



# Human resource management practices and organizational social capital: The role of industrial characteristics <sup>☆</sup>

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## ABSTRACT

This study investigates the relationship between human resource management (HRM) practices and organizational social capital (OSC) and the moderating effects of industrial characteristics. Based on a sample of 161 firms, the results of this study indicate that HRM practices that focus on facilitating relationships among employees are positively related to OSC, and the relationship is stronger for firms operating in less regulated industries. Further, knowledge intensity itself shows no moderating effect but appears to join industrial regulation in influencing the link of HRM practices and OSC. The findings of a post hoc analysis suggest that HRM practices have a positive effect on OSC with high but not with low knowledge intensity in a more regulated context. This study presents implications for research and practice along with directions for future research.

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## 1. Introduction

Social capital generally denotes the aggregate of resources embedded within, available through, and obtained from the relationships of an individual or organization (Bolino, Turnley, & Bloodgood, 2002; Inkpen & Tsang, 2005; Nahapiet & Ghoshal, 1998). A firm can derive great benefit from both intra- and inter-organizational relationships. Internally secured social capital facilitates a firm's internal coordination, knowledge creation and accumulation, and creativity (Leana & Pil, 2006; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). Social relationships between organizational members enhance innovation (Maurer, Bartsch, & Ebers, 2011; Subramaniam & Youndt, 2005), growth (Maurer et al., 2011), and other organizational outcomes (Andrews, 2010; Batjargal, 2003). Externally secured social capital promotes innovation through knowledge utilization (Pérez-Luño, Cabello Medina, & Carmona Lavado, 2011), and increases a firm's competitiveness and likelihood of success (Fischer & Pollock, 2004; Inkpen & Tsang, 2005; Wu, 2008). This study follows Leana and Van Buren (1999) in conceptualizing organizational social capital (OSC) as a resource that reflects the social relationships within the firm, which pertains to the concept of internal social capital (Adler & Kwon, 2002; Leana & Pil, 2006).

Firms must make investments to develop and manage OSC (Ellinger, Elmadağ Baş, Ellinger, Wang, & Bachrach, 2011; Prusak & Cohen, 2001). However, this research theme has received little attention and requires further exploration (Bolino et al., 2002; Payne, Moore, Griffis, & Autry, 2011). Without neglecting values of the links with external stakeholders, this study focuses on the internal aspect of OSC that primarily arises from social relationships among organizational members. To nurture OSC, firms should create opportunities for, and increase the motivation and ability of, organizational members to build their relationships (Adler & Kwon, 2002). In this regard, human resource management (HRM) practices serve as a potential means through which firms can effectively accumulate and develop the depth and content of their OSC (Kang, Morris, & Snell, 2007; Leana & Van Buren, 1999). Although scholars have conceptually identified HRM practices that can play the role (Kang et al., 2007; Leana & Van Buren, 1999; Lengnick-Hall & Lengnick-Hall, 2003; Morris, Snell, & Lepak, 2005), empirical evidence remains scarce with a few studies that either examine this topic at the individual level (Gittell, Seidner, & Wimbush, 2010) or dyadic level (Kaše, Paaue, & Zupan, 2009), or use a unique sample of top management teams (Collins & Clark, 2003). The literature still lacks empirical research on how HRM practices nurture social capital around other employees instead of top managers (Collins & Clark, 2003) and at the firm level (Payne et al., 2011).

OSC is a relational construct that inherently hinges on the interaction of individuals, which takes place within particular work contexts (Johns, 2006; Leana & Pil, 2006). Scholars argue for the necessity of a contingency approach that accounts for contextual conditions that strengthen or limit the effects of HRM practices (Datta, Guthrie, & Wright, 2005; Jackson & Schuler, 1995; Kim & Wright, 2011; Sun, Aryee, & Law, 2007). However, studies that focus on the relationship between HRM practices and OSC

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neglect contextual factors, particularly the firm's external environments. The current study identifies industry as a pivotal context within which firms frame and execute HRM practices (Datta et al., 2005; Jackson & Schuler, 1995; Kim & Wright, 2011), incorporating industrial characteristics (industrial regulation and knowledge intensity) into the research framework.

This study builds on and extends existing literature (e.g., Collins & Clark, 2003; Gittell et al., 2010; Kaše et al., 2009) by exploring employee-focused OSC and examining the relationship between HRM practices and OSC at the firm level. More importantly, this study investigates the contingent effects of industrial characteristics to identify the context in which HRM practices are likely to exert differential influence on OSC. The next section formalizes the concept of OSC and identifies HRM practices that promote relationship-building among employee and foster OSC. It also explores the potentially moderating effects of industrial regulation and knowledge intensity. Sections 3 and 4 respectively present the methodology and results of this empirical study. Finally, Section 5 discusses the research and managerial implications of the findings and highlights directions for future research.

## 2. Theoretical background and hypotheses

### 2.1. Organizational social capital

Scholars use a variety of conceptualizations to emphasize various aspects of social capital (see Adler & Kwon, 2002; Leana & Van Buren, 1999). Social network theorists portray social capital as an individual attribute that benefits actors who possess it (e.g., Belliveau, O'Reilly, & Wade, 1996). This perspective considers social capital to be a private good held by individuals that can help individual outcomes such as creativity (Perry-Smith, 2006; Zhou, Shin, Brass, Choi, & Zhang, 2009) and career development (Seibert, Kraimer, & Liden, 2001). On the other hand, organizational scholars emphasize social capital as a social unit attribute that benefits both individual members and the social unit as a whole (e.g., Bourdieu, 1986; Coleman, 1988). This perspective regards social capital as a public good that resides at the collective level and appears more frequently in recent research (e.g., Andrews, 2010; Houghton, Smith, & Hood, 2009; Leana & Pil, 2006; Subramaniam & Youndt, 2005).

OSC is a firm-level phenomenon and the study here focuses on the internal aspect of OSC (Adler & Kwon, 2002; Leana & Pil, 2006). Concentrating on internal OSC is appropriate because the social relationships of organizational members within the same group or unit, as well as in the broader social structure of the organization, can improve group or unit performance (Merlo, Bell, Mengüç, & Whitwell, 2006; Oh, Chung, & Labianca, 2004; Tsai & Ghoshal, 1998) and benefit the whole organization (Andrews, 2010; Batjargal, 2003; Leana & Pil, 2006; Maurer et al., 2011). The presence of high trust and a shared sense of vision among organizational members who pursue common strategic goals can contribute to firm performance (Andrews, 2010). Previous research shows that OSC fosters mobilization, assimilation, and use of organizational knowledge resources (Maurer et al., 2011), facilitates resource exchange and combination (Tsai & Ghoshal, 1998), and increases innovation capabilities (Subramaniam & Youndt, 2005). On the other hand, if the relationships among organizational members dissolve, the resulting OSC losses are detrimental to organizational performance (Shaw, Duffy, Johnson, & Lockhart, 2005).

OSC describes both the structure and the content of relationships among actors that create internal cohesiveness (Adler & Kwon, 2002). Establishing a shared vision among employees, creating a strong identity with the firm, and pursuing collective missions and goals manifest the essence of OSC. Nahapiet and Ghoshal (1998) specify structural, relational, and cognitive dimensions of OSC in their framework. The structural dimension of OSC refers to the network connections among actors. This aspect describes the extent of employee connections, the patterns of employee connections, and the usefulness of these connections in

different contexts (Bolino et al., 2002). The relational dimension of OSC describes the affective relationships among employees and involves high levels of trust, shared norms and perceived obligations, and a sense of mutual identification (Bolino et al., 2002). Trust is a key component of the relational dimension (Leana & Pil, 2006). The cognitive dimension of OSC represents the extent to which employees possess a common language and shared narratives (Bolino et al., 2002).

### 2.2. Human resource management practices and organizational social capital

Firms should develop or adopt organizational routines that reflect and incorporate relationship resources to create value (Jackson, Chuang, Harden, & Jiang, 2006; Kang et al., 2007; Nahapiet & Ghoshal, 1998). HRM practices can play a critical role in the facilitation, accumulation, and utilization of OSC (Kang et al., 2007; Leana & Van Buren, 1999; Lengnick-Hall & Lengnick-Hall, 2003; Morris et al., 2005). Leana and Van Buren's (1999) conceptual article appears to be the first discussion of HRM practices as the primary mechanism in fostering OSC. Lengnick-Hall and Lengnick-Hall (2003), Morris et al. (2005), and Kang et al. (2007) provide similar arguments. Gittell et al. (2010) show that HRM practices strengthen relational coordination among employees who perform distinct functions, while Kaše et al. (2009) indicate that HRM practices of work design, incentives and motivation, and training and development promote interpersonal relationships.

A vast and growing amount of literature documents the strategic importance of well-designed HRM practices (Combs, Liu, Hall, & Ketchen, 2006). Although scholars have little consensus about how to conceptualize HRM practices (Lepak, Liao, Chung, & Harden, 2006), there is more agreement in the literature that strategically aligned HRM practices reflect the strategic objective(s) that such practices intend to achieve (e.g., see Becker & Huselid, 1998; Bowen & Ostroff, 2004; Chuang & Liao, 2010; Lepak et al., 2006).

Examining HRM practices for a more narrowly conceptualized strategic objective can achieve a closer alignment between HRM practices and the specific objective (Lepak et al., 2006). Chuang and Liao (2010) and Liao, Toya, Lepak, and Hong (2009) employ this focused approach in studies investigating HRM practices for customer service employees. Zacharatos, Barling, and Iverson (2005) show that HRM practices facilitating trust in management and promoting a safety climate result in higher safety orientation and fewer accidents. Jackson et al. (2006) propose developing HRM practices that support and facilitate knowledge-intensive teamwork. In the area of social relationships and OSC, Collins and Clark (2003) specify a set of HRM practices that help develop and manage the social networks of top managers. Gittell et al. (2010) identify HRM practices that foster relational coordination among employees, and Kaše et al. (2009) pay special attention to relational implications when selecting HRM practices.

Scholars recognize that traditional prescriptions of HRM practices may not be relevant to OSC, and HRM practices must incorporate the development of relationships (Gittell et al., 2010; Morris et al., 2005). Consistent with the OSC literature and the focused approach of HRM practices, this study suggests that HRM practices, whose strategic focus is to promote and support OSC, should create opportunities for employees to build social relationships, encourage their effort toward relationship development, and enhance their ability to do so. The ability–motivation–opportunity model explicitly identified in the HRM literature (e.g., Batt, 2002; Boxall & Purcell, 2003; Lawler, Chen, Wu, Bae, & Bai, 2011; Lepak et al., 2006) is congruent with Adler and Kwon's (2002) framework, which proposes opportunity, motivation, and ability as three sources of OSC. Further, Lepak et al. (2006) suggest that a set of more specific HRM activities can implement the objectives of these three HRM aspects. The following discussion focuses on HRM practices that address the three mechanisms.

First, HRM practices should provide employees with the opportunity to interact with other individuals for building interpersonal relationships.

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