Social Capital in Organizations: Exploring the Link to Firm Performance

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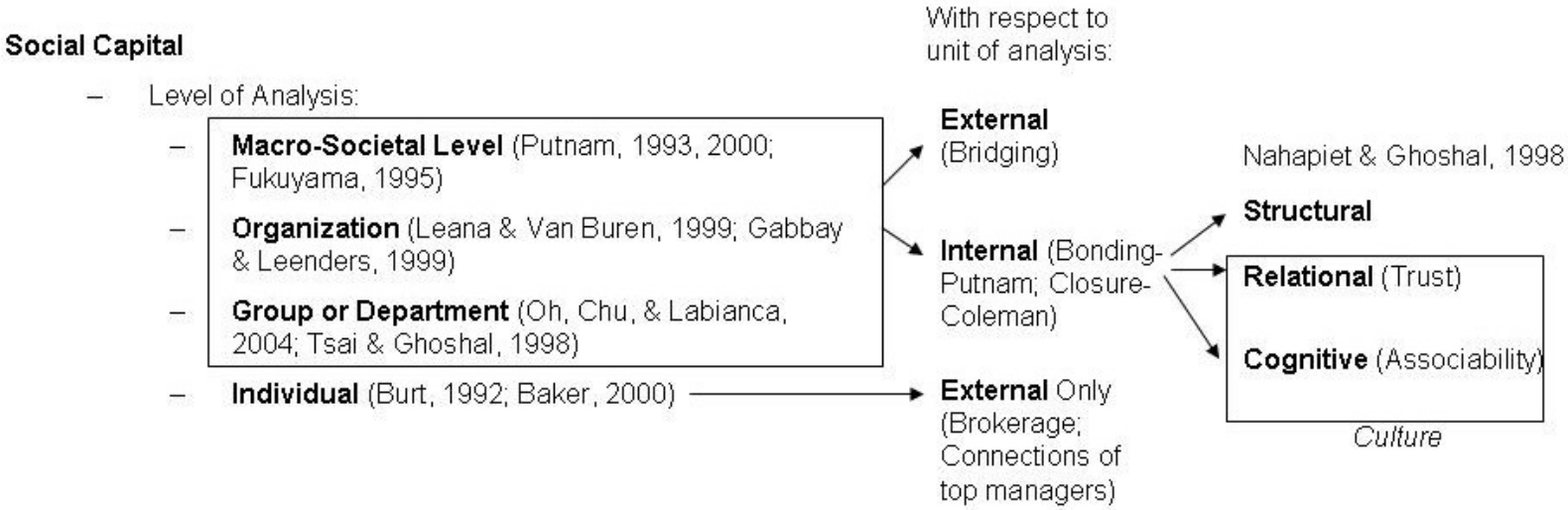
Academy of Management

Outline

- Social capital perspective
- Methods
- Results
- Relationship between culture, industry volatility and performance

Social Capital

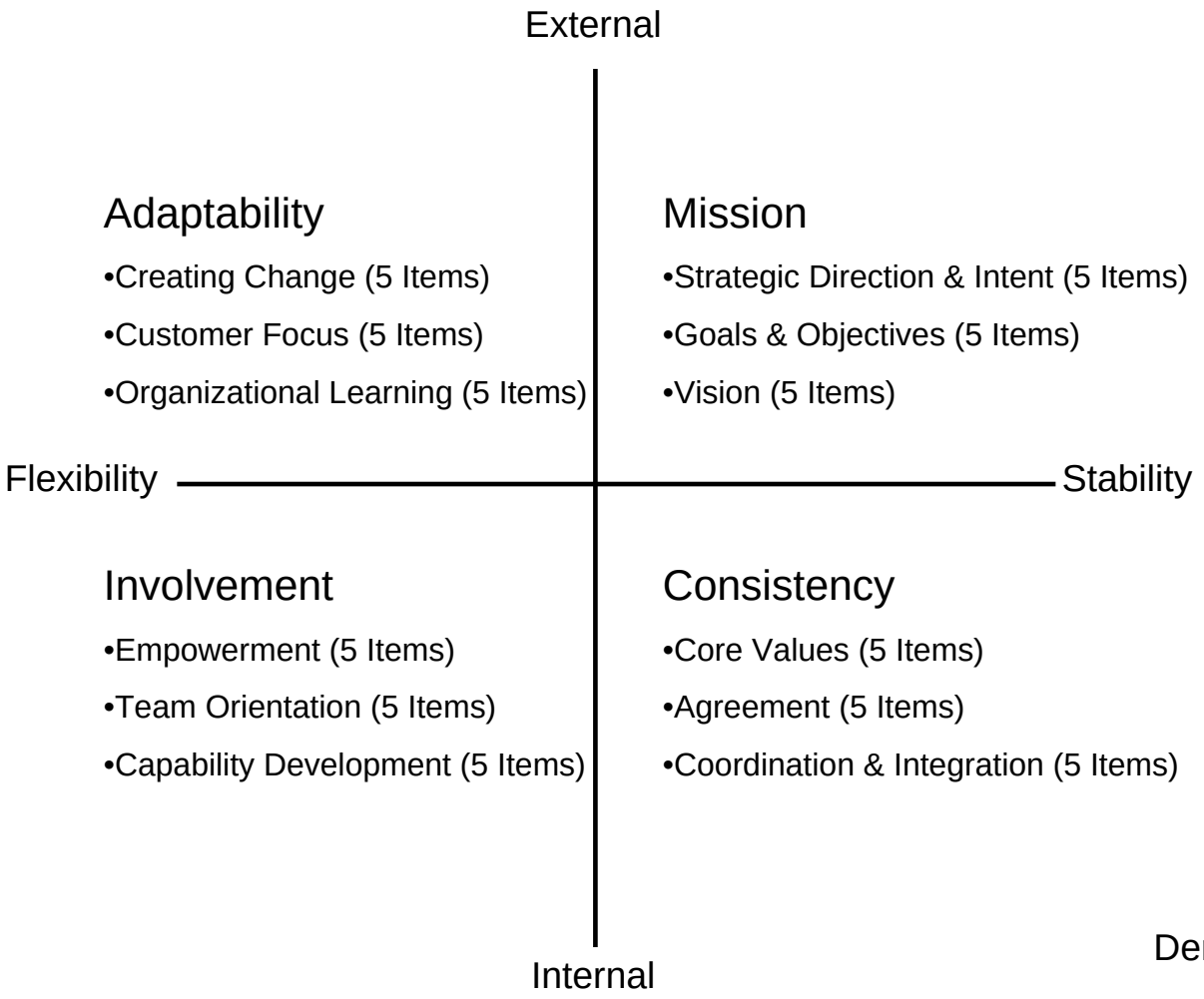


Relational Social Capital — "The kind of personal relationships people have developed with each other through a history of interactions" (Leana & Pil, 2006; Nahapiet & Ghoshal, 1998).

Cognitive Social Capital — "Resources providing shared representations, interpretations, and systems of meaning" (Nahapiet & Ghoshal, 1998 244).

Describing the cognitive dimension, Leana and Pil (2006, 354) note that "the shared vision and goals, and the collectively held values that underlie them, help promote integration and create a sense of shared responsibility and collective action."

Measuring Culture/Social Capital



Denison, 1990

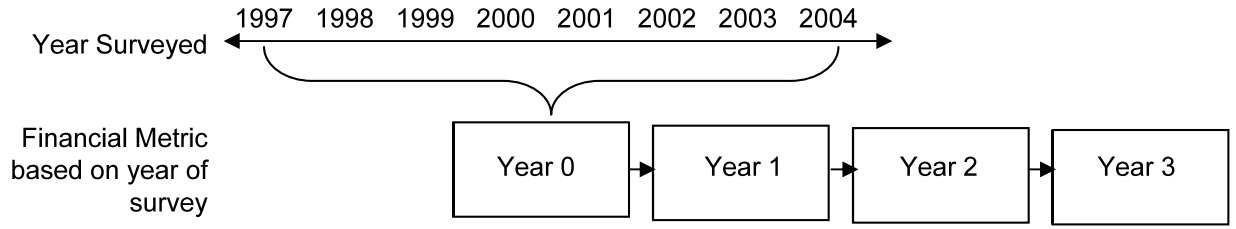
Sample

- 102 firm-level data points of public companies that were surveyed from 1997-2004
  - 71 unique firms/31 surveyed in two different years.
  - Average number of respondents per company was 1,145
    - min=27; max=15,965
    - Total=116,031
  - The sample represents 29 industries (two-digit SIC code)

Performance

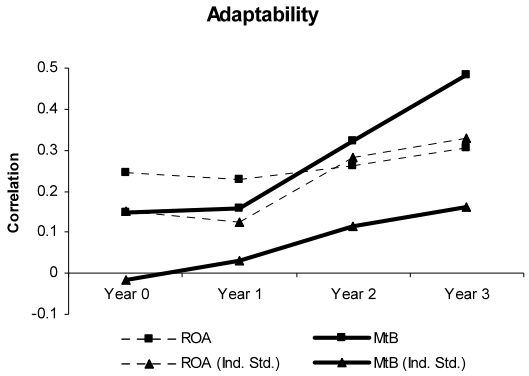
- Measures of firm performance:
  - return-on-assets,
  - sales growth, and
  - market-to-book ratio.
- Industry-Standardized
  - Created from all firms within the same two-digit SIC code of our 71 companies.
  - Calculated the z-score of a firm based on its relative standing on ROA, sales growth, & MtB.

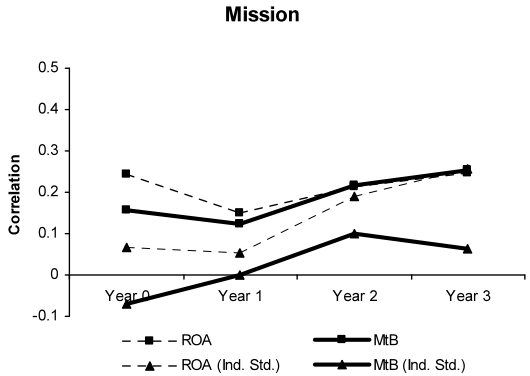
Financial metrics are relative to survey date.



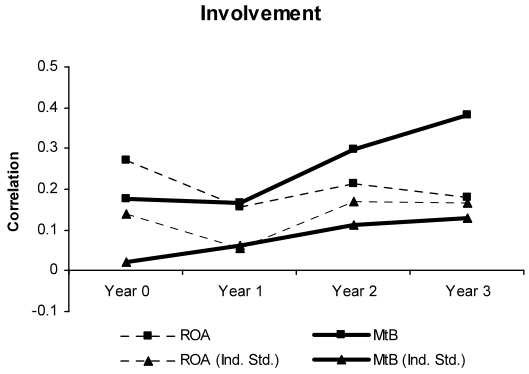
Correlations across time

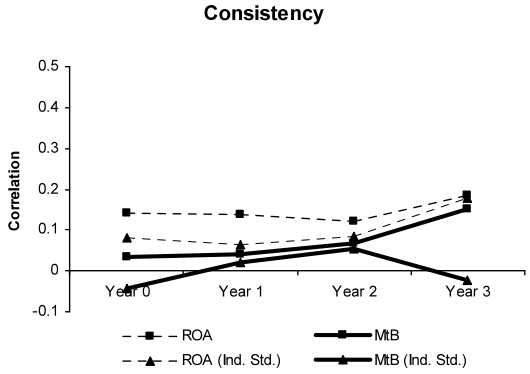
Adaptability has significant correlations with ROA & MtB in Year 2 and 3.





Seems to be a relation between involvement and MtB.*

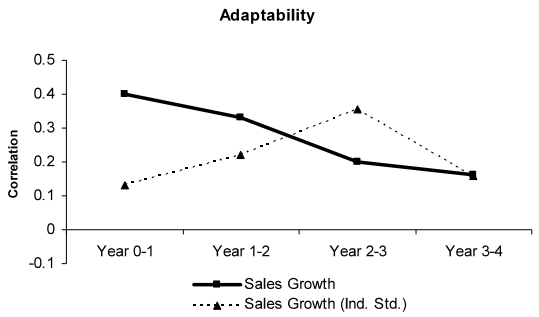


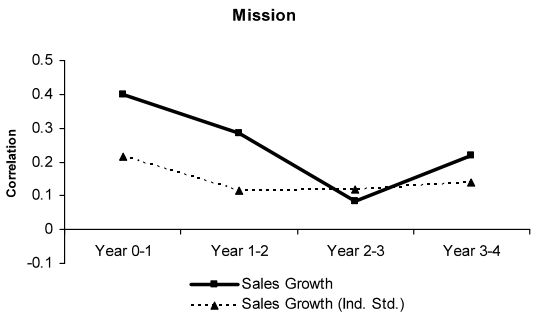


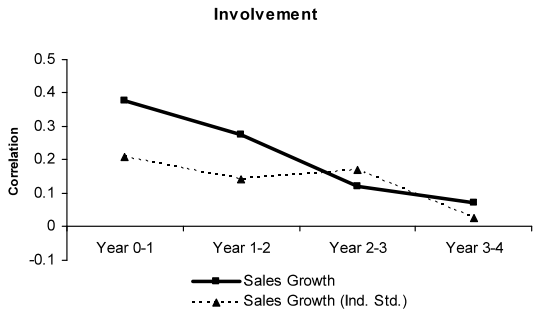
Consistency found to have little to no impact across all analyses.

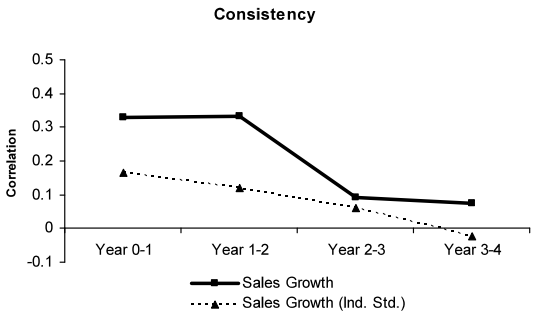
*Corresponds with Huselid's (1995) finding that employee motivation had a stronger impact on market-based performance measures as opposed to accounting-based returns.

Correlations with Sales Growth



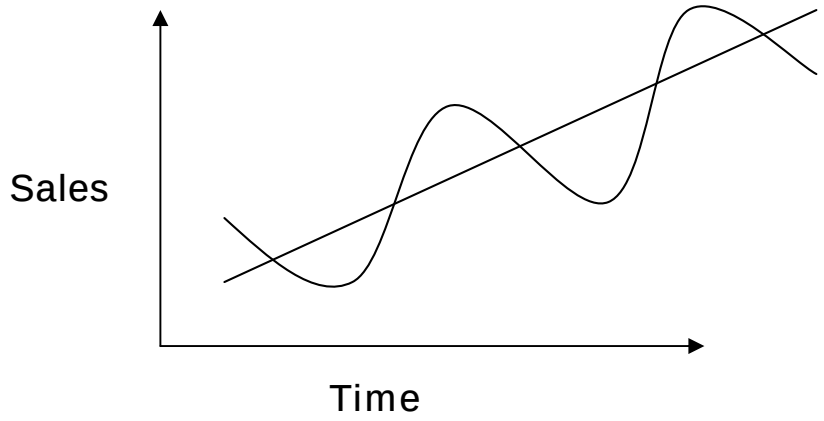






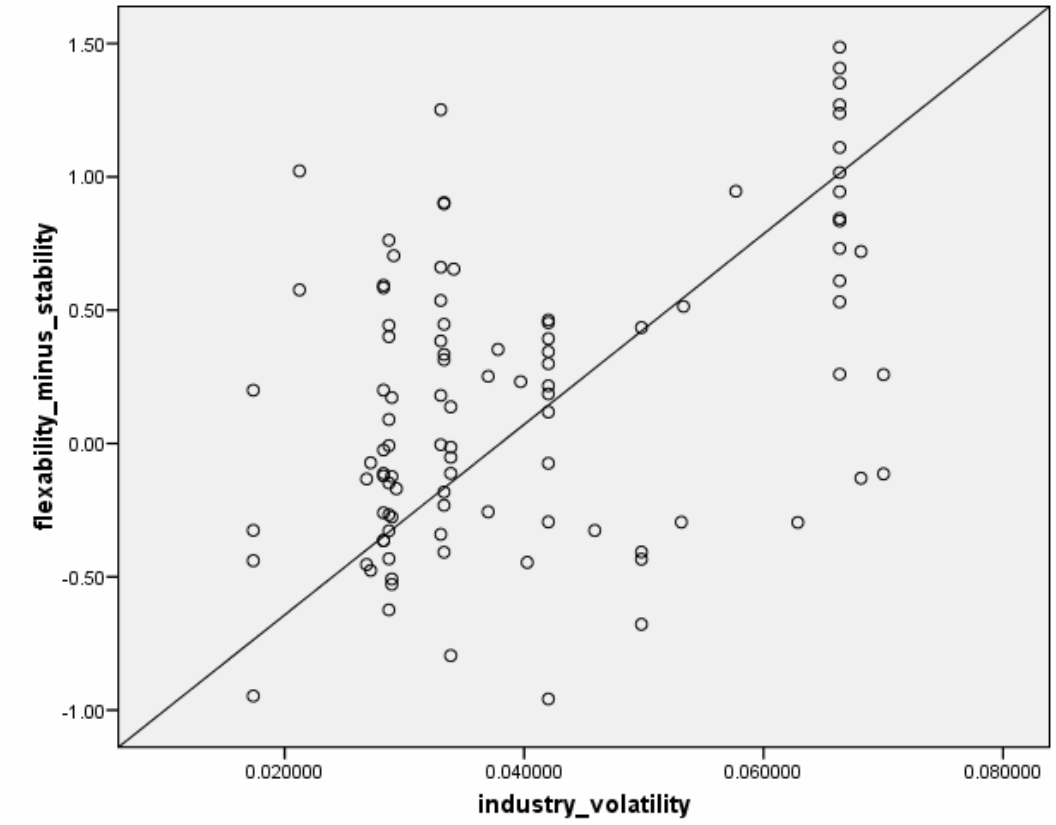
Industry Volatility

- Computed separately in each of the 29 industry databases by measuring the dispersion about the regression line when companies' total sales were regressed on time (Dess & Beard, 1984).



Contingency Theory

- Correlation between industry volatility and Culture



r=.458
p<.001

	Low Volatility Industries				High Volatility Industries			
	Involve.	Consist.	Mission	Adapt.	Involve.	Consist.	Mission	Adapt.
	Year 0 (N~57)				Year 0 (N~41)			
ROA (%)	.288*	.141	.298*	.230*	.214	.117	.144	.246
ROA (Ind. Std. Z-score)	.183	.133	.145	.212	.097	.051	-.005	.086
Sales Growth (Year 0-1)	.478**	.424**	.525**	.548**	.234	.263*	.250	.312*
Sales Growth (Ind. Std. Z-Score)	.213	.189	.288*	.123	.191	.115	.071	.153
Market-to-Book	.075	-.076	.089	-.014	.328*	.144	.248	.346*
Market-to-Book (Ind. Std. Z-score)	-.034	-.127	-.101	-.058	.101	.060	-.041	.036
	Year 1 (N~50)				Year 1 (N~30)			
ROA (%)	.149	.190	.195	.227	.155	.075	.077	.214
ROA (Ind. Std. Z-score)	.054	.109	.124	.157	.061	.040	-.004	.094
Sales Growth (Year 1-2)	.384**	.417**	.352**	.469**	.059	.140	.126	.146
Sales Growth (Ind. Std. Z-Score)	.326*	.322*	.314*	.472**	-.122	-.161	-.192	-.017
Market-to-Book	.063	-.034	.055	.017	.399*	.109	.248	.420*
Market-to-Book (Ind. Std. Z-score)	-.005	-.064	-.068	-.015	.225	.175	.140	.121
	Year 2 (N~44)				Year 2 (N~23)			
ROA (%)	.135	.081	.182	.177	.428*	.209	.314	.492**
ROA (Ind. Std. Z-score)	.111	.023	.172	.195	.255	.134	.196	.385*
Sales Growth (Year 2-3)	.030	.022	-.081	.129	.159	.099	.234	.267
Sales Growth (Ind. Std. Z-Score)	.268*	.221	.168	.504**	.051	-.107	.062	.210
Market-to-Book	.123	-.074	.052	.044	.483*	.192	.417*	.476*
Market-to-Book (Ind. Std. Z-score)	.031	.006	.036	.012	.262	.137	.235	.268

Sales Growth correlation seen more in low volatility industries

Flexibility Traits show stronger correlation with ROA & MtB over time.

Contributions

- Conceptual Integration
- Empirical test results show:
  1. Adaptability/Involvement predict ROA/MtB in 2-3 years.
  2. Sales growth shows short-term bump.
  3. Industry volatility exacerbates these effects.
  4. Consistency seems to be a financial liability (especially seen in regression results reported in manuscript).