Social Capital: the Key to Success for the 21st Century Organization

By Valdis Krebs, orgnet.com

In the 20th century, the human resources (HR) *function became quite adept at managing human capital – defined as the skills, knowledge and experience of individual employees within the firm*. *Just as* HR *was gaining competencies in this arena, the new economy came along and moved the goal posts*. *It is no longer sufficient to manage individual assets*. *The* HR *professional of the* 21*st century must manage inter-connected assets*[1] *of the firm*!

In the knowledge economy, content is no longer sufficient – everyone has access to a multitude of content. You cannot compete on what everyone knows. As you move up the hierachy, it becomes more difficult to compete on individual competency – everyone is highly skilled and experienced at the top. It is hard to compete when everyone is so similar.

The new advantage is *context* – how internal and external content is interpreted, combined, made sense of, and converted to new products and services. Creating competitive context requires social capital – the ability to find, utilize and combine the skills, knowledge and experience of others, inside and outside of the organization. Social capital is derived from employees' professional and business networks.

Human Resources used to focus only on within-employee factors. The new competitive landscape requires focusing on between-employee factors, the connections that combine to create new processes, products and services. Social capital encompasses communities of practice, knowledge exchanges, information flows, interest groups, social networks and other emergent connections between employees, suppliers, regulators, partners and customers. Social capital is what connects various forms of human capital. It is these patterns of connections that produce advantage for one group, and constraint for another. In the networked economy, the one with the best connections wins!

Winning the Connections Game

Although many HR professionals have not often heard the term "social capital" used in conversations about organizational effectiveness, research shows that it will become increasingly important. Ron Burt, a leading researcher and professor at The University of Chicago, predicts that managing an organization's social capital will become one of the core competencies in knowledge-based organizations.[2]

Will this be the road to respect for HR? Will HR even want to travel this wide open road? In addition to being one of the leading academicians in this field, Burt keeps abreast on practices by advising executives at General Electric, Raytheon, several investment banks and other leading-edge organizations. Burt has developed some of the key theories in the field of social capital[3] and writes often and contributes to the most respected academic publications. In these articles, he cites research on social capital and how it affects recruitment, retention, performance, compensation and creativity in organizations. The following is a list of outcomes and goals that are the focus of HR. All are significantly influenced and enhanced by better social capital both within the firm and across its borders.

People with better social capital:

- Find better jobs more quickly,[4]
- Are more likely to be promoted early,[5, 6]
- Close deals faster,[7]
- Receive larger bonuses,[8]
- Enhance the performance of their teams,[9]
- Help their teams reach their goals more rapidly,[10]
- Perform better as project managers,[11]
- Help their teams generate more creative solutions,[12]
- Increase output from their R&D teams,[13]
- Coordinate projects more effectively,[14]
- Learn more about the firm's environment and marketplace,[15] and
- Receive higher performance evaluations.[16]

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als and teams. Organizations with better connections in the network of industry alliances and joint ventures report higher patent outputs,[17] a higher probability of innovation,[18] and higher earnings and chances of survival in rapidly innovating industries.[19] Social capital, within the firm and across the firm's border to other firms, seems to be a prerequisite for organizational learning, adaptability and agility.

When the HR focus was on human capital, the goal was to hire the best individual for the job. In today's knowledge organization, the goal expands to "hire and wire;" to hire the best people with the best network and integrate them into the value chain so that their combined human and social capital provide excellent returns. Onboarding of new employees includes connecting them to knowledge sources and information flows that they need to be successful in their new jobs.

The Network is the Employee

Sun Microsystems has long extolled that "the network is the computer" – it is not the individual box that gives you computing power, but many interconnected computers that exponentially increase the power of a single processor. The network effect is more than simply an additive.

With the advent of the Internet we have clearly seen how true this view of the future was. Social capital has this same effect on productivity and innovation. It is not what individual employees know that provides competitive advantage. It is the unique interconnectivity of human capital, available inside and outside of the firm that will provide some economic players with an advantage over those who are not so well-connected. Human Resources will not focus on individual employees but on emergent networks of employees.

Figure 1 is a network map of employees at a U.S. automobile company. Special network analysis software allows us to map and measure human capital and social capital in organizations. Two employees are linked if they share knowledge and expertise with each other. The panel on the right shows measures of how well the different parts of the company are sharing knowledge and expertise with each other.

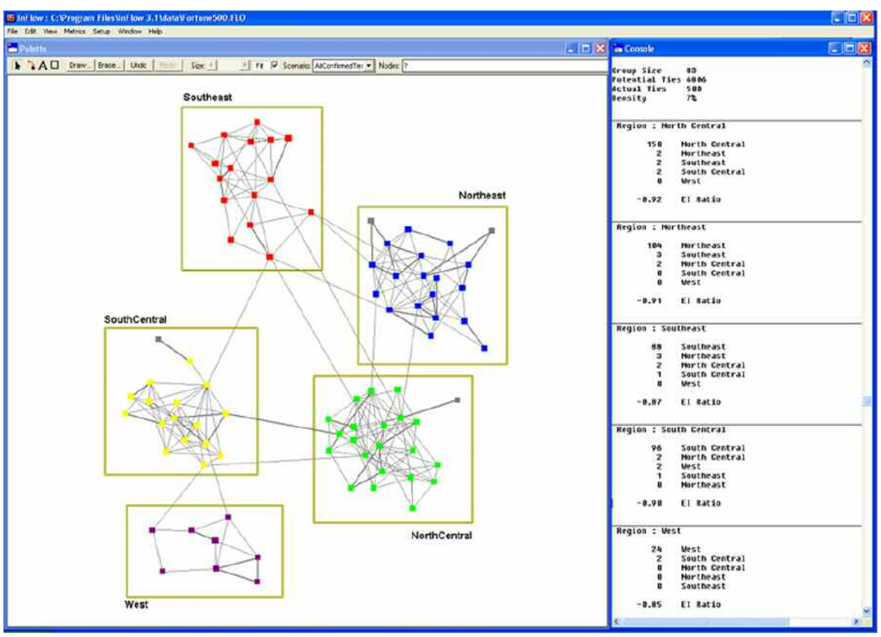

Figure 1. U.S. Automobile Company Employee Network Map.

How should HR usher in the age of the connected employee? Burt sees four key areas where HR will need to map, monitor and mold social capital:

1) Identification,
2) Development,
3) Retention, and
4) Enhancement.

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The first step is to identify the social capital in the organization. How is the company connected internally? Are the critical people/teams/projects connected? Is information flowing between these entities? Is knowledge being exchanged? The next area for identification is across the borders of the organization. Is knowledge of the environment flowing into the right parties inside the company? Are customers and suppliers included in knowledge networks?

Is the company effectively monitoring developments and trends? The development process emerges from the identification process. Is there an identified lack of social capital? How does the company compare to benchmarks? Who needs to be trained to develop more social capital, a product of the relationship between individuals and between groups. It is not held by any one party. The recipient of human capital development is the individual. The targets of social capital development are individuals and their group/team/community. This relational aspect adds a whole new dimension to training and learning.

Social capital is a key driver in employee retention. Ron Burt has identified patterns of social capital that indicate, with a high probability, who will stay and who will go. Knowing who is in danger of leaving allows early HR intervention before losing a key knowledge resource. A similar process, developed by the author for TRW Space & Electronics, revealed that women and minority engineers needed better connections to key knowledge communities. Inclusion in these communities was viewed as a sign of "commitment" to employees. In return, employees felt greater commitment to the organization. Employees who are included in key information flows and communities of knowledge are more dedicated and have a much higher rate of retention.

The final factor in effective social capital is enhancement. How do we weave a better organization? Human Resources is accustomed to examining at prescribed, vertical relationships inside the organization – who works where and who reports to whom? Going forward, HR must also consider horizontal and diagonal relationships. The focus is shifting from strictly internal connections to internal and external connections to all stakeholders. The key to enhancement is knowing where you are now and where you want to go. With this information, the gaps and holes in the networks are easy to spot. For example, if we want to develop a product for X market, we might determine that departments X and Y need a better working relationship and knowledge exchange. We also need access to knowledge outside the organization – who has links to the communities in which this knowledge resides? Who can access and transfer that knowledge?

New Technology

Today we have software to support the building and tracking of social capital within and between organizations. The two most popular social networking services are *LinkedIn* and *Facebook*. Both allow employees to track their business or social networks and provide a place online for people to meet and keep up with their associates, colleagues and friends.

Unfortunately, these social networking sites have some problems. First, they are outside the firewall of the corporation. Detailed employee career and contact information should not be shared on these sites. Second, these sites are patrolled by headhunters and your competitors. You can't hide on the Internet, but employees (and HR) should be careful what corporate information and structures are shared on these public social networking sites.

Last, but not least, the business and professional networks on these sites can be very inaccurate. These sites provide the ability for their members to connect to others on the site – to grow their network. Unfortunately, many members of these sites try to connect with as many people as possible – whether they know them or not. This creates many false links/connections in the LinkedIn and Facebook databases. Two people might show to be connected but they really are not – one person was too embarrassed to turn down a "friend request" from a total stranger. These "false positives" tend to pollute the data of these social networking services. Headhunters and other salespeople often exhibit this over-connected pattern on these online social networks. They connect to do *transac-*

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tions, not to build social capital for your organization's benefit. An employee connected to innovators and thought leaders in his or her field has valuable social capital to do their job, and share with their corporate colleagues. An employee that is connected to many others, who are selfishly interested only in their own transactions, does not have social capital that is useful to their employer.

Soon, HRIS/HRMS systems will have well-developed modules that address employee social capital without the problems we see in the external social networking sites. Several clients of mine are currently mapping and tracking the social capital of key contributors, especially those responsible for innovation in new products and services. Both internal and external connections are mapped and measured for these key contributors.

It's Not Ownership, But Access

It is apparent that the definition of human capital has changed and continues to take new forms. It is no longer spelled e-m-p-l-o-y-e-e. The human assets that an organization uses to reach its goals include full- and part-time employees, contractors, consultants, partners and, increasingly, suppliers and customers.

Today's organizations rely less on owned assets. Today's fluid environment does not reward ownership, including the old employment relationship. The agility needed by today's organizations requires finding the right assets and combining them into the right structure to meet short-lived goals. It is not *what you control* but *what you can access* that is the key link in the value chain.

This shifting landscape will drastically alter the HR function and the systems used to track assets, both within-employee and between-employee assets, a totally new concept to explore. Even though HR's realm is becoming more chaotic, this complexity and increased dependence on human and social capital will provide HR an opportunity to more directly influence an organization's results. As the role of HR grows so will the role of HRIS/HRMS in monitoring and modeling of these new capital structures.

Endnotes

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