CHAPTER 4

TRUST

Virtual Relationships

“We’re re-creating the complexity of the natural world in cyberspace and re-embracing deep, social archetypes,” says David Sibbet, who describes his unique craft of graphic facilitation as “journalism put together with poster making.”[1] Sibbett has pioneered the practice of facilitating groups with graphics. As meetings progress, graphics facilitators take multicolored notes on very big flipcharts, producing elaborate murals that simulate the group’s “story in words and image, providing a way for groups to collectively uncover the patterns of shared meaning in their different perceptions.” “Cyberspace will be equally complex. Already it is evolving beyond text and numbers to word, image, feeling, and social interaction. Do we navigate through our lives analytically? No, we rely on people we trust. We won’t turn over millions of years of evolution just because we’re using new tools.”

Trust is the short word that underlies the years ahead. Online, we go through people we trust.

Benefits

People work together because they trust one another. They make deals, undertake projects, set goals, and lend one another resources. Teams with trust converge more easily, organize their work more quickly, and manage themselves better. Less trust makes it much more difficult to generate and sustain successful virtual teams.

Trust has always been important for groups. In the workaday world of the Industrial Age, it is more a nice-to-have quality than a need-to-have one. Times have changed.

Virtual teams are quicker, smarter, more flexible work groups in a sea of change. Highly adaptive organizations, these teams can cope with tumultuous complexity. For them, trust is a need-to-have quality.

Without daily face-to-face cues, trust is at once both harder to attain and easier to lose. Mistrust slips in between the slender lines of long-distance communication stripped of the nuances of in-person interaction. Business grinds to a halt when trust breaks down.

"Trust builds with the recognition of the contribution that everyone makes," says Pfizer's Hank McKinnell. "If you make a real contribution, people will trust you."

Trust is the elixir of group life, the belief or confidence in a person or organization's integrity, fairness, and reliability. This "matter of faith" comes from past experience, however brief or extensive. The importance of trust cuts across a team's life cycle:

- A new team requires trust to begin.
- It's the all-purpose grease for the ongoing hard work of the team.
- When it's done, a team leaves trust (or its lack) behind.

Successful virtual teams pay special attention to building trust at each stage of their development.

As trust accumulates—in teams, corporations, communities, and nations—it creates a new form of wealth. In the Network Age, *social capital* is as potent a source of value as land, resources, skills, and technology. To understand just how powerful an *economic* force social capital is, we travel back in time nearly a millennium.

Two Paths, Two Societies

Italy was in shambles as the curtain lifted on Europe's aptly named Dark Ages. Throughout the peninsula, imperial rule had crumbled. Banditry was rampant. Restoring social order was the government imperative of the time. With the dawning of the twelfth century, two radically different approaches emerged:

- Steep vertical hierarchies rose up in the south.
- Horizontal networks spread out in the north.

Hundreds of years later, these two paths reverberate still, not as faint echoes of the past but as powerful, pulsing shapers of the two disparate regions' cultures, institutions, and economies.

Beginning in the early 1100s, Italy's southern region fell under the organizing talents of Norman mercenaries. They superbly blended relatively enlightened feudal rule with Byzantine-style, complicated bureaucracy for the next few centuries. Then, following the deaths of a line of great kings, prosperity started to wane. The steep hierarchy passed to the landed autocrats.

This vertical, client-patron power structure remained intact for the next 800 years and is still spectacularly evident in the 1990s. The collapse of the central government to corruption, a mega-scandal known as "Kickback City" (in Italian, *Tangentopoli*), was nearly a millennium in the making. Meanwhile, Italy's central and northern towns became remarkable forerunners of twenty-first-century organizational design.

Inventing Credit

Not since the rise of Athens and the other early Greek city-states had the West witnessed such a brilliant light of self-governance as shined in Florence, Venice, Bologna, Genoa, Milan, and other cities and towns in the north of Italy. From the 1100s, decentralized centers of communal republicanism rose and prospered. At their core were voluntary mutual-aid associations of neighbors for protection from marauding violence and cooperation for economic prosperity.

> *"From the twelfth to the sixteenth century the feature that most distinguished Italian society from that in other regions in Europe was the extent to which men [sic] were able to take part in determining, largely by persuasion, the laws and decisions governing their lives."*[2]

People formed myriad mutual-aid groups in many spheres, creating a "rich network of associational life"—in neighborhoods, among parish priests and religious societies, in political parties, and within "tower societies" that provided security. Key among them were craft and trade guilds, formed for social as well as economic purposes. A "vivid sense of equality" coursed through the affairs of these communities.

Most remarkable was the economic creativity unleashed by the growing civic communities. The northern Italian republics invented *credit,* adding this fundamental tool to the already known classic economic factors of markets, money, and law.

Before the innovation of credit, private capital could accumulate but could not travel further in the economy. Credit links savings and investment. It sets up an accumulating feedback loop whereby wealth can be used to create more wealth and economic growth. The prosperity of the communal north flourished through finance and commerce, which produced a different kind of affluence from that of the southern Sicilian Kingdom, which rooted wealth in the land.

What lay at the heart of the discovery of credit a thousand years ago? Nothing more complex than an essential human quality already old by then—*trust.* Credit (from the word meaning "to believe") is possible only when there is mutual trust. In the *Oxford English Dictionary,* the third definition of credit *is* trust. The more trust exists, the more efficient credit is. The cost of mistrust goes down. With widespread trust in northern Italy:

> *"(S)avings were activated for productive purposes to a degree inconceivable in previous centuries. . . . It was the widespread sense of honesty, strengthened by the*

sense of belonging to an integrated community, quite apart from definite legal obligations, which made possible the participation of all kinds of people with their savings in the productive process.”[3]

Northern Italy has maintained a rich, concentrated culture built on extensive intertwined horizontal relationships throughout the centuries, through plagues, foreign occupations, and periodic impositions of client-patron controls.

Emilia-Romagna: The Reprise

An unexpected visitor arrived at our office in West Newton, Massachusetts, in late fall 1991. He had a message that he said we could not ignore in the book we were then writing, *The TeamNet Factor.*[4] “You must tell the amazing story of what happens when many, many small businesses form networks,” said Jean-Pierre Pellegrin, a French official at the Organization for Economic and Cooperation and Development in Paris. “Emilia-Romagna, then Denmark. Write about them.” *Them* turned out to be a very big story indeed in north-central Italy.[5] The somewhat mysterious source of Emilia-Romagna’s rags-to-riches story was the inspiration for the *flexible business network* movement around the world—where little companies become small giants by linking up.

After a century of centralized rule from Rome, Italy finally decided to decentralize its government in the 1970s. At the time that regional governments begin to form, Emilia-Romagna ranked eighteenth in income among Italy’s 21 administrative regions.

Over the next decade, the economy exploded as hundreds of thousands of small businesses in Emilia-Romagna tied together into networks. It became the second wealthiest region in Italy, recording the greatest performance jump of any of the 80 European Community regions by the mid-1980s. Unemployment plunged from 20 percent to almost zero. By the late 1980s, there were 325,000 companies in this region of 4 million—an incredible ratio of one firm to 12 people, 90,000 of them in manufacturing.

Emilia-Romagna caught Denmark's attention. By the end of the 1980s, that country of *5 million,* about the same size as the commonwealth of Massachusetts, intentionally launched a similar effort. Denmark's success proved that many of the Italian lessons are transferable. In these two countries, government stimulates thousands of networks, positively affecting the national bottom line.

Italy's experience in moving from centralized to decentralized governance mirrors that of many organizations. Its mandate comes long before its implementation. Italy's 1948 Constitution calls for the nation to decentralize and establish administrative regions. But it takes more than a generation for this to occur. Italy deliberately establishes an entirely new level of government in 1970. With the regions come new governments with fairly equivalent roles, rules, and budgets.

> *This rare event in a developed democracy offers a natural experiment: a set of governmental constants and a wealth of social, cultural, and economic variables encompassing the many extremes represented in Italy.*

Harvard professor of government Robert Putnam and a network of colleagues seized the extraordinary opportunity to do very large scale social *science* in the field. Together they laid a baseline and tracked the ensuing institutional results. Putnam's book, *Making Democracy Work: Civic Traditions in Modern Italy,* summarizes their extensive findings and draws powerful implications for democracy and economic development in the Network Age.

They measured the performance of the new governments in three broad areas with 12 indicators:

- *Processes,* including cabinet stability, budget promptness, and statistical and information services
- *Lawmaking,* including reform legislation and legislative innovation

- *Implementation,* including day-care centers,[6] family clinics, industrial policy instruments, agricultural spending capacity, local health unit expenditures, housing and urban development, and bureaucratic responsiveness

Perception is at least as important as reality in politics. They tested these objective performance measures against citizen and community leaders' opinions gathered by surveys and polls and found them in close agreement.

Amazingly, Emilia-Romagna topped the authors' "good government" charts among all the regions.[7] Why?

The Hunt for Civic Community

While some regions thrived, others quagmired. These conclusions leapt out of the data—field observations, case studies, quantitative techniques, and statistical analysis—prompting the researchers to keep asking why. They liken their search for clues to a detective mystery.

The usual explanation, that good socioeconomics leads to good government, does not square with the data. Both the top performer and the bottom one started in 1970 with similar below-average social and economic indicators. Yet Emilia-Romagna in the north became the country's rising star, while Calabria in the toe of Italy turned in the most dismal performance. (See Figure 4.1.)

The answer, once they saw it, reverberated throughout the data:

- Indicators of good government correlate with . . .
- Places where people are joined in thick, overlapping networks, what the researchers termed "civic communities," that in turn map uncannily closely with the . . .
- Most horizontally organized types of governments of the medieval states as they existed in 1300.

Civic communities come about when people engage in horizontal relationships. They are "bound together by reciprocity and cooperation,"

Figure 4.1 Modern Outcomes of Ancient Social Capital

Institutional Performance in Italian Regions 1978–1985

Republican and Autocratic Traditions Italy c. 1300

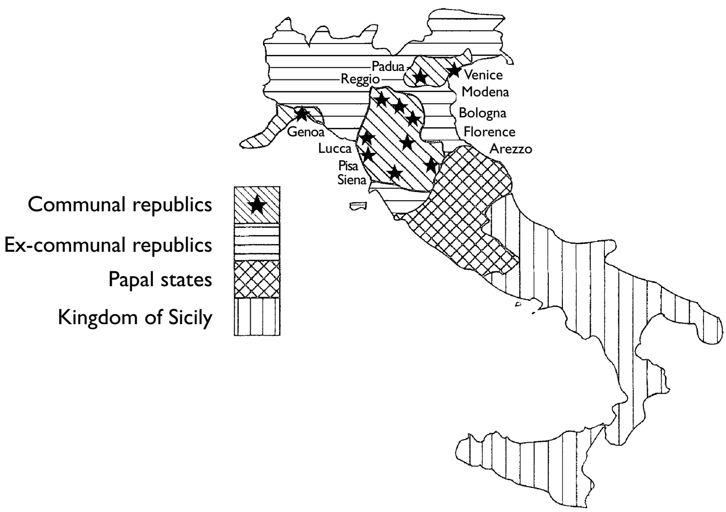
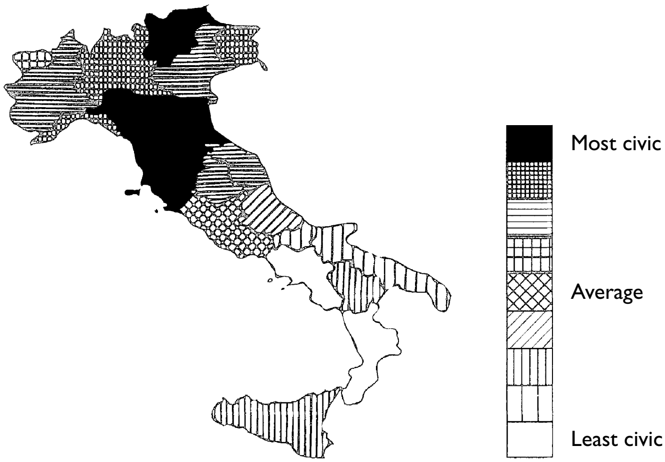


Figure 4.1 (Continued)

Civic Community in Italian Regions



according to Putnam, rather than by vertical "authority and dependency." Equality and trust, two basic human values, are at the core of civic culture. Civic societies are lush with social networks and associations of all sorts, an observation Alexis de Tocqueville made regarding the about-to-boom United States in his 1840 study, *Democracy in America.*

Many networks tightly braid people in Emilia-Romagna, which has the top measures in both civic culture and institutional performance. Putnam calls it "the site of an unusual concentration of overlapping networks of social solidarity, peopled by citizens with an unusually well developed public spirit—a web of civic communities. Emilia-Romagna is not populated by angels, but within its borders (and those of neighboring regions in north-central Italy) collective action of all sorts, including government, is facilitated by norms and networks of civic engagement."

The results are simple and strong:

Governments are better where measures of "civic-ness" are higher.

New Gold

In 1970, Bologna, once the intellectual capital of the medieval communal republics, became the new regional capital of Emilia-Romagna.

What fuels the unprecedented economic growth there and the creation of excellent government? What resources of capital enable such widespread creation of new wealth? Neither new land, natural resources, nor technology grace this ancient area. Not even human capital, meaning a highly educated and skilled populace, distinguish it.

What Emilia-Romagna did have in 1970 was an abundant stock of continuously renewing *social capital.*[8] Its spring of wealth has three tributaries:

- Trust
- Reciprocity
- Dense social networks

In the communal republics, extraordinary trust develops among myriad mutual-aid associations and allows the civic regions of Italy to invent credit. The lesson of the past millennium applies immediately to today's business networks.

> *"At the core of the mutual aid societies was practical reciprocity: I'll help you if you help me; let's face these problems together that none of us can face alone."*[9]

Today these seats of Western civilization again have shown how to spin old relationships into new gold.

Relationships among the players lodge social capital. Unlike financial and human capital, social capital cannot be the property of individuals or corporations. By its very nature, it is jointly owned.

People generate wealth in dense networks of horizontal relationships in two primary ways:

- By lowering transaction costs
- By increasing opportunities for cooperation

Transactions are at the heart of business. All transactions, commercial and otherwise, particularly across boundaries and over time, embody trust. Transactions have costs—heaviest when trust is low, lightest where trust is high.

Mistrust is expensive. Informal communication goes down and formality goes up: endless forms and legalisms, time and effort spent checking other people's work, drawn-out negotiations, political games and backstabbing, sticker shock at the cost of third-party enforcement, corruption, and crime. When trust diminishes, price goes up.

Left unrenewed and unused, social capital depletes, fragments, and disorganizes under the wear and tear of transaction costs. Mistrust makes networks hard to form and relationships difficult to maintain, further diminishing trust. Unchecked, this vicious cycle searches for a stable state. In a top-down culture held together by vertical controls, the norm to "never cooperate" stiffens in place.

But there is hope. Social capital also grows through *reciprocity* among people in *horizontal networks.* Reciprocity works when people

- Barter directly in the here and now.
- Bank benefits for the future, the barn-raising principle.

In barter, reciprocity is in equilibrium with an immediate and equivalent exchange, a trade of some kind. In barn raising, you do something today believing that it will come around to you in the future.

> *Future-oriented, barn-raising, cooperative behavior is the most productive type of reciprocity. It enables economic development.*

Rotating credit associations, found in virtually all cultures around the world, show how trust creates new wealth. Revolving loan funds—from villages in Bangladesh where Grameen Bank funds new businesses to the Pine Ridge Reservation in South Dakota where small groups of microentrepreneurs pool resources—happen when everyone in a group contributes to a common pot. One member uses the collective pot, perhaps to increase his or her productivity (e.g., to buy seed or a plow). After experiencing the benefit, members, of course, continue to contribute. Why "of course"? Because in dense networks, where people know one another well; the cost of lost opportunities and the threat of ostracism are prohibitive.

Trust lowers the cost of cooperation, depositing money in the bank. Informal communication increases while formalities and paperwork recede. Negotiations are brief and conclusive. The need for "checkers" evaporates as people simply keep their word. No need to spend time supervising because everyone's involved in real work. With trust and relationships that are reciprocal, social capital accumulates. Without trust, it remains scattered and unformed. The more relationships you have, the greater the potential for crosshatches of trust.

Greed No More

"Greed, mismanagement ravage fisheries," reads the headline.[10] Near us, both the United States and Canada are invoking drastic measures to curtail the catch on the once-rich Georges Bank fishing grounds off the New England and Newfoundland coasts. Local economies are devastated. A precious resource is in dire danger globally.

Georges Bank is a real-world example of "the tragedy of the commons," whereby people ruin a place that they own in common by overuse. When everyone maximizes his or her own individual gain by exploiting a shared resource, they destroy a natural, common source of wealth. Add continuously improving technology, such as in ocean fishing, and the spiral to exhaustion accelerates.

The field of game theory has a name for this: "The dilemma of collective action" is one of several logical puzzles that speak ill of cooperation. According to the numbers, cooperation is either folly or, at best, rarely a rational choice. With such thinking, early game theorists make the science of economics more dismal than Malthus had ever imagined. In closed transactions where games are played in isolation only once, the winning strategy, they find, is for players to get as much for themselves as possible and never cooperate. Selfishness is logical and rational.

In isolated situations where there are no consequences in the future and relationships are top-down, people never cooperate, a predictable, suspicious, stable state. It's safer and more rational to always defect, to be mistrustful and exploitative.

However, when people play repeat games, the logic changes dramatically. People become more cooperative when their behavior in one transaction carries forward to subsequent ones. In "infinitely repeated games," cooperation suddenly becomes rational and practical according to later game theory studies.[11]

Game theory predicts, and Putnam's study demonstrates, that society holds together at two "quite different levels of efficiency and institutional performance." In one case, the informing principle is to "always defect." In the other, the motto is to "reciprocate help."

When the players connect in rich networks, "brave reciprocity" prevails. News about trustworthy and untrustworthy behavior spreads quickly and widely. Here the norm is different: "Cooperate with people who cooperate with you (or who cooperate with people like you), and don't be the first to defect.' "[12]

These self-reinforcing dynamics, reciprocity-trust and dependence-exploitation, reflect building-up and tearing-down forces. They are, respectively, *vicious* and *virtuous* loops, amplifying through positive feedback.

Trust, reciprocity, and networks all are mutually reinforcing, whether on the rise or on the wane.

Trust is at the personal core; reciprocity is at the interface; and networks tie it all together.

Networks facilitate communication and extend trust. When success spreads through a network, it stimulates more cooperation, providing models for others about what works. Innovation increases as the latest information and trends create a large-scale learning system in which many potential users share knowledge.

Innovation is stunning among Emilia-Romagna's hundreds of thousands of tiny, networked companies. As so many have observed about this region, it reflects a vital dynamic that simultaneously integrates vigorous competition and cooperation—"co-opetition"—among many independent players.

These lessons have a timeless quality. They apply both on grand scales and on intimate ones.

Capital Across the Ages

The twenty-first-century return to our millions-of-years-old roots carries a quiver of new collaborative tools of awesome power. Social capital is an old form of wealth, albeit a largely unacknowledged one. Suddenly, however, we have new ways to create and magnify it outside the confines of physical space-time limits. With the ability to reach across great distances without having to travel them physically, we are able to build communities of high trust that circle the globe.

Unlike human and physical capital, individuals cannot possess social capital. It lies in the web of relationships among us and mingles with other means of generating wealth.

Capital(s)

Capital, once simple, is itself complex in the new world:

- *Human capital* represents the value of the people part of the work equation, the skills and knowledge of individuals. The oldest form of capital, reaching back to the earliest societies, it is rooted in people's ability to survive in the world around them. As environmental challenges alter, so does the human capital required to survive and succeed. The hard work of applying human capital in the olden days has its corollary today in the round-the-clock efforts that typify crash projects on impossible deadlines.

- *Social capital,* an equally old resource, reflects the community skills that have coevolved with individual skills. People working together generate webs of social capital. Hunters and gatherers compensate for resource scarcity by pooling their communal smarts. Today, people can manufacture social capital abundantly everywhere all the time, no longer constrained by space or time.
- *Land capital* harks back to the economic basis of the agricultural era. With farming and herding, people use land in an entirely new way to provide a relatively predictable food supply. In domesticating aspects of nature, human beings take a dramatic leap in scale and civilization. What does it mean to own real estate in cyberspace?
- *Machine capital* is the great engine of economic growth in the Industrial Age. Technology rolls on with the laws of motion, remaking the world—everything from hand tools to locomotives. While people generate new fortunes with productive machinery, fields remain fertile. Land does not cease to have value as machines become dominant. Even at the beginning of the twenty-first century, people still perceive technology as the most potent force in economic growth. What is a machine when a chip smaller than a fingernail does the job of a whole factory?
- *Knowledge capital* resides in all the shared repositories of information and learning (most especially in the gray matter between people's ears). Cyberspace offers a vast new domain for this once limited source of wealth that is newly powerful and available in unprecedented ways. We've barely scratched the surface of what knowledge capital means.

The recognition of knowledge as a source of wealth and its intersection with other forms of capital is at the competitive cutting edge of the global marketplace.

Shared knowledge is the dominant productive source of twenty-first-century economics, with unanticipated consequences now unfolding at startling speed.

Virtual Capital

The debate about the value of capital is more intense than ever in the Internet world. Market capitalizations of Internet start-ups literally have redefined the meaning of value. Initial public offering–bound start-ups have none of the traditional indicators of investible companies—whether profits and customers or even products and revenues. *All* some of these companies have is their ideas and their relationships, which the market appears to value very highly. Indeed, "IPO" has become a verb.

Perhaps this makes sense after all. *All* forms of capital fuel today's networked organizations. Virtual teams possess human capital *in* their members and social capital *among* their members. They utilize physical capital that is *outside* people through their meeting facilities and communication infrastructures.

They also generate knowledge capital among people

- *Inside,* who have their own corporate memories and shared cognitive models.
- *Outside,* where information is shared in commonly accessible databases.
- *Between* one another, as they connect networks and pools of knowledge together while developing enduring relationships.

Regardless of their specific tasks, all virtual teams can increase their human, social, and knowledge capital. Human capital increases when more people work together in more places, meeting new challenges and acquiring new competencies. Social capital accumulates when virtual team members vastly expand the number and diversity of their relationships. Because of their physical separation, virtual teams have an obligation to make knowledge capital explicit and accessible.

Virtual teams stretch the bounds of human capability, offering value far beyond their immediate functions: They elongate the reach of social capital outside their immediate physical locales. Although many of their elements have ancient roots, today's virtual teams look out over vistas of virtual places never before seen by human eyes.

The new frontier is not far away; it is everywhere.

Creating Social Capital

All organizations, large and small, have some social capital that continuously grows and diminishes, a hidden source of wealth or a deficit that may presage a disastrous weakness.

Social capital is "the structure of relations between and among actors,"[13] *individual or organizational.*

Can you recall a friendship or professional relationship that you established in one team or small group that later proved a valuable connection in another? Can you remember deciding to do business with a partner, vendor, or customer because of their preexisting reputation?

In starting our own company, NetAge, we pass the first test with a venture capital firm because of Leon Navickas, CEO of Centra[14] (which provides real-time online meeting services), a partner firm of ours that has funding from the venture capitalist. "You're prequalified because you're in the network," the funder says, referencing our relationship to Centra.

Imagine the potential in your organization for better, faster, smarter relationships based on a rich network of preestablished lines of trust. Each strong relationship has a multiplier effect built into it: The friends of friends of friends are potentially accessible through social networks of trust. The old adage, "It's not what you know but who you know," portrays the essence of social capital.

The negative side of social capital also pertains. "I don't have any hard data," another long-trusted partner tells us in reference to yet another firm that wants to do business with us. "But there's always something a little unclear about how they do business." We back off.

Do you recall cautioning others about people whom you came to distrust through work? Does a team experience leave a bad taste in your mouth that affects other situations or opportunities? Have you seen previously good relationships between people or companies strain or snap to the detriment of both? A bad experience also has a multiplier effect.

News of mistrust travels at the speed of speech, whether verbal or virtual, diminishing the capacity for collaboration within and between organizations.

It is better not to team at all than to team badly.

Social capital is a seminal idea growing at the intersection of economics and sociology since its 1988 introduction in a paper by University of Chicago sociologist James Coleman.[15] For the most part, the idea flies below the radar of public consciousness, but one mass-media peek came in an *ABC World News Tonight* segment.[16] It reported on where Harvard's Robert Putnam has gone with his work: the disturbing thesis that social capital is dangerously eroding in U.S. society as a whole. Putnam illustrates his point by many measures of declining participation in civic and social events. Among them is the telling observation that while more Americans are bowling than ever before, they are bowling alone rather than in once-popular bowling leagues.[17]

Virtual Trust

It is easier to form, launch, and sustain virtual teams in an environment rich in "the features of social organization . . . that facilitate coordination and cooperation for mutual benefit."

To work with people you rarely or never meet, you need some basis to believe in their expertise and trustworthiness. Clearly, a norm that supports dishonesty in some relationships rubs off on other relationships as the level of suspicion rises. The fragile sphere of virtual relationships requires a much higher level of trust than do conventional hierarchically controlled settings. Top-down control can mandate people to work together whether they want to or not. Virtual teams have only their shared trust in one another as their guarantee for the success of their joint work.

"The biggest thing that can undermine a virtual team is passiveaggressive behavior. You send me e-mail, I don't like it, I pretend I didn't get it, and you are damaged without recourse," says Keoki Andrus, a principal in The Launch Group[18] and a veteran of Microsoft and Novell, who calls this "virtual deception." People go to great lengths to fool the electronic gods, he says, reporting on one person who bragged about the tricks he used to make it appear that he had not received messages just so he could claim ignorant innocence. " 'I didn't get that' becomes the ultimate excuse," Andrus says. "There's no substitute for doing what you say you're going to do in building trust."

Michael Howland, president and CEO of Applied Knowledge Group,[19] believes "you can get signals from e-communication about how people are doing in the same way you can from physical body language."

He first tests the theory when he and his colleague, Andy Campbell, develop a prototype for a virtual field office for the CIA. The purpose is "to see if you could handle a major national security project virtually." They also use the project as a test bed to explore electronic body language. "We realized that you can see it. The same way we get voice tone changes in spoken language, you can see it in sentence structure. The speed of response or lack thereof is another indicator of where a person's coming from," Howland says.

When Buckman Labs grew into a global organization, questions of integrity immediately arose. Among the concerns that employees raised was whether to pay bribes in countries where this is customary. The issue prompts the development of a code of ethics that becomes central to the Buckman community. Among the 10 points in the code is this one: "That we must use the highest ethics to guide our business dealings to ensure that we are always proud to be a part of Buckman Laboratories."

Larger organizations that house good teams almost always express values in codes, philosophies, and principles. Invariably they include trust along with integrity, teamwork, and a commitment to the value of the individual. "The Eastman Way," a pillar of Eastman Chemical Company's corporate culture, declares, "Eastman people are the key to success. We must treat each other fairly and with respect, based on values and principles: honesty and integrity, fairness, trust, teamwork, diversity, employee well-being, citizenship, winning attitude."

The norm of reciprocity—you do something for me and I'll do something for you—recognizes that a favor received will somehow be repaid in the future. The oft-used phrase, "I owe you one," speaks precisely to the value of a reciprocal relationship. Business is awash in these sorts of "owe-sies."

Thick social networks are signs of healthy communities and businesses. The more involvement people have in community life, the stronger the economies of their regions. The same idea applies to business. The more activities that people engage in together, the greater their commitment to one another. Company picnics that include employees' families, online chat rooms where people can talk about their hobbies, and corporate support for community involvement all build social capital inside the company as well as outside.

Social capital both provides and comes out of good teaming.

Strategy

Although we stress the benefits of cooperation over competition, we realize that these two tendencies dance with each other. "Co-opetition" is the newly coined term for this uneasy dynamic of simultaneous cooperation and competition.[20]

The complements of competition and cooperation cannot be evenly matched. If they are, progress stagnates and change recedes. One tendency or the other must dominate to carry the process forward. In virtual teams, cooperation provides the greater driving force.

Cooperation is the survival strategy for virtual teams. When necessary, the smart cooperator is also an excellent competitor.

Cooperation sounds nice in theory, but should we heed the conventional wisdom that says "Nice guys finish last"? Apparently not. The mad partnering evidenced by Internet companies indicates that cooperation with competitors may be the only way to finish.

The tooth-and-claw competition of Darwin that many assume to be the natural condition of life is giving way. There is accumulating evidence that cooperation is evident at all levels of biology's kingdoms—from cells to big-brained mammals. It may be particularly evident in humanity's remarkable spurt of evolution over the past few million years. Cooperators seem to be the survivors. It's a strategy.

In the original logic of games, an aggressive competitor invariably wins over a willing cooperator because they played only single games, one at a time. However, if the game expands, with more rounds of play involving more people, then behavior has consequences. When the behavior in past games is known prior to future games, it carries a self-correcting social consequence. If you ruin another person and no one else hears about it, you can probably get away with it. Yet when your behavior becomes public, it suggests how you will play in the future. Others may not want to play with you.

The reasoning is common sense. If people know that I cooperate, they will want to associate with me. Together we can do more than we can separately. Cooperators win.

Perhaps the most famous event in game-theory history illustrates this view. In the 1950s, Robert Axelrod, a leading practitioner of games, staged a series of contests to find the best strategy for logically combining competition and cooperation. People proposed various strategies that were translated into lines of code. These in turn were put into the equivalent of an open cyberspace market so that games could undergo many repetitions. Anatol Rapoport, the mathematician and one of the original four founders of the Society for General Systems Research, submitted the winning strategy. It remains the undisputed champion.

With both a catchy name and the shortest code, Rapoport's "Tit-for-Tat" strategy is simple: Cooperate on your first move, then match the other player's response with the same strategy. You might call it "tough cooperation." In short:

Reach out, then respond in kind.

Open with friendship then respond to opportunities with cooperation and to challenges with competition. This strategy works even where there initially are only a few cooperators in a sea of competitors. Tit-for-tat cooperation slowly accrues benefits, whereas competitors can at best achieve a standstill as they beat up on each other.

The advantage of cooperation will only grow in the years ahead. At the same time, the payoffs from purely competitive strategies likely will diminish. In the age of information, the foundations that support competition are shifting dramatically from

- Material scarcity to information plenty.
- Limited information to information access.
- Anonymous players to trusted partners.

Scaling Up

The idea that relationships of trust and cooperation can have productive benefits has sparked a revolution in economic development. Social wealth, valuable in the business world, offers a powerful new development resource for people with limited human and physical capital.

From the United Nations Development Programme, which makes social capital one of its initiatives, to Silicon Valley, California, which has exploded economically through thick webs of relationships, social capital has been rapidly accumulating. Pioneers in business, government, education, religion, and nonprofit organizations have seen the potential of strategic cooperation and have benefited from it.

In her groundbreaking book, *Regional Advantage,*[21] AnnaLee Saxenian describes the culture of Silicon Valley as one that promotes collaboration across business and sectoral lines. She contrasts this "social capital building" environment with that of Boston's Route 128 region of the 1980s. There and then, leaving one company to go to a competitor was regarded as an act of heresy. From an economic standpoint, Saxenian observes that the recession of the late 1980s quickly reversed in Silicon Valley, whereas the Route 128 region still suffered well into the 1990s.[22]

Saxenian's analysis became the subject of conversation from coast to coast. While some in the Route 128 region were rankled (she reports having been *un*invited to give at least one talk), others were motivated. Numerous cross-industry collaborations erupted around Boston, hundreds if not thousands of new businesses started up, and it became just as difficult to hold onto an engineer in Boston as it did in Palo Alto. A strong economy now booms in both locations.

Such attempts to consciously build social capital are often the work of individual businesspeople like Harry Brown of EBC Industries. We've been following Brown's inspiring story of networking in the small-parts manufacturing industry for many years.[23] Entrepreneurs like Brown look beyond the traditional needs of their businesses—markets, employees, and funding—to the larger environment that makes it possible to maintain and capitalize on those resources. They recognize that unless highly trained people with the right skills are coming out of universities, the local labor pool will wither and the knowledge-based economy will idle. Issues like this concern civic entrepreneurs and their colleagues in regional economic development collaboratives.[24]

Great efforts begin with small ones. Small groups fundamentally comprise human societies at all scales in all sectors. Trust originates in small groups—families, friendships, and myriad formal and informal associations based on shared interests and common concerns.

To grow trust, small is beautiful.

We cannot avoid teaming. We can only team well or badly. Thus, we will accrue or deplete our corporate social capital with every small group in the organization, whether we consciously acknowledge the value of relationships or not.

Home is the ancient center of place-based trust networks. Home is now also another place altogether.