Int. J. Production Economics 151 (2014) 89–99

Contents lists available at ScienceDirect

Int. J. Production Economics

journal homepage: www.elsevier.com/locate/ijpe

Developing social capital in buyer–supplier relationships: The contingent effect of relationship-specific adaptations

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ARTICLE INFO

Article history:
Received 20 November 2012
Accepted 7 January 2014
Available online 27 January 2014

Keywords:
Relationship-specific adaptation
Social capital theory
Supplier relationship management

ABSTRACT

Strategic buyer–supplier relationships are increasingly viewed in both the scholarly and practitioner literatures as key drivers of sustainable competitive advantage. In particular, relationship specific adaptations – the extent to which exchange members make tangible or intangible adaptations for a partner – are acknowledged as one of the central issues. Such adaptations need to be examined in context, taking into consideration the social ties that connect a firm and its suppliers. Using the lens of social capital, we examine the contingent effect of buyer and supplier relationship adaptations, and structural and cognitive capital on the development of relational capital. A sample of 163 buyer–supplier relationships within UK manufacturing firms is used to test a series of three-way moderated regressions. The data indicate that the relationship between structural and cognitive forms of social capital and the level of relational capital is moderated by the extent of the relationship adaptations made by each firm and its supplier. Contrary to expectations, the relationship between cognitive capital and relational capital was significantly negative when high levels of buyer adaptations and supplier adaptations were present, indicating a substitution effect between cognitive capital and relationship adaptations. Structural capital was found to be most strongly related to relational capital when adaptations were reciprocated by both actors. However, unilateral adaptations by either actor resulted in significantly lower levels of relational capital as structural capital increased. Implications for theory and managers are discussed, relating to the impact of different combinations of relationship-specific adaptations on social capital components in a buyer–supplier relationship.

1. Introduction

The formation and maintenance of social relationships between buyers and suppliers is regarded as one of the most difficult operational challenges for managerial decision makers (Johnston et al., 2004; Narasimhan and Nair, 2005). According to the 'relational view' (Dyer and Singh, 1998), firms can leverage advantage in their social relationships by moving away from arm's-length exchanges, and instead focusing on specific investments, knowledge exchange, complementary competencies, and more effective governance mechanisms. Increasingly, the contribution of specific investments (relationship-adaptations) between buyers and suppliers is recognised as a key characteristic of strategic supplier relationships (Cannon and Perreault, 1999; Luo et al., 2009). Dyer and Singh (1998, p. 662), for example, emphasize that relational rents can be realized when partners "combine, exchange, or invest in idiosyncratic assets…". To date, however, much of the focus in this area has been on unilateral investments made by either the firm or its supplier, with little attention paid to the different combinations of buyer and supplier relationship-adaptations. The non-fungible nature of relationship-specific adaptations also means they are not easily transferable; they represent a sunken commitment with little value outside the relationship, adding further complexity to the managerial process.

Using Social Capital Theory (SCT) as a lens through which to understand the complex nature of social exchange relationships (Carey et al., 2011; Krause et al., 2007; Lawson et al., 2008), we examine the effect of buyer and supplier adaptations on the social fabric of strategic buyer–supplier relationships using the three dimensions of SCT: structural capital; cognitive capital; and, relational capital. SCT recognizes that relationships between actors in the supply chain are composed of people, and that the interactions between individuals shape the relationship and its effectiveness (Ketchen Jr. and Hult, 2007). The value of social capital and its dimensions also depends on contingent and moderating factors (Maurer and Ebers, 2006), like relationship-specific adaptations, which are unique to the relationship, as opposed to exogenous

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http://dx.doi.org/10.1016/j.ijpe.2014.01.008

environmental factors over which managers have little influence. Our paper thus helps decision makers within the firm to address the important question of if, to what extent, and under what conditions, they should make relationship-specific investments in their strategic partner. To date, there has been limited testing of this in a supply chain context.

Specifically, there is a paucity of work considering the contingent effect of adaptations made by the buyer and supplier on the relationship between structural capital, cognitive capital and relational capital. Described as one of the most important dimensions of buyer–supplier relationship performance (Williamson, 1985), relationship adaptations are not made in a vacuum and need to be examined in context, taking into consideration the social ties that connect both actors, and the duration of the relationship (Hwang, 2006). Some work has examined buyer adaptations and supplier adaptations as individual constructs, with different motivators and performance outcomes (Joshi and Stump, 1999; Schmidt and Tyler, 2007). However, increasingly both decision makers and academics are concerned with the impact of joint or reciprocal adaptations, where both buyers and suppliers make idiosyncratic, non-transferable changes for the other actor.

We develop and test a theoretical model which examines these constructs of interest. Closely tied, inter-organizational relationships are presented as infrastructure which is crucial for supporting resources (adaptations) contributed by both actors (Luo et al., 2009). Consistent with previous literature (Carey et al., 2011; Nahapiet and Ghoshal, 1998), cognitive capital and structural capital are positioned as the infrastructure, or building blocks, of strategic buyer–supplier relationships. We then examine the contingent effect of relationship-specific adaptations made by the firm and its supplier on the relationship between these building blocks, and the development of relational capital. Previous work has indicated that cognitive capital and structural capital are antecedent factors in the development of relational capital (Carey et al., 2011; Tsai and Ghoshal, 1998). This study develops this research further by examining the contingent effect of relationship-specific adaptions made by the buyer and the supplier on the relationships between cognitive capital, and structural capital, and the *development of* relational capital. Rather than creating a perceived lock-in situation, we argue that adaptations made by buyer and supplier act as a joint signal of commitment and perceived relationship longevity, reinforcing the positive effect of frequent and diverse social interaction ties (structural capital) and shared vision, norms and values (cognitive capital). A series of three-way interaction hypotheses are tested which posit that relationship-specific adaptations made by buyer and supplier act to complement cognitive capital and structural capital, thereby increasing the level of relational capital in the relationship.

This paper makes a number of contributions to the literature. First, where previous research has typically assumed that the relationships between SCT dimensions are direct (cf. Villena et al., 2011), we add a contingent view by examining the role of relationship adaptations on relational capital development. The literature has also viewed relationship-specific adaptations made by buyer or supplier (Artz, 1999), or the combination of both (Poppo et al., 2008). Our paper provides a more nuanced view of the relationship by examining, via three-way moderated regressions, the effect on relational capital of buyer adaptations, supplier adaptations, and cognitive or structural capital. Thus, whilst our regression controls for all combinations of two-way interactions in our analysis, our interest is in gaining a more detailed understanding of the dynamics around relationship-specific investments and social capital. Second, in contrast to previous studies highlighting the need to safeguard against opportunism in the presence of relationship-specific adaptations (Lonsdale, 2001; Mesquita and Brush, 2008; Poppo and Zenger, 2002), we provide evidence that reciprocal adaptations can fulfil an assurance role (Rokkan et al., 2003). In doing so, we take a contrasting approach to studies (Mukherji and Francis, 2008) that position adaptations as an outcome of exchange, by adopting a process view of relationship adaptations. Our findings are relevant for practitioners as they refine understandings of the interplay between social capital dimensions and relationship-specific adaptations, relevant for decisions related to safeguarding the relationship, effective resource allocation and supplier relationship development.

The remainder of the paper proceeds as follows. The theoretical rationale which informs this study is developed first, followed by the development of our hypotheses. An overview of the research adopted is then provided, followed by the presentation of results. In the final section, the managerial and theoretical implications of the study are discussed.

2. Theoretical foundations

2.1. Social capital theory

SCT gained popularity in the 1990s by directing attention toward the role of a firm's social networks as a source of competitive advantage (Baker, 1990; Burt, 1997). SCT also acknowledges that many economic transactions are embedded within a larger social, political and legal context (Granovetter, 1973, 1985). Relationships are viewed as a valuable resource for the conduct of social affairs and social capital helps to characterize an organization's complete set of relationships, whilst its focus on the flow of resources between organizations enables the explanation of performance differences within and between organizations (Koka and Prescott, 2002). The supply chain management literature has extensively applied SCT, particularly in examining the characteristics of buyer–supplier relationships and impact on performance (Matthews and Marzec, 2012).

Nahapiet and Ghoshal (1998) define social capital in relation to three dimensions: relational, cognitive, and structural. Relational capital refers to the "trust, obligation, and identification present between actors in a relationship" (Nahapiet and Ghoshal, 1998, p. 251). Trust in this context refers to the expectation that both actors will behave in a mutually acceptable manner, including an expectation that neither party will exploit the other's vulnerabilities (Sako and Helper, 1998, p. 388). Identification is "the process whereby individuals see themselves as one with another person or group of people" (Nahapiet and Ghoshal, 1998, p. 256), whilst obligation represents a commitment or duty to undertake some activity in the future. As a store of 'goodwill between actors' (Burt, 2000; Dyer and Singh, 1998), relational capital addresses the role of direct links between individuals and the relational outcomes of interactions (Inkpen and Tsang, 2005).

Cognitive capital represents the shared goals, norms, vision and values between actors (Tsai and Ghoshal, 1998) and can thus be aligned with Cai and Yang's (2008) interpretation of cooperative norms. Symbolic of the commonality across the relationship, cognitive capital helps actors to make sense of, and perceptually classify new information and knowledge (Grant, 1996; Nonaka, 1994). It facilitates the development of common understandings and collective ideologies, outlining appropriate ways for buyers and suppliers to coordinate their exchange, and share each other's thinking processes (Caniëls and Gelderman, 2010; De Carolis and Saparito, 2006). The characteristics of cognitive capital have been linked to positive and cooperative behaviours due to the development of a positive psychological environment (Kostova and Roth, 2003; Ring and Van De Ven, 1992; Zaheer et al., 1998).