

# Value-Based Social Capital: An Overview of Social Exchange Theory

A. T. Wikaningrum

*Sultan Agung Islamic University, Semarang, Indonesia*

B. F. Mas'ud

*Diponegoro University, Semarang, Indonesia*

**ABSTRACT:** The limited quantity and quality of human resources increase the attention of Islamic banking to knowledge management. One of the efforts to encourage employee involvement in these practices is through human resource management policies. The policy is directed to motivate employees to share, create, and apply knowledge. In this article, the authors review it as a form of extrinsic motivation that has the potential to encourage social exchanges based on opportunism. The authors assume that Islamic banking should improve the quality of interpersonal relationships among employees based on the values of justice, integrity, trust, and honesty. Policies in human resource management (HRM) must also avoid practices that strengthen the value of individualism, materialism, and competition that tend to exploit employees. Method of analysis used literature study. This article concludes that this study has an implication in practical and empirical research about spiritual-based HRM and value-based social capital.

*Keywords :* human resource management, employee, Islamic banking

## 1 INTRODUCTION

Islamic banking in Indonesia is a relatively new business with high operating costs and fixed costs. It must perform "extra effort" when dealing with conventional banks. Moreover, since 2016, the financial services business competition has been increasingly tight due to the implementation of the ASEAN Economic Community which gave a negative effect on the performance of Islamic banking because they are still constrained by a number of problems such as limited capital, financial resources, human resources, and information technology that is not yet capable.

In the development of Islamic banking, HR becomes the central pillar. Even the Chairperson of the Indonesian Islamic Economic Experts Association (IAEI) stated that the provision of sufficient numbers of competent human resources is an absolute demand for Islamic banking. Therefore, the management of Islamic banking must prioritize the creation of skilled and qualified human resources. Moreover, to get qualified human resources, companies cannot only rely on the innate knowledge and expertise the employees have from the beginning of joining the company as it is necessary to have internal company

practices that aim to develop employees' skills and abilities, increase employee motivation in carrying out efforts and provide full opportunities for the use of knowledge, skills, and many other attributes in their work. As asserted by Hislop et al. (2018), there are perceptions about the quality of service expected by the company as well as support and rewards from management for employees' performance.

Managing human resources in a competitive organizational environment requires involvement and empowerment supported by motivation (Rudov et al., 2017) and commitment. In this case, the organization plays a role in designing effective human resource policies to encourage human capital to conduct learning. In order to be more beneficial for the organization, learning at the individual level must be able to encourage organizational learning, where individuals share their knowledge and experiences. This is where the role of social capital is shown by the existence of mutual interactions and social networks, both among co-workers, or subordinates (internal social capital), and between management and stakeholders (external social capital). As the research conducted by Wikaningrum (2014), the marketing activities of the Sharia Small Business Bank (BPRS) rely heavily on employees and leaders who have

connections with the external community. Research on the efforts to increase social capital is often associated with HRM practice. This practice is followed by the policy that motivates employees to interact and build a relationship both internally and externally. We consider that this policy is more transactional. Therefore, this article aims to review social capital from the perspective of social exchange theory and explain the practical implications and empirical research.

Social capital is defined differently by several experts. Putnam (2000) distinguished social capital into internal and external. The first mentioned is interpreted as the capability built into the internal organization by utilizing human resources, and social capacity possessed. The other social capital shows the ability of the organization to develop social networks with external stakeholders. Social capital can also be assumed as a network, beliefs, and social norms that facilitate cooperation and coordination for a common interest in the organization (Sodano et al., 2008; Ismail, 2015). Social capital is capital owned by an organization in the form of formal and informal social relations, which are the result of interaction with one another in getting the desired reward. It can also lead to the development of social norms and sects that help cooperation (Putnam, 2000). Thus, this capital is an organizational network that is built on norms, shared understanding, and a system of values.

The organization can influence the quality of their internal social capital. The company can design HRM that facilitates effective coordination and relational among employees involved in teamwork (Gittel, 2000). These practices include job redesign, performance evaluation, conflict management, employee selection, and mentoring. Other researchers reaffirmed that other practices that have the potential to increase social capital are compensation and training (Gittel, Seidner, & Wimbush, 2007). All of those practices have the potential to increase internal social capital in a company, which is called relational work practices. These practices are undoubtedly different from general work practices that focus more on employee expertise and commitment than on relations between employees. Likewise, Gant, Ichniowski, and Shaw (2002) argued that HRM practices influence performance outcomes because these practices affect employees' social networks and patterns of interaction in carrying out work. These findings suggest that social capital can mediate the relationship between high-performance work practices and performance outcomes.

Social capital will facilitate knowledge sharing, create value and competitive advantage, accel-

erate better performance, and organizational development (Abili & Faraji, 2009). The examples of social capital are norms, trusts, values, orientation, networks, and social relationships and interactions between individuals and individuals, between management and stakeholders. Social capital is a strategic asset that is able to play a role in meeting the needs of the organization and contributing to the reputation of Islamic banking, increasing the "trust" of the community towards Islamic banking, increasing the number of third-party funds, and increasing the use of a variety of Islamic banking products. Therefore, it is expected to accelerate the growth of Islamic banking as expected and be able to answer many challenges faced by Islamic banking. Internal challenges include limited competency in human resource inputs, employee turnover, and weak HRM practices. While the external challenges include the weakness of external networking with stakeholders, it is needed to disseminate and educate Islamic products to the public continuously. That is why ownership of social capital becomes critical factors in Islamic banking, especially in Sharia Small Business Bank.

The results of previous studies indicated that employee involvement in the accumulation and utilization of knowledge in companies is more oriented to increasing individual capacity. Indeed, this is due to the character of Islamic banking whose operational procedures are very standardized and the rules of a rigid working system. Getting and utilizing relevant knowledge to support the quality of work is a necessity. So, human resources in Islamic banking must build their internal and external social capital. Social capital will facilitate knowledge sharing, create value, competitive advantage, accelerate better performance, and organizational development (Abili & Faraji, 2009).

The top management social network is a source of competitive advantage. Capability to improve company information processing capabilities, and HR practices that include mentoring, incentives, and performance appraisal can be designed to encourage the development of these social networks. All of those aspects show that the impact of these high-performance practices on company performance is mediated by the strength of the top management social network. However, the forms of social capital that have been empirically tested vary widely, such as collective learning (Lopez et al., 2009), communication networks (Collins & Clark 2003), and relational coordination (Gittel, 2000).

Nahapiet and Ghosal (1998) divided organizational social capital into three dimensions, including cognitive, structural, and relational dimensions. The

structural dimension is a non-personal relationship among individuals within the organization, which shows patterns of relationships and interactions between people in the organization to share, learn, and exchange ideas, information, and knowledge. Relational dimensions are interpersonal relationships among individuals in organizations that focus on special relationships such as respect and friendship that affect employee behavior and also trust among employees, help each other when needed, honest, share feelings and respect each other. The cognitive dimension shows sources that provide mutual interpretation and concepts among individuals in the same social network. This shows how much employees have a clear understanding and perception of the values and goals of the organization and how much they accept and commit to the goals of the organization. It appears that trust is the core that underlies the power of social capital.

Many theories about trust are discussed in social exchange theory. In organizational settings, the existence of mutual trust has the potential to enhance collaboration and encourage the act of sharing information between employees and their managers, even among organizational units. Trust in developing organizations through a process of social exchange, in which employees interpret managerial practices, procedures, actions, and reciprocate organizations is based on it (Whitener, 2001). When management uses procedurally fair practices, it will influence employee trust in control, because the procedure shows respect for the rights and dignity of employees individually. For example, by offering adequate promotional and training opportunities, it gives a signal for employees that their organizations respect them and try to meet their organizational and personal needs (Schneider & Bowen, 1993). Many other HR management practices can also explain trust relationships with organizational performance. Performance appraisal that is perceived as accurate and satisfying, compensation that reflects justice and performance-based, also has the potential to improve performance. Those interrelations reinforce the trust of employees to their superiors.

In an organizational context, social exchange theory is used as a basis for understanding the feelings of obligation and pro-organizational members of the organization. The greater the diversity of exchange relationships among employees, the lower the feeling of being obliged to reciprocate the actions of colleagues, and the lower the identification with the group or organization. As stated by Wikaningrum (2007), the diversity of exchange relationships often causes nega-

tive impacts on communication and interpersonal attractiveness.

The social exchange theory that was created by George C. Homans rests on the assumption that people engage in behavior to get rewards or avoid punishment, in other words, they minimize costs and increase profits (Poloma, 2000). Behavioral exchanges for compensation are fundamental principles in simple economic transactions. Homans saw all social behavior and economic behavior as a form of dialogue to get a reward. The rewards referred to the extrinsic rewards such as salary/wages, facilities, and also intrinsic bonuses such as satisfaction with work results, friendship relations, and job prestige. In line with the research of Peter Blau (Gergen et al., 1980), individuals are basically driven by hedonic motivation, in which all actions are directed to seek pleasure and reduce painful things. To get rewards and reduce punishment, individuals must perform various behaviors. So, social life is based on a series of transactions in which the rewards and punishment depend on exchanging behavior with other individuals. Thus, social exchange theory is one of the theories that explain the emergence of social capital theory.

## 2. DISCUSSION

The results of research in Malaysian Islamic banking showed that social influence is a factor that influences people's choice of Islamic banking products, and it is precisely not due to religious ties (Amin et al., 2011). Similar research conducted in Indonesia provides different findings as social influences do not have a strong influence on Muslim choices for Islamic banking products, but knowledge does (Wahyuni, 2012). The results of research in Malaysian Islamic banking showed that social influence is a factor that influences people's choice of Islamic banking products, and it is precisely not due to religious ties (Amin et al., 2011). Similar research conducted in Indonesia provides different findings as social influences do not have a strong influence on Muslim choices for Islamic banking products, but knowledge does (Wahyuni, 2012). Muslims in Indonesia who have immense knowledge intend to choose Islamic banking. This phenomenon is a challenge for the management of Islamic banking to effectively educate community groups whose education is relatively low in order to accept and support the existence of Islamic banking with all the Islamic sharia concepts. Not only management but also the responsibility of employees become the factors.

Employee awareness needs to be nurtured by not instilling an orientation of personal interests and material things. Both in terms of motivation to work, build relationships with various parties within and outside the organization. Likewise, related to the attitude of helping and sharing knowledge, the intention must be straightened from *riya* (show off) and expect returns/rewards from other parties. Everything that is good and beneficial for others is merely given because of obedience to the Creator, because what is owned, known, and mastered is not theirs. Those all are a mandate that must provide the widest possible benefits and be responsible to Him. In Al-Alaq verses 1-5, Allah SWT says:

*"Read in the name of your Lord Who Created, He has created man from a lump of blood. Read it, and it is your Lord who is the most gracious, who teaches (humans) by the delivery of kalam. He teaches people what he doesn't know."*

Those verses show the supremacy of learning and science. Every human being can increase his glory through mastering knowledge. In the past, people believed those who have money also have power, but in the information era, a knowledgeable person is standing in front. No wonder many organizations are trying to "master" the knowledge of human resources. Under the pretext of going to a learning organization, talent management, knowledge management, or whatever term is used by the company, the primary motive behind is business interests. When knowledge at the individual level is controlled by the organization, which is codified and then stored in the system, database, and manual book, it places the company in a higher bargaining position than its employees. This decreases the company's dependence on its human resources. In other words, the employees become more dependent on the company and can just take company policy even though it is contrary to the principles of justice and personal values.

Besides increasing mastery and application of knowledge, the company also encourages employees to share knowledge with other organizational members. A series of policies in the field of HR practices are carried out to facilitate the practices. As asserted by Hislop et al. (2018), companies can perform various efforts to encourage and facilitate the process of communication and social interaction through the provision of rewards, the development of communities of practice, forums that create interacting opportunities, mentoring systems, and job design that facilitate interpersonal communication and collective problem-solving. Performance appraisal systems and reward schemes also include indicators of willing-

ness to share knowledge. All of these have the potential to form a climate that strengthens the character of "sharing with strings attached". Not surprisingly, in the process of knowledge management, knowledge sharing is the lowest application in Islamic banking (Wikaningrum, 2015).

Employee willingness to participate is depending on how they perceive the positive and negative consequences. If the positive benefits are higher, they will be more likely to be involved in and vice versa. On the other hand, policies in HR management practices continue to encourage employee attitudes and behavior to participate in the process actively. Motivating and appreciating in material form that actually encourages individualism. Sharing with interest orientation to get recognition from the work environment and company management. This approach is based on the assumption that human resources are fundamentally rational beings. The main motivations are assumed to be extrinsic motivation, in which the behavior is depending on the rewards that they have earned, and it tries to maximize their own interests (Mas'ud, 2015). From Abu Mas'ud Uqbah bin Amir Al Ansari radhiyallahu'anhu, he said that Rasulullah shallallahu 'alaihi wasallam said:

*"Whoever directs to the goodness, they will get the reward as like the reward of the person who does it". (HR. Muslim no. 1893)*

The words of the Prophet can be interpreted as an invitation to share knowledge with anyone without considering the return of what will be obtained from another party, is there a reward from the company, or a decrease in the knowledge power. The social exchange theory, as described earlier, shows different things. As a theory that underlies social capital, one of the dimensions is the norm of "reciprocity". It means it is not defined as "giving" or "sharing", but "exchanging". There is the hope of getting returns from other parties who have received resources. In the perspective of Islam, man is not the absolute owner of goods, materials, or even himself. The real owner is Allah SWT, while humans are the holders of His mandates (Mas'ud, 2015). In companies with specific values, such as Islamic banking, it is appropriate to build value-based quality relationships among members of the organization. The suitability of value between the company and its employees is the basis for developing sustainable collaborative capital with the spirit of working together only to expect the blessing of Allah SWT.

The suitability of personal identity with group identity encourages individuals to the in-group. Regarding specific group identity based on religion, the similarity of individual religious values with the

values of working groups in their organizations will increase similarity, homogeneity, cohesiveness, and a higher sense of membership. Similar perceived values will increase the chances of interacting among them. As the research results of Wikaningrum's (2014) showed that both internal and external social capital, the assessment of the management of BPRS on the relational dimension is relatively better than Islamic Commercial Banks and Sharia Business Units, where interactions between leaders and subordinates, and among colleagues at the BPRS can be more intensively carried out. The intensity and quality of communication can increase trust, desire to help each other, and willingness to share information among members of the organization.

The research findings of Stavrova et al. (2013) found that religious individuals are happier and more satisfied with their lives than those who are non-religious. In religious countries, religious people are treated with more respect, which explains the level of happiness and higher life satisfaction. So based on social norms, it can be said that religiosity is essentially able to increase a person's well being. This is in line with the research of Greenfield and Marks (2007) that investigated the relationship between formal religious participation and psychological well-being. The results showed that the closer the identification of members to their religious groups, the more often the members will participate in formal religious activities. In the organizational context, the results of these studies and social identity theory can explain the relationship between employee's religious values and the work group's religious values. The closer or similar, the more employees will identify themselves with the group, so interpersonal relationships with other group members will be better. Interpersonal relationships based on the similarity of values form the quality of a strong exchange relationship.

The spirit to raise Islamic banking and to educate the public to use Islamic banking products should be a common goal of the actors in the industry. So that building relationships and sharing knowledge are based on goals that are greater than the personal interests of the people within. Such purposes require strong intrinsic motivation, not extrinsic motivation, which is grown through corporate reward practices. Instead, companies must use religious value approaches to encourage the ethical behavior of employees. However, people need to work even without looking at the rewards or returns from other parties because actually Allah will reward him in the form of pleasure both in the world and hereafter. As in At- Taubah (9) verse 105:

*"Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do."*

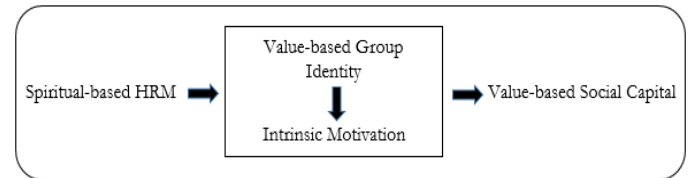


Figure 1. Theoretical framework

### 3. CONCLUSION

Various practices and policies can be applied to improve knowledge, expertise, and motivate employees to increase their capacity. Whatever the approach was taken by the company, it is essential to pay attention to orientation, values, and ethics. Management of employees that is oriented to the welfare of the world and hereafter has no dichotomy between business interests and religion. The company encourages employees to prioritize the values of justice, integrity, trustworthiness, and honesty in interacting both internally and externally with stakeholders. HR management also must avoid practices that strengthen the value of individualism, materialism, and competition among employees. Therefore, in the context of strengthening the quality of relationships and interaction, it is necessary to strengthen group identity and intrinsic motivation, so that collaboration among organizational members is colored by the spirit of sharing and togetherness in justice to achieve common goals. Further researches on social capital development need to relate the spiritual-based HRM management practices. These practices are expected to encourage the intrinsic motivation of individuals in the organization more effectively.

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