Investment strategies for enhancing social capital

Presentation of a consulting model based on social capital and a planned research cooperation

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Jeanny Gucher, Klaus Neundlinger, Simone Rack,
4dimensions Consulting and Research Institute, Vienna

Luca Andriani, Birkbeck College, University of London

Contact: klaus.neundlinger@4dimensions.at

http://www.4dimensions.at

1. "Social capital" in organisational development

In the last years, several attempts have been made to render the various approaches to the topic of social capital fruitful for organisational theory. Since the publication of Cohen's and Prusak's In good company (2001), management theorists and practitioners strive to translate issues, mainly deriving from seminal studies on social capital (Coleman 1988, Putnam 2000), into the language of organisational development.

Cohen and Prusak consider volatility and virtuality as the two crucial challenges organisations do have to tackle if they are willing to move successfully in the global market economy. From the perspective of a firm, there is a difficult task deriving from these two challenges. It consists in transforming the rapidly changing social, cultural and economic structures as well as the multiplication of interaction opportunities by means of the new communication technologies into more or less stable, recognisable behavioural patterns. In other words, trying to change constantly structures, clients, personnel, services, and products is definitely not the best response to a volatile and virtual environment and proves to be harmful for the social capital of an organisation.[1]

Nevertheless, volatility and virtuality are more and more experienced as expressions of a general cultural setting that appears to call for managers and employees whose distinctive quality is the habit to simply have no habits (Sennett 1998, Virno 2013). Therefore, management and organisation have to be conceived of and implemented by accounting for and not trying to suppress contingency and unpredictability. Moving on by doing everything "in the same way as we have always done" turns out to be as harmful a strategy as it is the constant change of interaction modes, personnel and clients. Contingency and unpredictability cannot be eliminated, not even essentially reduced, for they are essential features of a shift in culture and society for which sociologist Zygmunt Bauman (2000) has coined the concept of "liquid modernity". Modern societies aren't any more characterised by regularity, but by a permanent state of exception (Agamben 2005), by the erosion of formerly powerful institutional settings, by a process of individualisation of relationships, attitudes and life styles, by a gap between the legal and organisational frameworks of social organisms and the effective way people and groups act and behave within these frameworks. The increasing discrepancy between facts and norms in many

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[1] "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. " Cohen/Prusak: "How to invest in Social Capital". In: Harvard Business Review, 2001, p. 14.

areas (Habermas 1998) increases the feeling of discontent and uncertainty regarding adequate behavioural patterns and interaction rules.

Can social capital be considered a framework that is strong enough to integrate the tendency towards irregularity and individualism by setting up behavioural rules apt for singular contexts? Can these rules be binding to the point that they actually reduce uncertainty without constraining innovative, creative and novel forms of thinking, acting and relating ourselves to others? What could motivate highly qualified, innovative and flexible people to invest in long lasting, trust and identity based relationships? In reference to two of the major promoters of social capital in academic discourse, Coleman and Putnam, we can deduce two aspects that seem to be essential for the moulding of internal organisational processes as well as of the external relations to customers, market and cooperation partners.

1.1 On the one hand, it is the ability to build up networks inside and outside the company in order to access to the resources and information needed and not available within the own team, division or company. The purposeful use of relations is indispensable for firms in order to gain and defend competitive advantages. One lesson learned by the last two decades of research in the study of economic conduct seems to be that it is embedded in social structures (Granovetter 1985). Individuals as well as firms have to "socialise" by building up or trying to join networks (Burt 1992, 2005) in order to be successful competitors. Acting by accounting for social structures, norms and patterns is in their own interest, because this will facilitate their access to information, resources, and competences in a complex, knowledge, communication and technology driven econo-sphere. To broker contacts and to build up stable links between diverse networks, groups, and knowledge spheres is a crucial attitude for the creation of value, since intellectual capital that engenders the so called "organisational advantage" is not bound to the individual human capital of team members, employees or executives, but emerges from cooperation (Ghoshal, Nahapiet 1998). Companies have to be open for knowledge and guarantee an organisational setting that pays attention not only to the curricula and individual competences of their individual human resources, but also to the relational aspects in teams, to the way "working together" evolves (Sennett 2011). Yet, openness means also that organisations, by brokering contacts, competences and knowledge, draw on relations in a selective, rational manner (Coleman 1994, Lin 2001). Social capital, in order to be effectively and efficiently structured, implies organisational and managerial intervention. It may be easy to

express oneself in favour of cooperation, yet it is hard to organise, and empirical evidence shows that many attempts of cooperation fail (Riemer 2005).

1.2 In the knowledge economy, cooperation and competition cannot be seen any more as behavioural modes that exclude each other. They rather represent two sides of the same coin. By combining the selective, rational choice based approach to social networks and relations with the communitarian approach proposed by Putnam, firms have to strive to achieve cooperative advantage (Cooke 2002). This means that, by linking competitive acting in the market sphere to the respect of rules, trust and norms, organisations follow the principles of economic ethics (Suchanek 2007). They act not only driven by self-interest, but realise their individual benefits through cooperation (Benkler 2011). By integrating their self-interest in a framework of cooperation for mutual benefits, individuals as well as companies dedicate their core competences of efficiently and effectively organising and managing interaction to the fostering of social cooperation on a more general level (Suchanek 2007). In this way, it is possible to create a culture that helps to withstand the temptation of considering relations, be they inside or outside the firm, as pure instruments for the achievement of particular goals. Recognisable, trust-inspiring behavioural patterns can be created and are likely to spread. They are to be considered investments in future value creation.

2. Social capital management as a competence, social capital manager as professional figure

Given the necessity of organisational development in a complex and fragmented business world, project management and quality management can be considered important bases for the structuring of organisational processes, but they do not suffice when the task consists in analysing and changing social interaction as well as involving the single members of project teams, departments or divisions in an overarching setting of cooperation. Social capital theory provides us with insights on how people find together in communities, how they handle relationships in order to prevent others from acting against common rules or exploiting common resources. It also helps us understand how networks are extended in order to allow knowledge and creativity to circulate, experience to be exchanged and norms and behavioural patterns to be discussed and diversified.

With backgrounds that vary from project management to human resources, sociology and humanities, the members of the 4dimensions institute individuated in the various social capital approaches a valid theoretical basis for

the attempt to find common ground and to evolve a model for consulting processes. In order to enhance the ongoing exchange and learning process, a development team was founded that set up a program for a postgraduate Master in Social Capital Management, approved by the Austrian National Council for the Universities for Applied Sciences. The aim of this program is to create a platform for the creation not only of knowledge, but of methods and attitudes that contribute to the emerging of a new professional figure inside organisations, the social capital manager.

3. The model of the 4 dimensions

The consulting model individuates 4 aspects (dimensions) for analysing and enhancing social capital in organisations: culture, interaction, motivation, structure. The resources required to accomplish an investment in social capital consist, above all, in time and interaction.[2] Investing in the formation of social capital means, thus, to reflect on and create a common understanding regarding the way transactions are executed. It implies, from our standpoint, to conceive of transactions not only as passages including technical, but also semantic interfaces. In other words, transactions have to be seen as communication, as interactions (Männel 2002) that serve to create common understanding and to organise cooperation in a more efficient way. To shape semantic interfaces more efficiently means, from our point of view, to invest in social capital. Concretely speaking, this implies to do analysis workshops in order to change interaction modes. The result of the common reflection on culture, interaction, motivation and structure should be shared rules, activities and measures that involve everyone in order to make the transactions in organisational life more effective and efficient.

3.1 Culture
3.1.1 Culture evolves towards permanent conflict:
cultural shifts – uncertainty – chaos – might is right

As we stated, volatility and virtuality apparently augment the pressure on organisations to subject their structures and services to continuous change. Yet, frequent changes are lived as being part of cultural shifts and therefore reduce people's involvement. A general feeling of uncertainty prevails and interaction, being accomplished in a more and more chaotic environment, eventually follows the principle of "might is right". Social capital decreases drastically because of the lack of trust. People feel less and less involved in decision processes,

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[2] „All forms of human-made capital are created by spending time and effort in transformation and transaction activities in order to build tools or assets today that increase income in the future." Ostrom 2000, p. 174.

distrust superiors and colleagues and experience the lacking of reliable norms in every day practice.

3.1.2 Culture evolves towards productive cooperation:
Involvement – handling of responsibility – acceptance of responsibility – formation of culture

To invest in social capital in terms of culture means that people are involved by assigning responsibilities to them. What happens when people learn to handle tasks, i.e. responsibility, is not bound to an extension of their individual human capital, but has to be seen as a social process that contributes to creating a culture of responsibility (which includes also a culture of coping with failures). If single persons or teams accept the responsibility assigned to them, they will feel involved in the decision process. As a consequence, mutual trust and understanding increases and a common culture is formed, in other words, an asset that can be considered as the result of an investment in social capital.

3.2 Interaction
3.2.1 Interaction evolves towards permanent conflict:
Social conformity – irritation – ineffectiveness – exercising of power

The best tactic to survive in an unknown or uncertain social context is to try to imitate observed behavioural patterns, in other words, to stick to social conformity. Nevertheless, doing what the others seem to expect and behaving like the others seem to behave is exposed to misunderstanding. If reactions repeatedly do not meet general expectations, this can provoke irritation. Interacting with the others lacks common understanding and is experienced as ineffective. Eventually, pure exercising of power becomes the prevailing mode of interaction.

3.2.2. Interaction evolves toward productive cooperation:
Adoption of an autonomous position – common reflection process – interaction rules – participation

An investment in social capital in terms of interaction parts from the individual that gets the opportunity to autonomously adopt positions instead of behaving in conformity to the alleged expectations of others. Deriving from this position of autonomy regarding the individual views, a common reflection process can be initiated that leads to the establishment of shared interaction rules. If these rules are followed in every day organisational life, the result will be a high degree of participation.

3.3 Motivation

3.3.1 Motivation evolves toward permanent conflict

Attitude of expectancy – deception – demotivation – inefficiency

Motivation, like interaction, has a lot to do with expectations. The difference is that the motivation of individuals is built on their own expectations. For example, they are ready to bring in their competences in new projects. Maybe they have a diffuse attitude of expectancy towards change processes, because they believe that this could be their chance to be heard or to realise their ideas. Yet, as soon as these diffuse expectations are deceived, people begin to be demotivated. If motivation further sinks, individual efforts are experienced as inefficient.

3.3.2 Motivation evolves toward productive cooperation

Individual level of autonomy – trust evolution – acknowledgement – internalised values

Investment in social capital in terms of motivation implies to combine the intrinsic and extrinsic factors influencing it (Barbuto/Scholl 1998). Similarly to the dimension of interaction, the first step to strengthen social capital by motivation is to entitle the individual with a certain level of autonomy in order to acknowledge its internal self-concept, its subjective values. The higher the individual's opportunities are to build its relationships on a process of trust evolution, the more these subjective values prove to be acknowledged by the others. Individuals begin to accept the external self-concept, i.e. the requirements of the organisational environment, as a motivational source. Recognising the others' values and objectives leads eventually to a process of internalisation of common values, to the interpretation of one's own efforts as a contribution to a common goal.

3.4 Structure

3.4.1 Structure evolves toward permanent conflict

Cluelessness – error frequency – assignment of guilt – defending against accusations

Relations in organisational contexts do have a structural aspect. Hierarchies are usually established in advance. Functions and responsibilities are assigned and distributed. On the other hand, these structural conditions have to be filled with life if there should be a productive cooperation. Under the condition of rapid changes, the mere assigning of functions and responsibilities often leaves people clueless. Taking over a function, if things are in constant change, can increase the error frequency, a fact that provokes accusations and mutual assignment of guilt. As a consequence, people don't exert their functions

productively and spend a lot of energy in defending themselves against others' accusations.

3.4.2 Structure evolves toward productive cooperation

Analysis of needs with respect to structure – development of structure – acceptance of structure – living structure

Investment in social capital in terms of structure means to account not only for the structural, but also for the relational and cognitive dimensions of social capital (Nahapiet/Ghoshal 1998). Individuals must not be left alone in their effort to exert a function, but have the chance to analyse and express their needs with respect to the structuring of the working process. Only in that way, the structures of an organisation appear to be embedded in a living relational fabric and can stimulate the emergence of a feeling of identification with the organisational structures and of a common language. Structure can then be developed in a common process. This leads to a high degree of acceptance of structural conditions by the single members of an organisations and, eventually, to a living structure.

4. Implementation of the model: a practical experience

We want to shortly outline a case of practical application of the model. The concrete situation was the foundation of a new business unit in the area of software development with 700 employees. The investment in social capital on the basis of the consulting model of the 4 dimensions described above consisted in an analysis of the social capital stock of the unit at the beginning and in a measurement and consulting process over several months. The task was to form not only development teams, but an overarching unit that should distinguish itself by common objectives. In an interview, the executive responsible for the creation of the unit stresses the importance of the model of the 4 dimensions for the definition and pursuit of the overarching objectives which were not constrained to performance in terms of economic output. The objective of "combining efficiency to excellency" implied the task to relate creativity and problem solution competence, i.e. the human capital of the individuals, to the quality of the relationships and the ability to cooperate. These three factors seemed to have a positive impact on the performance of the unit because they had been integrated in the organisational development process. Sustainability with respect to the outcomes was thus reached on a social capital theory based approach.

The following section is taken from the podcast interview with Peter Nowotny[3]: (06:40-09:05).

Mark: … the process requires a certain initial investment. Obviously, if you make an investment, the intention is to get a return on investment. What was your return on investment? Did this process deliver you the benefits that you expected?

Peter: For me, one of the most compelling features of this method is the fact that you can measure the effects. This is remarkable, because especially in the field of R&D and of software R&D, everyone is looking for measures for productivity. With this method, you have the possibility to monitor the productivity. Also if you review the literature,[4] there is a positive relation between factors of social productivity and "real" productivity so to say, of the R&D teams. If your question regards the quantitative results, I can tell you, first of all, that the organisation was quite successful. In four years, the number of the people rose from 700 to 1100. Also the project results were quite good. You will object that social capital is not the only determining factor, and you are right. You need a competence base, both for software development and the domain. You need know-how, be it in energy, be it in health care or whatever. But, if you want to go for more productivity and also go for more flow in the work, I'm convinced, it needs more, you need these methods of social capital management.

Mark: So you got a result from your perspective. What about the sustainability? Is this something that has sustained over a long period of time?

Peter: If you look at the employees surveys over the last years, you can see a sustainable effect. These surveys show a more and more positive picture, let's say, for the engagement of the people and so on. However, if we stopped this process now, I think, it would not be a good idea. Boundary conditions are changing, the market is changing, but also people are changing, and I think and I've seen some in a positive direction.

5. Research proposal – a planned cooperation with Birkbeck College

5.1 Starting point of the research project is a simulation game for project teams that has been developed by the consultants of 4dimensions together with researchers and executives in order to enhance productivity in projects. The task to be fulfilled in the simulation by the participants was to form project teams and to set up a production line with the target to produce a certain number of paper stars according to a given design and to sell possibly all of them to a person assuming the double role of a costumer/manager who would evaluate the quality of the produced stars and accept or refuse to buy the presented products.

In a first run, the groups were not provided with any detailed instructions on how to organise the production line, which led to very poor results (on the average, only one or two stars were actually accepted by the costumer). Before doing a second run, the groups received instructions on methods deriving from project

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[3] "Social Capital Management 02/EN; Talking to a practitioner 01": http://www.youtube.com/watch?v=34WYkMZ9iEk
[4] Yılmaz/O'Connor 2012.

and quality management (Pinto 1998, Summers 2009), by the application of which the output produced could be sensibly increased (up to 30 stars sold).

After having done numerous iterations of the simulation with different groups, the development team decided to change one boundary condition: from that moment on, participants who took part in the simulation were provided not only with project and quality management methods, but also with the model of the "4 dimensions of social productivity" as a methodology that allows for a reflection on the social capital of the organisation and working process before undertaking the second tentative in organising the line and trying to sell as many stars as possible.

Again, almost all the groups could increase their output considerably, reaching up to a number of 50 and—in some cases—59 stars produced according to the quality standards required and sold to the costumer. Hence, there is strong evidence that enhanced social capital does not only have a positive effect on the utility function of collaborators and teams, i.e. with regard to "soft factors" like the working atmosphere and the individual satisfaction of taking part in the process. It also influences the output of a team's collective efforts in terms of economic productivity. In the context of the simulation, productivity is measured by means of key performance indicators, such as the material and the quality indicator, the non conformance costs and the time to market indicator. Hence, the evidence that there is a relation between social capital and productivity seems to be founded.

This encourages the developers of the simulation to subject the underlying idea of the game and the hitherto collected results to scientific verification. Therefore, a primary objective of the research project will be to elaborate a standardised experimental setting for the simulation by carrying out the game with a significant number of groups and by gaining measurable outcomes/reliable data.

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