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How does social capital influence the hospitality firm's financial performance? The moderating role of entrepreneurial activities

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ABSTRACT

Although previous studies have examined the relationship between social capital and firm performance under boundary conditions such as firm age, industry characteristics, and institutional conditions, the literature is silent on the types of firm activities linking social capital to financial performance. This study investigates the moderating role of firm-level entrepreneurial activities (service innovation, corporate venturing and strategic renewal) on the relationship between social capital and financial performance in a sample of Chinese hotels. The findings indicate that the interaction of external and internal social capital has a positive effect on financial performance. In addition, innovation and corporate venturing enhance the relationship between financial performance and social capital. To achieve a competitive advantage, hospitality firms should not only accumulate social capital but should also deliberately implement strategies that enhance entrepreneurial activities to fully unleash the potential of social capital.

1. Introduction

Social capital refers to both social links and the assets embedded in and available through such social connections (Nahapiet and Ghoshal, 1998). Social actors obtain both tangible and intangible assets through social connections or interactions with others (Coleman, 1988). Originating in sociology, the term "social capital" was initially used to highlight the importance of strong interpersonal networks of relationships in developing the trust and cooperation required to build communities (e.g., Jacobs, 1965). As a concept that can be applied at the individual, group, organizational and even country levels, social capital has been used in organizational research to elucidate a broad range of management phenomena such as career success (Seibert et al., 2001), knowledge sharing (Maurer et al., 2011), and entrepreneurship (Khoury et al., 2013). Recently, the concept has gained momentum in hospitality research, with a growing number of hospitality scholars to account for innovation (Nieves et al., 2014), intangible resource acquisition (Hsu et al., 2014), and organizational performance (Kim et al., 2013a).

Two types of social capital exist at the firm level: *external* social capital (i.e. social capital derived from a firm's links with other firms or institutions), and *internal* social capital (i.e. social capital generated from the fabric of the intra-firm connections of a firm's units or employees) (Adler and Kwon, 2002). In a hospitality setting, external social capital can be understood as social links with external entities, such as suppliers and partners, and the assets embedded in these links (i.e. mutual understanding and trust). Internal social capital reflects social ties between employees or units/departments, and the assets embedded in and available through these ties (i.e. trust and cohesion) (Adler and Kwon, 2002; Leana and Van Buren III, 1999). It can be argued that hotel operations are influenced by both types of social capital (Adler and Kwon, 2002). For instance, external social capital enhances collaboration with travel agencies, third-party web-sites, airlines and suppliers, while internal social capital promotes cooperation and coordination between hotel employees and units to improve service quality and operational efficiency (Ku et al., 2011). Social capital, as an overarching concept, is thus valuable in both hospitality research and hospitality practice.

Over the past two decades, scholars and managers have recognized the far-reaching influence of social capital on firm performance (Lee et al., 2001; Santarelli and Tran, 2013; Tsai and Ghoshal, 1998). Indeed, social capital enables firms to secure

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valuable resources (Acquaah, 2007), learn from others (Johnson et al., 2013), gain legitimacy (Khoury et al., 2013), hold power and control (Burt, 1992), and reap the benefits of coordination (Uzzi, 1997). However, until recently the link between social capital and financial performance has received scant attention in the field of hospitality management (Brien and Smallman, 2011). Kim et al. (2013a) demonstrate that social capital has a positive effect on hotel performance through knowledge-sharing processes. Sainaghi and Baggio (2014) show that structural social capital is the main driver of financial performance during off-peak periods. These findings indicate that social capital is a valuable asset that should not be overlooked.

To gain a deeper understanding of the role of social capital in influencing financial performance of hotels, this study aims to answer the following questions. First, do external and internal social capital separately and jointly affect a hotel's financial performance? As the simultaneous establishment and maintenance of external and internal social capital demands a considerable amount of resources (Nahapiet and Ghoshal, 1998) and involves significant trade-offs (Stam and Elfring, 2008), the answers to this question have critical implications for resource allocation decisions for hotels. Hotel managers have to make sure that their investment in external and internal social capital will yield financial outcomes with a satisfactory return.

Second, which firm-level activities influence the relationship between social capital and performance? Answering this question is important because the effects of social capital on performance may not be fully realized unless they are appropriately deployed and used. Recent research suggests that "*having*" social capital does not necessarily entail "*mobilizing*" resources embedded in social ties (Kwon and Adler, 2014; Maurer et al., 2011). It is imperative that we understand the mechanism enabling owners of social capital to leverage their valued assets embedded in their social ties. Previous studies have adopted a contingency view of social capital and firm performance under the boundary conditions of firm age, industry characteristics, and institutional conditions (Stam et al., 2014). There is sparse research on how entrepreneurial activities (service innovation, corporate venturing and strategic renewal) influence the social capital-firm performance link. The entrepreneurial perspective would provide insight into strategic actions to leverage social capital in order to achieve better performance.

In response to these two critical questions, this study examines the effects of external and internal social capital on financial performance from the corporate entrepreneurship perspective. We propose that internal and external social capital jointly influence financial performance. We also argue that social capital is more likely to have a positive effect on financial performance if a hotel values innovation and entrepreneurial activities.

2. Theoretical framework

2.1. Social capital theory

In reviewing the past decade of research on social capital, Kwon and Adler (2014) note that the concept has been applied in a variety of research fields and it has become a frequently used concept in everyday conversations, scientific research and policy making. As a result, the concept has gone beyond the "early excitement" phase of the life cycle of an umbrella concept and evolved into a matured field of research (Kwon and Adler, 2014). The core idea behind the social capital theory is that social ties can be effective conduits through which information, influence, and solidarity are secured for specific purposes for a focal actor (Kwon and Adler, 2014; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998). Although Nahapiet and Ghoshal (1998) conceptually articulate that the social capital entails three dimensions, namely, structural, relational and cognitive social capital, the majority of past studies have adopted a two-dimensional view of social capital consisting of structural and relational social capital (Moran, 2005). This is probably because the cognitive dimension proposed by Nahapiet and Ghoshal (1998) shares many commonalities with the relational dimension (Cuevas-Rodríguez et al., 2014).

Structural social capital highlights the degree of interconnectedness and closure among the members of a network, whereas the relational social capital focuses on the strength of social relationships (Nahapiet and Ghoshal, 1998). Previous research has demonstrated the link between structural social capital and firm performance (e.g., Batjargal, 2003; Tsai, 2000; Tsai and Ghoshal, 1998). Nevertheless, the performance of a firm is not only shaped by structural social capital but also by the quality of such relationships (relational social capital). For instance, in Moran's (2005) study of 120 Fortune 100 pharmaceutical firms, structural and relational social capital influenced firm performance in distinct ways. In the field of hospitality management, previous research has focused on the performance effects of structural social capital (e.g., Sainaghi and Baggio, 2014), while research on the link between relational social capital and financial performance is lacking. To gain a more comprehensive understanding of how social capital influences financial performance, this research focuses on the relational dimension of social capital.

As a matured field of research, researchers need to apply the concept of social capital to specific disciplines and topics (Kwon and Adler, 2014). Scholars in the field of hospitality and tourism have responded to such a call by employing the social capital theory to elucidate a wide range of phenomena. Table 1 summarizes the recent research involving social capital in the main hospitality and tourism journals. It is evident that social capital is gaining popularity in the hospitality and tourism research. Topics are very diverse, including both antecedents and outcomes of social capital. For example, when examining the antecedents of social capital, Gibson et al. (2014) show the influence of mega-events on the formation of social capital of a society, Strobl and Peters (2013) reveal that socio-economic characteristics can determine the amount of social capital held by rural residents, while Brien and Smallman (2011) highlight that a humanistic managerial approach blended with elements of rationalism facilitates the development of social capital in the context of hotels. In terms of consequences of social capital, prior research shows the role of social capital in acquiring resources (Hsu et al., 2012, 2014; Yang et al., 2014), in promoting entrepreneurship (Zhao et al., 2011; Ramos-Rodríguez et al., 2012), in encouraging residents' pro-environmental behaviors (Liu et al., 2014). Also, the link between social capital and hotel performance has been examined. Sainaghi and Baggio (2014) demonstrate the link between structural social capital and hotel performance and Kim et al. (2013a) show that social capital influences hotel performance via knowledge-sharing processes.

2.2. External/internal social capital and financial performance

In response to the call from Kwon and Adler (2014) to examine various aspects of social capital, we investigate the performance implication of both external and internal social capital. Internal social capital reflects resources that can be derived from a firm's intrafirm relationships, while external social capital involves assets that are embedded in a firm's extrafirm relationships. Prior studies have focused on the performance implications of either external (e.g., Lau and Bruton, 2011; Maurer and Ebers, 2006; Yli-Renko et al., 2001) or internal social capital (e.g., Coleman, 1988; Maurer et al., 2011). However, examining external and internal social capital in isolation may hinder the comprehensive understanding of the role of social capital on firm performance (Cuevas-Rodríguez et al.,