

Antecedents and consequences of social capital on buyer performance improvement

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Abstract

The ability to leverage social capital within strategic buyer–supplier relationships is increasingly cited as a key driver of value creation. Despite the importance of strategic partnerships, the process by which social capital accumulates within buyer–supplier relationships and contributes to buyer performance improvements is not well understood. Drawing on social capital theory, we develop a model linking positive relational capital, and its antecedents, supplier integration and supplier closeness, to buyer performance improvements. Further, we hypothesize that structural capital, as reflected in managerial communication and technical exchanges, is also positively related to buyer performance improvements. Using data provided by 111 procurement executives from the United Kingdom, we find support for our hypotheses. The study extends the supply chain management and social capital literature and suggests important implications for both research and practice.

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1. Introduction

A growing body of organizational research holds that social capital is a valuable asset that stems from access to resources made available through social relationships and that social capital can represent an enduring source of advantage (Granovetter, 1992; Moran and Ghoshal, 1999). Indeed, McGrath and Sparks (2005) describes

social capital as the ‘relational glue’ that underlies effective supply chains. However, most supply chain research that has examined the effects of buyer–supplier relationships on performance has limited its consideration of social capital to relational capital (e.g. Artz, 1999; Cousins et al., 2006; Johnston et al., 2004). Only recently has supply chain research begun to consider the structural and cognitive aspects of social capital and their effects on various aspects of buyer and supplier performance (e.g. Krause et al., 2007).

This study contributes to the stream of research that considers the potential for value creation between a buyer and their key strategic suppliers, enhancing supply chain theory by extending the application of social capital theory to buyer–supplier relationships (Artz, 1999; Cousins et al., 2006; Johnston et al., 2004). Building on social capital and supply chain research, we

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emphasize the distinction between relational capital, resulting from relational embeddedness, and structural capital, resulting from structural embeddedness, and empirically test the effects of both on buyer performance improvement in the context of strategic relationships with key suppliers (Krause et al., 2007; Nahapiet and Ghoshal, 1998). In order to consider the effects of these forms of embeddedness, we investigate two related research questions: (1) What aspects of prior relationships contribute to the accumulation of relational capital? and (2) How does relational and structural embeddedness contribute to buyer performance improvement?

In answering these questions, we make three key contributions to the supply chain literature. First we extend the application of social capital theory in supply chain research by explicitly recognizing both relational and structural aspects of embeddedness. Secondly, we propose two key sources of relational capital: the range and intensity of integrated activities between a buyer and its key suppliers; and, the closeness of key suppliers as reflected in their willingness historically to respond to a buyer's needs. Finally, we build on social capital theory to argue that the diversity and volume of communication between various managers and technical employees of the partners constitutes structural embeddedness, which contributes to buyer performance improvement.

In the next section we begin by briefly reviewing social capital theory. In Section 3, we develop our hypotheses. First we use supply chain and social capital theory to argue that the routines previously established between partners based on the range and intensity of supplier integration and closeness of strategic suppliers is positively associated with the accumulation of relational capital, which in turn, is positively related to buyer performance improvement. We then draw on social capital theory to argue that the amount and diversity of structural embeddedness, i.e., the variety of structural linkages established between buyer and supplier managerial and technical personnel and their frequency of interaction, are also positively related to buyer performance improvement. Section 4 presents the research methodology, data collection processes and our results. The paper then provides a further discussion of the results, suggestions for future research, managerial implications and limitations in Section 5. It concludes with an overview of the contributions of the paper to the literature.

2. Social capital theory

In the organizational literature it is commonly argued that *social capital* is a valuable asset that stems from

access to resources made available through social relationships (Granovetter, 1992). We adopt this definition of social capital and apply it to the relationship between buyer firms and their key suppliers. Nahapiet and Ghoshal (1998) proposed three dimensions of social capital: cognitive, structural, and relational. They argued that the *cognitive* dimension of social capital refers to the resources providing the parties with shared representations, interpretations, and systems of meaning, while the *structural* dimension results from the structural configuration, diversity, centrality and boundary-spanning roles of network participants (i.e., the structure of the relationship). Finally, they suggested that the *relational* dimension refers to the personal relationships people have developed with each other through a history of interactions, leading to relations of trust, obligation and reciprocity (i.e., the relationship established through previous interaction).

Nahapiet and Ghoshal (1998), however, recognized that it was challenging to operationally separate these dimensions, especially the cognitive dimension. To distinguish between structural and relational dimensions of social capital they relied on Granovetter's (1992) distinction between structural and relational embeddedness. According to this perspective, the structural dimension includes social interaction and recognizes that the interactions that result due to the location of an actor's contacts in a social structure provide certain advantages (Tsai and Ghoshal, 1998). In contrast, the relational dimension of social capital is argued to refer to the assets that are embedded in established relationships, such as trust, obligation and reciprocity. In this study of strategic buyer–supplier relationships we focus on relational and structural dimensions of social capital, associated with relational and structural embeddedness, respectively.

The impact of social capital on performance has been studied at multiple levels using many different measures of performance. Some of this research has focused on the presence or absence of relational ties (structural embeddedness) between individuals, between two organizations, and between a network of organizations (e.g. Burt, 1992, 2000; Walker et al., 1997), while others have considered the strength of those ties (relational embeddedness) (e.g. Granovetter, 1973, 1983; Hansen, 1999). For example, Moran (2005) examined the impact of both structural and relational embeddedness of managers' social capital on their sales and innovation performance, and encouraged future research to consider the effects of both on a variety of performance measures. Research that has examined buyer–supplier

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