IN GOOD COMPANY

How Social Capital Makes Organizations Work

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No man is an island, entire of itself;
every man is a piece of the continent, a part of the main.
—John Donne

Ask what comes to mind when they hear the name "UPS" and most people will mention those chocolate brown delivery vans. They are everywhere in the United States, part of the landscape of its cities and towns, and their brown-uniformed drivers are a familiar presence at homes and offices. The effects of service reductions caused by a Teamsters strike in 1997 showed how enmeshed United Parcel Service had become in the daily commercial life of the country.

Talk to people inside the company—drivers, managers, executives—and many will give you remarkably consistent explanations of what it means to be a "UPSer."[1] They mention long-term commitment and hard work in a "no-nonsense, roll up your sleeves" kind of company where everyone pitches in to get the job done regardless of what their primary responsibilities are. The stories they tell echo one another: of veteran drivers instructing neophytes about how to keep winter winds out of the "package cars" (as the delivery vans are known internally) or where the farmers on a rural delivery route gather on a rainy day; of the eight-months-pregnant center manager who took over the route of a driver who called in sick, and the national customer service manager who helped load packages during the Christmas rush ("getting their hands dirty like the rest of us"); of the company founder, who personally answered every customer phone call. They talk about the people who have been with the company for thirty years or more who have "brown blood" in their veins, of former mentors, now retired, who still call to see how their protégés are doing.

Beginning as a small messenger-carrying service in Seattle, Washington, almost 100 years ago, the company soon expanded into package delivery for local retailers; its territory now includes every address in the United States. It delivers by air as well as ground, internationally as well as nationally. In 1999, when UPS publicly traded a small proportion of its stock for the first time, it had about 300,000 employees and was widely seen as an integral part of the new world of Internet commerce. Through almost a century of growth and change—and think of the enormous technological and social change that has occurred between the pre–World War I years and the beginning of the new millennium—the company has maintained a surprisingly consistent "feel." Change continues. As a January 10, 2000 article in *Forbes* magazine naming United Parcel

Service its company of the year stated, “UPS used to be a trucking company with technology. Now it’s a technology company with trucks.” But the values and behaviors that characterized the firm from its inception persist, and current UPSers still regularly cite the ideas and actions of founder Jim Casey to explain what they do now.

People inside UPS attribute its lasting success to elements of its persistent “character.” A low turnover rate—around 2 percent for managers—makes long careers typical and helps preserve and transmit the firm’s values and behaviors. Along with creating a shared understanding of how UPS works and what its aims are, longevity gives people extensive, diverse experience in the company and well-established networks of relationships. A tradition of promotion from within means that leaders have direct experience of the work of drivers and their supervisors. (Well over 90 percent of those attending the annual meetings of the company’s top 200 managers have been with UPS for more than twenty years.) That promotion policy, good salaries for drivers, and employee ownership (with company stock available to anyone who has worked at UPS for thirty days) contribute to a sense of equity in opportunity and reward and joint membership in a common endeavor.

UPS’s culture of distributed decision-making and personal interaction coexists with industrial engineering efficiency. Drivers learn the “340 methods,” which include such details as how to hold the ignition key when approaching the vehicle and saving a second or two by fastening the seat belt with the left hand while turning the key with the right. At the same time, they have considerable leeway in deciding how to get their day’s work done. Groups of drivers meet at lunch to make adjustments in their afternoon delivery loads and to discuss problems; supervisors who get customer requests for schedule changes will commonly ask drivers if the change will work and how best to accomplish it. Explaining his handling of a customer request to return later in the day to pick up a shipment, one driver typically says, “I’m not going to call my supervisor to ask if I should. I already know what he’ll say.”

This rosy picture is not a full-length portrait of the firm. Not every employee is a committed UPSer; understanding and cooperation are not universal. But trust, understanding, connection, and a sense of membership are widespread. They make the company work and give it a reputation as a good place *to* work. They are some of the indications and benefits of high social capital at UPS.

What Is Social Capital?

The World Bank defines social capital as “the norms and social relations embedded in social structures that enable people to coordinate action to achieve desired goals.” Robert

Putnam, the Harvard political scientist, describes it similarly. "'Social capital,'" Putnam writes, "refers to features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit."[2] Our definition, which underlies our exploration of what social capital looks like, how it works in organizations,how investments are made in it, and what returns organizations and individuals can expect from those investments, is as follows:

> *Social capital consists of 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 make cooperative action possible.*

Social capital makes an organization, or any cooperative group, more than a collection of individuals intent on achieving their own private purposes. Social capital bridges the space between people. Its characteristic elements and indicators include high levels of trust, robust personal networks and vibrant communities, shared understandings, and a sense of equitable participation in a joint enterprise—all things that draw individuals together into a group. This kind of connection supports collaboration, commitment, ready access to knowledge and talent, and coherent organizational behavior. This description of social capital suggests appropriate organizational investments —namely, giving people space and time to connect, demonstrating trust, effectively communicating aims and beliefs, and offering the equitable opportunities and rewards that invite genuine participation, not mere presence. But even when social capital investments are made solely by individuals who develop ties with one another, many real advantages accrue to the organization as a whole.

Origins of an Idea

The term *social capital* first appeared in print in 1916 in a discussion of school community centers, and was subsequently taken up by academics and writers including Jane Jacobs (whose *The Decline and Rise of American Cities* describes values inherent in networks found in close-knit neighborhoods), George Homans, and John R. Seeley.[3]

In the past several decades, sociologists have given the concept academic credentials. Glenn Loury used the phrase in 1977 to describe the sources of certain kinds of income disparities, and Pierre Bourdieu, the influential French sociologist, described social capital as one of several forms of capital that help account for individual achievement.[4] In *Social Capital and the Making of Human Capital* and in *Foundations of Social Theory*, his magnum opus, Chicago sociologist James Coleman argues against the individualist bias of human capital theory; that is, against the notion that investments in people alone, regardless of the positions they occupy or the networks they belong to, will generate significant returns.[5] Sociologists' increasing attention to the development of networks and communities, the transmission of norms and values, and the meaning of collectivity makes an important contribution to our understanding of social capital in cultures and organizations.[6] As yet, however, most academics have had little to say about what managers can do to increase an organization's social capital. Their explorations remain largely theoretical or analytical. With this book, we hope to contribute to a progression from description to action.

In the realm of politics, Robert Putnam's landmark 1993 book, *Making Democracy Work,* convincingly demonstrated the political, institutional, and economic value of social capital. Putnam studied cities in northern and southern Italy to determine the source of differences between the flourishing economy and civic culture of the North and the relative poverty and economic backwardness of the South. He concludes that the centuries-old social institutions of the North that contributed to trust and connection between people and a shared regard for the welfare community as a whole made the success of the region possible. A lack of similar institutions prevented the South from carrying out the cooperative efforts on which regional economic success depends. In 2000 Putnam brought out *Bowling Alone,* a scholarly yet provocative and stimulating account of the causes and consequences of America's declining social capital.

The findings of comparative economic studies conducted by political scientists at the World Bank and other global institutions corroborate Putnam's thinking.[7] Why do some regions lag behind while others thrive? Clearly some countries are more richly endowed with natural resources than others, but institutional traditions, levels of trust and reciprocity, the rule of law, and the sense of community are at least as important to a nation's health as the available raw materials. The former Soviet Union provides an example of states unable to take full advantage of a region's immense resources (including the intelligence and talent of its people) because they lack many of the required social institutions. At the turn of the twentieth century, Argentina was the seventh largest and most powerful economy in the world. Now, 100 years later, it ranks sixty-fourth. Although that country is still blessed with natural resources and educated, entrepreneurial people, a century of untrustworthy institutions, political instability, and continuous attacks on community structures have taken their toll on economic health and social capital. As one of the World Bank's leading social capital champions, Michael Woolcock, states,

> *Social capital provides . . . a fruitful conceptual and policy device by which to get beyond exhausted modernization and world-system theories and make potentially important contributions to questions of economic development. . . . Social capital's greatest merit is that it provides a . . . comprehensive multi and interdisciplinary approach to some of the most pressing issues of our time.*[8]

Until recently, the term *social capital* has been applied almost exclusively to individuals and to social groups such as communities, neighborhoods, cities, regions, and nations. But enough commonality exists between these entities and businesses to suggest that social capital analyses of the former can teach us valuable truths about the latter. The idea of looking at social capital in firms and other formal organizations is relatively new—in part, perhaps, because mechanistic ideas of how organizations work have masked their deeply social nature. Henry Ford lamented, “Why is it that when I buy a pair of hands, I always get a human being as well?” But today, the variability or “humanness” of human beings, which disturbed the perfect regularity of Ford’s assembly lines, is seen as a prime source of organizational value. As Geoff Mulgan notes,

> *Many machine-like jobs are better performed by machines, and growing numbers of jobs require people to take initiative, to be creative and inventive. Even most daily interaction with machines is in truth interaction with other people. A more intensively social model of labour is coming into sight, where learning and work are no longer clearly separated and docile obedience is not enough.*[9]

To Mulgan’s *initiative, creativity*, and *interaction,* we would add *commitment* and *collaboration*. As Mulgan suggests, we are beginning to understand the inherently social nature of work. Human work is social to a much greater degree than people realize even today. Not only Henry Ford’s cog-in-the-machine view of workers but the newer idea of the independent knowledge worker—including the telecommuter and the “road warrior”—turning information into useful knowledge with the click of a mouse, ignores or grossly underestimates the profoundly social nature of work. That contemporary idea either puts excessive faith in individualism or sees knowledge work as just another mechanical process—a kind of one-person assembly line where information goes in at one end and knowledge comes out the other. We are beginning to discover the centrality of social interaction—of trust, personal networks, and communities—to work of virtually all kinds. Etienne Wenger’s detailed description of insurance claims processors in *Communities of Practice* shows the importance of social interaction to even seemingly individual information-processing tasks. A recent book on Franklin Roosevelt’s personal physician suggests that the doctor’s exclusive attention to one patient (something that intuitively seems desirable) may in fact have proved detrimental in some ways. Because the doctor worked alone, cut off from the experiences of seeing other patients and working with colleagues, he may have failed to learn things that might have extended the president’s life. This despite his unquestionable ability and a conscientious effort to keep up with the medical literature. The examples could be multiplied. We are beginning to discover the collective nature of almost all work. To put it another way, we are beginning to discover the central value and importance of social capital to the work of organizations.

A social capital approach to organizational work differs from what we might call the individualistic or atomic theory of organizations, which recognizes a legitimate relationship of sorts between an individual employee and the firm—contracts, paychecks, and performance reviews document its existence—but ignores the networks of relationships among people in the organization and the less tangible elements of the employee-firm relationship: the human need for membership and identification, the satisfaction gained from recognition by peers, the pleasure of giving as well as getting help. It differs, too, from the currently popular idea of a work world defined by free agency—of independent "companies of one" drawn together for particular projects, collaborating over the Internet and going their separate ways when the project is done. Free agency hype and the social capital implications of that model of work are among the issues that convinced us to write this book.

Having worked with consulting organizations for years (many years, in one author's case), we have become deeply suspicious of the "people, processes, technology" mantra ceaselessly intoned as a summary of the sources of organizational effectiveness.[10] While this triad improves on even more limited ideas (for instance, that businesses are solely about processes or that advanced technology alone can solve most organizational problems), we firmly believe that all of these notions leave out the essential connections among people without which purposeful cooperative work cannot happen. Some organizations have talented people, sensible and efficient processes, and the best technology money can buy and still perform poorly, hobbled by suspicion, rivalry, the chaos of rapid turnover, and the incoherence that results from people working at cross purposes.[11] In his *Knowledge in Action*, organizational psychologist Chris Argyris describes being called in to a Boston-based consulting firm stymied by lack of cooperation. Although staffed by the best and brightest from the top business schools, the firm neglected all the issues that we describe as having to do with social capital and was frustrated by its inability to realize the benefits of its collective talent. In another example, British Telecom's internal examination of the failure of its merger with MCI points to human dynamics and interactions, not flawed strategic or business models or the lack of individual talent, as the source of that failure. The authors of the BT report cite Marks and Mervis (*Joining Forces: Making One Plus One Equal Three)* on the 60 to 80 percent failure rate of alliances, mergers, and acquisitions to show that the problems experienced by British Telecom and MCI are common. Success at bringing together two organizations with two (or more) cultures depends at least as much on social capital issues like trust, understanding, and equity as on strategic or technical issues, yet firm after firm makes the mistake of acting as if disparate groups of people can be welded together like machine parts. The BT report authors wisely recommend that the organization invest in a "robust cultural audit" as part of future merger decisions and preparations.

Social Capital Investments and Returns

Like other analysts using the term, we talk about social *capital* to emphasize that investment in interpersonal connections produces returns just as other, more tangible forms of capital do. We know that "capitalization" can go too far. We are all familiar with financial capital and physical capital. Gary Becker and Theodore Shultz have earned Nobel Prizes for their work on human capital, and we may soon see a Nobel given for work on intellectual capital. Commentators talk about "structural capital" and "customer capital." Not everything of value should to be called "capital," but we firmly believe that social capital is as real and important as other forms of capital deserving the name. Like them, social capital can be demonstrated, analyzed, invested in, worked with, and made to yield benefits. Like them, it grows with effective use. As Harvard Kennedy School Professor Jane Fountain remarks, "Social capital, like other forms of capital, accumulates when used productively. . . . [L]inking cooperation to the economic concept 'capital' signals the investment or growth potential of a group's ability to work jointly."[12] Robert Putnam explains how and why social capital accumulates:

> *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.*[13]

This cumulative process underlies the value and power of social capital and makes it somewhat difficult to discuss systematically. Many of the elements of social capital are both cause and effect, simultaneously its underlying conditions, indicators of presence, and chief benefits. Take trust as a key example. Without some foundation of trust, social capital cannot develop—the essential connections will not form. So trust is a precondition of healthy social capital. Not surprisingly, high levels of trust also tend to indicate high social capital. And the trust-based connections that characterize social capital lead to the development of increased trust as people work with one another over time, so trust is also a product or benefit of social capital, and a source of other benefits. Deeply embedded in the social capital life cycle, trust cannot be pinned down to one particular function. We believe that this book's lack of rigorous distinctions among social capital causes, indicators, and effects reflects the organic and self-reinforcing nature of social capital and not (in this instance, at least) the sloppy thinking of the authors.

Social capital exists in every organization, but in widely varying amounts. It can be depleted or enhanced, squandered or invested in. That social capital generates economic returns is one of the underlying messages of this book. In one sense, that point is obvious: without social capital, organizations simply cannot function. Our more useful point is that social capital can benefit organizations in particular ways. We explore those benefits throughout this book, and summarize them here as follows:

- Better knowledge sharing, due to established trust relationships, common frames of reference, and shared goals
- Lower transaction costs, due to a high level of trust and a cooperative spirit (both within the organization and between the organization and its customers and partners)
- Low turnover rates, reducing severance costs and hiring and training expenses, avoiding discontinuities associated with frequent personnel changes, and maintaining valuable organizational knowledge
- Greater coherence of action due to organizational stability and shared understanding

The returns on social capital for individuals and organizations are intangible as well as tangible, and those intangible returns are at least as important as the tangible ones. The familiar story of the online Eureka system used by Xerox copier repair technicians to share tips on solving difficult problems provides an example. Those technicians actually rejected an offer of financial rewards for contributing tips because the intrinsic reward of reputation and gratitude among peers was so much more important—a part of their personal identity, remarks John Seely Brown, chief scientist at Xerox. Getting paid for the tips would have threatened to trivialize that deeper satisfaction. Recent excitement about millions of dollars made by individuals in technology companies obscures an important truth: Work is not only about money, and those aspects that are unrelated to money can help organizations succeed economically.

Referring to the strong sense of self-worth the Xerox technicians get from recognition by their peers, Brown says, “If you can understand and tap that identity formation, then you are on the road to gold.”[14] As his remark suggests, the various benefits of social capital complement one another: personal satisfaction and organizational and personal reputation are valuable in themselves, and bound up with competitive effectiveness.

Of course, organizations fail or succeed for many reasons; it would be foolish to present social capital as the only villain or hero of the story. Social capital is not *the* key to organizational success. Some firms succeed despite the negative effects of low social capital, although they often pay a huge price for it. Some firms with high social capital fail. Organizations are tremendously complicated and operate in complicated environments. And social capital is not a business strategy or a marketing plan or a substitute for either. It is not always even a good thing. Some firms have been damaged by high social capital that breeds unthinking loyalty and unquestioned shared beliefs—too strongly identifying with a group sometimes means mutually supporting ideas that are narrow or wrong. Too much warm and fuzzy gemütlichkeit can prevent people from challenging each other with tough questions or from engaging in the “creative abrasion” that Dorothy Leonard describes as a source of innovation.[15] Digital Equipment Corporation and Polaroid were both known for collegiality, a strong sense of employee membership, and humane management, but these aspects of their corporate cultures did not protect them from market misjudgments and strategic errors and may in fact have contributed to them.

In general, though, we believe that the effects of high social capital are overwhelmingly positive. Engagement, collaboration, loyalty, persistence, and even dedication are important benefits. The firms we look at here—UPS, Aventis, 3M, Hewlett-Packard, Russell Reynolds Associates, SAS Institute, Viant, and others—have made investments in social capital that enable them to attract and retain good people and help them do good work.

Hidden in Plain Sight

Social capital is so much a part of the fabric of people’s working lives that it tends to be invisible, as the things we see every day and take for granted often go unnoticed. An old proverb notes that “the fish does not see the water it swims in”; similarly, we often fail to see the social capital that surrounds us. In broadest terms, we are writing about a subject that everyone understands and few discuss. The value of connections between people at work—the value, for instance, of getting reliable help from a colleague when you need it or knowing that your contributions to team success will be recognized and rewarded, the value of commitment as opposed to going through the motions—is self-evident in most people’s daily lives. But organizations and those who study them often ignore these facts of life or reduce them to banal, apple-pie-and-motherhood mission statements. We know how important they are to our work, but organizations and business thinkers often behave as if they have no importance at all, as if, in fact, they don’t exist and people leave their humanness at the door of the workplace. Arie de Geuss of Royal Dutch/Shell remarks, “Whereas the management curriculum had no place for human beings, the workplace was full of them.”[16]

Things happen as they do (or fail to happen at all) largely because of the ways those human beings in the workplace relate to one another. We have been to many management conferences where representatives of corporations described successful new initiatives. They laid out the conceptual frameworks, the organizational structures, and the technologies that allowed a team or groups to share knowledge, reduce errors, accelerate processes, and save the organization tens or hundreds of millions of dollars. The presenters seem generally honest and their figures more or less accurate, but they seldom tell the whole story. The hidden networks of connection, influence, and commitment that deeply influence the project are rarely mentioned, or are mentioned only in a reductive, dismissive phrase: "of course, culture is important too." The daily experience of the people involved in the project remains invisible—who is helping or hindering the work, whether the changes that save time and money create a sense of accomplishment among participants or foster exhaustion and resentment, whether the project is perceived as an oddball anomaly or a model for change. In other words, all of the tension and texture of real work are left out.

Yet those social factors have a huge impact. During a break at a large conference, one of the authors asked a man who had presented his firm's flagship knowledge-management initiative at a similar meeting six months earlier how that effort was going. The presentation had shown it to be an unusually well-thought-out project that had quickly proven its economic value.

"It was canceled," the ex-project leader said.

"Why? I thought it was successful."

"It was," the man responded, "and the CEO supported it, but we never got the CFO involved. He resented being out of the loop and he wasn't keen on the idea in the first place, so he found a way to cut our funding."

This fairly familiar story suggests the obvious power of the social realities of organizations—realities that everyone who has spent more than a week in an organization recognize but that are usually omitted from management discussions, conferences, and the curricula of business schools that focus on structure, process, pure rationality, or some abstract, unitary concept of "the worker."

Not only social capital but the elements that define and support it are often invisible or ignored. The official organization seldom understands, analyzes, or even discusses the networks and communities integral to social capital, Although recent work on knowledge management and communities of practice is finally bringing them the attention they deserve. Many organizations run into problems because they fail to heed the implied expectations and commitments of the unwritten social contract that defines the connection between an organization and its members. Although the terms of this "contract" are largely tacit, they are as important as explicit agreements about salary, benefits, and job responsibilities, and violating them can have powerful negative consequences.

Social capital may be hidden, but the damage caused by low social capital and the benefits to be derived from high social capital are visible and understandable. Our aim in this book is to make the invisible visible, to show how social capital is created and maintained in organizations and how it plays an essential role in making organizations work.

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." IDEO, the highly successful industrial design firm, thrives on collaboration, mutual respect, and a shared understanding of how the work of the company gets done. It has high social capital, but that does not make it a gentle, uncritical culture. People who violate the organization's norms are typically frozen out of meaningful work, for example. Not invited to participate in the all-important brainstorming sessions, not offered help or even included in conversations, they often choose to leave the company.[17]

Nor is social capital about employees sharing details of their personal lives, erasing the line between work and home. 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 one thing about their personal lives that no one else knew. This kind of coerced intimacy—the invasion of privacy that the letter complained about—is as likely to damage trust and connection as build them. Although friendships often develop at work, collaboration does not depend on coworkers being friends or knowing everything about one another.

Nor is social capital demonstrated or enhanced by lip service to equity and respect. Calling everyone in an organization an "associate" when in fact most have no decision-making power or direct participation in the organization's success merely breeds cynicism. Since social capital is about trust, relationship, and commitment, it thrives on authenticity. Hypocrisy kills it.

The Ties That Blind

As we have suggested, the effects of social capital are not invariably positive. The ties that bind can also be the ties that blind. The same social capital that draws members of groups together to perform useful work can make groups clannish, isolated, narrow-minded, suspicious of outsiders, and even delusional. The close connections that help people work together effectively also characterize the old-boy networks that exclude talented women from important jobs, organizations that shut the door on members of particular ethnic or religious groups, and groups in which a strong sense of “us” includes and even depends on hatred for “them.” In other words, merely having shared values and a shared worldview guarantees nothing about a group’s quality, rationality, or usefulness. Loyalty and trust within a group may support cooperative efforts to achieve misguided or destructive aims, the members reinforcing one another’s adherence to “norms” that the wider social context judges to be abnormal and even evil. Some street gangs, the Nazi brownshirts of Hitler’s time, and other close-knit hate groups all have extremely high social capital. Less drastic but still an example of how strong social ties can “normalize” aberrant behavior in a close-knit group are organizations—occasionally revealed by a whistle-blower—in which fraud has become accepted and acceptable, “the way things are done here.” More commonly, members of a close-knit organization may support one another’s misjudgments about the desirability of its products until the marketplace teaches them otherwise (a lesson sometimes learned too late, as the unhappy declines of Wang and Digital Equipment Corporation demonstrated).

These negative examples do not discredit social capital in general, any more than examples of clever crimes or destructive inventions discredit human intelligence. We sometimes use the phrase *high social capital* as shorthand for healthy, productive social capital, but we do try to stay alert to the issue of the ties that blind—the dark side of social capital. Our discussions of strong communities return to the issue of guarding against the dangers of clannishness, mutual delusion, and the normalization of deviance.

Social Capital and the World Today

If social capital has always been with us, and no organization can exist without it, why pay special attention to it now? Organizations with high social capital have survived for a long time without being identified as such, while paying little or no explicit attention to what the concept means. There are powerful reasons for writing and reading a book about social capital now, however, just as there are powerful reasons to analyze knowledge (which has also always been with us) in the context of business: because changes in organizations and the economic, social, and technological worlds they inhabit make an understanding of such concepts more important than ever. Just as knowledge, Although always valuable, has become an increasingly critical element of organizational capability and worth, so too has social capital. What in the past could be taken for granted and sometimes even minimized can no longer be ignored or left to chance. This is true in part because organizations in a changing, highly competitive global economy need to make the most of their assets, of which social capital is key. More specific reasons have to do with the changing nature of work and the world.

THE AGE OF INTERDEPENDENCE

We are long past the time when any one individual can know virtually everything worth knowing.[18] We are even past the time when a single individual can know everything important about any global organization, or everything he needs to know to do his own work well. So belonging to the networks that can coordinate and enhance our necessarily limited knowledge has become essential. In the sciences as well as the corporate world, the individual genius, although not extinct, is rarer than ever. Even the individuals whose accomplishments have been recognized by Nobel Prize awards were supported by a dense web of predecessors, institutions, colleagues, and assistants.[19] Tom Boyle of British Telecom calls this the age of interdependence; he speaks of the importance of people's NQ, or network quotient—their capacity to form connections with one another, which, Boyle argues, is now more important than IQ, the measure of individual intelligence.[20] In many endeavors, collaboration—often involving numerous people in multiple locations—has become unquestionably necessary. Sociologist Walter Powell of the University of Arizona describes trends in biotechnology, a field in which the complexity and rapid pace of research means that advances can only be made by large collaborative networks of experts. He cites the example of a paper on the DNA sequence of yeast chromosomes that lists 133 authors from eighty-five institutions.[21] The size and intricacy of organizations, the proliferation of critical information, and the increasing complexity of tasks make connection and cooperation—social capital—increasingly important.

THE ENGAGED ORGANIZATION

Although broad generalizations always oversimplify complex realities, we find important truths in the contrast between the hierarchical, industrial manufacturing firms that dominated most of the twentieth century and today's service-based and knowledge-intensive organizations. When industry meant repeatedly carrying out standard, well-defined tasks and workers were seen metaphorically (and sometimes literally) as parts of a machine, progress could still be made when the social networks and relationships of individual employees were ignored or even discouraged. In fact, those firms still strongly depended on social capital and sometimes suffered from a lack of it. Without some level of trust, respect, and generalized reciprocity, coordinated work of any kind is hard to accomplish. Still, as the comment by Henry Ford mentioned earlier suggests, a certain rough logic lies behind treating people like cogs in a machine when you only expect and want them to do machinelike work.

But very little of the work of today's knowledge firm is repetitive or mechanical. It requires responsiveness, inventiveness, collaboration, and attention. Judgment, persuasiveness, shared decisions, the pooling of knowledge, and the creative sparks people strike off one another all depend on engagement with the work and with one another, on the commitment that makes one genuinely a *member* of an organization rather than simply an "employee" (that is, someone used by the organization). Although we ourselves sometimes fall into the trap of talking about "employers" and "employees"—the user and the used—those terms really belong to the industrial-age model and are inappropriate to the kinds of work and working relationships we consider here. Today's most economically productive work is largely voluntary, in the sense that doing it well calls for a willing engagement of the whole self in the task. "Going through the motions" is insufficient when the motions are not prescribed but change as you go along. In our view, the firm is neither a machine with each cog firmly in place performing its clearly defined task nor an unorganized (or self-organizing) flock of opportunistic entrepreneurs pursuing their individual destinies. It is—it should be—a social organism of people willingly engaged in a joint enterprise.

These ideas are not new but they have not yet transformed the thinking or actions of all business leaders. Knowledge age or not, the mechanistic model of labor that sees only clearly defined, explicit, and visible tasks as useful work still has a great deal of power over organizational thinking and behavior. Although the knowledge revolution has popularized the idea of the value of intangibles and the intangible but deep value of exchanges of ideas and thinking time, the belief that "real" work occurs only when people are visibly busy persists, whether that busyness means tightening bolts on an assembly line or pecking away at a computer keyboard. Social activities from chatting at the watercooler to lingering over lunch in the cafeteria are still widely considered work avoidance rather than (as we argue) occasions for exchanging knowledge, and opportunities to forge and strengthen the connections that make work possible. Even the more sophisticated knowledge-age model that identifies people, processes, and technology as the linked elements of work ignores and therefore threatens the human connections that collaborative endeavors depend on. It too can invite a mechanistic approach, Although the mechanism is more subtle. We are writing about social capital now because it is so important to the kinds of work we do today and because thinking about *how* people work has not entirely caught up with the nature of work they are asked to do.

There are also some particular contemporary challenges to organizations and their social capital that prompt us to take up the subject now, especially because we believe that deliberate investment in social capital can help organizations meet these challenges and even turn them to advantage.

THE CHALLENGE OF VOLATILITY

Organizations today face considerable external and internal volatility. Companies must attract and retain workers whose talents are often in short supply and high demand and who may be unexpectedly wooed away by competitors in “the war for talent.” New technologies, mergers and acquisitions, and a global marketplace full of developing opportunities and competition continually challenge firms. To remain effective and sometimes even to survive, they frequently must undertake major internal change to respond to (or anticipate) change in their environments. Partnerships, mergers, acquisitions, and changes in products or focus affect who works for the company and how they work and may even modify organizations’ aims and values.

This kind of volatility can erode social capital, which thrives on stable connections and adherence to the explicit and tacit agreements that bind people to one another and to the organization. Perhaps the most obvious example of disruptive change is downsizing, which degrades networks and communities and reduces trust, even among the “survivors.” Although less pervasive now than a few years ago, downsizing remains one of the first ways management reduces cost. Or take the challenge to United Parcel Service traditions and values, documented by Jeffery Sonnenfeld and Meredith Lazo in their Harvard Business School case, created by the need to hire information technology (IT) professionals at management levels in the eighties, an exception to the company’s long-standing promotion-from-within policy and an apparent threat to the promise of equitable opportunity. To preserve its social capital (or limit damage to it), UPS faced the double task of assimilating the newcomers—making them “real UPSers”—and moderating the loss or betrayal felt by old-timers when the rules changed.

The fact that the company seems to have succeeded suggests a key point: Volatility may threaten social capital, but high social capital helps organizations successfully weather its ravages. As the experience of firms including UPS, Bristol-Myers Squibb, Xerox, and Russell Reynolds Associates shows, community membership and commitment to a shared aim are more reliable weapons in the war for talent—especially the war to retain talent—than signing bonuses and the shaky promise of stock-option riches. Similarly, when organizations that undertake necessary changes understand, respect, and take steps to preserve the value of their existing social capital, the changes are likely to go better, because they are accomplished with the support of the members of the organization. In fact, the challenges of hard times or complex change can foster a sense of solidarity in crisis. High social capital helps firms retain their skills and coherence, even when change occurs that would disrupt or dispirit organizations with smaller social capital reserves.

Some commentators celebrate volatility as *the* new way to work, and an unmixed blessing. Not surprisingly, we disagree. For instance, we admit to skepticism about free agency, the idea that each individual is, in effect, his own company, selling his talents to whatever organization needs them at the moment. Examples of successful free agency exist, Although they are relatively rare except in the exalted ranks of sports and show business, but the belief that organizations can consist mainly of free agents who come together temporarily to get work done directly contradicts our understanding of how social capital develops and functions. Coherence, understanding, context, trust, and continuity would all disappear in a world of individuals buzzing around in an opportunistic search for the most rewarding project. Such radical volatility necessarily threatens social capital.

The Challenge of Virtuality

The phenomenon of virtuality both challenges social capital and presents an opportunity to make valuable use of a social capital perspective. By *virtuality*, we mean any work carried out over a distance of time and space, usually with the aid of electronic communication. Telecommuters, virtual teams, and laptop-toting road warriors are obvious manifestations. By extension, we also include the concept of the “virtual corporation”—the organization made up primarily of individuals and groups electronically tied together to accomplish a particular task and dispersed when the job is done.

Virtuality has complex social capital implications, to which chapter 6 of this book is devoted. To a significant extent, we see reliance on virtual ways of work as a threat to social capital and believe that techno-utopians wildly overestimate the power of information technology to genuinely connect people. To the extent that virtuality reduces or eliminates the experience of sharing a work space and turns organizations into scattered, electronically linked individuals with little or no experience of being together in work, it will reduce social capital. But the story is mixed. Experience shows that the technology of communication, properly used, can strengthen and expand networks and communities rooted in more traditional sources. It is part of today’s social capital landscape, not merely a drain on social capital. Continuing improvements in technology and the gradual absorption of new technologies into the social fabric of life and work will give them roles and influence that we can barely guess at today.

What we do know is that the technology of virtuality, with its power both to separate people and draw them together, calls out for examination from a social capital point of view. The growth of the Internet and the phenomenon of the mobile worker increase the need to understand how and why people connect with one another, and to insist on the social nature of work whether people are in the same room or half a globe apart. Our new ability to contact anyone and at the same time be connected with no one raises important questions. We believe that social capital insights can both define the natural limits of virtual work and help guide thinking about how to design the communications technologies of the future. John Seely Brown and Paul Duguid have contributed to our understanding of this issue in their recently published *The Social Life of Information.* We hope to make a contribution of our own in chapter 7, on the challenge of virtuality.

What Investment in Social Capital Looks Like

Like other companies with high social capital, United Parcel Service makes a wide range of investments in this area. The company prefers to hire people who fit the culture, who share its core values of hard work, cooperation, and commitment, over those who may be more experienced but lack these valued traits. The belief in commitment has been so strong that the company only recently relaxed a rule that forbid rehiring anyone who had left the company. Orientation programs, taught by UPS employees, not outside trainers, emphasize values and norms along with skills and procedures. The still strong promote-from-within policy, virtually universal stock ownership, and distributed decision-making contribute to a sense of participation and membership. An annual employee relations index both tracks employee opinions on issues including fairness of opportunity and trust and signals the firm's commitment to those values.

The firm keeps its traditions, aims, and values alive in "legacy books" that recount the experiences and thoughts of its early leaders and a policy book, originally published in the 1920s. UPS's annual meetings of top managers include a "Jim Casey Night," when the founder's ideas are recalled and discussed in the context of contemporary issues. And people at UPS frequently tell one another stories about the company's past and present. Although large and dispersed and dedicated to efficiency, UPS remains largely a face-to-face, "conversational" organization, held together by personal contact. Its electronic systems track pickups and deliveries and carry other company data, but people get together to make important decisions, build relationships, and communicate about issues and concerns. One senior manager says, "We are not a memo kind of company." The district safety officer at the Watertown, Massachusetts, center, Although he normally works regular daytime hours, personally attends the monthly Worker Safety Committee at 3:15 A.M. during the package-sorters shift. CEO Jim Kelly told one of the authors, “I don’t even know the phone numbers of the people on our management committee because I never pick up the phone if they’re in the office. We just walk into each other’s offices when we need to talk.”[22]

The fact that they are woven into the fabric of daily work gives most of these investments their power. We do not believe that weekend team adventures, company picnics, or similar activities do much to enhance social capital. They may foster a new relationship or strengthen an existing one, and probably help more than they hurt. By and large, though, one-shot “bonding” activities are ineffective because they are brief and a thing apart from daily work. Social capital is mainly created and strengthened (and sometimes damaged) in the context of real work. The conditions and durable connections that we experience day after day have vastly more influence on it than special events and team-building exercises. (These exercises, if they are inauthentic—detached from the work context—can even be counterproductive, , when they highlight a hypocritical distance between the togetherness activity and the firm’s real character.) Communities of practice are a popular and important subject today, and a critical part of the social capital discussion. Students of this phenomenon emphasize that communities grow out of practice; they are groups drawn together by common activities, not people who decide to do things together because they are friends or have played softball together or are pushed together by a manager.[23]

Students of communities also stress that they cannot be managed into existence. Recent work on communities and various aspects of knowledge management promote a kind of managerial intervention that encourages natural development, that orients rather than orders, that provides nourishment rather than blueprints. Some describe the difference in terms of a distinction between management and leadership. Some use the analogy of gardening or husbandry, the stewardship of an ecology as opposed to the construction or maintenance of a machine.

Successful investment in social capital—which of course includes investment in communities—demands this kind of organic approach. Networks of social connection, trust, and commitment cannot be manufactured or engineered, only encouraged. Social capital thrives on authenticity and withers in the presence of phoniness or manipulation. As many failed experiments in social engineering have shown, even well-intentioned and intelligent plans for model towns and cities and countries founder on people’s refusal to do exactly what is expected of them, no matter how healthy or sensible that expected behavior is. In fact, the enormous dangers of social engineering might be considered one of the major themes of the twentieth century. Even efforts driven by noble motives have sometimes had dire results—unintended consequences run amok.[24] “Rational” human engineering frequently seems to kill the life it tries to “improve.”

We do not suggest that leaders should take a hands-off approach to social capital. What corporate leaders can do to encourage, develop, and enhance social capital is in fact the main subject of this book. But their interventions must be based on a careful understanding of the social realities of their organizations and (even more difficult) a willingness to let things develop, even if the direction they take is not precisely the one envisioned. In short, they need to exercise what we think of as “light-touch leadership.” Social capital investment is not for control freaks.

So a key principle for action is “First do no harm.” Take care not to damage the social capital you have now. This advice is not nearly as passive as it sounds. It means, first of all, understanding the hidden social capital in the organization: it is easy to crush something you cannot see simply in the course of innocently moving around. It also means valuing the social capital you recognize. Almost every managerial decision, from hiring, firing, and promotion to putting in new technology to establishing revenue goals, setting travel budgets, and designing office space affects social capital. All of those activities are opportunities for social capital investment or occasions of social capital loss. In fact (to qualify our own axiom), to do no harm is sometimes impossible. Economic and organizational realities often require drawing on and partly depleting a firm’s social capital. The corollary to the axiom is to understand how much harm you are doing and to do as little as possible (to recognize, for instance, the damage done by downsizing, not just the benefit of reduced cost) and then to work to repair the losses that do occur.

Making Social Capital Visible

In December 1995, fire destroyed the Malden Mills factory in Lawrence, Massachusetts. The facilities and equipment that produced the company’s successful polar fleece cold-weather fabrics were gone. Suddenly, 3,000 workers had no work to do. A few days later, CEO Aaron Feuerstein announced that he would nevertheless continue to pay their full salaries while the company designed and built a new factory.

Feuerstein’s decision captured the attention of the country. Articles appeared in newspapers and magazines explaining how easily he could have taken the insurance money and retired, or used the fire as an opportunity to move his operation to a less expensive and less problematic city. Feuerstein was even invited to the White House, where he was hailed as a heroic and humane business leader. In an era of downsizing, when plants were closed and moved out of the country in the name of competitive efficiency, his action struck business commentators and the general public as rare, noble, and old-fashioned—a throwback to the days when people mattered more than profit and loyalty was prized over leanness.

That the public and the business world would consider Feuerstein's action so extraordinary and apparently "unbusinesslike" suggests that many people do not yet understand the value of social capital in organizations. It takes nothing away from the humaneness of Feuerstein's behavior to say that his decision made good business sense. His genuine concern for the welfare of the men and women who worked for him does not change the fact that the money he spent was an investment in the future of his business. By continuing to pay employees' salaries, he held on to a workforce that had proven its reliability and skill—people he had been investing in for years. By being loyal to them, he ensured their even greater commitment to doing good work for the company when the new factory was built. It is no accident that the company has an employee retention rate of over 95 percent, and that Malden Mills' reputation for quality products is undiminished. Feuerstein made an investment in social capital.

Perhaps *In Good Company* can help make that kind of story less surprising. In the chapters that follow, we explore key aspects of social capital in organizations. Our discussions of trust, networks, and communities, social space and time and communication, consider the kinds of benefits organizations can derive from these elements and supports. We suggest reasonable investments in social capital that leaders can make. And we grapple with the challenges of volatility and virtuality. Much of what we say will probably seem like plain common sense. As we have mentioned, everyone who has ever been part of an organization already knows a lot about social capital. But as long as it remains unexamined, it will be undervalued, misunderstood, and often hidden. We hope to bring organizational social capital into the light of day.