A longitudinal analysis of the moderated effects of networking relationships on organizational performance in a sub-Saharan African economy

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Abstract:

The conventional wisdom from studies in both advanced Western economies and emerging economies indicate that managerial networking relationships matter. This article examines the circumstances under which managerial networking relationships matter by focusing on how the effect of managerial networking relationships on organizational performance is contingent upon certain organizational and environmental characteristics. The development and utilization of managerial networking relationships with external entities is broadened to include those with top managers of other firms, political leaders, government bureaucratic officials, and community leaders. Using data from 106 organizations in Ghana over two time periods, the findings show that only managerial social networking relationships with top managers of other firms, government bureaucratic officials, and community leaders enhance organizational performance. Moreover, the effect of networking relationships on performance is contingent on organizational as well as environmental characteristics. The findings of the moderating analyses clearly indicate that firms in Ghana should not establish networking relationships with external entities without considering the characteristics of their organizations and the environment.

Keywords: Ghana | market competition | networking relationships | organizational characteristics | organizational performance | sub-Saharan Africa

Article:

Introduction

It is not only *what* you know that affects your performance, but also *who* you know. This adage sums up much of the conventional wisdom about the effects of managerial networking relationships developed with external entities on a firm's activities. Organizational and industrial sociological theorists have argued that managerial actions are embedded in social networks of interpersonal relationships (Granovetter, 1985; Laumann et al., 1978). The development and exploitation of managers' social networking relationships with external entities creates social capital for organizations because it establishes the avenues for the exchange of valuable information, resources, and knowledge (e.g. Adler and Kwon, 2002; Burt, 1997; Gulati, 1998).

In this study, we use data collected in two time periods from Ghana, a sub-Saharan African (SSA) economy, to investigate how the association between managerial networking relationships with external entities (top managers of other firms, political leaders, bureaucratic officials, and community leaders) and performance is contingent on an organization's age, size, ownership structure, and market competition. Some of the hallmarks of Ghana's transition economy are the creation of different forms of business organizations with the principal forms being wholly-owned enterprises by domestic entrepreneurs and international joint ventures between domestic enterprises and foreign firms as a result of the adoption of economic policies integrating the local economy into the global economy. There is also an increase in the entrepreneurial zeal in the country leading to a significant increase in the number of locally-owned private businesses, which has created great disparities between the sizes and the ages of organizations with differential resource endowments and the utilization of networking relationships with external entities to obtain the requisite resources for the strategic organization of activities. In addition, the increase in competition in the business environment created by the economic reforms has the potential to influence the utilization of networking relationships with external entities, and how those networking relationships affect firm outcomes. Thus, the contextual environment of this study offers unique benefits for studying how the boundary conditions of the networking-performance relationship has the potential to add value to networking relationship studies and theory development in emerging economies.

At the organizational level, social networking relationships and the social capital they generate have been shown to influence the strategic organization of firm activities and performance. First, research in the Western industrialized economies has shown that social networking relationships, which are operationalized as relationships between a firm's managers and top managers of other firms (suppliers, customers, and competitors) matter. While some studies indicate that networking relationships with top managers of other firms are related to several measures of firm outcomes (e.g. Leana and Pil, 2006; Pennings et al., 1998; Rowley et al., 2000; Uzzi, 1996, 1999; Yli-Renko et al., 2001), others show that networking relationships and ties can have detrimental effects on firm outcomes (Gargiulo and Benassi, 1999, 2000). In addition, Rowley et al. (2000) has demonstrated that the effect of relational social capital on firm performance is contingent on industry type (semiconductor vs steel), while Yli-Renko et al. (2001) show that knowledge acquisition mediates the relationship between relational social capital and firm outcomes such as new product development, technological distinctiveness, and sales cost effectiveness. At the same time, Gulati and Higgins (2003) have shown that the effect of network ties on IPO success is contingent on the type of uncertainty in the equity markets. Network ties to prominent venture capital firms for biotechnology start-ups lead to IPO success during cold markets, while network ties to prominent investment banks are beneficial to IPO success during hot markets.

Second, research from Asia has refined and extended our understanding of the social networking–performance relationship by examining the performance impact of the social networking relationships with a) top managers of other firms, and b) government officials because of the role of government in resource allocation in most emerging economies. The findings from these studies indicate that social networking relationships with both top managers of other firms and government officials by domestic firms improves performance (e.g. Lee et al., 2001; Li and Zhang, 2007; Li et al., 2008; Luo, 2003; Park and Luo, 2001; Peng and Luo, 2000).

However, while networking with managers of other firms by foreign firms in China improves performance, that with government officials by foreign firms impede performance (Li et al., 2009). Moreover, some of these studies have shown that the social networking–performance relationship is contingent on ownership type (state owned enterprises (SOE) vs non-SOE (Li and Zhang, 2007; Peng and Luo, 2000); domestic vs foreign firms (Li et al., 2008), competitive intensity (Li and Zhang, 2007; Li et al., 2008), business sector (service vs manufacturing), firm size, and firm growth (Peng and Luo, 2000)).

While the studies from the Western world and Asia have shown that networking relationships have direct and contingent effects on firm outcomes some of these findings may not generalize to SSA in general and Ghana in particular. This is because there are significant differences in the cultural, institutional, economic, and socio-political environments between SSA economies and the economies in the Western world on the one hand, and SSA economies and Asian economies on the other hand. It has also been argued that the development and exploitation of social capital generated by networking relationships is context and environment specific because it is by nature dependent on personal and social interactions (Leana and Pil, 2006). The following are the differences between SSA and the Western world. First, in the Western world, the market mechanism for the exchange of resources through arms-length transactions is well developed and the institutional environments are also fairly stable. On the other hand, SSA economies are generally characterized by high levels of market imperfections and the absence of market-supporting institutions, specialized intermediaries, contract-enforcing mechanisms, and efficient transportation and communication networks (e.g. Khanna and Palepu, 2006), creating higher levels of uncertainty in the business environment. Second, SSA economies have historically insulated domestic firms from global and sometimes domestic competition. However, governments in most of these countries are currently transforming their economies from state-controlled to free market capitalist systems by implementing economic transformation policies through the dismantling of protectionist barriers, adoption of free trade policies, creation of market-friendly institutions, and the integration of these economies into the global market economy. Although the free market reforms are nurturing an open economy and intensifying competition in the business environment, they are constrained by cultural norms, social beliefs, and existence of a large public sector with its bureaucratic procedures and processes. Thus, organizations in SSA still face significant challenges in terms of their ability to obtain competitively the necessary resources through arms-length transactions because of the co-existence of the underdeveloped market mechanism and the allocation of resources by the government.

Third, SSA economies are plagued with pervasive and high levels of corruption because of the presence of red tape and regulatory meddling in the economic and business environment by politicians and bureaucrats (Adjibolosoo, 1995). In fact, the political environment in SSA is new to Western democratic principles, but there is a clear separation between politicians and civil service bureaucrats in most SSA economies. The political environment is, however, characterized by the ‘winner-takes-all’ philosophy such that the primary beneficiaries of any resource allocation by the government are those with strong networking ties to politicians in power.

Despite the fact the there may be some similarities between SSA economies and Asian economies, such as the high levels of market imperfections and uncertainty, implementation of economic transformation policies, and the prevalence of corruption, there are wide-ranging differences between SSA economies in general and Ghana in particular, and Asian economies in the form of social norms, cultures, political environment, and even the levels of environmental uncertainty and business risks. The social system in most SSA economies is made up of strong traditional and religious institutions with belief systems where interpersonal relationships are deeply imbedded. These traditional institutions create a high level of communal bond and mandate a strong allegiance and loyalty to the leadership of ethnic groups who weld social and traditional political authority as kings and chiefs of various communities. The ownership, control, and distribution of property (especially land resources) in the communities are in the hands of the traditional social and political authorities and not the government. Moreover, the traditional institutions function as a 'mutual aid assistance society' in which each member has both the responsibility and obligation to help others, and the right to receive assistance when needed (Codjoe, 2003). This has lead to the cultivation and maintenance of strong interpersonal ties among individuals and families for facilitating transactions. Thus the social system with its networks of interpersonal and social relationships acts as an economic and social unit of production and offer assistance to members in the form of financial resources, access to market opportunities, and access to influential traditional and religious leaders for business operations. So managers and entrepreneurs in most SSA rely on the connections and relationships they have developed with individuals both within and outside their traditional social systems who have power and authority to help them obtain the resources they require for the strategic organization of their business activities. This makes it possible to extend the development of social capital from the networking relationships with external constituents to include those with community leaders.

The political structures and institutions in SSA in general and Ghana in particular are different from that in China, which has been the focus of most networking studies in Asia. All the studies focusing on China have classified politicians and government bureaucrats together as either government officials or political officials because they presumably perform similar roles in the control and allocation of resources. But, in Ghana, there is a distinction between the role of politicians and bureaucratic officials. While politicians are elected into office for a specified period of time, bureaucratic officials are supposed to be politically neutral in the performance of the job and therefore hold their position irrespective of the political regime in power. Moreover, while politicians have significant influence and control over the award of major projects and contracts, and access to financial resources for business activities, bureaucratic officials control the regulatory and licensing procedures such as providing certification and approval to newly manufactured products as meeting government standards.

An examination of the brief review of the studies above indicates that none of the studies in the Western world and Asia has examined the direct and contingent role of social networking relationships with community leaders (traditional and religious leaders) on the strategic organization of firm activities notwithstanding the importance of community relationships in SSA and Ghana in particular. Moreover, though the Asian studies have examined the role of government officials, they did not separate government officials into politicians and bureaucrats, despite the fact that these two groups perform different roles in the control and allocation of resources in SSA. The variations in the focus of the types of social networking relationships that can be developed by firms in SSA, Asia, and the Western world have prompted this investigation of the effects of managerial networking relationships on the strategic organization of firm activities in SSA. The uniqueness of the traditional institutions, the religious environment and political institutions in SSA, and the high level of uncertainty in the business environment make the use of ties salient, and thus allows for a strong investigation of the boundary conditions of networking relationships with other constituents in a way not possible in other contexts. Thus, the extant studies provide an opportunity to extend our understanding of the boundary conditions that affect how organizational and environmental characteristics influence the nature of the association between networking relationships and organizational performance in a SSA environment, and thus contribute to the social networking literature. Furthermore, none of the studies in Asia has examined the networking–performance relationship with data from more than one time period. In this article, we address these gaps by introducing social networking relationships with community leaders, and politicians and bureaucratic officials separately in a model that examines the contingent relationship between social networking relationships and firm performance by asking the question: how do environmental and organizational characteristics moderate the relationship between networking relationships with other external stakeholders and performance in SSA?

The importance of this study is further buttressed by the fact that two special issues of strategy research focusing on emerging economies (Hoskisson et al., 2000; Wright et al., 2005) have both lamented the lack of research attention to Africa and the Middle East. Recognizing that most attention in such economies has focused on Asia, with a gradual increase in studies of South America, Wright et al. (2005: 26) stated that 'the growing body of research on strategies in South America . . ., has not been matched by research on Africa and the Middle East. Given the importance attached to institutional issues, additional research on these regions is to be welcomed.' Moreover, Shenkar (2004) has argued for the importance of validating theory in diverse geographical contexts and developing feedbacks into theory development 'because they provide for an environment that is markedly different from the one in which a given theory was developed'(p. 168). Therefore, Ghana, which epitomizes the characteristics of SSA economies discussed above, serves as a rich context to examine the contingent effect of networking relationships on performance in sub-Saharan Africa because of the unique traditional institutional and religious environment, which can be generalized to other environmental contexts. Investigating managerial networking relationships in an African context enables us to extend and enrich our perspective on the prevalence and persistence of networking relationships in other emerging economies.

Conceptual background and hypotheses development

The social networking literature presents a variety of motives such as personal, social, economic, and political for the formation of networking relationships (see Adler and Kwon, 2002). Social networking theory relies on the premise that personal and social networking relationships and ties provide value to organizations in a network by allowing them to tap into the resources embedded within the network to their benefit (Bourdieu, 1985; Lin, 2001). A social network can be defined as 'a set of nodes (e.g., persons, organizations) linked by a set of social relationships (e.g., friendship, transfer of funds, overlapping memberships) of a specified type' (Laumann et al., 1978; 458). The personal and social networking relationships developed as a result of an individual's or organization's embeddedness in a network or external linkages with others serve as a conduit for the transmission of resources, information, and opportunities (Gargiulo and Benassi, 2000). Embeddedness can be distinguished into two types – relational and structural (Granovetter, 1992). Relational embeddedness refers to the degree to which economic actions and outcomes are affected by the dyadic (pairwise) relationships among actors. It stresses the role of cohesive ties and social relationships in acquiring resources, information, and knowledge to foster the performance of economic activities. Structural embeddedness deals with the extent to which economic actions and outcomes are influenced by the overall network of relations. It emphasizes the informational value of the position an actor occupies in the network, therefore shifting the focus from the dyad to the system (Gulati, 1998; Marsden and Friedkin, 1993). In this study, we focus on the relational embeddedness that creates social capital as a result of an organization's leadership's personal and social networking relationships with external entities such as those with suppliers, customers, competitors, trade or employee associations, government political and bureaucratic institutions, and community organizations and institutions. The social capital developed as a result of relational embeddedness is usually operationalized as the connections and ties held by top managers with external entities because top managers are the key boundary spanners in organizations (Collins and Clark, 2003; Geletkanycz and Hambrick, 1997).

Extant research has demonstrated that there are both direct and contingency effects of social capital developed from networking relationships on organizational outcomes. Empirically, several researchers have established a positive link between the social capital developed through relational networking relationships and organizational performance. It has been shown that social capital facilitates new product development, technological distinctiveness, and sales cost effectiveness (Yli-Renko et al., 2001), and increases productivity and performance (Acquaah, 2007; Keister, 1998; Leana and Pil, 2006; Lee et al., 2001; Li and Zhang, 2007; Peng and Luo, 2000; Rowley et al., 2000). Social capital from relational networking relationships also improves an organization's chances of survival (Pennings et al., 1998; Uzzi, 1996), adds value through product innovation (Tsai and Ghoshal, 1998), helps organizations secure financial resources (Uzzi, 1999), and facilitates the transfer of knowledge (Kale et al., 2000).

From a contingency perspective, it has been shown that the impact of social capital on organizational outcomes is also contingent on firm characteristics and the industry and competitive environment. Peng and Luo (2000) have shown that the impact of relational networking relationships on organizational performance is higher for smaller firms, service as opposed to manufacturing firms, and firms in low-growth industries. It has been shown by Acquaah (2007) that the impact of social capital on performance is contingent on the implementation of a coherent competitive strategy. Rowley et al. (2000) have also shown that the effect of relational social capital in the form of strong ties on firm performance is dependent on industry context – a strong tie in a highly interconnected strategic alliance network is suboptimal for firms in the semiconductor industry as compared with those in the steel industry. It has further been shown that the impact of networking relationships on performance is dependent on ownership type (state-owned vs non-state-owned firms; domestic vs foreign firms), and the competitive environment (Li and Zhang, 2007; Li et al., 2008). Thus the evidence shows that managerial networking relationships matter to organizations, but the value of networking relationships to organizations are contingent on various organizational and industry characteristics.

However, most of these studies have focused on the social capital developed from networking relationships with managers of other firms. Moreover, those studies considering networking with government officials have not separated politicians from bureaucratic officials (e.g. Li and Zhang, 2007; Li et al., 2008; Peng and Luo, 2000), although these two actors play different roles in controlling resources in other emerging economies such as those in Africa. Furthermore, because the contexts of most of the extant studies do not have strong traditional social institutions that extol communal bonds and strong allegiance to community leadership in the form of kings and chiefs, networking with community leadership has received little attention. In this study, we address these gaps by examining how the effects on performance of networking relationships with managers of other firms, political leaders, government bureaucratic officials and community leaders are moderated by organizational characteristics and market competition using data over two time periods, which is unique in networking studies in emerging economies.

A contingent view of networking relationships

The social networking relationships and ties managers develop with external entities in a highly uncertain business environment such as is the case in Ghana provides an organization with several benefits. The benefits include secure access to financial and strategic resources, exposure to valuable information about products, marketing, and technology, and creation of opportunities for knowledge acquisition and exploitation (Dyer and Singh, 1998; Lane and Lubatkin, 1998). This is owing to the ineffectiveness of market-supporting institutions in facilitating economic exchange and lack of access to information, resources, and knowledge required for the strategic organization of activities in an effective and efficient manner; and also the strong collectivistic culture of the social system that encourages commitment and support for next of kin.

Ghanaian managers are embedded in a traditional social system whose cultural norms and values favor communal support, commitment to reciprocity and equity, so they develop ties with their peers who may be their suppliers, customers, or competitors within and outside their traditional social systems to navigate the uncertain business environment. Networking relationships between managers and their key customers and suppliers facilitate the creation, acquisition, and exploitation of knowledge (Yli-Renkoet al., 2001). Networking relationships and ties with customers create both customer and brand loyalties, and increase sales (Luo, 2003), while those with suppliers provide access to quality raw materials, superior service, fast and reliable deliveries, and financial resources, which allow them to improve firm performance.

The government also plays an important role in regulating business activities and providing resources and opportunities in Ghana and many other sub-Saharan African economies. This creates a high level of organizational dependency on governments for valuable resources and favorable regulations. Managers in Ghana therefore develop personal and social networking relationships with politicians at different levels of government, and officials in government bureaucratic institutions (Adjibolooso, 1995; Kuada and Buame, 2000). Politicians and government bureaucratic officials still have considerable power and control over the allocation of resources in Ghana. Politicians have control over most financial institutions and the awarding of major contracts, while bureaucratic officials control the regulatory and licensing procedures. Politicians and bureaucrats can therefore provide an organization with access to resources and opportunities that may affect an organization’s activities (Adjibolosoo, 1995). Therefore, organizations whose top managers develop extensive personal and social networking relationships with politicians and bureaucratic officials will more easily be able to secure the resources necessary for the strategic organization of their activities and be successful in guiding their firms to higher performance.

The social system of Ghana is highly collectivistic and embedded in cultures and traditions that thrive on communal bonds, interpersonal relationships, and strong allegiance to community leadership (Adu-Febiri, 1995). Thus, the extended family and broader community (especially kings of ethnic groups, chiefs of towns and cities, and village heads, who are seen as the cultural standard bearers) play a significant role in the lives and activities of individuals and organizations. Religious leaders, whether traditional or modern (e.g. Christian, Islamic, etc.), have also become very influential in decision-making among individuals and business leaders in Ghana. This is because of the high levels of shared trust, norms, and values developed from the repeated informal interpersonal relationships between a community and its traditional and religious leadership. Therefore, community leaders in Ghana such as the local chiefs, kings, and religious leaders are the guardians of societal norms, shared understandings, and expectations, which define socially acceptable practices and behavior in a community’s business environment (Salm and Falola, 2002). Moreover, community leaders are very influential in garnering resources and providing access to valuable information and knowledge to businesses and managerial connections with them will provide a firm with the resources for their business activities.

The networking relationships developed by an organization’s managers with community leaders facilitate the organization’s legitimacy and promote access to resources and information as the community leaders endorse the organization and its activities in their communities. This may enable the organization to obtain access to resources such as favorable leases to land for construction or agricultural purposes, enter new market segments or acquire access to new customers, and/or gain technological know-how. It has been shown that entrepreneurs in Ghana cultivate personal and social networking relationships with community and religious leaders to avail themselves to information about business opportunities, and establish links to sources of financial resources and markets for their products (Kuada and Buame, 2000).

We argue that the effect of the networking relationships managers of firms in Ghana develop with their peers, politicians, government bureaucratic officials, and community leaders will enable their firms to strengthen their resource endowments and competitive position, and thus enhance performance. Nevertheless, the benefits from the managerial networking-performance relationships will be contingent on the firm’s age, size, and ownership structure, and the intensity of competition in the market environment.

Networking relationships and organizational age

The age of an organization may influence its ability to establish and learn from networking relationships, and may predict how the extent of networking relationships developed will affect performance, as suggested by the liability of newness argument (Stinchcombe, 1965). The evidence from networking studies in emerging economies indicates that firms that develop stronger ties and more extensive networking relationships with external constituents reap greater performance benefits than firms with weak ties and few networking relationships with external constituents (e.g. Li and Zhang, 2007; Peng and Luo, 2000). Older organizations in Ghana are either subsidiaries of multinational organizations that were established during the colonial era or state-owned enterprises established after the attainment of independence in 1957. They are therefore stable, have acquired institutional legitimacy, and find it easier to navigate the uncertain business environment. On the other hand, most of the younger organizations in Ghana were formed after the initiation of the economic transformation policies and the opening up of the economy in the mid-1980s. These younger organizations typically lack legitimacy and the necessary resources needed for their survival and growth. Moreover, younger organizations are less insulated from the surge in competition from the economic reforms and the high level of uncertainty in the business environment. However, these younger organizations identify with, and are more connected to, the social system and therefore benefit from the trust, loyalty, and inclusiveness mandated by the traditional institutions of kingship and chieftaincy. Younger organizations have therefore become more proactive and assertive in utilizing external contacts to acquire the resources needed to deal with uncertainty in the business environment.

Population ecologists argue that because of the lack of external legitimacy and networking relationships, younger organizations are less likely to survive when compared with older organizations (Freeman et al., 1983). Younger organizations, therefore, develop networking relationships and ties with other organizations, politicians, and bureaucratic officials in civil service institutions not only to gain legitimacy, but also to obtain resources and prevent the disadvantages resulting from the liability of newness argument. Through their identification and connections within the social system, younger organizations in Ghana are more motivated to invest strongly in developing networking relationships and ties with community leaders to gain legitimacy and obtain competitive resources, information, and knowledge acquisition and exploitation for their activities than older organizations. Younger organizations will therefore experience more performance benefits from networking relationships with external constituents than older organizations because of their extensive reliance on stronger ties to gain legitimacy and obtain the resources needed for the strategic organization of their activities.

> *Hypotheses 1a–d*: The positive impact of managerial networking relationships with a) top managers at other firms, b) political leaders, c) bureaucratic officials, and d) community leaders on performance will be stronger for younger firms than for older firms.

Networking relationships and organizational size

Size may affect networking relationship formation with external entities and the extent to which networking relationships affect performance. Firms who establish and utilize extensive networking relationships with external entities will generate more performance benefits than those with little networking relationships because they will obtain resources and garner support from politicians, government bureaucrats, and community leaders for their business operations. Larger organizations tend to be more established and powerful and may have more resources that can be used to develop competitive advantage and improve performance. As size increases, an organization's chances of not only surviving, but also improving its performance are enhanced (Singh et al., 1986). Most of the large organizations in Ghana were former state-owned enterprises and thus have established relationships with other organizations and connections with political leaders, bureaucratic officials, and community leaders in the past, so they may not see the need to develop extensive networking relationships. They therefore do not have the incentive to emphasize the development of extensive networking relationships with these external entities, although the goodwill these large organizations enjoyed in the past may have faded as a result of the changes that may have taken place in the leadership of these modern and traditional institutions.

Smaller organizations in Ghana, on the other hand, may lack the necessary resources to overcome the surge of competition and uncertainties in the business environment. This because they may experience more challenges in competitively obtaining the necessary resources through arms-length transactions owing to the co-existence of the underdeveloped market mechanism and the allocation of resources by the government. However, smaller organizations are less bureaucratic, more flexible in making decisions, and more entrepreneurial, and thus able to develop networking relationships easily to garner the resources required for mitigating their institutional and strategic disadvantages (Dubini and Aldrich, 1991). Smaller organizations in Ghana are also more tightly embedded in the social system than are larger organizations. They are surrounded by a web of extended family relations and community leaders that are more willing to offer support and provide assistance in the form of offering financial resources, access to market opportunities, and access to other resources such as land, location, and rental properties for their business activities. It has been shown that smaller organizations are more likely than larger organizations to build cooperative relationships with others (Shan and Hamilton, 1991). Smaller organizations in Ghana may therefore devote more time and energy to cultivating and sustaining stronger networking relationships with other external entities. These stronger networking relationships will enable the smaller firms to obtain those resources that are needed to enhance their performance than larger organizations. Thus:

> *Hypotheses 2a–d*: The positive impact of managerial networking relationships with a) top managers at other firms, b) political leaders, c) bureaucratic officials, and d) community leaders on performance will be stronger for smaller firms than for larger firms.

Networking relationships and organization ownership

One of the characteristics of the economic transformation program in Ghana is opening up the economy to foreign investment. The most common form of foreign direct investment in the country has been through partial ownership of organizations or joint ventures (JVs). In fact, all the JVs in Ghana are between foreigners and domestic organizations. These foreign–domestic JVs enjoy privileged access to resources and capabilities from their more resource rich foreign partners in the form of managerial skills, technical know-how, and marketing capabilities (Grant, 1987). Further, they have already established networking relationships with other organizations and created connections with government politicians and bureaucrats (Luo, 2003). On the other hand, wholly domestic-owned organizations lack the resources and capabilities to compete in the new business environment. Hence foreign-domestic JVs are less eager to develop stronger networking relationships since they are more likely to perform better than wholly domestic-owned organizations. However, domestic-owned organizations benefit from both the paternalistic and maternalistic cultures of the social system of Ghana, which emphasizes trust, loyalty, and commitment to one another, support, and assistance for members. Thus, wholly domestic-owned organizations have the advantage to exploit the opportunities afforded by the social system in which they are embedded. Managers in wholly domestic-owned organizations are, therefore, more likely to be motivated to emphasize the development of stronger networking relationships with their peers, political leaders, bureaucratic officials, and community leaders to obtain resources to deal with environmental uncertainty, undertake the strategic organization of their activities, and improve performance. Thus:

> *Hypotheses 3a–d*: The positive impact of managerial networking relationships with a) top managers at other firms, b) political leaders, c) bureaucratic officials, and d) community leaders on performance will be stronger for domestic-owned firms than for foreign-domestic joint venture firms.

Networking relationships and market competition

The industrial organization literature indicates that market competition is an important determinant of organizational performance. With the implementation of the economic liberalization program in Ghana since the mid-1980s, competitive intensity in the business environments of some sectors of the economy has increased dramatically, creating a high level of uncertainty (Acquaah, 2005). There is competition for resources (especially financial and human capital) to undertake business activities and price pressure on locally manufactured products as a result of the surge of imported products. With the increase in market competition, organizations are confronted with significant constraints in their business operations, such as the pressure to increase quality while reducing prices to become competitive and profitable. In such an intensely competitive environment, networking relationships become valuable in improving performance because they facilitate access to critical resources, information, opportunities, and favors that could be used to mitigate the constraints organizations face in carrying out their business activities. Organizations in a competitive environment need to develop or at least obtain the necessary resources and capabilities to react quickly to the needs of customers and the strategic initiatives of rivals. Thus, organizations operating in underdeveloped markets in transition economies such as Ghana characterized by high competition will develop stronger networking relationships with external entities to obtain resources (e.g. financial, managerial and technical skills, marketing capabilities, etc.), cheaper sources of inputs, and information and knowledge about government regulations to strengthen their market position and gain competitive advantage. This is because as market competition increases, firms face more constraints in the search for resources, in addition to the greater uncertainty created by the strategic actions of competitors. Therefore, firms with managers who develop extensive networking relationships with external actors will experience more value in highly competitive environments as they facilitate access to vital resources, information and knowledge about customers' needs and local market conditions, and favors from politicians, bureaucratic officials, and communal leaders that are used to create competitive advantage.

In markets characterized by low competition, organizations may not need to develop stronger networking relationships with external entities to obtain resources, information, and knowledge because the market environment offers firms the flexibility and ability to increase their sales and is thus favorable to earning higher profitability. Moreover, networking relationships may not be as valuable to organizations in low competition environments as those in highly competitive environments because of the lack of or minimal constraints on their business activities. Therefore, firms in low competition market environments will not develop extensive networking relationships with external entities as firms in intensely competitive market environments. Even if firms in low competition market environments develop extensive networking relationships with external entities they will experience lower performance benefits because of the costs involved in developing and maintaining networking relationships to obtain resources and information that could have been obtained without such relationships in a benign environment (Luo, 2003).

> *Hypotheses 4a–d*: The positive impact of managerial networking relationships with a) top managers at other firms, b) political leaders, c) bureaucratic officials, and d) community leaders on performance will be stronger for firms in highly competitive markets than those in low competition markets.

Methods

Data, sample and validity checks

We tested our hypotheses with data collected from top managers who were chief executive officers (CEOs) and their deputies, and heads of the finance/accounting function of manufacturing and service firms operating in Ghana over two time periods – the years 2002 and 2005. The sample consisted of the 200 largest companies selected from the 2001 *Ghana Business Directory* and the membership directory of the Association of Ghana Industries. To solicit participation in the study, letters were sent to the CEOs of each of the selected companies in the latter part of 2002. The letter explained the purpose of the study and requested their cooperation in completing the questionnaires. To ensure a high response rate and the provision of reliable and accurate responses, the CEOs were promised that information about the respondents and the company will be kept in strict confidence. They were also promised a summary of the results of the study if they included their company's address on the survey.

Several weeks after the letters were sent to the selected companies, we personally visited the companies, gave the questionnaires to the CEOs, and agreed on a date to collect the completed questionnaires. After several visits to the companies, we received responses from 115 firms. One-hundred and six (106) responses were useable, giving a response rate of 53 percent. The initial questionnaire collected data on several variables from the firms such as networking relationships, competitive strategic activities, management control systems, environmental scanning activities, demographic characteristics, and organizational performance. Three years later (i.e. 2005), we used the same questionnaire survey that was administered in 2002 and collected follow-up data on all the initial variables from the 106 responding firms through personally administered surveys. With respect to this study the second round of data was collected so that we can examine the effects of networking relationships on performance over time. All the firms completed the survey administered in 2005, but only 100 of the 106 firms provided complete responses to all the questionnaire items. Thus, the total observations collected in the two time periods are 206. The ages of the firms in the sample ranged from four years to 87 years with a mean of about 24 years. The firms also employed between 10 and 2000 employees with an average of 186 employees.

In order to check for potential response bias and common method variance problems, we made sure that all the respondents who completed the questionnaires held senior management positions. On average, the respondents had worked for their companies for 12 years and had held their respective managerial positions for over nine years. Common method variance was examined through two methods during the survey design and administration. First, the questionnaires were designed so that information was solicited on managerial networking relationships developed with external entities during the three-year periods 1998–2000 for data collected in 2002, and 2001–03 for data collected in 2005. On the other hand, the information on organizational performance was solicited for the following two-year periods: a) 2001–02 for data collected in 2002; and b) 2004–05 for data collected in 2005. Second, information was collected on the independent variables and the dependent variable from different respondents. Information on the independent variables was obtained from the CEOs and their deputies, while the performance information was collected from the heads of the accounting/finance function with titles such as chief financial officer, director of administration in charge of finance, and chief accountant. Thus, steps were taken to minimize common method variance problems.

Measurement of variables

Organizational performance

Measuring organizational performance is an important issue in strategy and organization research. As it is a multidimensional construct, any single index of organizational performance may not be able to provide a comprehensive understanding of the performance implications of the impact of managerial networking relationships. Organizational performance was therefore measured by focusing on five measures: growth in productivity, growth in sales and revenues, growth in net income/profits, return on assets (ROA), and return on sales (ROS). Self-reported performance data were collected from the head of the accounting and finance function in each organization. The respondents were asked to rate their organizations on the five measures of performance relative to the major competitors in their industry for the two-year periods 2001–02 (first time period), and 2004–05 (second time period). The performance items were measured on a scale ranging from (1) 'much worse' to (7) 'much better'. The correlation between the linear combinations of the performance variables over the two time periods was 0.84, $p < 0.001$.

The use of perceptual measures is common in situations where objective data are either not available or difficult to obtain (e.g. Tang and Peng 2003). Moreover, the convergent, discriminant, and construct validities of using perceptual measures of performance as substitutes for objective measures have been demonstrated by Wall et al. (2004). While the use of perceptual performance data may introduce measurement errors and the potential problem of mono-method bias, a second set of respondents was used for the performance information to minimize these problems. Furthermore, there are precedents for using perceptual measures of performance in managerial networking studies in emerging economies (Park and Luo, 2001; Peng and Luo, 2000). During the initial data collection in 2002, although only 22 companies were listed on the Ghana Stock Exchange, 12 of them provided complete responses to the survey. We obtained objective measures of growth in sales and revenues, growth in net income/profits, ROA, and ROS from the annual reports of those 12 companies. The correlations between the objective measures and the subjective measures using the pooled data were as follows: growth in sales and revenues ($r = 0.70$, $p < 0.001$); growth in net income/profit ($r = 0.82$, $p < 0.001$); *ROA* ($r = 0.79$, $p < 0.001$); and *ROS* ($r = 0.86$, $p < 0.001$).

Table 1. Factor analysis for organizational performance and managerial networking scales[a]

Scale and item	**1**	**2**	**3**	**4**	**5**
Organizational performance					
Growth in sales and revenues	**0.65**	–0.04	0.19	0.26	0.06
Growth in net income/profits	**0.56**	0.04	0.16	0.21	0.16
Return on assets	**0.77**	0.09	0.17	0.15	0.07
Return on sales	**0.75**	0.11	0.20	0.22	0.12
Growth in productivity	**0.58**	0.21	0.18	0.27	0.12
Networking with top managers of other firms					
Suppliers	–0.08	**0.93**	0.10	0.11	–0.01
Buyers	–0.17	**0.78**	0.32	–0.15	0.15
Competitors	0.30	**0.89**	–0.10	0.10	–0.03
Networking with community leaders					
Local kings, chiefs and representatives	0.29	0.24	**0.71**	0.19	0.09
Religious leaders (e.g. pastors, imams, etc.)	0.21	0.12	**0.82**	0.28	0.06
Networking with bureaucratic officials					
Officials in regulatory and supporting institutions	0.28	0.35	0.15	**0.68**	0.21
Official in industrial and investment institutions	0.18	0.15	–0.05	**0.79**	0.25
Networking with political leaders					
City council politicians	0.19	0.19	0.02	0.20	**0.74**
District council politicians	0.12	0.05	–0.03	0.25	**0.62**
Regional government politicians	0.06	0.13	–0.11	–0.06	**0.78**
National government politicians	0.11	0.30	0.12	–0.19	**0.54**
Eigenvalue	2.94	2.55	1.74	1.32	1.07
Percentage of variance explained	19.65	16.72	11.51	9.09	7.68
Cumulative percentage of variance explained	19.65	36.37	47.88	56.97	64.65

[a]Method used is principal component analysis with varimax rotation. Any factor loading that is greater than 0.40 is shown in bold font.

Networking relationships

Networking relationships was measured by examining the development and utilization of interpersonal and social relationships by top managers of organizations in Ghana with 1) top managers of other firms; 2) government political leaders; 3) government bureaucratic officials; and 4) community leaders. The respondents were asked to assess the extent to which top management have *cultivated* and *utilized* personal, social, and networking relationships for the three-year periods 1998–2000 and 2001–03 respectively on a seven-point scale, ranging from (1) 'very little' to (7) 'very extensive'. Managerial networking relationships with *top managers of other firms* ($\alpha = 0.75$) was measured using three items: relationship with suppliers, buyers, and competitors. Managerial networking relationships with *political leaders* ($\alpha = 0.78$) were measured using four items: relationship with city council politicians (mayor and council members), district council politicians (chief executive and members of district council assembly), regional government politicians, and national government politicians (e.g. the president, ministers, and parliamentarians). Managerial networking relationships with *bureaucratic officials* ($\alpha = 0.83$) was measured using two items: relationship with officials in regulatory and supporting institutions (e.g. Ministries, Internal Revenue Service, the Central Bank, Environmental Protection Agency, Standards Board, etc.), and officials in investment and industrial institutions (e.g. Investment Board, Export Promotion Council, the Stock Exchange, government controlled financial institutions, etc.). Managerial networking relationships with *community leaders* ($\alpha = 0.84$) was measured using two items: relationship with local kings, chiefs and/or their representatives, and leaders of religious organizations (e.g. pastors, priests, traditional religious leaders, and imams). A factor analysis of the performance and managerial networking variables is shown in Table 1.

Moderating variables

The moderating variables are organizational age, organizational size, organizational ownership, and market competition. *Organizational age* was measured as the logarithm of the number of years since the formation or incorporation of the firm. *Organizational size* was measured as the logarithm of the number of employees. *Organizational ownership* was operationalized using a dummy variable, coded 1 for wholly domestic-owned organizations and 0 for foreign-domestic joint venture organizations. *Market competition* ($\alpha = 0.76$) was operationalized using a previously validated instrument that has been used in an economic environment that has experienced deregulation and privatization of state-owned enterprises (Mia and Clarke, 1999). The respondents were asked to indicate the extent to which the following activities have taken place in their organization’s industry within the three-year periods 1998–2000 and 2001–03: a) increase in the number of major competitors; b) use of package deals for customers; c) frequency of new product or service introductions; d) the rate of change in price manipulations; e) increase in the number of companies that have access to the same marketing channels; and f) frequency of changes in government regulations affecting the industry. These activities were measured on a seven-point scale ranging from (1) ‘very little’ to (7) ‘very extensive’.

Control variables

The control variables were competitive strategy (cost leadership and differentiation), business sector, and a period dummy. The strategy literature documents a myriad of studies that demonstrate a positive relationship between the implementation of competitive strategy and performance (see Campbell-Hunt, 2000). We controlled for competitive strategy by using the 16 competitive methods, which have been used extensively to operationalize Porter’s (1980) generic competitive strategies (e.g. Dess and Davis, 1984). The respondents were asked to assess the extent to which their organizations have placed emphasis on the competitive methods for the three-year periods 1998–2000 and 2001–03 on a seven-point scale ranging from (1) ‘much less’ to (7) ‘much more’. *Cost leadership strategy* ($\alpha = 0.88$) was operationalized with six items: offering a broad range of products/services; operating efficiency; offering competitive pricing for products/services; forecasting market growth in sales; control of operating and overhead costs; and innovation in production process or service offerings. *Differentiation strategy* ($\alpha = 0.82$) was measured with seven items: developing new products/service offerings; upgrading or refining existing products/services; products or services for high priced market segments; improvement of existing customer service; innovation in marketing products/services; advertising and promotion of products/services; and building brand and company identification. The other three competitive methods – offering specialty products/services, emphasizing high quality standards or high quality services, and effective control of channels of distribution loaded highly on both cost leadership and differentiation – were excluded from each of the strategic orientations. The result of the factor analysis of the competitive strategy variables is shown in Table 2.

Table 2. Factor analysis of competitive strategy items[a]

Scale and items	1	2
Differentiation strategy		
Developing new products or services	**0.821**	0.205
Upgrading or refining existing products	**0.686**	0.346
Emphasizing products or services for high priced market segments	**0.755**	0.320
Improving existing customer service	**0.668**	0.242
Innovation in marketing products and services	**0.709**	0.253
Advertising and promotion of products and services	**0.840**	0.144
Building and improving brand or company identification	**0.795**	0.228
Offering specialty products/services[b]	**0.693**	**0.485**
Emphasizing high quality standards or high quality service[b]	**0.558**	**0.478**
Cost leadership strategy		
Offering a broad range of products or services	0.118	**0.687**
Operating efficiency	0.142	**0.801**
Offering competitive prices for products and services	0.210	**0.752**
Forecasting market growth in sales	0.168	**0.803**
Emphasizing control of operating and overhead costs	0.327	**0.687**
Innovation in production process or service offerings	0.221	**0.795**
Effective control of distribution channels[b]	**0.443**	**0.572**
Eigenvalue	5.381	3.402
Percentage of variance explained	34.215	23.114
Cumulative percentage of variance explained	34.215	57.329

[a]Method used was principal component analysis with varimax rotation. Factor loadings greater than an absolute value of 0.40 are shown in bold font.
[b]All items that loaded on more than one factor were excluded from operationalizing the competitive strategy variables.

Business sector was operationalized using a dummy variable, coded 1 for manufacturing organizations and 0 for service organizations. The impact of networking relationships on performance may differ between business sectors because of the nature of their businesses. While manufacturing organizations may develop networking relationships to obtain technological knowledge and organizational capabilities to improve upon their production processes, service organizations are more likely to focus on obtaining marketing-related knowledge and financial resources from their networking relationships. As we pooled two periods of data, we included a dummy variable, *period dummy for 2002*, coded 1 if an observation corresponds to a data collected in 2002 and 0 if an observation corresponds to a data collected in 2005. This variable was included to pick up any fixed effects that varied between the two periods.

Table 3. Descriptive statistics and correlation matrix of variables (n = 206)

Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1. Organizational performance	**0.91**											
2. Networking with community leaders	0.47	**0.84**										
3. Networking with political leaders	0.06	0.16	**0.78**									
4. Networking with bureaucratic officials	0.45	0.31	0.32	**0.83**								
5. Networking with managers of other firms	0.53	0.29	0.16	0.42	**0.75**							
6. Cost leadership strategy	0.27	0.23	0.07	0.04	0.16	**0.88**						
7. Differentiation strategy	0.31	0.15	0.13	0.32	0.25	0.03	**0.82**					
8. Organizational size[a]	0.23	0.25	0.23	0.27	0.21	0.23	0.11					
9. Business sector[b]	–0.16	–0.18	–0.29	–0.13	–0.20	–0.16	–0.04	–0.23				
10. Organizational ownership[c]	0.11	0.04	–0.02	0.22	0.08	0.12	0.01	0.44	0.06			
11. Market competition	0.34	0.15	0.09	0.29	0.22	0.08	0.19	0.03	–0.11	0.07	**0.76**	
12. Organizational age[a]	0.11	0.02	0.15	0.17	0.24	0.09	0.10	0.48	–0.14	0.33	0.02	
Mean	4.80	4.83	3.97	4.74	4.99	4.83	4.75	1.97	0.83	0.29	4.88	1.29
Standard deviation	1.08	1.19	1.34	1.29	1.12	1.27	1.20	0.48	0.38	0.46	1.32	0.29

The values in diagonals are Cronbach alphas.

[a]Log of number of employees.

[b]Manufacturing firms coded 1, service firms coded 0.

[c]Wholly domestic-owned firms coded 1, foreign-domestic joint venture firms coded 0.

[e]Log of the number of years since incorporation or formation of organization.

Significance levels: For $r > 0.19$, $p < 0.05$; $r > 0.26$, $p < 0.01$; and $r > 0.34$, $p < 0.001$.

Table 4A. Regression analyses pooled data ($N = 206$)

Variables	Model 1 β (S.E.)	Model 1 VIF	Model 2 β (S.E.)	Model 2 VIF	Model 3 β (S.E.)	Model 3 VIF
Controls						
Business sector	–0.060 (0.065)	1.1	–0.007 (0.048)	1.2	–0.013 (0.048)	1.2
Cost leadership strategy	0.202** (0.064)	1.1	0.136** (0.047)	1.2	0.125** (0.046)	1.2
Differentiation strategy	0.247*** (0.063)	1.1	0.174*** (0.047)	1.2	0.169*** (0.047)	1.2
Period dummy 2002	0.088+ (0.048)	1.0	0.079+ (0.046)	1.1	0.082+ (0.045)	1.1
Moderating variables						
Organizational age[a]	–0.008 (0.072)	1.4	–0.035 (0.053)	1.4	–0.076 (0.056)	6.7
Organizational size[b]	0.136+ (0.078)	1.6	0.102+ (0.058)	1.7	0.061 (0.058)	1.9
Organizational ownership type[c]	0.012 (0.071)	1.4	–0.020 (0.052)	1.4	0.006 (0.053)	1.6
Market competition	0.261*** (0.064)	1.1	0.125** (0.047)	1.1	0.133** (0.046)	1.2
Managers networking relationships						
Top managers of other firms			0.408*** (0.054)	1.5	0.423*** (0.057)	7.7
Political leaders			–0.165*** (0.049)	1.2	–0.210*** (0.052)	8.5
Bureaucratic officials			0.261*** (0.058)	1.8	0.221*** (0.052)	7.4
Community leaders			0.244*** (0.050)	1.3	0.278*** (0.052)	6.9
Interactions						
Top managers × age					–0.210** (0.057)	18.7
Political leaders × age					0.040 (0.051)	16.4
Bureaucratic officials × age					0.037 (0.063)	16.6
Community leaders × age					0.106* (0.054)	13.5
Adjusted R^2	0.229		0.604		0.654	
Change in adjusted R^2			0.375		0.050	
F-test for change in adjusted R^2			46.875***		6.68***	
Durbin-Watson statistic	1.971		1.785		1.756	
Model F	8.62***		27.04***		22.30***	

$N = 206$. The reported coefficients are standardized values.
[a]Log of the number of years since incorporation or formation of organization.
[b]Logarithm of the number of employees.
[c]Dummy variable coded (1) for wholly owned local firm, and (0) for foreign-domestic joint venture firm.
[d]The change in adjusted *R2* for Models 2 and 3 are compared to that of Models 1 and 2 respectively.
Significance levels: + $p < 0.10$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$.

Statistical analysis

To establish causality, which is difficult in cross-sectional studies, a pooled cross-section and time series regression model with a time lag between the dependent and independent variables was used to examine the relationship between managerial networking relationships and organizational performance. The managerial networking variables in the study deal with the utilization of personal and social networking relationships with external entities for the three-year periods 1998–2000 and 2001–03. The organizational performance variable, on the other hand, was measured using the average of the responses for the two-year periods 2001–02, and 2004–05 for data collected in 2002 and 2005 respectively. It is reasonable to expect that managerial networking relationships developed in previous periods will affect organizational performance in the current period. We expect a cross-section and time series model with a time lag between the dependent and independent variables to provide a more robust test of the effects on performance of an organization's strategic activities such as networking relationships (e.g. Lee et al., 2001; Mosakowski, 1993; Wiklund and Shepherd, 2003).

Table 4B. Results of managerial networking relationships on organizational performance with interaction effects pooled data[a]

Variables	Model 4	Model 5	Model 6
Moderating variables			
Organizational age	–0.033 (0.053)	–0.023 (0.054)	–0.049 (0.052)
Organizational size	0.046 (0.059)	0.032 (0.059)	0.069 (0.057)
Organizational ownership	–0.012 (0.053)	–0.001 (0.053)	–0.021 (0.051)
Market competition	0.142** (0.048)	0.120** (0.047)	0.141** (0.047)
Market networking relationships			
Top managers of other firms	0.412*** (0.055)	0.421*** (0.056)	0.373*** (0.054)
Political leaders	–0.149** (0.055)	–0.162*** (0.049)	–0.0149** (0.050)
Bureaucratic officials	0.238*** (0.060)	0.241*** (0.061)	0.258*** (0.059)
Community leaders	0.257*** (0.050)	0.264*** (0.051)	0.259*** (0.050)
Interactions			
Top managers × size	–0.092* (0.046)		
Political leaders × size	–0.055 (0.049)		
Bureaucratic officials × size	–0.109* (0.049)		
Community leaders × size	0.097* (0.048)		
Top managers × ownership		–0.020 (0.059)	
Political leaders × ownership		0.087+ (0.050)	
Bureaucratic officials × ownership		0.097* (0.049)	
Community leaders × ownership		0.093* (0.047)	
Top managers × competition			0.126* (0.056)
Political leaders × competition			–0.020 (0.048)
Bureaucratic officials × competition			0.108* (0.049)
Community leaders × competition			0.102* (0.050)
Adjusted R^2	0.637	0.637	0.651
Change in adjusted R^2	0.033	0.033	0.047
F-test for change in adjusted R^2	4.412**	4.412**	6.56***
Durbin-Watson statistic	1.761	1.826	1.876
Model F	20.71***	20.72***	22.07***

$N = 206$. The reported coefficients are standardized values. The *VIFs* of Models 4 to 6 are not reported because they are consistent with that reported for Model 3 (Table 3A).
[a]The beta coefficients and standard errors of the control variables are not reported in this table because they are similar to the ones reported in Model 3 (Table 3A).
[b]The change in adjusted *R2* for Models 4 to 6 are compared with that for Model 2.
Significance levels: + $p < 0.10$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$.

A pooled cross-section and time series regression model was used because only two periods of data from 106 firms were available. Model 1 examines the effect of the control and moderating variables on performance. Model 2 includes the managerial networking variables (Table 4A). Models 3 to 6 (Tables 4A and 4B) were used to test the interaction hypotheses (1a to 4d). The interaction between each of the moderating variables and the networking variables were tested separately to minimize the problem of multicollinearity (see Model 3, Table 4A). For example, Model 3 included the interaction of four networking variables and organizational age (all of them mean centered). The validity of the econometric model was examined through several tests. The assumptions of equality of variance, independence of the error term, and the normality of the residual were all met. The Durbin-Watson statistics also indicated that autocorrelation is not a problem and thus the pooled cross-section and time series model is adequate (Gujarati, 2003). Table 3 provides the means, standard deviations, and the correlations among the variables. It shows significant correlations among some of the managerial networking variables; however, the variance inflation factors (VIFs) in the direct regression models did not indicate a multicollinearity problem (see Model 2, Table 4A).

Results

Table 4 presents the results of the standardized regression models examining the contingent effects of the hypothesized relationships between managerial networking relationships and organizational performance. In Model 1, the base model, firm size, market competition, cost leadership strategy, differentiation strategy, and the period dummy for 2002 were significant and positively related to performance. These results imply that for firms in Ghana a) the larger the firm the higher its performance, b) the higher the level of competition in the business environment the better the performance, and c) the pursuit of both competitive strategies of cost leadership and differentiation has a positive influence on performance.

The results in Model 2 further show that firm size, market competition, cost leadership strategy, differentiation strategy, and the period dummy for 2002 continue to significantly and positively influence organizational performance. The direct effects of managerial networking relationships and ties with top managers of other firms, bureaucratic officials, and community leaders were all positively and significantly related to performance. However, the effects of managerial networking relationships with politicians was negatively and significantly related to performance. The inclusion of the managerial networking variables significantly improved the explanatory power of Model 2 as demonstrated by the *F*-test for the change in adjusted $R2$ ($\Delta R2$ =37.5%, $F = 46.875$; $p < 0.001$). Overall, the results from Model 2 show that forging extensive networking relationships by managers with external entities improves organizational performance.

Models 3–6 in Tables 4A and 4B present the results of the moderating effects of organizational age, size, ownership, and market competition on the relationships between managerial networking and performance to test for hypotheses 1a–4d. Model 3 presents the results of the effects of the interaction between organizational age and the networking variables on performance to test for hypotheses 1a–d. It could be noticed that the VIFs for the managerial networking variables, organizational age, and the interaction terms have all been elevated, with all the VIFs for the interaction terms being greater than 10, indicating the presence of multicollinearity (Neter et al., 1996). However, the effect of multicolinearity is to affect the statistical significance of the coefficient estimates by biasing them downward, making them less likely to be significant than they would otherwise be (Crown, 1998). As predicted, the effect of managerial networking relationships with top managers at other firms on performance was greater for younger firms than for older firms ($\beta = -0.210$, $p < 0.01$), providing support for H1a. The impact of managerial networking relationships with community leaders is stronger for older firms than for younger firms ($\beta = 0.106$, $p < 0.05$), which is contrary to our hypothesized relationship. The interaction between managerial networking relationships with political leaders and bureaucratic officials are not significantly related to performance. Thus, H1b, H1c, and H1d were not supported. The plots presented in Figure 1 graphically illustrate the interaction effects of the relationships postulated in H1a and H1d.[1] As we can see from Figure 1b, though both younger and older firms benefit from networking relationships with community leaders, older firms benefit more from extensive networking relationships than do younger firms.

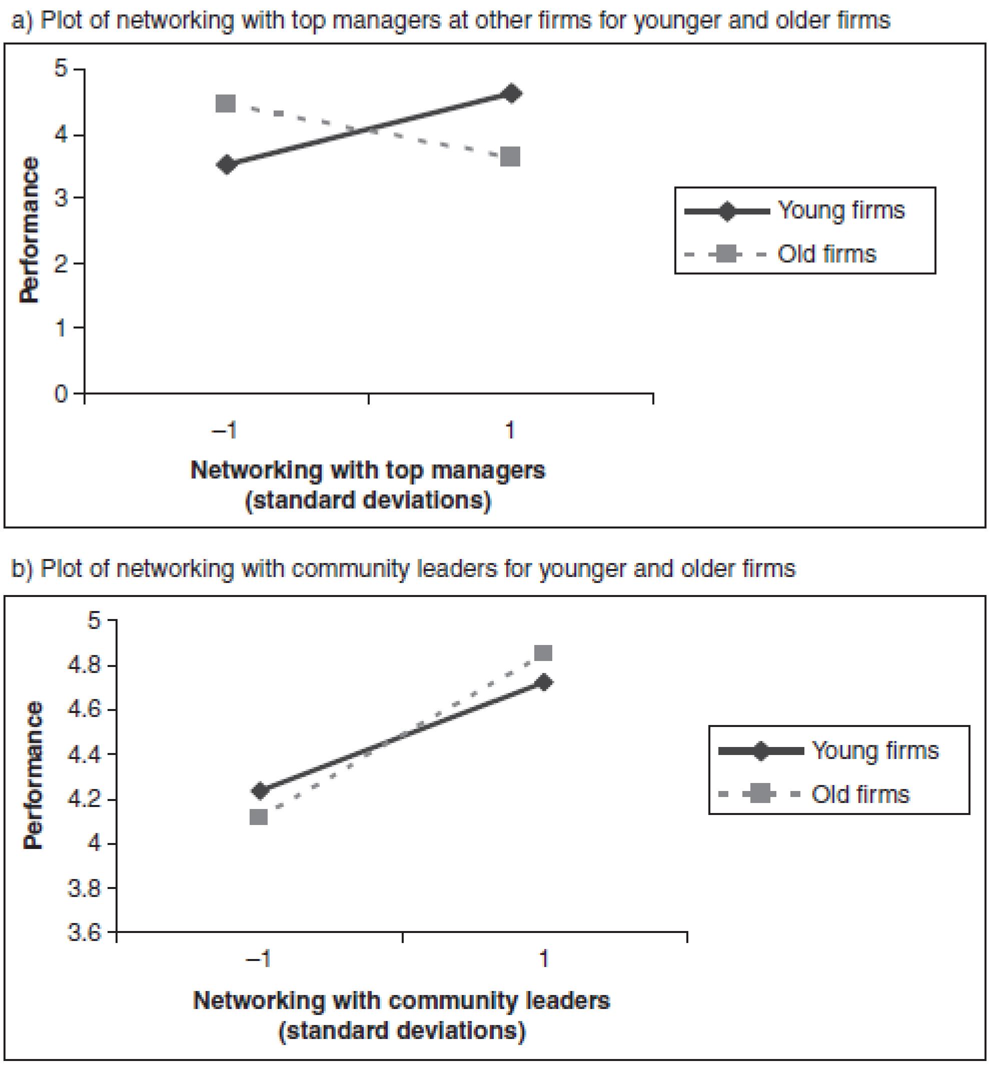

Figure 1. Interaction plots of moderating effects of organizational age on the relationship between networking and organizational performance

[1] The plots were created by following the procedure suggested by Aiken and West (1991). For example, to plot Figure 1a, we constrained all variables in Model 3 to their mean values except the networking with top managers of other firms and organizational age. Networking with top managers of other firms was then split into two groups – low (one standard deviation below the mean) and high (one standard deviation above the mean) and its effect on organizational performance was estimated at different levels of organizational age – one standard deviation below the mean (young firms) and one standard deviation above the mean (old firms) and plotted. The same procedure was followed in plotting Figure 1b, except the networking variable was community leaders. Similar plots were generated for all the significant interactions in the study but the plots are not presented in the article.

Model 4 (Table 4B) examines the impact of managerial networking relationships on performance between smaller and larger firms. It should be noted that we included all the control variables in estimating the models reported in Table 4B (Models 4 to 6), but we did not report the betas and standard errors from the control variables because they were not substantially different from those reported in Model 3 both in magnitude and statistical significance (see Lee et al., 2001). The results in Model 4 indicate that the impact of managerial networking relationship with top managers at other firms ($\beta = -0.092$, $p < 0.05$) and bureaucratic officials ($\beta = -0.108$, $p < 0.05$) on performance are greater for smaller firms than for larger firms, corroborating H2a and H2c. However, the impact of managerial networking relationships with community leaders ($\beta = 0.097$, $p < 0.05$) is greater for larger firms than for smaller firms, which is contrary to our prediction. At the same time, the interaction between managerial networking relationships with political leaders and firm size is not significantly related to performance. Thus H2b and H2d were not supported.

Table 5. Summary of results for hypotheses

Hypothesis	Networking relationship	Expected sign	Contingency effect	Support for hypothesis
H1A	Top managers of other firms	–	Organizational age	Yes
H1B	Political leaders	–		No
H1C	Bureaucratic officials	–		No
H1D	Community leaders	–		No
H2A	Top managers of other firms	–	Organizational size	Yes
H2B	Political leaders	–		No
H2C	Bureaucratic officials	–		Yes
H2D	Community leaders	–		No
H3A	Top managers of other firms	+	Ownership type	No
H3B	Political leaders	+		Yes
H3C	Bureaucratic officials	+		Yes
H3D	Community leaders	+		Yes
H4A	Top managers of other firms	+	Market competition	Yes
H4B	Political leaders	+		No
H4C	Bureaucratic officials	+		Yes
H4D	Community leaders	+		Yes

Model 5 investigates the effects of managerial networking relationships on performance for wholly domestic-owned firms and foreign-domestic JV firms. Managerial networking relationships with political leaders ($\beta = 0.087$, $p < 0.10$), bureaucratic officials($\beta = 0.097$, $p < 0.05$), and community leaders ($\beta = 0.093$, $p < 0.05$) all have greater impact on performance for wholly domestic-owned firms than foreign-domestic JV firms. This provides support for H3b, H3c, and H3d. H3a is not supported because the interaction between managerial networking relationships with top managers at other firms and firm ownership is not significant. Finally, the results for H4a to H4d are presented in Model 6. The results suggest that the effect on performance of managerial networking with top managers at other firms ($\beta = 0.126$, $p < 0.05$), bureaucratic officials ($\beta = 0.108$, $p < 0.05$), and community leaders ($\beta = 0.102$, $p < 0.05$) is greater for firms in highly competitive market environments than for firms in low competition environments, providing support for H4a, H4c, and H4d. The effect of the interaction between managerial networking relationships with political leaders and market competition on performance is not statistically significant. Thus H4b is not supported. Overall, the effects of the interaction terms are mixed. Out of the 16 interaction terms, nine supported our predictions. The summary of the results for the hypothesized relationships is presented in Table 5.

Discussion

Previous studies in emerging economies indicate that managerial networking relationships with external entities matter for firm performance. This study extends extant literature in emerging economies by investigating the contingent effects of managerial networking relationships with top managers of other firms, political leaders, bureaucratic officials, and community leaders on organizational performance using unique data collected over two time periods from 106 firms in Ghana. The overall findings endorse the view that networking relationships still matter. The value of managerial networking relationships developed with each of these four external entities by top managers in Ghana is dependent on several organizational factors such as age, size, and ownership characteristics, and the intensity of competition in the market environment. The results are interesting because they show that different social networking relationships with different constituents of the firm interact with various organizational and environmental characteristics to affect performance differently.

Theoretical implications

The findings from the contingency framework show that the effect of networking relationships developed with top managers at other firms on performance is stronger for younger and smaller firms, and firms doing business in highly competitive environments. These findings imply that younger and smaller firms in Ghana cultivate extensive networking relationships with their peers – who may be their suppliers, customers, or competitors – to acquire the resources, industry-specific knowledge, and create brand and customer loyalties that enable them to gain competitive advantage and thus enhance performance. Thus ties are more valuable to younger and smaller firms in Ghana who tend to establish connections with their colleagues in other organizations to obtain those resources and capabilities needed for the strategic organization of their activities. The advantages from the ties they forge allow them to be more effective and efficient in dealing with the ever-changing competitive environment created by the implementation of economic liberalization policies. The findings also indicate that extensive ties with managers of other firms are more beneficial for firms operating in market environments with intense competition than those in market environments experiencing low competition because ties facilitate the effective coordination of information, business transactions, and the acquisition and exploitation of knowledge.

Networking relationships with politicians are only beneficial to domestic-owned firms. This finding indicates that although the direct effects of networking with government political leadership do not have a statistically significant positive relationship with performance and may overburden firms, domestic-owned firms do benefit from such relationships as compared with foreign-domestic JVs. In Ghana, politicians make excessive demands for favors from organizations with which they have established connections, usually by stipulating a specific monetary contribution they give to their political campaign and party, and also request that firms employ their relatives who may not have the necessary skills and expertise. The undue extraction of monetary resources and/or demand for favors from firms by politicians may be too costly to firms who cannot easily transfer the cost increase to customers in the form of higher prices, and therefore reduces performance. However, domestic-owned firms are able to benefit from their extensive relationships with politicians because of their embeddedness in the traditional social system. Although members of the traditional social system are bound together through various social benefits and obligations and are committed to one another through the norms of reciprocity, politicians may see domestic-owned firms to be resource-poor and would expect minimal or no favors from these firms, but instead accord them a politically favored status and offer them institutional support and assistance in the form of access to capital, contracts, and information. These institutional supports enable domestic-owned firms to deal with the uncertainty in the business environment and improve profitability as a result of the ties they forge with politicians. The findings may also imply that the extraction of monetary or other favors is mostly targeted at foreign-domestic JVs. Foreign-domestic JVs therefore experience significant costs in utilizing networking relationship with politicians, which may have the effect of reducing their performance. This implies that there are indeed considerable costs to be incurred by foreign-domestic JVs in cultivating networking relationships with political leaders so as to obtain access to resources, information, contracts, etc., and these costs adversely affect performance. This finding is noteworthy because the direct effect of networking with politicians is not contingent on organizational age, size, and competition in the market environment in Ghana.

The performance impact of networking relationships developed with bureaucratic officials is more valuable for firms that are smaller, domestic-owned, and conduct business in highly competitive market environments. These findings may also be explained by the entrenched nature of the managers of small and domestic-owned Ghanaian firms to the traditional social system and their allegiance to the social norms, cultural values, and behavioral expectations, which enable them to extract some advantages from bureaucratic officials by cultivating networking relationships that are used as substitute for the inefficient and ineffective formal laws and regulations governing business transactions. Thus, the ties these firms forge with bureaucratic officials provide them with access to information (e.g. new and impending regulations in a firm's industry environment), opportunities (e.g. help with certification and approval of products as meeting standards, etc.), and resources (e.g. help with preparing a contract bid) controlled by the bureaucratic leaders to create value. Again, as competition intensifies, organizations realize greater benefits from networking relationships with bureaucratic officials. Organizations in high competition business environments use extensive networking relationships to obtain the critical resources to circumvent the significant constraints confronting their business operations to effectively compete and outperform their rivals. From a theoretical point of view, the findings clearly indicate that the networking relationship managers develop with government officials should be separated into those with *political leaders* and those with *bureaucratic officials* because the effects of the boundary conditions for the influence of the two networking relationships on performance are different. While networking relationships with politicians is only beneficial to domestic-owned firms, networking relationships with bureaucratic officials are beneficial to small firms, domestic-owned firms, and firms operating in highly competitive environments. Thus, in the Ghanaian political environment, political leaders and bureaucratic officials perform different functions in the support and assistance offered to firms through networking relationships. Therefore, it is imperative for researchers to conceptually and empirically separate the two dimensions of managerial networking relationships with government political leaders and bureaucratic officials when conducting research in emerging economies.

Networking relationships forged with community leaders are more beneficial to firms that are older, larger, domestic-owned, and doing business in highly competitive markets. The findings may be owing to the existence of strong traditional social institutions in Ghana that are a strong driver of relationship building, and which are non-existent in other economies. First, we were expecting younger and smaller firms to benefit more from networking relationships with community leaders because they are more connected to the social system, lacked resources and legitimacy, and are less likely to survive, so they will establish extensive relationships with community leaders to gain access to resources and local market opportunities. However, the findings indicate that older and larger firms establish extensive networking relationships with community leaders and benefit more from these than do younger and smaller firms in Ghana. It is possible that the established nature of older and larger firms enable them to establish stronger ties with traditional community leaders because of their potential capabilities to provide support to traditional communities in the form of development projects or provide employment opportunities, and assist religious institutions by offering donations to support their activities. Thus, older and larger organizations may be very active in supporting the social system through their activities. Older and larger firms therefore benefit from networking relationships with community leaders who provide them with resources such as land and favorable business locations, and also act as bridges between these older and larger organizations and the larger community by spreading information about their products and activities.

Second, the traditional social system encourages social bonds and commitment through the norms of reciprocity and equity and acts as economic and social units of production by offering various forms of assistance to domestic-owned firms. The managerial networking relationships forged with community leaders by domestic-owned firms therefore provide them with an important source of resources, information, learning, and knowledge that is used to minimize threats, exploit opportunities, and enhance performance in the formal institutional environment. These findings imply that the development of social capital through networking relationships is a context-specific phenomenon (Leana and Pil, 2006). Therefore, in societal environments with strong collectivistic cultural values, the development of managerial networking relationships for the strategic organization of business activities should be extended to include those with community leaders.

Our findings feedback into theory development in social networking by advocating a contingency view of social networking relationships and showing that cultural and institutional contexts influence the extent to which networking relationships or ties affect organizational outcomes. Depending on the boundary conditions in the cultural and institutional environments in emerging economies, the utilization of networking relationships with external entities may not always be beneficial to organizations. From a theoretical standpoint, the findings further reveal that the networking relationships managers develop with government officials in emerging economies, especially in sub-Saharan Africa that have similar cultural and institutional environments, should be separated into those with *political leaders* and those with *bureaucratic officials* because the effects of the boundary conditions on the influence of the two networking relationships on organizational outcomes are different.

The results further indicate that other variables are important in influencing organizational performance in Ghana. Ghana's economy is being transformed from state-controlled to entrepreneurial capitalism through the implementation of economic liberalization policies and the privatization of state-owned enterprises. The increase in market competition as a result of the structural transformation of the economy is injecting some level of discipline into the strategic organization of firm activities; this is the positive impact of competition on performance. The strategy variables of differentiation and cost leadership also have a strong impact on organizational performance. The implication of the results is that in addition to using the resources obtained from managerial networking relationships to strategically organize activities to improve performance, the effective implementation of either a cost leadership strategy or a differentiation strategy will also enable a firm to perform well.

Practical implications

Our findings provide some practical implications for firms who are interested in using managerial networking relationships to create social capital for the strategic organization of their business activities in Ghana. The conventional wisdom in the networking and social capital literature is that social capital should be desired because it is beneficial to organizations. The findings clearly indicate that the effect of managerial networking relationships on organizational performance in Ghana is more complex than postulated and not a 'black and white' issue. First, our results indicate that firms in Ghana may benefit by establishing networking relationships with their peers, bureaucratic officials, and community leaders, but suggest caution regarding networking relationships with politicians. Second, firms in Ghana should not establish managerial networking relationships with external entities without considering the characteristics of their organization and the competitive environment. For example, our findings show that younger, smaller, domestic-owned firms, and firms doing business in a highly competitive market are more likely to experience greater benefits from networking relationships if these are developed with bureaucratic officials. Similarly, firms that are younger, smaller, and do business in highly competitive environments are more likely to experience greater benefits from cultivating networking relationships with their peers in other firms. On the other hand, older, larger, domestic-owned firms doing business in highly competitive markets are more likely to gain by cultivating networking relationships with community leaders. But foreign-domestic joint venture firms, irrespective of age, size, and the level of competition in their market environments, would not benefit from forging relationships with government political leaders. Therefore managers in various organizations in Ghana should be circumspect in cultivating networking relationships and ties with various external entities to enhance the performance of their firms.

Limitations and future research

Mentioning the limitations of this study may provide ideas for further research. First, several extant studies on social networks have used quantitative measures to assess managerial networking relationships. However, because the development of social networking relationships is context-specific phenomenon, it is influenced by the socio-cultural and economic environments of organizations. Thus, most networking studies in emerging economies have relied on the extensiveness of relationships between managers and external constituents (e.g. Li and Zhang, 2007; Li et al., 2008; Luo, 2003; Park and Luo, 2001; Peng and Luo, 2000). Measuring managerial networking relationships by focusing on relational ties allowed us to capture the quality and richness embedded in the soft nature of personal and social networking relationships that have been developed between managers and other external entities and which cannot be easily subjected to quantitative measurements. In fact, information needed to quantitatively determine network formation such as density, centrality, size, etc. is impossible to obtain not only in the Ghanaian environment but also in most emerging economies. Second, a perceptual measure of organizational performance was used. The choice of a perceptual measure of performance was predicated on the fact that it is difficult in practice to obtain objective measures of performance from organizations in Ghana that are not publicly traded, although we tried without success. As stated earlier, only 22 companies were listed on the Ghana Stock Exchange during the initial data collection period and even obtaining archival data from all of them would not have been sufficient to conduct a rigorous statistical analysis. The necessary precautions were, however, taken to deal with common method variance problems – by collecting information on networking relationships and performance from different respondents. Furthermore, perceptual measures of performance are extensively and continually being used even in larger emerging economies (e.g. Li and Zhang, 2007; Park and Luo, 2001).

Third, research that explicitly uses longitudinal data over a longer time period would provide more robust conclusions about the direct and moderating impact of networking on performance over time. This is because networking relationships developed between parties may change over time and these changes may have different implications on performance. Fourth, most of our hypothesized relationships that focused on how organizational and environmental characteristics moderate networking with politicians and community leaders were not confirmed. Additional research is needed to verify or disconfirm this study's findings. We have made the first attempt to link longitudinally cause and effect relationships between the independent variables and performance, but the results may not be completely free from ascertaining associations between the hypothesized variables. However, by soliciting information on the formation of managerial networking relationships and other independent variables from one time period, and performance from another time period, the results may indeed be establishing causality.

Conclusion

This is one of the few empirical studies that has investigated the moderating effects of managerial networking relationships and ties on organizational performance in a sub-Saharan African setting, and which also uses data over more than one time period in an emerging economy environment. With the exception of a few studies concentrating on emerging economies, previous managerial networking studies have focused on the social networking and ties developed with top managers of other firms. In this study, we present a broader conceptualization of the networking relationships to include not only the managerial networking relationships and ties with political leaders and bureaucratic officials, but also community leaders, to provide evidence on the contingent value of managerial networking relationships. The analyses showed that the networking relationships developed with top managers of other firms, bureaucratic officials, and community leaders are significant predictors of organizational performance after controlling for firm-specific and industry-related effects. However, networking relationships forged with political leadership may overburden organizations through reciprocity of favors since it does not have a statistically significant positive effect on performance. Furthermore, the effect of networking relationships on performance is moderated by organizational characteristics (age, size, and ownership type) and the nature of the competitive environment. Although the study was confined to Ghana, the cultural and institutional environmental conditions such as existence of collectivistic cultures, the influence of traditional and religious institutions, the role of political institutions, and the increase in competition in the domestic economy created by the implementation of economic reforms are very similar to what prevails in many countries in sub-Saharan Africa. Thus one would expect that the results obtained in Ghana could also be generalizable to other sub-Saharan African countries. The findings from the study do not only deepen our understanding of the relationships between managerial networking relationships and organizational performance but also underscore the context-specific nature of social networking relationships and thus help in providing us with rich insights into social networking theory and practice.

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