THE IMPACT OF SOCIAL CAPITAL ON ECONOMIC VALUE CREATION: A CONCEPTUAL MODEL FOR THE STUDY OF SMEs IN THE UK CONSTRUCTION INDUSTRY

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This conceptual article argues that firms' strategies are enhanced and economic value created as a result of social capital (SC) benefits. Such matter is essential for small and medium-sized firms (SMEs) which represent over 99% of all firms in the UK. Even more for those in the construction industry in the UK which have seen their 5-year survival rates diminished from 50.3%, for businesses established in 2004, to 42.9% for those established in 2012. Previous conceptual models linking SC and value creation (VC) have focused on intellectual capital, resource exchange, hierarchical relations, and relationship value, but not on firm strategy enhancement and economic VC as a result of SC benefits. Evaluating previous management research methodologies, this article, and other scholars, recognize a lack of mixed-method approaches. Hence, the contribution of this article is twofold: first, to highlight the essential role of SC benefits as the foundational role toward economic VC and firm strategy enhancement. Second, to describe a continuous cyclical model for firm strategy enhancement and economic VC as a result of SC benefits.

KEYWORDS: Social Capital, Value Creation, Strategy, SME, Mixed-Methods.

<u>Track 11: Inter-Organizational Collaboration: Partnerships, Alliances and Networks</u>

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INTRODUCTION

Humans, like many other species, are born into a relationship-based system. For humans, such interactions represent the core ingredient of social systems understood as “a plurality of individual actors interacting with each other in a situation which has at least a physical or environmental aspect” (Parsons, 1951, p. 5). The manner in which such social systems unfold play a decisive role in an individual’s and organization’s development. Humans are, therefore, social individuals by nature, being part of social systems built upon networks participating and contributing to the networks they belong. In this article, it is argued that, first, such networks produce social capital (SC) defined as “a resource that is derived from the relationships among individuals, organizations, communities, or societies” (Bolino et al., 2002, p. 506). Second, such networks produce SC benefits, in many forms, not only for individuals, but also for firms. Third, the benefits obtained allow firms to create economic value in various forms, for example, via product/service innovations or management practices. And fourth, such economic VC in turn modifies future firms’ strategies and objectives. This article joins the conversation of, and advances the literature on, firm strategy enhancement and economic value creation (VC) as a result of SC benefits.

Previous scholars (Hitt et al., 2006) have evidenced SC as one of the two most unique and intricate resources any firm can possess, the other being human capital. This article also highlights that SC understanding and management is a priority for all, especially small and medium-sized (SMEs) firms, despite its complexity. SC has been recognized as a foundational layer for the survival and long-term economic and social sustainability of SMEs (Anderson et al., 2007; De Carolis et al., 2009; Tötterman and Sten, 2005) but its relation to the creation of value and subsequent enhancement of firms’ strategies and objectives has not been sufficiently studied in the management literature. To narrow such knowledge gap, the present article makes a contribution to the literature by proposing a continuous cyclical model based on SC dimensions (Nahapiet and Ghoshal, 1998) and Tsai and Ghoshal’s (1998) VC model. The rationale behind the proposal of a new model is based on the need for an improved model that acknowledges the link amongst SC benefits, beyond resource exchange and combination, toward the creation of value, represented not only in product innovation, and subsequent enhancement of firms’ strategies and objectives. The conceptual model in this article, hence, aims to enrich managerial practices for all firms, specially SMEs.

In summary, this article has the following aims: first, to highlight the importance of network engagement for firms as a means for generating individual and collective benefits. Second, to discuss the role SC benefits play in the creation of economic value for firms. Third, to elaborate upon the link between the creation of economic value and the enhancement of firms' strategies and objectives (Parker et al., 2016). Fourth, to propose a continuous cyclical model that acknowledges the 'SC benefits – VC' relationship, as the foundational layer, improves firms' strategies and objectives, and influences future network engagements triggering the restart of the cycle once again. And fifth, to propose SMEs as the research unit, and the UK construction as the research industry.

THEORY

Social Capital

Organizations are considered "a social community specializing in the speed and efficiency in the creation and transfer of knowledge" (Kogut and Zander, 1996, p. 503). Such definition highlights SC as a vital ingredient and course of action toward access to a wide range of resources and benefits. Within the context of organizational management, SC is understood as "…the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations" (Adler and Kwon, 2002, p. 23), and "the productive value of social connections where productive is here understood not only in the narrow sense of the production of market goods and services but in terms of the production of a broad range of well-being outcomes" (Scrivens and Smith, 2013, p. 9). The role of SC toward economic development has also been acknowledged by The World Bank (1998) "Social capital is the glue that holds societies together and without which there can be no economic growth or human well-being." (p. iii)". Taking into account the importance of SC for organizations, Lin (2001), for example, defines SC as "resources embedded in a social structure that are accessed and/or mobilized in purposive actions" (p. 29) while recognizing knowledge as one of the key benefits of SC (Ostrom, 2000). Hence, arguing SC is present in the network and enhanced through greater network engagement.

Furthermore, Bolino et al. (2002) define SC as "a resource that is derived from the relationships among individuals, organizations, communities, or societies." (p. 506). This definition is echoed by McFadyen and Cannella (2004) who describe SC as "the interpersonal relationships of a person, as well as the resources embedded in those relationships" (p. 735). Such perspective recognizes SC as providing higher value through network engagement rather than pure individual knowledge to any organization. The complexity of access to high quality information and knowledge over time sets the path for a line of inquiry in relation to the importance of network engagement, the exchange and acquisition of high quality resources (Ahuja, 2000) and the strategies applied by organizations, particularly small and medium.

SC theory is concerned with characteristics of social structures such as strategic[2] and informal[3] networks which enable actions for actors who belong to such structures (Ayios et al., 2014). SC is also concerned with the networks of relationships forming a treasured resource embedded within those networks of "mutual acquaintance and recognition" (Nahapiet and Ghoshal, 1998, p. 243). Nonetheless, in the year 2000, during the development of SC as a theory, Adler and Kwon (2000) recognized that "the growing interest in social capital, has, however, not been matched by a corresponding degree of theoretical integration across the disciplines" evidencing the formative years of the concept developing interest among scholars in the mid-1990s growing to above 800 SC-related articles in 2013 (see Kwon and Adler, 2014) evolving into a mature research field. Despite growing interest in SC, two main perspectives undermined the veracity of SC as a theory: on one hand, whether actors engage in the network of relationships seeking access to and use of resources found in the networks for personal gain (Bourdieu, 1985) recognizing SC as a 'private good'. On the other hand, whether actors engage in the network through an approach of solidarity seeking group benefits and network enhancement overall (Burt, 1992; Putnam, 1995) perceiving SC as a 'public good' (Coleman, 1988, p. S118).

Alternatively, Coleman (1988) conceived SC as a contextual theory in terms of its function arguing it is composed of "different entities, with two elements in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure" (p. S98). Such definition has become one of the seminal definitions of SC in management studies because it provides a wider understanding based on the purpose given by those who nurture, hold and exploit SC. Soon after, Coleman (1988) and Lin (1999) discussed the relation between SC, human capital and cultural capital as part of the 'neo-capital theories' rooted upon Karl Marx' theory on capital, which Lin (1999)

[2] Strategic networks are defined as having alliances with business associations, industry or trade associations and chambers of commerce (Dato-On et al., 2018).
[3] Informal networks are defined as having alliances with friends, extended family, suppliers, and acquaintances (Dato-On et al., 2018).

describes as ‘The Classical Theory’. Reasons given to include SC within the neo-classical theories refer to two main characteristics of capital: first, capital creates ‘surplus value’ when it is the product of a process. And second, it is an ‘investment’ with expected returns in which the surplus value is produced and captured (Lin, 1999).

Lin (1999) understood SC as the individual investment in strategic and informal networks evidenced in the availability and benefit of resources within the network, as well as the collective investment in “mutual recognition and acknowledgement (through) solidarity and reproduction of group” (p. 30). Other scholar have also (see Adler and Kwon, 2002; Coleman, 1988; Leana and Van Buren III, 1999; Lin, 2001; Nahapiet and Ghoshal, 1998; Portes, 1998; Putnam, 1995; Woolcock, 1998) recognized the importance of network engagement as a means for generating benefits in the short and long-term to ensure firm sustainability.

Social capital as a form of capital

SC has not always been considered a capital (Baron and Hannan, 1994) or even linked to the creation of profits as other forms of capital do (Arrow, 2000). Nonetheless, to evidence the importance of SC in management and as the main component of the conceptual model in this article, it must be highlighted how SC evolved from not being considered a form of capital onto becoming a foundational layer toward economic and social sustainability. Pareto (1916), for example, makes a clear distinction amongst economics and sociology, the former considered the ‘logical component’, based on reasoning and logic whereas the latter was considered irrational and more difficult to understand or measure. However, Baron and Hannan (1994) criticized the inclusion of economic concepts into sociology since they were two different approaches, one which understands action triggered by stable and fixed preferences, and the other validating esteem, approval and feelings of self-worth [as] important motives for social action” (p. 1116).

Despite these differences and to justify understanding of SC as a form of capital, Lin (1999) evidences two linked but different elements of capital, one called the surplus value, described as the gains collected by the producers, traders and sellers; and two, the investment in production and circulation of commodities with an expected return in the future. After further examination into core characteristics and the nature of capital, Lin (1999) concludes SC is a form of capital because there is “access to and use of resources embedded in the network” (p.

30) representing gains collected by those who engage in the network. This is in addition to the individual and group “investment in mutual recognition and acknowledgement” (p. 30) through “solidarity and reproduction” (p. 30) of SC by network members.

Moreover, Coleman (1988) recognizes SC as a form of capital through its productive quality which allows for the attainment of goals not possible in its absence. This is true in other forms of capital, for example, physical capital is represented in raw materials used for the creation of machinery in manufacturing, and the transformation of the land into buildings or factories which are transformed to become productive. Human capital is represented in the skills gained by individuals either empirically or through training which then allows them to become productive. In the case of SC, it is represented in the outcomes derived from engaging in networks which enable action through efficient changes in the relations to enhance the status of the network and possibly develop new networks. Such outcomes can be positive providing benefits, as described hereafter, or negative, represented in the “dark side of SC” (Putnam, 2000), producing risks and disadvantages for those who engage in the network. Such negative effects of SC are not discussed in detail in this article (see Gu et al., 2008; Haynes et al., 2015; Li et al., 2013; Van Deth and Zmerli, 2010).

Social Capital and Value Creation

The relationship amongst SC and performance has been acknowledged and evaluated at the individual (Belliveau, 2005; Burt, 2007, 1997; Seibert et al., 2001), group (Oh et al., 2004; Reagans et al., 2004), team (Tsai, 2000), project (Delmestri et al., 2005; Grewal et al., 2006), and organizational (Florin et al., 2003; Stam and Elfring, 2008) levels, leading Payne et al. (2011) to assert that investigating performance “is a popular goal for social capital studies” (p. 499). Nonetheless, the relationship amongst SC and VC has not been evaluated with the same depth, uncovering a significant knowledge gap. The importance for firms to create value has been recognized for several years, Schumpeter (1934), for example, evidenced four activities that firms must adopt when aiming to create value: “… (1) the introduction of a new good...or a new quality of good. (2) The introduction of a new method of production...(3) The opening of a new market...(4) The conquest of a new source of supply of raw materials” (1934, p. 66). Many of these actions are the resulting benefit of network engagement by individuals and firms as argued by Gulati et al. (2000) who recognize SC as an important source when creating inimitable value-generating resources embedded within a firm’s relationships. Such network engagements are found to provide benefits such as knowledge sharing accrued by network members and close contacts, information, advice and support (Hansen, 1999; McEvily and Zaheer, 1999). Also, Dyer and Chu (2003) suggest that trust, developed as part of the relational dimension of SC, leads to information sharing, thus, creating value as part of the exchange relationship.

Tsai and Ghoshal (1998) discovered the structural and relational dimensions of SC are positively correlated to the resource exchange and combination within units of the same firm resulting in VC. Dess and Shaw (2001) recognize knowledge-based resources, such as SC in the form of intellectual and information processes, ought to be combined with firm-specific ties to generate value for the firm. Quinn et al. (1996) found intellectual activities such as R&D, process and product design to be responsible for most of the added value in manufacturing industries. Despite the evidence regarding the relation amongst SC and VC being beneficial for organizations, such linkage has not been fully explored calling for a greater number of research initiatives.

Firm's Strategies and Objectives

The engagement in networks, the obtention of benefits as a result of as well as the subsequent creation of value are all planned actions encompassed in the firm's strategies and objectives. This is supported by Grant and Jordan (2015) who define strategy from the internal and external perspectives as "the overall plan for deploying resources to establish a favourable position" (p. 8). 'Plan', being the key word here, entails the analysis and examination of current situations to better approach future ones. Such 'plan' can be better informed and enhanced as a result of network engagement, especially for SMEs due to their limited resources (Acs and Storey, 2004).

Due to the fragility of SMEs, they must carefully plan and organize efficient ways to use resources they own to add value back to them as well as to lay out resource-obtention strategies which ultimately would determine the survival of the firm. Anderson and Eshima (2013), for example, support "the availability or constraint of strategically valuable resources influences the extent to which firms are able to capture value from the engagement in innovative, proactive, and risk-taking strategic behaviors" (p. 415). Such strategic behaviors refer to network engagement and the acquisition of SC as benefits. Hence, driving firms to better plan and analyze their actions that positively influence their strategy and overall sustainability due to benefits derived from network engagement.

Such plan is known as the 'strategic intent' which, according to Hamel and Prahalad (1989), is considered to exist when firms manage their resources and policies to address key stakeholders' needs. Such strategic intent involves objectives including the development of a competitive situation and product/service differentiation. The argument in this section, supporting the contribution to knowledge in this article, is built upon the understanding that firms' strategies and objectives set the path toward the generation of SC benefits and subsequent VC. Such creation of value, in turn, enhances firms' strategies and objectives. Consequently, it is in the interest of SMEs to construct their strategic intent founded upon the creation of value through their own resources – called the resource-based view – as well as all the benefits obtained through network engagement – called SC. The concept of SC as a means for obtaining benefits for all network participants is known as the 'relational view' approach (Dyer and Singh, 1998), described next, which enhance, not only firms' strategies and objectives to promote stability and growth of a single firm but all network members. Such enhanced strategic intent could increase the probability of survival and long-term sustainability not only for the individual firm but also for those firms engaging in the network.

Resource-based view (RBV) and Relational View (RV)

The rationales for firms to value resources as key derivatives of network engagement toward VC comes from two perspectives. On one hand, the resource-based view – RBV (Barney, 1991). The RBV primarily suggests that a firm with valuable, rare, inimitable and non-substitutable (VRIN) resources is likely to have a competitive advantage over rival firms, and understand firms as individual entities that attempt to protect knowledge and experience rather than share them with other firms to strengthen its competitive advantage. In other words, the RBV engages in a 'zero-sum game' from an individualistic standpoint where resources are taken from one firm to benefit other. This line of thinking supports the 'private good' over the 'public good' (see Burt, 1992; Putnam, 1995).

On the other hand, the relational view – RV (Dyer and Singh, 1998), suggests a 'win-win' situation supported upon the benefits of sharing valuable knowledge and experiences with network members as a way to gain access to the knowledge residing within the network shared by other members. This article supports the RV as the macro perspective for greater economic social and environmental sustainability and growth. The rationale behind the adoption of the RV as a perspective toward understanding the creation of value is grounded on the characterization by Dyer and Singh (1998). Such characterization is relevant for several reasons: first, it evidences a network of firms as the unit of analysis which this article proposes through SMEs as the research unit. Second, it supports the relation-specific investments as it is the foundational layer of SC. Third, it considers interfirm knowledge-sharing routines that produce benefits for those who engage in the strategic and/or informal network. Fourth, the RV demonstrates complementary resource endowments and effective governance as primary sources of supernormal profit returns. Fifth, it provides network barriers to imitation, inter-organizational asset stock interconnectedness, partner scarcity, resource indivisibility, and institutional environments as mechanisms to preserve profit. And sixth, the RV recognizes the SMEs' collective supported by trading partners as the owners in control of rent-generating processes and resources. The RV addresses the perspective of SC as resources, assets and benefits are derived from network engagement (Nahapiet and Ghoshal, 1998), which is the underlying construct in the continuous cyclical model proposed hereafter.

Small and medium-sized enterprises (SMEs)

The case for small and medium-sized enterprises (SMEs), as the proposed research unit in this article, is supported upon the following rationales: first, SMEs account for over 99% of all businesses in the UK and Europe adopting a leading role toward job creation (European Union, 2002). Second, SMEs are greatly affected by recessions, especially during the 2008 economic downturn, which produced a 6.8% fall in UK's GDP causing five out of ten SMEs to report a decrease in sales, and four out of ten to evidence a decrease in employment (Cowling et al., 2015). Third, SMEs recover quickly as three-quarters of entrepreneurs manifested a desire to grow twelve months after the last recession (Cowling et al., 2015). Fourth, there is evidence that SMEs are able to take advantage of periods of economic instability and volatility compared to large firms which rather close down or engage in other markets (Acs and Storey, 2004; Grilli, 2011) recognizing SMEs are more flexible and resilient (Acs and Storey, 2004; Bednarzik, 2000). And fifth, this article aims to help SMEs by providing understanding on the benefits, derived from SC, that create value and support their survival and enhance their resilience during economic downturns since the academic community has paid little attention to the small and medium-sized business sector (Saridakis, 2012).

Moreover, the impact of SC on SMEs holds a strong link to performance, this is because since the inception of the company, the founding members rely upon their own personal SC as an asset before, during and after the firm has been established to gain access to key resources (Robison et al., 2002). This is complemented by other scholars (Hite and Hesterly, 2001) who have argued the SC of the firm's founders is equal to the firm's SC. Additional literature suggests SC, represented in benefits, has the possibility to create value for an organization (Priem, 2007; Scrivens and Smith, 2013; Somaya et al., 2008). However, there is a gap in the literature at the firm-level in terms of how SC positively influences firms' strategies and objectives and subsequent firm-level outcomes (Du et al., 2015; Kemper et al., 2013; Rai, 2016). Further scholars (Inkpen and Tsang, 2016; Kwon and Adler, 2014) have recognized the need for greater levels of empirical research at the firm-level to understand how firms' engagement through SC dimensions produce benefits such as knowledge transfer.

The UK construction industry

In addition to proposing SMEs as the research unit for the evaluation of the continuous cyclical model, this article encourages research in the UK construction industry considering the following arguments: first, the construction industry encompasses nearly a fifth of all SMEs in the UK. Second, the 5-year survival rate of UK construction companies diminished from 50,3% in 2004 to 39,6% in 2010 (ONS, 2016) meaning that only four out of ten companies established after five years were able to survive while driving six out of business. Such misfortune has been mainly the consequence of the 2008 financial and housing crises leading to a recession (CIC, 2010; Price et al., 2013; Small Business, 2014), and the economic uncertainty brought upon by 'Brexit' (Stoyanov, 2018; The Economist, 2019a, 2019b). These reasons are in addition to the failure to adopt appropriate response strategies to generate business growth leading to bankruptcy or liquidation (Tansey et al., 2013) and/or simply because newly established companies fail more often than established firms (Acs and Storey, 2004).

Moreover, scholars (Xia et al., 2018), recognize the need for greater levels of research in the construction industry, particularly in four areas: first, to recognize and adopt organizational approaches that highlight the social enterprise. Second, toward the implementation of firm strategies that include the social and economic dimensions. Third, the adoption of social and economic strategies in SMEs considering construction SMEs have greater risks and vulnerability to the business environments than large firms (Sexton et al., 2001). And fourth, the need for expanding current low levels of empirical research in construction SMEs. This article contributes to the first three rationales while suggesting the application of the conceptual model and collection of primary data on UK construction SMEs as research unit as to address the fourth rationale.

Additionally, Sexton et al. (2001) highlight weaknesses of SMEs in the construction industry arguing these firms are more exposed to the “whims and movements” (p. 534) of their business environments than large construction firms. Another cause for concern became evident after acknowledging the decrease of economic output in the construction industry compared to the whole economy during the 2008 and 2012 economic downturn periods and possibly beyond 2019 (The Economist, 2019a). Moreover, the inability of the construction industry to sustain continuous economic growth compared with the rest of the economy (Rhodes, 2018, p. 5) highlight the need for deeper investigation into the nature of the industry. The importance of supporting SMEs in the UK construction industry becomes then a high priority now that the country is going through a period of economic and social instability (Maselli, 2018; The Economist, 2019c).

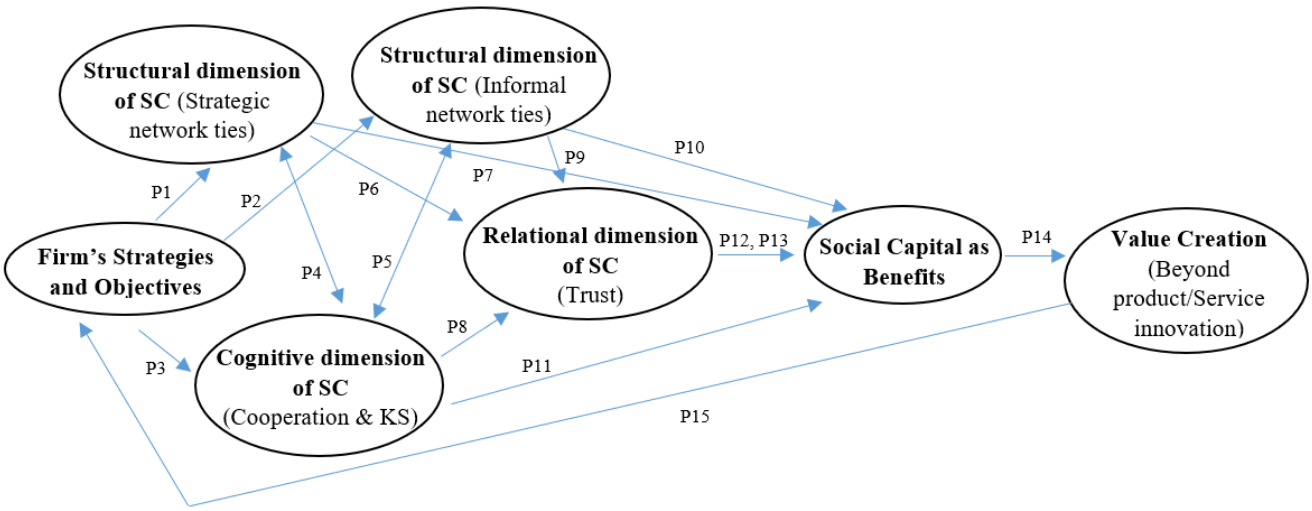
CONCEPTUAL FRAMEWORK

This article proposes a continuous cyclical model considering first, the knowledge gaps evidenced above; second, the importance of firms to adapt their strategies toward constructing individual and collective benefits from network engagement; third, the importance of creating value as a means to increase the life of the business; and fourth, the positive spillover effect on firms’ future strategies. The conceptual model in Figure 1 proposes four stages. First, it begins with those initial strategies and objectives established when a firm decides to interact with other firms in order to look for external resources which then determine the firm’s generation of SC. SC generation occurs via three dimensions (Nahapiet and Ghoshal, 1998). These dimensions are represented in the continuous cyclical model as strategic and/or informal network participation (structural dimension), level of cooperation/knowledge sharing (cognitive dimension), and generation of trust (relational dimension). Second, once the firm’s strategies and objectives have determined the engagement with SC dimensions, a set of benefits are produced, including knowledge (Ostrom, 2000), information (Yli-Renko et al., 2001), influence, control and power (Adler and Kwon, 2002), and solidarity (Putnam, 1993). Third, once benefits have been produced, these in turn would allow firms to create economic value

(Ritala and Hurmelinna-Laukkanen, 2009) represented in, among others, the creation/modification of a product/service (Quinn et al., 1996), information sharing (Dyer and Chu, 2003), and strategic management (Schmidt and Keil, 2013). And fourth, the value created, in stage three, as a result of benefits generated in stage two, is proposed in this article, to positively enhance firm's strategies and objectives.

Such enhancement can be represented in innovative actions that allow the firm to be more effective and assertive at engaging with SC dimensions. Thus, maximizing the use of its resources toward greater benefits and creation of value. The fourth stage closes the loop and restarts the cycle by setting the initial step through enhanced firm's strategies and objectives toward modified engagement with SC dimensions representing a continuous cyclical model. The model proposed in this article has been created and modified based on a previously proposed model: Tsai and Ghoshal's (1998) which describe SC dimensions and the relation to VC. Nonetheless, as mentioned earlier, such model has not been updated since 1998, it was only tested empirically within one multinational electronics firm, and does not consider the link toward firm's strategy enhancement (Anderson and Eshima, 2013).

Figure 1. Proposed SC conceptual model derived from the organisation's strategy and its links to value creation.



Source: Personal development based on Tsai and Ghoshal (1998).

Further arguments are given by other scholars (Baker, 1990; Coleman, 1990, 1988; Krackhardt and Hanson, 1993) who support SC to be rooted in the firm's strategy and objectives. For example, Krackhardt and Hanson state "what matters is the fit [task], [and] whether networks are in sync with firm goals" (1993, cited by (Lesser, 2009, p. 108). Adler and Kwon (2000) support the fit (task contingencies) must allow for the alignment of network features toward the creation of SC and the firm's objectives while adding that this would allow for the understanding of the role of SC and the subsequent formation of weak or strong ties (see Granovetter, 1973) and/or the exploitation of the benefits of structural holes. Somaya et al. (2008) support SC is a "context-specific phenomenon" (p. 950). Additionally, Näsi (1995) supports that networks link firms with organizations which exhibit a direct relationship and relevance to its core interests adding that those organizations are vital for the survival of the firm, and Freeman and Evan (1990) who acknowledge that network ties also contribute to the creation of economic value for the firm.

Accordingly, the proposed model in this article is a continuous cycle composed of six stages beginning with the firm's strategy and objectives. Strategy has been defined by previous scholars as "the match an organization makes between its internal resources and skills…and the opportunities and risks created by its external environment" (Hofer and Schendel, 1978, p. 12), and as "the overall plan for deploying resources to establish a favorable position" (Grant, 1998, p. 14) developing into the concept of strategic planning. According to Grant (1998), and Quinn (1980), strategic planning requires the determination of long-term goals, actions to achieve them and the allocation of resources to carry out those actions. Subsequently, this leads to the concepts of RBV and RV as generators of economic VC. Hence, this article proposes a model to understand how economic value is created through network engagement benefits as a result of firm's strategies and objectives.

Moreover, as firms interact with one another they generate SC. As a consequence, greater levels of cooperation increase stability and knowledge (Walker et al., 1997), level of assets (Nahapiet and Ghoshal, 1998), number of benefits (Portes, 1998; Putnam, 1995), perceived goodwill (Adler and Kwon, 2002), and number of resources (Baker, 1990; Bolino et al., 2002; Bourdieu, 1983; Leana and Van Buren III, 1999; Lin, 2001; Nahapiet and Ghoshal, 1998) of the network members. Hence, developing SC as a 'public good'. Leana and Van Buren (1999) assert these benefits and accrued value aid the individual organization as well as the collective through increased and continuous engagement.

Additionally, Marsden and Friedkin (1993) argue that decision makers in client firms are likely to tap their interfirm networks, including former employees who have moved to work for service providers, to gather information about external suppliers. Nonetheless, this may not be the case since decision makers may be obliged to fulfill a 'future need' of the former employee considering the reciprocal culture among the decision maker and the former employee. Moreover, it would be relevant to find out which of the cases is true or if there are any new dynamics at the inter-organizational level. Lin (1999) questions “for what outcomes and under what conditions a denser or sparser network might generate a better return” (p. 34). This article attempts to understand how SC creates economic of value for SMEs that participate in strategic and/or informal networks compared to those SMEs that only participate in informal networks.

Accordingly, these statements allow for the consideration of the following propositions. It is essential for the understanding and appreciation of the following propositions and aforementioned conceptual model the discrimination amongst strategic versus informal networks. Strategic networks include business associations, chambers of commerce, and industry/trade specific assemblies, whereas informal networks include suppliers, friends, acquaintances, and extended family.

Firm’s strategy and objectives and structural dimension (network ties)

Organizations’ survival and growth is closely linked to the resources they own, however, when such resources are depleted or when resources alone are not able to provide expected returns, firms turn to network engagement for potential benefits as proposed in this article. Carrillo and Batra (2012) argue organizations then engage in strategies to obtain knowledge with the underlying purpose of sustained survival and development. McEvily and Marcus (2005) also complement this argument by acknowledging organizations willingly interact in external and internal networks toward survival but also as a source of competitive advantage through inter-firm collaboration which then generates knowledge and skills. Yun et al. (2015) add that organizations deliberately engage in networks after identifying signs of change in the business environment with the purpose to gain knowledge, further business development and sustain growth.

Carson et al. (2004) consider informal networks are built, developed and nurtured consciously by SME owners/managers since they are essential for survival compared to large firms. Further scholars (Molina-Morales and Martínez-Fernández, 2010; Pirolo and Presutti, 2010) acknowledge informal networks play a vital role in the sharing of information amid SME owners/managers which enhances firm’s competitiveness. Nonetheless, strategic networks also allow organizations, especially SMEs to have access to and gain benefits. Consequently, this article argues that those firms that interact with both, strategic and informal, networks would enhance their strategies and objectives to a greater degree than those firms only interacting with informal networks. Hence:

Proposition 1: With the aim to gain strategic network benefits, firms' strategy and objectives will be better informed for firms that participate in strategic and informal networks than for firms that engage only in informal networks.

Proposition 2: With the aim to gain informal network benefits, firms' strategy and objectives will be better informed for firms that participate in strategic and informal networks than for firms that engage only in informal networks.

Firm's strategy and objectives and cognitive dimension (cooperation/knowledge sharing)

Taking into account the previous arguments presented for Proposition 1 and 2, it can also be argued that firms utilize cooperation and knowledge sharing for organizational learning (Dodgson, 1993; Hamel, 1991), as part of a strategy to gain resources, benefits, diversify risk and increase returns (Teece, 1986; Williamson, 1991). Additionally, internal capabilities, based on a firm's resources toward exchange for other resources or benefits, is not a substitute for external cooperation and/or knowledge sharing but rather complementary (Powell et al., 1996). The degree of cooperation and knowledge sharing can vary depending on the type of resources, benefits or capabilities available in the network (Hennart, 1988; Parkhe, 1993; Pisano, 1989). It can then be argued that firms' strategy and objectives are enhanced and aimed at participating in strategic and informal networks since this combination could provide higher quality resources, benefits and capabilities compared to only interacting in informal networks. Therefore:

Proposition 3: With the aim to gain benefits, firms' strategy and objectives will be better informed for firms that cooperate and share knowledge that for firms that do not cooperate and share knowledge.

Structural dimension (network ties) and cognitive dimension (cooperation/knowledge sharing)

The link amongst the structural and cognitive dimension is based upon the argument that social interaction through network ties performs a vital function in determining the level of cooperation, knowledge sharing, goals and values of firms part of the network (Inkpen and Tsang, 2005; Krackhardt, 1990; Tsai and Ghoshal, 1998). Thus:

Proposition 4: Strategic network interaction will positively impact degrees of cooperation and knowledge sharing and vice versa to a greater degree for firms participating in strategic and informal networks than for firms participating only in informal networks.

Proposition 5: Informal network interaction will positively impact degrees of cooperation and knowledge sharing and vice versa to a greater degree for firms participating in strategic and informal networks than for firms participating only in informal networks.

Structural dimension (network ties) and relational dimension (trust)

Scholars (Granovetter, 1985; Gulati, 1995) recognize trusting relationships result from social interactions as well as evidencing that strong interaction ties is generally associated with trust and trustworthiness (Krackhardt et al., 1992; Nelson, 1989) based on frequency of contact, close social interactions, shared information, and common points of view (Tsai and Ghoshal, 1998); as a consequence, a firm with long-term and constant contact with members in the network would exhibit high levels of trust and seen as trustworthy. Therefore:

Proposition 6: A firms' strategic network interaction influences the type of trust derived from strategic networks (different than but complementary to the type of trust derived from informal networks) for firms participating in strategic and informal networks than for firms participating only in informal networks.

Proposition 9: A firms' informal network interaction influences the type of trust derived from informal networks (different than but complementary to the type of trust derived from strategic networks) for firms participating in strategic and informal networks than for firms participating only in informal networks.

Cognitive dimension (cooperation/knowledge sharing) and relational dimension (trust)

Barber (1983) recognizes shared goals and values bring and keep parties together, this in turn erases any chance for opportunistic behaviors (Ouchi, 1980) while Sitkin and Roth (1993) argue trusting relations are supported upon shared values and the "compatibility of individual's values with organization's values" (p. 368). Tsai and Ghoshal (1998) also elucidate that when any unit within an organization shares the collective goals, it is likely to be perceived as trustworthy, and Inkpen and Tsang (2005) who understand that for firms in an industrial district to benefit from knowledge shared to them they must engage in cooperation, which in turn would develop trust described as being an essential element toward knowledge transfer and creation at the inter-organizational level (Dodgson, 1993; Doz, 1996). Hence:

Proposition 8: The level of engagement in cooperation and knowledge sharing with other firms is influences the level of its perceived trustworthiness for firms participating in strategic and informal networks than for firms participating only in informal networks.

Structural dimension (network ties)

In terms of the structure of the network, Granovetter (1985) states "small firms in a market setting may persist instead because a dense network of social relations is overlaid on the business relations connecting such firms and reduces pressures for integration" (p. 507). Additional scholars mention frequency of interaction (García-Villaverde et al., 2018), strength of ties (Granovetter, 1973), and duration of the relationship (Baer, 2010; Dato-On et al., 2018; Perry-Smith, 2006). These statements have resulted in the following propositions for both types of network engagement:

Proposition 7: Strategic network engagement via strong/weak network ties will produce greater benefits (different than but complementary to those derived from informal networks) for firms participating in strategic and informal networks than for firms participating only in informal networks.

Proposition 10: Informal network engagement via strong/weak network ties will produce greater benefits (different than but complementary to those derived from strategic networks) for firms participating in strategic and informal networks than for firms participating only in informal networks.

Cognitive dimension (as in cooperation/ knowledge sharing) and SC (benefits)

Nahapiet and Ghoshal (1998) support that when firms are part of any network, they share a common language, code, systems of meaning, and/or work practices. These practices have the possibility of enhancing the effectiveness of network engagement. Such practices are represented by 'shared vision' in Tsai and Ghoshal (1998) and Dato-On et al. (2018) who have developed intra-organizational studies. Nonetheless, this article adopts an inter-organizational approach following Inkpen and Tsang (2005) who recognize cooperation and knowledge sharing is evidenced for firms in an industrial district supporting the variable applied in this model. Hence:

Proposition 11: Cooperation/knowledge sharing among network members will have a greater impact on the generation of benefits through network engagement for firms participating in strategic and informal networks than for firms participating only in informal networks.

Relational dimension (trust)

Nahapiet and Ghoshal (1998) propose the main element of the relational dimension is trust since it strengthens relationships amongst individuals and his/her contact ties, and Somaya et al. (2008) argue "interfirm network ties stemming from prior work relationships are likely to have high levels of trust and comfort, and as a result, may produce relational social capital that motivates parties to enter into economic exchanges" (p. 939). This statement allows for the following proposition:

Proposition 12: Trust among network members will produce greater benefits for firms participating in strategic and informal networks than for firms participating only in informal networks.

Nahapiet and Ghoshal (1998) mentioned 'identification' as an additional component of the relational dimension, which prompts the creation of value described as "the process whereby individuals see themselves as one with another person or group of people" (p. 256) and generating a sense of belonging and appropriability within a network, acting as a "resource influencing both the anticipation of value to be achieved through combination and exchange, and the motivation to combine and exchange knowledge" (p. 256). Following a study on small suppliers and car manufacturers, Gulati and Sytch (2007) recognize the importance of having access and increasing joint dependence toward improving performance due to the satisfaction generated in the relationship which they argue “a manufacturer’s satisfaction with the exchange stemming from the superior value creation in the exchange will lead to exchange partners allocating more business to each other” (p. 49). Hence:

Proposition 13: Developing a positive sense of identification with the network (strategic and/or informal) members, will produce greater benefits for firms participating in strategic and informal networks than for firms participating only in informal networks.

Social Capital (benefits) and Value Creation

SC theory was founded upon the premise that having access to a network creates value for its members (Florin et al., 2003) through the information embedded within the network (Bourdieu, 1985; Seibert et al., 2001). Likewise, Nahapiet and Ghoshal (1998) acknowledge SC is a key factor toward understanding knowledge creation proposing a positive relationship between them since SC influences the process of exchange and combination of easily available resources embedded in the network. Nahapiet and Ghoshal (1998) define SC from the resource perspective and Adler and Kwon (2002) from the ‘goodwill’ perspective posing benefits for those belonging to the network. These benefits are generally represented not only, as Adler and Kwon have suggested, in resources such as information, but also in terms of assets such as influence (together with control and power), solidarity (Coleman, 1988), trust (Putnam, 1993; Woolcock, 1998), and support (Scrivens and Smith, 2013), among others. Therefore:

Proposition 14: SC as benefits among network members will have greater impact on VC beyond product and service innovation for firms participating in strategic and informal networks than for firms participating only in informal networks.

Value creation’s impact on firm’s strategy and objectives

Dyer and Singh (1998) argue there are two strategies to achieve supernormal returns, one, following Porter (1980), described as the ‘industry structured view’ advocating for firm’s membership in an industry with favorable structural characteristics such as higher bargaining power, low barriers to entry, and low threats of substitution among others; the second strategy is adopting the resource-based view of the firm suggesting that firms able to accumulate capabilities and resources being rare, valuable, non-substitutable and difficult to imitate would achieve greater value. Hence, a competitive advantage. These statements support the following proposition:

Proposition 15: VC, beyond product and service innovation, enhances firms' strategies and objectives to a greater degree for firms participating in strategic and informal networks than for those firms participating only in informal networks.

The last proposition describes that enhanced strategies and objectives will determine the type of network engagement (strategic/informal) and the level of cooperation and knowledge sharing as a means to gain new benefits. Therefore, closing the loop, restarting the process, and supporting the cycle as one that is dynamic and continuous whilst encouraging firms to engage in progressive, persistent and purposeful improvement.

DISCUSSION

This article stems from the examination of SC dimensions and the impact on VC. During this analysis the following issues became apparent: the lack of advancement in the field, more specifically toward understanding network engagement as a means to obtain benefits such as the transfer of knowledge (Inkpen and Tsang, 2016), and how SC positively influences firms' strategies and objectives and subsequent firm-level outcomes (Du et al., 2015; Kemper et al., 2013; Rai, 2016). This article also aims to answer the call for greater research on the outcomes of SC by Kostova and Roth (2003). Additionally, this article proposes a modification to the network typology proposed by Inkpen and Tsang (2005) which argues that "each network type has distinct social capital dimensions" (p. 160) considering this study focuses on firms' strategies and objectives of SMEs. This article is also a step forward toward the unanswered questions derived from Tsai and Ghoshal's (1998) model of SC and VC which include among others: How would this model apply to SMEs? Are the firm's strategy and objectives influenced by VC? How would this model apply to other industries?

The conceptual model described in this article is constructed upon network engagement and its subsequent organizational benefits toward the generation of value. Such benefits ultimately create economic value and strengthen the economic and social sustainability of SMEs. The rationale for the development of this article is twofold: first, to provide understanding on the conception of the benefits derived from network engagement – called SC – and their impact on VC; and second, to propose a four-stage continuous cyclical model. The first stage of the model begins by proposing a link between a firm's strategies and objectives and SC dimensions (structural, cognitive and relational). Second, to propose a link amongst SC dimensions and resulting SC benefits, among others, knowledge, information, support, and trust. Third, to propose the link amongst SC benefits and VC represented in the creation or enhancement of a product/service or the learning of a skill/competency. And fourth, to propose the link between the value created and subsequent positive impact on enhanced firm's strategies and objectives to start the cycle once again.

The first rationale lays upon the consideration proposed by Nahapiet and Ghoshal (1998) who perceive intellectual capital as being "…deeply embedded in social relations and in the structure of these relations" (p. 260). The model proposed in this article goes beyond this rational by suggesting it is not only intellectual capital, nor resource exchange and combination as suggested by Tsai and Ghoshal (1998), but further benefits derived from network engagement, especially for SMEs, such as information (Burt, 1997), knowledge (Yli-Renko et al., 2001), influence (Coleman, 1988), solidarity (Putnam, 1993), trust (Portes, 1998), support (Scrivens and Smith, 2013), lower to no transaction costs for SMEs (Dallago, 2000), and diminished risks (Granovetter, 1985) that create value for the firm and the network.

The second rationale is built upon the need, for organizations, especially SMES, to consider the relational perspective, earlier described as SC and RV, when constructing business strategies and objectives (Adner, 2006; Håkansson and Ford, 2002; Håkansson and Snehota, 1989). The adoption of the relational view as a way in which SC provides greater benefits sheds light upon Nahapiet and Ghoshal's (1998) model, which focuses on the RBV. The model discussed in this article adopts a collective approach to understand SC as a 'public good' toward organizations' stability and growth directly impacting networks and society in general. It is then one of the arguments in this article to support the SC continuous cyclical process. This process begins with the strategies and objectives of a firm positively impacting the path toward the generation of SC benefits, next creating value for the firm, and subsequently enhancing the strategies and objectives of the firm.

FUTURE DIRECTIONS

Methodological Considerations

With the purpose to test and evaluate the propositions described above through a sound methodological strategy, this article suggests the application of a mixed-method approach following Creswell and Creswell (2018). These authors argue that the application of mixed methods minimizes bias and weaknesses evidenced when applying either qualitative or quantitative methods. Such argument is grounded upon the rationale that collecting both quantitative and qualitative data together would offset the weaknesses of each method. Tashakkori and Teddlie (2003) delve further into the application of mixed methods and the different types of research designs within the mixed methods category by highlighting four key benefits: first, validity of information, achieved through the integration of quantitative and qualitative data confirming accuracy through data-set comparisons. Second, explanation, maintaining that one data set would help elucidate upon the other data set acknowledging that different questions could be formulated from each data set. Hence, complementing one another. Third, appropriateness, which claims that better instruments can be developed if current instruments are found not to be suitable for the collection of data required. And fourth, structural research development, which refers to one data set building upon the other data set back and forth, particularly during a longitudinal study.

Moreover, this article recommends the development of the mixed-method approach via exploratory design, as this design provides unequal priority to the quantitative/qualitative data collection and is “useful in explaining relationships or study findings” (Harrison III, 2013, p. 2157). Exploratory designs could be supported by an initial exploratory phase where diverse data collection methods can be applied: observations, in-depth, semi-structured or structured interviews, ethnographies, case studies, focus groups, and applied action research, among others. The purpose of the application of these initial qualitative methods is to provide support in the development of the second data collection phase where the following quantitative methods can be applied: survey questionnaires, computer-assisted personal interviews (CAPI), field experiments among others. Additionally, this article suggests the adoption of one of the two variants for explanatory design proposed by Creswell and Plano Clark (2007): the follow-up explanations model, which includes detailed qualitative results that explain or expand the quantitative results. This is in addition to the participant selection model, which focuses “on the appropriate participants to be selected” (p. 72).

In terms of the unit of analysis, this article suggests to focus on small and medium sized enterprises (SMEs), which are companies with any number of employees between 0 and 249 (House of Commons Library, 2014, p. 3). The rationale to develop interest on SMEs is grounded upon the importance they have for the economic development of a country, particularly the UK. According to the National Federation of Self Employed & Small Businesses Limited – FSB (2019) by the end of 2018, SMEs in the UK accounted for 99.9% of all the businesses and at least 99.5% of the businesses in every main industry sector, employing 16.3 million workers or 60% of all private sector employment, while producing a combined annual turnover of £2.0 trillion or 52% of all private sector turnover.

Limitations

During the development of this article, the following limitations were discovered potentially influencing its empirical deployment. First, the engagement in networks toward the creation of SC as benefits could represent higher costs (i.e. time, money, effort) for organizations, especially SMEs, undermining the creation of value and subsequent impact on firm's strategy and objectives. Second, the cognitive dimension represented by the engagement in cooperation/knowledge sharing with other member firms may not be a 'necessary' step or requirement for the creation of SC as benefits. Third, this model could vary greatly depending on the current status of an organization, considering some benefits produced from network engagement can be categorized as "public goods" (Coleman, 1988, p. S118) benefiting network members. These communal goods are available to any member of the network and could lead to issues such as the 'free rider' (Cubitt et al., 2011) problem and the "tragedy of the commons" (Gooderham et al., 2011, p. 126) risk nurturing what Putnam (2000) described as the 'dark side' of SC (Van Deth and Zmerli, 2010) characterized by generating intolerance in network members and eventual depletion of SC. Finally, the conceptual model presented in this article could be applied differently to organizations in high-context versus low-context cultures (Hall, 1976) considering the former sets higher barriers of entry to outsiders making it difficult to gain access to potential SC benefits and subsequent VC.

CONCLUSION

In this conceptual article, a model has been described and framed for the creation of value and enhancement of firms’ strategies as a result of SC benefits. This model is built upon SC theory linked to managerial and economic perspectives, represented in the creation of economic value and firm strategy. The model recognizes and adopts SMEs as the research unit due to their fragility and low survival rates, especially in the construction industry. The study of SMEs, thus, is vital and must continue considering SMEs’ fundamental value as part of the economic, social and environmental sustainability of a country. The underlying argument in this article supports the concept of SC as a public good where not only a single firm’s strategy is enhanced via network engagement but also strategies from those that participate in the network. Such engagement ultimately creates value for all stakeholders and society as a whole. Apart from supporting the public perspective of SC, this article also encourages all types of organizations, particularly SMEs, to implement a dynamic plan, as part of their business strategy, to continuously pursue higher levels of network engagement not only in one but in diverse types of networks that can complement such dynamic plan.

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