Organizational Dynamics (2014) 43, 1—8

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/orgdyn

Creating value in organizations: The vital role of social capital

Gregory G. Dess, Steve Sauerwald

> So long as we assume factor markets are reasonably efficient…it follows that competitive advantage is more likely to arise from the intangible firm-specific knowledge, which enables it to add value to the incoming factors of production in a relatively unique manner.
>
> J.C. Spender, 1996

INTRODUCTION

For the most part of the 20th century, managers built their strategies around the efficient allocation of tangible resources such as labor and capital. In today's world, however, knowledge has surpassed tangible resources as the basis for value creation and competitive advantage. Intangible resources contribute more than 50 percent to the gross domestic product (GDP) in developed economies, and create most of the value in knowledge intensive industries, such as pharmaceuticals, software development, and education. The importance of knowledge constitutes a fundamental shift toward a knowledge economy that crucially depends on the effective management of human capital, in contrast to the efficient control of financial and physical capital.

With the growing importance of knowledge, shareholders essentially invest in a set of intangible assets such as corporate reputation, brand equity, and human capital. As the quote by J.C. Spender illustrates, tangible resources can be acquired in competitive factor markets so firms crucially depend on firm-specific knowledge—which cannot be easily bought and sold—to achieve competitive advantage. For high technology companies, such as Apple, Google and Facebook, knowledge assets have an even greater importance and routinely exceed the accounting book value of their tangible assets several times. Therefore, shareholders who invest in Google are not so much interested in its physical assets, such as its corporate campus in Mountain View, California, but in what happens inside those walls and in the heads of Google's software engineers, product managers, and top executives. Similarly, Merck, the pharmaceutical giant, did not become the "Most Admired" company in *Fortune*'s annual survey for seven years in a row because it manufactures pills, but because its researchers discover medicines. P. Roy Vagelos, who was CEO (chief executive officer) of Merck during its long run atop the "Most Admired" list, said: "A low-value product can be made by anyone anywhere. When you have knowledge no one else has access to—that's dynamite. We guard our research even more carefully than our financial assets."

Human capital constitutes the central resource in knowledge intensive companies because it is a main carrier of organizational knowledge and ultimately a source of competitive advantage. A key strategic issue for managers therefore becomes how to create and leverage human capital resources. A common—but ultimately incomplete—answer to this strategic issue is to attract a large stock of human capital to implement knowledge intensive strategies; yet, attracting top talent is merely a necessary but not sufficient condition for competing in the knowledge economy. Another requirement is to match talent to key firm capabilities. For instance, consider an example from professional sports. The Oakland Athletics, as explained in Michael Lewis' best-selling book *Moneyball*, pursued a novel talent management system that enabled them to win games. The Athletics implemented this strategy by acquiring players that other clubs did not value, but that fit right into the strategic needs of the Oakland Athletics.

Besides attracting talented employees and ensuring strategic fit, knowledge intensive firms face two strategic human resource issues. A first issue concerns the rapidly changing business conditions in the knowledge economy. At some high technology firms, such as Solectron, a circuit board manufacturer, technology changes so rapidly that 20 percent of an engineer's knowledge becomes obsolete each year. A second

0090-2616/$ — see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.orgdyn.2013.10.001

issue is the high mobility of human assets. This poses significant challenges to firms when key employees leave and take valuable knowledge with them. Traditionally, companies confront these strategic issues through conventional human resource (HR) practices, such as investing in training and mentoring programs and retaining top talent through legal and financial means. However, while these traditional HR processes ensure competitive parity with competitors, they are not sufficient to outcompete other firms in knowledge intensive industries. For instance, tangible financial incentives can be easily matched by competitors and top talent lured away. Moreover, financial incentives may crowd out other more intrinsic motivations, such as challenge and responsibility. According to David Brandenburg, CEO of ViewCast, people who will come for money will leave for money.

Given the unique characteristics of human capital and the increasing importance of knowledge in the economy, managers must ask the question: *How good is our organization not only at attracting, developing, and retaining top talent but also at leveraging that talent to produce a stream of products and services valued by our customers?*

This question leads us to view some of the earlier mentioned key human resource issues from a different angle. Instead of relying on easy to imitate financial incentives to retain key employees, successful companies such as SAS, Google, and Medtronic use intangible incentives such as opportunities for learning, friendship ties among co-workers, and identification with a firm's mission. Bill George, longtime CEO of medical device company Medtronic, recalls the power of a strong corporate purpose and identification with the company's mission imprinted by Medtronic co-founder Earl Bakken. Bakken would appear at company events and reiterate the company's motto: "Your job here is not just to make money for the company; your job is to restore people to full health." The firm's symbol is an image of a supine human rising toward upright wellness. That sounds good, but how does the "resurrection" imagery come to life?

> Each December, at the company's holiday party, patients, their families, and their doctors are flown in to tell their survival stories. It's for employees—who are moved to tears year after year—and journalists are generally not invited. One executive commented: "I remember my first holiday party and someone asked me if I had brought my Kleenex. I assumed I'd be fine, but these parents got up with their daughter who was alive because of our product. Even surgeons who see this stuff all the time were crying."

Talented professionals who closely identify with a firm's mission will be far more likely to collaborate and share ideas. Moreover, a strong corporate purpose is also likely to facilitate the traditional human resource activities such as attracting, developing, and retaining top talent.

A few definitions are in order before we discuss the role of social capital and technology in leveraging human capital. First, human capital refers to the "individual capabilities, knowledge, skills, and experience of the company's employees and managers." Human capital is relevant for the task at hand but can also be developed over time through adding knowledge, skills, and experiences to this human capital stock through learning. Second, social capital refers to "the network of relationships that individuals have within as well as outside the organization." The social infrastructure created through social capital plays a crucial role in leveraging knowledge, skills, and experiences. Moreover, social capital may not be restricted to the focal firm but can also extend beyond firm boundaries to include customers, suppliers, and partners.

We organize our article as follows. First, we will examine how social capital as a key intangible resource can leverage human capital and increase firm value. In particular, we discuss how ties among co-workers may retain top talent, and how the bundling of human capital assets may create unique and hard-to-imitate resource bundles. Second, we will then explore the ways technology can leverage human capital resources. This part of our discussion not only focuses on traditional technology such as e-mail and e-teams, but also explores ways through which social media can leverage human capital. Finally, we shift our focus from the public good character of social capital to more individualistic or private good aspects. While the public good view of social capital suggests that a firm or group that is strong in social capital will secondarily confer benefits to employees and executives, a private good view of social capital highlights that individuals directly benefit from their social capital.

LEVERAGING HUMAN CAPITAL WITH SOCIAL CAPITAL

Successful firms and effective managers understand that high absolute levels of human capital stock are only a necessary, but not sufficient condition to compete in knowledge intensive industries. Many talented professionals already possess the general skills for knowledge intensive jobs. Firms competing for human capital therefore have little difficulty hiring similarly skilled and trained professionals, thus leading to competitive parity between firms. To overcome this hurdle and outperform competitors, effective managers recombine human capital into unique human capital bundles that competitors find difficult to imitate and tie knowledge workers to the firm to create sustained value for customers and shareholders.

Social capital plays a crucial role in this endeavor by creating the friendship and professional ties between talented individuals necessary to bind knowledge workers to the firm. Knowledge workers who exhibit great loyalties to their colleagues are less likely to leave because social connections with co-workers are firm-specific and relatively immobile. Moreover, social capital ties are typically much stronger between employees than between employees and the employing organization, which most employees perceive as too distant to be the source of emotional attachment. Thus, a firm that is able to create social ties among its key knowledge workers may also be able to reduce employee turnover significantly.

Social capital among knowledge workers, however, poses additional challenges for knowledge companies. Bernard Wysocki, in a *Wall Street Journal* article, describes a human resource phenomenon in which whole teams of employees are leaving one organization for another, a phenomenon he refers to as "Pied Piper Effect." Competitors therefore not only recruit job candidates for their unique talents and skills, but also for their potential to bring with them valuable co-workers. Take the e-commerce firm Third Millennium as an

Download English Version:

https://daneshyari.com/en/article/10440173

Download Persian Version:

https://daneshyari.com/article/10440173

Daneshyari.com