Managerial social capital, strategic orientation, and organizational performance in an emerging economy

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Abstract:

This study replicates and extends previous research focusing on China, to a sub-Saharan African emerging economy environment. Specifically, the study directly replicates the impact of social capital derived from the micro-managerial networking relationships and ties with top managers at other firms and government officials on macro-organizational performance using data from Ghana. This study further extends previous work by examining the impact of social capital derived from managerial social networking relationships and ties with community leaders on organizational performance. It examines how the relationship between social capital and organizational performance is contingent on an organization's competitive strategic orientation. The findings suggest that social capital developed from managerial networking and social relationships with top managers at other firms, government officials (political leaders and bureaucratic officials), and community leadership enhance organizational performance. The findings from the contingency analyses reveal some interesting trends. The impact of social capital on organizational performance differs between firms that pursue the different competitive strategies (low-cost, differentiation, and combination of low-cost and differentiation) and those who do not pursue those strategies.

Keywords: social capital | competitive strategic orientation | organizational performance | Ghana | African emerging economy

Article:

INTRODUCTION

Organizational and industrial sociological theorists have argued that managerial actions are embedded in social networks of relationships (Granovetter, 1985; Laumann, Galaskiewicz, and Marsden, 1978). According to Laumann *et al*., 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)

Building on this view, management researchers have argued that the social capital embodied in the development of managerial social networks and ties with external entities, a micro-level construct, affects an organization's competitive advantage and performance, a macro-level construct (e.g., Burt, 1997; Peng and Luo, 2000). Most empirical studies testing the micro–macro link have focused on the impact of social capital developed from the networking relationships with only top managers of other firms (suppliers, buyers, and competitors) on organizational activities. Furthermore, although it has been argued that the value of social capital is contingent on the strategic organization of firm activities (Burt, 1997; Burt *et al*., 1994), there is no comprehensive investigation into how social capital is contingent on a firm's competitive strategic orientation.

Social networking and ties are prevalent in the emerging economies of Africa, the Middle East, and Asia because of the presence of strong collectivistic cultures. However, there have been few empirical studies examining the effects of social capital developed from managerial networking and social ties on a firm's activities in emerging economies. Most having concentrated on advanced economies. The exceptions are a few studies using data from Asia (e.g., Park and Luo, 2001; Peng and Luo, 2000; Lee, Lee, and Pennings, 2001). Peng and Luo's (2000) work, which shows that managerial networking relationships and ties with top managers at other firms and government officials help improve organizational performance in China, is the most comprehensive study of the micro–macro link in an emerging economy. This is because it is the only study to examine the ties managers develop not only with top managers of other firms but also with government officials.

Although emerging economies in general may exhibit similar economic and institutional characteristics such as underdeveloped market-supporting institutions for fostering economic exchange, weak laws and poor enforcement capacity of the formal legal institutions (Khanna and Palepu, 1997), there are wide-ranging differences among them in the form of social norms, culture, and even the levels of environmental uncertainty and business risks. Given that much of the work on emerging economies has been focused on Asia (especially China), one would question whether the findings are culture and country specific. Thus, a replication and extension of Peng and Luo's (2000) work in a different geographic and cultural environment is needed to present a robust relationship between social capital and organizational outcomes in emerging economies.

Replication and extension research in strategic management is desirable because it serves to protect against the uncritical assimilation of erroneous empirical results, and determines whether the scope and limits of initial findings could be generalized to other populations, geographic areas, and time periods (Hubbard, Vetter, and Little, 1998). It has been argued that replication

and extension studies also help in the development of theory (Tsang and Kwan, 1999). Therefore, the goal of this study is to replicate and extend Peng and Luo's (2000) work in a different environment and geographic region by addressing the following three questions: (1) Does social capital help improve firm performance? (2) Does the observed effect of social capital on firm performance in Asia (especially China) hold true in sub-Saharan Africa? (3) How does an organization's strategic orientation affect the relationship between social capital and firm performance? I addressed these questions by using data on the social capital developed by managers in Ghana as a result of their networking relationships with top managers at other firms, government officials (political leaders and bureaucratic officials), and community leaders. Table 1 presents a comparison between Pen and Luo's (2000) work and the current study.

Table 1. Comparison between Peng and Luo's (2000) work and current study

Study	Measure(s) of performance	Managerial ties/social capital variables	Contingency variables	Control variables	Country and region of focus
Peng and Luo (2000)	Individual perceptual measures of	• Top managers at other firms	• Ownership (SOEs vs. non-SOEs)	• Quality	• China, Asia
	• Market share	• Government officials (political leaders and bureaucratic officials)	• Business sector (manufacturing vs. service)	• Payment terms	
	• Return on assets		• Firm size (number of employees)	• Advertising	
			• Industry growth	• Pricing	
				• Delivery	
Current study	A composite average perceptual measure of	• Top managers at other firms	• Low-cost strategy	• Firm age	• Ghana, sub-Saharan Africa
	• Grown of sales and revenue	• Government officials (political leaders and bureaucratic officials)	• Differentiation strategy	• Firm size (number of employees)	
	• Growth of net income or profits	• Community leaders	• Integrated low-cost differentiation strategy	• Ownership (wholly domestic owned vs. joint venture)	
	• Growth in productivity			• Business sector (manufacturing vs. service)	
	• Return on assets			• Market competition	
	• Return on sales				

But, one might ask, why sub-Saharan Africa in general and Ghana in particular? First, in a recent forum on strategy in emerging economies, Hoskisson *et al*. (2000) noted that research on firm strategies in emerging economies have focused on China and some countries in Central and Eastern Europe, despite the fact that 64 countries in four regions (Africa/the Middle East, Asia, Central and Eastern Europe, and Latin America) have been identified as emerging economies. They stated that the Africa/Middle East region especially has received little or no research attention, and appealed to strategy researchers to broaden their research agenda to embrace developments in these countries to advance the development of theory and practice. However, 7 years after Hoskisson *et al*.'s (2000) call, there is still a lack of attention being paid to strategy

research on Africa. For instance, a recent special issue of the *Journal of Management Studies*, edited by Wright *et al.* (2005), that focused on strategy research in emerging economies—and followed up Hoskisson *et al.*'s (2000) initial study—did not include a single paper that focused on strategy issues in Africa. Thus, additional strategy research focusing on the region of Africa should be welcomed.

Second, just like China and other emerging economies, there are inadequate market supporting institutions and weak enforcement capacity of regulatory and legal institutions in Ghana and many sub-Saharan African economies, creating a greater level of uncertainty in the business environment. In exploring the role of networking relationships in the strategic organization of firm activities, organizational researchers have suggested that the greater the uncertainty in the firm's business environment, the more likely the firm will rely on managerial networking relationships when entering into economic exchange relationships (Pfeffer and Salancik, 1978; Peng and Heath, 1996; Powell, 1990). Ghana and many sub-Saharan African economies are implementing International Monetary Fund/World Bank's recommended structural adjustment programs that include monetary and banking reforms, privatization of unprofitable state-owned enterprises, removal of import controls and foreign exchange restrictions, and removal of price controls and local production subsidies (Debrah, 2002). Thus, managers in sub-Saharan Africa face greater levels of uncertainty and are more likely than their counterparts in advanced industrialized economies to use networking relationships and ties that they personally cultivate to reduce uncertainty in the business environment of their organizations; making it an interesting region for further testing of the micro–macro link.

Third, Ghana has received considerable attention in the popular business press and related publications with respect to the success of its economic transformation policies (Leechor, 1994). It is recognized as one of only seven emerging economies in sub-Saharan Africa (Hoskisson *et al.*, 2000).

Fourth, strong traditional institutions such as kingship, chieftaincy, and religious organizations exist in Ghana. These traditional institutions create a high level of communal bond, strong allegiance to community leadership—especially kings and chiefs of cities, towns and villages—and the cultivation and maintenance of strong interpersonal ties among individuals and families in a community. This makes it possible to extend the development of social capital from the networking relationships with external entities to include community leaders. Thus, managers in emerging economies in different geographical regions devote time and effort to cultivating interpersonal relationships; the nature of those relationships may not only be different, but may have different effects on the strategic organization of firm activities.

THEORETICAL BACKGROUND AND HYPOTHESES

Social capital theory postulates that networking relationships provide value to actors (e.g., individuals, organizations, or communities) by allowing them to tap into the resources embedded in such relationships for their benefit (Bourdieu, 1986; Lin, 2001). Social capital is defined as the sum of resources, actual or virtual, that accrue to an individual or an organization as a result of the development of personal and social networking relationships (Bourdieu and Wacquant, 1992; Lin, 2001). Although early usage of the concept of social capital focused on how the resources

acquired by an individual through the development of close social relationships and networks influences his/her behavior (a micro–micro link), the argument has been extended to organizations (a micro–macro link) (e.g., Baker, 1990; Gulati, 1995). The top managers of an organization can develop social capital through a variety of personal, social, and economic relationships with their constituencies that can be used for the benefit of their organizations. These include the managers' personal and social relationships with suppliers, customers, competitors, trade or employee associations, government's political and bureaucratic institutions, and community organizations and institutions. In this study, I focus on the social capital that is developed by an organization's top management through personal and social networking relationships with external entities. The personal and social networks developed through relational embeddedness function as conduits for the transmission of information, resources, and opportunities that could be leveraged to a firm's advantage (Gargiulo and Benassi, 2000).

Previous research has suggested both direct and contingency effects of social capital on organizational outcomes. Several researchers have argued that managerial social capital cultivated at the micro level contributes to organizational success at the macro level. For example, Coleman (1988) asserts that social capital facilitates the creation of human capital. Nahapiet and Ghoshal (1998) argue that social capital promotes the development of new intellectual capital and that organizations that develop high levels of social capital are more likely to perform better than their competitors. Leanna and Van Buren (1999) suggest that social capital enables an organization to be flexible, manage collective action, and develop intellectual capital, which facilitates the creation of competitive advantage. Empirically, several researchers have established a positive link between managerial social capital, the ability to obtain organizational resources and capabilities, and organizational performance (Kale, Singh, and Perlmutter, 2000; Lee *et al*., 2001; Pennings, Lee, and Van Witteloostuijn, 1998; Peng and Luo, 2000; Rowley, Behrens, and Krackhardt, 2000; Uzzi, 1996, 1999; Yli-Renko, Autio, and Sapienza, 2001). From a contingency perspective, Burt (1997) has shown that the value of social capital to an individual manager is contingent on the number of peers doing the same work. Peng and Luo (2000) show that the impact of social capital on organizational performance is higher for smaller firms, service as opposed to manufacturing firms, and firms in low-growth industries. Rowley *et al*. (2000) also show that the effect of relational social capital in the form of strong ties on firm performance is dependent on industry context. Other studies have also shown that while social capital provides benefits to organizations, it can also hinder their progress by acting as constraints on an organization's activities, and thus its performance (Gargiulo and Benassi, 2000; Portes and Sensenbrenner, 1993).

Social capital and organizational performance

Most of the managerial social capital developed in African economies is relational in nature because it is created as a result of the social relationships and interactions between managers of organizations and external entities. On the one hand, the managerial social capital from networking relationships with top managers of other firms and government officials is characterized by a high level of intimacy, reciprocal services, and emotional intensity (Granovetter, 1985). On the other hand, the managerial social capital from networking relationships with a particular community through their leaders requires a limited amount of time, intimacy, and emotional intensity invested in a relationship (Granovetter, 1973).

The networking relationships a manager forges with parties of external entities at the micro level in sub-Saharan Africa can provide an organization with several benefits. First, through networking relationships and interactions, the organization can secure access to financial and strategic resources. Second, organizations are exposed to high-quality information about products, marketing, and technological opportunities. Burt (1992) suggests that this information benefit could be in the form of access to valuable information (a) in an efficient manner, (b) from external contacts sooner than without those contacts, and (c) on available opportunities through referrals and reputational endorsements. Third, social networking relationships create opportunities for knowledge acquisition and exploitation (Dyer and Singh, 1998; Lane and Lubatkin, 1998). These benefits are especially important in sub-Saharan Africa because of the high level of uncertainty due to the ineffective nature of market-supporting institutions in facilitating economic exchange and access to information, resources, and knowledge. In the rest of this section, I develop hypotheses linking managerial social capital to organizational performance. It should be noted that while the first two hypotheses focusing on the impact of social capital from managers at other firms and government officials are direct replications of Peng and Luo's (2000) work, the third and its contingency hypotheses are unique to this study and extend Peng and Luo's work in a different economic and geographic environment.

Social capital from top managers at other firms

Several studies have shown that when managers develop networking relationships with top managers of other firms, they are able to acquire resources, valuable information, and knowledge, which are used to mitigate uncertainties and thus enhance performance. For example, networking relationships between managers and their key customers and suppliers facilitate the creation, acquisition, and exploitation of knowledge (Dyer and Nobeoka, 2000; Yli-Renko *et al.*, 2001). Furthermore, networking relationships with customers may create both customer and brand loyalties, and increase sales (Park and Luo, 2001), while those with suppliers will provide access to quality raw materials, superior service, and fast and reliable deliveries (Peng and Luo, 2000). In addition, ties with competitors may lead to the sharing of information about how to reduce operations cost (von Hippel, 1988), or collaborate to share resources, and implicitly collude to deal with competitive uncertainties in their environment (Park and Luo, 2001). Thus, managerial networking relationships and ties with top managers of other firms enable organizations to secure access to information, resources, and knowledge that are used to improve performance. Therefore I hypothesize that:

> *Hypothesis 1: The social capital developed from the networking relationships and ties with top managers at other firms will be positively related to organizational performance.*

Social capital from government officials

Managers in sub-Saharan Africa, and in many emerging economies, develop networking relationships with government officials such as politicians at different levels of government and with bureaucratic officials in regulatory, supporting, investment, and industrial institutions. Although the implementation of economic liberalization and privatization policies have opened

up the economies of most sub-Saharan African countries, government officials still have considerable power and control. In Ghana, they have control over most financial institutions, the award of major contracts—which are exclusively determined by the government—and regulatory and licensing procedures. These officials can therefore provide an organization easy access to financial resources; provide opportunities by awarding government projects and contracts; provide certification and approval to products as meeting government standards; and provide information about new and impending regulations that may affect the organization's activities and industry. The enforcement capacity of the formal institutional structures (e.g., legal institutions) is weak, and the nature of the market mechanism in fostering economic exchange is underdeveloped in sub-Saharan African economies, thus creating a high level of uncertainty about the organization of business activities. Top managers develop networking relationships with government officials to secure access to resources, information, and knowledge that enable them to offer a buffer against the high level of uncertainty in the business environment. Therefore, organizations whose top managers develop stronger cohesive ties with government officials will be successful in steering their firms to higher performance. Thus, I hypothesize that:

> Hypothesis 2: The social capital developed from the networking relationships and ties with government officials (political leaders and bureaucratic officials) will be positively related to organizational performance.

Social capital from community leaders

The cultures in sub-Saharan Africa are highly collectivistic, with the extended family and broader community performing a substantial role in the lives and activities of individuals and organizations. This is similar to what Jacobs (1965) describes as the strong network of personal and social relationships developed over time that provides the basis for collective action in communities. In Africa, community leaders such as local chiefs and kings and religious leaders are very influential in garnering resources and providing access to valuable information and knowledge to businesses. In Ghana, there are two parallel political systems and authorities: (1) the formal political system of the modern nation state, and (2) traditional political systems that pre-date the modern nation state. While the power and authority in the formal political system are exercised by government officials, traditional political authority and leadership are in the hands of kings and chiefs of ethnic groups, cities, towns, and villages. The role of these traditional political leaders is to establish ownership, control, and distribution of property among families in communities. They also create, maintain, and enforce the social norms and values of their communities, including traditional religious rituals, thus developing a strong interpersonal bond among individuals in their communities. Although all Ghanaians are citizens of the Republic of Ghana, they also consider themselves 'subjects' of their traditional leaders (Ray, 2003). Thus, individuals (including government officials) who belong to a particular ethnic group or community demonstrate strong allegiance and loyalty to their traditional social and political system and its leadership. The significance of the traditional political and social authority is demonstrated by its recognition in the constitution of Ghana's Fourth Republic.

Community leaders therefore act as conduits for the transmission of information and resources for firms because they serve as local bridges between an organization and the community. The

relationships developed by an organization's managers with community leaders provide the organization with valuable access to resources and information as the community leaders endorse the organization and its activities and refer it to their communities. This may enable the organization to obtain financial resources, enter new market segments or gain access to new customers, and/or acquire technological know-how. Thus, community leaders act as links to a broad marketplace, connecting organizations with their communities leading to the transmission of valuable information and resources. Kuanda and Buame (2000) have shown that the social networking and ties developed by entrepreneurs with community and religious colleagues in Ghana provided them with information about business opportunities, links with sources of financial resources, and markets for their products. Thus, an organization whose top managers cultivate stronger social networking relationships with community leaders will be able to utilize the benefits derived from such relationships to enhance performance. Therefore, I hypothesize that:

> *Hypothesis 3: The social capital developed from the networking relationships and ties with community leaders will be positively related to organizational performance.*

Competitive strategy as a contingency variable

The strategy field has demonstrated a link between Porter's conceptualization of competitive strategies and firm outcomes (see Campbell-Hunt, 2000, for a meta-analytic review of studies from 1983 to 1995). As organizations in emerging markets begin to compete with one another and foreign firms because of the liberalization of their economies, their success depends upon their ability to formulate and implement a coherent competitive strategy. The strategies of low cost and differentiation are concerned with how an organization develops competitive advantage in an industry relative to its rivals. In this section I focus on how the impact of social capital on organizational performance is contingent on the implementation of Porter's generic strategic typologies of low-cost and differentiation, and the integrated low-cost differentiation strategies.

Low-cost strategy

Porter (1980) suggested that the successful implementation of the different competitive strategies require different sets of specific skills and resources. An organization implementing the low-cost strategy emphasizes operational efficiency. According to Porter, achieving a low-cost position relative to competitors involves emphasizing:

> aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customers accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. (Porter, 1980: 35)

A low-cost organization can earn above-normal returns by using its low-cost edge to offer lower prices relative to competitors to attract price-sensitive consumers in greater numbers to increase profitability. However, to successfully implement this strategy, an organization will need resources such as secured source of raw materials, access to low-cost distribution networks, financial resources for sustained capital investments to increase the efficiency of existing

operations through continual improvements, and technical personnel with process engineering skills and expertise. In most African emerging economies these resources are not readily available because of the underdeveloped nature of the institutional structures and market-based exchange systems such as the stock market. Therefore, managers of organizations implementing the low-cost strategy will have to rely more on the social networking relationships and ties they build with external entities such as top managers of other organizations, government officials, and community leaders to secure the resources and capabilities that are required to successfully implement the low-cost strategy. Thus, I hypothesize that:

> *Hypotheses 4a–c: The impact of social capital developed from the social networking relationships and ties with (a) top managers at other firms, (b) government officials, and (c) community leaders on organizational performance will be stronger for firms pursuing the low-cost strategy than for firms that do not pursue the low-cost strategy.*

Differentiation strategy

An organization implementing the differentiation strategy focuses on creating and providing products or services that customers perceive as unique and valuable as compared to those of its competitors. The organization creates these perceptions by offering innovative, reliable, quality, and durable products, or superior customer service. Advertising programs and various marketing techniques and methods are also used to reinforce the perceptions and image created in the minds of current and prospective customers that the organization's products or services are superior to those of its rivals. This allows the differentiator to build brand and customer loyalties and create entry barriers for its rivals. Such loyalties may enable the organization to charge premium prices for its products or services because of the price-inelastic nature of demand, and thus translate into higher profit margins. An organization can successfully achieve a differentiator status by focusing on scanning and evaluating the external environment so as to identify emerging market opportunities that it can use to its advantage.

The implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable, and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 1980). Obtaining these resources and skills involve communicating with external entities who have knowledge and access to these resources, since they cannot be easily acquired through market-based exchange in most emerging economies in Africa. For example, technological leadership can be attained through access to financial resources and highly skilled scientists, both of which can easily be obtained by developing relationships with government officials. Moreover, corporate reputation for products or service quality, reliability, and durability could be accomplished through community leadership endorsements and referrals, which are very valuable in most African societies. The greater uncertainty in the business environment in emerging economies further encourages organizations implementing the differentiation strategy to utilize social networking relationships and ties to deal with competitive forces. Thus, managers in an organization implementing the differentiation strategy may need to rely more on the social networking relationships and ties they have developed with external entities such as top managers of other firms, government officials, and community leaders to

obtain the necessary resources and capabilities so as to mitigate the greater uncertainty and risk created by this strategic orientation. Thus, I hypothesize:

> *Hypotheses 5a–c: The impact of social capital developed from the social networking relationships and ties with (a) top managers at other firms, (b) government officials, and (c) community leaders on organizational performance will be stronger for firms pursuing the differentiation strategy than firms that do not pursue the differentiation strategy.*

Integrated low-cost and differentiation strategy

Porter's (1980) original work argued that an organization cannot successfully pursue the low-cost and differentiation strategies simultaneously because differentiation is usually costly. Superior performance can only be achieved by making a clear choice between a low-cost strategy and a differentiation strategy, otherwise an organization will be stuck in the middle and thus experience low profitability. Despite the strong empirical support for Porter's assertion (e.g., Campbell-Hunt, 2000; Dess and Davis, 1984; Robinson and Pearce, 1988), some theoretical and empirical evidence exist to show that it is possible and profitable to pursue the low-cost and differentiation strategies simultaneously (or the integrated strategy) (e.g., Hill, 1988; Jones and Butler, 1988; Murray, 1988). The viability of the pursuit of the integrated strategy (combination of low-cost strategy and differentiation strategy simultaneously) has also received empirical support (e.g., Bowman and Ambrosini, 1997; Kim, Nam, and Stimpert, 2004; Miller and Dess, 1993; Spanos, Zaralis, and Lioukas, 2004).

The implementation of the integrated strategy focuses on achieving both low cost and differentiation by keeping costs as low as possible to meet or exceed customers' expectation on price, and delivering superior value to customers by meeting their expectations on key attributes such as quality, reliability, durability, and service (Thompson and Strickland, 2001). Thus, an organization should have the resources and capabilities that would enable it to offer superior and quality products and/or customer services at lower cost than rivals. This implies that an organization implementing the integrated strategy would require a combination of the resources and skills needed by organizations pursuing low-cost and differentiation strategies respectively. Therefore, an integrated strategy organization will experience a higher level of risk and uncertainty in an emerging economy environment than nonintegrated strategy organizations. Integrated strategy organizations will rely more on social networking relationships and ties to obtain the resources and capabilities needed to deal with competitive forces in the market, and to capitalize on emerging market opportunities as they implement their strategic orientation. Thus:

> *Hypotheses 6a–c: The impact of social capital developed from the social networking relationships and ties with (a) top managers at other firms, (b) government officials, and (c) community leaders, on organizational performance will be stronger for firms pursuing the integrated strategy than firms that do not pursue the integrated strategy.*

METHODS

Sample and data

The data for this study were collected from senior executives—chief executive officers (CEOs) or managing directors (MDs) and their deputies, and heads of the finance/accounting function—of manufacturing and service firms operating in Ghana. The sample consisted of the 200 large- and medium-sized companies selected from the *Ghana Business Directory* (2001) and the membership directory of the Association of Ghana Industries (AGI). To solicit participation in the study, letters were sent to the CEOs/MDs of each of the selected companies. 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/MDs were promised that respondents (1) would not have to identify themselves, but would be required to indicate their position in the company, and (2) would receive a summary of the results of the study if they included their company's address. One month after the letters were sent, I personally visited the companies, gave the questionnaires to the CEOs/MDs and agreed on a date to collect the completed questionnaires. After several visits to the companies, I received responses from 115 firms. All the questionnaires were usable except nine, for a response rate of 53 percent. This response rate compares favorably with similar studies conducted in similar environments (e.g., 37% for Appiah-Adu, 1998).

Table 2. Factor analysis for organizational performance and social capital scales[a]

Scale and item	Factor 1	Factor 2	Factor 3	Factor 4
Organizational performance				
Growth of sales and revenues	**0.79**	–0.02	0.29	0.11
Growth of net income	**0.83**	0.03	0.23	–0.04
Return on assets	**0.85**	–0.03	0.17	0.06
Return on sales	**0.77**	–0.01	0.25	0.27
Growth in productivity	**0.72**	0.04	0.37	0.18
Social capital from government officials	0.06	**0.89**	0.18	0.13
City council executives				
District council executives	0.03	**0.89**	0.18	0.08
Regional government politicians and executives	0.04	**0.72**	–0.06	0.38
National government politicians and executives	0.14	**0.78**	–0.01	0.05
Officials in regulatory and supporting institutions (e.g., Standards Board, Internal Revenue Service, Ministries, Central Bank, Environmental Protection Agency)	0.13	**0.59**	–0.05	0.28
Officials in industrial and investment institutions (e.g., Investment Board, Export Promotion Council, Ghana Stock Exchange)	0.06	**0.67**	0.23	0.27
Social capital from community leaders				
Local kings, chiefs and/or their representatives	0.27	0.27	**0.79**	0.11
Religious leaders (e.g., pastors, priests, imams)	0.27	0.08	**0.85**	0.03
Social capital from top managers at other firms				
Suppliers	0.31	–0.07	–0.03	**0.71**
Buyers	0.20	0.24	0.22	**0.64**
Competitors	–0.21	0.30	0.08	**0.59**
Eigenvalue	4.37	2.78	1.77	1.23
Percentage of variance explained	27.32	17.37	12.36	11.08
Cumulative percentage of variance explained	27.32	44.69	57.05	68.13

[a] Method used was principal component analysis with varimax rotation. Factor loadings that are greater than an absolute value of 0.40 are shown in bold font.

Validity checks of the responses

I addressed concerns about the validity of the responses by making sure that all the respondents who completed the questionnaires held senior management positions. On average, the respondents worked for their companies for more than 9 years and held their respective positions for over 6 years. I examined common method variance through two methods during the survey design and administration, and one post hoc statistical test. First, I designed the questionnaires such that information was solicited on managerial social and personal networking relationships from 1998 to 2000. The information on performance, however, was solicited for the years 2001 and 2002. Second, I collected information on the independent variables from CEOs/MDs and their deputies, while the performance information was collected from the head of the accounting/finance function with titles such as chief financial officer, director of administration (finance), and chief accountant. Third, I used Harman's (1967) one-factor test to check whether common method variance is a serious problem in the data. A factor analysis of the items on the performance variable and the social capital variables yielded four factors with eigenvalues greater than one and the first factor accounting for about 27 percent of the variance. Thus, common method variance is not likely to be causing the relationships between the dependent and independent variables in this study. Table 2 presents the results of the factor analysis of the performance and social capital variables.

Measures

Organizational performance

In Ghana, although publicly available information about the objective performance data of firms is difficult to obtain because most firms are reluctant to provide such information, both objective and subjective performance information was requested from the respondents. The practice of soliciting subjective performance information is common in situations where objective data are either not available or difficult to obtain (e.g., Bae and Lawler, 2000; Bowman and Ambrosini, 1997; Dess and Robinson, 1984; Tan and Peng, 2003). Almost none of the firms provided objective performance information. In fact, there were only 22 companies listed on the Ghana Stock Exchange during the survey and 12 of those companies provided complete responses to the survey. I therefore relied on the firms' subjective evaluation of their performance relative to competitors. To minimize potential problems of monomethod bias and measurement errors, I used a second set of respondents for the performance data. Furthermore, there are precedents for using perceptual measures of performance in social capital studies in emerging economies (Park and Luo, 2001; Peng and Luo, 2000).

The respondents were asked to rate their firms on five measures of performance (growth of sales and revenue, growth of net income or profits, growth in productivity, return on assets, and return on sales) relative to the major competitors in their industry in the years 2001 and 2002. The performance items were measured on a scale ranging from (1) 'uch worse' to (7) 'much better.' The five measures were, however, highly correlated with each other. The bivariate correlation coefficients were all greater than 0.60. The ratings of the five performance measures were therefore averaged to obtain a composite but global measure of firm performance. The relative approach to measuring performance was chosen to increase the probability of obtaining accurate

information on performance since it has been noted that firms in Ghana are often reluctant to provide information related to their performance (Amoako-Gyampah and Boye, 2001). Furthermore, a single global measure of firm performance is used to capture the multidimensionality of the performance construct and also for parsimony (Bae and Lawler, 2000).

Social capital

These variables deal with the development of social capital through the social networking relationships that the top management of firms in Ghana forges with (1) top managers at other firms, (2) government officials, and (3) community leaders. The respondents were asked to assess the extent to which top management had *used* personal and social networking relationships (USED), and how such relationships had *benefited* their company through: (a) access to information that could be used to the firm's advantage (INFO); (b) access to valuable resources (RES); and (c) acquisition and exploitation of knowledge (KNOW), from 1998 to 2000. The assessments were made using a seven-point scale, ranging from (1) 'very little' to (7) 'very extensive.' The social capital measure for each of the three variables was then developed as follows:

$$\text{Social capital} = [(\text{USED} \times \text{INFO}) + (\text{USED} \times \text{RES}) + (\text{USED} \times \text{KNOW})]/3$$

Most of the items used in measuring the social capital constructs were adapted from Peng and Luo (2000). Social capital developed from relationships with *top managers at other firms* ($\alpha = 0.73$) was measured using three items: relationship with suppliers, buyers, and competitors. Social capital developed from relationships with *government officials* ($\alpha = 0.82$) was measured using six items: relationship with city council executives, district council executives, regional government politicians and executives, national government politicians and executives, officials in regulatory and supporting institutions, and officials in investment and industrial institutions. Social capital developed from relationships with *community leaders* ($\alpha = 0.83$) was measured using two items: relationship with local kings, chiefs and/or their representatives, and leaders of religious organizations.

Contingency variables

Competitive strategy was used as a contingency variable to examine how it moderates the relationship between social capital and organizational performance. I used 16 competitive methods, which have been used extensively to operationalize Porter's (1980) generic competitive strategies (e.g., Dess and Davis, 1984; Kotha and Vadlamani, 1995). The respondents were asked to assess the extent to which their organizations had placed emphasis on the competitive methods from 1998 to 2000 on a seven-point scale ranging from (1) 'much less' to (7) 'much more.' Based on a factor analysis of the competitive methods, two factors emerged: low cost and differentiation strategies. *Low-cost strategy* ($\alpha = 0.83$) was operationalized with six items: offering a broad range of products/services; emphasizing operating efficiency; offering competitive pricing for products/services; forecasting market growth in sales; controlling operating and overhead costs; and using innovation in production processes or service offerings. *Differentiation strategy* ($\alpha = 0.84$) was measured with seven items: developing new

products/service offerings; upgrading or refining existing products/services; emphasizing products or services for high-priced market segments; improving existing customer service; using innovation in the marketing of products/services; advertising and promoting products/services; and building brand and company identification.[1] To examine the impact of the simultaneous implementation of low-cost and differentiation strategies in moderating the impact of social capital on performance, I included two variables (in separate models). First, I created an interaction between the low-cost and differentiation strategies (*low cost* $\times$ *differentiation*) using their centered variables. Second, I created an *integrated strategy* (i.e., a combination strategy of low cost and differentiation) using a categorical variable as follows: Firms whose composite values for *both* the low-cost strategy and differentiation strategy were greater than the mean of each respective strategy were considered to be pursuing an *integrated strategy* and were coded 1, while all others were coded 0.[2]

Control variables

I controlled for a number of factors that might influence a firm's ability to use networking relationships to develop social capital. The control variables were firm size, age, ownership, business sector, and market competition. *Firm size* was measured as the logarithm of the number of employees. *Firm age* was measured as the number of years since the formation or incorporation of the firm. *Firm ownership* was operationalized using a dummy variable, coded 1 for wholly owned local firms and 0 for joint venture firms. *Business sector* was operationalized using a dummy variable, coded 1 for manufacturing firms and 0 for service firms (Peng and Luo, 2000). *Market competition* ($\alpha = 0.75$) 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 had taken place in their organization's industry between 1998 and 2000: an increase in the number of major competitors; the use of package deals for customers; the frequency of technological change; the frequency of new products or service introductions; the rate of change in price manipulations; an increase in the number of companies who had access to the same marketing channels; and the 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.'

Statistical analysis

To establish causality, I adopted a lagged dependent variable model to examine the relationship between social capital, competitive strategy, and organizational performance. In other words, the social capital variables in the study deal with the use and benefits from social, personal, and networking relationships before 2001 (from 1998 to 2000), while organizational performance was measured using the average of the responses for the years 2001 and 2002. It is reasonable to expect that competitive strategy and social capital developed in previous periods will affect organizational performance in the current period. The lagged dependent variable model would

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[1] The factor analysis of the competitive methods is available from the author upon request.
[2] When I used the median values of each respective strategy to determine the pursuit of an integrated strategy, the results reported in Tables 4 and 5 remained the same.

provide a more robust test of the effects of organizational strategic activities on performance (Lee *et al*., 2001; Mosakowski, 1993).

A hierarchical multiple regression analysis was used to examine the effects of social capital, competitive strategy, and the interaction between social capital and competitive strategy on organizational performance. The first model tests the relationship between the control variables and performance. The second model has both the control variables and competitive strategy, while the third model adds social capital to the second model. A fourth model was estimated by adding the interaction between social capital and competitive strategy to the third model to test for the contingency hypotheses (4a–6c). I examined the validity of the econometric model by performing several tests. The assumptions of equality of variance, independence of the error term, and the normality of the residual were all met. However, the variance inflation factors (VIFs) showed high multicollinearity among the interaction variables because of the linear combination of variables that contain similar elements. To test for the contingency hypotheses, I created nine interaction terms (three social capital variables by three competitive strategy variables). Subgroup regression analysis was therefore used to examine the contingency hypotheses (Aulakh, Kotabe, and Teegin, 2000; Peng and Luo, 2000).

RESULTS

Table 3 provides the means, standard deviations, and correlations among the variables. It shows significant correlations among the social capital variables and between the social capital variables and competitive strategy variables. However, the variance inflation factors (VIFs) of the social capital and competitive strategy variables were all less than 10, indicating that multicollinearity is not a problem (Neter *et al*., 1996). Table 4 presents the standardized hierarchical regression used to examine Hypotheses 1–3. In Model 1, which tests the relationship between the control variables and performance, firm size is significant and positively related to performance ($p < 0.05$), while business sector is negative and marginally significant ($p < 0.10$). This result indicates that in the sample larger firms performed better than smaller firms and service firms performed better than manufacturing firms.

In Model 2, where I include the contingency competitive strategy variables, the results show that both the low-cost and differentiation strategies are positive and significantly related to performance ($p < 0.01$ for low cost and $p < 0.001$ for differentiation). However, the interaction between low-cost strategy and differentiation strategy (Model 2a) is significant and negatively related to performance ($p < 0.05$). These results seem to indicate that while the pursuit of singular competitive strategies enhances performance, the pursuit of a combination strategy worsens performance. Although this result has been used as a test of the effect of integrated strategy on organizational performance (e.g., Aulakh *et al*., 2000) it does not provide a robust test. This is because the interaction between the low-cost and differentiation strategies could be influenced by firms that do not pursue the low-cost and differentiation strategies simultaneously, since both strategies are measured as continuous variables. In Model 2b, the result clearly shows that the *integrated strategy* variable has a positive impact on performance ($p < 0.05$), which is contrary to the effect of the interaction term. It should also be noted that the inclusion of the competitive strategy variables significantly improves the explanatory power of both Models 2a and 2b as indicated by the *F*-test for the change in adjusted R^2 ($\Delta R^2 = 19–25\%$, $F > 8.65$, $p < 0.001$).

Table 3. Descriptive statistics and correlation matric of variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Organizational performance	4.81	1.13	0.91										
2. Social capital from top managers at other firms	27.83	7.68	0.44***	0.73									
3. Social capital from community leaders	10.97	7.70	0.41***	0.29**	0.83								
4. Social capital from government officials	17.51	8.42	0.36**	0.30**	0.29**	0.82							
5. Differentiation strategy	4.90	1.10	0.42***	0.27**	0.36**	0.24*	0.84						
6. Low-cost strategy	5.27	1.07	0.37**	0.11	0.40***	0.09	0.35**	0.83					
7. Integrated strategy[a]	0.43	0.50	0.34**	0.12	0.30**	0.15	0.47**	0.53***					
8. Market competition	5.42	0.82	0.15	0.16	0.13	0.25*	0.33**	0.25*	0.26*	0.75			
9. Firm age	22.43	15.77	0.09	0.18	–0.05	0.20*	0.05	0.12	0.12	0.25*			
10. Business sector	0.83	0.38	–0.19	–0.23*	–0.17	–0.32**	–0.18	–0.10	–0.16	–0.06	–0.12		
11. Firm size[b]	1.91	0.53	0.25**	0.17	0.23*	0.34**	0.24*	0.30**	0.21*	0.25*	0.48***	–0.24*	
12. Firm ownership	0.28	0.45	0.17	0.07	0.07	0.16	0.18	0.22*	0.17	0.29**	0.39***	0.06	0.43***

The values in diagonals are Cronbach's alpha.

[a] Dummy variable coded as 1 if *both* low-cost strategy and differentiation strategy are greater than their respective means, and coded 0 otherwise.

[b] Log of number of employees.

$*p < 0.05$; $**p < 0.01$; $***p < 0.001$.

Table 4. Results of hierarchical regression analysis of social capital on performance ($N = 106$)[a]

Variables	Model 1 β	Model 1 t-value	Model 2a β	Model 2a t-value	Model 2b β	Model 2b t-value	Model 3a β	Model 3a t-value	Model 3b β	Model 3b t-value
Control variables										
Firm age	–0.07	–0.64	–0.07	–0.69	–0.02	–0.21	–0.05	–0.63	–0.05	–0.53
Firm size	0.21	2.15*	0.19	2.06*	0.20	2.02*	0.21	1.98*	0.20	2.00*
Firm ownership	0.11	0.94	0.10	0.98	0.03	0.36	0.07	0.91	0.06	0.82
Business sector	–0.15	–1.68+	–0.11	–1.25	–0.08	–0.96	–0.11	–1.54	–0.02	–0.23
Market competition	0.08	0.84	–0.02	–0.23	–0.09	–0.98	–0.08	–1.09	–0.07	–1.09
Contingency competitive strategy variables										
Low-cost strategy			0.43	3.16**	0.31	2.45**	0.37	2.79**	0.29	2.52**
Differentiation strategy			0.56	3.55***	0.52	4.66***	0.41	2.67**	0.43	2.63**
Low-cost × Differentiation[b]			–0.40	–1.98*			–0.31	–1.72+		
Integrated strategy[c]					0.17	2.08*			0.16	2.05*
Social capital from managerial networking relationships										
Top managers at other firms							0.52	4.22***	0.50	4.17***
Government officials							0.18	1.99*	0.17	2.20*
Community leaders							0.24	2.56**	0.25	2.62**
Adjusted R^2	0.10		0.29		0.35		0.59		0.60	
Change in adjusted R^2			0.19		0.25		0.30		0.25	
F-test for change in adjusted R^2			8.65***		12.43***		22.73***		18.94***	
Model F	2.14+		6.43***		7.98***		15.02***		16.64***	

[a] The coefficients are standardized regression coefficients.

[b] The interaction was created by multiplying the centered or de-meaned variables of low-cost strategy and differentiation strategy.

[c] Dummy variable (coded 1 if *both* low-cost strategy and differentiation strategy are greater than their respective means; 0 otherwise). Note that for the F-test change in adjusted $R2$, Models 2a and 2b are both compared with Model 1. Models 3a and 3b are compared with Models 2a and 2b, respectively.

$+p < 0.10$; $*p < 0.05$; $**p < 0.01$; $***p < 0.001$.

Table 5. Results of subgroup analysis examining the moderating effects of competitive strategy on relationship between social capital and firm performance

	Low-cost strategy			Differentiation strategy			Integrated strategy		
	Model 4a Low-cost ($n = 59$)	Model 4b Non-low-cost ($n = 47$)	t-test[a]	Model 5a Differentiation ($n = 55$)	Model 5b Non-differentiation ($n = 51$)	t-test	Model 6a Integrated strategy ($N = 46$)	Model 6b Nonintegrated strategy ($N = 60$)	t-test
Variables	β (t-value)	β (t-value)		β (t-value)	β (t-value)		β (t-value)	β (t-value)	
Controls									
Firm age	0.07 (0.47)	–0.15 (–1.17)		0.07 (0.56)	–0.13 (–0.93)		0.06 (0.46)	–0.01 (–0.87)	
Firm size	–0.13 (–0.99)	0.04 (0.31)		–0.11 (–0.81)	0.15 (1.00)		–0.19 (–1.49)	0.07 (0.56)	
Firm ownership	0.14 (1.25)	–0.02 (–0.13)		0.09 (0.79)	0.07 (0.41)		0.12 (1.07)	0.05 (0.40)	
Business sector	0.05 (0.51)	0.01 (0.10)		0.10 (0.94)	–0.06 (–0.46)		0.01 (0.08)	–0.01 (–0.09)	
Market competition	–0.12 (–1.24)	0.09 (0.66)		–0.13 (–1.25)	0.13 (0.82)		–0.21* (–2.07)	0.05 (0.46)	
Low-cost strategy							0.08 (0.74)	0.20+ (1.72)	
Differentiation strategy							0.24* (2.05)	–0.03 (–0.21)	
Social capital from managerial networking									
Top managers at other firms	0.67*** (6.97)	0.69*** (4.13)	–0.17	0.65*** (6.28)	0.56*** (3.74)	1.67*	0.65*** (6.47)	0.59*** (4.09)	0.60
Government officials	0.20+ (1.77)	–0.05 (–0.28)	2.08*	0.25* (2.03)	–0.19 (–1.23)	8.15***	0.28* (2.42)	–0.15 (–1.15)	4.30***
Community leaders	0.29** (2.69)	0.09 (0.93)	1.65*	0.28* (2.40)	0.19+ (1.95)	1.67*	0.19+ (1.72)	0.23* (2.01)	–0.40
Adjusted R^2	0.58	0.39		0.48	0.33		0.64	0.42	
Model F	11.64***	4.60***		7.24***	4.09***		9.08***	5.32***	

[a] The formula for the t-test, which was conducted to verify the difference between the betas of the subgroups pursing a competitive strategy and those not pursing that strategy, is as follows. The t-test is a one-tailed test.

$$t = \frac{\beta_1 - \beta_2}{\sqrt{\dfrac{SSE_1 + SSE_2}{N_1 + N_2 - 4} X \dfrac{\sum X_1^2 + \sum X_2^2}{(\sum X_1^2)(\sum X_2^2)}}}$$

$$d.f. = N_1 + N_2 - 4$$

where β is the beta or standardized coefficient, SSE is the sum of squared errors, X is the social capital variable, N is subgroup sample size, and 1 and 2 are the subgroups implementing a particular competitive strategic orientation and those not implementing a competitive strategic orientation, respectively.
+$p < 0.10$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$.

In Model 3, social capital from managers at other firms, government officials, and community leaders were all significant and positively related to performance ($p < 0.001$, $p < 0.05$, and $p < 0.01$, respectively). Thus, Hypotheses 1–3 were all supported. The inclusion of the social capital variables significantly improved the explanatory power of the model as demonstrated by the F-test for the change in adjusted $R2$ ($F = 47.0$, $p < 0.001$). This shows that the social capital variables explain 30 percent and 25 percent of the variance in organizational performance in Models 3a and 3b, respectively.

Table 5 presents the results of the subgroup analyses performed to test the contingency hypotheses (4a–6c). Model 4 examines the impact of the social capital variables on organizational performance between low-cost and non-low-cost firms. The results indicate that the beta coefficients for social capital from top managers at other firms for low-cost and non-low-cost firms were both positive and significantly related to performance ($\beta = 0.67$, $p < 0.001$ for low-cost firms; $\beta = 0.69$, $p < 0.001$ for non-low-cost firms). A t-test comparing the two beta coefficients (Cohen and Cohen, 1983: 56; see Table 5) indicates that they are not significantly different ($t = -0.18$, $p > 0.10$). Thus, Hypothesis 4a is not supported. However, social capital from relationships with government officials was marginally significant for low-cost firms ($\beta = 0.20$, $p < 0.10$), but had no impact on the performance of non-low-cost firms. A t-test indicates that the coefficients are significantly different ($t = 2.08$, $p < 0.05$), providing support for Hypothesis 4b. Social capital from community leaders was significantly related to performance for low-cost firms ($\beta = 0.29$, $p < 0.01$) but not related to performance for non-low-cost firms. The t-test shows significant a difference between the two betas ($t = 1.65$, $p < 0.05$), providing support for Hypothesis 4c.

Model 5 examines the impact of social capital on organizational performance between differentiation firms and non-differentiation firms. Although the beta coefficients for social capital from managers at other firms for both differentiation and nondifferentiation firms were positive and significantly related to performance ($\beta = 0.65$, $p < 0.001$ for differentiation firms; $\beta = 0.56$, $p < 0.001$ for nondifferentiation firms), a t-test indicates that the coefficients are significantly different ($t = 1.67$, $p < 0.05$). Hypothesis 5a is therefore supported. Social capital from government officials was significantly associated with performance for differentiation firms ($\beta = 0.25$, $p < 0.05$) but had no effect for non-differentiation firms. This provides support for Hypothesis 5b ($t = 8.15$, $p < 0.001$). The results also indicate that while social capital from community leaders has a positive influence on performance for differentiation firms ($\beta = 0.28$, $p < 0.05$), it has a marginally positive influence on performance for non-differentiation firms ($\beta = 0.22$, $p < 0.10$), providing support for Hypothesis 5c ($t = 1.67$, $p < 0.05$).

The results for the examination of Hypotheses 6a–c are presented in Model 6. The results suggest that for both integrated strategy firms and nonintegrated strategy firms social capital from managers at other firms positively affects performance ($\beta = 0.65$, $p < 0.001$; and $\beta = 0.59$, $p < 0.001$, respectively). A t-test indicates no significant difference between the two coefficients. Hypothesis 6a is thus not supported. However, for integrated strategy firms, social capital from government officials has a significant impact on performance ($\beta = 0.28$, $p < 0.05$) as compared to nonintegrated strategy firms whose relationship has no impact on performance. Hypothesis 6b is therefore supported ($t = 4.30$, $p < 0.001$). While the impact of social capital from community leaders on performance is marginally significant for integrated strategy firms ($\beta = 0.19$, $p <$

0.10), it is significant for nonintegrated strategy firms ($\beta = 0.21$, $p < 0.05$). A t-test indicates that the two coefficients are not significantly different. Thus Hypothesis 6c is not supported.

The results in Model 6 further show that for firms pursuing the integrated strategy, market competition has a negative effect on performance; however, such firms benefit from the ability to differentiate their product or service offerings more than firms not pursuing the integrated strategy. Overall, all the six models in Table 4 are significant (F-values range from 4.09 to 11.64, $p < 0.001$), with the set of independent variables explaining between 33 percent (Model 5b) and 64 percent (Model 6a) of the variance in organizational performance. This is consistent with the findings of Peng and Luo (2000) for China.

DISCUSSION

This study replicated and extended Peng and Luo's (2000) research by examining the impact of managerial social capital developed from personal and social networking relationships with top managers of other firms, government officials, and community leaders on organizational performance. The study also examined the extent to which the value of social capital is contingent on organizational strategic orientation. The results indicate that the social capital developed from each of these three dimensions by managers is distinct, has different effects on organizational performance, and is contingent on strategic orientation. Consistent with the findings from Peng and Luo (2000) and prior studies (e.g., Park and Luo, 2001; Pennings *et al.*, 1998; Yli-Renko *et al.*, 2001), social capital developed with top managers of other firms positively enhances performance. Social capital from government officials also has a positive impact on performance, supporting Peng and Luo's (2000) findings for China. Thus, the findings from both China and Ghana clearly indicate that social capital from the networking relationships with top managers at other firms and government officials are beneficial to firms in emerging economies. However, contrary to Peng and Luo (2000), the results indicate that social capital from top managers at other firms in Ghana is more important than those from government officials (compare the betas in Table 4). Ghanaian managers appear to develop networking relationships with other top managers to obtain resources, capabilities, information, and knowledge in order to exploit opportunities and mitigate threats in the external environment. The results also suggest that government officials have control and power in providing access to some resources and informational benefits.

The results further indicate that social capital from community leaders is an important source of resources, information, and learning that are used to enhance performance. Community leaders in Ghana indeed act as bridges between the organization and the larger community by spreading information and providing access to resources. It is argued that an organization's access to resources and other benefits from community leaders and government officials may entail significant obligations to provide favors, thus limiting the organization's ability to pursue new opportunities (Gargiulo and Benassi, 2000; Portes and Sensenbrenner, 1993). No such effects were found in this study, which suggest that in Ghana the benefits of social capital from networking relationships with community leaders and government officials outweigh the costs involved in developing and maintaining those relationships.

Using a contingency framework, I hypothesized that the impact of each of the three dimensions of social capital on performance for organizations implementing the low-cost strategy would be higher than for those not pursuing the low-cost strategy. The impact of social capital from the top managers at other firms for both firms implementing the low-cost strategy and those who do not was not statistically different. This may indicate that managers of both organizations pursuing low-cost and non-low-cost orientations build relationships with peers for reasons other than acquiring resources, capabilities, and knowledge to implement new technological advances, meet customer needs, and/or gain access to new markets. However, social capital from community leaders and government officials impacted performance more for low-cost organizations than for non-low-cost organizations. Moreover, my prediction that the impact of each of the three dimensions of social capital on performance would be higher for differentiation organizations than for non-differentiation organizations was supported. A fine-grained analysis revealed that for those organizations implementing the integrated strategy only the social capital from government officials had a stronger impact on performance.

Overall, the contingency hypotheses reveal some interesting trends. Despite the finding that social capital developed from top managers at other firms is more important in enhancing performance than the other networking relationships, it is more beneficial to Ghanaian firms implementing the differentiation strategy. Probably this is because low-cost firms in their effort to manufacture standardized products or offer services place a premium on efficiency of operations, which can easily be verified by customers in the marketplace. Differentiation firms, on the other hand, need to convince customers that their products and services carry hard-to-verify attributes that demand price premiums, and thus the greater benefit from social capital from managers at other firms.[3] For example, Ghanaian consumers' preference for quality and branded merchandise has increased because of their exposure to foreign-made goods as a result of the implementation of economic liberalization. The social capital from government officials is valuable to firms implementing the competitive strategies of low cost, differentiation, and integrated strategy, while the social capital from community leaders is of significant value to firms implementing both the low-cost strategy and differentiation strategy.

Contributions of the study

The study addresses several concerns associated with previous research on social capital. First, most social capital studies have focused on the networking relationships managers develop with top managers at other firms (suppliers, buyers, and competitors). Thus, most prior studies have neglected important social capital components such as networking relationships with other constituencies, e.g., government officials and community leaders. The broadened view of social capital operationalized here extends the work of Peng and Luo (2000), and provides the lens for a more comprehensive and fine-grained analysis of the effect of social capital on firm activities and outcomes in emerging economies.

Second, prior research has called for a contingency approach to the examination of the value of social capital to organizations, but has tended to focus on environmental and organizational characteristics such as industry context, firm size, business sector, and ownership types (e.g., Ahuja, 2000; Florin, Lubatkin, and Schulze, 2003; Peng and Luo, 2000; Rowley *et al*., 2000;

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[3] I thank an anonymous reviewer for suggesting this explanation.

Uzzi, 1997). These studies began the investigation of the 'more interesting issues of how they (social capital) matter, under what circumstances, to what extent, and in what way' (Powell, 1990: 297), but neglected the gap filled here of recognizing the heterogeneous organizational competitive strategic activities, which may influence the way social capital affects organizational outcomes.

Third, it has been argued that the greater the uncertainty in an organization's environment, the more valuable networking relationships and ties will be (Pfeffer and Salancik, 1978; Powell, 1990). However, most social capital studies have been conducted in advanced economies with strong market supporting institutions and high regulatory enforcement capacity. The few emerging economy studies have also focused on Asia. This study is set in an environmental context characterized by great uncertainty, turbulence, and unpredictable conditions—sub-Saharan Africa. Thus, this study extends the literature by investigating the micro–macro link in social capital studies in emerging economies beyond Asia. Although the study used data from one sub-Saharan African country—Ghana—the business and economic environmental conditions (e.g., implementation of economic liberalization and privatization policies, and increasing competition) and the presence of strong collectivistic cultures would lend support to the generalizability of the findings to other sub-Saharan African countries.

Limitations of study

First, subjective measures of social capital, competitive strategy and performance were used. In terms of measuring social capital, the perceptual measures precluded me from using sophisticated quantitative methods of determining network formation. However, this method also allowed me to capture the quality and richness embedded in the soft nature of personal and social networking relationships and ties that have been developed between managers and other entities. The choice of perceptual measures of performance was driven by the difficulty of obtaining objective measures of performance in Ghana. Although efforts to obtain objective data were not successful, the use of perceptual measures of performance is consistent with the literature in larger emerging economies where similar difficulties have been experienced by scholars (e.g., Park and Luo, 2001; Peng and Luo, 2000; Tan and Peng, 2003). Second, information on social capital and competitive strategy were solicited from 1998 to 2000, and performance in 2001 and 2002 to establish causality. However, it is possible that organizations experiencing better performance may be attracted to relationship formations from managers of other firms, government officials, and community leaders (Grannovetter, 1985; Peng and Luo, 2000).

CONCLUSION

In this study, I developed measures for a broader conceptualization of social capital to include the social networking relationships and ties with government officials and community leaders to provide evidence on the direct and contingent value of social capital. With few exceptions (e.g., Peng and Luo, 2000), previous social capital studies have focused exclusively on the social networking and ties developed with top managers of other firms. The analyses showed that social capital developed from the social networking relationships and ties with top managers of other firms, government officials, and community leaders are significant predictors of organizational performance after controlling for firm-specific and industry-related effects. Managers in Ghana

rely more on the social networking relationships and ties with their peers to obtain the resources, information, and knowledge that are needed for the strategic organization of activities in the value creation process. More importantly, the impact of social capital on organizational performance is contingent on the competitive strategic orientation of the organization.

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