Journal of Business Research 64 (2011) 164–171

Contents lists available at ScienceDirect

Journal of Business Research

Shaping and re-shaping social capital in buyer–supplier relationships

Mathew Hughes [a,*], Robert K. Perrons [b,c]

[a] Nottingham University Business School, Jubilee Campus, Wollaton Road, Nottingham, NG8 1BB, United Kingdom
[b] Queensland University of Technology, School of Management, GPO Box 2434, Brisbane, QLD 4001, Australia
[c] Shell International Exploration and Production, P.O. Box 51510, New Orleans, LA 70151-1510, USA

ARTICLE INFO

Article history:
Received 1 June 2009
Received in revised form 1 September 2009
Accepted 1 December 2009

Keywords:
Buyer–supplier relationships
Innovation
Social capital

ABSTRACT

Social capital plays an important role in explaining how value is created from firms' network relationships, but little is understood about how social capital is shaped over time and how it is re-shaped when firms consolidate their network ties. In response, this study explores the evolution of social capital in buyer–supplier relationships through a case study of a company undertaking radical product innovation, and examines the corresponding changes in the firm's network of buyer–supplier relationships. The analysis shows that social capital is built in a decidedly non-linear and non-uniform manner. The study also reveals considerable interaction among the dimensions of social capital throughout the evolution of the firm's network, and emphasizes the importance of the cognitive dimension—a feature receiving little attention thus far. The evidence shows, too, that efforts to strengthen social capital need to increase when network ties are sacrificed to prevent unintended consequences for firms' longer-term value creation.

1. Introduction

A firm's network of relationships offers privileged access to knowledge, resources, technologies, and markets that can be leveraged to create new value (Inkpen and Tsang, 2005). However, the positive conditions necessary for the exchange of such resources is dependent on the social capital that the firm develops as its inter-firm relationships grow (Nahapiet and Ghoshal, 1998). Social capital is essentially the sum of resources that a firm accrues by virtue of possessing a durable network of inter-firm relationships (Nahapiet and Ghoshal, 1998). Prior investigations in the literature seek to examine empirically the benefits of social capital, but the popularity of the social capital construct may be outpacing its conceptual development (Rodan and Galunic, 2004).

Earlier attempts to describe the theoretical underpinnings of this area propose that interactions along structural, relational, and cognitive dimensions nurture social capital, and that increases in social capital can help to unlock resources that typically improve firm performance (Nahapiet and Ghoshal, 1998). However, the research community's eagerness to examine the benefits of social capital empirically has resulted in an oversimplification of the complexity of managing inter-firm ties over time. Two problems emerge from this oversimplification. First, different types of network ties may require different structural, relational, and cognitive conditions, and their effects on unlocking value from relationships may not be uniform (Inkpen and Tsang, 2005). This research area would accordingly benefit from investigations addressing the issue of how social capital can be built, shaped, and deployed over time en route to determining whether exceptions exist to the linear process currently suggested in the literature.

Second, social capital is not without risks. As a firm's network grows, ties change in their relative strength and importance and, over time, redundancy in the network of ties would be expected (McFadyen and Cannella, 2004). Firms are then faced with situations where previously strong ties may become less relevant, or may need to be sacrificed altogether. The literature has so far failed to offer constructive examples of how ties can be weakened or sacrificed, or how negative changes in social capital can cause problems for a firm.

This study responds to these gaps by studying social capital in the buyer–supplier relationships of a firm undergoing a period of radical innovation. Two research questions are addressed. First, can social capital be built in a way that is different from the linear trajectory portrayed in the literature? And second, when linkages with other firms must be severed or sacrificed, how can this be done in a way that preserves social capital as much as possible? To answer these questions, this investigation puts forward an in-depth case study of an organization's buyer–supplier relationships and examines two sets of ties therein. The first set relates to its core product, while the second relates to ties formed to develop and commercialize a radical innovation that was very different from the firm's core product line. The contrast between these two scenarios sheds light on the shaping and usage of social capital, reveals some exceptions to the current theory in this area, and offers implications for both theory and practice.

* Corresponding author. Tel.: +44 115 8467747; fax: +44 115 8466650.
E-mail addresses: mat.hughes@nottingham.ac.uk (M. Hughes), perrons@alum.mit.edu (R.K. Perrons).

0148-2963/$ – see front matter © 2009 Elsevier Inc. All rights reserved.
doi:10.1016/j.jbusres.2009.12.009

2. Theory and propositions

Research in the area of social capital emerges from the theoretical debate between competition and collaboration. Putnam (1995, 2000) argues that people have become increasingly disconnected from each other such that the stock of social capital in society–that is, the fabric of connections among people and organizations–has declined rapidly. Social disconnections decrease information flow, weaken norms of reciprocity, and generate a mentality that values competition over collaboration. Putnam's observations come at a time when academic researchers increasingly extol the virtues of collaboration above competition as pathways to superior business performance (Gulati et al., 2000). Extending Putnam's views into the buyer–supplier context, this study adopts his argument that increasing connections among firms can enrich the value-creation process. Specifically, action driven by common instead of competitive interests can serve to improve conditions for all of the stakeholders involved in a firm's relationships.

2.1. Social capital

Social capital represents the ability of firms to secure benefits from networks. These benefits can include access to knowledge, resources, technologies, markets, and business opportunities (Inkpen and Tsang, 2005). Following Nahapiet and Ghoshal (1998), social capital is the aggregate of resources embedded in, available through, and resulting from the network of relationships held by a firm. A network tie such as a supply contract between one firm and another creates a social capital resource. As interactions within the linkage between the firms increase, social capital is improved, thereby potentially increasing the flow of benefits.

Nahapiet and Ghoshal (1998) identify structural, relational, and cognitive dimensions of social capital. The structural dimension reflects the configuration of linkages and overall pattern of connections in a set of relationships (Nahapiet and Ghoshal, 1998). The density, connectivity, and variation in the nature (or purpose) of ties held by a firm are qualitative measures of the structural dimension. The nature of ties between firms greatly impacts the opportunities for social capital transactions, and thus the type and uniqueness of the benefits on offer (Burt, 1992).

The relational dimension captures the amount of resources created and leveraged through ties, and the firm's reliance on these ties (Nahapiet and Ghoshal, 1998). The level of trust and relational dependence between firms in a particular linkage are qualitative indicators of the relational dimension. One firm's reliance on another creates trust, and the extent to which a firm actively participates in relationships shapes trust further, which then influences the outcomes a firm can obtain (Hughes et al., 2007). Trust reduces the risk of opportunistic behavior and brings firms closer together to collaborate more richly (Inkpen and Tsang, 2005).

The cognitive dimension refers to shared expectations, interpretations, and systems of meaning between firms (Nahapiet and Ghoshal, 1998). Common standards of activity, shared expectations of behavior, and beliefs about the nature and purpose of the tie are qualitative indicators of the cognitive dimension (Gulati et al., 2000). Shared expectations create rules that govern appropriate behavior and affect the nature and degree of cooperation among firms.

2.2. The shaping and use of social capital in buyer–supplier relationships

Buyer–supplier relationships represent multi-organization social processes whereby parties interact, exchange information, and evolve new or novel relationships based on interdependencies, exchanges, and mutual problem-solving (Morris and Holman, 1988). Effective buyer–supplier relations can create transaction cost and resource-based advantages, but the workings and outcomes of buyer–supplier dyads are governed by relational dimensions (e.g., power/dependence relationships), social–structural dimensions (e.g., close versus arms-length ties), and normative dimensions (e.g., norms, expectations, and accepted practices) (Morris and Holman, 1988). These variables render buyer–supplier dyads subject to social capital.

Firms tend to develop portfolios of arms-length and close-partner relationships in their buyer–supplier networks. The mix of weak and strong ties depends on the nature and complexity of the product (Cousins and Lawson, 2007). More complex products require more information exchange, more closely aligned operations, and more inter-firm cooperation, thereby increasing the strength of these ties (Cannon and Perreault, 1999). However, a complex product is still supplemented by weak ties with additional supplier firms for simple components. How social capital is then generated, shaped, and used throughout these relationships is likely to vary according to the frequency of interaction between the collaborating firms.

The structural dimension of social capital then interacts with the reliance of the firm on key network ties, and is therefore not independent of its relational dimension (Nahapiet and Ghoshal, 1998). A high degree of reliance on a partner increases the incidence of cooperation, which in turn changes linkages from standard arms-length exchanges to closer strategic partnerships (Bensaou, 1999). High-involvement ties exhibit considerable mutual dependence that forms considerable social capital as a result. But low-involvement ties consist of fewer relation-specific investments, and are typically driven by price concerns than innovation (Cousins and Lawson, 2007). As relational exchanges vary in their level of involvement, expectations of mutual interest and return can increase (Mukherji and Francis, 2008). The social capital developing between these firms acts as a governance mechanism to ensure that these obligations are appropriately met. The subsequent trust decreases collaborating firms' efforts to protect sensitive resources as the partner demonstrates reliability (Inkpen and Tsang, 2005).

Mutual adaptation is an important outcome of the social exchange that takes place in enduring inter-firm ties (Mukherji and Francis, 2008). As two or more firms simultaneously affect and are affected by each other in relatively enduring ways that make the ties among them get stronger, an adaptive process occurs in which products and processes are re-designed to meet the needs of the partners (Mukherji and Francis, 2008). Social capital is then based on multi-faceted linkages between mutually adapting firms in which the constituent dimensions that make up social capital might interact in potentially complex. This leads to:

Proposition 1a. Social capital can be built in a non-linear, non-uniform manner.

Proposition 1b. Strong and weak inter-firm ties can exhibit different social capital properties even within the same supply network.

Mutual adaptation however can create a kind of convergence through which firms might miss future market-level opportunities that emerge outside the bundle of relationships held by the collaborating firms (Inkpen and Tsang, 2005). The process of convergence can also lead network ties to become redundant, and an increase in the number of ties can have this same effect if previously strong ties are diluted to pursue new opportunities (McFadyen and Cannella, 2004). Ties may need to be sacrificed to renew the network's value-creating potential.

The investment in network ties over time shapes social capital, and any move to sacrifice linkages might undermine the body of social capital held by the firm. However, the mix of ties held by a firm may decrease the effect. For example, managers in firms facing rapidly changing conditions are typically compelled to maintain short-term relationships because of concerns about the flexibility of the network (Ryu et al., 2007). Accordingly, a small number of strong ties that are important to the steady supply of key components can be compensated by a large number of weak ties that can be rapidly changed