Chapter 2
The Effects of Social Capital on Firm Substantive and Symbolic Performance:
In the Context of E-Business

Hefu Liu
University of Science and Technology of China, China

Weiling Ke
Clarkson University, USA

Kwok Kee Wei
City University of Hong Kong, Hong Kong

Yaobin Lu
Huazhong University of Science and Technology, China

ABSTRACT

This study examines the effects of social capital in the context of e-business and investigates how each of the three dimensions of social capital (structural, relational and cognitive) differentially influences a firm's substantive and symbolic performance. The study explores how structural capital and cognitive capital indirectly affect firm performance through relational capital. The research model is generally supported by data collected from a survey of 205 firms in China. The results suggest that structural and relational capital positively influence substantive and symbolic performance, respectively. However, cognitive capital does not have significant effects on substantive performance, though it positively affects symbolic performance. Also, the study found that structural capital and relational capital have stronger effects on substantive performance than symbolic performance. In contrast, cognitive capital has stronger effects on symbolic performance than substantive performance. Further, both structural capital and cognitive capital positively affect relational capital.

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1. INTRODUCTION

Social capital plays a critical role in affecting firm performance (Nahapiet and Ghoshal, 1998; Stam et al., 2014). As a set of resources rooted in relationships with stakeholders in a firm's organizational field, social capital allows the firm to exchange information and knowledge, access resources required for development and achieve legitimacy status (Ke and Wei, 2007; Nahapiet and Ghoshal, 1998). As such, social capital is regarded as a crucial predictor of performance and an enduring source of competitive advantage (Arregle et al., 2007; Carey et al., 2011; Moran, 2005; Stam et al., 2014). For example, (Acquaah, 2007) found that social capital developed from social networks with other firms, government officials and community leaders has positive effects on organizational performance in emerging economies (Ke and Wei, 2008). Similarly, Krause et al. (2007) found that social capital is directly related to firm performance improvement in the US automotive and electronics industries. All these studies are instrumental in providing us with knowledge about the effects of social capital.

However, the prevalence of the Internet and its applications is challenging our current understanding of the value of social capital, and the findings and propositions of prior research may not be directly applicable to the Internet era. Specifically, the diffusion of the Internet and its applications enables firms to streamline and integrate the supply chain with a more universal and easier to implement e-business format (Bechky and Okhuysen, 2011; Lee and Whang, 2004; Liu et al., 2010; Liu et al., 2014; Osmonbekov et al., 2009). While it provides a firm with opportunities to be embedded in larger, more efficient, and effective networks, the e-business breeds potential threats. The e-business enables the firm's supply chain partners to reach out broadly to exchange partners across the world and to switch from the existing relationship to cooperating with other companies at a lower cost than before (Liu et al., 2014; Porter, 2001). Consequently, the social networks of organizations are reconstructed as firms adopt e-business (Boyer and Olson, 2002; Li et al., 2010; Liu et al., 2010; Liu et al., 2014; Porter, 2001), which makes managers face a new, dynamic, and information-rich environment (Granados et al., 2010; Oliveira and Dhillon, 2015; Porter, 2001; Zhu et al., 2006). Such an environment challenges firms' cognitive capacity, which could lead to information overload for decision makers (Jones et al., 2004; Malhotra et al., 2005). In addition, in the e-business context, the firm's competitors become better informed, which may prevent the focal firm from gaining superior profits from information asymmetry (Granados et al., 2010). In other words, the value of social capital as a conduit of information and its positive effects on the focal firm's performance may diminish in the e-business context. Therefore, the question of how social capital affect firm performance in the e-business environment has intrigued the interest of a lot of scholars in recent years (Dong et al., 2009; Frohlich and Westbrook, 2001; Oliveira and Dhillon, 2015; Power and Singh, 2007; Rosenzweig, 2009).

A careful review of the literature shows that the existing empirical research on firms leveraging Internet-based applications has primarily been focused on only the structural dimension of social capital. Structural capital refers to the overall pattern of network structures (Krause et al., 2007; Nahapiet and Ghoshal, 1998), such as supply chain integration (SCI). This integration, especially the Internet-enabled SCI, enables firms to transcend the limited social capital available locally (Frohlich and Westbrook, 2002; Liu et al., 2014). However, social capital has two other dimensions, i.e., relational and cognitive capital, in addition to the structural dimension (Nahapiet and Ghoshal, 1998) . Relational capital reflects the nature of relationship, such as trust and norm of reciprocity (Elfenbein and Zenger, 2013; Kohtamäki et al., 2013; Nahapiet and Ghoshal, 1998). Cognitive capital represents shared meaning and understanding