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A relationship value perspective of social capital in networks of software SMEs

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ABSTRACT

Utilizing theories on social capital, business networks, social networks and relationship value, we explore the aspects that provide specific value in relationships with different actors in the software industry. The motive for the study is the assumption that some relationships are regarded as more important than others, and companies strive to focus on fewer relationships with greater outcomes. The study is guided by the premise that social capital is a foundation for relationship value, and its identified elements differ among relationships. We take the perspective of software companies and classify their relationships with business partners into three distinctive types according to their function in the value creation process. The findings of our empirical analysis, based on a qualitative case study of eight software SMEs indicate that the aspects of social capital, like the sources of relationship value, vary systematically by the types of relationships. Thus, we are able to provide some theoretical and managerial implications on the management of small- and medium-sized companies.

1. Introduction

The relationships that firms have with other actors and the embedded knowledge are increasingly vital sources of competitive advantage when operating in turbulent environments (Burt, 2000; Griffith & Harvey, 2004; Hitt & Ireland, 2002; Luthans & Youssef, 2004; Moran, 2005; Van Der Merwe, Pitt, & Berthon, 2004; Van Laere & Heene, 2003; Ulaga & Eggert, 2005). This observation is especially valid for small- and medium-sized enterprises (SMEs), where entrepreneurial networks and knowledge are often the most critical assets. The importance of these assets to the performance and success of a company has been recognized in numerous studies on SMEs (Adler & Kwon, 2002; Anderson & Jack, 2002; Luo, Griffith, Liu, & Shi, 2004; Sheth & Parvatiyar, 2002; Yli-Renko, Autio, & Tontti, 2002).

The relevance of networks in the SME context is mainly a consequence of the resource limitations arising from the small size of companies (Liao & Welsch, 2002). In order to remain competitive and to take advantage of new market opportunities, SME firms need resources that they do not possess (Hitt & Ireland, 2002). Evidence suggests that small- and medium-sized firms need to utilize external resources effectively through their entrepreneurial network relationships (e.g. Chetty & Campbell-Hunt, 2003; Cross, Borgatti, Parker, 2002; Elfring & Hulsink, 2003; Hanna & Walsh, 2002; Yli-Renko et al., 2002). In addition, from the perspective of SMEs, social capital is a key driver in providing access to these resources (Hitt & Ireland, 2002; Moran, 2005).

Some relationships are arguably more important or valuable than others and firms with limited resources need to build fewer relationships with greater outcomes (Batt & Purchase, 2004; Ford & McDowell, 1999; Gadde & Snehota, 2000; Leek, Naudé, & Turnbull, 2003; Ritter, Wilkinson, & Johnston, 2004). The value of firms' relationships is both tangible and intangible, and needs to be cultivated and managed carefully (Baxter & Matear, 2004). This calls for a perspective that distinguishes the relevant dimensions of value in the relationship (Batt & Purchase, 2004; Ulaga & Eggert, 2005).

The evaluation perspective is a fundamental research approach in the emerging literature on relationship value, which explores those aspects that add value to relationships. Such studies of relationship value have focused on dyadic buyer–seller relationships between manufacturers and their customers. Specifically, they emphasize those relationship-specific aspects that provide explicit value either to the seller or to the buyer (Baxter & Matear, 2004). However, this strict focus on buyer–seller relationships does not contribute sufficiently to the understanding of relationship value and its sources in other relationships constituting firms' entrepreneurial networks. Thus, although the evaluation perspective in the industrial relationship literature is not new, research on relationship value in multi-actor networks has been scarce.

Our study addresses this important topic by analyzing relationship value in the networks of software SMEs. The software business was selected because it is one of the key industries in the global knowledge economy and is characterized by many small- and medium-sized

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companies. Our main objective is to explore the formation of social capital in the networks of software SMEs as a basis for relationship value. In particular, we examine *how social capital differs among different types of business partner relationships* in software SMEs' entrepreneurial networks.

This study is organized into six sections. After the introduction, we discuss the theoretical foundations of the study, more specifically, the concepts of social capital and relationship value in the context of entrepreneurial networks. In the third section, we construct our preliminary conceptual framework for the analysis of social capital and its implications on relationship value in the different types of business partner relationships. The fourth section describes our research design and methodology, and in the fifth section, we present and interpret our empirical findings by using excerpts from interviews and a table based on our case studies. In the final section, we discuss the findings and present our revised framework. We also consider the limitations of the study and suggest further avenues for research.

2. Theoretical background

This study draws on the literature of social capital, inter-organizational networks, and relationship value. First, we explore the concept of social capital in entrepreneurial networks. We then link its key aspects with relationship value.

2.1. Social capital and the entrepreneurial networks of SMEs

The increasingly popular concept of social capital as a driver for competitive advantage is multifaceted and has been defined by researchers in many ways (Adler & Kwon, 2002; Burt, 2000; Coleman, 1990; Hitt & Ireland, 2002; Knoke, 1999; Luthans & Youssef, 2004; Moran, 2005; Nahapiet & Ghoshal, 1998). In their comprehensive study, Adler and Kwon (2002) found no fewer than 19 definitions of social capital in the literature. The differences among these definitions relate mainly to whether social capital is analyzed within an organization, in relationships among organizations and their external actors, or both. Another major difference is whether the focus is on the sources or on the effects of social capital. However, there seems to be some consensus that relationships are an essential element of social capital (Adler & Kwon, 2002; Moran, 2005). Scholars such as Coleman (1990) argue that social capital, unlike all other forms of capital, is located not in the actors, but in their relationships with other individuals and organizations.

A holistic perspective of social capital, including both internal and external relationships as well as the sources and effects of social capital, is especially useful for our purposes. According to that view, the concept of social capital involves the individuals and organizations with specific resources that facilitate action and contribute to the value-creating process of other actors (Adler & Kwon, 2002). Anderson and Jack (2002) point out that social capital was originally described as a relational resource comprised of personal ties, but the subsequent broader conceptualization presents social capital as a set of resources embedded in business relationships. This is further supported by Knoke (1999), who defines social capital as the process through which actors create and mobilize their network connections within and between organizations to gain access to other actors' resources. Thus, actors are engaged in business relationships that are constituted through activity links, resource ties and actor bonds (Möller & Svahn, 2003). Based on their resource collections, actors carry out activities through which they produce resource sets or offers that are valued by other actors or buyers. In fact, the views of social capital provided by Nahapiet and Ghoshal (1998) and Knoke (1999), including resources in networks of actors, are remarkably close to the Actors, Resources and Activities (ARA) framework that guides much of the recent research in the IMP Group (Håkansson & Snehota, 1995). A major difference, however, is that the IMP-driven research focuses on the business networks of industrial actors while social capital studies also cover individual's social relationships that are embedded in business relationships.

The relevance of embedded social relationships, especially to entrepreneurial networks of SMEs, is an important extension to the industrial network approach. Several studies suggest that social relationships and manager's personal ties play a crucial role in developing the business networks of SMEs (Björkman & Kock, 1995; Hite & Hesterly, 2001; Uzzi, 1997; Vanhaverbeke, 2001; Van Laere & Heene, 2003). Personal ties are important in multiple ways, such as providing access to other actors' resources or knowledge base (Granovetter, 1985). Social networks and personal contacts can serve as channels to resources that could be used to gain financial support for business development activities. Embedded social relationships are also important for exchanging and transferring information among companies or other organizational actors (Moran, 2005; Uzzi, 1997; Vanhaverbeke, 2001). Through actors' social networks, managers of companies have opportunities to update their knowledge in dynamically changing markets and to detect future developments in the industry (Vanhaverbeke, 2001).

Another difference from the IMP approach stems from the focus on social relationships. Whereas the industrial network view of IMP emphasizes organizational resources and shared skills, social network theory focuses on personal qualities, such as managerial skills, person-related competences, attitudes and mental models (Baxter & Matear, 2004). On the personal level, social networks help managers to recognize the knowledge possessed by different actors in the network and to understand the relevance of applying that information. In this vein, the social approach to networks is firmly connected to the intellectual capital of actors in the network (Hargadon & Sutton, 1997; Marti, 2004; Nahapiet & Ghoshal, 1998).

2.2. The dimensions of social capital

Nahapiet and Ghoshal (1998) have compressed the elements of social capital into three dimensions: structural, cognitive and relational. The structural dimension is the configuration of one's network (i.e. the impersonal configuration of linkages between people or units) and its key facets are connectivity, centrality and the presence or the absence of ties (Moran, 2005; Nahapiet & Ghoshal, 1998). This is firmly linked with resources such as the network ties and contacts that are possessed by both organizations and their employees.

The cognitive dimension refers to resources that provide shared representations, interpretations and systems of meaning among the parties. They represent the facets of particular importance in the context of intellectual capital (Nahapiet & Ghoshal, 1998). They also include person-related intangible skills and competences that are embedded in organizations.

Finally, the relational dimension reflects the quality of relationships and consists of issues such as perceived trust and a sense of proximity (Granovetter, 1992; Moran, 2005). Therefore, the relational dimension results in and reflects the impact of the other two dimensions.

We share the view of Nahapiet and Ghoshal (1998), who combine the organization's external and internal networks by arguing that social capital is the sum of its actual and potential resources that are embedded within, available through, and derived from the network of relationships by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network. Simply put, the nature of social capital both structures and facilitates the operation of networks and their actors (Anderson & Jack, 2002).

In addition, we agree with Cooke and Wills (1999), according to whom social capital is both the origin and the expression of successful network interactions. The structure and operation of networks in this respect depends largely on how actors become located within