



The influence of social capital on strategic choice: An examination of the effects of external and internal network relationships on strategic complexity

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ABSTRACT

In this research we investigated the direct contributions of social capital via network involvement to the strategic complexity of firms. Specifically, we looked at three network types – trade associations, external personal networks, and internal personal networks – to assess their individual and collective effects on strategic complexity. We empirically tested the relationships in the rural telecommunications industry using a mailed survey to this population's CEOs. We obtained 203 responses (30% response rate). Using Poisson regression, we found that all three network types were positively associated with strategic complexity, which was measured as product portfolio breadth. We also discovered that initial conditions affected strategic outcomes, with larger firms and cooperative ownership associated with greater strategic complexity.

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1. Introduction

“What is the role of social capital in economic activity?” This question challenges the atomistic portrayal of the firm as an independent actor that has historically dominated strategic theory. Social capital, a term originating in the sociological study of communities (Nahapiet and Ghoshal, 1998), refers to the benefits derived by individuals or groups from being socially embedded in various networks (Greve, 1995). Inkpen and Tsang (2004, p. 151) define social capital as “the aggregate of resources embedded within, available through, and derived from the network of relationships possessed by an individual or organization.” A rich body of work has emerged to demonstrate that, indeed, social capital plays a significant role in developing, stimulating and accelerating economic activity (Aldrich et al., 1987; Bell, 2005; Granovetter, 1973; Johannisson, 1988; Leana and Pil, 2006; Maurer and Ebers, 2006; Uzzi, 1997). As this literature has grown, so has the number of aspects of social capital that have been investigated. A key aspect of social capital is whether the network relationship is internal or external to the firm (e.g., Leana and Pil, 2006). Social capital also has been found to influence a variety of outcomes, such as firm survival (McDonald and Westphal, 2003), innovation (Julien et al., 2004; Kraatz, 1998), and profitability (Bennett, 1998).

Yet, this proliferation of social capital applications has led some researchers to decry the overexpansion of the concept. Portes (1998, p. 2) bemoans that:

...social capital has evolved into something of a cure-all for the maladies affecting society at home and abroad.... [the] original meaning of the term and its heuristic value are being put to severe tests by these increasingly diverse applications.

In response, several excellent synthesis articles have helped focus researchers' attention on the next generation of issues to be addressed in the social capital domain (e.g., Adler and Kwon, 2002; Inkpen and Tsang, 2004; Leana and Van Buren, 1999; Nahapiet and Ghoshal, 1998). These articles point to more complex, integrated research designs that address multiple network aspects and/or levels of analysis in one study. Adler and Kwon (2002), in particular, conclude that examining social capital dimensions independently weakens our ability to see the fuller picture. They argue that research on two key network dimensions – internal, bonding, social capital, versus external, bridging, social capital – has been “bifurcated,” and they specifically call for research that concurrently examines external and internal networks. Another refinement which scholars argue for is a more sophisticated understanding of the impact of network ties on outcomes. Instead of assumptions of unilaterally positive effects from increased social capital, scholars have acknowledged the potential downside of social capital (e.g., Leana and Pil, 2006; Maurer and Ebers, 2006; Portes, 1998; Uzzi, 1997), and argue that future studies need to consider the valence of social capital's impact on organizational outcomes.

We contribute to the research by examining the simultaneous influences of multiple networks, internal and external to the organization,

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on strategic complexity. In this research, we investigate two questions: Do external and internal networks contribute independently and positively to strategic complexity? and, when considering external and internal networks together, do they offset each other's potential advantages?

2. Networks, knowledge and strategic complexity

Social capital can advance the individual, group, firm or society. We concentrate our discussion around firm effects, consistent with our interest in the influence of social capital on the firm's strategic complexity (Nahapiet and Ghoshal, 1998). Strategic complexity refers to the "range and concentration of concerns and activities" within a firm's strategic repertoire (Miller et al., 1996, p. 863). Strategic complexity indicates the firm's ability to integrate a wide range of knowledge and capabilities that make its strategy valuable and difficult to imitate (Barney, 1991; Rivkin, 2000; Wernerfelt, 1984). Empirical support for the relationship between strategic complexity and strong performance includes Miller and Chen's (1996) study of the airline industry and Ferrier and colleague's (2004) multi-industry studies (Ferrier, 2001; Ferrier and Lyon, 2004). Neill and Rose (2006) find that greater strategic complexity is associated with superior firm performance. We believe, therefore, that strategic complexity is an important organizational outcome to study when investigating network influences on organizations.

A primary requirement for a firm to sustain a complex strategy is strong knowledge management capabilities (Kraatz, 1998; Miller, 1993). We believe that social capital facilitates knowledge management in two fundamental ways. First, social capital aids in knowledge acquisition (Adler and Kwon, 2002; Kraatz, 1998; Maurer and Ebers, 2006) via bridging ties to members of external networks. Second, social capital can engender trust, even intimacy, with bonding ties to internal network members, fostering similar mindsets and rich common knowledge that enable efficient knowledge integration and interpretation (Leana and Van Buren, 1999; McDonald and Westphal, 2003). To better understand the range of network influences on strategic complexity via knowledge flow (Andersson et al., 2007), we believe multiple network types should be included in the same study. For example, Newell et al. (2004) found that both external and internal networks were important for understanding why team members were unable to appropriate and integrate information generated via various networks, while Leana and Pil (2006), in their study of urban public schools, confirmed that both network types contributed to organizational performance. Using this integrative approach, we investigate external and internal networks in a large sample study to ascertain if each network contributes uniquely to strategic complexity.

3. Assorted external network ties and strategic complexity

Strategic complexity requires highly diverse knowledge inputs. The knowledge does not need to be particularly rich nor embedded in other types of knowledge. For instance, knowledge can be collected directly from trade association publications, suppliers, or observations of competitor behaviors. External network ties, however, function as efficient information conduits between the focal actor (in our case, the firm) and the other network members beyond the firm. Thus, firms that establish many external network ties may be able to gather diverse knowledge about a wide variety of potential strategic opportunities, such as ideas for additional product offerings. While previous researchers have investigated only one source of an external network at a time (e.g. Leana and Pil, 2006; McDonald and Westphal, 2003), we examine a range of external networks that firms can participate in, from very broad, distal groups to narrow, closer advice networks.

3.1. Trade associations

One broad, distal, network of interest is national trade associations. We believe that national trade association participation is an important

external network tie for several reasons. First, the knowledge from a trade association may provide more unbiased accounts of the success of potential new products (e.g., comparative analyses commissioned by a trade association) and an objective comparison of implementation approaches (e.g., different software packages) than other information sources. A trade association's magazine could profile the pitfalls of implementing a specific product or signal another social system, such as consultants, which may aid in the implementation of a new product or service. Second, trade association networks can present information in a useful context, which aids in knowledge assessment and integration. For example, at a trade association seminar, the context for implementation of a new technology would be examined.

Finally, with an extensive network of trade association memberships, serendipitous encounters could lead to information sharing. For instance, during the social component of trade association meetings (e.g., cocktails, dinner), an industry executive could meet another executive who may provide tips about what helped with their implementation of a particular technology. Based on the logic of external networks and weak tie strength, we believe that the more distal the trade association, the more likely it is to introduce novel, diverse knowledge into the network. State trade associations may be more likely to contribute redundant information. Therefore, the more distal trade associations, such as national and regional trade associations, may be more valuable for generating strategic complexity than local associations, although all types of trade associations fall into the category of external networks, and therefore, are potentially valuable. These arguments lead us to the following hypotheses:

H1. The number of a firm's industry trade association memberships is positively and significantly associated with its strategic complexity.

H1a. The number of a firm's national and regional industry trade association memberships is positively and significantly associated with its strategic complexity.

H1b. The number of a firm's state industry trade association memberships is positively and significantly associated with its strategic complexity.

H1c. The strength of the association between the firm's national and regional industry trade association memberships and its strategic complexity is greater than between the firm's state or regional industry trade association memberships and its strategic complexity.

3.2. External personal networks

Personal networks are "relationships of individuals with other individuals" (Lechner and Dowling, 2003, p. 2). External personal networks include the individuals outside the firm that the decision maker relies on to discuss strategic initiatives. Whereas trade association networks probably function as bridging mechanisms for knowledge acquisition, an external personal network may benefit knowledge management via its ability to help with knowledge assimilation, discrimination and interpretation, i.e., with sensemaking (Daft and Weick, 1984; McDonald and Westphal, 2003; Weick, 1995). This network relationship may function more like bonding ties, which are anchored in trust and reciprocity. These networks tend to be rich with emotional and visceral context (which Kraatz, 1998, refers to as "intimacy"), ideal for sensemaking. When the parties trust each other (implicit in the sensitive strategic nature of the conversations that the executives report), they are more apt to engage in intensive discussions that help them both reach a new understanding. Germane to our study of small, rural, firms, Smith and Lohrke (2008) outline how trust development is an important component of entrepreneurs' networks.

Because knowledge management requires more than simply knowledge acquisition, we argue that these bonding ties are valuable.

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