**Assessing Social Capital for Organisational Performance – A Case of Indian IT Sector**

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**Abstract:** Having talented employees is important, but research shows it’s not the only factor impacting a firm’s ability to consistently innovate. Employees must also be motivated to work together, and have access to other employees who can communicate and evaluate new ideas, and who value exchanging ideas and collaborating. The research work yielded 126 respondents from Indian software export companies located in and around Bhubaneswar, Odisha, India. The thrust of the research work is to examine the impact of Indian Software organisations’ operational HR practices and procedures. The research thrust is also to explore linkage between organisational performance & enhanced social capital. Three sets of questionnaires were designed on collaborative HR practices, social capital and organisational performance in five point likert scale and were administered on the basis of field survey.

**Keywords:** Collaborative HR configuration, interactive culture, organisational rationality, social capital. Information technology.

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**Introduction**

Technology is drastically changing the world of work, providing greater opportunities for employees to engage and work together. HR configurations facilitate flow of knowledge, which leads to sustainable competitive advantage. HR is always on the front line in developing the knowledge base in the organisation (Youndt & Snells, 2004), as the people dimension play key role for human resource management and human resource development for effective knowledge management practices. It is frequently acknowledged that HR activities play a central role in linking employees’ capabilities with performance (Arokiasamy et al, 2009). HR practices have a central importance in knowledge intensive industries because they have immediate effect on the organisations’ key resource, its stock of intellectual talent. HR strategy drives the long term strategy of the business. HR practices if chosen deliberately and used strategically can maintain strong organisational boundaries and promote high levels of organisational and professional identity and more specifically it encourages the retention of staff in highly competitive industry. HR practices and processes influence creation and sustenance of social capital as a critical component for managing the flow of knowledge between employees to serve as a competitive advantage. Social capital as an integral part of intellectual capital is represented as unique organizational resource. Social capital of organizations constitutes a distinctly collective property that might be mediated by individuals, yet

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is uniquely organizational. Social capital complements financial and human capital and crucial in bundling intangible assets and provides the network relationship and is often viewed as conferring various benefits. Organizational social capital can be attributed to the aggregate social capital of its members which determines what a group of employees can and will accomplish together.

**Objectives**

Objectives of the study are to examine the existence of collaborative HR configurations and the idiosyncrasies created by the same practices as well as the development of social capital by the given practices. The research thrust also proposes social capital as a unifying managerial construct to manage and report on intangibles and focuses on looking into the role of social capital on future value creation of the organisation.

**Literature Review**

From a competitive standpoint, theorists are quick to point out that organisations do not own human capital, employees do. Since those employees are free to leave the firm, there is a significant risk organisations may incur in terms of capital loss unless individual knowledge is transferred and shared. Syed Ikhsan & Rowland (2004) believe that knowledge transfer requires the willingness of a group or individual to work with others and share knowledge to their mutual benefit. Knowledge transfer only takes place in an organisation where its employees display a high level of co-operative behaviour (Goh, 2002). This highlights the need for social capital to protect the investments of organisations knowledge based sources of advantage.

Social capital builds the social networks together with shared norms, values, and understanding that facilitate co-operation within or among groups. Such a networked organisation with people playing multiple roles, being part of multiple teams like a vertical team (Business/ category) as well as horizontal team (function / knowledge domain), is the way forward to effectively “leverage collective knowledge” of an enterprise. HR plays key role in developing such a networked organisation through facilitation of knowledge communities (teams) cutting across formal organisational role. HR plays pivotal role in institutionalising knowledge which requires HR to focus on managing culture change and mindset of people to strengthen collaborative team working and knowledge sharing. Leveraging knowledge is possible only when people value building on each other’s ideas, and sharing their insight which again leads to knowledge creation. It is because knowledge creation is the process by which knowledge created by individuals is shared by continual interplay between the tacit and explicit dimensions of knowledge and a growing spiral flow take place, as knowledge moves through individual, group and organisational level (Nonaka Takeuchi, 1995).

Building social capital requires a collaborative organisational environment in which knowledge and information can flow freely. Disclosure of information by firms to their employees and representatives is encouraged as good practices by academics focusing on voluntary behaviour and increasingly by policy makers focusing on legal requirements. Scholars from a variety of perspectives have argued that, social capital may play an important role in knowledge flows by providing a mechanism to share and combine the distributed knowledge among organisational members (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Adler & Kwon, 2002). Organizational knowledge creation too is dependent on the ability of the organisational members to exchange and combine existing information, knowledge and ideas through exchange process, teamwork and communication (Smith, Collins & Clark, 2005). Ghoshal & Bartlett (1988) argued that knowledge sharing could not occur without the existence of social connections. Value is embedded in the tacit knowledge and so there will be an interaction between knowledge, skills and physical assets in the organisations to create value. To use more of what people know, companies need to create opportunities for private knowledge to be made explicit. It means knowledge can be articulated in formal language and transmitted across individuals formally and easily (Stewart, 1997). “The only irreplaceable capital an organisation possesses is the knowledge and ability of its people. The productivity of that capital depends on how effectively people share their competencies with those who can use it (Stewart, 1997; 128)” Knowledge flows are necessary for creating firms dynamic capabilities to renew and integrate knowledge which clearly states knowledge hoarding should be discouraged and knowledge processes should be inserted which assist in the flow of information. Information sharing or disclosure is an element in management transparency yielding
benefits in employee satisfaction, commitment, and motivation thereby in organisational performance (Lawler; 1995, Pfeffer; 1998).

But there are natural barriers to knowledge exchange and most of which centre around power relationships. Szulanski (1996) found that when trust did not exist in an exchange relationship, the transfer of knowledge from the source to the recipient is stifled and often resisted by one or both the parties. Partnering employees may not trust core knowledge workers to share all possible information that would help the organisation. Therefore organisations need to create a culture of sharing. Often knowledge is seen as power and in a competitive environment there could be a tendency to hoard knowledge. Key to success of KM is creation of knowledge sharing culture and elimination of organizational and cultural barriers for communication. Hence organisations should move from “hoarding of knowledge to gain power” to “sharing of knowledge to gain power.”

Since the biggest obstacle to the transfer of best practices in organisations is due to poor relationships between the source and recipient of information. Breaking down these vertical (hierarchical) and horizontal (cross-functional) barriers requires the cultivation of an open and trusting culture having a strong social network. These social networks are critical resource in building teams and transmitting and maintaining knowledge in organisations. ‘Knowledge networks are special case of social networks in which the links of net works represent shared or related knowledge. Knowledge network represents “who knows what”, social networks represent “who knows who” (Contractor & Monge; 2002). Therefore, Peter Drucker (1999), the noted management thinker has suggested that a main organising principle of the new economy is networks, partnerships and collaborative ventures.

Eliminating Horizontal Barriers to Social Capital

Collaborative HR systems encourage and reward co-operation, collaboration and information sharing. Organisations are more likely to focus on process facilitation, team building, communications, team project and job rotations to facilitate information sharing and the transfer of knowledge. Collaborative HR configurations enable the organisation to form social networks in which network nodes represent people and network area represent relationships like friendship, advice, supervisor-subordinate relations (Wasserman & Faust; 1994). This social networks also form a resource for collaborative knowledge management, creation and exchange and transformation of knowledge. McGill & Slocum (1994) argue that work structures in knowledge-based organisations need to be characterised by permeability, and network intimacy. A collaborative HR configuration provides nurturing environment that provides the support and encouragement that teams need for job performance (Margulies & Kleiner 1995). Collaborative HR configurations create and facilitate trusting relations and these trusting relationships allow transmission of more information as well as richer and potentially more valuable information. Members are likely to exchange sensitive information and they are less likely to fear opportunistic behaviour on the part of their colleagues, enabling an environment of collaboration and exchange that can benefit both organizations and the individuals who work within them (Bradach & Eccles 1989, Rousseau et al. 1998), as information sharing is a basic and essential component of high performance work systems.

That is, the lines between functional departments, between employees and customers, and between the company and its vendors need to be blurred (permeability), and employees need to be kept close together and close to key business processes (network intimacy). Perhaps one of the best ways to bring permeability and network intimacy to life is through organising around teams and networks, especially cross functional and joint employee - customer problem solving ones. Successful teams are able to balance between autonomy and decentralisation of power on the one hand, for the sake of both motivation and flexibility and centralised control on the other hand, for the sake of co-ordination (Argote & McGrath, 2001). Team based work can also facilitate cross functional communication, enhance worker involvement, and develop better utilization of talent to some strategic aspirations.

To develop the opacity for teamwork and collaboration, organisations may begin by reorienting staffing criteria to focus more on interpersonal skills, and complement this with team training and other cross functional interactions that facilitate broader knowledge networks. Formation of virtual teams can also be a very good means to facilitate knowledge sharing process. Participatory approach of HR configurations can be means to develop and engage people and organisations in substantive, creative roles.
rather than reactive and passive roles.

Major changes in incentives and culture may require motivating knowledge exchange. In many organisations, sharing knowledge dilutes an individual’s power base, as such; strong incentives need to be put in place to engender collective exchange. Even in the best of circumstances, a “market for knowledge” exists and there are cost-benefit trade-offs in any person’s decision to participate in that market. Group incentives such as bonuses, profit sharing, and gain sharing may help to ensure that employees interact and exchange ideas with others as their compensation depends on the performance of one another.

**Hypothesis 1:** A collaborative HR configuration (Coll-HRC) that focuses on permeable and network intimate work structures, team development, and group incentives is positively related to organisation’s level of social capital (O-SC).

**Social Capital & Performance**

Social capital, generally defined as the actual and potential resources embedded in relationships among actors, is increasingly seen as an important predictor of group and organizational performance (Adler and Kwon 2002, Leana and Van Buren 1999, Nahapiet and Ghoshal 1998). At the macro level, social capital can affect economic performance and the process of economic growth and development. Social capital is a leading driver and source of managerial heuristics for creating increased intangible assets value, subsuming a majority of other intangible concepts. An organisation exhibiting excellent social capital would be seen as one, where internal departments are heavily interconnected, sharing a common vision and objective. The firm would also exhibit similar traits externally, easily forming profitable alliances and partnerships to improve its overall market performance. Human interaction is fundamental premise for building social capital. It has also been argued that the human dimension accounts for at least half of all intellectual capital value to an organisation (O’Donnell et al 2006). Simon (2001) also acknowledges the important role that social and behavioural dimensions play in efficient communications and hence organizational performance. Social capital facilitates individual learning by sharing of information and such situated learning enhances performance. Particularly in knowledge-intensive organization, information sharing and exchange enhance cooperation and mutual accountability leading to organisational performance (Sparrowe et al. 2001).

Social capital may reduce organisational costs in many of the same ways human capital does. By identifying and managing different forms of social capital across employee groups within the architecture, HR practices can facilitate the flow of knowledge within the firm, which ultimately leads to competitive advantage. The flow of knowledge both within and across firms is essential for innovation and continuous adoption, leading to a more sustainable competitive position (Grant; 1996; Kogut & Zander; 1992, Nonaka & Takeuchi; 1995).

**Hypothesis 2:** An organisation’s level of social capital (O-SC) is positively related to organisational performance (OP).

![Figure-1. Conceptual Model linking collaborative HR configuration, social capital & firm performances.](image)

**Method**

**Sample and Procedure**

Top management team of various Indian IT companies engaged in software business and located in and around Bhubaneswar, ORISSA was the target group of the study. Top management team (TMT) refers to all those who are decision makers and event makers in the organisation. This includes the owners, board of directors, departmental heads, delivery manager, unit heads and project heads too. Participants were contacted personally as well as via an e-mail. Follow up requests to complete the online survey were e-mailed two weeks later. 126 respondents completed the survey process and returned the questionnaires back. Respondents ranged in age from 21 to 45, 26% were female and 73% were male. 44% of the respondents have on an average 10 years experience in the industry and 56% posses more than 10 years experience.

**Measures**

Collaborative HR configuration is characterised by group incentives, cross functional teams, and the
like that ensure greater integration and stronger relationships with the firm (Mathieu, Tannenbaum & Salas, 1992). Collaborative HR configuration was measured with eight items from Younht et al. (2004) study with a little modification and coded 1= strongly disagree, 5= strongly agree. The items included are, our training and development incorporate team building and we encourage group based incentives and so on. This measure has Cronbach’s alpha of 0.71.

Methods for measuring SC is done through survey methods, which identify particular dimensions of SC, and typically use Likert-type scales to achieve a measure of quantitative evaluation basically inspired by Putman’s critique of civic mindedness in the USA (Putnam, 1995). The typical dimensions of SC that are included in these benchmarking tools include participation in networks, reciprocity, trust in the community, social norms, tolerance of diversity, personal empowerment, trust in government, altruism and philanthropy, and demographic information. Also, Younht et al. (2004) used a survey instrument to measure SC, along with HC and organisational capital in assessing their impact on investments.

For the present study, social capital was quoted from study done by Younht et al. (2004). The items too coded as 1= strongly disagree, 5=strongly agree. The items included are, our employees are proficient in collaborating with each other to diagnose and solve problems. Our employees interact and exchange ideas within and across functional departments and divisions. This measure has a Cronbach’s alpha of 0.69.

There are multiple definitions pertaining to firm performance. It can be percentage of sales resulting from new products, profitability; capitals employed and return on assets (ROA) (Selvarajan et al., 2007; Hsu et al., 2007). Again, return on investment (ROI), earnings per share (EPS) and net income after tax (NIAT) can also be used as measures of financial performance (Grossman, 2000). Researchers also tend to benchmark managerial accounting indicators against the financial measures in six dimensions like ‘workers compensation’ (workers’ compensation expenses divided by sales), ‘quality’ (number of errors in production), ‘shrinkage’ (inventory loss, defects, sales return), ‘productivity’ (payroll expenses divided by output); and ‘operating expenses’ (total operating expenses divided by sales) as well. (Wright et al., 2005).

Firm performance can also be measured using ‘perceived performance approach’. It is a subjective performance measurement approach where Likert-like scaling is used to measure firm performance from the top management perspectives (Selvarajan, 2007), as they are leading indicators of financial performance (Kaplan & Norton 1992; 2001). In the present study organisation performance was measured with 26 items from the perspective of customer service, quality, productivity and innovation. The items were coded 1= strongly disagree, 5= strongly agree. The questionnaire was designed from the balance scorecard literature of Kaplan & Norton (1992). The items incorporated are, customers are delighted with our service capabilities and our defect injection rate is below the industry average and so on. This measure has Cronbach’s alpha of 0.76.

**Results**

All variables used in the study exhibited normal distributions. The descriptive statistics with mean, standard deviation and co-relations are shown below.

Co-relation and descriptive statistics of the study variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Collaborative HR</td>
<td>3.61</td>
<td>0.58</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>configuration</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2. Social capital</td>
<td>3.77</td>
<td>0.41</td>
<td>0.406</td>
<td>–</td>
<td>–</td>
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<tr>
<td>organisational</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>performance</td>
<td>3.68</td>
<td>0.55</td>
<td>.888</td>
<td>0.577</td>
<td>–</td>
</tr>
<tr>
<td>N = 126 p&lt;0.01</td>
<td></td>
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</table>

Source: Data analysis conducted by author

Simple regression analysis was conducted to study the relationship between collaborative HR configuration, social capital and organisational performance with the help of SPSS controlling size of the organisation. It was found that, collaborative HR configuration (Beta = .245, p<.05) was significantly related to social capital corroborating Hypothesis 1 and social capital (Beta = .396, p < .05) too was significantly related to organisation performance providing support to Hypothesis 2. The interconnectivity between all the three construct under study is collaborative HR configuration, is appreciably substantial.
Discussion

The present study adopts a sort of configurationally approach to identify unique patterns of HR practices and business strategy for creation and enhancement of social capital of organisations. In the knowledge era people are often the key sustainable competitive advantage (Davenport & Prusak, 1998; Nonaka & Takuchi, 1995), because the process of creating, sharing and integrating knowledge tends to be tacit, path dependent and socially complex. It tends to be difficult to imitate, and non-transferable to different contexts (Peteraf, 1993) and these relational elements of learning and competitive advantage extend beyond human capital and highlight the importance of social capital (Coleman, 1988; Edvinson & Malone, 1997). While human capital represents the economic value of individual knowledge but social capital represents the value of “resources embedded within, available through and derived from the network of relationships” (Nahapiet & Ghosal, 1998:243).

Social capital is generally referred to as the set of trust, institutions, social norms, social networks, and organisations that shape the interactions of actors within a society and are an asset for the individual and collective production of well being. Though social capital has its historical roots in public welfare, more recently is gaining the attention of the corporate sector (Cohen, D. & L. Prusak, 2001). Social capital is basically “The stock of active connections among people, the trust, mutual understanding and shared values and behaviours that bind the members of human networks and communities and make cooperative action possible” (Cohen & Prusak, 2001, p 72). Like any other forms of economic capital, social capital is argued to have similar although less measurable benefits.

Contribution and Future Direction of the Study

The study contributes to collaborative culture and consensual HR practices practised in Indian software business houses adding to individual social capital as well as organisational social capital which is prime instrumental factor contributing to organisational bottom-line in today’s knowledge economy. The study can be extended to capture the contribution of collaborative culture to other elements of intellectual capital like human capital, organisational capital and spiritual capital too.

Conclusion

HR system focused on social capital enhancement directly relates to multiple dimensions of operational efficiency. Collaborative culture emphasizing harmony, along with less aggressive attitudes towards others tends to favour less competition. Collaborative management cultivate win-win situation by developing and sharing “best practices”, creating an environment that is comfortable to the idea of openness and managing organizational learning. Hence found to be significantly related to firm performance. As social capital is a relational construct and is dependent on the interaction of individuals, such interactions takes place within particular contexts. As defined by Cappelli & Sherer (1991) and Johns (2003) work context can matter a great deal in shaping organizational behaviour. The study is undertaken in knowledge intensive sector of the economy, the goal of the organisations are to “hire and wire”. The organisations put huge emphasis to hire the best people with best net-work and integrate them into the value chain so that their combined human and social capital provides excellent returns. On-boarding of new employees includes connecting them to knowledge sources and information flows so that they will be successful in their jobs. Social capital has some effect on productivity and innovation of the organisations.

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