



How to build social capital with leadership development: Lessons from an explorative case study of a multibusiness firm

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ARTICLE INFO

Available online 3 December 2011

Keywords:

Leadership development
Social capital
Strategy
Corporate management
Corporate strategy
Cross-business synergies

ABSTRACT

The organizational impact of leadership development practices is still not fully understood. Research confirms that in some cases effects can be found and in others not. Most of these attempts search for contribution to a company's human capital. A contribution to social capital development remains an unexplored source of variance in understanding how leadership development impacts organizational performance. This paper therefore explores—from a strategic management perspective—how leadership development practices may contribute to social capital development. We chose the strategic context of a large multibusiness firm in which social capital across business units play an important role for competitive advantage. The exploratory case study reveals that: 1) Social capital differs regarding its intensity and develops through stages characterized by contact, assimilation, and identification experiences. 2) Leadership development practices differ in their potential contribution to social capital development stages and should therefore be designed accordingly.

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1. Introduction

Effective leadership is generally associated with the success of all sizes and types of firms (Daily, McDougall, Covin, & Dalton, 2002; Yukl, 1989). It is therefore not surprising that leadership is increasingly recognized by organizations as a source of competitive advantage, and has consequently led to large investments in leadership development. Over the past decades, one indicator of this growing interest in leadership development is seen in survey results that report about increasing attention and resources given to leadership development, particularly by large business organizations (PriceWaterhouseCoopers, 2006, 2008). Accordingly, a variety of leadership development practices have emerged in organizations, such as leadership training, mentoring, 360-degree feedback, coaching, networks/off-sites, job assignments, and action learning. Most of these practices have been designed in the tradition of developing competences at individual skills level and thus contribute to the firm's human capital (Day, 2000). However, from a strategic management perspective, the efficacy of leadership development practices is still called into question, as there is to date no sound empirical evidence of its impact at organizational level (Burke & Day, 1986; Collins & Holton, 2004; Mabey & Ramirez, 2005; Seibert, Hall, & Kram, 1995; Winterton & Winterton, 1997). Even if positive effects can somehow be found, it is still not clear *in what ways* leadership development practices contribute to organizational performance. Traditionally, leadership development theory and research approaches have focused primarily on leader attributes (Avolio, 2007; Day, 2000). In most—and particularly large—organizations, however, we find multiple leaders that do not lead in isolation (O'Reilly, Caldwell, Chatman, Lapiz, & Self, 2010). As a result, leadership efficacy to some extent depends on the quality of the social network and context in which a leader is embedded (Balkundi & Kilduff, 2006). Accordingly, leadership as well as leadership development research calls for an integrative view, considering leaders' interaction with social contexts to understand how leadership development practices unfold their efficacy (Avolio, 2007; Avolio & Gardner, 2005; Balkundi & Kilduff, 2006; Brass, Galaskiewicz, Greve, & Tsai, 2004; Day, 2000; Hooijberg, Hunt, & Dodge, 1997; Hunt, 2000;

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London & Maurer, 2003; McCauley & Van Velsor, 2004). Our study therefore abandons the human capital approach predominant in leadership development research and explores its contribution to social capital (Day, 2000).

We selected a multibusiness firm for our research. Independently of industry and size, the strategic generic concept of multibusiness firms is to create competitive advantage by realizing synergies across its businesses (Chandler, 1991; Goold, Campbell, & Alexander, 1994; Müller-Stewens & Knoll, 2005). Generally, the realization of cross-business synergies originates in the relationships among the businesses (Martin & Eisenhardt, 2001, 2003). Accordingly, social capital between business units plays a particularly important role, for strategy realization to enable the necessary cross-business collaboration activities (Martin & Eisenhardt, 2001; Nahapiet & Ghoshal, 1998; Pappas & Wooldridge, 2007; Tsai & Ghoshal, 1998). Besides structural aspects (i.e., tie strength), relational and cognitive aspects of social capital (i.e., trust and shared meaning in terms of goal orientation and values) have been shown to be associated with beneficial inter-unit collaboration outcomes (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). As a result, the strategic key task of a multibusiness firm's corporate management is to enhance collaboration activities across businesses by setting adequate organizational and procedural arrangements that enable relationships across businesses, as well as building trust and shared meaning. Thus, in a multibusiness firm, leadership development is regarded as a very important strategic means for corporate management to enable a collaborative culture that will lead to cross-business synergy realization.

We explore how leadership development as a set of strategic formally organized corporate management practices fosters social capital development across business units in order to contribute to continuous cross-business synergy realization in the specific context of a multibusiness firm. Faced with a variety of leadership development practices—including internal leadership training, job assignments, mentoring, coaching, 360-degree feedback—we follow Day's (2000) suggestion to explore how these leadership development practices may contribute most efficiently to social capital development in a multibusiness firm's strategic context. To contribute to theory advancement in leadership development research, we illuminate the complex relationship between leadership development and social capital from a strategic management perspective. Following recent calls in contemporary leadership development research, our study's value lies in its elaboration on *how* this relationship takes place, rather than whether it exists or not (Avolio, 2007). Accordingly, we are able to propose a more fine-grained understanding of social capital and its development, and thus how leadership development practices assist it. We base our theoretical findings on observations from an explorative case study of a multibusiness firm in the financial services industry that pursues cross-business synergies as a strategic intent and uses leadership development practices as a strategic means to foster continuous collaboration between its businesses.

We begin by positioning the study in the context of leadership development research. Adopting a strategic management perspective on *leadership development*, as a function of corporate human resources management, we show that research on leadership development's organizational impact remains puzzled. While most research approaches are oriented on human capital, we illuminate the contribution to social capital. However, to capture social capital impact, a firm's strategic context must be considered. Selecting a *multibusiness firm* as a context in which social capital plays a strategically important role, we discuss research insights in the field of multibusiness firms' corporate management, including *social capital's strategic role in cross-business synergy realization*. Based on the gathered case study data, we first specify the different facets of social capital and its development stages in cross-business collaboration activities. We then use our cross-collaborating manager interview data to explore the ways in which the leadership development practices of *leadership training, mentoring, 360-degree feedback, coaching, networks/off-sites, job assignments, and action learning* differ concerning their potential to enable social capital development. We use our findings to derive propositions about how leadership development practices may assist social capital development experiences. We then discuss implications for the design and strategic use of leadership development practices and the need for further research.

2. Literature review

2.1. Leadership development from a strategic management perspective

2.1.1. Leadership development as a corporate function

Leadership is increasingly recognized as an important source of competitive advantage (Daily et al., 2002; Yukl, 1989). The primary reason why firms invest in leadership development is to enhance and protect their human capital (Lepak & Snell, 1999). In this context, human capital is understood as “individual capabilities, knowledge, skill, and experience of the company's employees and managers as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning” (Dess & Lumpkin, 2001: 25). These traditional *human capital oriented approaches* of leadership development see leadership as a result of the personal attributes and capabilities of leaders (Bass, 1985; Conger & Benjamin, 1999; Neck & Manz, 1996). Consequently, leadership development in this tradition is conceptualized and organized as *leader development* targeted at managers in formal management positions, focusing on their personal competence base and aiming for individual-level skills enhancement (Day, 2000; Fiedler, 1998).

From a strategic management perspective, leadership development in organizations is regarded as a sub-function of human resources management (HRM), along with recruitment, compensation, retention, and disengagement, etc. It can be defined as “corporate activity [...] that includes structural tactics such as succession planning and organizational arrangements for the diagnosis and review of development, as well as the actual methods used for developing managers, whether formal or informal” (Mabey, 2002: 1139). As corporate HRM activities, leadership development practices become a source of competitive advantage if they are aligned and combined in such a way that they create synergistic effects (Boxall & Purcell, 2003; Kepes & Delery, 2007; Purcell & Kinnie, 2007). Only if leadership development practices are aligned beyond each other and with other HRM activities

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