

# Collaborative HR Social Capital and Organisational Performance – Evidence From Indian IT Sector

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## ABSTRACT

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 and enhanced social capital (SC). Three sets of questionnaires were designed on collaborative HR practices, SC and organisational performance in the five point Likert scale and were administered on the basis of field survey. The collected data were then analysed with simple regression analysis. It was found that collaborative HR configuration creates an interactive and collective culture within the organisation, nourishes organisational rationality and positively and significantly drives organisational level SC, which in turn is very well co-related with organisation bottom line.

**KEYWORDS:** Collaborative HR practice, Interactive culture, Organisational rationality, Social capital, Organisational performance

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## INTRODUCTION

In any organisation, HR practices facilitate flow of knowledge, leading towards sustainable competitive advantage. HR is always on the front line in developing the knowledge base in the organisation (Youndt and Snells, 2004), as the people dimension play key role for human resource management and human resource development for effective knowledge management (KM) 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 has a pivotal role in the KM movement. HR practices and processes influence creation and sustenance of social capital (SC) as a critical component for managing the flow of knowledge between employees to serve as a competitive advantage. HR practices directed at creating and sharing knowledge throughout the firm accounts for new value creation. In the knowledge era, the traditional factors of production of land, labour and capital are being replaced by the creation of value through knowledge (Drucker, 1993; Savage, 1996) and firms are becoming embedded within a complex web of interconnections that span markets, governments and communities. The term SC captures this relational web. SC is about relationships. As leading SC researchers Cohen and Prusak (2001) point out the increasing complexity of tasks and organisations in the new

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economy make it impossible for any one person to have all the knowledge and information he needs to do his job. Relationships, therefore, are becoming ever more important, and with them, SC. It determines what a group of employees can and will accomplish together.

SC as an integral part of intellectual capital (IC) is represented as unique organisational resource. SC of organisations constitutes a distinctly collective property that might be mediated by individuals, yet is uniquely organisational. SC complements financial and human capital and crucial in bundling intangible assets and provides the network relationship and is often viewed as conferring various benefits. Organisational SC can be attributed to the aggregate SC of its members which determines what a group of employees can and will accomplish together. Organisations achieve excellent SC by collectively maximising its external, internal and human capital (Nahapiet and Ghoshal, 1998). His proposition is that a firms' capability to create SC provides the required environment for IC creation and hence organisational performance. SC requires attention to be paid to the relationships which shape the realisation of human capitals' potential individually and collectively.

With this backdrop the paper examines the effects SC on organisational performance which has been described as both the aggregate form and nature of relationships among organisational members (e.g., Coleman, 1990; Leana and Van Buren, 1999), as well as the linkages between the organisation and its external stakeholders, competitors or partners (e.g., Kale *et al.*, 2000; Uzzi, 1997). The present study purported that collaborative HR configurations and HR practices which focus on permeable and network intimate work structures, team development and group incentives play an important role in adding significantly to the organisational level of SC which in turn drives organisational performance.

## 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 SC by the given practices. The research thrust also proposes SC as a unifying managerial construct to manage and report on intangibles and focuses on looking into the role of SC on the 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 and 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 SC to protect the investments of organisations knowledge-based sources of advantage.

SC 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 a key role in developing such a networked organisation through facilitation of knowledge communities (teams) cutting across formal organisational role. HR plays a 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 and Takeuchi, 1995).

Building SC 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 SC may play an important role in knowledge flows by providing a mechanism to share and combine the distributed knowledge among organisational members (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Adler and Kwon, 2002). Organisational 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 *et al.*, 2005). Ghoshal and 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 organisational 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 the special case of social networks in which the links of networks represent shared or related knowledge. Knowledge network represents 'who knows what' and social networks represent 'who knows who' (Contractor and Monge, 2002). Therefore, 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 SC**

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 represents relationships like friendship, advice and supervisor–subordinate relations (Wasserman and Faust, 1994). These social networks also form a resource for collaborative KM, creation and exchange and transformation of knowledge. McGill and 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 and 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 organisations and the individuals who work within them (Bradach and Eccles, 1989; Rousseau *et al.*, 1998), as information sharing is a basic and essential component of high-performance work systems.

The design of flexible work structures is one way to engender diverse social connections within and outside the firm. Specifically, broad job classifications, temporary job assignments, and job rotations across teams, lines or combined job classes may not only provide employees with the opportunities to interact with colleagues in different groups, but also stimulate their networking motivation to form valuable conduits of knowledge because those job designs require a broader range of knowledge and problem solving skills (Delery and Doty, 1996; Lepak and Snell, 1999; Gant *et al.*, 2002). On similar logic, cross-functional teams and client-focused or divisional organisational structures rather than functional structures may provide employees with the opportunities to make new ties with

others representing various perspectives (Reagans and Zuckerman, 2001).

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 (McGrath and Argote, 2001). Team-based work can also facilitate cross functional communication, enhance worker involvement and develop better utilisation 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. A 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. In addition, performance feedback from peers, customers, team members and even subordinates is likely to facilitate knowledge sharing. Each of these initiatives is likely to increase the capacity and opportunity for knowledge exchange and combination.

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. Group-based rewards and appraisals are used to develop and integrate interdependency, trust and collaborations (Quinn *et al.*, 1996). The greater the opportunities for collaborative deliberations, the greater are the capacity of the organisation for social learning and joint action. Nahapiet and Ghoshal (1998) have rightly said different forms of SC might act having sufficient coordination capability for individuals or organisations to share their knowledge with one another. Likewise, Kang *et al.* (2007) argued that certain forms of SC might optimise the ability, opportunity and motivation for knowledge sharing across groups.

**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).

### SC and Performance

In today's knowledge-based economy, it is not uncommon to see firms in the same industry with similar incomes and balance sheets and vastly different price/earnings ratios. Intangible assets account for the difference. SC enhances better group communication, more efficient collective action, enhanced stocks and use of IC and better access to resources (Adler and Kwon, 2002; Leana and Van Buren, 1999; Nahapiet and Ghoshal, 1998; Hansen, 2002). SC can be linked directly to economic performance at very different levels – at the level of nation states (e.g., Fukuyama, 1996), at the regional level (e.g., Maskell *et al.*, 2004) or between and within communities or organisations (Grootaert, 1999). It also has wider outcomes, which includes the generation of further SC and maintenance of social cohesion that contribute indirectly to enhanced economic performance. The economic value of customer relations is no more 'invisible' than the market

value of a house. Grootaert (1998), a researcher for World Bank, states that the traditional type of capital like natural, physical and human determines only partially the process of economic growth because they overlook the way in which the economic actors interact and organise themselves to generate growth and development and the obvious missing link is SC. SC has become a critical enabler of innovation. It represents the 'stock' created when a network of organisations develop the ability to work in collaboration to promote mutual productive gain.

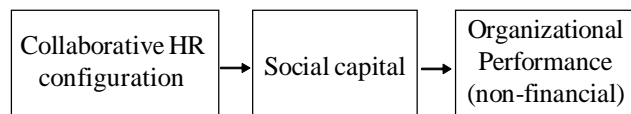
SC, generally defined as the actual and potential resources embedded in relationships among actors, is increasingly seen as an important predictor of group and organisational performance (Adler and Kwon, 2002; Leana and Van Buren, 1999; Nahapiet and Ghoshal, 1998). At the macrolevel, SC can affect economic performance and the process of economic growth and development. SC 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 SC 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 SC. It has also been argued that the human dimension accounts for at least half of all IC 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 organisational performance. SC facilitates individual learning by sharing of information and such situated learning enhances performance. Particularly in knowledge-intensive organisation, information sharing and exchange enhance cooperation and mutual accountability leading to organisational performance (Sparrowe *et al.*, 2001).

There are largely a vast amount of quantitative studies, which have drawn correlations between social networks and organisational performance. Social

networks form the foundation for collaborative KM, which ultimately improve organisational performance by enabling individuals to capture, share and apply their collective knowledge to make optimal decisions at right time (Smith and Farquhar, 2000). Hazleton and Kennan (2000) put the case for SC and organisational advantage around the improved communication afforded to organisations with strong SC. Reduced transaction costs, through less need to check transactions, improved productivity, efficiency and quality and customer satisfaction are among the other benefits attributed to SC.

SC may reduce organisational costs in many of the same ways human capital does. By identifying and managing different forms of SC 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 and Zander, 1992; Nonaka and Takeuchi, 1995).

**Hypothesis 2:** An O-SC is positively related to organisational performance (OP).



**Figure 1: Conceptual model linking collaborative HR configuration, SC and firm performances**

## METHOD

### Sample and procedure

The top management team of various Indian IT companies engaged in software business and located in and around Bhubaneswar, Odisha, 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 year experience in the industry and 56% posse more than 10 year experience.

### Measures

Collaborative HR configuration is characterised by group incentives, cross-functional teams, and like that ensures greater integration and stronger relationships with the firm (Mathieu *et al.*, 1992). Collaborative HR configuration was measured with eight items from Youndt *et al.* (2004) study with a little modification and coded 1= strongly disagree and 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 are 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, Youndt *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, SC was quoted from study done by Youndt *et al.* (2004). The items too coded as 1= strongly disagree and 5=strongly agree. The items included that 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 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 and 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 the ‘perceived performance approach’. It is a subjective performance measurement approach where the 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 and 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 and 5= strongly agree. The questionnaire was designed from the balance scorecard literature of Kaplan and Norton (1992). The items incorporated include that 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 in Table 1.

Simple regression analysis was conducted to study the relationship between collaborative HR configuration, SC and organisational performance with the help of SPSS controlling size of the organisation. It was found that collaborative HR configuration (Beta = 0.245,  $p < 0.05$ ) was significantly related to SC corroborating Hypothesis 1 and SC (Beta = 0.396,  $p < 0.05$ ) too was significantly related to organisation performance providing support to Hypothesis 2. The interconnectivity between all the three constructs under study is collaborative HR configuration and is appreciably substantial.

## DISCUSSION

The present study adopts a sort of configurational approach to identify unique patterns of HR practices and business strategy for creation and enhancement of SC of organisations under consideration that are posited to be adding appreciably to organisation bottom line. In the knowledge era, people are often the key sustainable competitive advantage (Davenport and Prusak, 1998; Nonaka and 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 SC (Coleman, 1988; Edvinsson and

**Table 1: Co-relation and descriptive statistics of the study variables**

Variables	Mean	SD	1	2	3
Collaborative HR configuration	3.61	0.58	–		
Social capital	3.77	0.41	0.406	–	
Organisational performance	3.68	0.55	0.888	0.577	–
$N=126$ $p < 0.01$					

Source: Data analysis conducted by author

Malone, 1997). While human capital represents the economic value of individual knowledge, SC represents the value of ‘resources embedded within, available through and derived from the network of relationships’ (Nahapiet and Ghosal, 1998).

SC 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 SC has its historical roots in public welfare, more recently it is gaining the attention of the corporate sector (Cohen and Prusak, 2001). SC 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 co-operative action possible’ (Cohen and Prusak, 2001). Like any other forms of economic capital, SC is argued to have similar although less measurable benefits. But unlike traditional forms of capital, SC is not depleted by use, but in fact depleted by non-use. In this respect, it is similar to the well-established economic concept of human capital. Like other forms of capital SC is productive. It makes possible the achievement of certain ends that in its absence would not be possible. Hence, SC must be considered as a resource to a person. In an organisation, SC can be useful resource both by enhancing internal organisational trust through the bonding of actors and by providing resources through creating stronger link with other network members.

### **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 SC as well as organisational SC which is the 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 IC like human capital, organisational capital and spiritual capital too.

### **CONCLUSION**

The HR system focused on SC enhancement that directly relates to multiple dimensions of operational efficiency. Collaborative culture emphasising 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 organisational learning. Hence, it is found to be significantly related to firm performance. As SC is a relational construct and is dependent on the interaction of individuals, such interactions take place within particular contexts. As defined by Cappelli and Sherer (1991) and Johns (1993), work context can matter a great deal in shaping organisational behaviour. The study is undertaken in the knowledge intensive sector of the economy; the goal of the organisations is to ‘hire and wire’. The organisations put huge emphasis to hire the best people with best network and integrate them into the value chain so that their combined human and SC provides excellent returns. On-boarding of new employees includes connecting them to knowledge sources and information flows to make them successful in their jobs. SC has some effect on productivity and innovation of the organisations too. It is not what individual employees know that provides competitive advantage. It is unique interconnectivity of human capital available inside and outside the firm that provides some economic players with advantage over those who are not so well connected. Therefore, human resources focus not on individual employees but on the emergent network of employees.

SC is found to be a key driver in employee’s retention too. Women and minority engineers perceive it as an inclusion process to the communities which enhances their commitment to organisations. The final factor in effective SC is enhancement in terms of weaving better organisations. Generally, human resources are accustomed to examining at prescribed vertical relationships inside the organisations but these organisations move forward and HR considers horizontal and diagonal relationships within the



organisation as well as external connections to stakeholders for gaining business excellence and competitive advantage more effectively. Moreover, through the culture of interaction of organisational actors, the organisations under study are creating collective mind and hence thereby experiencing organisational rationality and by this organised rationality, the individual subjectivities at workplace are unified into common objectivities.

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