Social Capital, Capabilities, and Performance of Korean Immigrant-Owned Fashion Businesses in the Los Angeles Area

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The contributions of Korean immigrant-owned fashion companies (KIOFCs) are increasing in the U.S. fashion industry. In the LA Fashion District (LAFD), about 2,000 of the 2,500 apparel wholesale operations are owned by Korean immigrants. When indirect and direct businesses are taken into account, the number of Korean immigrants involved in the LAFD constitutes approximately 100,000 (Song, 2013). The fashion companies based on the Korean diaspora network of the LAFD are growing rapidly (e.g., Forever 21, Papaya Clothing, and miss me) (Kim, 2013). In 2015, KIOFCs occupied about 70 percent of total booths in young junior/contemporary section of the Las Vegas MAGIC show, one of the largest fashion trade shows in the U.S (Baek, 2003; Lee, 2015). Despite a big part of the U.S fashion industry, it does not yet address how KIOFCs can obtain competitiveness in the fiercely competitive fashion market. To close the gap, this study examined the relationships among social capital, company capabilities, and company performance. The findings of this study add to the growing literature on immigrant-owned businesses and help that KIOFCs build a successful business model for the improvement of company performance.

Based on an integrated conceptual framework of the social capital theory (Nahapiet & Ghoshal, 1998) and the resource-based view theory (Barney, 1991), social capital (i.e., network ties, relational social capital, and cognitive social capital), company capabilities (i.e., internal capability and external capability), and company performance were conceptualized as higher-order multidimensional constructs because merging lower-order multiple constructs into a single higher-order construct can provide a more parsimonious explanation and enable understanding through an underlying common concept (Hair, Ringle, & Sarstedt, 2014).The lower-order constructs were included: a) *inmaek*, b) business activity, c) social interaction for network ties; a) trust, b) commitment, c) tie strength for relational social capital; a) shared language, b) shared culture, and c) shared vision for cognitive social capital, a) new product design and development and b) buyer-linking capabilities for internal capabilities; a) sourcing and procurement and b) logistics and distribution capabilities for the external capabilities; and a) buyer performance, b) market share, and c) financial performance for company performance. In addition, ten hypotheses were developed. Network ties (H_1) and cognitive social capital (H_2) will positively affect relational social capital. Relational social capital will positively affect internal capability (H_3) and external capability (H_4). Internal capability (H_5), external capability (H_6), relational social capital (H_7), network ties (H_8), and cognitive social capital (H_9) will positively affect company performance. The relationship between relational social capital and company performance will be mediated by internal capability (H_{10a}) and external capability (H_{10b}).

Data collection targeted fashion companies owned by 1st, 1.5, and 2nd generation Korean immigrants in the Los Angeles area. For the convenience of the Korean immigrant respondents, two versions (Korea and English) of the questionnaire were developed. The questionnaire was first developed in English, then translated into Korean by employing both parallel-translation and committee-translation techniques in order to express identical meanings in both Korean and English questionnaire versions. Through in-person and online surveys, a total of 229 questionnaires [in-person ($n = 160$) and online ($n = 69$)] were collected. After screening inappropriate data including irrelevant or missing information (e.g., non-Korean owners, the generation of immigrants, and low knowledge levels), data from 171 usable surveys were used for the analysis of this study. Descriptive statistics were used to assess the firmographic and demographic characteristics. Before testing hypotheses, preliminary analyses were conducted with t–test for the possibility of non-response bias, Sknewness and Kurtosis for the data normality, and an exploratory factor analysis (EFA) for the dimensionality of constructs, and a reliability of extracted factors. The main analysis of this study was Partial Lease Squares (PLS)-SEM analysis using SMART PLS program due to the concerns about non-normality and the small sample size. A post-hoc test was performed to assess the reliability of PLS model using G*Power program.

Using the PLS modeling approach (including second-order constructs), the results of this study showed that cognitive social capital had a high impact on relational social capital ($\beta = .51$, $t = 5.83$, $p < .001$) and company performance ($\beta = .22$, $t = 2.96$, p $< .001$). The effect of relational social capital on internal capability ($\beta = .55$. $t = 7.11$, $p < .001$) and external capability ($\beta = .56$, $t = 8.95$, $p < .001$) was significant. The effect of external capability on the company performance ($\beta = .38$, $t = 4.10$, $p < .001$) was stronger than internal capability ($\beta = .28$, $t = 2.73$, $p < .01$). Additionally, this results confirmed that internal and external capabilities fully mediated the relationship between relational social capitals and company performance. On the other hand, the results did not support that the network ties-based *inmaek*, business activities, and social interaction were related to relational social capital and company performance respectively. Thus, seven out of ten hypotheses ($H_2 – H_6$, $H_9 – H_{10b}$) were supported, but H_1, H_7, and H_8 were rejected. Finally, the final PLS model was assessed with R^2 and Q^2 values, and the model quality was in the satisfaction level.

In conclusion, the present study findings suggest that fashion companies need to engage in the following activities with business partners in order to achieve a higher degree of buyer, market, and financial performance; 1) enhance cognitive social capital such as business vision and culture with business partners and 2) make efforts for relational social capital, such as trust and commitment with business partners which help to improve company capabilities. Future research is recommended to identify significant network ties which contribute to business performance as considering the various stages of business growth.

References – Available Upon Request