

Social networking relationships, firm-specific managerial experience and firm performance in a transition economy: a comparative analysis of family and non-family firms

By: [Moses Acquah](#)

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Abstract:

The effect of social networking relationships, firm-specific managerial experience, and their interactions on performance between family owned and nonfamily firms are studied. Using data from 106 organizations in Ghana, the findings show that family owned firms benefit more from networking relationships with bureaucratic officials than do nonfamily firms. However, nonfamily firms benefit more from networking relationships with community leaders and firm-specific managerial experience than do family owned firms. Networking relationships with politicians impede performance for nonfamily firms. Nonfamily firms are better able than family owned firms to use their firm-specific managerial experience to manage the resources and capabilities obtained from networking relationships with community leaders to create value. Moreover, firm-specific managerial experience attenuates the detrimental effects of networking with politicians for both types of firms.

Keywords: social networking | family firms | firm-specific managerial experience | firm performance | Sub-Saharan African transition economy

Article:

INTRODUCTION

Family owned firms (FFs) dominate the business landscape in transition economies and are the primary drivers of entrepreneurial activities, corporate growth, and economic development

(Rogoff, Kay, and Heck, 2003). Until recent studies (e.g., Anderson and Reeb, 2003), the long held belief in the family business literature was that FFs underperform nonfamily firms (NFFs). This has been primarily attributed to the differences in endowments and utilization of resources and capabilities between FFs and NFFs. While FFs have been described as being ‘complex, dynamic, and rich in intangible resources’ (Habbershon and Williams, 1999: 3), and that the active involvement of family in the management responsibilities is positive for the firms (Anderson and Reeb, 2003), they are also considered to be poor in financial resources and have inexperienced and ineffective management (Martinez, Stohr, and Quiroga, 2007). Thus, FFs and NFFs differ not only in terms of their intangible resources, capabilities, and access to financial capital but also in organizational structures, entrepreneurial orientation, risk taking, and innovation (Naldi *et al.*, 2007). This is especially pronounced in transition economies where most FFs face huge obstacles in the strategic organization of their activities when compared with NFFs.

Transition economies are characterized by shortage of experienced management with technical skills, knowledge and expertise, funding sources, and technology, and there exist high levels of market imperfections. They also suffer from what Khanna and Palepu (1997: 41) call ‘institutional voids’—the absence of market supporting institutions, specialized intermediaries, contract enforcing mechanisms, and efficient transportation and communication networks. These resources and capabilities deficiencies, institutional voids, and structural obstacles in transition economies have differential effects on the strategic activities and performance in FFs and NFFs, with the substance of the adverse impact falling on FFs. One way of acquiring the necessary resources and capabilities to navigate the complex and uncertain institutional and business environment in transition economies by FFs is the utilization of social networking relationships and ties (Dubini and Aldrich, 1991).

Although a myriad of studies have examined the performance implications of social networking relationships (hereafter networking relationships) in transition economies (e.g., Acquaah, 2007; Li, Poppo, and Zhou, 2008; Li and Zhang, 2007; Peng and Luo, 2000) few have done so in the context of FFs and NFFs (e.g., Miller *et al.*, 2009). Compared to NFFs, FFs are known to quickly develop enduring and committed networking relationships with external stakeholders (Miller and Le Breton-Miller, 2005). Moreover, for most FFs the utilization of external networking relationships by top management is a means of acquiring the requisite financial, human, and other strategic resources and capabilities for the strategic organization of their business activities. Likewise, the choice of external stakeholders with which FFs develop networking relationships and the deployment and leveraging of the resources and capabilities obtained from such relationships depends on top management's firm-specific experience (FSME) (Penrose, 1995). Experience is a major source of learning in organizations, and FSME facilitates tacit knowledge development of firms' resources and capabilities endowments, and future resources and capabilities needs that could be obtained through networking relationships.

The family business literature recognizes that there are differences in FFs and NFFs in terms of their resource configurations as well as how they are acquired and exploited (e.g., Arregle *et al.*, 2007; Chrisman, Chua, and Kellermanns, 2009; Sirmon and Hitt, 2003). However, there has been relatively little attention devoted to the comparative analysis of the use and benefit from networking relationships, a major source of resource acquisition, between FFs and NFFs (e.g.,

Miller *et al.*, 2009). Furthermore, it has been argued that because top managers of FFs are there for the long haul, they possess deeper informal firm-specific experiential knowledge that is used to develop the appropriate and enduring networking relationships with external stakeholders (Miller *et al.*, 2009). The FSME enables them to obtain the resources and capabilities required to create competitive advantage (Arregle *et al.*, 2007; Sirmon and Hitt, 2003), but little has been done to examine the role of FSME in creating value and leveraging the value from the networking relationships for FFs.

This study attempts to address this gap in the literature by using data from FFs and NFFs in a Sub-Saharan African transition economy—Ghana—from 2002 and 2005 to seek answers to the following questions: (1) How different is the impact of external social networking relationships on performance between FFs and NFFs? (2) How different is the influence of FSME on performance between FFs and NFFs? (3) How different is the effect of the interaction between external social networking relationships and FSME on performance between FFs and NFFs?

The study draws on social capital theory and the resource-based view (RBV) of the firm to offer contributions to the family business and strategy literature in a number of ways. First, the study examines how the development of top managers' social networking relationships and the leveraging of FSME by both FFs and NFFs influence performance. Second, the social capital developed through networking relationships has been considered one of the least tangible and fungible resources in FFs (Steier, 2001) and this study contributes to the debate about how it creates value for FFs vis-à-vis NFFs. Third, the study assesses the extent to which the effect of networking relationship on performance between FFs and NFF is dependent on FSME. Therefore, the study informs the debate on the value of social networking relationships as FSME in FFs and NFFs become more heterogeneous. Fourth, by using data over two time periods, this is one of the few studies to examine the relationship between networking relationships, FSME, and their interaction on performance by comparing FFs and NFFs. Thus, this study overcomes some of the perceived difficulties with relying purely on cross-sectional data in family business research.

THEORY AND HYPOTHESES

Social networking relationships

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 (Lin, 2001). 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 personal and social relationships with suppliers, customers, competitors, government political and bureaucratic institutions, and community organizations and institutions. In this study, I focus on the social capital that is developed by a firm's top management through personal and social networking relationships with leaders in government political and bureaucratic institutions, and community organizations and institutions. The social capital developed through these networking relationships function as conduits for the transmission of information, resources, and opportunities that could be leveraged to a firm's advantage (Gargiulo and Benassi, 2000).

In transition economies in Sub-Saharan Africa, the utility of networking relationships in facilitating economic exchanges is more evident because of the high levels of market imperfections, the presence of institutional voids, and the role of the government as the major economic actor. Thus, top managers in firms in transition economies develop and exploit networking relationships with government political leaders, bureaucratic officials, and community leaders to secure access and facilitate the exchange of resources, information, and knowledge for the organization of their activities. Many studies in the strategy and organization fields using data from transition economies have established that networking relationships with government officials (political leaders and bureaucratic leaders) to secure access and facilitate the exchange of resources, information, and knowledge for business activities leads to improved performance (e.g., Acquaah, 2007; Li *et al.*, 2008; Li and Zhang, 2007).

All these studies, however, defined social networking with government officials as the connections managers forge with government bureaucratic officials and political leaders, and do not separate bureaucratic officials from political leaders but operationalize it as one variable. I separate the operationalization of social networking with government officials into those with *politicians* and those with *government bureaucrats* because of the different roles they play in controlling and allocating resources in transition economies. In Ghana, politicians have significant influence and control over the award of major projects and contracts, and access to financial resources for business activities, while bureaucratic officials control the regulatory and licensing procedures such as providing certification and approval to newly manufactured products as meeting government standards.

It has been argued that FFs are especially apt to develop networking relationships and connections with external stakeholders to secure needed resources when compared with NFFs (Arregle *et al.*, 2007; Miller and Le Breton-Miller, 2005). Nordqvist and Goel (2008) have further argued that FFs develop social networking relationships to obtain needed resources such as information, knowledge, and legitimacy that are difficult to generate within the family. FFs and NFFs, however, have different resources, information, and knowledge needs. Most NFFs in transition economies, in Ghana in particular, are former state owned enterprises, joint ventures with multinational corporations, or subsidiaries of multinational corporations, which tend to be more established and powerful. They are also stable and have acquired institutional legitimacy within various communities. Moreover, they have access to resources, knowledge acquisition, and exploitation when compared with FFs. These resources could be used to develop competitive advantage and improve performance. Compared to FFs, NFFs also have narrower objectives and focus on short-term profit maximization. Thus, NFFs do not emphasize the development of extensive networking relationships with external entities, especially with politicians and government bureaucratic officials. If they do, the establishment of networking relationships with external stakeholders by NFFs is usually more formal, competitive and transitory in nature (Chrisman *et al.*, 2009).

FFs, on the other hand, have been found to exhibit some capabilities such as the ability to engender trust; inspire, motivate, and develop commitment among the workforce; develop customer relationships; and demonstrate flexibility in decision making (Tokarczyk *et al.*, 2007). Furthermore, FFs exhibit strong paternalistic relationships with their employees (Betrand and

Schoar, 2006) and have cohesive clan cultures in which employees are hired for the long run and treated generously (Miller and Le Breton-Miller, 2005). Furthermore, it has been argued that FFs ‘manifest an apparent desire to create “connections”: enduring relationships that build social capital with a wide variety of external stakeholders who supply the company with resources’ (Miller *et al.*, 2009: 804). Consequently, FFs are more apt than NFFs to develop extensive networking relationships with external stakeholders who may provide them with access to valuable resources, knowledge, and information. FFs in Ghana lack the necessary resources such as financial resources and access to external funds, managerial expertise, technical know-how, and/or knowledge about new markets or customer segments, which could be exploited to overcome the uncertainties in the business environment. Furthermore, FFs typically lack legitimacy that is necessary for navigating the uncertain institutional and economic environment to obtain the resources needed for their survival and growth. FFs, therefore, utilize their capabilities of flexibility in making decisions, cohesive clan cultures, and the building of trusting relationships to emphasize the development of extensive networking relationships to garner the resources required for mitigating their institutional and strategic disadvantages.

In the Ghanaian environment, networking relationships with politicians and bureaucrats by FFs can provide these firms with access to financial resources; offer opportunities by awarding government projects and contracts; certify products as meeting government standards; and provide information about new and impending regulations that may affect their strategic activities (Acquaah, 2007). Networking relationships with community leaders facilitate the firm'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 sources of financial resources, new market segments or new customers, and/or technological know-how (Acquaah, 2007). Thus, FFs will be more proactive and assertive than NFFs in using extensive networking relationships to acquire the resources, information, and knowledge needed to deal with uncertainty in the business environment (Arregle *et al.*, 2007; Miller *et al.*, 2009). FFs will, therefore, experience more performance benefits from the extensive development of networking relationships with external constituents and the exploitation of such relationships to create value than NFFs. Thus, I hypothesize:

Hypothesis 1a: The impact of social networking relationships with politicians on firm performance will be stronger for FFs than NFFs.

Hypothesis 1b: The impact of social networking relationships with bureaucratic officials on firm performance will be stronger for FFs than NFFs.

Hypothesis 1c: The impact of social networking relationships with community leaders on firm performance will be stronger for FFs than NFFs.

Firm-specific managerial experience

The RBV conceives the firm as a bundle of idiosyncratic resources embedded in its various organizational units (Wernerfelt, 1984). The RBV postulates that firms in less than perfectly competitive markets are heterogeneous in terms of their resources and capabilities. The basic proposition that follows from this postulate is that those firms that are able to generate

competitive advantage and earn superior performance must possess resources and capabilities that are valuable, rare, difficult to imitate, imperfectly substitutable, and organized to be exploited (Barney, 1991). One type of capabilities that exhibit these characteristics is the capabilities of top managers. Top managers' capabilities refer to the experiential knowledge, skills, and expertise that enable individuals to handle difficult and complex tasks and make informed resource allocation decisions unique to a firm in a particular industry (Acquaah and Chi, 2007). The bundles of managerial experiences in a firm can epitomize the knowledge as well as the competencies of top managers (Castanias and Helfat, 2001; Kor, 2003).

FSME allows a manager to accumulate tacit knowledge of the firm's resources and capabilities that could be leveraged to allocate resources efficiently and effectively for value creation. For instance, it is argued that FSME provides managers with the knowledge of the firm's products or services, human resource availability, manufacturing capability, technology, and so on, which may offer the skills necessary to effectively and efficiently manage and deploy those resources and capabilities to create competitive advantage and superior performance (Kor, 2003). FSME involves tacit knowledge of firm-specific capabilities such as employee skills, financial resources, organizational routines, and relationships with suppliers and buyers that are difficult to imitate (Kor and Mahoney, 2005). Thus, the RBV suggests that there is an important causal relationship between FSME and the identification, development, and exploitation of a firm's endowment of superior resources and capabilities to create sustainable competitive advantage. This assertion has been advanced by Collis (1994), who states that firms with superior managerial capabilities in the form of FSME have the ability to utilize it effectively and efficiently for the organization of strategic activities through the manufacturing, offering, and delivery of products and services that meet customer needs.

FFs have been found to possess valuable resources and capabilities such as trust; ability to inspire, motivate, and develop, loyalty and commitment among employees; flexibility in decision making; and the ability to develop intense relationships with customers (Tokarczyk *et al.*, 2007). Moreover, Sirmon and Hitt (2003) argue that top managers of FFs have deeper informal firm-specific knowledge than those of NFFs. This is because the top managers of FFs are usually the founders/owners or next of kin of the founder of the business. The overlapping founder/owner and manager experience creates the environment for the accumulation of firm-specific tacit and intimate knowledge of the business. They also develop lasting, generous, and encompassing relationships with their employees. Thus, top managers in FFs could use their firm-specific experiential and tacit knowledge to effectively and efficiently allocate resources and capabilities (e.g., financial resources, human resources, and the ability to quickly make decisions) (Miller and Le Bretton-Miller, 2005). The FSME of FFs, as compared to that of NFFs, could be leveraged to create more value as the resources and capabilities are deployed to deal with and respond to customer needs, complexities of the market, and external environment.

In Ghana, FFs are usually smaller than NFFs, have severe resource constraints and are, therefore, managed by family members. However, the smaller size along with the intimate experiences and knowledge of the top management enable FFs to become agile in the uncertain and rapidly changing market environment. Thus, FFs may be able to more quickly make decisions and, therefore, take advantage of opportunities that NFFs may miss. Because managerial capabilities are usually rooted in firm-specific experiences and knowledge for FFs, I expect the top managers

of FFs to have more firm-specific experience and knowledge than the top managers of NFFs. Thus, FFs would be able to use the tacit firm-specific experiences embedded in the top management team to exploit new opportunities and create competitive advantage in the marketplace in order to obtain superior performance than NFFs could. Therefore:

Hypothesis 2: The impact of FSME on performance will be stronger for FFs than NFFs.

Interaction between social networking relationships and FSME

Social networking relationships enable both FFs and NFFs to obtain the resources and capabilities that are used to organize strategic activities and create value. But, according to the RBV, firms earn sustainable competitive advantage and superior performance not only because of the endowment of resources and capabilities they possess but also because of their effective management of those resources and capabilities (Mahoney, 1995). Penrose (1995: 5) asserts that 'It is shown not only that the resources with which a particular firm is accustomed to working will shape the productive services its management is capable of rendering (where management is defined in the broadest sense), but also the *experience of management* will affect the productive services that all its other resources are capable of rendering (*emphasis mine*).' Barney (1991) and Castanias and Helfat (1991) have precisely argued that the potential for firm resources and capabilities to create competitive advantage and superior performance depends on the FSME, tacit knowledge, and the deployment and exploitation of the resources and capabilities. I therefore argue that the value of the resources and capabilities obtained through networking relationships is contingent on FSME. FSME allows firms to develop prudent external networking relationships in addition to helping firms better use the resources that are derived from those networking relationships. Compared with managers who have little firm-specific experience, managers with extensive firm-specific experience have accumulated tacit knowledge about their firm's organizational routines, physical and human resources, and capabilities, and would, thus, be able to properly match those resources and capabilities to minimize threats and exploit opportunities in the firm's external environment.

It has been argued that the paternalistic culture of FFs is a valuable, intangible resource (Habbershon and Williams, 1999) that could be utilized by top managers of FFs to easily build networking relationships to garner the resources required for mitigating their institutional and strategic disadvantages. Because managers of FFs tend to be there for the long haul, and have the best interest of their families and companies at heart, they have deeper informal firm-specific knowledge than those of NFFs (Miller *et al.*, 2009; Sirmon and Hitt, 2003). The internal networking relationships among family members in FFs that has been termed 'family capital' by Hoffman, Hoelscher, and Sorensen (2006) leads to stronger, more intense and enduring firm-specific experience and knowledge, which could be used to develop social networking relationships with different stakeholders. It takes time to develop a viable networking relationship with external entities since a manager must have an intimate knowledge of the resource and capability needs of his/her organization, and also the external entities (e.g., communities, politicians, and government bureaucrats) that can provide those resources. Extensive FSME provides the ability to develop intimate firm knowledge that allows for building relationships and trust with external entities that would enable the organization to profit from the networking relationships.

In transition economies experiencing institutional voids, FSMEs of FFs will help develop networking relationships with external stakeholders that would not compromise family values and threaten ownership and control rights of the business because of families' preoccupation with their firms' long-term viability (Gomez-Mejia *et al.*, 2007). Moreover, since FFs are usually embedded in their communities, they will develop networking relationships with external stakeholders that enable them to reduce transactions costs and provide reliable access to capital, human, and technological resources that are hard to come by in transition economies. FFs are apt to develop enduring and committed networking relationships, however, such relationships of trust are built over time and require extensive firm-specific experience to reap their benefits. Thus, FFs are more likely to use their extensive FSME to obtain the relevant resources and better use the resources that are derived from social networking relationships. While both FFs and NFFs exhibit different kinds of FSMEs, I expect FFs to leverage their extensive FSME and often tacit knowledge to develop viable lasting networking relationships and mobilize the complementary external resources and capabilities obtained through such relationships to create more value than NFFs. Thus:

Hypothesis 3a: The impact of the interaction between social networking relationships with politicians and FSME on performance will be stronger for FFs than NFFs.

Hypothesis 3b: The impact of the interaction between social networking relationships with bureaucratic officials and FSME on performance will be stronger for FFs than NFFs.

Hypothesis 3c: The impact of the interaction between social networking relationships with community leaders and FSME on performance will be stronger for FFs than NFFs.

METHODS

I collected data for the study from senior executives (e.g., chief executive officers [CEOs] and chief financial officers) of FFs and NFFs operating in Ghana in 2002 and 2005. The sample consisted of the 200 largest companies selected from the 2001 edition of the *Ghana Business Directory*. The CEOs of the selected companies were sent letters requesting their participation in the study. To ensure a high response rate and the provision of reliable and accurate responses, the CEOs were promised that information about respondents and companies would be kept in strictest confidence. Several weeks after the letters were sent, I personally visited the selected companies, gave the questionnaires to the CEOs, and agreed on a date to collect the completed survey. After several visits to the companies, responses from 115 firms were received with 106 being useable for a response rate of 53 percent. In 2005, I collected follow-up data from the 106 firms using the same questionnaire survey that was administered in 2002. 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 number of observations collected in the two time periods is 206.

In order to check for potential response bias and common method variance (CMV) problems, the data were collected from senior management. On average, the respondents had worked for their

firms for 12 years and had held their respective managerial positions for over nine years. CMV was examined through two methods during the survey design and administration, and one *post hoc* statistical test was run. First, information on networking relationships developed with external entities were solicited for the three-year periods 1998–2000 for data collected in 2002, and 2001–2003 for data collected in 2005, while information on performance was solicited for the following two-year periods: (a) 2001–2002 for data collected in 2002; and (b) 2004–2005 for data collected in 2005. Second, 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. Third, a factor analysis of the items on the performance and networking variables yielded six factors with eigenvalues greater than one, with the first factor accounting for about 20 percent of the variance. Thus, CMV is minimized (Harman, 1967).

Dependent and independent variables

Firm performance was measured by focusing on five measures: growth in productivity (GPROD), growth in sales and revenues (GSALES), growth in net income/profits (GNI), return on assets (ROA), and return on sales (ROS). Self-reported performance data was collected from the head of the accounting and finance function in each firm. The respondents were asked to rate their firms on the five measures of performance relative to the major competitors in their industry for the two-year periods 2001–2002 and 2004–2005, on a seven-point scale ranging from 1 'much worse' to 7 'much better.' The correlation between the performance variables over the two time periods was 0.84, $p < 0.001$. Objective measures of GSALES, GNI, ROA, and ROS were obtained from the annual reports of 12 firms listed on the Ghana Stock Exchange. The correlations between the objective measures and the subjective measures using the pooled data were as follows: GSALES ($r = 0.70$, $p < 0.001$); GNI ($r = 0.82$, $p < 0.001$); ROA ($r = 0.79$, $p < 0.001$); and ROS ($r = 0.86$, $p < 0.001$).

Social networking relationships were measured by asking respondents to assess the extent to which top managers have developed and utilized personal and social networking relationships with (1) government political leaders; (2) government bureaucratic officials; and (3) community leaders for the three-year periods 1998–2000 (for data collected in 2002) and 2001–2003 (for data collected in 2005) respectively on a seven-point scale, ranging from 1 'very little' to 7 'very extensive.' The social networking relationships measure for each of the three variables was operationalized by using the average responses to the items. Social networking relationships with *political leaders* ($\alpha = 0.78$) were measured using four items: relationships with city council politicians, district council politicians, regional government politicians, and national government politicians. Social networking relationships with *bureaucratic officials* ($\alpha = 0.83$) was measured using two items: relationships with officials in regulatory and supporting institutions (e.g., Internal Revenue Service, Environmental Protection Agency, etc.), and officials in investment and industrial institutions (e.g., Investment Board, Export Promotion Council, etc.). Social 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, traditional religious leaders, and imams). *FSME*, the experiential knowledge that is preserved at the top management of firms, was measured as the average top management tenure in a firm (i.e., the number of years that top managers have spent in a particular firm) (Kor and Mahoney, 2005).

Family owned firm was measured by asking respondents to indicate whether or not their firm is a family owned firm ('yes' or 'no'). I also asked the respondents to indicate with a 'yes' or 'no' response whether family members (1) controlled the business, and (2) were involved in the business as directors or employees. All respondents (100 percent) who answered 'yes' to whether the business is family owned also responded 'yes' to the other two questions—control and involvement. FFs were, therefore, operationalized as a dummy variable coded 1 for 'yes' responses to the above questions, while NFFs were coded 0 for 'no' responses to the above questions.

Control variables

The control variables are firm age, firm size, business sector, year dummy, and industry competition. *Firm age* was measured as the logarithm of the number of years since the formation or incorporation of the firm. *Firm size* was measured as the logarithm of the number of employees. *Business sector* was operationalized using a dummy variable, coded 1 for manufacturing firms and 0 for service firms. Because two periods of data were pooled, I included a dummy variable, *year dummy*, coded 1 if an observation corresponds to a data collected in 2002 and 0 if an observation corresponds to a data collected in 2005 to pick up any fixed effects that varied between the two periods. *Industry competition* ($\alpha = 0.76$) was operationalized with six items. The respondents were asked to indicate the extent to which the following activities have taken place in their firm's industry within the three-year periods 1998–2000 and 2001–2003: (a) an increase in the number of major competitors; (b) the use of package deals for customers; (c) the frequency of new product or service introductions; (d) the rate of change in price manipulations; (e) an increase in the number of companies that have access to the same marketing channels; and (f) 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, which is difficult in cross-sectional studies, a pooled time series and cross-section (TSCS) regression model with a time lag between the dependent and independent variables was used to examine how networking relationships, FSME, and the interaction between networking and FSME affect the performance of FFs and NFFs. A pooled TSCS regression model was used because only two periods of data from 106 firms were available.

RESULTS

Table 1 provides the descriptive statistics and the correlations among the variables. The variance inflation factors of the hypothesized variables were all less than 10 indicating that multicollinearity is not a problem (Neter *et al.*, 1996). The econometric model also met the assumptions of equality of variance, independence of the error term, and the normality of the residuals. The Durbin–Watson statistic further indicated that autocorrelation is not a problem and thus the pooled TSCS model is adequate (Gujarati, 2003). Table 2 presents the standardized results of the pooled TSCS regression models examining Hypotheses 1 to 3. In Model 1, the

result from the overall sample is presented to ascertain whether there are performance differences between FFs and NFFs. The effect of the family owned firm variable on performance ($\beta = -0.199, p < 0.05$) indicated that, in general, NFFs perform better than FFs. FSME and all the networking variables were significantly related to performance—positive for FSME, and networking with bureaucratic officials and community leaders, but negative for networking with politicians.

Table 1. Descriptive statistics and correlation matrix of variables (N = 206)

Variables	1	2	3	4	5	6	7	8	9	10
1. Firm performance	0.91									
2. Community	0.46	0.84								
3. Politicians	0.16	0.23	0.78							
4. Bureaucrats	0.38	0.24	0.32	0.83						
5. Firm size ^a	0.23	0.23	0.25	0.23						
6. Business sector ^b	-0.16	-0.17	-0.34	-0.16	-0.23					
7. Family owned firm ^c	-0.17	0.16	-0.14	0.18	-0.65	0.04				
8. Industry competition	0.34	0.15	0.03	0.27	0.03	-0.11	0.03	0.76		
9. Firm age ^d	0.07	-0.06	0.13	0.11	0.47	-0.12	-0.34	-0.01		
10. Firm-specific managerial experience	0.32	0.22	0.01	0.15	0.04	0.05	0.03	0.13	0.15	
Mean	4.80	4.83	3.97	4.74	1.97	0.83	0.51	4.88	1.29	9.18
Standard deviation	1.08	1.19	1.34	1.29	0.48	0.38	0.50	1.32	0.29	5.49
Minimum	2.00	1.00	1.00	2.00	1.00	0.00	0.00	2.00	0.60	0.50
Maximum	7.00	6.00	7.00	7.00	3.30	1.00	1.00	7.00	1.94	43.00

The values in diagonals are Cronbach alphas.

^a Log of number of employees.

^b Manufacturing firms coded 1, service firms coded 0.

^c Family firms coded 1, nonfamily firms coded 0.

^d Log of the number of years since formation or incorporation of firm.

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

Models 4 and 7 present the results for the FFs and NFFs subgroup analyses respectively estimated to test Hypotheses 1 to 3, where centered values of networking and FSME are used to create the interaction terms. The results indicated that the beta coefficients for networking relationships with politicians for FFs and NFFs were both negative, but it was only significant for NFFs (consistent with overall sample). A *t*-test comparing the two beta coefficients (Cohen and Cohen, 1983: 56; see Table 2) indicated that they are not significantly different ($t = 0.69, p > 0.10$). Thus, Hypothesis 1a was not supported. The beta coefficients of networking relationships with bureaucratic officials for both FFs and NFFs are positive and significantly related to performance ($\beta = 0.376, p < 0.001$ for FFs; $\beta = 0.224, p < 0.01$ for NFFs). A *t*-test comparing the betas indicated that the coefficients are significantly different ($t = 1.82, p < 0.05$), with FFs experiencing greater benefits from networking relationships with bureaucratic officials than NFFs, supporting Hypothesis 1b. Networking relationships with community leaders is significantly associated with performance for both FFs ($\beta = 0.170, p < 0.05$) and NFFs ($\beta = 0.347, p < 0.001$). Although the betas are different ($t = -1.94, p < 0.05$), Hypothesis 2c is not supported as the direction is contrary to expectation.

Table 2. Results of cross-section time series analysis of the relationship between networking relationships, managerial experience and firm performance¹

Variables	All firms (N = 206)		Family firms (N = 104)		Nonfamily firms (N = 102)			T-test comparing Model 4 to Model 7 ²
	Model 1 $\beta(t\text{-value})$	Model 2 $\beta(t\text{-value})$	Model 3 $\beta(t\text{-value})$	Model 4 $\beta(t\text{-value})$	Model 5 $\beta(t\text{-value})$	Model 6 $\beta(t\text{-value})$	Model 7 $\beta(t\text{-value})$	
<i>Controls</i>								
Firm age	-0.080 (-1.29)	-0.012 (-0.13)	-0.167+ (-1.82)	-0.142+ (-1.66)	0.017 (0.17)	0.079 (1.06)	0.058 (0.75)	
Firm size	0.059 (0.62)	-0.096 (-0.81)	-0.102 (-0.97)	-0.083 (-0.87)	0.203* (1.99)	0.005 (0.07)	0.002 (0.02)	
Business sector	-0.092 (-1.59)	-0.236* (-2.19)	-0.234* (-2.29)	-0.0213* (2.28)	0.005 (0.05)	-0.062 (-0.93)	-0.064 (-0.92)	
Industry competition	0.172** (3.16)	0.278** (2.92)	0.192* (2.28)	0.317*** (3.92)	0.395*** (4.21)	0.155* (2.15)	0.147* (1.99)	
Year dummy 2002	0.026 (0.46)	-0.042 (-0.39)	-0.008 (-0.08)	0.116 (1.28)	0.054 (0.58)	0.171** (2.61)	0.163* (2.46)	
Family owned firms (FFs)	-0.199* (-2.34)							
<i>Networking and experience</i>								
Politicians	-0.122* (-2.03)		-0.143 (-1.42)	-0.105 (-1.15)		-0.112 (-1.52)	-0.168* (-2.24)	0.69
Bureaucratic officials	0.352*** (5.75)		0.402*** (4.42)	0.376*** (4.42)		0.224** (2.63)	0.210* (2.38)	1.82*
Community leaders	0.234*** (3.93)		0.186* (2.05)	0.170* (2.03)		0.333*** (3.99)	0.347*** (4.05)	-1.94*
Firm-specific managerial experience (FSME)	0.314*** (5.28)		0.275** (2.94)	0.263* (2.35)		0.416*** (5.50)	0.569*** (5.31)	-3.35***
<i>Interactions</i>								
Politicians × FSME				0.228* (2.17)			0.446*** (4.38)	-2.38***
Bureaucratic × FSME				-0.038 (-0.32)			-0.002 (-0.31)	-0.39
Community × FSME				-0.109 (-1.08)			0.201* (2.31)	-3.39***
Adjusted R ²	0.459	0.076	0.309	0.432	0.167	0.619	0.643	
Model F	18.37***	2.70*	6.12***	7.54***	5.04***	19.24***	14.40***	
Durbin-Watson statistic	1.964	2.141	2.165	2.176	1.849	1.899	1.851	

¹ Coefficients are standardized coefficients. Significance levels: + $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

² The formula for the t -test, which was conducted to verify the difference between the betas of the FFs and NFFs subgroups is as follows. The t -test is a one-tailed test.

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

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

Where β is the beta, SSE is the sum of squared errors, X is the networking or FSME variable, N is subgroup sample size, and 1 and 2 are the FFs and NFFs subgroups respectively.

Hypothesis 2 was examined by comparing the beta coefficients of FSME for FFs and NFFs. The results suggest that for both FFs and NFFs, FSME is positive and significantly related to performance ($\beta = 0.263, p < 0.05$ for FFs; and $\beta = 0.569, p < 0.001$ for NFFs). A *t*-test comparing the betas indicated a significant difference between FFs and NFFs ($t = -3.35, p < 0.001$), but the findings did not provide support for Hypothesis 2. The impact of FSME on performance is stronger for NFFs than FFs.

As shown in Models 4 and 7, the interaction between networking with politicians and FSME is positive and significantly related to performance for both FFs ($\beta = 0.228, p < 0.05$) and NFFs ($\beta = 0.446, p < 0.001$). The *t*-test comparing the betas indicated a significant difference ($t = -2.38, p < 0.01$), but did not corroborate Hypothesis 3a. The interaction between networking with bureaucratic officials and FSME is not significantly related to performance for both FFs and NFFs, and so is the difference. Thus, Hypothesis 3b is not supported. The interaction between networking with community leaders and FSME is negative but not significantly related to performance for FFs ($\beta = -0.109, p > 0.10$), but positive and significantly related to performance for NFFs ($\beta = 0.201, p < 0.05$). The *t*-test comparing the two betas revealed a significant difference ($t = -3.39, p < 0.001$), but Hypothesis 3c was not confirmed.

DISCUSSION AND CONCLUSION

This study examined the impact of social networking relationships developed with external entities, FSME, and the interaction between the two on performance by comparing FFs and NFFs. Specifically, I posited that the impact of networking relationships developed with politicians, bureaucratic officials, and community leaders will be stronger for FFs than for NFFs. It was also hypothesized that the impact of FSME and the interaction between FSME and networking relationships on performance will be stronger for FFs than for NFFs. These hypotheses were tested using survey data collected over two time periods from 106 firms from Ghana, a transition economy in Sub-Saharan Africa.

The findings from the overall sample indicate that both FFs and NFFs benefit from networking relationship with government bureaucratic officials and community leaders, but suffer from networking relationship with politicians in Ghana. These findings suggest that networking relationships with external stakeholders is profitable, but there may be considerable costs to be incurred in cultivating relationships with politicians so as to obtain access to resources, information, and opportunities. The subgroup analyses corroborate the findings from the overall sample, but show that while FFs do not benefit from networking with politicians, NFFs are hurt from networking relationships with politicians (see Model 7). The findings, however, indicate that the impact of networking relationships with politicians on performance between FFs and NFFs in Ghana is not significantly different. This may imply that there are, indeed, considerable losses to be suffered in cultivating relationships with politicians so as to obtain access to resources, information, opportunities, and so forth, and that these losses adversely affect performance, particularly in NFFs.

The findings further indicate that FFs benefit more from networking relationships with bureaucratic officials than NFFs. In reconciling the outcomes from networking with politicians and that with bureaucrats, it may be argued that the influence of networking with political leaders

on performance may be related to the fact that bureaucratic officials and not politicians implement most government policies. In Ghana, politicians make excessive demands for favors from firms with which they have established connections, usually by stipulating that a mandatory, specific monetary contribution be given to their political campaign and party, and also requesting that their relatives, who may not have the necessary qualifications, skills, and expertise, be employed by these firms. The excessive extraction of these monetary and nonmonetary favors from firms by politicians may be more costly to NFFs than to FFs, and these NFFs may not be able to easily transfer the cost increases to customers in the form of higher prices, thus hurting performance. The findings may also imply that politicians usually perceive FFs to be resource poor because of their size and the degree to which they are embedded in their communities and, thus, extract minimal or no favors from them, and instead they target NFFs for monetary and nonmonetary extraction. Therefore, when top managers develop networking relationships with politicians, the benefits they expect to receive from such relationships in the form of resources (e.g., access to financial resources), opportunities (e.g., awarding of government projects or contracts, certification, and approval of products as meeting standards, etc.) and/or information (e.g., new and impending regulations) may not fully materialize without building a stronger relationship with bureaucratic officials. Developing networking relationships with bureaucratic officials in Ghana is beneficial since it enables firms to obtain the necessary resources to improve performance, however, FFs benefit more than do NFFs.

Moreover, the findings show that NFFs benefit more from networking relationships with community leaders and FSME than do FFs. Thus, networking relationships forged with community leaders provide NFFs with more sources of resources, information, learning, and knowledge that may be used to minimize threats, exploit opportunities, and enhance performance in the formal institutional environment than are available to FFs. NFFs tend to be larger and older than FFs and may further use their legitimacy in the business community to exploit the traditional social system in Ghana to their advantage vis-à-vis FFs. The traditional social system encourages social bond, cohesion, and commitment through the norms of reciprocity and equity. The traditional social systems further act as economic and social units of production by offering various forms of assistance to firms.

Furthermore, despite the fact that FSME is beneficial to both FFs and NFFs, top managers in NFFs in Ghana have more firm-specific experience than those in FFs. These experienced-based capabilities allow top managers in NFFs to effectively and efficiently manage and deploy other resources and capabilities in their firms to enhance performance more than FFs. This may be due to the operationalization of FSME, which is dependent on how long a firm has been in operation and the fact that most top managers in Ghana tend to spend their whole career in one organization. An examination of the correlation between FFs and firm age variables ($r = -0.34$) shows that, on average, NFFs were older than FFs, indicating that top managers in NFFs may have more experiential knowledge of their firms since managerial job-hopping is not common in Ghana.

In addition, the findings from the interaction effects indicated that NFFs experience stronger performance than FFs, which suggests that the resources and capabilities obtained from networking relationships are better managed and leveraged when managers possess extensive firm-specific experience and knowledge. In fact, the positive relationship between the interaction

of networking with politicians and FSME on performance for NFFs suggests that extensive FSME attenuates the negative effect of networking on performance with NFFs benefitting more than do FFs. This finding corroborates the RBV of the firm that top managers' experienced-based capabilities are important in deploying and transforming resources and capabilities to create value for a firm (Kor, 2003; Mahoney, 1995; Penrose, 1995). The findings further confirm that top managers of FFs possess deeper informal firm-specific experience that is used to create competitive advantage (Sirmon and Hitt, 2003), albeit on a limited basis when compared with NFFs.

Overall, the results imply that both FFs and NFFs benefit from the networking relationships with bureaucrats and community leaders. However, it is beneficial for FFs to emphasize networking relationships with bureaucratic officials since that is where they experience the greatest impact on performance. NFFs should also focus on developing networking relationship with community leaders. Both FFs and NFFs should, however, minimize or desist from forging networking relationships with politicians, since the favors politicians may extract from these firms may overburden them and hinder rather than improve their performance. They should, however, rely on their firm-specific experience and knowledge to be selective in developing networking relationship with politicians to obtain the necessary resources for the strategic organization of activities. As NFFs rely more on their extensive FSME for the strategic organization of their activities, FFs should find ways of leveraging their deeper firm-specific knowledge and embeddedness in their communities to obtain resources from community leaders that could be effectively and efficiently used in creating competitive advantage.

The study has some limitations that should be considered when interpreting the findings. First, I used subjective measures of performance instead of objective measures. Objective performance measures would have been preferable but only 12 NFFs were publicly owned so objective performance information was difficult to obtain for all the firms. Moreover, Wall *et al.* (2004) have demonstrated the validity of subjective performance measures as substitutes for objective performance measures. Secondly, I relied on the extensiveness of relationships between top managers and external stakeholders in measuring networking relationships, instead of density, centrality, size, and so forth. However, the extensiveness measure is what has been used in most networking studies in transition economies (e.g., Li *et al.*, 2008; Miller *et al.*, 2009). Third, I measured FSME as the average tenure of top managers within a particular firm. This is only one of the measures of the managerial resource construct; future research could explore others such as top management knowledge-base or top management educational background/qualifications.

In conclusion, this study informs this fascinating area of research by showing that the development of social networking relationships, possession of FSME, and their interactions has different impacts on performance for FFs and NFFs in Ghana. Future research should examine these relationships in other transition economies so as to deepen our understanding of the impact of networking relationships and FSME on performance, especially in FFs. This would help in providing us with rich insights into social networking theory and practice, and the leveraging of managerial capabilities in FFs.

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