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Social capital configuration, legal bonds and performance in buyer–supplier relationships

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A B S T R A C T

Academics have increasingly recognized the benefits derived from social networks embedded within companies' buyer–supplier relationships. However, prior research has only examined the influence of social capital elements on performance, either individually or in part. We propose an integrative model examining the relationships among relational, structural and cognitive dimensions of social capital, and between these dimensions and the cost and innovation performance of the firm. A sample of 163 buyer–supplier relationships is used to test the model. Regression results indicate that the relational dimension of social capital fully or partially mediates the effect of the cognitive dimension on performance, and partially mediates the link between the structural dimension, operationalized as social interaction ties, and innovation performance. Further, high levels of legal bonds were found to moderate the relationship between the relational dimension of social capital and performance outcomes. Implications for theory and managers are discussed.

1. Introduction

Social Capital Theory (SCT) has become an important perspective for theorizing the nature of connection and cooperation between organizations (Adler and Kwon, 2002). As the 'relational glue' underpinning effective supply chain relationships (McGrath and Sparks, 2005), social capital is a valuable asset that can help explain how buyer–supplier relationships contribute to a company's competitive advantage. A growing stream of supply chain management research has examined the effects of the various elements of social capital on performance either independently, or in part. For instance, Cousins et al. (2006) studied the effect of relational capital on buyer performance; Lawson et al. (2008) explored the effects of relational and structural capital on buyer performance; and Krause et al. (2007) investigated the effects of structural and cognitive capital in explaining firm performance in terms of quality, delivery and flexibility.

We initiated the present study to provide a more holistic, empirical test of social capital configuration in key buyer–supplier relationships. In doing so, we extend previous work such as Tsai and Ghoshal (1998) who had examined social capital from a network perspective within 15 business units of a multinational electronics company. Our study examines social capital in a supply chain context with the unit of analysis being the strategic relationship between buyers and suppliers of large manufacturing firms. We examine the relationships among all three dimensions of social capital, namely structural, cognitive and relational dimensions, and test the effect of social capital on performance improvements for the buying firm. Moreover, recognizing that buyer–supplier relationships are embedded within a broader legal context, we also test for the moderating effects of legal bonds on performance. Three overarching research questions guide this study: First, what are the relationships among the three dimensions of social capital in buyer–supplier relationships? Second, what effect does social capital have on the performance of the buying firm? Third, what effect does the presence of legal bonds have on buyer performance in the context of social capital?

Our study contributes to the supply chain and social capital literatures in a number of ways. First, our study extends previous research by examining each dimension of social capital, and highlighting its individual and integrated impact on buyer performance. We do so by analyzing survey data collected from manufacturing firms in the United Kingdom (UK). Second, in examining the configuration of the dimensions of social capital in buyer–supplier relationships, we provide further evidence of the multidimensional nature of social capital. In addition, we examine the contingent effects of complementary governance structures (i.e., legal bonds)

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on social capital and performance and thus extend existing research on social capital (e.g. Tsai and Ghoshal, 1998). Incorporating a contingency analysis highlights the dynamic nature of social capital formation and its influence on firm performance.

The findings of our study provide important insights into the social exchange process and value creation within strategic buyer–supplier relationships. The remainder of this paper proceeds as follows. Section 2 presents the theoretical foundation on which this study builds. Section 3 develops hypotheses for the relationships between the associated constructs. The research methodology is described in Section 4, while Section 5 presents the data analysis using OLS regression. Section 6 discusses our findings, the implications for theory and practitioners, and summary conclusions.

2. Theoretical foundation

2.1. Social Capital Theory

SCT provides a theoretical perspective to examine the advantage gained by firms through their social networks. SCT helps characterize an organization's relationships, while its focus on the flow of resources enables an examination of performance differentials within and between organizations (Koka and Prescott, 2002). We define social capital as 'the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit' (Nahapiet and Ghoshal, 1998). Nahapiet and Ghoshal (1998) proposed three dimensions of social capital: (1) the relational dimension (trust, identification and obligation); (2) the cognitive dimension (shared ambition, vision and values); and, (3) the structural dimension (strength and number of ties between actors). The relationships among these three dimensions of social capital within strategic buyer–supplier relationships have been relatively underexplored in the literature.

The relational dimension of SCT (relational capital from this point) refers to the trust, obligation, and identification present in personal relationships between people (Nahapiet and Ghoshal, 1998). As a store of 'goodwill between actors' (Burt, 2000; Dyer and Singh, 1998), the trust it represents has been articulated as an essential element of relationships (Anderson and Narus, 1990; Rousseau et al., 1998). The cognitive dimension of social capital (cognitive capital from this point) is symbolic of shared goals, vision and values between actors in a social system (Tsai and Ghoshal, 1998), which enables them to make sense of information and classify it into perceptual categories (Augoustinos and Walker, 1995). Cognitive capital facilitates the development of common understandings and collective ideologies, outlining appropriate ways for buyers and suppliers to coordinate their exchange, and share each other's thinking processes (De Carolis and Saparito, 2006). The structural dimension (structural capital from this point) is defined as "the configuration of linkages between people or units ... that is, who you reach and how you reach them" (Nahapiet and Ghoshal, 1998). Structural capital has been examined along a range of perspectives, including network characteristics (Burt, 2000; Granovetter, 1973; Yli-Renko et al., 2001; Zaheer and Bell, 2005), as information and knowledge sharing (Koka and Prescott, 2002; Lawson et al., 2008), and as the strength of social interactions (Oh et al., 2004; Tsai and Ghoshal, 1998).

This study builds on the latter approach conceptualizing structural capital as the strength of the social interaction ties existing between buyer and supplier (Tsai and Ghoshal, 1998). Social interaction ties facilitate cooperation in dyadic buyer–supplier relationships, and are defined as purposefully designed, specialized processes or events, implemented to coordinate and structurally embed the relationship between buyer and supplier (Cousins et al., 2006; Nahapiet and Ghoshal, 1998; Yli-Renko et al., 2001). Examples include organized social events, team building exercises, joint problem solving workshops and cross-functional teams.

Our study also examines the effects of social capital dimensions on specific indicators of buying firm performance, namely innovation and cost improvement. Cost and innovation represent two of the five key strategic priorities in operations management (Krause et al., 2001; Ward et al., 1998). Cost is a crucial competitive priority for many firms, and is generally used as the initial indicator of the success of a supplier relationship (Krause et al., 2001, 2007). Major cost savings in the supply chain have been attributed to increased supplier integration and collaboration (Chen et al., 2004; Eng, 2006), while Stuart et al. (1998) associated cost reductions and the development of problem solving capabilities as a key benefit accrued from relational trust. Equally, improvements in buyer innovation performance through collaborative buyer–supplier relationships are increasingly critical to improvements in product design, process design, ability to innovate and shorter product development times (Lawson et al., 2008; Petersen et al., 2005).

2.2. The nature of legal bonds

In this study, we also explore the contingent effect of legal bonds on the relationship between relational capital and buyer performance – an area of on-going interest among researchers (e.g., Gulati, 1995b; Poppo and Zenger, 2002; Zaheer and Venkatraman, 1995). Legal bonds, as a form of contractual governance, have a strong ability to constrain opportunism (Williamson, 1985), or to act as a supporting mechanism, fostering commitment and improvements in performance between buyers and suppliers (Dyer and Singh, 1998). Poppo and Zenger (2002), for example, find support for the positive influence of formal contracts on the level of relationship satisfaction between buyers and suppliers in the information services industry. Cannon et al. (2000) found that contractual agreements can help ensure the continuity of the exchange when both parties share relational norms. Defined as "the extent to which detailed and binding contractual agreements are used to specify the roles and obligations of the parties" (Cannon et al., 2000), legal bonds incorporate the expectations and obligations of both parties in the relationship. For example, legal bonds can formally stipulate how complaints and disputes will be dealt with, the operational requirements of the good or service provided, and how the performance of the supplier is to be evaluated.

3. Hypotheses development

Our model examines the relationships among the relational, structural and cognitive dimensions of social capital, and between these dimensions and cost and innovation performance of the firm. These relationships are illustrated in Fig. 1. Previous studies examining the relationships among the dimensions of social capital have suggested that cognitive and structural capital are antecedents to relational capital (Gittell, 2002; Inkpen and Tsang, 2005; Tsai and Ghoshal, 1998). Thus, we propose hypotheses linking cognitive and structural capital to the development of relational capital within buyer–supplier relationships. Subsequently, we hypothesize a mediating role of relational capital in linking both cognitive and structural capital to cost and innovation performance. Finally, we examine the moderating influence of legal bonds on the relationship between relational capital and performance outcomes.