

## Strategic Management of Social Networks

**McDonough School of Business**  
**Georgetown University**

*a 1.5 credit Intensive Learning Experience (ILE)*

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<b>Office</b>	Hariri 321	<b>Semester</b>	Summer 2016
<b>Classroom</b>	Hariri 350	<b>Schedule</b>	July 25, 27, 28 @ 6:30pm – 9:40pm June 30 @ 9:00am – 6:15pm
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### **OVERVIEW**

To achieve individual and organizational objectives, managers must coordinate activities among individuals, between groups, and across organizations. While *human* capital (i.e., what we know) certainly influences our potential to achieve objectives, actual achievement is just as likely (if not more likely) to be determined by our *social* capital (i.e., who we know). In short, strategic management of social relationships (i.e., networks) is critical to business success.

This course focuses on (1) how incentives and behaviors are shaped by social networks and (2) how networks present opportunities and constraints to managers, companies, and entrepreneurs. By understanding principles of social capital, managers prepare themselves to identify effective ways to create and claim value in organizations and markets. Insights from this course will help managers generate promising career opportunities; form, manage, and lead high-performing teams and partnerships; and identify business opportunities to address market needs.

This course is divided into three sections. First, we focus on how our relationships influence our careers. Second, we consider relationships among individuals and how these networks form and influence individual behaviors, typically within organizations. We also build upon these insights to understand networks across organizations (e.g., supplier and customer relationships, alliances, co-investments). Third, we consider how networks of individuals *and* organizations influence markets for products and services (e.g., social media, financial intermediation).

Class sessions include presentations, exercises, and discussions. Presentations introduce the theoretical foundations, exercises provide first-hand insights, and case discussions illustrate real-world applications of effective network management. Three assignments will require students to (1) complete an online survey to assess their social capital, (2) develop an individual action plan for building and using social capital to achieve personal and/or organizational goals, and (3) identify a market opportunity to [*profitably*] apply the principles of strategic network management.

## **ASSIGNMENTS**

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Students will complete two assignments, one individual and one group.

### 1. Individual Network Action Plan

The first assignment is an Individual Network Action Plan. Students develop general strategies and specific tactics for investing wisely in social capital. To do this, students first complete a web-based Individual Social Capital Assessment exercise that summarizes their current stock of social capital and also compares their networks, anonymously, to peers' networks. Students then evaluate the strengths and weaknesses of their current networks and compare their network structures to aspirational networks (i.e., the social capital needed to realize fantastic returns on a McDonough degree). In-class discussions and break-out sessions prepare students to develop a plan to close the gap between their current network and their aspirational network.

### 2. Group Business Plan Presentation

The second assignment is a Group Business Plan Presentation informed by an understanding of how social networks influence markets and industries. Groups of students identify a business opportunity to create and capture value based on effective management of social networks. Analyzing the social structure of a market or industry, groups will identify how a business venture might capitalize on "network failures" to profit (non-profits are also acceptable: solve a social problem). The project will be presented in class and students will provide real-time feedback to each other in class.

## **COURSE MATERIALS**

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Summary session slides will be distributed via BlackBoard. There will not be a textbook. The following books are *not* required but are recommended:

- Baker, Wayne (2000). Achieving Success Through Social Capital: Tapping the Hidden Resources in Your Personal and Business Networks. Jossey-Bass: San Francisco, CA.
- Burt, Ronald S. (2005). Brokerage & Closure: An Introduction to Social Capital. Oxford University Press: Oxford, UK.

The course reader is required and may be purchased from Harvard Business School Publishing (HBSP). Total cost is \$13.75 for a digital coursepack (additional charges for hard copies). You can purchase the coursepack at this URL: <http://cb.hbsp.harvard.edu/cbmp/access/50884028>

Other readings will be available via BlackBoard, online at specified URLs, or in class.

There is an additional course fee associated with the Individual Social Capital Questionnaire (approx. \$25-30). Payment details will be provided in class or via email when finalized.

## GRADING

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There are three components of the course grade. Some details are below; more in class.

1. *Individual Class Participation (CP)* 20%

You need not speak often; you need speak thoughtfully. Careful arguments based on facts that support your position are good; even better is specific identification of what it would take to change your position (e.g., alternative assumptions, changes in facts). Structured comments that move discussions forward are preferred to repeating previous points, stating the obvious, or drawing excessively (often, tangentially) on personal experience.

2. *Individual Network Action Plan (AP)* 40%

Each student will apply course concepts to their career and/or business goals. This plan should specifically identify career and/or business objectives, the social structure of achievement, actions that must be taken to develop a network that increases one's chances of success, and an implementation timeline. See Appendix 3 for more details.

3. *Group Project (FP)* 40%

Groups are expected to identify a market opportunity to [*profitably*] apply the principles of effective network management. The project should address the social structure of the market and identify how at least one group member's current employer (or a new business venture) might capitalize on "network failures" to generate profits and/or solve a social problem (i.e., non-profits are acceptable). See Appendix 4 for more details.

Each grading component will be normalized by the class mean on each component. The calculation is as below, where  $i$  represents the student's score and  $m$  represents the class mean on that component. For example, if the average class participation grade is 16 out of 20 then a student that received a score of 18 receives a normalized score of 1.125 ( $=18/16$ ;  $CP_i = 18.0$ ;  $CP_m = 16.0$ ). Each normalized component score will then be weighted to produce a Final Grade Score.

$$\text{Final Grade} = 0.20*(CP_i / CP_m) + 0.40*(AP_i / AP_m) + 0.40*(FP_i / FP_m)$$

There is no predetermined relationship between absolute numeric scores and letter grades. Numeric final grades will be converted to letter grades by ranking all Final Grade scores and assigning letter grades according to the McDonough standard grade distribution for Intensive Learning Electives.

## COURSE STRUCTURE

*\*Note: All course materials are available via HBSP or posted to the course Blackboard website.*

DATE	SESSION	TIME	TOPIC	READINGS	CASES	DELIVERABLES
July 25	1	6:30 – 9:40	<b><i>Intro to Social Capital</i></b>	Course syllabus Jay Alix WSJ article (in class)	Heidi Roizen	Social Capital Questionnaire (in class)
July 27	2	6:30 – 9:40	<b><i>Brokerage &amp; Closure</i></b>	<a href="#">“Network duality of social capital.”</a> <a href="#">“How employees’ prior affiliations constrain organizational network change.”</a>	John Clendenin at Xerox	None
July 28	3	6:30 – 9:40	<b><i>Rol on Social Capital</i></b>	INSEAD SCQ Report	None	Personal Network Assessment
July 30	4	9:00 – 12:00	<b><i>Network Failures</i></b>	None.	eHarmony	Review LinkedIn and Yelp websites.
July 30	5	1:15 – 6:15	<b><i>Network Solutions</i></b>	<a href="#">“Social strategies that work.”</a>	None.	Group presentations (in class)

## Session 1

### *Introduction to Social Capital*

We often view our professional networks as relational residuals of our career experiences. Although “who we know” clearly influences our careers, explicitly developing relationships for personal gain makes many of us uncomfortable. This session considers how investments in social capital can be made without treating others as means to ends. We examine how networks typically form and demonstrate how focused activities can enhance our social capital by disrupting these typical patterns.

#### ASSIGNED READINGS

1. Heidi Roizen case (HBS #9-800-228).
2. O’Brian, B. and G. Stern (1997). “Contact Sport: Nonstop Schmoozing Propels an Accountant Into the Big Leagues.” *Wall Street Journal*. A1. March 19<sup>th</sup>. [Note: This article will be distributed in class.]

#### PREPARATION QUESTIONS FOR HEIDI ROIZEN CASE

- What general networking principles does Heidi Roizen follow?
- What specific behaviors led to her current network? How were ties formed? Maintained?
- What are the strengths of Heidi Roizen’s network? Weaknesses?
- How would you compare your network to Roizen’s network? To what do you attribute the differences? Politics? Personality? Industry? Gender? Something else?
- What would you suggest Roizen do differently to succeed as a venture capitalist? In another career?

#### QUESTIONS FOR JAY ALIX ARTICLE (TO BE DISTRIBUTED AND DISCUSSED IN CLASS)

- What general networking principles does Jay Alix follow?
- What specific behaviors led to his current network? How were ties formed? Maintained?
- What are the strengths of his network? Weaknesses?
- In terms of their investments in social capital, what are the key differences between Roizen and Jay Alix? Address both stylistic and structural differences.

**IMPORTANT: PLEASE BRING A LAPTOP OR TABLET TO THIS SESSION.**

## Session 2a & 2b

### *The Social Capital of Brokerage (2a)*

This first half of this session focuses on the search benefits enjoyed by brokers who occupy social positions between disconnected parties. Brokers identify value creation opportunities inherent in social structures. Arbitrage is possible because information is not distributed uniformly in any organization or market. We review the empirical evidence of brokers' network advantages and disadvantages. We also consider how the social capital of brokerage can influence one's reputation and career achievements.

### *The Social Capital of Closure (2b)*

The second half of this session focuses on the governance benefits enjoyed by densely connected clusters of contacts. Closed clusters encourage trust within the group because counter-normative behavior is sanctioned at the expense of one's reputation. We discuss the empirical evidence supporting the network advantages and disadvantages of closure and also consider how the social capital of closure can enhance one's career.

#### ASSIGNED READINGS

1. Burt, R.S. (2009). "[Network Duality of Social Capital.](#)," chapter in 2009 Edward Elgar book, [Social Capital: Reaching Out, Reaching In](#) by V. A. Bartkus and J. H. Davis (eds.).
2. Managing Xerox's Multinational Development Center (Abridged) (HBS case #9-496-047)
3. Rider, C.I. 2012. "[How employees' prior affiliations constrain organizational network change: A study of venture capital and private equity.](#)" *Admin. Science Quarterly*, 57(3): 453-483.

#### PREPARATION QUESTIONS FOR XEROX CASE

- What is John Clendenin's reputation within Xerox? Why?
- How does Clendenin secure resources for his projects?
- Would you want to work for Clendenin? Would you want to hire him?
- What are the advantages and disadvantages of Clendenin's leadership style?

#### PREPARATION QUESTIONS FOR RIDER ARTICLE

- Who do VC & PE firms employ? Why?
- Which VC & PE firms do deals together? Why?
- What brokerage vs. closure trade-offs do firms make in partnership composition and deal selection? How can a firm improve its "deal flow"?

## Session 3

### *Returns on Social Capital Investments*

In this session, we discuss general strategies and specific tactics for social capital investment. We analyze our current networks and compare our network structures to those of our peers as well as aspirational networks. In break-out sessions, we discuss gaps between our actual and ideal networks with classmates. Our goal is to formulate a personalized strategy for enhancing our social capital, i.e., an individual network plan to develop the network necessary to realize a fantastic return on a McDonough MBA.

#### ASSIGNED READINGS

1. Review your INSEAD Individual SCQ Report in detail.
2. Prepare a 1-2 page assessment of your network's perceived strengths and weaknesses.

#### PREPARATION QUESTIONS

Consider the following elements of your Individual Network Action Plan prior to class:

- Objectives: What do you want to achieve?
- Resources: What social resources do you need to achieve your objective?
- Strategy: What network enhancements must you make?
- Tactics: What, exactly, will you do to enhance your network?
- Timeline: When? How will you evaluate your progress?

## Session 4

### *Network Failures*

In this session, we analyze web-based businesses to develop the ability to diagnose the failure of social networks to serve critical market functions. We consider when networks encourage or discourage market transactions and when networks are most or least effective at solving market problems. This session specifically focuses on search and governance functions of social networks. These discussions provide us with a framework for understanding how social networks both enable and constrain business. We use this framework to diagnose “network failures” that can be solved by market entrepreneurs (see “network solutions” in session 5).

#### ASSIGNED READINGS

1. eHarmony (HBS case #9-709-424)
2. Review the [LinkedIn](#) and [Yelp](#) websites. Examine the group membership requirements.

#### PREPARATION QUESTIONS FOR EHARMONY CASE

- Why use an online dating site?
- How financially attractive is the on-line personals market?
- Using case figures, quantify the relative advantages of eHarmony, Match, and Yahoo! by estimating their revenue and profit per subscriber.
- What is the basis of eHarmony’s advantage? How sustainable is this advantage?
- Which of the four options under consideration should Waldorf pursue?

#### PREPARATION QUESTIONS FOR WEBSITE REVIEWS

Review the LinkedIn and Yelp websites.

- Who is a member of each site?
- Who is an *active* member (e.g., contributes content, connects others)?
- What are the incentives for being an active vs. passive member of each?
- How do LinkedIn and Yelp’s respective business models influence their value creation strategies (e.g., lower costs, higher customer willingness to pay)? Consider how the business would operate if users were anonymous and disconnected.
- How do social networks enable or constrain each company’s business model?

## Session 5

### *Network Solutions*

In this session, we develop business models that intend to profit by solving network failures. The focus of these business models will be enhanced value creation and capture through cost-reduction or WTP-increase levers. Student groups will spend this session formulating a business model and a brief presentation (according to a semi-standard template). Feedback will be immediate. The exercise will prepare students to develop social strategies that enhance value creation through both economic and social means.

#### ASSIGNED READINGS

1. Piskorski, M. J. 2011. "Social Strategies That Work." *Harvard Business Review*. November. <https://hbr.org/2011/11/social-strategies-that-work>. Interview with author also available on HBR blog website.

***Appendix 1: Individual Network Action Plan***

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In lieu of a final exam, each student will develop an individual network action plan. The purpose of this plan is to ensure that you act upon what we cover in class. This assignment will be worth 8 points and graded according to the rubric below. You must complete the online assessment before Session #1. Your final plan must be submitted to [chris.rider@georgetown.edu](mailto:chris.rider@georgetown.edu) prior to our last class session. Your plan should be 2-3 pages and should explicitly address the following:

**1. Objectives (1 point)**

Identify a professional objective that you would like to achieve. This objective should be specific. Achievement should be unambiguous. And there should be an expected timeframe for achievement. You may identify multiple objectives (e.g., short and long term) as long as they meet the criteria above.

**2. Resource Requirements (1 points)**

You will need resources to achieve your objective. Some will be at your disposal. Others must be obtained from others. These might include information, capital, knowledge, influence, trust, labor, or social support. Be sure to acknowledge the specific demands of the professional context (e.g., industry, profession, company, region) in identifying your resource requirements.

**3. Social Strategy (3 points)**

You know your objective(s), how your current stock of resources positions you to achieve your objective(s), and the additional resources you require. You need a strategy that connects this knowledge with specific tactics that you will employ. This “social strategy” should help you develop the type of network structure (e.g., optimized for brokerage or closure) that will increase your chances of achieving your objective. For example, in your profession or at your employer a cohesive network composed of strong, trusting ties may be more valuable than a diverse network characterized by weak ties across groups. Based on the resources you must obtain through social ties, develop a strategy for developing the social capital required for achievement of your objectives.

**4. Social Tactics (2 points)**

Based on your current social capital and the social capital you believe you must develop, how will you implement your strategy? Be as specific as possible about the actions you will take (e.g., who, what, when, why, where, how). Consider these concrete commitments to developing the personal network you require for future success.

**5. Timeline (1 point)**

Develop a clear timeline for achievement of your objective(s), the implementation of your strategy, and the specific tactics you will use.

***Appendix 2: In-class Group Project***

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Identify a business opportunity to create and claim value based on effective management of social networks. This project is purposefully vague. Class discussions will clarify expectations. Groups should analyze a market social structure and identify how a business might capitalize on “network failures” to profit (non-profits are also acceptable: solve a social failure). The project will be presented in class, worth 11 total points, and graded according to the rubric below. The presentation is the final deliverable. Projects should address the following (intended developmentally; not intended to be all-inclusive):

**1. Market social structure (2 points)**

- Who are the key actors? What are the relationships among these actors?
- What is the nature of the relationships among market actors (e.g., strong, weak, densely connected, loosely connected, cohesive, transactional, stable, fluid)?
- How are networks used by market actors to conduct business? What is their relevance in terms of creating and claiming value?
- How does the market social structure present opportunities to some actors while presenting constraints to others? Who is advantaged or disadvantaged by the market social structure?

**2. Network “problems” or “failures” (3 points)**

- How effectively do networks of relationships among market actors facilitate business activities?
- Is the supply of products or services limited by market social structures? Is demand for those products or services?
- Does the market social structure enable some producers or service providers to charge a price premium while others are forced to provide discounts?
- Does the market social structure impose additional costs of doing business on some producers, service providers, or customers? Could those costs be reduced or eliminated?

**3. Network “solutions” (4 points)**

- What “solutions” do you propose to capitalize on the network “failures” you identified?
- What resources are needed to effectively introduce this solution?
- Will this solution be less costly than alternatives? Will consumers be more willing to pay for this solution than for alternatives?
- Why should one expect this “solution” to create value? Why do you expect to claim some of that incremental value? Will this be profitable (or effective for non-profits)?

**4. Competitive advantage and sustainability (2 points)**

- Why is your employer (or your new organization) likely to provide this a solution that is superior to competitor’s alternative offerings?
- Once introduced, what will be your position in the market social structure?
- Will you create a sustainable competitive advantage for your employer or new organization?