Social Capital and Operational Performance of Domestic Licensed Commercial Banks in Sri Lanka

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Abstract

This study explores the impact of social capital on the operational performance of domestic licensed commercial banks in Sri Lanka. Three dimensions of social capital, namely, relational, structural and cognitive social capital were used as proxies for social capital, while the operational performance of the organizations was measured using cost, quality, flexibility and delivery. Cross-sectional data were collected using a Likert scale type questionnaire from across 100 branch managers of the top five banks, which have "AA" Fitch ratings selected using a multistage sampling technique. OLS regression analysis was primarily used for the statistical analysis. The findings reveal that all three dimensions of social capital had a strong positive relation with operational performance, while the cognitive, social capital showed the highest positive relation. Further, this study revealed that social capital significantly and positively impacts the operational performance of commercial banks in Sri Lanka. The outcome of this study suggests that managers and policymakers can develop mechanisms to improve the social capital of top management as it leads to enhance operational performance. Further findings of the study provide a strong implication on knowledge regarding social capital theory.

Keywords: *relational social capital, structural social capital, cognitive social capital, operational performance, Sri Lanka*

1. Introduction

Operational performance is a strategically important aspect of any entity without which achieving sustainable growth would be questionable. Thus, an entity must pay considerable attention to achieving a higher level of operational performance continuously. In contemporary business, continuous improvement of operational performance of businesses is challenging. Thus, relying only on physical recourses proved no longer valid for continued performance. Hence,

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inquiring into intangible aspects is vitally important. Clopton (2011) argued that while physical and tangible resources can be explicitly accounted for within the managerial realm, intangible resources such as synergy and social networks are much more intricate. According to Zhang & Fung (2006), social capital is a missing concept to the traditional view of the three types of capitals, i.e., natural, physical and human capital. Social capital is a crucial resource capable of creating value for organizations through established linkages (Maurer et al., 2011) and can generate value for the organization by establishing relational, structural and cognitive social capital. According to Hador (2017), the concept of social capital has been applied at the individual (personal), group (external), and organizational levels of analysis and viewed through both content and process perspectives. Based on the content perspective of social capital, this study explored the impact of three dimensions of social capital, namely, structural, cognitive, and relational social capital, on operational performance in the Sri Lankan context. The importance of the listed finance companies' sector towards economic development has been identified in the recent past (Aluvihare & Gunaratne,2018). The banking industry plays a vital role in the Sri Lankan economy as it has been seen as the foundation of the financial system due to its ability to preserve financial stability, generate revenue, and drive economic growth. Thus, this study focused on the social capital and operational performance of domestic licensed commercial banks (DLCBs), a major category of financial sector companies in Sri Lanka.

A growing range of sociologists, political scientists, and economists have considered the concept of social capital in their fields (Kwon & Adler, 2014). A considerable body of literature associated with the social capital dimensions and their contributions to various facets of operational performance can be found in the international context. For instance, studies based on the banking industry in Erbil (Hamad et al., 2019), servitization industries in China (Zhang et al., 2017), the apparel industry in Brazil (Celestini et al., 2014), micro and small-scale industries in Ghana (Agyapong et al., 2017) etc. have reported mix and controversial results. Besides, social capital related studies in the Sri Lankan context remained unexecuted despite the relative importance of the concept. Therefore, this study investigates the impact of the three dimensions of social capital, i.e., relational social capital, structural social capital and cognitive social capital on the operational performance of DLCBs in Sri Lanka.

2. Literature Review

The concept of social capital provides a theoretical viewpoint on how the firm achieved its goals with other similar social networks (Carey et al., 2011). According to Chang and Chuang (2011), the triple interrelated dimensions of social capital, namely relational, structural, and cognitive, are essential for effectively utilizing critical resources of the organization. As per Ghahtarani et al. (2020), the relational social capital dimension emphasizes the strength of these social relationships over trust and trustworthiness, and the structural social capital dimension emphasizes the level of intimacy and closure between social network members, while the cognitive social capital dimension emphasizes the mutual values, norms and beliefs existing amongst the social networks. Based on the studies of Zhang et al. (2017), operational performance refers to the degree to which operations of an organization can accomplish the goals of being accurate, fast, on time, productive, and responsive to adaptable. The three dimensions of social capital may impact operational performance in distinctive ways. According to Doz (1996), when trust is achieved, employees and partners will obtain an ability to share experience and knowledge, provide a system for sharing information, and improve organizational performance.

Furthermore, an organization can achieve high performance and various benefits in competitive advantage by establishing powerful structural capital inside the organization (Lawson et al., 2008). As per Claridge (2018), cognitive social capital is built within an organization to create value by sharing language, codes, narratives, attitudes, and belief among the staff to strengthen the ties of an organization to enhance the organization's performance. As all the previous studies have been conducted in an international context, this study examined the nexus of social capital and operational performance in a new market setting in Sri Lanka with special reference to DLCBs.

3. Methodology

The study adopted a quantitative approach representing the deductive research design and cross-sectional data collected using a Likert scale-type questionnaire. The questionnaire consisted of three dimensions of social capital (Tantardini and Kroll 2016) and four operational performance criteria (Yu et al., 2014). Data were collected across 100 branch managers from the top five domestic licensed commercial banks, which have their national ratings as "AA" by Fitch Ratings. The branches were selected based on five provinces with the highest number of DLCB branches in Sri Lanka using multistage sampling techniques. The dependent variable of this study was operational performance, while the independent variable was social capital. The social capital was measured using three dimensions, i.e., relational social capital, structural social capital, and cognitive social capital. A composite index was also developed to assess the overall social capital. Regression models as illustrated in equation (1) and (2) were used for the statistical analysis.

$$OP = a + \beta_1 SC + \varepsilon \text{ .... (1)}$$

$$OP = a + \beta_2 RSC + \beta_3 SSC + \beta_4 CSC + \varepsilon \text{ .... (2)}$$

In equation (1) and (2), α denotes the intercept, the value of operational performance when the value of social capital is zero, β denotes the slopes, OP denotes Operational Performance, SC denotes Social Capital, RSC denotes Relational Social Capital, SSC denotes Structural Social Capital, CSC denotes Cognitive Social Capital, and Ɛ denotes the error term.

4. Results and Discussion

Descriptive statistical analysis was conducted to describe the basic features of the data. A correlation coefficient analysis was conducted to quantify the degree to which two variables are correlated and the respective test results are presented in Table 1 and Table 2 below.

Table 1: Descriptive Statistics

Variable	Mean	SD	Skewness	Kurtosis
Relational Social Capital	3.92	.601	.033(.241)	-.823(.478)
Structural Social Capital	4.05	.604	-.435(.241)	-.023(.478)
Cognitive Social Capital	4.20	.590	-.415(.241)	-.636(.478)
Operational Performance	4.19	.532	-.531(.241)	-.515(.478)

Source: SE in parentheses

Table 2 : Correlation Results

Pair	Correlation	*p*-value	Relationship
Relational social capital with Operational performance	.688**	.000	Strong positive Correlation
Structural social capital with Operational performance	.731**	.000	Strong positive Correlation
Cognitive social capital with Operational performance	.809**	.000	Strong positive Correlation

** Correlation is significant at the 0.01 level (2-tailed).

OLS regression technique was primarily used for the statistical analysis. The regression results revealed a positive impact of social capital on operational performance ($\beta = 0.820$, $p < .05$). In other words, one unit increase in social capital enhances operational performance by 0.820. Moreover, 68.4 percent of the total variation of operational performance is explained by this model, and the model is significant ($R^2 = .684$). After recognizing a significant positive impact of social capital on operational performance using equation 1, a multiple linear regression analysis using equation 2 was used to investigate the impact of individual dimensions of social capital on the operational performance of DLCB in Sri Lanka. The results revealed that 72.7 percent of the total variation of operational performance is explained by this model ($R^2 = .727$, $F(3, 96) = 85.041$, $p < .005$). The coefficients of relational social capital (0.281), structural social capital (0.107) and cognitive social capital (0.551) indicate their contribution to operational performance.

In summary, social capital as a whole and social capital dimensions individually impact the operational performance of DLCB in Sri Lanka. The findings of this study are consistent with Andrews (2010) concerning relational social capital and operational performance. High levels of trust between organizational leaders and members seem to result in better outcomes. Moreover, findings are consistent with Korte and Lin (2013) concerning structural social capital and operational performance. They reported that freshers should understand the structure of the groups and relationships already established for collaborating social interaction within the organization.

Further, the findings on cognitive social capital are consistent with Densten (2005), where cognitive social capital positively influences organizational performances. As per Kwon and Adler (2014), social capital is an intangible asset of the organization, based on positive interactions between organizational functions, such as managers, employees, and stakeholders. As per Tantardini and Kroll (2016), strong relationships, high levels of trust, and a mutual sense of common goals among organizational members reflect assets that can be appropriated by organizational leaders seeking to enhance decision-making and performance recourse to potentially costly control and monitoring procedures.

5. Conclusion

The purpose of the study was to explore the impact of social capital on the operational performance of DLCB in Sri Lanka. Findings of the study revealed that all three dimensions of social capital had a strong positive relation with operational performance, while the cognitive social capital showed the highest positive relation. This study provides knowledge in the context of social capital, particularly in the importance of social capital in achieving the operational performance of DLCBs in Sri Lanka. The findings of this study would be beneficial to managers and other employees in the banking industry to maintain good relationships and manage networks with others. Thus, this study recommends that the top management of the DLCB pay attention to improving social capital to enhance their operational performance. Future studies can investigate the same model for other industries and follow a mixed-method approach rather than a quantitative analysis.

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