Modelling the Impact of Organisational Capital on Performance

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A key strand of research within the resource-based view focuses on the role of human capital. Much of the research has focused on the respective contributions of general and firm-specific human capital of individual employees (including managers). However some consideration has been given to organisational capital that resides at the level of the organisation rather than at the individual level. This study considers the alternative empirical strategies for modelling the effects of organisational capital on performance.

Literature Review

The notion of human capital originates with Becker (1962) who conceptualised employees as providing a stream of services to a firm based on their individual stock of human capital derived from educational attainment and work experience. A key distinction introduced by Becker is that between general human capital and firm-specific human capital. General human capital is transferable between firms whereas firm-specific human capital relates to skills that are specific to an individual firm and hence are not transferable. If an employee moves from one firm to another, then the employee loses all of their existing firm-specific human capital and must acquire new firm-specific human capital in their new employment context. The non-transferability of firm-specific human capital has been seen within the resource-based view as a potential source of sustainable competitive advantage (Blair, 1999; Huckman & Pisano, 2006). In particular there has been considerable focus on team-specific human capital gained as members of the various groups within firms learn through experience as well as via managerial direction how best to work with each other (Chillemi & Gui, 1997). However the literature on general and firm-specific human capital focuses only on the skills and experience that resides with individual employees and the possibility of the firm-specific human capital being lost as a consequence of employee turnover. Yet there is a long-standing concept of organisational capital which is preserved as employees “come and go” (Daft & Weick, 1984, p. 285). Youndt et al. (2004) refer to this type of capital as intellectual capital which includes codified organisational experience residing within and utilised through databases, patents, manuals, structures, systems and processes.

Theoretical Framework

Attempting to model the effects of organisational capital on performance presents a number of problems. Organisational capital is effectively a latent variable that cannot be measured directly. Its impact on performance can only be assessed indirectly through the existence of systematic variation in performance over and above that due to the effects of individual level general and firm-specific human capital. There are two possible empirical strategies. One is to treat organisational capital as a fixed effect that is specific to the individual organisation. This presumes that the stock of organisational capital changes only slowly over time. An alternative empirical strategy is to model organisational capital as a dynamic effect to be captured by lagged performance. Both empirical strategies are investigated.

Data and Method

The empirical context used to investigate the effects of organisational capital is the FA Premier League, the leading domestic soccer league in England. The data set used covers 10 seasons, 1996/97 – 2005/06, with 20 teams competing each season. Due to promotion and relegation, 35 teams appeared in the FA Premier League over the sample period. Performance is measured by league points. A set of controls are used for general and firm-specific human capital with general human capital controlled for by wage costs, age and experience while we follow Berman et al. (2002) by capturing firm-specific human capital via shared team experience. We also include the manager’s team-specific experience as a moderating variable. We estimate four models: controls only (Model 1); fixed effects (Model 2); dynamic effects (Model 3); fixed effects and dynamic effects (Model 4).

Results and Discussion
Model 1 which excludes organisational capital suffers from residual autocorrelation which is indicative of a failure to capture fully the systematic drivers of organisational performance. Introducing fixed effects in Model 2 resolves the residual autocorrelation problem and yields estimates of organisational capital effects that are highest for Arsenal, Chelsea, Manchester United and Liverpool. Model 3 also resolves the residual autocorrelation problem and both dynamic variables (lagged performance and a binary variable for newly promoted teams) are highly significant. When both the fixed effects and dynamic effects are included in Model 4, the dynamic effects are highly insignificant. Overall Model 2, the fixed-effects model, provides the highest goodness of fit. It is concluded that both empirical strategies can capture the effects of organisational capital but the fixed-effects model has the advantage of yielding a direct estimate of the size of the organisational capital effect for each team.

References


