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The Importance of Social Capital to the Management of Multinational Enterprises: Relational Networks Among Asian and Western Firms

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Abstract. Social capital is an important concept for multinational firms. Firms operating in global markets rarely have adequate resources to compete effectively in global markets; they access the needed resources through formal and informal relationships with other firms. The cultures in Asian countries have emphasized relationships much more strongly than Western firms. Thus, relational capital, based on guanxi (China), kankei (Japan) and inmak (Korea), provides the framework for business dealings in many Asian countries. As a result, the social capital of many Asian firms gives them a potential competitive advantage in global markets. Western firms must develop social capital and learn to manage relational networks to gain and sustain a competitive advantage in global markets. Western firms can learn how to develop and manage social capital from Asian firms. Alternatively, social capital has some disadvantages. Firms are limited by their networks and thus experience opportunity costs and path dependence. Additionally, while Asian firms often have strong network ties in their domestic markets, they have to develop many more ties globally to operate effectively in global markets. As a result, the development and management of social capital has become of critical importance for competitive advantage in global markets.

Keywords: social capital, strategic alliances, guanxi, kankei, inmak, keiretsu, trust

1. Introduction

> *The image of atomistic actors competing for profits against each other in an impersonal marketplace is increasingly inadequate in a world in which firms are imbedded in networks of social, professional and exchange relationships with other organizational actors... Such networks encompass a firm's set of relationships, both horizontal and vertical, with other organizations—be they suppliers, customers, competitors, or other entities—including relationships across industries and countries* (Gulati, Nohria and Zaheer, 2000:203).

The above quote explains the increasing importance of relationships between firms. Firms navigate in the competitive landscape competing against networks of firms as opposed to individual competitors (Hitt, Keats and DeMarie, 1998b). Firms operating in a network have many more resources they can access to increase their ability to compete than do single firms operating independently. To be competitive, most firms need additional resources and thus attempt to develop their own networks to gain competitive parity or, more importantly, a competitive advantage. In this competitive environment, firms with social capital have an advantage. While the concept of social capital has been embraced by several disciplines with partially varying definitions, relationships, or relational capital, represent a major component of all of them. Thus, for our purposes, we define social capital as the relationships between individuals and organizations that facilitate action and thereby create value (Adler and Kwon, 2002; Seifert, Kraimer and Liden, 2001). The web of social relationships that develops entails norms, values and obligations and yields potential opportunities for the members (Haley and Haley, 1999; Yli-Renko, Autio and Sapienza, 2001).

Social capital has become an important asset to multinational firms because of the need for appropriate resources (e.g., information, technology, knowledge, access to distribution networks, etc.) to compete effectively in global markets. Therefore, multinational firms may be able to gain a competitive advantage because of their social capital. The focus of this work is on social capital, its importance and effects in multinational firms. Importantly, we focus on the differences in the social capital held traditionally by Asian and Western firms.

In the West (i.e., North America, Western Europe), business dealings have been largely based on the concept of transactions. However, in most Asian societies, they are based on relationships. For example, when an executive is regarded as successful in Western societies, s/he is often described as wealthy. However, an executive of similar success in China is referred to as well connected (Chen, 2001). While social capital has become an important concept in recent management literature (i.e., Adler and Kwon, 2002; Tsai and Ghoshal, 1998), the relationships, or relational capital, have been important in the culture, business dealings and academic writings in Asian countries for many centuries (i.e., Wee and Lan, 1998).

Asia encompasses many countries within its geographic borders, however, the three leading countries with the strongest economic impact in world markets are China, Japan, and Korea (Dafter, 2001); thus we focus on these three countries herein. In all three, relationships provide a basis for the culture, business transactions and business operations. For example, the concepts of guanxi in China, kankei in Japan, and inmak in Korea all emphasize the importance of relationships or connections in these societies. However, while all three concepts share many similarities, they also have some subtle differences. We elaborate on these concepts in a later section.

The comments above suggest that cultures and institutionalized practices within countries can affect the general managerial practices within firms (Sullivan and Weaver, 2000). For example, research has shown that managers from Asia and from the U.S. develop and apply different strategic orientations (Hitt et al., 1997). These differences may be related to the Asian economic prosperity as well as to the moral hazard that led to the so-called Asian crisis.

Asia experienced a major financial crisis in the late 1990s carrying into the 21st century. However, Asia is composed of multiple markets, not all of which were equally affected by the problems. For example, China continued to experience significant economic growth during the financial crisis. Korea suffered but has rebounded and Japan continues to suffer in 2002. Still, these countries, their cultures and management practices have much to offer that can enhance our knowledge of effective management of multinational firms. Additionally, Asia will continue to grow in economic importance in global markets. For example, it is predicted that 360 million Asians will be accessing the Internet by 2005 (Powell, 2000). This number exceeds the combined total population base of the U.S. and Canada. Also, privately owned Chinese companies, mostly located outside of China, represent an economic power only behind the U.S., Europe, and Japan (Tsang, 2002).

Chinese, Japanese and Korean management approaches represent significant forces in global markets. As such, managers throughout the world should try to understand and learn from Asian management practices because these perspectives offer alternative applications of successful and effective management in dynamic and uncertain environments (Fruin, 1998). We focus on their contribution to and the importance of the development and management of social capital in multinational organizations. First, we examine the concept of social capital in more depth.

2. Social capital

Social capital has been defined in different ways especially across disciplines. For example, Coleman (1990) states that social capital is created when the relations among individuals change in a manner that facilitates action. Whereas, Burt (1992) defines social capital as opportunities a player receives through relationships with other players such as colleagues. But, both Coleman (1990) and Burt (1992) suggest that social capital springs from the relationships among people. Tsai and Ghoshal (1998) suggest that the norms and values associated with relationships contribute to social capital as well. Thus, most conceptions of social capital include relations or networks of relationships among individuals and organizations. And these relationships facilitate action and thereby create value (Adler and Kwon, 2002; Seifert, Kraimer and Liden, 2001). Therefore, relationships are the most critical dimension of social capital.

Adler and Kwon (2002) noted that the importance of the social capital concept has been increasingly recognized by a number of social science disciplines. They suggested that in recent years social capital has been acknowledged in the field of organization studies as contributing to success in a number of important organizational activities. Among them are inter-unit and inter-firm resource exchange, the creation of intellectual capital, inter-firm learning, supplier relationships, product innovation and entrepreneurship (Adler and Kwon, 2002). Social capital effects range from substantive (e.g., supplier relationships) to facilitative (e.g., innovation and entrepreneurship) (Ahuja, 2000a).

Effective management of businesses requires dissemination, absorption, and utilization of knowledge (Lane and Lubatkin, 1998), especially in the current competitive landscape (Davenport and Prusak, 1997). Firms may acquire knowledge from external sources or develop knowledge internally. Regardless of the source, knowledge must be disseminated throughout the organization for maximum effect. Such dissemination occurs through knowledge networks based on the frequent, repeated, and significant interactions among different members of the organization (Ghoshal and Bartlett, 1990). Knowledge networks extend externally as well to include market relations, hierarchical relations, and social relations (Adler and Kwon, 2002). Knowledge resides in different nodes of the network in the forms of 'conscious knowledge,' (articulate knowledge that can be retrieved and stored from records) 'automatic knowledge,'(tacit knowledge of individuals), 'objectified knowledge' (the highest form of socially explicit and shared knowledge available) and 'collective knowledge' (tacit experiences and enactment of the collective, routines, etc.) (Brown and Duguid, 1991; Nahapiet and Ghoshal, 1998; Spender, 1996). The most valuable technical and commercial knowledge in organizations is embedded in tacit collective knowledge because of its inimitability and difficulty to transfer.

Social capital can be used to access knowledge but it also is helpful in leveraging and exploiting collective knowledge (Nahapiet and Ghoshal, 1998). Ahuja (2000b) demonstrated how social capital facilitates the creation of inter-firm linkages useful for leveraging and exploiting a firm's knowledge. For example, exchanges based on these linkages can facilitate product innovation, expedite resource exchange (Gabbay and Zuckerman, 1998; Hansen, 1998), and create intellectual capital (Hargadon and Sutton, 1997; Nahapiet and Ghoshal, 1998). While these are positive outcomes, most firms experience information asymmetries that create knowledge gaps because of inadequate knowledge dissemination (Hoopes and Postrel, 1999). However, effective social capital helps to overcome this problem. Social relations impose symmetry through exchanges (Adler and Kwon, 2002) due to 'norms of general reciprocity' (Putnam, 1993), thereby producing information symmetries between members of the organization. Information symmetry, then, contributes to a shared vision through continuous interaction of managers and employees (Lovas and Ghoshal 2000). Multinational firms use internal social capital to integrate units operating in disparate locations and cultures. The internal units operating in multiple and diverse country markets must be bound together by shared values, goals and global vision. Orton and Weick (1990) refer to this as 'loose coupling.' Internal social capital can also contribute to more effective integration in merging acquired firms into the acquiring firm's assets (Harrison et al., 2001). Thus, while social capital partially results from actions to produce harmony, harmony also results from the exercise of social capital, producing a reciprocally interdependent relationship.

Burt (1997) suggests that social capital is a quality of individuals; it contributes to an individual's human capital. For example, a partner's knowledge of and relationship with important clients of a law firm adds value to the partner's human capital and also adds value to the firm (Hitt et al., 2001b). As such, the firm's social capital becomes a partial extension of the partner's social capital. Therefore, it is difficult to separate the firm's social capital from its managers' and employee's relationships with internal and external parties. The firm's strategy is based on its resources, human capital critical among them (Hitt et al., 2001b). The resources such as human capital and social capital are leveraged to implement the firm's strategy and create a competitive advantage. Thus, the firm's relationships with all of its stakeholders produce social capital that serves as input to both strategy formulation and implementation (Lovas and Ghoshal, 2000).

The arguments above suggest that all forms of social capital are critical to the firm's success. For example, social capital is vitally important to multinational firms because they need to effectively integrate internal business units across geographic (e.g., country) boundaries, as well as manage relationships within a large external network of firms (Bartlett and Ghoshal, 1998). Similarly, continuing exchange relations with other organizations often transform into inter-organizational networks. These inter-corporate relationships extend vital advantages. For example, this form of social capital can be used to facilitate market expansion and competitive positioning (Park and Luo, 2001). These actions, in turn, may lead to competitive advantage.

Three dimensions of social capital help to produce competitive advantages. Yli-Renko, Autio and Sapienza (2001) examined social interaction, relationship quality and network ties as dimensions of social capital. Social interaction is necessary to establish the network ties and relationship quality defines the strength of those ties. The quality and strength of a firm's inter-organizational linkages affect its overall success and the value created (Ghoshal and Bartlett, 1990). For example, a firm's relationships with its customers and suppliers have a major effect on its performance and therefore the value it creates for the shareholders.

While most results of social capital are positive, there are some negative consequences as well. For example, firms draw resources from networks and leverage their network ties to take advantage of opportunities. However, they are limited by the boundaries of their network. Firms may be unable to take advantage of some opportunities because the network does not provide access to the appropriate resources to do so. In fact, because of the network's boundaries, the firm may be unable to identify some opportunities. Thus, the boundaries of social capital create opportunity costs. The ties within one network may forestall ties in other networks. Network relationships built over time become self-reinforcing. As such, they lead to a form of path dependency. Firms can only access and/or develop resources allowed by the network ties. Constraints on resources sometimes lead to political behavior.

Locke (1999) noted that interrelationships within networks could become enmeshed in 'politics'. When this occurs, firms begin competing for resources and network ties that-produce dysfunctional behaviors by firms within the network. Therefore, social capital can become an organizational liability if it leads to dysfunctional competition over scarce resources due to political fragmentation within an organization or network and/or institutional factors (i.e., legal regulations) in the region (Talmud, 1999). Legal infrastructure and ideologies can produce conscientious exploitation of eminent relationships with political, regulatory, and governmental posts. Firms with such linkages to political offices may have access to resources and information not available to those without such relationships (Talmud, 1992; Talmud and Mesch, 1997). Additionally, internal political fragmentation can serve as a barrier to knowledge and resource transfer, impede procedural and distributional justice, and inhibit strategic flexibility. The negative effects may be greater when resources are constrained. When resources are controlled by political centers, the threat of moral hazard and bribery is greater, and can lead to a rapid deterioration of firm resources (Adler and Kwon, 2000). Finally, social, or relational, capital could lead to business actions that are difficult to justify such as loans to money-losing companies by banking officials yielding to pressure from network members (Kakinuma and Fukunaga, 1995).

3. Asian relationships, networks and management practices

3.1. Building relationships

East Asian countries in general and China, Japan, and Korea in particular have been greatly influenced by Confucianism. The philosophy of Confucius stresses that individuals are not isolated entities but a part of a larger system of interdependent relationships. As such, building and managing effective relationships have been innate in the cultures of China, Japan, and Korea as observed in their concepts of guanxi, kankei, and inmak, respectively. However, because all three countries interpreted and practiced Confucianism in different ways, the concepts of guanxi, kankei, and inmak share many similarities but also have subtle differences.

Guanxi in China has become a popular topic in both the academic and popular press. Guanxi refers to connections, often individual, that provide or imply the exchange of favors (Luo, 2000). These interpersonal relationships often form a vast relational network that is ubiquitous in all business dealings in China (Luo, 2000). Several empirical studies highlight the importance of guanxi. For example, Xin and Pearce (1996) found that executives of private companies developed and utilized guanxi more than executives of state-owned companies to compensate for the lack of formal institutional mechanisms. In a more recent study, Park and Luo (2001) found that institutional, strategic, and organizational factors were important antecedents to the use of guanxi in China. Moreover, Park and Luo (2001) found guanxi to be positively related to firm performance (i.e., sales growth). Thus relationship building in China has been and continues to be an important topic for research.

Relationships or connections are also important in Japan as can be seen in the concept of kankei. Kankei is a combination of two Japanese words, 'kan', meaning a barrier-gate and 'kei' connoting obligation and allegiance to fixed order. When combined, kankei reflects the subconscious notion of granting access through relationship, controlled by the 'barrier-gate' and letting go those, who proved their loyalty and obligations to the larger social arrangement. Using this premise access to transactions is granted to insiders (uchi) and denied to outsiders (soto). Through kankei, Japanese business people distinguish those who are trustworthy, committed, and loyal from those who may be less so using an elaborate scheme of relationships. The aim in kankei relationships is to identify the outsiders and insiders with respect to the network (Scher, 1997).

Finally, the concept of inmak in Korea literally refers to people connections. Inmak includes whom and how many one knows and relates to family, educational and/or regional ties. All three ties are important and form the basis for doing business in Korea. For example, educational credentials (e.g., attending a prestigious college) are critical for career advancement in major Korean companies. Steers, Shin and Ungson (1989) state that, "When Korean managers are introduced, one of their first questions they ask each other concerns where they went to school. Discovering that both attended the same high school or university (even at different times) often brings an instant feeling of closeness" (p. 45).

Thus, all three countries having been influenced by Confucianism emphasizing the importance of relationship building (i.e., guanxi, kankei, inmak) for success. However, there are subtle yet important differences among these concepts. These differences stem from the way in which each country interpreted and adapted Confucianism. Confucianism originated in China around 500 B.C. and spread to both Japan and Korea. Confucius promulgated a code of ethical behavior that was to guide interpersonal relationships in everyday life. This code can be summarized by the so-called "five relationships": ruler/subject, father/son, husband/wife, elder brother/younger brother, and friend/friend (Chen, 2001).

Korea and Japan differed in the way they adopted Confucianism. For example, the Korean form of Confucianism placed more emphasis on interpersonal relationships and interactions among "unequals" (e.g., the son had to always defer to the father; the wife had to always obey the husband) (Steers, Shin and Ungson, 1989). More specifically, the various relationships formed in Korean society could be characterized as "blind" or "reckless". As a result, authoritarianism has been a major characteristic of Korean society. This has led to many factions and partisan behavior throughout Korean history. In particular, the 500 years of the Yi dynasty has been marred by partisan battles. The major goal for these various factions was to engage in relationships with whomever they could so that they could have many people join their factions. Japan, on the other hand, modified the doctrines of Confucianism to suit their own culture and needs while keeping Buddhism as their main philosophy (or religion). Thus, the Japanese emphasized relationships that were rational, logical, and even flexible.

Thus, one difference among guanxi, kankei, an inmak is that ascriptive ties (e.g., common birthplace, same school, and family) are much more important in establishing relationships in China and Korea than Japan. That is, guanxi networks and inmak networks of reciprocal obligations in China and Korea are formed among people who have shared a common and meaningful experience (e.g., common background characteristics). However, the network of reciprocal obligations is more pronounced in Korea than in China due to the authoritarian nature of Korean society and fractional battles that necessitated forming relationships for power.

While relationships in China and Korea are often based on visible and common background characteristics, in Japan, kankei relationships tend to be more idiosyncratic and situation specific (Whitley, 1991). That is, Japanese kankei networks can be formed with people who have different backgrounds. The Japanese place more emphasis on forming rational and logical relationships based on social factors rather than similar backgrounds.

A second difference among guanxi, kankei, and inmak relates to trust. While trust is important in forming guanxi, kankei, and inmak, it may be more important in forming kankei networks. The Japanese do not blindly engage in relationships because people share some background commonality(ies). The concept of kankei is based strongly on trust. Without trust, it is unlikely that a kankei can be formed. However, in Korea inmak can be formed even without first establishing trust.

Finally, although both the guanxi and inmak networks emphasize common background characteristics, the Chinese guanxi is much more family tie orientated than the Korean inmak or Japanese kankei. In Chinese society, family life is central. Many businesses in China are family owned and operated and thus family-oriented behavior is natural to the Chinese (Chen, 2001). Thus, commitment to one's family takes precedence over everything else in China. While, family ties are important in Korea and to a lesser extent in Japan as well, the Korean concept of inmak places most emphasis on geographic ties. For example, there are eight provinces in Korea. The current President, Kim Dae Jung is from the "Chulla Province". Since he became President, the Chulla Province has enjoyed substantially more investments than the other seven provinces. In addition, compared to previous administrations, many of Kim Dae Jung's cabinet members as well as lower level government officials are from the Chulla Province. Thus, the people of the Chulla province with their inmak (i.e., relationships) to the President have enjoyed prosperity.

Regardless of the subtle differences among guanxi, kankei, and inmak, they all imply effective relationships in each country's context. Asian firms are able to reduce transaction costs through the use of guanxi, kankei, and inmak because of the low need for monitoring of the other party's actions. In addition, relationships based on guanxi, kankei, and inmak are particularly effective in acquiring resources needed for gaining a competitive advantage (Standifird and Marshall, 2000). For example, research has shown that relationships based on guanxi help firms build legitimacy and enhance a firm's competitive position. Firms with strong external relationships are better able to obtain resources necessary to gain a competitive advantage. In so doing, these relationships contribute to firm growth in the market and increases in market share (Park and Luo, 2001). Alternatively, firms investing in guanxi, kankei or inmak cannot easily transform internally because of the potential path dependence created by the relationships and resources required to maintain them (Park and Luo, 2001).

Relationships can be informal or formal. The formal relationships exist through interlocking directorates or other interactions and purposeful interdependencies among firms such as strategic alliances (Heracleous and Murray, 2001; Li, 2001). In China, interlocking directorates represent a formal type of guanxi (Peng, Au and Wang, 2001). Whether formal or informal, the resulting networks represent a cluster of interdependent firms that cooperate to achieve and maintain a competitive advantage (Li, 2001).

We may conclude that guanxi, kankei, and inmak represent a form of social capital for Asian firms. This social capital provides the basis for business dealings in each of the respective countries. Additionally, it contributes to the development of business networks in each of the countries.

Family-based decision structures, extended business networks and interdependent conglomerate organizations (formal and informal interrelationships) predominate in Asian organizations (Peng et al., 2001). The conglomerate organizations referred to as business groups include the Chaebol in Korea, Keiretsu in Japan and Jituanqiye in Taiwan. While we recognize that the formation and development of these business groups have been influenced by a variety of institutional (e.g., political and financial structures) and industry factors, we focus on relational capital and its importance to the functioning of business groups; the interdependent nature of these business groups suggests that cooperation and relational capital are important for their success. Our discussion focuses on the Japanese keiretsus because of the criticality of relationships to their success and perhaps failure (Whitley, 1991).

Keiretsus were derived from the earlier zaibatsu which were large industrial organizations evolving from large groups of family businesses involved in multiple industries ('zaibatsu' translated literally means 'financial clique') (Richter, 1999:xiii), with origins as early family enterprises (dozuku) (Bhappu, 2000). Keiretsus seemed to have provided Japanese firms with an advantage over Western competitors for many years. The access to financial capital from the main bank and special deals made by suppliers in the keiretsu contributed to a competitive advantage. But the competitive advantage may have been due in large part to the 'relational access to resources, contracts, and people' (Scher, 1997, 1999), a characteristic of social or relational capital that produces an extensive network that diffuses tacit knowledge.

The competitive advantage created by a keiretsu is the informal yet powerful and effective system of relational access to those, proven to be trustworthy and committed (Dyer, 1998). The benefactors of the keiretsu relationships are rewarded by repeated transactions due to commitment, obligation, and reciprocity, a characteristic especially valuable in uncertain environments.

Membership in the keiretsu provides firms a form of strategic flexibility. In support of this conclusion, research has shown that firms in keiretsus have a different strategic profile from non-keiretsu firms (Geringer, Tallman and Olsen, 2000). Toyota, a keiretsu firm, has strong network ties that have contributed to its high positive performance over time. For example, the network has developed institutionalized routines that have facilitated knowledge transfer between Toyota and its suppliers. According to Dyer and Nobeoka (2000), the network has helped Toyota develop a dynamic learning capability that contributes strongly to its competitive advantage.

Dyer (1998) also found that suppliers in the Japanese automobile keiretsus (kankei kaisha) interacted face-to-face with their parent company 7,270 person days in comparison to 3,181 person days for their independent supplier counterparts. Dyer (1998) argued that this interaction produced rich and committed relationships (e.g., 31% of highly specialized capital investments of a kankei kaisha in comparison to 15% in independent suppliers on average).

While there are many benefits to keiretsu membership, the interdependencies among the firms also have some disadvantages similar to some of the negative outcomes of social capital explained earlier. The interdependencies within keiretsus, for example, place an implied obligation on firms to help others in the network that experience problems. If those problems are severe, all firms in the network can be harmed, as shown in the current-day problems experienced by many keiretsus in Japan. These problems are highly evident in the Japanese high technology industries (e.g., semiconductors), for example (Langlois and Steinmueller, 2000). In addition, members in a keiretsu may have become too complacent with their current relationships and not seek opportunities beyond the network.

In conclusion, control in many Asian firms is maintained through interdependencies, informal relationships and even cross holdings (ownership rights) among firms in the networks (Claessens, Djankov and Lang, 2000). In all cases, managers of the firms in the networks must develop and maintain effective working relationships in order to operate their firm successfully and achieve performance goals. Thus, relationship building and maintenance has been a special managerial skill of importance in Asian firms. Long before it was "popular" in Western firms, Asian companies developed and carefully managed their "social capital."

4. Alliances and trust

As implied in the opening quote, alliances and networks of firms have become a common means of doing business in the 21st century. Networks play a central role in the formation of new firms and the growth of existing firms, primarily because they provide access to resources needed to survive and compete in local, national and global markets (Hite and Hesterly, 2001). This fact has greatly increased the effects of social capital on the competitive capabilities of firms. Social capital facilitates the formation of alliances and contributes to the management of relationships in networks. Firms without adequate social capital may experience challenges in gaining access to resources necessary to compete, especially in global markets. Next we examine strategic alliances and the role of social capital in their development and outcomes.

4.1. Strategic alliances

While strategic alliances have existed for many years, their popularity and use exploded in the 1990s and continued into the 21st century. For example, U.S. firms with $2 billion in annual revenue formed an average of 138 alliances over the period of 1996–1999 (Schifrin, 2001). Strategic alliances are cooperative arrangements between two or more firms to share resources and enhance their competitive position (Hitt et al., 2000; Ireland, Hitt and Vaidyanath, 2002). Alliances can provide access to information, markets, technology, knowledge and other important resources (Hitt et al., 2001c). In global markets, and in many domestic markets, strategic alliances have become critical to firms in the achievement of competitive parity and provide them with the potential to develop a competitive advantage. Few, if any, firms have all of the resources necessary to achieve and maintain a competitive advantage, particularly when operating in global markets. As such, strategic alliances have become a competitive necessity (Harrison et al., 2001).

Several theoretical frameworks have been used to examine the purpose and operation of strategic alliances. Among them are transaction costs (i.e., Heide and John, 1990; Parkhe, 1993), resource-based view of the firm (i.e., Das and Teng, 2000; Hitt et al., 2000; Ireland, Hitt and Vaidyanath, 2002), and social network theory (Ahuja, 2000a; Gulati, 1999). Each of these frameworks provides important explanations for understanding alliances. For example, alliances involve a series of transactions, each of which has costs. Firms form alliances to obtain access to resources and the social context in which firms are embedded affect their strategic actions (Gulati, 1999). However, alliances as a form of social capital to the firm may provide the most insight into alliance relationships (i.e., Dyer and Singh, 1998).

Multinational corporations (MNCs) have found alliances particularly helpful and a necessity in operating in Asian markets. Relationships with Asian firms are important enabling foreign firms to enter and compete in local Asian markets (Singh and Yip, 2000). These firms not only have the local knowledge, but also have the relationships necessary to operate in these markets (guanxi, kankei and inmak). Alliances also provide a means of managing uncertainty in the environment by not only serving as a source of information but also allowing the sharing of risks among partners. Furthermore, local partners can reduce MNCs' uncertainty because of their knowledge of the environment and relationships with important parties in that environment (e.g., government officials, suppliers, customers) (Li et al., 2000; Luo, 2001). For example, many MNCs have found alliances with Hong Kong trading firms to be valuable for entry into the Chinese markets. These trading firms save the MNCs transaction costs because of their own resources and particularly their relationships in China (Li, 2001). Alliances also provide access to local networks of production (e.g., for subcontracting and supply) and R&D (e.g., for local technical and market knowledge) (Pant and Rajadhyaksha, 1996). The arguments lead to the following proposition.

Proposition 1. *Firms with greater social capital are attractive alliance partner candidates.*

A critical issue for MNCs in forming alliances, especially with international partners, is the selection of compatible and appropriate partners (Hitt et al., 2000). Unfortunately, many alliances fail. One reason for their failure is the selection of inappropriate partners (conflicting strategic intents or value systems; unwillingness to cooperate). Firms with good social capital often experience fewer challenges in forming alliances with compatible partners. They know their potential partners well and select the ones that best serve their needs. Additionally, they have knowledge of their compatibility in strategic intent and complementarity in resources. The previous working relationships predict that a new alliance is also likely to succeed. These arguments lead to the following proposition.

Proposition 2. *Firms with strong social capital are more effective in selecting compatible and effective alliance partners.*

An additional issue of considerable importance is managing the alliances to achieve the desired goals. And, another reason for the failure of alliances is the inability to establish a good working relationship thereby forestalling the ability to achieve the planned synergy through the alliance (Ireland, Hitt and Vaidyanath, 2002). Compatibility and an effective working relationship between partners are critical for knowledge transfer and learning to occur in alliances. Again, firms with strong social capital based on prior relationships between the firms in a new alliance will contribute to a more effective alliance. Even if the firms have no prior relationships, partnering with firms having strong social capital has a higher probability of success. Firms with strong social capital have established successful alliances in the past and thus know what is required to achieve alliance success (e.g., cooperation). It shows that other firms have benefited by an alliance with the firm (Hitt et al., 2001a), leading to the following proposition.

Proposition 3. *Firms with strong social capital have a higher probability of developing successful alliances because of their ability to manage relationships with other firms.*

A number of scholars have recently argued that one of the major benefits of alliances is the opportunity to learn new skills and capabilities from partners (i.e., Hitt et al., 2000; Inkpen, 2001; Lane and Lubatkin, 1998). No matter how rich firms' resource endowments are, they rarely have all of the capabilities needed to create and sustain a competitive advantage (Hitt et al., 1998a). Thus, strategic alliances are a potential source of needed capabilities. As such, firms search for partners with valuable and complementary capabilities (Harrison et al., 2001; Hitt et al., 2000). Integrating these complementary capabilities allows firms to gain a competitive advantage. However, most firms desire more than integrating these capabilities in the alliance. They want to acquire the partner's capabilities. Acquiring a partner's capabilities requires two conditions. First, the partner must be willing to share its expertise (Hitt et al., 2000). Second, the acquiring firm must have adequate absorptive capacity to learn the new skills (Lane and Lubatkin, 1998). Generally, both parties must benefit from the alliance for it to succeed (Ireland, Hitt and Vaidyanath, 2002). One way to obtain joint benefit is to work toward collective learning (Larsson et al., 1998). It is critical to avoid learning races between partners or the alliance will most likely end in failure (Hamel, 1991).

For learning to occur, knowledge must be transferred between partners. Such transfer requires that each firm have unique but complementary knowledge stocks (of value to the partner) but also the knowledge stocks must have adequate similarity so that the partner can absorb the new knowledge (Cohen and Levinthal, 1990). To develop the capabilities needed to build a competitive advantage requires the acquisition of tacit knowledge. Tacit knowledge is difficult to transfer even between units within a firm (Hitt et al., 2001b). But, Lane and Lubatkin (1998) argue that many alliances allow partners to get close enough to transfer tacit knowledge. However, to transfer this knowledge requires that the partners have an effective and cooperative working relationship. Thus, building such a relationship as discussed above is critical to the success of an alliance. Firms with strong social capital are better able to build such relationships because of their experience in developing and managing relationships. In other words, these firms have effective relationship development and management competencies. These conclusions lead to the following proposition.

Proposition 4. *Firms with strong social capital are better able to learn from alliances and to transfer knowledge to their partners than firms with weak social capital.*

To build an effective working relationship in an alliance such that partners are willing to transfer their knowledge requires development of trust among the partners (Ireland, Hitt and Vaidyanath, 2002).

4.2. Trust

According to Das and Teng (1998), cooperation between partners in an alliance is based on trust and control. Furthermore they argue that trust and control are supplementary. For example, trust among partners provides each a form of informal control. Trust among the partners provides them confidence that they will work cooperatively toward common goals or goals from which there is mutual benefit. Enhanced trust reduces the need for monitoring (control) and thereby reduces transaction costs in alliances (Jones, 2001). Trust essentially assumes the goodwill and reliability of the partner's action in the alliance (Das and Teng, 1998). As such, trust assumes cooperative and predictable behavior and reciprocity on the part of alliance partners (Ross and LaCroix, 1996). The focus is on inter-firm trust; thus the partner firms must trust each other for cooperative behavior to result. Therefore, trust is a basic component of social capital. Firms with strong social capital can be assumed to be trustworthy. At least they have developed a trusting relationship with several other firms. It should be noted, however, that trust is difficult to develop but much easier to destroy (Blois, 1999).

Barney and Hansen (1994) suggest that there are different levels of trust: weak, semi-strong, and strong. The semi-strong form of trust is usually established by using a combination of formal contracts and informal governance mechanisms. However, the strong form of trust is based on shared values and common standards for behavior that impose high costs for opportunistic actions (Barney and Hansen, 1994). Social capital usually implies strong form trust. Luo (2002) examined trust in alliance relationships and found that the effect of trust on performance was moderated by several contingencies such as the age of the alliance, degree of risk involved, market uncertainty, resource dependency and reciprocal commitment among partners. Trust is more critical to alliance performance when the alliance is young, interdependency is greater, risk is commensurate and there is mutually strong commitment to the alliance among the partners (Luo, 2002).

Early trust in an alliance is based on either a prior relationship between the parties or the partner's reputation for integrity and work with other partners (evidence of social capital). Continuing and strengthening of the trust is based on the partners' behavior and work in the alliance (Jennings et al., 2000). It is critical for firms to avoid opportunistic behavior in an alliance because it will destroy existing trust and prevent development of trust in the future (Wicks, Berman and Jones, 1999). De facto, such behavior is likely to kill the alliance. Even more critical, if a firm engages in opportunistic behaviors, such actions are likely to harm its social capital. Firms from Western cultures may not be as sensitive as firms from Asian cultures are to the problems of opportunistic actions. However, the principle of avoiding opportunism in dyadic Asian firm relationships may only apply for partners for which prior relationships exist (guanxi, kankei and inmak). Hamel (1991) argued that many Japanese firms, for example, entered alliances with U.S. firms to acquire technological capabilities and then end the alliance to become a competitor of their former partners in global markets. This behavior limited their ability to form alliances with foreign firms, particularly firms from the U.S. These conclusions lead to the following proposition.

Proposition 5. *Firms that engage in opportunistic behaviors in working with other firms (e.g., in an alliance), destroy trust and thereby harm their social capital.*

Adler (2001) argues that the trend in inter-firm relationships is to establish and maintain trust. This trend is likely because of the importance of alliances to the partners as a common form of building and maintaining competitive advantage. Firms operating in global markets understand the importance of alliances as sources of resources necessary to compete. Even firms in alliances with high potential for synergy and transfer of knowledge require effective working relationships to realize that potential (Dussauge, Garrette and Mitchell, 2000). As such, they are more willing to cooperate. A number of Asian firms, for example, need access to capabilities necessary for innovation and efficient management (Child and Yan, 2001; Koh, 1998). They must learn from their partners and thus are motivated to make the alliance successful (Tsang, 2001). Similarly, Western firms desire to compete and capture Asian markets. Often they need local market knowledge and access to the local country networks for supply of goods, for distribution of their finished products and for government approval. Such access requires cooperation with local partners (Hitt et al., 2000). Largely, Western firms need access to and desire to use the Asian firms' social capital. Additionally, Western firms must build their own social capital in local and global markets.

5. Conclusions

Many Asian countries exemplified by China, Japan, and Korea have been greatly influenced by Confucianism which stresses that individuals are not isolated entities but a part of a larger system of interdependent relationships. Whether this system is based on guanxi in China, kankei in Japan, or inmak in Korea, it represents a form of social capital with similar characteristics such as transferability, reciprocity, intangibility, and utility (Park and Luo, 2001). Because this relational capital is common in most Asian countries' cultures, Asian firms have been practicing and developing social capital in business dealings for centuries. Boisot and Child (1996) refer to this as network capitalism, a system of reciprocity, trust, commitment and interdependencies that creates value through effective use of social capital. As a result, Asian firms may have a competitive advantage over many Western firms based in countries with more individualized cultures that make it difficult to develop and leverage firm-level social capital. For example, Hitt et al. (2000) found that Western firms, particularly U.S. firms, were not sensitive to their partners' needs in alliances. Additionally, because of their traditional emphasis on relationships and thus strong social capital, Asian firms are likely to make more effective selections of alliance partners (Hitt et al., 2001a). Additionally, the alliances formed by Asian firms have a higher probability of success because of the strong social capital. These conclusions lead to the following proposition.

Proposition 6. *Asian firms have a competitive advantage over Western firms in the formation and management of alliances and networks due to their strong social capital.*

The necessity of building and managing inter-firm relationships to access resources for competitive advantage in global markets makes social capital a critical resource for survival and success. Firms with greater social capital are likely to gain and sustain competitive advantage. However, the challenge for Asian firms, as they attempt to leverage their relational capital and thereby obtain competitive advantage, is to build and manage relational capital on a global basis.

Participating in global networks provides a way for Asian firms to leverage their social capital as well as to minimize the potential negative outcomes such as opportunity costs and path dependence. For example, if guanxi is expanded beyond country boundaries, it may provide Chinese firms with a competitive advantage in global markets. By participating in global networks, Asian firms can build and maintain an expansive net of connections throughout the world by extending their relational linkages. The benefits for Asian firms include the opportunity to build on their relational capital in their home countries and acquire resources and skills from global networks that transcend their home countries. In a sense, Asian firms can exploit synergies in global networks without having to internalize the entire network. These benefits can lead to increasing strategic flexibility for Asian firms that can be critically important for competitive advantage in the 21st century competitive landscape (Hitt et al., 1998b; Lee, Hitt and Jeong, 2002). That is, Asian firms in global networks are in a better position to identify and pursue opportunities in the environment by adjusting their capabilities over time. Global networks also have more diverse capabilities upon which the member firms can draw. Access to these capabilities allows firms to proact or adapt quickly to changing environmental conditions (i.e., to be more flexible).

However, building social capital through global network participation may be a necessary but not sufficient condition for firms to obtain a competitive advantage. For relational capital to be a source of competitive advantage, firms must build the capabilities to effectively manage social capital. In a sense, relational capital-based competitive advantage results only when social capital is managed effectively. For example, a number of the Japanese keiretsus have not been able to manage their social networks effectively over time. These keiretsus have been harmed by the interdependencies within the network and the need to support a weak link in the network.

Additionally, Yamagishi and Yamagishi (1998) found that Japanese managers trust (outsiders) less than their American counterparts do. In fact, the very notion of particularistic, committed relational capital that protected keiretsus against opportunistic behavior may be too expensive to sustain. Furthermore, the general inability to trust may prevent some firms from translating kankei into a competitive advantage in the global arena (Zimmerman, 1985).

However, even under these conditions, Peng, Lee and Tan (2001) argued that keiretsus in Asia continue to provide advantages over non-keiretsu firms. But, the keiretsu networks do place constraints on firms potentially limiting their freedom to develop global networks because of the interdependencies in their domestic or regional (e.g., Asia) networks. Additionally, ethnic Chinese firms sometimes encounter prejudice when operating in other Southeast Asian countries (e.g., Indonesia, Malaysia). They attempt to overcome these problems through establishing a form of political guanxi with other Chinese firms operating in the same region (Tan, 2000). Thus, managing the relational capital in domestic networks is complex; however, managing social capital in global networks represents a substantial challenge. Thus, even Asian firms encounter challenges as they strive to leverage the relational capital embedded in their cultures and manage social capital in global networks.

Of course, firms based in Western countries may also encounter challenges in forming global networks because they do not necessarily build on a natural network of domestic relational ties. We may conclude that Asian firms may be partially constrained (path dependent) because of their strong domestic ties. Alternatively, while Western firms do not necessarily face these constraints, they rarely have the relational competencies held by Asian firms. These arguments suggest the following proposition.

Proposition 7. *Western and Asian firms encounter problems in establishing global networks but the reasons for their problems differ.*

Woolcock and Narayan (2000) describe the concepts of bonding and bridging social capital. Firms participating in global networks must bond with firms within the network (build linkages) as well as bridge with firms outside the network. Bonding is necessary for firms to obtain the benefits of the network (e.g., information sharing and trust). Bridging, on the other hand, enables firms to go beyond their focal network and obtain the resources and capabilities necessary to participate in networks.

Both the number and diversity of ties must be considered in bonding and bridging social capital. A large number of ties may be important to obtain needed resources and skills. However, if the network becomes too extensive, firms may experience significant difficulty in managing it. In addition, a large number of ties may not be sufficient to create value in global networks. The strength of ties is a critical dimension. For example, strong ties can result in information sharing and trust. The quality of information provided is partly related to the strength of the relationship (i.e., trust, degree of interdependence).

Still, strong ties alone may not provide all that is needed for gaining and maintaining competitive advantage in global markets. While firms need high quality and dependable information, they also need a variety of information. The lack of diverse sets of information in some Asian networks has created problems for them. Thus, weak ties are also necessary because they can provide a greater diversity of information. Granovetter (1985) referred to this characteristic of networks as having strength in weak ties. In a sense, global networks will create value when they have structural holes in which the relational contacts do not overlap with one another (Burt, 1992).

A number of propositions have been developed herein. They require further theoretical development and empirical testing. In particular, the ability of Western and Asian firms to develop and manage global networks should be examined. The capability of building global networks is likely to produce a critical competitive advantage in the 21st century competitive landscape.

The often-cited aphorism "It's not what you know but who you know" is relevant to the concept of social capital. Firms in many Asian countries have been practicing and developing the art of "who you know" for many centuries. Firms based in Western countries where relationships have been of smaller cultural importance must develop relational capabilities. However, Asian firms striving to achieve competitive advantage in global markets must leverage and extend their relational capital by building global networks. Thus, effectively managing social capital for competitive advantage in global markets presents challenges for both Asian and non-Asian firms. The new mantra in social capital may be, "who you know globally" and how well the firm manages the relationships in global networks. Thus, the ability to build and manage social capital is a critical managerial capability of the future global corporation.

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