

People & Organizational Performance Practice

# Network effects: How to rebuild social capital and improve corporate performance

People's professional networks have shrunk since the onset of the COVID-19 pandemic, while companies' attrition and hiring challenges are growing. To help reverse these trends, people and organizations will need to manage workplace interactions more intentionally. Here's how.

*by Taylor Lauricella, John Parsons, Bill Schaninger, and Brooke Weddle*



**Social capital**—or the presence of networks, relationships, shared norms, and trust among individuals, teams, and business leaders—is the glue that holds organizations together. When teams feel connected, they tend to get more work done and do it faster. When colleagues trust their managers and one another, they tend to be more engaged, more willing to go beyond minimum work requirements, more likely to stick around, and, as research shows, more likely to recommend that others join their organization.<sup>1</sup> Social capital matters to an organization's performance.

Since the onset of the COVID-19 pandemic, however, connections in the workplace have been in short supply. We recently surveyed about 5,500 US workers on the state of their internal and external networks and connections.<sup>2</sup> More than three-quarters of the respondents working in “traditional” roles<sup>3</sup>—especially women and frontline workers—report that they are connecting with others less frequently, have smaller networks, and spend less time and effort on relationship building since the start of the pandemic.

The decline is concerning, especially at a time when employees around the world are continuing to leave jobs at unprecedented rates, often without another in hand, despite a looming economic downturn. In McKinsey's most recent Great Attrition research, for instance, nearly two out of five employees in a global sample spanning about 13,000 workers in six countries across 16 industries say they are considering leaving their jobs within the next three to six months.<sup>4</sup>

Their employers, meanwhile, are left to manage the financial and opportunity costs associated with this level of attrition—according to Gallup, for example, the cost of replacing an individual employee can

range from one-half to two times that employee's annual salary,<sup>5</sup> and companies can experience significant productivity and knowledge losses.

In a postpandemic environment, referrals, personal connections, and perceptions of how inclusive and communal a company is will loom ever larger in people's decisions about where to look for work—and whether to stay at their current jobs.<sup>6</sup> It's imperative, then, that business leaders manage social capital in the same way they manage financial, human, and other forms of corporate capital: systematically and intentionally. They can start by assessing the company's social capital along three dimensions<sup>7</sup>:

- **Motivation.** Are employees motivated to build and maintain relationships, and are they in an environment that encourages such relationship building?
- **Access.** Do employees have access to the networks and relationships they are looking to build?
- **Ability.** Do employees have what they need (such as time, resources, and skills) to build and maintain those networks and relationships?

Based on this assessment, leaders can use multiple levers and a combination of organizational and individual initiatives to build or strengthen connections in the workplace. At the organization level, for instance, business leaders may embed network or community-building requirements into performance evaluations. At the individual level, they may offer coaching and mentorship to employees on ways to boost engagement and connections in the workplace.

<sup>1</sup> Mark S. Granovetter, “The strength of weak ties,” *American Journal of Sociology*, May 1973, Volume 78, Number 6.

<sup>2</sup> The survey was administered in March 2022 to 5,583 US workers; 93 percent of the respondents were employed full time, 73 percent worked in the private sector, and 51 percent were women.

<sup>3</sup> A “traditional” role refers to a full-time job at a single company rather than a part-time, contract, or gig position with multiple companies.

<sup>4</sup> Aaron De Smet, Bonnie Dowling, Bryan Hancock, and Bill Schaninger, “The Great Attrition is making hiring harder. Are you searching the right talent pools?” *McKinsey Quarterly*, July 13, 2022.

<sup>5</sup> Shane Mcfeely and Ben Wigert, “This fixable problem costs US businesses \$1 trillion,” Gallup, March 13, 2019.

<sup>6</sup> Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, Sara Prince, *Diversity wins: How inclusion matters*, McKinsey, May 19, 2020.

<sup>7</sup> Paul S. Adler and Seok-Woo Kwon, “Social capital: Prospects for a new concept,” *Academy of Management Review*, January 2002.

# Employees who feel more connected with people in their networks are one and a half times more likely than their peers to report being engaged at work.

In this article, we'll share the findings from our research on the state of social capital and suggest ways that business leaders can help employees and teams rebuild, maintain, and use social capital to their benefit. Paying more attention to this form of corporate capital can help organizations bring people back to the office, cultivate distinctive workplaces, and improve productivity—and ultimately create better overall organizational performance.

## The state of social capital

Decades of academic research on social capital have revealed its clear benefits for individuals and organizations—among them, lower turnover, improved team and individual performance, increased knowledge transfer, greater innovation, and increased career mobility.<sup>8</sup>

Our own research on social capital shows that employees who feel more connected with people in their networks are two times more likely than those who feel less connected to report higher levels of sponsorship (or advocacy from a senior leader or

colleague for their career advancement), one and a half times more likely to report a sense of belonging at work, and one and a half times more likely to report being engaged at work.

But the survey also reveals a slowdown in the development of exchange-based relationships in the workplace since the onset of the COVID-19 pandemic.

## Motivation to build social capital

Less than half the respondents in our survey report making an effort to build their networks. Since the onset of the COVID-19 pandemic, only 24 percent of the nearly 5,500 respondents are focused on getting in touch with old contacts within their professional networks. Only 28 percent are focused on building new relationships, and 31 percent say they are focused on strengthening existing relationships. These data are in line with other research showing that, during the pandemic, employees have turned inward and focused mostly on maintaining connections with close associates and members of their own teams rather than building or maintaining relationships with newer colleagues or other indirect associates.<sup>9</sup>

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<sup>8</sup> See Daniel J. Braff, Martin Kilduff, and Ajay Mehra, "The social networks of high and low self-monitors: Implications for workplace performance," *Administrative Science Quarterly*, 2001; Michael Bucy, Bill Schaninger, Kate Van Akin, and Brooke Weddle, "The science behind transformations: Maximizing value during implementation," McKinsey, June 6, 2022; Jeffrey R. Hanson and David Krackhart, "Informal networks: The company behind the chart," *Harvard Business Review*, July–August 1993; Andrew C. Inkpen and Eric W. K. Tsang, "Social capital, networks, and knowledge transfer," *Academy of Management Review*, January 2005, Volume 30, Number 1; Jill E. Perry-Smith and Christina E. Shalley, "The social side of creativity: A static and dynamic social network perspective," *Academy of Management Review*, January 2003, Volume 28, Number 1; Raymond T. Sparrowe et al., "Social networks and the performance of individuals and groups," *Academy of Management Journal*, 2001, Volume 44, Number 2; Wenpin Tsai, "Knowledge transfer in interorganizational networks: Effects of network position and absorptive capacity on business unit innovation and performance," *Academy of Management Journal*, 2001, Volume 44, Number 5.

<sup>9</sup> Nancy Baym, Jonathan Larson, and Ronnie Martin, "What a year of WFH has done to our relationships at work," *Harvard Business Review*, March 22, 2021.

The lack of motivation to build social capital existed across all industries, although the percentages varied by sector. Some 53 percent of employees in the technology industry, for example, report that they are more likely to invest in strengthening existing relationships, compared with only 12 percent of employees in the public sector. There is a range of reasons for this disparity—among them, technology workers’ greater access to the tools and platforms needed to build and maintain remote communications.

The difference in motivation across genders and corporate roles is striking. About one-third of the men in our survey report investing energy in getting in touch with old contacts, building new relationships, and strengthening existing ones. By contrast, only one-quarter of women in our survey are doing the same, raising questions about the diminishing strength of women’s networks at a

time when they are leaving the workforce in greater numbers (Exhibit 1).<sup>10</sup> Meanwhile, about half of the senior leaders in our survey report investing energy to build their networks, compared with only about 15 percent of frontline workers.

Less surprising is that roughly half of the nontraditional workers (that is, those working freelance jobs or doing gig work) in our survey report an almost equal investment of energy in nurturing old and new contacts. After all, nontraditional workers need an abundance of connections to generate work assignments.

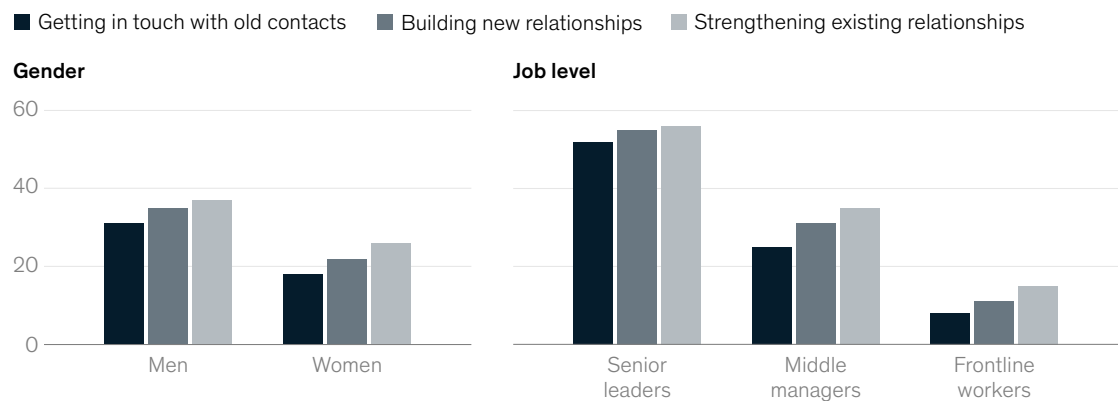
**Access to social capital**

Employees overall report having less access or feeling less connected to people within and outside their company networks. Of the more than 5,500 respondents to our survey, only 14 percent report that their networks have grown since the onset of

Exhibit 1

**Men and senior leaders are more likely than others to report investing energy to build their networks.**

Share of people investing energy in network building, % of US respondents



Source: McKinsey Social Capital Survey, March 2022, n = 5,583

<sup>10</sup>“Women in the Workplace 2021,” LeanIn.Org and McKinsey, September 27, 2021.

# The overall lack of employee access to social capital is amplified for women and frontline workers.

the COVID-19 pandemic; 22 percent report feeling more connected with those in their company network; and 17 percent say they have had more contact with people outside their company network.

Again, the lack of access to social capital is uneven across industries. For example, about 30 percent of employees in the banking and technology sectors report having more contact with their networks since the start of the pandemic. By contrast, fewer than 10 percent of employees in the consumer and retail, education, healthcare systems and services, and public sectors report the same (Exhibit 2).

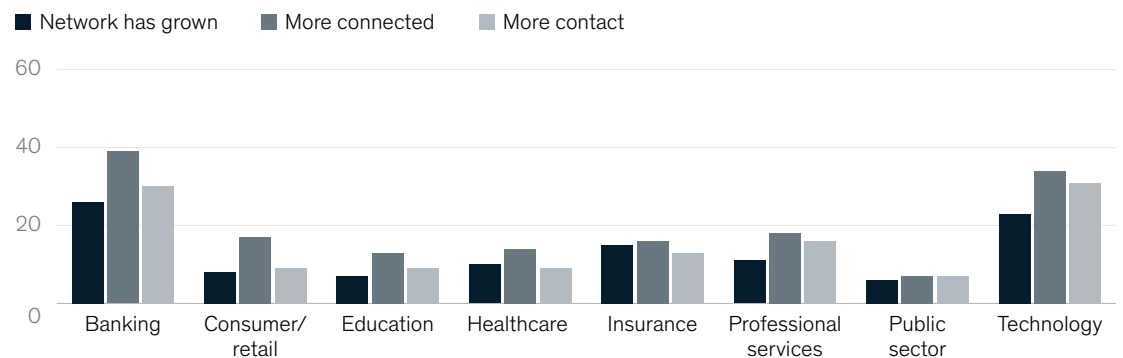
The lack of access is amplified for women and frontline workers. Only 11 percent of women in our research base (compared with 17 percent of men) say their network has grown over the past two years or so. Only 16 percent of women (compared with 28 percent of men) report feeling more connected, and only 12 percent of women (compared with 24 percent of men) report having more contact with their networks. In part, this may be a reflection of the additional demands women have taken on during the COVID-19 pandemic.<sup>11</sup>

Meanwhile, only 9 percent of frontline workers report feeling more connected with their networks

Exhibit 2

## Employees' access to social capital varies by industry.

Change in access to social capital since start of COVID-19 pandemic, by industry, % of US respondents



Source: McKinsey Social Capital Survey, March 2022, n = 5,583

<sup>11</sup>"Women in the workplace 2021," September 27, 2021.

over the past few years, compared with 22 percent of middle managers and 45 percent of senior leaders (Exhibit 3).

Access to social capital has remained steady for nontraditional workers compared with traditional workers. Twenty-eight percent of the nontraditional workers in our survey report that their network has grown, compared with 12 percent of traditional workers, and 45 percent report feeling more connected to their network, compared with just 19 percent of traditional workers.

Overall, the respondents to our survey report engaging more frequently with contacts inside their companies than with those outside.<sup>12</sup> And the numbers suggest that these interactions are mostly transactional: 57 percent of respondents report sharing work-related information with contacts, 48 percent report sharing career advice, and only 29 percent report engaging in social activities with contacts in their networks.

**Ability to build social capital**

Our research reveals that about half of all the respondents feel like they know how to build

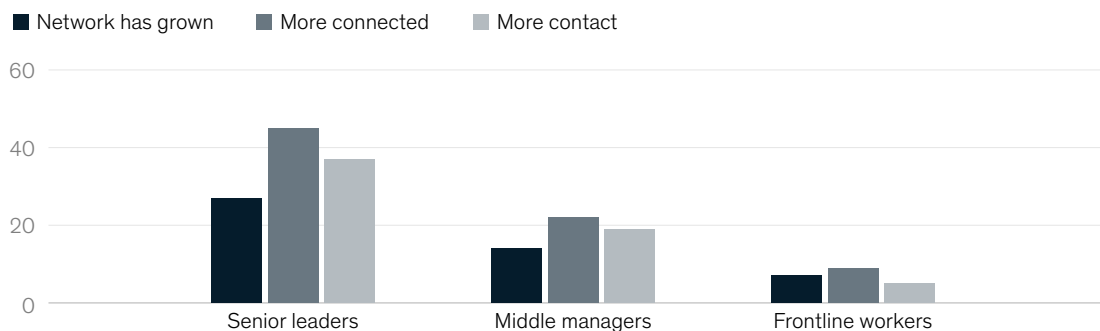
and maintain their networks. Forty-six percent of those surveyed say they believe building their professional connections is part of their job; 47 percent report having the time to build or maintain their networks—although those numbers are lower for frontline workers than for senior leaders and middle managers, likely because of the structure of frontline jobs and the emphasis on short-term tasks.

The previously mentioned gaps between traditional and nontraditional workers’ motivation and access seem to close when it comes to ability to build social capital. Forty-nine percent of nontraditional workers report that they feel like they know how to grow and maintain their networks, compared with 54 percent of traditional workers. Forty-four percent of nontraditional workers report that they believe building their professional network is part of their job, compared with 46 percent of traditional workers. And about half of both nontraditional and traditional workers (46 and 47 percent, respectively) report having the time to build or maintain their networks.

Exhibit 3

**Employees’ access to social capital varies by job level.**

**Change in access to social capital since start of COVID-19 pandemic, by job level, % of US respondents**



Source: McKinsey Social Capital Survey, March 2022, n = 5,583

<sup>12</sup> “Inside” contacts refer to a direct boss or manager; other leaders in the company; coworkers from respondent’s team, function, and department; coworkers from different functions and departments; and people in respondent’s company with similar interests, hobbies, or backgrounds (for instance, in employee resource groups and affinity groups). “Outside” contacts refer to industry peers, clients, customers, coworkers from past employers, and alumni networks.

## How to build (or rebuild) social capital

Our research reveals the shortfalls companies are experiencing when it comes to workplace connections, but business leaders will need to conduct their own systematic assessments of the state of social capital in their organizations and, based on their starting points, develop a targeted set of organization-wide and personalized initiatives to close any gaps. McKinsey research shows that changes are more likely to stick when leaders clearly and frequently communicate why changes are needed, update formal processes and systems to reinforce the changes, model the new ways of working themselves, and ensure that employees receive the coaching and training they need to be successful.

### Motivation: Redefine roles and responsibilities

Companies can introduce social capital as a critical factor in employees' career development, encourage them to build it, and hold them accountable for doing so. Senior leaders at one retail company, for example, are reevaluating their KPIs to determine whether they need to include more relational indicators (such as metrics tied to collaboration, apprenticing, and making connections) and reduce operational targets to give employees more time to build relationships and community. The team believes this approach will pay off over time by increasing knowledge sharing and employee engagement.

Business leaders should also take the time to determine where the motivation gaps are—our own data reveal concerns for frontline workers and women, for example. Business leaders could build heat maps of current employee resource groups and other affinity groups formed for those interested in connecting with others. Such an assessment may point to critical groups who are feeling left out. Once business leaders have this information, they can invest in programs that encourage employees' participation in external networks (for instance, at professional conferences), facilitate interactions among current or former colleagues, and build alumni connections. Or they might dedicate resources toward networking opportunities for women, frontline workers, and other disproportionately affected groups.

Longer term, business leaders could aim to rewire their entire talent system—from recruiting to performance management—to motivate employees to focus on social capital. That might mean building terms like “connectivity” and “collaboration” into job descriptions, citing social capital explicitly as a core value for the organization, and rewarding employees at all levels for finding, building, and sustaining social capital. A US industrial services company, for example, instituted a national referral program that rewarded employees for recommending potential candidates for any role in any city and has used the resulting connections to strengthen its recruiting process. Meanwhile, some companies are recasting their exit interviews as introductions to alumni networks so employees can maintain connections with the organization.

### Access: Map your networks

Our survey results show that access to social capital is a particular sticking point for employees, many of whom report feeling less connected to people both within and outside their company networks since the onset of the COVID-19 pandemic. To increase access, business leaders must first understand who has it—and who doesn't. Advanced analytics can make it easier than it's ever been to provide that understanding.

One electronics company, for instance, is using HR, facilities, and operations metadata (calendar invitations, email, HR information systems, and so on) and advanced analytics to map knowledge flows and other interpersonal exchanges across the organization. The company was able to identify the most plugged-in and influential employees and has systematically engaged these influencers as critical partners in creating more connections among individuals and groups that likely wouldn't have gotten together otherwise. Through its knowledge mapping, the company has created a reliable, repeatable process for monitoring community clusters and identifying opportunities to build or strengthen social capital.

Other companies have used sponsorship and mentorship programs to facilitate connections

among employees and institutionalize the importance of social capital. One technology company, for instance, has established a mentor-matching service for female software developers after a survey revealed that fewer than a third of them had reported having a mentor at the company. And one multinational company makes a point of acknowledging “super sponsors” each year across geographies and business units. The annual awards have prompted others to raise their hands to become sponsors and mentors, thereby upping the social-capital quotient at the company.

### **Ability: Break through organizational barriers**

Business leaders may consider assessing not just employees’ capabilities but also their mindsets and behaviors when it comes to building social capital. Leaders can hold focus groups with employees to learn more about what stands in the way of them building and maintaining their network. For in-person interactions, for instance, business leaders can redesign office spaces to enable spontaneous collisions among employees who might be feeling less connected. To that end, they may build more meeting rooms to encourage collaboration. Or they may ensure that private office spaces are available for individuals who want or need them but also establish some open seating areas to encourage random interactions. The retail company mentioned earlier restructured its workweek to ensure that when employees are on-site, the time is intentionally used to create

connections (such as brainstorming sessions and round-robin status updates) rather than to engage in “heads down” solo work that might be better suited to when an employee is working remotely.

Another good step is for business leaders to embed discussions about social capital into their learning programs—especially into their leadership development programs—to ensure that everyone understands its importance, how to build and maintain connections, and how to encourage others to do the same.

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Business leaders often assume that workplace relationships just happen—and maybe that was more true before the onset of the COVID-19 pandemic. For a postpandemic, hybrid world of work, however, where the watercooler is likely a virtual one and team members’ in-office hours may be staggered, business leaders should think differently about collaboration and connectivity. Employees are looking for connection, meaning, and purpose at work. Social capital is no longer just nice to have. It’s becoming a core lever business leaders can use to attract, retain, and bring out the best in employees, enabling them to achieve (and even exceed) their performance goals. But leaders should manage social capital in the same way that they manage other types of corporate capital: intentionally.

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