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The Social Capital, Marketing Capability and Competitive Advantage: Evident from Indonesian SMEs

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Abstract

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This study has intention to examine the direct impact of social capital and moderating impact of marketing capability on firms' competitive advantage. This study proposes a structural equation model and tests the hypothesis through generalized structured component analysis with random survey on small medium enterprises in Indonesia. The approach allows to analysis the element of social capital: network, trust and cognitive as well as the elements of marketing capability: pricing capability, product development, and marketing communication. The result indicates the effect both social capital and marketing capability provide complement to the firm performance. The result indicates that social capital is a unique resource, that enable organization to gain competitive advantage.

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Keywords: Social capital; performance; network; trust; cognitive.

1. Introduction

The role of social capital on the firm competitiveness has long been an interest to entrepreneurial studies. However the transformation process from social capital to firm performance has raised debates. Major literatures argue that social capital plays pivotal role on firm competitiveness through providing valuable information access (Kwon and Adler, 2014) a high level of mutual of trust (Li, Maggitti, Smith, Tesluk, and Katila, 2013). Previous studies also confirm that social capital has a

significant impact on innovation and supply channel (Alguezaui and Fillieri, 2010), work environment (Duffy, Scott, Shaw, Tepper, and Aquino, 2012) and value creation (Afuah, 2013).

On the other hand, some other studies argue that social capital does not have significant impact on firm performance for some reasons, e.g. the age of firm (Pirolo and Presutti, 2010), organizational capacity (Jansen, Curseu, Vermeulen, Geurts, and Gibcus, 2011), and institutional context (Stam, Arzalanian, and Elfiring, 2014). There is also spillover effect of social enterprise that comes from homophile solidarities, which express similarities (Kwon and Adler, 2014). This article has intention to fill the gap by investigating the impact of social capital (SC) on performance of small medium enterprises. To understand the complex relationship, this study involves marketing capability (MC) as a mediating variable. In addition, this study has intention to understand the impact of each element of SC and MC through generalized structured component analysis (GeSCA).

2. Literature Review

2.1. Social Capital and Competitive Advantage

The concept of social capital mainly springs from social network theory, which becomes valuable resources to gain competitive advantage. The measures of networks lay on cohesion and structural relationship of the actors. The concept of social capital has been emerging from social to individual perspective with Bourdieu and Coleman as founders. Bourdieu ponders profitability of social capital as a private good, which springs from trust among group members along with stable relationship with honor and reputation, while Coleman considers social capital as a public good which becomes an element of social structure (Häuberer, 2011). This simultaneous process brings about productivity improvement with high competitiveness level (Denrell, Fang, and Zhao, 2013).

The performance of firms has been enhanced through the concept of competitive advantage that involves value creating strategy of the firms, which greater than their competitor (Barney, 1991). This concept of competitive advantages embraces resource-based theory (RBT) that highlights the role of valuable resource on organizational transformation in small medium enterprises, which characterized by lack of resource (Bradley, Wiklund, and Shepherd, 2011). The possible performance measures have been developed with various interest, such as sales performance that indicates reward of sales staffs as well as performance in marketing management (Homburg, Artz, and Wieseke, 2012). On the other hand, the business owners consider firm performance is essential to monitor the outcomes of their organizations in order to gain more profit (Garg, 2013).

2.2. Hypothesis Development

Hypothesis I: social capital has direct effect on firm performance. Social capital has become major concern in social network theory with aims to understand the social relationship as well as economic transaction. In the organization context, strong social capital provides positive work environment (Duffy, Scott, Shaw, Tepper, and Aquino, 2012) and greater life satisfaction (Lim and Putnam, 2010). Social capital can be a major key for firm performance through innovation as well as

supply management channel (Pratono, 2016). Greater social capital allows firms to manage their relationship with other firms, which implies on cost and risk (Alguezaui and Fillieri, 2010).

Hypothesis 1.2. : There is a direct relationship between SC dimension of cognitive and firm performance. Cognitive dimension refers to collective conscience and identity of the group, which can bring efficient interaction. Information and resources are more accessible among people with a collective identity. This dimension is associated with common codes and languages, which spring from repeated social interaction (structural dimension), which can create trust and mutual commitment. (Alguezaui and Fillieri, 2010) Collective identity may come with a complex challenge. Diversified cultural background among the workforce in business organization has been emerged with issue of organization performance. Cultural diversity may be more relevant to boast performance when learning orientation among members of a network is greater (Pieterse, Van Knippenberg, and Van Dierendonck, 2013). However, a set of cognitive with moral disengagement allows members of a network to commit acts, such as social undermining or self-condemnation (Duffy, Scott, Shaw, Tepper, and Aquino, 2012).

Hypothesis 1.3. There is a direct relationship between SC dimension of trust and firm performance. Trust dimension is the core content of social capital, which enable a social order. In organization context, social exchange relationship relies on inter-personal trust, which can reduce uncertainty in relationship and enhance the quality of social exchange. High levels of trust show high quality of exchange relationship. This implies on ability to access information, support and resources (Schaubroeck, Peng, and Hannah, 2013). Trust can be divided into cognition-based and affect-based trust. The cognition-based trust is similar to knowledge-based trust, which refers to confidence in competence, reliability and dependability to partners. The affect-based trust refers to emotional dimension embedded in confidence (Schaubroeck, Peng, and Hannah, 2013). Both dimensions play pivotal role to develop intense personal relationships between leaders and peer group of workers. A common social identity may elicit more approval and trust. In the context of business communication, perceived social identity may come from synchronization of communication style, such as gesture, voice and posture. Because linguistic style may serve as identity-descriptive information which determines the decision making process, firms need to take into account tailored message to deal with risk of messenger bias in persuasion context (Ludwig, Ruyter, Friedman, Brüggén, Wetzels, and Pfann, 2013).

Hypothesis 2: Marketing capability provides mediating effect that may strengthen effect of social capital (SC) on firm performance (FP). It is essential to business organization to invest on social networks to boost their performance, however it does not always the case.. Marketing capability can provide mediating effect to explain the relationship between structural social capital and marketing performance (Parra-Requena, Ruiz-Ortega, and Garcia-Villaverde, 2011). However, the dense and cohesive social networks can generate redundancy in the information exchange and call for marketing capacity as mediator to drive performance (Rouziés, Hulland, and Barclay, 2010). In addition, Duffy et al. (2012) identify a risk of moral disengagement, such as condemnation and loathing, due to cognitive justification. A cognitive brings a constraint to utilize social capital due to exponentially level of social capital (Oldroyd and Morris, 2012). Another example is strong cohesive work group bring about

dominant voice and views, which affected inferior group, such as woman in workplace (Broadbridge, 2010).

3. Method

This research uses quantitative method with cross-section design. The information required to answer the research questions refers to quantify relationship among observed variables with family business as unit analysis. This survey is equated with a list of distributed questionnaires through random sampling method. To generalize the result, this research employs a random selection procedure in order to ensure sample representation for the observed population. Data collection was taken in Surabaya Indonesia with random selected respondents. Based on data based published by Directorate General of Trade, Ministry of Trade and Industry, this research randomly selected 800 respondents and send them questionnaires. From 390 respondents who provided contribution, 54% respondents represent single-family ownership, 24% are partnerships, and the rest are limited corporations. There is no respondent with go-public companies.

4. Result

Table 1: Path coefficients

Path	Estimated coefficient	Standard Errors	Critical
Social Capital>Performance	0.443	0.059	7.48*
Social Capital>Marketing Capability	0.641	0.043	14.74*
Marketing Capability> Performance	0.369	0.060	6.18*
Social Capital>Structure	0.902	0.013	71.46*
Social Capital>Trust	0.954	0.006	160.12*
Social Capital>Cognitive	0.939	0.008	117.66*
Marketing Capability>pricing capability	0.848	0.019	43.78*
Marketing Capability>product development	0.812	0.025	32.96*
Marketing Capability>marketing communication	0.738	0.029	25.77*
Model Fit			
FIT	0.580		
AFIT	0.577		
GFI	0.990		
SRMR	0.105		
NPAR	111		

*: significant with alpha at 5%

The goodness of fit testing shows that model is nearly fit. FIT 0.58 shows that the model can explain 58% of the variance in the observed variables. Goodness of Fit Indices (GFI) exceeds 0.90 implies that the model is acceptable. Standardized Root Mean Residual (SRMR) as absolute fit indicator is 0.105, which indicates that model is nearly perfect. A model should have SRMR smaller than 0.08 for a good fit model. Path analysis also indicates that the impact of structure, trust and cognitive on social capital is statistically significant. Similarly, pricing capability, product development and marketing communication provide significant impact on marketing capability variable.

The bootstrap calculation shows that social capital (SC) has significant impact on performance (FP) with $t = 7.48$ and $p < .01$. This implies that H1, which explains the relationship between SC and FP is confirmed. The bootstrap also show that relationship between social capital (SC) and marketing capability (MC) has t-test of 14.74 and $p < .01$. This indicates H2 is accepted and social capital (SC) has significant impact on firm performance (FP). In addition, the impact of SC and FP has significant impact with t-test = 6.18 and $p < .01$. Hence, H3 is accepted, which implies that there is partial indirect effect on social capital (SC) on firm performance (FP). Specifically, the role of MC on the relationship between SC and FP shows complementary mediating effect $0.443 \times 0.641 \times 0.369 = 0.1047$ (Zhao, Lynch, and Chen, 2010).

Trust provides abundant contexts in SMEs. While financial slack is considered to be the most challenging issue to small businesses (Bradley, Wiklund, and Shepherd, 2011), the businesses still can seize business opportunities and gain competitive advantage by exploiting social network structure, trust and cognition. While larger networks is not main factor which can attract customers and develop market power (Afuah, 2013), this study shows that trust provide greater contribution to the context of social capital.

This study presents empirical result that explains structural relationship between social capital and competitive advantage in which marketing capability provides mediating effect. Apparently, terms 'partial' and 'full' are associated with effect size of a mediating effect. Current practices suggest that significant indirect effect can be observed even if c' is not significant, this research considers that a wide range of indirect effect level (Rucker, Preacher, Tormala, and Petty, 2011). Instead of claiming that the result shows partial mediating effect, this research considers that the effect of marketing capability as mediating variable can be computed by 0.641×0.369 , which is equivalent to 0.236.

5. Conclusion

Nurturing small businesses should consider the role of social capital. While the businesses are considered with limited financial resources and out of dated technology, it is important to pay more attention on social capital as intangible resource, which can turn into performance. This refers to the strong relationship among the stakeholders, including employees as well as business partners. This resource can promote knowledge acquisition and innovation (Martínez-Cañas, Sáez-Martínez, and Ruiz-Palomino, 2012) as well as positive work environment (Duffy, Scott, Shaw, Tepper, and Aquino, 2012).

This study confirms the combination between resource-based theory and social capital theory that social capital determines the capacity of firms to control market price over its marginal cost. The result indicates that social capital is a valuable resource, which allows small businesses to gain competitive advantage. As the main elements of social capital, networks, trust and cognitive allow the firms to gain competitive advantage. Hence, firms performance does not only relies on their marketing capability but also from social capital.

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