(1a) (1b) (1c)
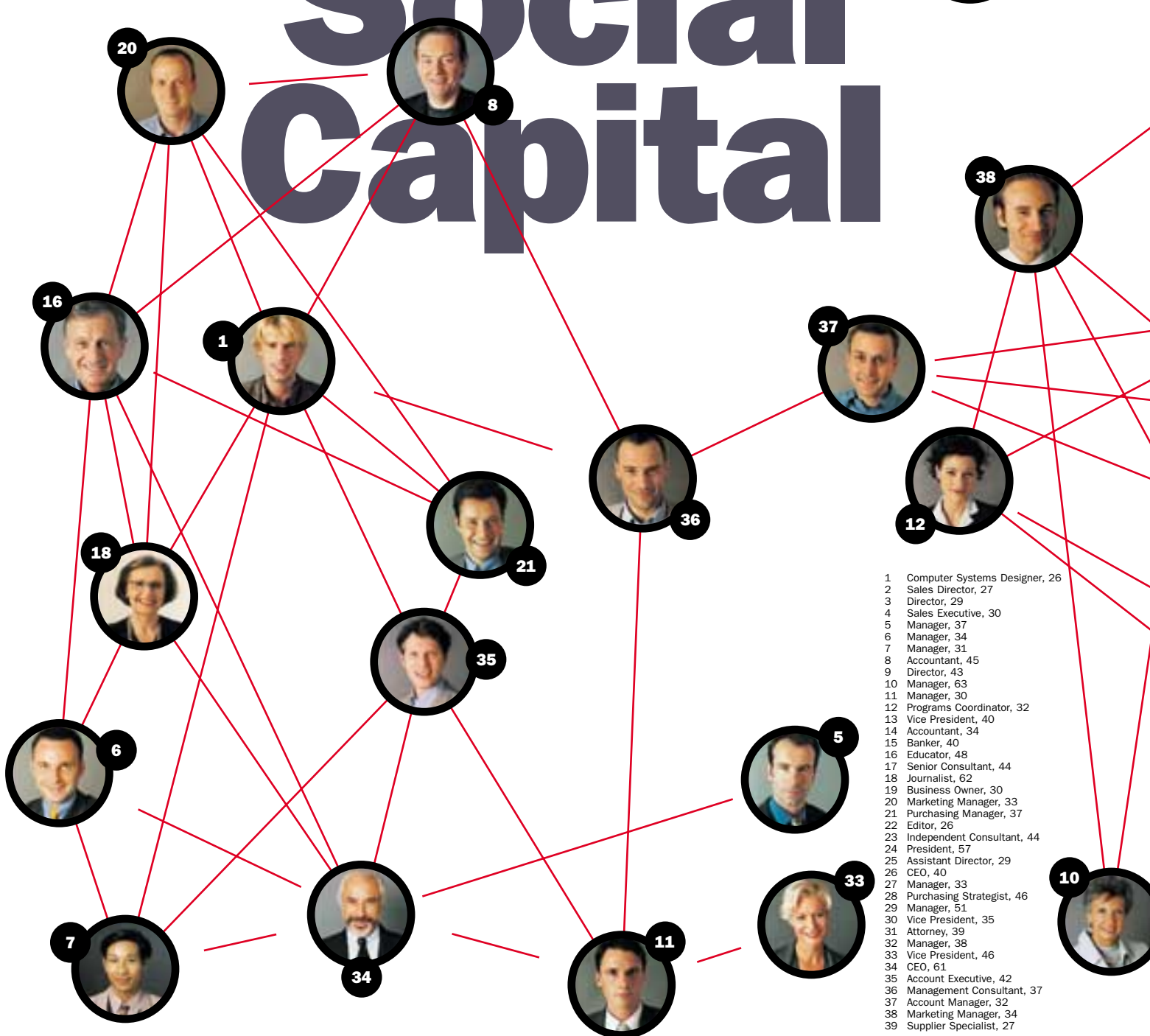
Social Capital

1   Computer Systems Designer, 26
2   Sales Director, 27
3   Director, 29
4   Sales Executive, 30
5   Manager, 37
6   Manager, 34
7   Manager, 31
8   Accountant, 45
9   Director, 43
10 Manager, 63
11 Manager, 30
12 Programs Coordinator, 32
13 Vice President, 40
14 Accountant, 34
15 Banker, 40
16 Educator, 48
17 Senior Consultant, 44
18 Journalist, 62
19 Business Owner, 30
20 Marketing Manager, 33
21 Purchasing Manager, 37
22 Editor, 26
23 Independent Consultant, 44
24 President, 57
25 Assistant Director, 29
26 CEO, 40
27 Manager, 33
28 Purchasing Strategist, 46
29 Manager, 51
30 Vice President, 35
31 Attorney, 39
32 Manager, 38
33 Vice President, 46
34 CEO, 61
35 Account Executive, 42
36 Management Consultant, 37
37 Account Manager, 32
38 Marketing Manager, 34
39 Supplier Specialist, 27

With the right knowledge and the right network connections, individuals and businesses can achieve exceptional results. Investment in social capital is investment in success

By Wayne Baker

It has been said that Erasmus, the Dutch writer, scholar, and humanist of the Renaissance, was the last person who knew everything worth knowing. Since his time, knowledge has increased at such a rate that it is no longer possible for one person to know everything worth knowing. Instead, we must depend on others to share knowledge with us, plus a host of other resources – ideas, leads, opportunities, creativity, political support, financial capital, goodwill, and so on. We need contributions from others if we are to get our jobs done, achieve our goals, and fulfill our missions in life. We live in a connected world, now more than ever before. The best performers in the future will be those who invest in and capitalize on the network of connections and resources, building powerful professional communities.

Social scientists have coined a term to refer to the resources available in communities: *social capital*. Originally, the concept of social capital was applied to local communities and nations. For example, research by Harvard political scientist Robert Putnam shows that democracy and economic development depend on cooperative relationships, norms of civic engagement, and a spirit of trust. Since the original work on social capi-

(1a) *The Reciprocity Ring™ can build a network among strangers. Most of the 39 participants did not know each other at the beginning of this exercise.*
(1b) *The 39 participants were assigned to three Rings. Each participant asked the other members of his or her group for assistance in a particular area. A line represents one person helping another.*
(1c) *Half the members of each group were rotated to the next for a second round, which generated 78 requests and 209 acts of contribution.*
(1d) *By the end of the exercise, a gathering of strangers has been transformed into a functioning community (see next page).*

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(1d)
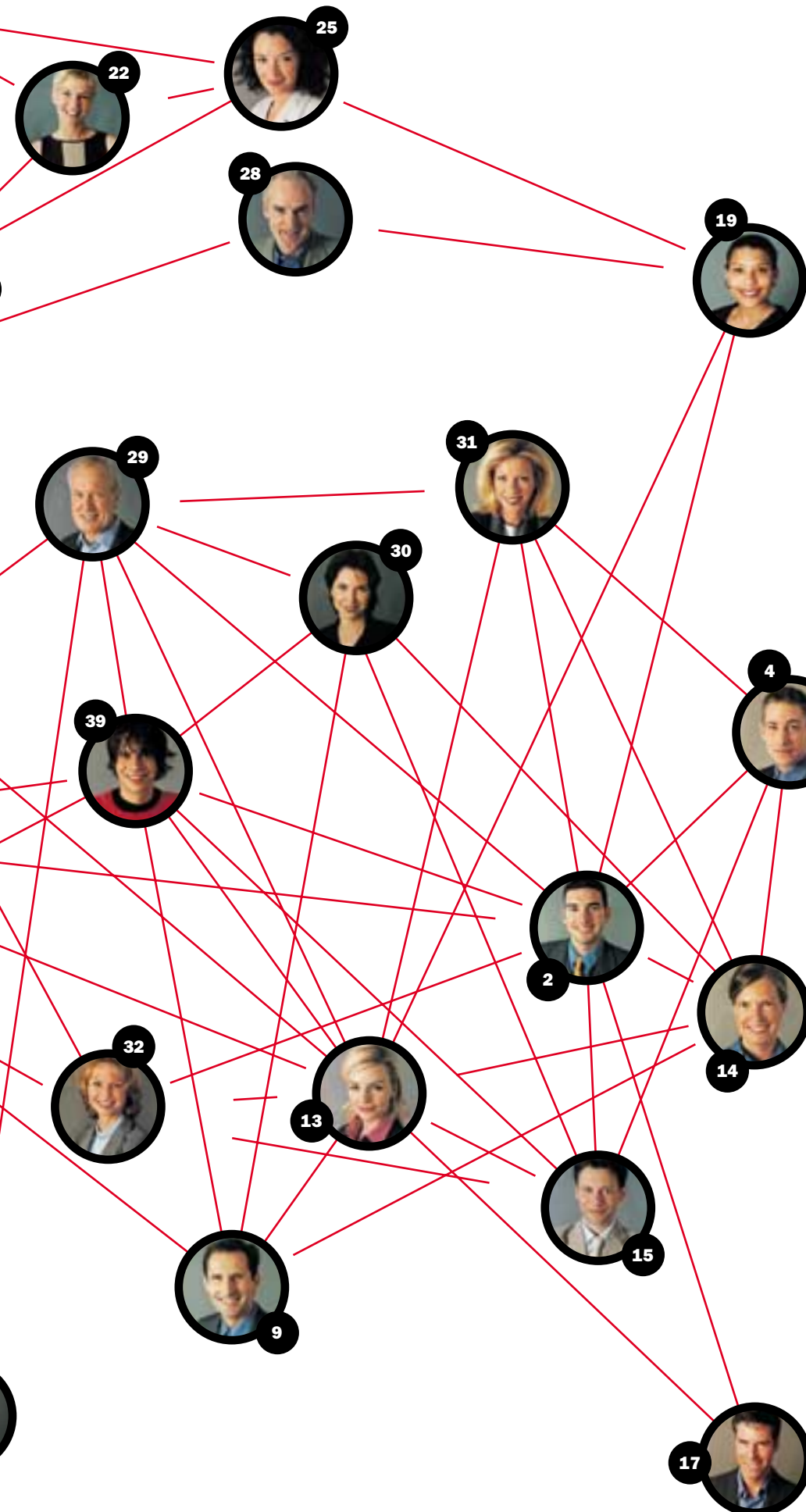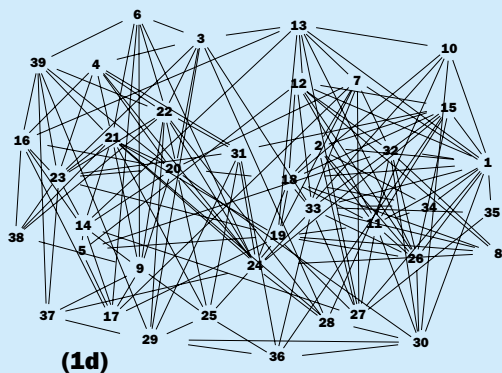
Social Capital

tal, researchers have studied the role of social capital in business communities – networks of people inside a company who have common goals and who share information, help one another, and learn from one another. We know that rich social capital is vital to value creation in business. Social capital boosts information flow, knowledge sharing, cooperation, problem-solving, creativity, efficiency, and productivity. People with rich social capital are paid more and promoted faster because their social capital enables them to create value for their companies and their customers. Companies built on social capital produce measurable business results, such as faster learning, quicker response to client needs, better problem-solving, less rework and duplication of effort, new ideas and more innovation. They enjoy higher sales, more profits, and superior market value.

The business research on social capital demonstrates that it is possible to build social capital as a personal and organizational competence. Like financial capital or human capital (knowledge and expertise), social capital is a productive asset. A person or a company can invest in social capital and it yields a return. By the same token, it is possible to squander social capital and suffer the consequences. Sadly, too many people suffer the consequences because they ignore or deny the role of social capital.

The Proven Benefits of Social Capital

Attracting and retaining talent. Despite the proliferation of Internet recruiting services, most employers still find the right people for jobs, and most jobseekers find the best jobs by tapping their informal networks of friends, family, neighbors, colleagues, associates, and acquaintances. Talented people stay in their jobs because they find meaning in their work and because they develop a sense of community, feel that they belong, and identify with the company.

Creating value and rewarding value creators. People with rich social capital are paid better, promoted faster, and receive better appraisals. The reason is simple: these are rewards for superior value creation. People with rich social capital are better informed, more efficient, more creative, and better problem-solvers; in short, they create value.

Breaking silos and improving collaboration. Silos are a fact of organizational life. Silos emerge even after a company has delayered and simplified organizational structures. Silos naturally tend to form around function (common activities, specialties, and disciplines) and geography (shared locations). Growth by acquisition worsens the problem of silos; without deliberate intervention, the company remains an agglomeration of different cultures and distinct networks. By build-

ing social capital, it is possible to break silos, improve collaboration, and produce business results – more sales, more innovations, faster time to market, and so on.

Improving knowledge management. We live in the information age, as sociologist Manuel Castells describes in this issue of Future. And so developing the capacity to create, disseminate, and share knowledge is more important than ever before. Too often, however, knowledge management is viewed as a technical problem solved by the "right" hardware and software. But knowledge resides in social networks, not computer systems. Most of the knowledge in an organization is tacit, surfacing only in the course of social interaction, storytelling, mentoring, demonstration and observation. To build effective knowledge communities, leaders use formal and informal social gatherings, off-site retreats, co-location, open office designs, and incentive systems that reward participation and collaboration. The Institute of Cancer and Developmental Biology at Cambridge built a unique physical design – open-plan labs, winding corridors, intersecting pathways, and a community tearoom – to facilitate chance encounters, informal conversations, and serendipity.

Word-of-mouth marketing. Despite the emergence of e-commerce and the potential for impersonal transactions, most people still

Comment

Guanxi and the Art of Networking

Professor Oskar Weggel of the Institute of Asian Affairs in Hamburg is one of Germany's leading experts on Asia

What is widely regarded as the Eastern approach to networking is in fact the fruit of an ancient heritage based on a notion of human nature prevalent throughout Asia. Though individual Asiatic traditions vary enormously, they do have in common a worldview which, in striking contrast to the European mindset, brooks no individual autonomy. Indeed, in Buddhist and Hindu thought, the self is deemed *maya* – an illusion that causes suffering – and in Islam, assertion of the self is hubris in the face of an omnipotent deity and the divinely preordained course of life, while Confucianism deems it an evil capable of unleashing such anarchy that it must be tempered at all costs.

Where the individual loses ground, the focus shifts instead to the interaction between individuals. It is true that, in the West, social relationships often function along network lines. Yet neither in terms of
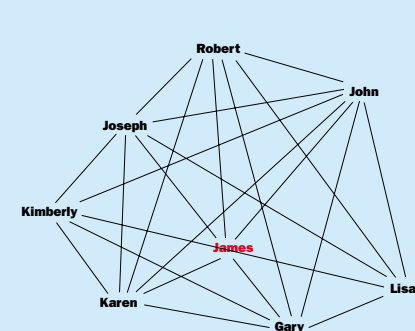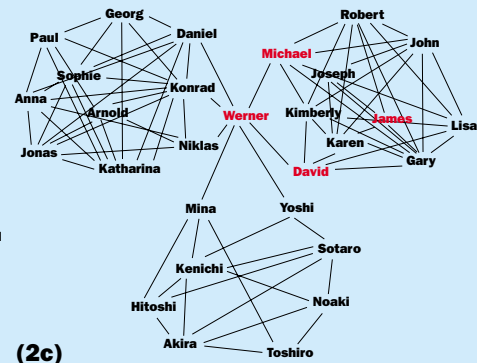
Cohesive Network (2a) **Expansive Network (2b)** **(2c)**
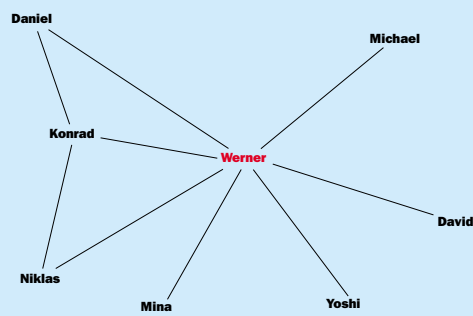
decide to buy products and services on the basis of advice and recommendations from trusted others. For example, social scientists discovered that a physician's decision to prescribe tetracycline – one of the most frequently prescribed broad spectrum antibiotics – was influenced by participation in the informal medical discussion network. Since then, thousands of studies demonstrate the role of informal networks in the "diffusion" of new products and services of all kinds. Effective marketers add systematic "word-of-mouth marketing" strategies to their marketing campaigns.

Competing by cooperating with competitors. Just as it is impossible for a single person to succeed without the contributions of others, it is impossible for a company to thrive – or even survive – by working independently. Today, companies focus on what they do best, and cooperate with competitors to provide the rest, such as marketing, distribution, financing, manufacturing, and so on. In biotech, the classic alliance match-ups include small start-ups, big pharmaceuticals, and university research labs, all joined in a mutually beneficial network.

Beyond the business case: happiness, health, and well-being. There are reasons beyond the business case for caring about social capital. Social capital is related to health, happiness, and the quality and meaning of life. People with good social support networks enjoy better mental and physical health. For example, an experiment reported in the *Journal of the American Medical Association* by Carnegie Mellon University researchers shows that susceptibility to the common cold decreases "in a dose-response manner with increased diversity of the social network," even after controlling for a host of other factors. Over a dozen studies around the world show that longevity is positively associated with social networks, even after controlling for demographics, lifestyles, and health behaviors. Happiness and satisfaction in life are related to the quality of our relationships. We find meaning in life through our participation in communities of all kinds.

Cohesive versus Expansive Networks

Social capital researchers make a distinction between two basic forms of social capital. The first defines social capital as trust and cooperation; the second defines it as superior access to information and entrepreneurial opportunities. A particular type of "egocentric network" or "egonet" indicates the form of social capital associated with a person's community. James's egonet *(Figure 2a)* is a "cohesive" community network, indicating social capital in the first sense – trust and cooperation. His egonet enables him to create a community with a common culture and goals, group loyalty, a sense of identity and belonging, and coordinated action. This type of egonet, however, can produce "group think" and make it difficult to stay abreast of new developments, get new information, or influence people outside the network. In the extreme, it can become the core of an organizational silo. James's egonet is "buried" inside a closed American network *(Figure 2c)*. Without David's and Michael's ties to Werner, the American group would be completely disconnected from the German and Japanese groups.

Werner's egonet *(Figure 2b)* is an "expansive" community network, representing social capital in the second sense – access to information and entrepreneurial opportunities. His egonet helps him get new information, find resources, and discover new opportunities. His egonet makes him the only linchpin between three organizational silos *(Figure 2c)*. As the bridge between otherwise disconnected silos, Werner can create value. He

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sociological and philosophical plausibility nor in terms of practical intensity can such connections compare with corresponding Eastern mores. Imagine society as a net: for almost 400 years, Europe has been concentrating on the knots, while Asia has been concentrating on the mesh.

Not only does this difference in focus generate divergent notions of human rights – interpreted in personal terms in the West and in social terms in the East – but it also shifts the emphasis of our everyday interactions with one another. This is particularly true in the meta-Confucian cultural world that stretches all the way from China, via Japan, to Korea and Vietnam, where the art of interpersonal relationships – *guanxi* (in Vietnamese *guanhei*) – is more than an attribute. It is the very substance of human society. The tendency, indeed the obligation, to weave informal networks – *guanxiwang* – that are far more important in their own right than formal rules of order, permeates every field of life from the everyday to the political. Networks are based on the law of harmony. Anyone wishing to join them would be well advised to show a considerable degree of social sensitivity as well as the eloquence required to assert themselves within the network environment – a factor that is given far too little attention in the West as well.

What the Chinese call *guanxiwang* (connecting networks), the Vietnamese describe as *nhung cai o* (umbrellas), while on the Philippines they are *cronies* or *barcadas* (literally "boat crews") and in Thailand and Indonesia they are *bapak-anak* (father-child) relationships. Networks may ensure social contacts and flexibility, but they also harbor risks, such as the temptation of *zou houmen* – "sneaking in through the back door."

Social Capital

is likely to know, for example, that the Japanese group has solved a problem the Germans are working on; he saves the company money and time by linking problem and solution. An expansive egonet, however, can make it difficult to create a common culture, shared goals, consistent expectations, and coordinated action. It can cause stress and conflict. It may indicate a fragile organizational structure. The organization in Figure 2c depends on a single person to bridge the three silos. If Werner left, the structure would fall apart.

Every organization has a mix of cohesive and expansive community networks. The right mix depends on such factors as the organization's strategy, formal design, and size. As a general rule, however, most global companies have too many Jameses and too few Werners. Most global companies need more linchpins who cross functional and geographic lines. Fortunately, research shows that the social capital a company needs can be created by managing its social architecture.

Building Social Capital: Three Typical Situations

Social capital architects use a variety of practices to build social capital. With Humax Corporation, I've identified over 55 best practices that individuals and companies use to build social capital. Here I summarize three typical situations encountered by global companies and how they have been successfully managed.

Building social capital in geographically dispersed teams. Global companies rely on teams whose members live and work in different cities, countries, and continents. Too often, members of a new team don't know one another, and have never even met. The result, predictably, is a lack of trust and limited productivity. Research by colleagues at the University of Michigan Collaboratory for Research on Electronic Work (CREW) shows that the single best intervention is to provide an opportunity for new team members to meet face-to-face. Dispersed teams that begin with an initial dose of face-to-face interaction con-

sistently outperform those that do not. Trust and productivity are enhanced by the development of a shared identity that transcends sites, familiarity with people across sites, and communication about nonwork (i.e., personal) matters. Face-to-face interactions produce these effects, not e-mail or instant messages. Unfortunately, in today's economy, travel budgets for "team development" are often considered to be "non-mission critical" and cut. This is the wrong decision. In a tough economy, no company can afford the luxury of distrustful, low-performance teams.

Improving collaboration by breaking down silos. Community networks naturally form around common activities, interests, and locations. In a global company, this tendency creates organizational silos *(see Figure 2c)*. Effective interventions include off-site face-to-face meetings of silo representatives, restaffing projects with members from various silos, revising the performance measurement and reward system to include incentives for community participation, and establishing new forms and modes of communication. Like many companies, Aventis has faced the silo problem, according to a study reported by Don Cohen and Laurence Prusak in their social capital book *In Good Company*. A mapping of the informal networks of immunology researchers in Germany and New Jersey revealed that each group was internally cohesive but there was little interaction between the two. Interventions such as those described here were used to improve collaboration across groups and raise the probability of research success.

Producing business results and building community via reciprocity. The lifeblood of a professional community is reciprocity – freely giving and receiving help, knowledge, and resources. Reciprocity is human nature, but a company's design and culture can thwart it. For example, people won't freely share knowledge in a culture that measures and rewards only individual performance. In contrast, the best companies create a culture that activates the natural principle of reciprocity.

Experiential training and new routines can unleash the power of reciprocity. With Humax Corporation, I've developed an exercise called the Reciprocity Ring™. During the exercise, each participant makes a request for help with a current business (or personal) need. The other participants try to help meet the request, drawing on their own resources or offering to put the requestor in touch with someone in their networks. Everyone gets the help requested, but most of a participant's time and energy is spent contributing to others. Often, participants find that the people they helped are not the ones who helped them. Thus, the Reciprocity Ring™ reinforces the principle of third-party or generalized reciprocity.

The Reciprocity Ring™ can initiate a community even among strangers. For example, I used the exercise with a gathering of 39 business people, including executives, managers, sales directors, and other business types. Most didn't know one another *(see Figure 1a, page 52)*. I divided the 39 into three Rings and ran two rounds of the exercise. Requests included a wide range of business/operational needs, job vacancies and career needs, product needs, and personal needs. Figure 1b shows the network formed in the first round. Many new ties were created in the process of requesting and contributing. For the second round, I rotated half of each group to the next to make sure the Rings didn't become the basis of self-contained silos. Figure 1c shows the combined results. In total, the reciprocity experience generated 78 requests and 209 acts of contribution. In the process, this gathering of strangers became a well-integrated community network *(Figure 1d, page 54)*.

"Nothing is more powerful than an idea whose time has come," said the French novelist and essayist Victor Hugo. Social capital is one of the powerful ideas for our times. A patent, a novel product or process, favorable regulations, a unique location – all these can convey a profitable competitive advantage. But the advantage is temporary. Building social capital produces sustainable success by enabling a company to attract and retain talent, create value and reward value creators, break silos and increase collaboration, improve knowledge management – and much more. In today's knowledge economy, investing in and capitalizing on the capabilities of people working together are the sources of competitive advantage. ○