

Evidence on the Effect of Relational and Structural Social Capital on Firm Performance

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Statement of Originality

I hereby certify that the work embodied in the thesis is my own work, conducted under normal supervision. The thesis contains no material which has been accepted, or is being examined, for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made. I give consent to the final version of my thesis being made available worldwide when deposited in the University's Digital Repository, subject to the provisions of the Copyright Act 1968 and any approved embargo.

Tazrina Farah

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List of Abbreviations

ABS	Australian Bureau of Statistics
CAPEX	Capital Expenditures
CEO	Chief executive officer
CFO	Chief financial officer
CSR	Corporate social responsibility
ESG	Environmental, social and governance
ESGC	Environmental, social and governance combined
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GICS	Global Industry Classification Standard
MTB	Market-to-book ratio
OCF	Operating cash flow
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary least squares
ROA	Return on assets
RSC	Relational social capital
SSC	Structural social capital
TR	Thomson Reuters
US	United States
VIF	Variance inflation factor
WGI	World Governance Indicators
WVS	World Values Survey

Abstract

This thesis investigates the effect of social capital on firm performance. I argue that the impact of firm-level social capital can be contingent on its categorisation and measurement. Using a sample of 10,122 United States firm–year observations for the period 2005–18, the first empirical study examines the influence of trust-based relational and social network-based structural social capital on firm performance. The empirical results show that relational social capital positively influences firm performance, whereas the effect of structural social capital is negative. Results are robust to the use of alternative proxies of social capital, alternative model specifications and tests for endogeneity.

The second empirical study investigates the same relationship using a comprehensive global sample consisting of 24,980 firm–year observations covering 30 countries for the same period as in the previous study. This study too reports a positive effect of relational social capital and negative impact of structural social capital on firm performance, aligning with the findings of the first empirical study. The results are robust to a battery of sensitivity tests. This international study also tests the moderating effects of several country-level factors on the relationship between relational social capital and firm performance. The findings indicate that relational social capital has a stronger influence on firm performance in countries where the country-level social capital is higher, markets are developed, country-level governance is stronger and the legal system operates under a common regime.

Overall, the findings suggest that firm-level social capital plays an important role in determining firm performance; nevertheless the direction and magnitude of influence depends on the type of social capital. This finding is expected to help companies estimate their stock of social capital, and policy makers to evaluate the value relevance of social capital.