



## Social capital in Southeast Asian business relationships

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### ABSTRACT

Social capital is the glue and the lubricant facilitating network behavior [Anderson, A. & Jack, S. (2002). The articulation of social capital in entrepreneurial networks: a glue or a lubricant?. *Entrepreneurship & Regional Development*, 14, 193–210.]. The purpose of this paper is to add to the current literature on social capital by investigating social capital structures, opportunity, motivation and ability within export relationships in Thailand. We conceptualize social capital following Adler and Kwon [Adler, P. & Kwon, S-W. (2002). Social Capital: Prospects for a New Concept. *Academy of Management Review*, 27(1), 17–40.] and use interview data to further explore the construct. Our results indicate that the social structures from which social capital is drawn are not independent for large overlaps are present. Opportunity, motivation and ability are linked with a common thread of trust. The research highlights implications for managers wishing to develop social capital or use social capital as a marketing strategy.

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### 1. Introduction

Social capital is the resource base embedded in an individual's social structure that is drawn upon to facilitate interaction (Adler & Kwon, 2002; Hitt, Lee, & Yucel, 2002; Lin, 1999; Nahapiet and Ghoshal, 1998; Narayan & Cassidy, 2001; Tsai & Ghoshal, 1998; ). Social capital draws on the work of Granovetter (1985), who indicates that all individuals are embedded in a structure of social relationships from which resources are drawn. Social relationships generate trust as well as developing and enforcing norms of behavior. All relationships, whether they are business or personal oriented, can be drawn upon for benefit. Social capital is not 'owned' nor has it monetary 'value', like other forms of capital (Bourdieu, 1986). Instead, it lubricates relationships between actors and glues networks together through trust (Anderson & Jack, 2002; Paldam, 2000).

Relationship development within Asian cultures is a critical component when conducting business (Hamilton, 1996). In particular, guanxi, described as 'personal network' or 'special connections', is important not just in China, but all countries where Chinese Diaspora have settled (Leung, Lai, Chan & Wong, 2005; Leung, Wong, & Wong, 1996). As the majority of Thai managers are ethnic Chinese, guanxi significantly impacts on business relationships (Itthipassagul & Blois, 2000). Guanxi is closely linked to social capital and is used as a deliberate strategy for developing business opportunities (Carlisle & Flynn, 2005; Hitt et al., 2002). Social capital significantly affects firm

performance (Luo, Griffith, Liu & Shi, 2004), yet, research exploring social capital use within Southeast Asian business networks is lacking (Hitt et al., 2002).

Social capital is an extremely complex concept and this research investigates its use within Thai export markets. Given the lack of social capital research within Southeast Asian business networks, this research adds to our knowledge of social capital within a different cultural context. Our research questions are:

- How is social capital accessed?
- What behaviors are used when accessing social capital?

The paper begins with a discussion on social capital, guanxi and the theoretical background to the research. This is followed by the methodology, results and suggestions for managers to consider when developing social capital.

### 2. Social capital

Social capital has emerged as an important umbrella concept in various disciplines including: regional/rural development, political science, sociology, human resources, economics and marketing (Adler & Kwon, 2002; Durlauf, 2002). Given this broad research base and the complexity of the concept, it is not surprising that different definitions and perspectives have emerged with numerous works seeking to clarify the construct (Adler & Kwon, 2002; Lin, 1999; Nahapiet & Ghoshal, 1998; Paldam, 2000). Definitions vary from "investment in social relations with expected returns" (Lin, 1999, p. 32); and "sum of actual and potential resources embedded within, available through, and derived from the network of relationships" (Nahapiet & Ghoshal,

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1998, p. 243) to being “defined by its function” (Coleman, 1988, p. 98). This research follows the definition from Nahapiet and Ghoshal (1998), where resources are accessed from all types of relationships rather than only through social relationships.

Relationship types vary between market, social and hierarchical relationships and form the network structure. Relationship types change over time as individual circumstances change. For example, an existing hierarchical relationship may change to a social relationship or a business relationship when an individual leaves their current employer. Actual and potential resources also bring in the concept of time and possible future benefits. Future benefits indicate a long-term view towards relationship development, consistent with the long-term orientation of Southeast Asian business.

Social capital research has evolved along two streams: one focusing on the benefits attained by individuals while another focuses on the benefits obtained by groups or communities (see Lin, 1999 and Adler & Kwon, 2002 for further clarification). Network structure is also described at the individual/network level or social/hierarchical and market level (see Adler & Kwon, 2002 and Griffith & Harvey, 2004). Individual and/or network levels emphasize network structure while social/hierarchical and market levels emphasize relationship type. Guanxi benefits are obtained by the individual, who may choose to share benefits with other network actors. Therefore, the individual level (rather than the network level) is important for this research due to the strong influence of guanxi within Thailand. Guanxi bases are also derived from a variety of relationship types including social, hierarchical and market relationships (Hamilton, 1996), consistent with the relationship types (social, hierarchical and market) as outlined by Adler and Kwon (2002).

Although a number of conceptual differences exist, similarities also emerge relating to the following aspects: capital is derived from relationships embedded in social structures (Bourdieu, 1986; Inkpen & Tsang, 2005; Lin, 1999; Nahapiet & Ghoshal, 1998; Paldam, 2000); social structures are formed, accessed and used at individual, market/network or hierarchical levels (Adler & Kwon, 2002; Lin, 1999); trust, norms of behavior and network credibility play an important role (Griffith & Harvey, 2004; Hitt et al., 2002; Lin, 1999; Nahapiet & Ghoshal, 1998; Pollitt, 2002); network location/ position is important (Lin, 1999; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998) and benefits can be derived in many forms including monetary and non-monetary (Bourdieu, 1986).

### 3. Relationships in Southeast Asia

Business relationships in Southeast Asia are mainly based on Chinese foundations and include characteristics such as requiring, harmony, guanxi and xinyong. These complex characteristics are interwoven and are critical aspects of relationships in China and Southeast Asia (Wang, 2007). Xinyong describes a person's reliability, integrity and competence and is commonly associated with trust (Leung et al., 2005; Wang, 2007). Relational harmony is important in Thai culture (Itthiopassagul & Blois, 2000), and is maintained through normative rules of behavior which are based on an individual's network position (Biggart & Hamilton, 1992). Requiring is the exchanging of favors based on strong normative rules. Failure to reciprocate favors results in loss of face and disharmony within the network (Pornpitakpon, 2000). Of the above characteristics, guanxi is emphasized in the literature and is considered critical for accessing social capital (Hitt et al., 2002).

#### 3.1. Guanxi and social capital

Guanxi relationships are built by individuals from their personal and business networks (Leung et al., 1996) and have a foundation based on requiring (Wang, 2007). Individuals use guanxi to obtain favors (requiring), develop trust and access resources. Guanxi is similar to social capital, especially in relation to the structure and benefits obtained (Carlisle & Flynn, 2005; Hitt et al., 2002). However, differences between guanxi and

social capital include the bases from which the relationships develop. Guanxi relationships can develop from extremely indirect and obtuse bases such as coming from the same regional district, or alumni from the same university, even though they may not have studied together (Hamilton, 1996; Kiong & Kee, 1998). Current western social capital literature focuses on direct relationships, such as friendships and family. Other differences between guanxi and western conceptualizations of social capital include:

- the use of guanxi as a deliberate planned strategy for improving one's network position (Luo et al., 2004; Carlisle & Flynn, 2005); and
- the insider/outsider aspects of guanxi networks (Yi & Ellis, 2000). Favors are usually drawn from within the inner guanxi circle rather than from the broader network.

#### 3.2. Social relationships

Social relationships are important when conducting business in Thailand as the delineation between social and business aspects is unclear (Björkman & Kock, 1995; Yi & Ellis, 2000). Often the social aspects of the relationship are developed before business is even conducted (Björkman & Kock, 1995; Hamilton, 1996).

The process of building social relationships before transactions take place highlights the long-term orientation Thai business people put into relationship development. Thai business people do not differentiate between internal/external and/or social/business relationships and use relationships to gain both personal and organizational advantages.

Overall, the use of guanxi and the importance placed on social relationships within Southeast Asian business networks highlights that social capital is likely to be developed and used differently than in Western cultures. Therefore, further investigation on the influence of cultural effects on social capital is critical for further knowledge development in relation to social capital concepts.

## 4. Theoretical background

Given the varied theoretical approaches to social capital, a variety of conceptualizations exist (Durlauf, 2002). Some researchers have conceptualized social capital as a resource forming along three dimensions: structural, relational and cognitive (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Yli-Renko, Autio, & Sapienza, 2001). Each dimension measures a different resource base from which benefits may be drawn. Yet, these three dimensions do not embody the richness contained in other social capital descriptions. The inclusion of such important aspects as to how social capital is used, its origins, broader network characteristics and the abilities and capabilities of other network actors are required to enrich this conceptualization.

An alternative conceptualization embeds social capital within a framework that includes: the sources of social capital/social structure; different resource bases; benefits and risks derived; values; capabilities and the contingencies of the situation (Adler & Kwon, 2002). This research takes an exploratory approach using a broad framework to guide the research (Fig. 1).

This research uses empirical data to extend our understanding of the constructs described. Shaded boxes are not examined with research focusing on social structure, opportunity, motivation and ability.

#### 4.1. Social structure

Social structure considers the types of relationships from which social capital is accessed and developed (Adler & Kwon, 2002). Social capital is built from the following relationship types: hierarchical relationships [intra-organizational]; market relationships [inter-organizational]; and social relationships [personal and family relationships]. Each of these relationship types adds up to the broader network in which the individual is embedded (Nahapiet & Ghoshal, 1998).

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