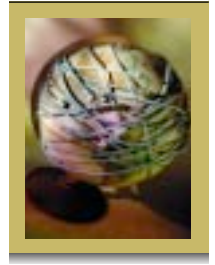


# Working in the Connected World:

## *Social Capital — The KillerApp for HR in the 21st Century*

By Valdis Krebs



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 21st century must manage connected assets<sup>1</sup> with many of these not being employees of the firm!

In the knowledge economy, content is no longer sufficient. . . everyone has access to multitudes of content. You cannot compete on what everyone knows. The new advantage is context — how internal and external content is interpreted, combined, made sense of, and converted to end product. Creating competitive context requires social capital, the ability to find, utilize and combine the skills, knowledge and experience of others.

HR used to focus only on within-employee factors. The new competitive landscape requires focussing 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 or-

ganizational effectiveness, research shows that it will become increasingly important. Ron Burt, a leading researcher and professor, at both The University of Chicago and INSEAD (France), predicts that managing an organization’s social capital will become one of the core competencies in knowledge-based organizations.<sup>2</sup> This will [finally!] be the road to respect for HR. In addition to being one of the leading academicians in this field, Burt keeps abreast on practices

- ◆ perform better as project managers<sup>11</sup>
- ◆ help their teams generate more creative solutions<sup>12</sup>
- ◆ increase output from their R&D teams<sup>13</sup>
- ◆ coordinate projects more effectively<sup>14</sup>
- ◆ learn more about the firm’s environment and marketplace<sup>15</sup>
- ◆ receive higher performance evaluations<sup>16</sup>

The affects of social capital do not contribute to just the success of individ-

*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.*

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<sup>3</sup> and writes often and contributes 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<sup>4</sup>
- ◆ are more likely to be promoted early<sup>5,6</sup>
- ◆ close deals faster<sup>7</sup>
- ◆ receive larger bonuses<sup>8</sup>
- ◆ enhance the performance of their teams<sup>9</sup>
- ◆ help their teams reach their goals more rapidly<sup>10</sup>

uals and teams. Organizations with better connections in the network of industry alliances and joint ventures report higher patent outputs,<sup>17</sup> a higher probability of innovation<sup>18</sup> and higher earnings and chances of survival in rapidly innovating industries.<sup>19</sup> 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.

### **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 com-

puting power, but many interconnected computers that exponentially increase the power of a single processor. The network effect is more than simply 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 the sum of individual employees

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

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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. HR will not focus on individual employees but on emergent networks of employees.

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
- 4) Enhancement

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 in to 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 de-

velopment is the individual. The targets 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? HR 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 4 and 15 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?

### **IT'S NOT OWNERSHIP, BUT ACCESS**

It is apparent that the definition of human capital has changed and continues to form 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.

Organizations rely less frequently 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 the 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 HR's role grows, so will the role of HRIS/HRMS in monitoring and modeling of these new capital structures.

### **ENDNOTES**

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For author's biography, see page 113.

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