 95 percent and an excellent reputation for producing quality products. Feuerstein made an investment in social capital. ■

Trust: The Starting Point Of Social Capital

Almost 80 percent of the diamonds that come into the United States pass through the hands of the diamond merchants on 47th Street in Manhattan. Very little paperwork accompanies the buying and selling of huge fortunes in diamonds. Prices are agreed on verbally; a handshake alone seals the deal. The merchants' willingness to trust one another makes their business efficient. Unencumbered by paperwork, they are free of the related burdens that slow and complicate exchanges governed by written contracts.

Trust and Higher Purpose

A powerful sense of higher organizational purpose can sometimes foster trust. A sense of duty, patriotism or idealism can help generate trust as well as commitment. People tend to trust organizations that have a calling beyond pure profitability, and they are more likely to trust colleagues who share their commitment to an important goal.

Almost all of the several hundred merchants working in the diamond district belong to a close-knit orthodox Jewish community; their personal lives and work lives are closely intertwined. Being part of a close knit community makes the penalties for betraying trust particularly severe. A dishonest dealer would not only be banished from the trading community, but from his social network as well.

Trust is one essential lubricant to any and all social activities, allowing people to work and live together without generating a constant, wasteful flurry of conflict. Trust is thus the natural starting point of social capital. Low-trust organizations are characterized by manipulation, secrecy and the triumph of shrewd calculation over hard work. High-trust organizations, on the other hand, are rewarded with a culture that supports creativity and collaboration among its members.

Understanding Trust

Trust is not a uniform, invisible quality. It is largely situational. Many people experience trust in another person after a series of observations or trust-measuring experiments. Essentially, a person is judged trustworthy

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Invest in Organizational Trust

Building and maintaining trust is the most important social investment leaders can make. You can encourage trust by:

- ✓ **Being trustworthy.** Leaders set the tone, establishing the values and norms through their own actions.
- ✓ **Being open and encouraging openness.** Knowing who people are and what they are doing builds social connections and trust. Transparent and open promotion and compensation policies help build trust by reducing suspicion.
- ✓ **Letting workers share their knowledge with peers in other firms, even when they are the competition.** This openness and trust helps spread cooperation in industries.

Trust: The Starting Point of Social Capital

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if his or her words match actions. In reality, though, trust is more complex. For example, people who are treated as if they are trustworthy often deliver, while those who are viewed as untrustworthy rarely disappoint, either. That's because trust is a function of a relationship rather than a single, immutable quality.

Trust Is Fragile

Trust can be fragile and volatile. Even deep trust can be damaged or destroyed, sometimes by a single act — just as a long marriage can be irreparably hurt by a short-term infidelity. Even a seemingly small, dishonest action can cause harm to your organization's social capital. Those organizations that understand the threat of broken trust create an atmosphere of strong peer pressure on individuals to act in a trusting manner — because “that's the way things are done around here.” Good behavior spreads by example and adaptation. Employees on the front lines see what behaviors are rewarded and behave accordingly. ■

Networks: Where Social Capital Is Strongest

Human beings are social animals. We form families, teams, communities, societies and nations. Sociology, psychology and political science have long studied social groups and recognized their centrality to what people do and how they feel about themselves and the world.

These relationships are networks which shape the social capital in organizations. Networks are a prime source of a sense of membership and commitment as well as learning. Networks are the places in organiza-

The IRS and Networks

A day or two after sending its check to the IRS, a small company discovered that it had made a huge mistake in calculating the tax owed. It had paid several times more than the tax due, and the payment would cut into the company's cash flow. When company leaders called, they were told there was no way to return a check, but that the amount paid would be credited to future liabilities. A secretary in the firm mentioned that she knew someone who worked in that IRS office, and called to explain the problem. The acquaintance found the check, which had not yet been processed, and sent it back. Perhaps no better example exists of the power of personal networks to cut through red tape.

The Value of Networks

A group of executives was asked what they would rescue from their offices in the event of a fire. The questioner stipulated that the hypothetical offices contained valuable art work and furniture as well as the usual office accoutrements. Almost without exception, the executives voted to rescue whatever held their contact information: their Rolodexes, address books and Palm Pilots.

tions where people feel most at home and most responsible for one another.

Networks form because people need one another to reach common material, psychic and social goals. Mutual aid and general reciprocity are common to all functioning networks. Networks help people develop their identities. From grade school to retirement villages, the people we hang out with help us determine who we are. People are loyal to their networks and communities.

How do networks create feelings of belonging and trust?

● **By demonstrating in practice what is of value to the group.** For example, you have probably worked in an organization where the gap between how things work and how they really happen — the gap between what the manual said and what people really do — was vast. The actual practices are the experiences of the group.

● **By distributing information to the group members.** You no doubt have had the experience of finding out from members of your group about a major company announcement before it was made official. Networks distribute information quickly through word of mouth. Networks contain the knowledge of the organization and serve as an informal collaboration exchange.

The Underside of Networks and Communities

Not everything in the world of networks and communities is rosy. The same kinds of connections that give people purpose, satisfaction and a sense of identity can be responsible for feuds and guarding against outsiders. Networks can lock people out of jobs, clubs and communities. You must guard against the possibility that members of the company community are so wrapped up in doing their own thing that their work may not be of any productive use to the organization. Beware also of the development of “group think” — in which self-reinforcing beliefs about the way things are done have a firm grip on the company until the outside world proves them wrong.

The answer to these problems is to make the bound-

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Networks: Where Social Capital Is Strongest

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aries defining the group more permeable — to let more people and information enter from outside. When you hire, be sure that some of the newcomers are different enough from the norm to occasionally challenge it.

The Network-Building Organization

Networks can be encouraged to develop in ways that benefit the organization. Networks thrive when:

- **There is enough money.** You must provide enough funding to support face-to-face meetings, buy collaborative technology, and free up key individuals' time for network activity without going overboard.

- **There is enough space.** Networks need space to grow, bond and expand. That space is sometimes physical and sometimes cyberspace or social space.

- **There is enough recognition.** We all need encouragement, but many companies are remarkably bad at offering it. A little recognition can improve morale. ■

Give Employees Space and Time to Connect

In 1998, Alcoa moved its Pittsburgh central office staff from a 31-story tower built in the 1950s to a new, six-floor headquarters designed to connect people with one another. Open offices, glass-walled conference rooms and a six-story atrium allow employees to see many of their colleagues at work. People move from floor to floor on escalators rather than elevators. Family-style kitchens allow workers to mix and chat.

Alcoa CEO Paul O'Neill sees the design of the new work space as integral to his goal of increasing collaboration, connection and inter-dependence. The design of the new building helps narrow the gap between bosses and employees in the process of making it easier for people to meet and talk. Alcoa's new headquarters is an investment in social capital. Making the life of the workplace visible, providing places for people to meet and talk informally, and expressing the commonality of workers at all levels in the design of the offices all help to cultivate the trust, connection and perceived equality that mean high social capital.

Social relationships flourish in social spaces. For thousands of years, people have gathered in town squares, commons, cafés, pubs, parks, restaurants and general stores. In those spaces they connect and reconnect. When such places disappear, or people lose the habit of frequenting them, community is hard to come by. This phenomenon can be observed in some of the so-called bedroom communities, whose inhabitants

work in the city or office parks in other suburbs and rarely see their neighbors. In an attempt to build community, some developers are now including more public spaces in their plans.

Companies would do well to think about community when designing work places. Eliminating the lunch room, for example, may eliminate substantial opportunities for community building. Even worse is the practice of providing generic offices for those workers who are on the road most of the time. The reasoning goes like this: Why waste permanent office space on workers who only use it 25 percent of the time? Instead, assign them basically equipped offices as needed. The problem, of course, is that employees who are "hotelled" this way lose any connection with the organization's community.

If companies want to create a sense of community, the work space must reflect that commitment. For example, putting meeting spaces at the far end of buildings conveys the idea that those spaces and what occurs in them are not central to the company. Putting the spaces near the entrance or center conveys that community and collaboration are important to the company.

Virtual Space Can't Replace Physical Space

Online chat rooms, team rooms, communities, forums and bulletin boards use the language of traditional meeting places to describe multi-participant exchanges, implying that they are functionally equivalent to really being there. That choice of language is misleading. The fact is that cyberspace is no substitute for real space, at

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Connecting Engineers

When Corning's engineers appeared reluctant to exchange information with one another, management set about finding a solution in their environment. They commissioned a study that concluded that 80 percent of the engineers' ideas arose from face-to-face contact, but that they were unwilling to walk more than 100 feet from their own desks to talk to anyone else. In light of these findings, the new engineering building included 12 discussion areas with coffee machines and wall-sized blackboards so that at least one was in every engineer's immediate office "neighborhood."

Give Employees Space and Time to Connect

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least not yet. Meeting in cyberspace presents drawbacks, including:

- A much narrower range of communication, with gestures, facial expressions, feelings and tones reduced or missing.
- A weaker sense of participation for those who listen without contributing. People who monitor online discussions without contributing disappear quickly, while those who sit quietly in a group do not.
- Fewer opportunities for serendipity, since interactions

People need to stay directly connected with people; e-mail is not an adequate substitute.

tend to be strictly limited to specific themes or tasks.

Virtual meetings work best when they are part of a mix of different kinds of contact.

People need to stay

directly connected with people; e-mail is not an adequate substitute.

Time to Get Connected

Some of the most important time investment is made during the first hours, days or weeks a new employee spends in an organization. Unfortunately, companies that require new workers to “hit the ground running” miss out on a one-time opportunity to develop that worker’s social capital value. Companies that invest in the initial development of workers by having extensive orientation and training programs in place help workers build personal networks and trust while they teach new hires “how things are done around here.”

The Power of Informal Lunches

Space and time for people to gather and make connections with one another are the seedbed and sunlight of social capital. By providing space and time, you can foster conditions that help social capital thrive.

If completely redesigning your company’s work space is out of the question, however, don’t despair. Networking and community building occurs in many places, sometimes spontaneously. Consider the habit of UPS drivers to meet for lunch in the communities they serve. The gatherings do a lot to informally solve problems and increase efficiencies. Drivers swap mishandled packages, discuss delivery difficulties, and generally make their workday more efficient without any input from corporate headquarters. ■

Social Talk and Storytelling: The Voice of Social Capital

Talking and listening to stories, chatting, or sharing a little gossip are the main ways that people in organizations come to trust and understand one another. Conversation is also a means to share technical information. When peers in any profession get together, they inevitably “talk shop” and often enrich their knowledge doing so.

Conversations and storytelling are the voice of social capital. They communicate values, behaviors, understandings and aims — all the shared cultural messages that define groups and turn individuals into group members.

The Art of Conversation

Conversations are rich in both tacit and explicit content. To observe this, go to your local café and watch people at the other tables. Even if you can’t hear what they are saying, you can watch their conversations as they nod or frown or smile or offer other clues as to the content of the unheard words. This complex give and take — the interaction and mutual work of creating conversation — is how people understand one another. Conversation is about much more than information sharing.

Organizations that support conversation make a huge investment in social capital. To encourage conversation:

- **provide social spaces for people to meet in and encourage conversation;**
- **allow time to talk;**
- **favor face-to-face conversation over phone, fax and e-mail;**
- **allow idle chat time in your definition of conversation.**

The Power of Stories

Stories have a particular power to build and support social capital. For one thing, they convey the norms, values, attitudes and behaviors that define social groups. By portraying situations and events, they show by example. People learn by seeing people in action better than they do by listening to abstract tenets.

Equally important, shared knowledge of story events draws people together. The classic American story about George Washington telling the truth about the cherry tree he chopped down goes a lot further to convey the value of honesty than the abstract idea of honesty. The act of telling and listening to a story itself is a social event. Like having a meal together or a drink at a pub, the experience of sharing a story connects people.

Storytelling as a Leadership Skill

Storytelling is an essential leadership skill. Leaders

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The Classic Corporate Story

Perhaps no other company story illustrates the medium's power to evoke corporate values and loyalty than the story of the creation of 3M Post-It notes. The story goes like this: 3M employee Art Fry, who sang in his church choir, saw the need for a way to mark song selections in the hymnal without damaging the pages. He thought to use an adhesive that another 3M employee had developed earlier. The adhesive had not been strong enough for any application, but the scientist had passed it around the 3M campus anyway in the hope that someone would see a use for it. When the company rejected his idea as too difficult to manufacture, Fry used the adhesive in his basement, where he built a machine to make the sticky notes. He then gave out samples at 3M when the marketing department claimed customers would not want to buy the product. Eventually, the product became a huge success for 3M. The story embodies the essential 3M values of persistence and initiative.

Social Talk and Storytelling: The Voice of Social Capital

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should and can validate the idea of storytelling and encourage others to tell stories by telling them themselves. Stories evoke stories. You have probably been in meetings when someone — usually a senior person — interrupts a dull flow of abstractions with a story. Immediately, someone else follows with another story, and people are energized.

Storytelling is powerful, and requires little in the way of investment of money or formal training. The best storytelling is spontaneous. All you have to do as a manager is let the storytelling take place. ■

The Challenge of Volatility

The software industry offers a striking example of volatility in today's organizations. Silicon Valley companies lure bright young software designers away from one another with the bait of higher salaries and stock options. Some firms double or triple in size in months and are then swallowed by tech giants. Others run through their venture capital and disappear. Fortunes are made and lost. Clearly, it takes a special organization to thrive in the high-tech world.

One such high-tech firm is SAS, which started out as a company offering a single software statistical tool, but now tracks and analyzes data for some of the biggest enterprises in the world. Yet, the company has a remarkably low turnover rate in an industry where loyalty and

a sense of community is virtually absent. People make a career out of working for SAS for a variety of reasons, including the company's dedication to funding research and development, providing ample resources for workers and encouraging people to move around in the company. SAS also prides itself on being family-friendly, with 35-hour work weeks and day care and recreational facilities for workers. The company works hard to limit volatility and counter its destructive effects on social capital.

You and your company can also learn to limit volatility despite the frantic pace of business today. The first step is to create a committed work force through hiring practices that assimilate new people into the organization. Do this by:

- **Hiring for the long term.** Get to know the candidate and how he or she will fit in. Don't rush the process. The hiring process itself should begin to create a network of connections that will help integrate the new person into the company. The newcomer starts with advocates and potential mentors; he is on the way to becoming a part of the culture before he officially joins it.

- **Orient and Train.** To be successful, your orientation program should place as much emphasis on communicating cultural values and behaviors as on teaching skills or procedures.

- **Emphasizing Longevity.** Don't offer large sign-on bonuses to entice new hires; it sends the wrong message to loyal workers and attracts the wrong kind of candidate.

- **Measuring Retention.** Compare your retention rates with other firms in your industry. A rate higher than the average indicates high levels of satisfaction and commitment, and means you are realizing real savings in recruiting and training costs.

Weathering Change: Mending the Social Contract

Think of the promises, expectations and benefits that connect individuals to organizations as a social contract. Changing any of the agreed-upon provisions breaks the contract and threatens to destroy the relationship and the social capital. The most common breach of contract occurs when an organization must downsize.

Economic reality and the volatility of the business world guarantee that there will be times the contract is broken. How your company handles that breach can destroy your social capital or help maintain it relatively intact.

Before you can limit the damage, you have to know the implied expectations of your employees. An employer who is unaware of the implicit terms of the bargain may be blindsided by the betrayal employees express when one of the hidden provisions is violated.

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Managing Change At UPS

The social contracts at United Parcel Service have long included the expectations of promotions from within. Coming up through the ranks has had almost the force of a religious tenet or defining principle. The UPS “story” has always been about people moving gradually through the company and of leaders who understand from personal experience what it means to be a driver or sorter.

In the 1980s, however, the need for staff with high-level information technology skills was indisputable. UPS managed the need for change by making clear the reason that hiring would now include recruiting from outside. And those hired from outside went through a training period that included time spent at a sorting center or on a package car route. A final note: Promotion from within is still the norm for many positions.

The Challenge of Volatility

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To minimize the impact, all changes to the contract should be justified as necessary for the continued health of the company and the necessary pain shared as equitably as possible. Leaders who lay off workers to cut costs while giving themselves larger bonuses breed resentment and cynicism. Social capital will survive intact if management takes the attitude that “we are all in this together.” ■

The Challenge of Virtuality

Virtual work is any work done over distance, with critical connections made by e-mail, Intranets, video conferencing, cell phones and other new communications technologies.

Companies are becoming attuned to the use of technology to coordinate employees’ efforts. But the social capital implications of virtuality are complicated. To what extent can people develop and maintain social capital by electronic means? The answer is not yet clear; we are in the middle of a worldwide social and organizational experiment.

Some of the problems with virtuality include the following:

- None of the technology currently available can carry even a fraction of the whole range of communications that people use to relate to one another and build social capital.
- Virtual connections tend to be brief and intermittent, while durable social connections take time.
- Virtual connections tend to have a clear, limited

purpose, while social connections grow by chance encounters and broad-ranging conversations.

● Virtual connections, such as e-mail, may actually distract people from what is going on around them so that they are “neither here nor there.”

For all these reasons, and especially because of the loss of richness, breadth and nuance, online is not yet the same as being there. No doubt you will have to embrace in at least a limited way the use of technology. When you choose to use a communications tool, be sure to ask

Organizations must be aware of the potential social capital costs of telecommuting and other kinds of virtual work.

yourself, “What do I need to accomplish with this communication?” E-mail may be the most efficient and

effective way to communicate straightforward information, but it is totally inadequate for building trust relationships or for complex negotiation or decision-making.

The Balancing Act

High social capital can protect organizations from the damage that virtuality can cause. Organizations with robust networks and communities, a deep reservoir of trust, and a clear sense of organizational identity are likely to have more success with virtual work than organizations that are fragmented. But organizations must be aware of the potential social capital costs of telecommuting and other kinds of virtual work.

Combine virtual work with face-to-face work. Often, you simply have to be there to hash out important decisions, to get to know the people you will be working with, and to demonstrate your commitment. ■

The Limitations of Virtuality: The Challenger Launch Decision

NASA’s decision to launch Challenger into its fatal flight dramatically illustrates some of the pitfalls of long-distance, technologically mediated communications. The participants in the launch review were in three locations that fateful day: Florida, Alabama and Utah. They “met” via teleconferencing to evaluate the risk of a cold-weather launch and could hear but not see one another. One set of engineers expressed concern over the safety of the O-ring seals in a cold weather launch, to which someone replied, “My God . . . when do you want me to launch, next April?” A half an hour later, the engineers agreed to launch. They interpreted the statement as criticism of their hesitation rather than as an invitation to further discussion. The O-rings failed, and the shuttle exploded, killing all aboard.