

Factsheet for Social Capital talk

Case studies

John Browne at BP ⁱ

When he became CEO of BP in 1996, John Browne restructured BP into 150 business units and gave unit managers considerable freedom. The only conditions were respect for the core values and expected behaviours of the company, and delivery on their performance contracts. To support the empowered and fully accountable business-unit leaders, he created:

- *'Peer-assist'*. Peer groups of managers who ran similar BP businesses, assigned to help each other to improve both individual and collective performance. A culture of collaboration gradually emerged, people taking enormous pride in helping colleagues to succeed.
- *'Peer-challenge'* then extended that approach to the performance management and resource allocation processes. Under the traditional vertical system, the managers of each business unit entered into an annual performance contract with top management and were then free to achieve the results however they wished. Peer challenge required managers to get their plans, including investment plans, approved by their peers before finalising the performance contract with top management, in the knowledge that investment allocated to one business unit could not go to the others. The challenge then came from peers, not from management. Half of each unit manager's bonus depended of the performance of the peer group.
- In an added twist, the three top performing business units in each peer group were made responsible for improving the performance of the bottom three.

OgilvyOne ⁱⁱ

Advertising company OgilvyOne developed an integrated knowledge management system called 'Truffles'. Supported by 60 knowledge officers across the company, the Truffles initiative provided both an IT system and networks of social relationships.

- An IT database and system for testing hypotheses and ideas, which was the result of years of documenting the company's accumulated intellectual capital. This needed a world class IT infrastructure and tremendous effort and investment to keep its information current.
- A living forum for creating and sharing new ideas. This provided opportunities for people to generate ideas together through a variety of chat rooms, bulletin boards and dedicated forums. It also included efforts to build interpersonal relationships – or 'soft bonds' – to promote knowledge sharing. OgilvyOne created many conversation forums, for instance Friday morning breakfast meetings and team awaydays. Senior leaders devoted considerable time to develop the internal trust that sustains intellectual integration and relationships based on friendship.

Nucorⁱⁱⁱ

Nucor is the largest steel producer in the US, employing 16,000 people in 50 locations across the country. Nucor expects everyone to share best practice, not only within individual plants but also across the company's locations in 23 US states.

This means that at any one time executives, staff and team representatives are on the road describing experiments, lessons learned and practices that enhance efficiency and productivity. Teams decide whether, when and where to travel. There is no fixed budget for such travel and no limit to the number of people who may travel or how long they may be away from the job. Employees choose to share what they have learnt, even though they do not receive a full production bonus for the days they are away.

Production teams at US steel manufacturer Nucor are largely self-managed. Each team helps to select its own supervisor, who is likely to be an experienced production worker. A good supervisor is someone who can see the bigger picture and coach team members. Anyone who is not a good listener or does not take the team's suggestions into consideration, is unlikely to be successful in the role. In fact team members can effectively de-select a supervisor by withdrawing their support.

"Teams also manage their own problems. If there is an issue between or among employees, it is their responsibility to talk it through until they find common ground. The supervisor will step in only if the people concerned ask for help. ... If something has gone wrong within a facility, cross-team efforts will solve it. In this culture, discipline isn't imposed from above, but is expected to come from the built-in human drive to solve problems."

Research evidence

Research evidence – horizontal integration across the organisation

British researchers^{iv} found that large companies which had previously emphasised vertical integration – top down command and control – had by the end of the Twentieth Century switched their emphasis to horizontal integration.

In the days of vertical integration, business unit managers had few incentives to share knowledge or to help each other, particularly when their performance evaluations focused on how their own unit's business was doing rather than on how it contributed to company performance overall. So integration was vertical, through direct orders and formal planning and control.

But by the turn of the Century companies had switched their emphasis to horizontal integration and cohesion, to improve business performance through better sharing and coordination across units.

Research evidence – knowledge management

Research has found that:

- In a large multi-national electronics company, the exchange and combination of ideas and information between business units, as well as of products, staff and support, improved product innovation.^v
- The flow of knowledge is the lifeblood professional services firms. These firms rely on the creation, transfer and integration of knowledge to give them their competitive advantage".^{vi}
- In manufacturing, sharing knowledge among employees is a key factor in the speed with which innovations are transferred internally or imitated from others.^{vii}

Research results – team working

A review^{viii} of 12 large-scale surveys and 185 US case studies found that team-based working improved organisational performance in terms both of efficiency and quality.

Several research studies^{ix} looking at staff in the NHS found that effective team working improved the quality of patient care by increasing co-operation between co-workers, raising morale, reducing errors and improving innovation. On average, in hospitals where over 60% of staff reportedly worked in formal teams, in-patient mortality was around 5% lower than would otherwise be expected.

A study^x of small and medium sized UK manufacturing organisations found that levels of innovation were higher in organisations using work-based teams than in those without them. The greater the percentage of staff working in teams, the higher the level of innovation. This applied both to management and production teams.

Research results – the impact of self managing teams

North American research found that introducing autonomous and semi autonomous teams had the strongest effect on company performance out of 18 different organisational interventions.^{xi}

A study of US call centres found that sales representatives in self-directed teams had higher sales productivity than sales representatives in traditionally supervised groups, because they benefited from better learning and problem solving on how to handle customers and new technology. Participation in self managed teams was associated with a 9.3% increase in sales per employee; when combined with new technology, self managed teams boosted sales an additional 17.4%. These effects persisted over time.
^{xii}

Research results – the effect of social capital overall on organisational results

US research has found that social capital improves school results and patient care.

- In US urban public school, relations internally among teachers, and externally between the principal and external stakeholders, improved student achievement in maths and reading.^{xiii}

- In nine US hospitals, shared goals and knowledge, mutual respect, frequent communication and joint problem solving amongst staff responsible for surgical patients resulted in better quality of patient care, postoperative pain and functioning, and length of stay.^{xiv}

Research has shown that social capital increases innovation.

- One study found that social capital increased productivity in 224 corporate R&D teams.^{xv}
- A survey of 93 US companies showed that social capital played a central role in innovation.^{xvi}
- Research in 72 high technology firms found that social capital and knowledge management among managers and knowledge workers increased the rate of new product and new service introduction.^{xvii}
- Another study, of key knowledge workers such as scientists and engineers in 136 US knowledge intensive high-technology firms, found that social climate drove the firms' capability to exchange and combine ideas and knowledge in new ways, which in turn predicted revenue from new products and services and sales growth.^{xviii}

ⁱ Ghoshal and Gratton 2002

ⁱⁱ Ghoshal and Gratton 2002

ⁱⁱⁱ Kelly 2008

^{iv} Ghoshal and Gratton 2002

^v Tsai and Ghoshal 1998

^{vi} Kinnie et al 2006 pp. xi, 2, 6, 7, 15, reporting on their research in British professional service firms.

^{vii} Zander and Kogut 1995, cited in Ghitulescu and Leana 2006 p.202

^{viii} Michie and West 2004 p.97 and 100, citing Applebaum and Batt 1994

^{ix} West et al 2006, citing West et al 2002 and other authors; West, M. & Borrill, C. *The Influence of Team Working* in Cox, J., King, J., Hutchinson, A. & McAvoy, P. (eds) *Understanding Doctors' Performance* Oxford: Radcliffe Publishing 2005; Michie and West 2004 p.97 and 100 citing Borrill et al 2000.

^x Shipton et al 2006

^{xi} West et al 2006 p.173 citing a meta-analysis by Macy and Izumi 1993 of 131 North American field studies of organisational change.

^{xii} Batt 1999, based on a study of call centres in a large US unionized regional Bell operating company.

^{xiii} Leana and Pil 2006

^{xiv} Gittel et al 2000

^{xv} Reagans and Zuckerman 2001

^{xvi} Subramaniam and Youndt 2005

^{xvii} Smith, Collins and Clark 2005

^{xviii} Collins and Smith 2006