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How to Invest in Social Capital

by Laurence Prusak and Don Cohen

Businesses thrive when people trust one another – but such "social capital" is under assault at many companies today. What can executives do to fight back?

EVERY MANAGER KNOWS that business runs better when people within an organization know and trust one another – deals move faster and more smoothly, teams are more productive, people learn more quickly and perform with more creativity. Strong relationships, most managers will agree, are the grease of an organization. Business gets done without them, but not for long and not very well.

Scholars have given a name – *social capital* – to the relationships that make organizations work effectively. The term nicely captures the notion that investments in these relationships return real gains that show up on

the bottom line. In fact, it all sounds pretty simple and straightforward. Managers need only get their people connected with one another and wait for the payback. Easy, right?

Wrong for two reasons. First, social capital is under assault in most organizations today because of rising volatility and overreliance on virtuality. More simply put, social capital is under assault because building relationships in turbulent times is tough – and tougher still with many people working off-site or on their own. Second, social capital is under assault because few managers know how to invest in it. Knowing that healthy relationships help an organization thrive is one thing; making those relationships happen is quite another.

For the past three years, we have explored managerial activities and techniques that constitute investments in social capital. Our research probably won't stun anyone with its originality – we have found that managers know more about social capital than most scholars – but we believe it is useful in its specificity. In the following pages, we will look at what managers can do to encourage connections among their people and enable trust to flourish. But first, a few words about the enemies of social capital: volatility and virtuality.

Volatile, Virtual Workplaces

These are volatile times. Disruptive technologies spawn new products and markets daily – or at least it feels that way – and organizations respond with constantly changing structures. Businesses used to review strategies annually; now strategy is on the table constantly. Mergers and acquisitions are at an all-time high, throwing companies together and tearing them asunder at an alarming rate.

These are virtual times, too. Most people used to work at the office from 9 to 5 every weekday. Now, aided by technology, work happens in every imaginable configuration of time and space. Telecommuters, virtual team members, and laptop-toting road warriors abound. Chances are, you are one yourself or have a slew of them working for you.

Volatility and virtuality erode relationships, which is why managers must learn to invest in social capital.

Luddites we are not. There are advantages to volatility and virtuality. Volatility spawns opportunity: for every company crushed by new technology, a new one is born. And virtuality gives employees flexibility, just as it gives companies the competitive weapon of being "out there" in the trenches.

But volatility and virtuality erode relationships – it's that simple – which is why managers must learn to invest in social capital. But how? The first answer is straightforward enough. Managers should stop doing things that destroy it. For a description of common ways companies trample on their social capital, see the sidebar "Capital Offenses."

Avoiding big mistakes is easy. Incremental, day-to-day investments in social capital are more daunting. They take time, energy, and focus – in a word, intentionality. We've grouped these practices into three categories: making connections, enabling trust, and fostering cooperation.

Making Connections

The companies we studied that valued social capital demonstrated a real *commitment to retention.* That is, they limited volatility by working hard to make sure their people stuck around. Relationships can only happen, and trust can only flourish, when people know one another.

A good example of a company committed to retention is SAS, whose turnover rate is below 4% – low for any industry and remarkable in a software company. SAS doesn't rely on high pay to keep its people. As Rob Cross, director of SAS's Advanced Technology unit, says, "Salary levels here are good but not extravagant. Money is not what draws people here."

What evidently does draw people to SAS and keep them there is a workplace that spills over, in a positive sense, into nonwork areas of their lives. As employees make use of the company's sports and recreation facility, its health care center (staffed with two full-time physicians), and its two on-site child care centers, they interact with one another in ways that deepen their collegial relationships and create a strong sense of community. A food plan, available as a negligible payroll deduction, encourages people to break for lunch with colleagues. The 300 pounds of M&Ms the company lays out every Wednesday bring people together for snacks and knowledge-rich conversations. There is a company choir. These perks signal the company's acknowledgment that its people are human beings, not just workers. An even more important relationship builder (and volatility fighter) than these social benefits is the opportunity – backed by the resources – to do meaningful work, including the opportunity to stick with a project as long as it remains meaningful.

SAS invests in relationships by keeping the same crew around. And its investment approach is not to bind people with "golden handcuffs" – the kinds of economic incentives that keep people with mortgages in workplaces they may find demoralizing. SAS invests in ties that bind people more deeply and positively.

Connections (and retention) can also be bolstered by the quaint practice of *promoting from within.* UPS is a case in point. While the company must recruit a number of experienced technologists and other specialists from outside, the overwhelming majority of its senior managers have worked their way up through the ranks, and many have considerable experience in package sorting and delivery. Just as important, they have years of experience with one another. They have earned membership in durable corporate networks and communities where trust is developed and knowledge shared.

Connections also get made when companies simply help people to be in the same place at the same time. During the past decade, many companies have invested heavily in technologies that enable telecommuting, virtual teamwork, and heightened productivity on the road. But we would argue that *giving people time and space to bond in person* is also a form of investment. Social capital grows when team members meet face-to-face and work side-by-side. So it makes sense to encourage telecommuters and contractors not to be strangers to the office. In "Two Cheers for the Virtual Office" (*Sloan Management Review,*

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summer 1998), management researchers Tom Davenport and Keri Pearlson laud one consumer products company that discourages people from working at home until they've been with the organization for a year. That's how long it takes, at a minimum, for new employees to absorb the culture of a company and make connections with a meaningful variety of people.

It makes sense, too, to give far-flung teams the opportunity to convene in one place from time to time. Intranets and electronic meeting rooms can certainly help to maintain connections and foster knowledge sharing. But don't expect them to create a sense of community where one does not already exist. In fact, research has shown that most communities wither unless they're given the chance to meet periodically.

When it comes to social capital, allowing people to meet face-to-face is only half the battle if they talk only about work. Managers also need to *facilitate personal conversations.* That's why cafés, chat rooms, libraries, kitchens, and other social spaces are important. Sure, they promote knowledge exchange, but they also spur the discovery of mutual interests that support communities. Indeed, investments in those spaces legitimize informal conversation, signaling a company's belief in its value.

Some companies go beyond providing conversational space and help to provide icebreakers. Consider the Grand Rapids, Michigan, headquarters of Steelcase, a particularly open and attractive environment. Displayed on the walls are pictures of all the employees from the CEO on down, along with notes on their backgrounds, recent projects, and nonwork interests. People use whiteboards outside their work spaces to advertise what they're working on and invite comment.

Companies can also help people make connections by *fostering durable networks.* Fortunately, many networks come about naturally in organizations. Members are drawn together by their involvement and interest in a particular work domain. They engage with one another to share what they know, help one another accomplish tasks, and enjoy the satisfactions of membership in a group. UPS drivers in various areas around the country regularly meet for lunch in parks or cafés – for sociability and to exchange missorted packages, adjust workloads, and share information. These lunchtime meetings have developed informally, but the company recognizes and approves of them. "Our supervisor knows we meet here," said a driver who had met his coworkers for lunch at a suburban park outside Boston. "If he wants to talk to us together, he'll show up."

An organization's leaders can help such communities thrive. Modest financing to support meetings and newsletters or to pay part of the salary of a community leader can keep a group active while signaling corporate approval. For example, executives at the World Bank, beginning with the president, James Wolfensohn, have met with community leaders to recognize and praise their work. The bank now has more than 100 practice-based communities (called thematic groups) that share expertise; almost half of the employees belong to at least one of them.

Capital Offenses

Companies thrive when they have dense social networks, high levels of trust, and norms of cooperation. But management theory and practice are full of ways to undercut them. Here are some of the biggest social-capital destroyers we've seen:

Hoteling. A number of companies whose employees travel frequently have done away with the traditional "one person, one desk" approach. They assign office locations day-to-day to the employees who happen to be on-site. Hoteling, as the practice is called, may be an accountant's dream – it means less real estate is needed – but it drastically reduces employees' opportunities to form personal networks, develop trust, and learn the behaviors and values of the organization by observing people in action over time. It also eliminates opportunities for people to communicate their identities and connections with the organization through the artifacts displayed in personal work spaces.

Reengineering and Its Progeny. Reengineering, regardless of its original intent, evolved into a practice that valued efficient processes at any cost, and the idolatry of process efficiency is still with us. Yes, efficiency is important, but not at the cost of the breathing space and time that human connections – and thought – need in order to flourish.

The Leader As Superstar. Charismatic leaders sometimes accomplish extraordinary things, but elevating leaders to superstardom tends to negate the profoundly social nature of all work. No one person can be an organization. Ultimately, an emphasis on larger-than-life leadership detracts from trust, collaboration, and perceived fairness.

Hypocrisy. Hypocrisy is an obvious problem. One example is praising cooperation and knowledge sharing while promoting the wheeler-dealers who keep their cards close to their chests. Another is providing open, collaborative office space to everyone except senior managers (who "need" their privacy). When he was at Alcoa, U.S. Treasury Secretary Paul O'Neill provided an excellent example of how to avoid this second trap: he made senior managers the guinea pigs for open-space working before others at Alcoa's headquarters were asked to make the change.

One key to successful investment in community building is maintaining a light touch; heavy-handed efforts can be counterproductive. Etienne Wenger, a leading expert on "communities of practice" (self-selected, informal groups linked by shared expertise, passions, or goals), points out that too much funding can distort communities, causing them to focus excessively on pleasing their sources of support. In many companies, it may be enough for managers to understand where communities exist and to avoid harming them by disrupting contacts among members. Social network analysis provides one useful tool for identifying informal communities. This sociological technique has been around for more than two decades, but only very recently has it been used to make communities and networks visible and to highlight the key roles – such as thought leaders and social connectors – that generally emerge within them.

A more hands-on approach is warranted when two organizations are thrust together. An examination by British Telecom showed that human dynamics and interactions, not flawed business models, caused the failure of its merger with MCI. Trust, understanding, and equity are as important as strategic, technical, and financial issues in successfully bringing together two organizations with distinct cultures. Yet company after company makes the mistake of acting as if disparate groups of people could be welded together like machine parts.

Enabling Trust

No one can manufacture trust or mandate it into existence. When someone says, "You can trust me," we usually don't, and rightly so. But leaders can make deliberate investments in trust. They can give people reasons to trust one another instead of reasons to watch their backs. They can refuse to reward successes that are built on untrusting behavior. And they can display trust and trustworthiness in their own actions, both personally and on behalf of the company.

Most people seem to agree that trust is worth building in work teams and organizations. How else to explain the growing use of team-building events during off-sites? Anyone who has scaled a rock wall while a colleague far below held a safety rope knows that such exercises force people to experience, viscerally, the rewards of trusting others. But unless the team's workplace back at the office is also designed to engender and reward trust, the effects will quickly wear off. Such exercises can even be counterproductive if they highlight a hypocritical gap between the togetherness activity and the organization's real character.

Just as with community building, trust-building efforts can backfire if management is too heavy-handed. Not long ago, the business section of the *Boston Globe* published a letter complaining that the writer's boss, having become convinced of the value of connection and community at work, had instituted a weekly meeting during which everyone in the office was required to tell the group something about his or her personal life. This kind of coerced intimacy is as likely to damage trust as build it.

Most trust-building exercises probably help more than they hurt. But the conditions and connections that people experience day after day have far more influence on an organization's social capital than trust-building exercises do. That's why managers need to go beyond Outward Bound. We suggest several practices.

First, trust thrives where managers *give employees no reason to distrust* – where there is transparency and where employees have confidence in the rule of law. It's important to note that affability and pleasantness don't necessarily generate trust. Many of us have heard some version of this assessment of a manager: "He may not always be sweetness and light, but at least you always know where you stand." At Russell Reynolds Associates, an executive search firm we studied, trust levels are high but no one is coddled. It's understood that if a recruiter doesn't show continuous progress toward building a strong reputation in her particular area of focus, she won't be around for long. Says senior recruiter Riccardo Kustermann, "Everyone knows we have a 'grow or go' system. Promotion requirements are out in the open." Managers in other organizations often like to leave things ambiguous to give themselves wiggle room, and they often bend the rules for "special cases." But when rules are unclear or inconsis-

What "Free Agent" Nation?

One of the most popular business buzzwords of the moment is "free agent." The idea is that each worker can be a company of one, porting his or her expertise, on a project-by-project basis, to wherever in the world it is needed. Techno-enthusiasts claim that the World Wide Web has opened the door to universal collaboration, that virtual firms will readily form to take advantage of emerging opportunities and dissolve when the work is done, that free agency is becoming the model of work and employment.

We are skeptical. These broad claims run counter to our observations of how people actually understand their shared tasks and come together to do work. The claims ignore the profoundly social nature of human beings and of almost all work. The fundamental socialness of organizations helps explain why, for instance, telecommuting, though an aspect of many people's

tently enforced, people start getting paranoid. By coming up with rules you can live by, and then living by them, you invest in social capital.

Trust also grows out of trust – it is self-reinforcing – so one way to get it is to *show trust yourself.* We found that in companies that display trust, both toward employees and toward customers and suppliers, people are more likely to trust one another. By contrast, when managers display distrust, it can drive employees to become less trusting and less trustworthy. In *The HP Way,* David Packard describes working for General Electric in Schenectady, New York, in the 1930s, when "the company was making a big thing of plant security."

> *GE was especially zealous about guarding its tool and parts bins to make sure employees didn't steal anything. Faced with this obvious display of distrust, many employees set out to prove it justified, walking off with tools or parts whenever they could. Eventually, GE tools and parts were scattered all around town, including the attic of the house in which a number of us were living.*

Coincidentally, it was also at a GE plant that SAS's James Goodnight formed his strong opinions about creating a positive work environment. He hated seeing guards at every door, and he hated the rule that required employees to sign in every day. Today, in many companies, that kind of distrust extends well past the front doors. A recent survey by the American Management Association revealed that more than a third of responding employers conducted some form of electronic monitoring of employees' desktop computers.

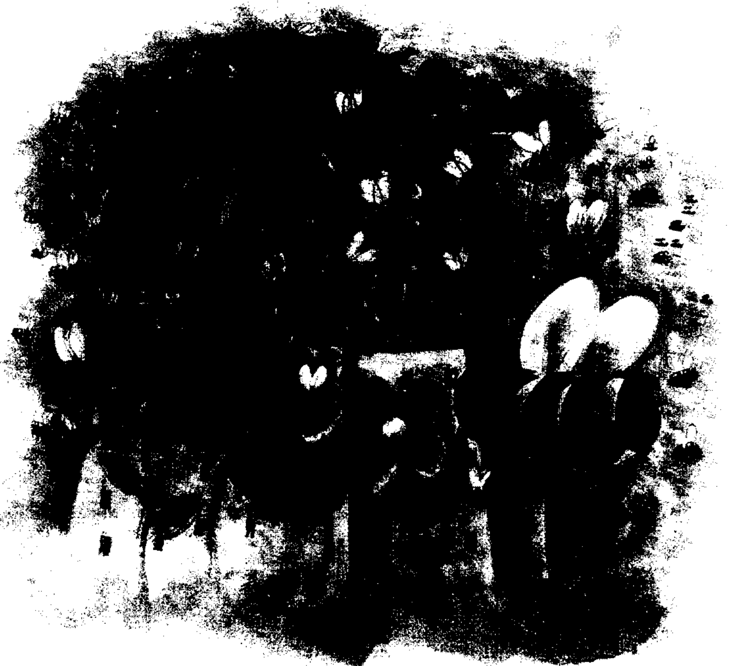
The most important way in which companies display trust in their people is by trusting employees' judgment. Part of UPS's advantage in social capital stems from its leaders' support of distributed decision making, a policy that goes back at least as far as the 1950s, when George Smith was CEO. As he explained at the time, "It is considered desirable to have authority for decisions and actions as far down the line as possible, in keeping with the needs of the job, which have a better chance of being known where and when the needs occur." Similarly, Nordstrom is famous for the two rules of customer service its store employees must live by: 1) Use your own good judgment at all times; and 2) There are no other rules!

It's an axiom of management that if you want to see more of certain behaviors and outcomes, you must *send clear signals* that they are valued. One company we studied uses an annual Employee Relations Index survey to track trends in trust, communication, cooperation, and perceptions of fairness. Questions cover opportunities for advancement, cooperativeness of coworkers, openness and trust in the working environment, the degree to which good work is recognized, the accessibility of managers, and managers' receptiveness to new ideas. The survey gives the organization a way to measure its stock of social capital. And the very existence of the survey and the effort the company puts into addressing the problems show employees that these issues matter to management.

Even more important, *trust responds to rewards.* In particular, promotions to leadership positions act as powerful companywide signals; employee A's promotion over employee B shows which values, approaches, and ways of

work, is rarely the essence of *how* people work – despite the predictions of futurists that offices would be empty by the end of the twentieth century, with knowledge workers happily contributing their efforts from home.

The few places in the world where free agency seems to work only serve to underscore the point. Here we have in mind the creative ferment of Silicon Valley, where software engineers carry their expertise from place to place like bees pollinating a field of flowers. Would such freedom be possible without Silicon Valley's incredibly high social capital? On some level, the agents involved surely understand that their ability to work "independently" is dependent on the dense and durable networks in which they operate – is dependent, in fact, on their being socially tied into a physical community. Otherwise, how to explain that Silicon Valley has the highest real estate prices in the United States?



working are valued by management. When trustworthy individuals are promoted, the organization proves that trust succeeds. When untrustworthy individuals are promoted, everyone absorbs a noxious lesson: crime pays, and good citizens finish last.

Fostering Cooperation

Organizations live by their norms and values. "The way things are done around here" and "what we care about" define organizational identity and functioning. Organizations with high social capital have strong norms of cooperation. When employees are faced with adversity or opportunity, their knee-jerk impulse is to pull together.

There's no better example than the people of Malden Mills, the Massachusetts-based Polarfleece manufacturer whose entire operation was destroyed by fire in 1995. What is best known about the incident is the extraordinary decision by owner Aaron Feuerstein to rebuild on the spot (many would have chosen that moment to relocate to a region where costs were lower) and to keep all employees on the payroll rather than lose them or allow them to lose their livelihoods. But just as amazing is that in the midst of the crisis, the workers of Malden Mills were on the scene giving their all, saving what could be saved and cleaning up the mess. This is social capital in action. And there are things management can do to bring about this kind of engagement.

First, it's vital to *give people a common sense of purpose,* which is a matter of good strategic communication and inspirational leadership. Take Johnson & Johnson. In its U.S. version, the company's well-known credo begins, "We believe our first responsibility is to the doctors, nurses, and patients, to mothers and fathers and all others who use our products and services." It goes on to describe employees as the second highest priority, followed by the community and then stockholders. J&J managers say this expression of purpose and values helps unite the employees of the organization's scattered companies.

By themselves, of course, mission statements posted on walls and Web sites have little value; they are always glowingly positive. But J&J's employees and customers saw the company credo tested in 1982, when cyanide hidden in Tylenol capsules killed seven people in the Chicago area. J&J moved rapidly to pull all Tylenol from store shelves – at tremendous expense and at the risk of increasing the public's fear of the brand. In times of adversity, noble goals and inspirational leadership can draw people together and give their work meaning beyond the need to earn a living.

People feel they're "all in this together" when they have a financial stake in the outcome. That's why UPS managers *reward cooperation with cash.* The company allows all employees who have been with the company for 30 days, even part-time, to purchase stock. There are many other methods, short of sharing ownership, to reward teamwork and signal its importance. One of the ways in which IBM has changed over the past five years is that bonuses (often significant percentages of employees' remuneration) are much more dependent now on group and corporate performance and less dependent on individual performance.

Perhaps the most straightforward way to get people in the habit of cooperating is to *establish some rules* for doing so. At Russell Reynolds, recruiters starting searches must make five internal phone calls to get candidate suggestions

Can You Have Too Much Social Capital?

Social capital isn't a business strategy, a marketing plan, or a substitute for either. It is not always even a good thing. Some companies have been damaged by high social capital that breeds what is often referred to as groupthink – a tendency not to question shared beliefs. A strong identification with a group sometimes leads people to support ideas that are narrow or wrong. Too much warm, fuzzy gemütlichkeit can prevent people from challenging one another with tough questions or discourage them from engaging in the "creative abrasion" that Dorothy Leonard describes as a source of innovation. Digital Equipment and Polaroid were known for collegiality, strong senses of employee membership, and humane management, but those aspects of their corporate cultures did not protect them from market misjudgments and strategic errors – and may have contributed to them.

In general, though, the effects of high social capital are overwhelmingly positive. Engagement, collaboration, loyalty, persistence, and dedication are important benefits. The firms we have studied closely – UPS, Hewlett-Packard, Russell Reynolds, SAS, and others – have made investments in social capital that enable them to attract and retain good people and that help people do their best work. None of these companies seems to face any imminent danger of an overdose of a good thing. And for the majority of companies we know, too much social capital is a remote worry indeed.

before they call outside. This has the dual benefits of increasing the efficiency of the recruiters' efforts and forcing the consultants to get to know one another in ways they wouldn't in more self-reliant searches. Many companies, too, have established a rule governing outside conference attendance: an attendee is reimbursed for a trip only if he shares – during some internal event, typically a brown-bag lunch – what he has learned.

Trust responds to rewards. In particular, promotions act as powerful signals – when trustworthy individuals are promoted, the organization proves that trust succeeds.

One last way of investing in social capital is as important as it is obvious: *hire for it.* Back in 1995, Herb Kelleher, CEO of Southwest Airlines, told the American Compensation Association how Southwest maintains its culture:

> *Well, first of all, it starts with hiring. We are zealous about hiring. We are looking for a particular type of person, regardless of which job category it is. We are looking for attitudes that are positive and for people who can lend themselves to causes. We want folks who have a good sense of humor and people who are interested in performing as a team and take joy in team results instead of individual accomplishments.*

Not long ago, Russell Reynolds Associates chose not to hire a very senior recruiter from another firm who unquestionably would have brought profitable connections with him. The individual clearly was not a team player, and management decided that the potential short-term advantages of hiring him were outweighed by the likely damage to the culture of collaborative peer relationships. The damage would have been caused not only by the recruiter's own behavior but by the signal that hiring a lone wolf for an important position would have sent to the rest of the organization.

Authenticity in Management

The three categories of investment we've explored here are, of course, mutually reinforcing and often overlapping. But for purposes of planning managerial interventions, we believe the categories sufficiently cover the waterfront. One last piece of advice: don't do any of this for the sake of appearances. Invest in social capital only to the extent that you believe in it.

Samuel Goldwyn is credited with a cynical joke: "The key for an actor is sincerity," he is supposed to have said, "because if you can fake that, you can fake anything." We suspect that in a company without authentic respect for social capital, none of the interventions we describe will succeed. Remember, we are talking about trust and relationships, and we human beings tend to know when someone is trying to manipulate our feelings about those core issues. No company can produce lasting social capital merely by going through the motions of team building. Organizations build trust over time; what they do day after day reveals what matters most to them. And social capital, because it represents the organic growth of trust, understanding, and loyalty, takes time to develop.

Former U.S. Secretary of Labor Robert B. Reich has spoken of a simple test he relies on when visiting a company for the first time: "I call it the 'pronoun test,'" he says. "I ask frontline workers a few general questions about the company. If the answers I get back describe the company in terms like 'they' and 'them,' then I know it's one kind of company. If the answers are put in terms like 'we' or 'us,' then I know it's a different kind of company."

Them As Has, Gets

Aaron Feuerstein, the Malden Mills owner, told an audience sometime after the fire that "a lot of the publicity I'm receiving is really not deserved. It is, rather, a sad reflection and commentary on our times." It's true: the social capital that used to be a given in organizations is now rare and endangered. But the social capital we can build will allow us to capitalize on the volatile, virtual possibilities of today's business environment.

In this article, we've stressed that building social capital can't be legislated or "managed" in any directive sense. It requires the kind of intervention that encourages natural development, that orients rather than orders, that provides nourishment rather than blueprints. Robert Putnam, in "The Prosperous Community" (*The American Prospect,* March 21, 1993), explained the process this way:

> *Stocks of social capital, such as trust, norms, and networks, tend to be self-reinforcing and cumulative. Successful collaboration in one endeavor builds connections and trust – social assets that facilitate future collaboration in other, unrelated tasks. As with conventional capital, those who have social capital tend to accumulate more – them as has, gets.*

Hobson Brown, Jr., president and CEO of Russell Reynolds, put it more simply. "Everything in this firm works," he told us, "because of social capital." In our organizations, just as in our neighborhoods and nations, our ability to recapture community and build social capital will determine our progress.

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