



# The Impact of Social Capital and Organizational Culture on Improving Organizational Performance

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Received: 14 March 2020

Accepted: 13 May 2020

DOI: <https://doi.org/10.32479/irmm.9923>

## ABSTRACT

To run their business, many companies use various types of capital, financial, technological, as well as natural and human resource-based. In fact, optimal use of these kinds of capital do not guarantee that company will get maximum performance. There is still one important type of capital, namely social capital, which is an asset and instrument characterizing the interaction between employees and management. Social capital can also be conceptualized as a company's organizational culture. Here, interviews were conducted with the management of a chemical manufacturer to see how synergizing between corporate strategy and support forms the organizational culture. This research focused on the industrial chemical manufacturer at Banten Province, Indonesia, which is the province with the third-largest number of chemical firms in Indonesia. This research using SEM-PLS method to measure 97 respondents from the managerial level. The final results provide a positive and significant relationship between social capital and organizational culture through competitive advantage and organizational performance. Competitive advantage also increased the relationship between social capital and organizational culture through the organizational performance. This result has implication for managerial levels to increase human resources performance so it can improve the firm's competitive advantage.

**Keywords:** Social Capital, Organizational Culture, Competitive Advantage, Organizational Performance, Chemical Manufacturer Sector

**JEL Classifications:** L2, M14

## 1. INTRODUCTION

Based on the annual report of the Central Statistics Agency in 2017, production volume decreased by 12.02% in the chemical manufacturing sector, as well as the textile and miscellaneous industries, which caused the growth of the whole chemical manufacturing industry to only grow by 3.48% in 2017. This is likely due to the industrial sector being less competitive, with a decreased organizational performance. Therefore, the chemical, textile and miscellaneous industries need to be examined more deeply in order to increase the competitiveness of their organizations. Williamson (1971) and Hertati (2015) in developing his Theory of the Firm concluded that companies should grow by dominating technology as a valuable asset and also have a flexible strategy. This is similar to the Growth Theory of the firm of Penrose (1959), who said that companies are a productive

and valuable set of resources. This was basically the strategy of Wernerfelt (1984) who introduced a resource-based theory that stated that internal resources are strategies that can be used to achieve maximum corporate performance. This theory was further specified by Barney, 1991; Hertati, 2015) who noted that the company's unique internal resources would be able to provide a competitive advantage in achieving organizational goals by having four characteristics, i.e., valuable, rare, inimitable and non-substituted.

Costa et al., 2013; Hertati, 2016 analyzed the integrated and systematic influence of a company's own unique resources on competitive advantage and stated that unique resources would produce sustainable competitive advantages, but not necessarily produce high profits if not combined with assets, which complements appropriate organizational conditions. Social capital

is one of the unique resources that an organization has that benefits competitive advantage. Strong social capital built into the network makes it easier for companies to build solidarity and trust and can be used to access various knowledge held by other companies in the network (Helliwell et al., 2018; Hertati, 2016,2019). Another predictor of organizational performance that departs from internal organization is organizational culture. Organizational culture consists of a variety of social phenomena, so it is not surprising that many scholars have identified corporate culture as a multi-layered construction. Organizational culture can be defined as a pattern of shared values and beliefs that have produced behavioral norms that are adopted in solving problems (Owens, 1987; Schein, 1990). The internal environment of the organization can be represented by a culture that is interpreted by the assumptions and beliefs of managers and employees (Erdem and Keklik, 2013; Hertati, 2016).

This study aims to determine the relationship of each social capital and organizational cultural indicator that is beneficial for improving competitive advantages and organizational performance in the chemical manufacturing industry sector in Indonesia. This research is expected to contribute to the operations of companies in the chemical manufacturing industry sector, to help them pay attention and increase social capital and organizational culture to increase their competitive advantage, absorbing knowledge from inside and outside the organization and produce quality improvements in organizational performance (Hertati, 2016; Hertati and Syafarudin, 2018).

## 2. THEORITICAL REVIEW

### 2.1. Social Capital

According to Coleman, 2009; Hertati, 2015), capital is classified as human, physical and social. Human capital is capital where individuals can develop and acquire knowledge, which provides a great ability to make decisions in various situations. Whereas physical capital comes from individuals whose results are the transformation of raw materials into tools that will be used to achieve other resources for their comfort and survival. Finally, social capital arises from exchanges in relationships between individuals to facilitate their own actions. This capital is a unique resource because it will be able to provide benefits for themselves as well as for their organization.

Burt (1992) and Hertati (2019) described the theory of social capital to explain how resources are available to certain individuals and not to others. Individuals develop relationships with those who share commonalities, are similar and seek the same interests. They form a strong relationship between these individuals and often when interacting each individual will share information and knowledge without realizing it.

In social theory, Boxman et al. (1991) stated that individuals who have a large network of contacts will achieve better results than those who were members of a small network. Researchers have concluded that contact structures and networks are resources that can be utilized for social capital. Social capital is a concept that is accepted as a valuable asset to protect, secure and empower the community (Timberlake, 2005). It is said that social capital

plays an important role in meeting organizational needs and contributes to the survival of organizations in the current era of global competition. This is a means of management in achieving organizational goals more effectively and at a lower cost. Or in other words, social capital facilitates various knowledge activities, value creation, competitive advantage, better performance and organizational development. This study used three dimensions that referred to the results of Mahmood (2015), Abdollahhazadeh and Gilaninia (2015), Kula and Sahin (2016) and Tana et al. (2017) with six indicators, namely, mutual trust (SC1), mutual respect (SC2), ease of communication (SC3), similarity of purpose (SC4), access (SC5) and exchange of experience (SC6).

### 2.2. Organizational Culture

Organizational culture is a set of norms and values that are broadly shared and firmly held by organizations (O'Reilly and Chatman, 1996; Guiso et al., 2015). From the results of a recent survey of 1461 CEOs and CFOs of North America, Graham et al. (2015) found that 91% of executives felt cultural views were very important in their company, and 78% considered culture as one of the top three or top five factors that influenced their company value. Many researchers have studied organizational culture as the basis for sustainable competitive advantage (Barney, 1986; Fareed et al., 2016). Schein (1990) considered it a social force that is largely invisible, but very strong. Empirical evidence showed that organizational culture significantly influences performance, employee attitudes and organizational effectiveness and had a greater contribution to the management of organizational knowledge and effectiveness than strategy and organizational structure (Zheng et al., 2010; Hertati, 2015).

This study used six dimensions that follow the results of research from Ehtesham et al. (2011; Shahzad et al. 2013; Karagoz and Akgun, 2015; Saad and Asaad, 2015; Hertati, 2016) with six indicators, namely, increasing employee skills and abilities (OC1), fulfillment of customer expectations (OC2), following procedures in accordance with regulations (OC3), involve and empower teamwork (OC4), produce high-value outcomes (OC5) and eliminate misunderstandings and gossip (OC6). This research integrates the theory of social capital with a resource-based view and develops several hypotheses to extend existing models into new models.

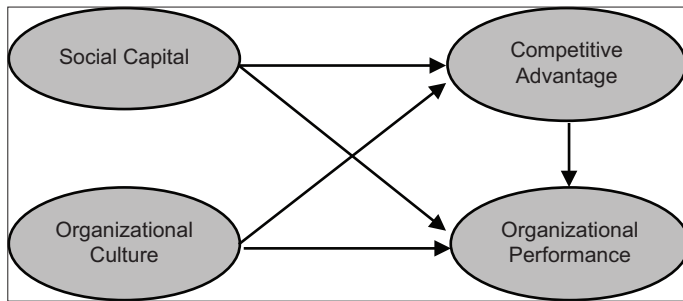
## 3. METHODOLOGY

### 3.1. Conceptual Framework

This study aimed to find the influence between relationship variables and has been designed to answer hypotheses made based on empirical anchors and existing literature and theory. This study used social capital and organizational culture as exogenous variables and competitive advantage and organizational performance as endogenous variables where competitive advantage functions as an intervening variable as illustrated in the conceptual framework illustrated in Figure 1.

### 3.2. Population and Sample

This research was conducted in a chemical company in Banten province spread across three district and cities including Cilegon,

**Figure 1. Research Framework.**

Serang and Tangerang, involving 97 respondents who were positioned at the policy maker and managerial level using a purposive sampling technique with a minimum working period of respondents at least 1 year.

### 3.3. Model Analysis

This study used questionnaires, interviews and observations as research instruments, with the questionnaires using a Likert scale (1-5) where 1 is strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree. This study used SEM PLS analysis techniques, to confirm various types of existing constructs for latent variables and tested the compatibility and accuracy of the model based on observed empirical data and also tested the causal relation between the factors observed in the model.

### 3.4. Hypotheses

Based on the in-depth literature review of the relationships between variables, relationships and influences, the following hypotheses were obtained as described below.

#### 3.4.1. Relationship of social capital to competitive advantage

Social networks will create the learning effects, stimulating the ability to create heterogeneous partnerships and support innovation that will create competitive advantage (Caloffi et al., 2013). Whereas Longhi (2015) found that organizations that are in the same cluster and have good social interaction will produce a high level of innovation and competitiveness. Social capital had a positive and significant influence through mediation of shared learning variables and absorbed learning ability (Chuang et al., 2016). In detailed research through a descriptive approach proposed by Kuznetsova and Matveeva (2015), it showed that other influences are caused in the current modern era that marketing using a social marketing approach is a strategy for the sustainable development of a company. Companies that have the power to interact and communicate with workers, local communities, and governments will have strong capital and produce competitive advantage. Roussel and Deltour (2012) stated that internal and external social capital integrated with the formation and distribution of knowledge that has a long effect term can improve the company's excellence and competitiveness. Based on the research that has been done above related to the relationship between social capital and competitive advantage, the following hypothesis was constructed:

H1: Social capital had a significant effect on competitive advantage in the industrial sector of chemical manufacturing

#### 3.4.2. Relationship of organizational culture to competitive advantage

Ganescu and Gangone (2017) found in their research that organizational culture and social responsibility influence corporate excellence and improve economic performance, while Sharma and Sharma (2010) stated that organizational culture and the development of organizational transformation strategies had a positive impact on competitive advantage that impacted textile companies in India in long term. The results of research conducted by Valencia et al. (2011) found that organizational culture was a stimulant to the company's innovative capabilities, one which had a significant impact on the competitive advantage of companies, especially important for innovation capabilities rather than imitating similar companies, in order to be superior and a pioneer in the market. Linnenluecke and Griffiths (2010) stated that organizational culture is oriented towards the sustainability of the company, which will produce a competitive advantage and overall high competitiveness for the company. Daniel and Ellen (1999) qualitatively and in detail that organizational culture produces energy and values for organizations in generating competitive advantage and influencing organizational performance. Based on the research that has been done above related to the relationship between organizational culture and competitive advantage, the following hypothesis was constructed:

H2: Organizational culture had a significant effect on competitive advantage in the industrial sector of chemical manufacturing.

#### 3.4.3 Relationship of competitive advantage to organizational performance

Previous research discussing the relationship between competitive advantage to organizational performance, such as Cantele and Zardini (2018), concluded that there was a significant influence on the dimensions of the long-term sustainability of the company on competitive advantage and significant influence on competitive advantage and company performance. Lorenzo (2017) concluded that competitive advantage had a significant effect on the performance of beverage companies in Spain, which was in line with Othman et al. (2015), Kusuman and Devie (2013) and Gyampah and Acquaaah (2008), whose research also emphasized that sources of existing company power originating from internal companies will determine the company's competitive advantage. Based on the studies that have been done above related to the relationship between knowledge management and competitive advantage, the following hypothesis was constructed:

H3: Competitive advantage had a significant effect on organizational performance in the sector chemical manufacturing industry

#### 3.4.4. Relationship of social capital to organizational performance

Previous research examining the relationship between social capital and organizational performance included Sözbilir (2018), who concluded that there was a positive and significant influence between social capital and organizational creativity and the efficiency of public sector organizations in Turkey. Social capital had a significant effect on the marketability of the company and also on company performance (Pratono et al., 2016). Whereas

Yasin et al. (2016) discussed in depth that company growth is influenced by social capital. Tana et al. (2017) in their research conducted on 348 dairy cooperatives in Brazil concluded that social networks produce social capital and then found that the six dimensions of social capital had four dimensions that had a significant effect on organizational performance while the other two had no significant effect. Whereas the theoretical results conducted by Abdollahzadeh and Gilaninia (2015) resulted in the conclusion that the forming dimension of social capital had an important role for the development of organizational culture and ultimately can improve organizational performance. Based on the studies that have been done above related to the relationship between social capital and organizational performance, the following hypothesis was constructed:

H4: Social capital had a significant effect on organizational performance in the industrial sector chemical manufacturing.

### 3.4.5 Relationship of organizational culture to organizational performance

Fareed et al. (2017) concluded that organizational culture greatly influences the implementation of professional and effective resources to create competitive advantage and had a significant effect on organizational performance. These results were in line with Goromonzi (2016), who found that organizational culture had a positive and significant influence on medium or high performing banks, while for banks with low performance, the effect was not significant. However, Oyewobi et al. (2016) stated that organizational culture influenced the relationship between competitive strategies to organizational performance significantly. From the social aspect, Ganescu and Gangone (2017) and Galbreath (2010) concluded that an organizational culture that was socially responsible created competitive advantages for the organization and ultimately had a positive and significant effect on sustainable organizational performance, which was seen in three dimensions namely economic performance, social performance and environmental performance. Based on the research that has been done above related to the relationship between organizational culture and organizational performance, the following hypothesis was constructed:

H5: Organizational culture had a significant effect on organizational performance in the industrial chemical manufacturing sector.

## 4. RESULTS AND DISCUSSION

### 4.1. Outer Model Analysis

#### 4.1.1. Convergent validity

The results of the convergent validity indicator for each variable were as follows; social capital variables SC1, SC2, SC3, SC4, SC5 and SC6 were, respectively, 0.746, 0.802, 0.806, 0.593, 0.829 and 0.806; organizational culture variables OC1, OC2, OC3, OC4, OC5 and OC6 were, respectively, 0.813, 0.803, 0.806, 0.837, 0.771 and 0.722; competitive advantage variables CA1, CA2, CA3, CA4 and CA5, were, respectively, 0.742, 0.823, 0.756, 0.814 and 0.869; and organizational performance variables OP1, OP2, OP3, OP4 and OP5 were 0.809, 0.706, 0.911, 0.767 and 0.842, respectively. From the results of the tests, it showed that each

social capital, organizational culture, competitive advantage and organizational performance variable showed results above 0.60. Only one variable, SC4, had a convergent validity value of less than 0.593. This illustrated that each variable was valid and could be used as a measure of the construct.

#### 4.1.2. Composite reliability

The expected composite reliability values from the test results shown in Table 1 was above 0.70, which illustrated each indicator had a high consistency to measure latent variables.

#### 4.1.3. Average variance extracted (AVE)

The AVE value shown in Table 2, indicated the variance value in each construct was more than the variance caused by measurement error. The recommended AVE value is  $>0.5$ ; the obtained AVE values for each construct are all greater than 0.50. The average results variance extract showed that each indicator in the construct had a good level of accuracy because it had a higher variance value compared to the variance caused by measurement errors, so it explained the average of more than half the variance and its indicators.

#### 4.1.4. Cronbach's alpha

The expected Cronbach's alpha value from the test results was above 0.70, as seen Table 3, which illustrated that each indicator had a high consistency in measuring latent variables.

## 4.2. Inner Model Test Result

### 4.2.1. Goodness of fit test

Results of the goodness of fit test in Table 4 show a  $R^2$  value for constructing competitive advantage of 0.534, which can be interpreted that as social capital and organizational culture having an influence on competitive advantage by 53.4% while the remaining 46.6% is influenced by other variables. While for organizational performance had an  $R^2$  value of 0.745 which means

**Table 1: Value of composite reliability**

Construct	Composite reliability
Competitive Advantage	0.900
Organizational Culture	0.910
Organizational Performance	0.904
Social Capital	0.895

Source: 2019 Data Processing Results

**Table 2: Average variance extract**

Construct	AVE
Competitive Advantage	0.634
Organizational Culture	0.629
Organizational Performance	0.656
Social Capital	0.590

Source: 2019 Data Processing Results

**Table 3: Cronbach's Alpha**

Construct	Cronbach's Alpha
Competitive Advantage	0,860
Organizational Culture	0,881
Organizational Performance	0,866
Social Capital	0,858

Source: 2019 Data Processing Results

that organizational performance is influenced by latent variables of competitive advantage, social capital and organizational culture by 74.5% while the remaining 25.6% is influenced by other variables. The magnitude of the influence of social capital, organizational culture and competitive advantage showed that these three variables deserved to be taken into account by the chemical manufacturing industry sector to improve the organization performance. This can be developed through training development to improve employee innovation, and culturally, an HR program to enhanced cooperation between employees and company management could increase social capital. Companies also need to increase their competitive advantage by creating something valuable, rare, that cannot be imitated and irreplaceable to increase the influence of social capital and organizational culture on organizational performance.

#### 4.2.2. Hypothesis testing

To test the hypotheses, we assessed the significance of the influence between construct independent constructs on the dependent variables at the 5% significance level. The results of the t-statistics value are given in Table 5.

#### 4.2.3. Hypothesis 1

The bootstrapping test showed that the social capital coefficient for competitive advantage was 0.499, indicating that social capital had a positive influence on competitive advantage. The t-value was 5.250 (greater than the 1.96 cutoff) and p values was 0.000, indicating that social capital had a significant influence on competitive advantage, so H1 in this study was accepted. Its significance was in line with the studies of Caloffi et al. (2013), Longhi (2015), Chuang et al. (2016), Kuznetsova and Matveeva (2015) and Roussel and Deltour (2012). These results indicated that high social capital will improve the relationship between employees and company management, which should have an impact on the relationship harmony and positive economic value, key to the competitive advantage of an organization.

#### 4.2.4. Hypothesis 2

Bootstrapping tests provided an organizational culture latent variable competitive advantage coefficient was 0.296, indicating that organizational culture had a positive influence on competitive advantage. The t-statistic value was 3.236 and the p value was 0.001, which indicated that organizational culture had a significant

influence on competitive advantage, so H2 in this study was accepted. This significance was in line with research by Daniel and Ellen (1999), Linnenluecke and Griffiths (2010), Sharma and Sharma (2010), Valencia et al. (2011), Ganescu and Gangone (2017). Innovative organizational cultures oriented towards the organization's vision and mission are the organization's competitive advantage, which shape the character of the organization.

#### 4.2.5. Hypothesis 3

The organizational performance coefficient was 0.417, indicating that competitive advantage had a positive influence on organizational performance. The t-Statistic value was 4.992, and p values 0.000, which indicated that competitive advantage had a significant influence on organizational performance, so that H3 in this study was accepted. This significance is in line with research by Gyampah and Acquah (2008), Kusuma and Devie (2013), Othman et al. (2015), Lorenzo et al. (2017) and Cantele and Zardni (2018). Competitive advantage from the perspective of human resources can be an internal capital of the organization that is difficult for competitors to imitate, considering that human resources are not easily duplicated assets.

#### 4.2.6. Hypothesis 4

The social capital latent variable organizational performance coefficient was 0.476, indicating that social capital had a positive influence on organizational performance. The t-statistic value was 5.419, and the p value 0.000, which indicated that social capital had a significant influence on competitive advantage, so that H4 in this study was accepted. This significance was in line with the studies of Abdollahzadeh and Gilaninia (2015), Yasin et al. (2016), Pratono et al. (2016), Tana et al. (2017), and Sözbilir (2018). The existing social capital in the organization made it easier for organizations to explore the existing potential of each employee, which was used as the basic capital for the organization continuity. Social capital was as the foundation for organizations to develop sharing competencies and knowledge among employees; without a high level of social, it would be very difficult to establish good communication in share the knowledge and competence.

#### 4.2.7. Hypothesis 5

The organizational culture latent variable on organizational performance coefficient was 0.417, indicating that organizational culture had a positive influence on organizational performance; the t-statistic value was 5.076 and p values 0.000 indicating that organizational culture had a significant influence on organizational performance, so that H5 in this study was accepted. This significance was in line with studies of Galbreath (2010), Goromonzi (2016), Oyewobi et al. (2016), Ganescu and Gangone

**Table 4: R-Square values**

Construct	R-Square
Competitive Advantage	0.534
Organizational Performance	0.745

Source: 2019 Data Processing Results

**Table 5: Coefficients values (Original Sample), Standard Error and t-Statistics**

Significance test	Original sample (O)	Standard error (STERR)	t statistic ((O/STERR))	p values	Result
Competitive Advantage → Organizational Performance	0.417	0.083	4.992	0.000	Significant
Organizational Culture → Competitive Advantage	0.296	0.092	3.236	0.001	Significant
Organizational Culture → Organizational Performance	0.417	0.082	5.076	0.000	Significant
Social Capital → Competitive Advantage	0.499	0.095	5.250	0.000	Significant
Social Capital → Organizational Performance	0.476	0.088	5.419	0.000	Significant

Source: 2019 Data Processing Results

(2017), and Fareed et al. (2017). The values contained in the organizational culture would be able to become the basis for the organization potential resources for achieving organizational goals and objectives. One of the positive values observed is the ability to innovate and commit for improving the organizational goals and objectives with full awareness. The progress of the organization should bring a positive impact on the welfare of its employees and organization long-term sustainability.

#### 4.2.8. Competitive advantage as a mediator variable

- a. The indirect coefficient of social capital on organizational performance through competitive advantage was  $0.499 \times 0.417 = 0.2081$ . The Z Value calculation used in the Sobel test is obtained as follows:

$$z = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2)}}$$

$$z = \frac{0.499 \times 0.417}{\sqrt{(0.417^2 \times 0.095^2) + (0.499^2 \times 0.083^2)}}$$

$$z = \frac{0.2081}{\sqrt{0.0033}}$$

$$z = 3.63$$

As the Z value of 3.63 was greater than the threshold Z value of 1.98, it can be concluded that competitive advantage was able to mediate the relationship between social capital and organizational performance.

- b. The indirect coefficient of knowledge management on organizational performance through competitive advantage was  $0.296 \times 0.417 = 0.1234$ . Z value calculation used in the Sobel test was obtained as follows:

$$z = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2)}}$$

$$z = \frac{0.296 \times 0.417}{\sqrt{(0.417^2 \times 0.092^2) + (0.296^2 \times 0.083^2)}}$$

$$z = \frac{0.1234}{\sqrt{0.0020}}$$

$$z = 2.74$$

As the Z value of 2.74 was greater than the threshold of 1.98, it can be concluded that competitive advantage was able to mediate the relationship between organizational culture and organizational performance.

The results of this study illustrated that the variables social capital and organizational culture had a significant influence on competitive advantage and organizational performance. The variable of competitive advantage increased the influence between the variables relationship of social capital and organizational culture on organizational performance in the chemical manufacturing industry sector in Banten province. Social capital was the result of the organization's hard work in managing its human resources by implementing openness and instilling a sense of mutual trust

in both employees and management. This was increased the employees trust that created a harmonious communication process, which increased the knowledge sharing and competence among fellow employees.

Organizational culture measures such as its organizational orientation, objectives and innovation ability were found in the research, which allowed the organization to improve the performance of its organization collectively. These result were expected to be able to increase productivity and growth in chemical companies, whose macro impact was able to contribute the increase in regional taxes for Banten province, and nationally able to encourage national economic growth. The role of competitive advantage on organizational performance was very important, which can be shown where competitive advantage was able to increase the influence of organizational social and cultural capital on organizational performance. With competitive advantage, organizations were able to look different compared to their competitors, so that many things cannot be duplicated by their competitors, which could provide positive value for organizational performance.

## 5. CONCLUSIONS, IMPLICATIONS AND SUGGESTIONS

Social capital had a positive and significant effect on both competitive advantage and organizational performance as well as organizational culture, which had a positive and significant influence on competitive advantage and organizational performance in the chemical manufacturing industry sector in Banten province. This study has implications for managers and control holders in the company to be able to increase the social capital of existing human resources by using existing indicators in the form of mutual trust, mutual respect, ease of communication, common goals, access and experience exchange. By increasing this social capital, it would be able to improve company performance from aspects of commitment, economic performance, social performance and environmental performance. Another implication is related to the organizational culture that can be used as a predictor for company managers which in this study are described in indicators such as increasing employee skills and abilities, fulfilling customer expectations, following procedures in accordance with regulations, involving and empowering teamwork, producing high-value outcomes and eliminate misunderstandings and gossip.

The results of this study were able to answer the initial objectives of the study as to which variables were able to significantly influence organizational performance. This study had its deficiency, which given the limited number of respondents and the variables used. It is expected that further research could use more comprehensive variables based on the RBV theory and also a greater number of samples than this study, which was able to produce other indicators that could contribute to improving organizational performance.

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