

Utilization and value of social networking relationships in family and nonfamily firms in an African transition economy

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Abstract:

This study investigates the utilization of managerial networking relationships with social and political entities to create social capital in family-owned and nonfamily firms, and compares the impact of the value of the social capital derived from the networking relationships on performance between family-owned and nonfamily firms. Using data from Ghana, the findings show that there are differences in the utilization of networking with social and political stakeholders to create social capital by family-owned and nonfamily firms. While networking relationships with government bureaucratic officials and community leaders have an inverted U-shaped relationship with performance for family-owned firms, it has a linear, positive and monotonic relationship with performance for nonfamily firms. Overall, the findings suggest that networking relationship matters, but extensive utilization of networking relationships with external stakeholders may have diminishing returns to performance for family-owned firms.

Keywords: family-owned firms | social networking | political networking | performance | African transition economy | Ghana

Article:

Introduction

This paper argues that family-owned firms are more likely to develop extensive networking relationships with external stakeholders than nonfamily firms in order to obtain the resources needed for the strategic organization of their activities in African transition economies. Furthermore, the social capital created as a result of the social networking relationships with external stakeholders will have differential impact on performance for family-owned and nonfamily firms. Family firms are ubiquitous organizations that dominate the business landscape in transition economies and are widely recognized as playing a significant role in these economies in terms of their contributions to job creation, entrepreneurship, social development, and economic growth. A family firm is a business that is owned and controlled by a specific family, and where family members are involved in the day to day management of the business. In Asian economies like Hong Kong, South Korea and Singapore, family firms account for over 60% of mid-cap publicly traded firms (LaPorta, Lopes-de-Silanes, & Shleifer, 1999). Their presence in Africa is even greater. Though there is lack of official statistics about family

businesses, almost all micro, small and medium-sized enterprises in sub-Saharan Africa are family-owned firms, and they constitute about 90% of all businesses. For example, in Ghana it is estimated that 90% of businesses are micro, small and medium-sized enterprises, employing about 70% of the labor force (Benzing and Chu, 2009, Government of Ghana, 2003, World Bank, 2006). The success of most family-owned firms in Africa depend on their ability to obtain and leverage financial, human and other resources for the strategic organization of business activities because of the low level of institutional support for businesses (Robson, Haugh, & Obeng, 2009). Indeed, family-owned firms play a vital role in the economies of Africa, yet they are poorly understood and there is little work on how family-owned firms in sub-Sahara Africa use social networks to obtain resources and leverage them to create competitive advantage.

Researchers have argued that family-owned firms exhibit some unique characteristics that are different from nonfamily firms, with the primary uniqueness stemming from the integration of family life and business activities (Gersick et al., 1997, Habbershon and Williams, 1999, Sirmon and Hitt, 2003, Tagiuri and Davis, 1996). Family firms have been described as being “unusually complex, dynamic, and rich in intangible resources” (Habbershon & Williams, 1999, p. 3), and that the active involvement of the family in the management responsibilities is positive for the firm (Anderson & Reeb, 2003). However, they are also considered to be poor in financial resources and have ineffective management systems (Martinez, Stohr, & Quiroga, 2007). While previous studies emphasized the dark side of family firms (e.g., family conflicts, nepotism, succession problems, inadequate capital, lack of professional management, etc.) and its negative impact on business activities and performance (Gersick et al., 1997; Schulze, Lubatkin, Dino, & Buchholtz, 2001), recent studies have demonstrated that contrary to this dark side, some family firms outperform nonfamily firms (e.g., Anderson and Reeb, 2003, Villalonga and Amit, 2006). The apparent contradictions about the performance of family firms in the family business literature have been attributed to the differences in resources and capabilities endowment and utilization between family-owned and nonfamily firms. Family-owned and nonfamily firms, therefore, differ in the endowments of intangible resources and capabilities, access to financial capital, organizational structures, entrepreneurial orientation, risk taking, and innovativeness (Naldi et al., 2007, Schulze et al., 2003). This is especially pronounced in transition economies where most family-owned firms face huge obstacles in obtaining resources and capabilities for the strategic organization of their activities when compared with nonfamily firms because of the low institutional support for businesses. As has been argued by Astrachan (2010), the business environment in transition economies are volatile and fragile and therefore endangers the survival of family firms because of unsophisticated regulatory systems or systems that provide financial and other resource support.

Transition economies are characterized by high levels of resource constraints in the form of shortage of managerial and technical skills and expertise, inadequate financial resources, and technology. In addition there exist high levels of market imperfections, and they also suffer from “institutional voids” – the absence of market-supporting institutions, intermediary firms, regulatory systems, contract-enforcing mechanisms, efficient transportation infrastructure and communication networks (Khanna & Palepu, 1997). These resources, institutional and structural obstacles and constraints in transition economies have differential effect on the strategic activities and performance in family-owned and nonfamily firms, with the greater of the adverse impact falling on family-owned firms. One way of acquiring the necessary resources and

capabilities to navigate the complex and uncertain institutional and business environment in transition economies by family-owned firms is the utilization of networking relationships and ties (Dubini and Aldrich, 1991, Miller et al., 2009). The social networking approach to creating social capital is predicated on the notion that economic actions are embedded in social networks of interpersonal relationships and social ties (Granovetter, 1985, Uzzi, 1997). Although several studies have examined the performance implications of social capital derived from networking relationships in transition economies (e.g., Acquaah, 2007, Li et al., 2008, Li and Zhang, 2007, Miller et al., 2009, Peng and Luo, 2000), few have done so in the context of family-owned and nonfamily firms. Compared to nonfamily firms, most family-owned firms rely on external networking relationships to acquire the requisite resources and capabilities for their activities, but little attention have been devoted to the comparative analysis of the utilization and value of networking relationships between family-owned and nonfamily firms.

There is therefore the need for empirical research that examines and compares not only the utilization but also the benefits family-owned and nonfamily firms in emerging economies derive from the social capital developed from cultivating social networking relationships with external entities. It has been argued that social capital represents one of the most intangible and least fungible resources in family businesses and the process by which these resources create value for family firms are little understood and therefore merit further research (Steier, 2001). I contribute to this research gap by extending current social network theory to the family business literature by arguing that not only are there differences in the extent to which family-owned and nonfamily firms use networking relationships to create social capital, but the benefits they derive from networking relationships also differ. Thus, in this paper I seek answers to the following questions using data from Ghana, a transition economy in sub-Saharan Africa: (1) How are social networking relationships utilized by family-owned and nonfamily firms to create social capital that enables them to obtain strategic resources for the organization of their business activities? (2) How different is the impact of social capital engendered by social networking relationships on organizational performance between family-owned firms and non-family firms?

I focus on Ghana because of the similarity of the country's sociocultural and economic environments with other sub-Saharan African economies, but at the same time the differences in the sociocultural environment from other transition economies. Ghana is seen as a model country and a budding success story in sub-Saharan Africa with regards to the success of its economic reforms (Faruq & Yi, 2010). According to the World Bank's "*Doing Business Index*", Ghana was ranked among the top 10 reformers worldwide who have made the most significant advances in the aggregate ease of doing business in 2006 and 2007 (World Bank., 2008). However, the country just like any other sub-Saharan African economy is still characterized by red tape, bureaucracy, regulatory meddling, and corruption. The sociocultural system in Ghana is collectivism, which is characterized by a deeply imbedded communal bond and networking relationships both at the interpersonal and societal levels. The social system is organized around kingship groups and communal societies with the extended family at the core and playing a crucial function in the creation of societal norms, values, property ownership and control, and the organization of business activities (Acquaah & Eshun, 2010). These characteristics present an interesting setting to explore how social networks are utilized to obtain strategic resources, and also the value of those strategic resources to family-owned and nonfamily firms.

This study contributes to the social network and family business literatures in a number of ways. First, the study examines the major role played by social and political networks in influencing strategic resource acquisition by family-owned and nonfamily firms in a complex and uncertain environment so as to bridge their resources and capabilities gap for undertaking their business activities. Social and political networks are ever more important because of the utility of community leaders and government political officials as economic actors in transition economies. Second, because networks could either be beneficial to firms by providing strategic resources or costly as a result of the over-embeddedness of firms in the networks (Gargiulo and Benassi, 2000, Uzzi, 1997), the study compares the influence of the strategic resources acquired from the social and political networks in creating value for family-owned and nonfamily firms. Third, by using data over two time periods, this study overcomes some of the perceived difficulties with relying purely on cross-sectional data in social network and family business research.

Conceptual development

Definition of family firms

There is no clear consensus on the definition of a family firm in the literature. Anderson and Reeb (2003) define a family firm as a firm whose founder and/or any of the founder's family members serve on the board of directors. Chua, Chrisman, and Sharma (1999, p. 25) define a family firm as a "business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominate coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". Other researchers have also focused on characteristics such as effective control of the firm and the intent to keep the firm in the family (Shankar & Astrachan, 1996), family involvement in ownership, management, and succession (Chrisman, Chua, & Litz, 2004), and largest group of shareholders in a specific family which controls at least 10% of voting shares (Morck & Yeung, 2004). Villalonga and Amit (2006) build on the definition of Anderson and Reeb (2003) and include a minimum control threshold of 20% of the voting shares, being the largest shareholder or voteholder. From all these definitions, there are two main distinguishable underlying characteristics of family firms as compared to nonfamily firms: family ownership and control of the firm, and family members' involvement in the firm's management and decision-making process. Thus, in this study I define a family firm as a firm that is owned and controlled by a specific family, and where family members are involved in the firm's management and decision-making processes.

Social networks and networking relationships

The social network literature presents a variety of motives such as personal, social, economic, and political for the formation of networking relationships (see Adler & Kwon, 2002 for a recent review). Social network theory relies on the premise that personal and social networking relationships and ties provide value to organizations in a network by allowing them to tap into the resources embedded within the network for their benefit (Bourdieu and Wacquant, 1992, Lin, 2001). A social network can be defined as "a set of nodes (e.g., persons, organizations) linked by a set of social relationships (e.g., friendship, transfer of funds, overlapping memberships) of a

specified type” (Laumann, Galaskiewicz, & Marsden, 1978, p. 458). The personal and social networking relationships developed as a result of an individual’s or organization’s embeddedness in a network or external linkages with others serve as a conduit for the transmission of resources, information and opportunities (Gargiulo and Benassi, 2000, Shipilov and Danis, 2006). It is the resources that are inherent in social networking relationships that may be used to pursue both economic and non-economic ends by firms (Arregle et al., 2007, Burt, 1992, Coleman, 1988). A network of social relationships is also vital in generating trust, establishing expectations, and discouraging malfeasance (Coleman, 1988). Individuals and organizations therefore develop networking relationships and ties with other entities to meet their specific needs for economic resources, information, knowledge, social recognition, political protection, and legitimacy, which otherwise would be unavailable.

Networking relationships can be developed with either internal or external stakeholders. While internal networking relationships focus on the structure and connections or ties among individual members within an organization (e.g., employees), external networking relationships focus on the structure and connections between an actor or organization and its important external stakeholders (e.g., an organization’s customers, suppliers, competitors; officials of government political and bureaucratic institutions; and leaders of community organizations and institutions). An individual’s or organization’s embeddedness in a network of relationships or external linkages has been classified into two types – relational and structural embeddedness (Granovetter, 1992).

Relational embeddedness refers to the degree to which economic actions and outcomes are affected by the dyadic (pairwise) relationships among actors. It stresses the role of cohesive ties in fostering the performance of economic activities. Relational embeddedness suggests that actors who are bound by cohesive ties are likely to acquire information and knowledge from one another which can be used to minimize uncertainty and promote trust and understanding. Structural embeddedness deals with the extent to which economic actions and outcomes are influenced by the overall network of relations. It emphasizes the informational value of the position an actor occupies in the network, therefore shifting the focus from the dyad to the system (Gulati, 1998). The benefits which accrue to actors and/or organizations through their relational and structural embeddedness in the form of access to information, resources, opportunities, and control are referred to as social capital (Nahapiet & Ghoshal, 1998).

Of the two networking relationships that are used to create social capital, more attention has been devoted to examining the structural dimension which has been operationalized as the extent to which organizations are embedded in either a densely or sparsely connected networks (e.g., Baker, 1990, Burt, 1992, Burt, 1997). It has, however, been argued that the investigation of social capital created from networking relationships should be extended to cover the relational dimension (Adler & Kwon, 2002). Since social capital is a relational construct, which by nature is developed through interactions among individuals and groups (networking) in a particular context, Leanna and Pil (2006, p. 354) have argued that “social capital is not just the network itself, nor the links among people that comprise it, but the resources that are created by the existence and character of those links such as information sharing and trust.” Moreover, the most popular way of creating social capital in transition economies is through network relationship (e.g., Michailova and Worm, 2003, Park and Luo, 2001) because most societies in transition

economies, especially those in Asia and Africa, are communal in nature. Also the structural dimension of social capital which focuses on an actor's position and connection in a social network is difficult to entangle in many transition economy environments including those in sub-Saharan Africa since managers are wary of disclosing such information.

In this study, I focus on the relational dimension of external networking relationships to create social capital by an organization's leadership through the development of personal and social networking relationships and ties with external stakeholders in the political and community environments. Interpersonal and social networking relationships with government officials and community leaders are the predominant means of cultivating social capital by firms in sub-Saharan Africa because of the role of the government as the most important economic actor in most countries. I will therefore concentrate on the networking relationships with government political leaders and bureaucratic officials, and community leaders. The relational dimension of external social capital is usually operationalized as the connections and ties held by top managers in organizations with external stakeholders because top managers are the key boundary spanners in organizations (Collins and Clark, 2003, Geletkanycz and Hambrick, 1997).

Networking in family firms

Numerous empirical studies have examined the contributions of external networking relationships and its attendant social capital to organizational outcomes (e.g., Acquaah, 2007, Leanna and Pil, 2006, Lee et al., 2001, Li and Zhang, 2007, Li et al., 2009, Li et al., 2008, Miller et al., 2009, Park and Luo, 2001, Peng and Luo, 2000, Shipilov and Danis, 2006). Even though there have been some interest in theorizing about the role of networking to develop social capital in family firms (e.g., Arregle et al., 2007, Lester and Canella, 2006, Nordqvist and Goel, 2008, Pearson et al., 2008, Sharma, 2008), little attention has been paid to the role of external networking relationships in family-owned businesses and how they create value vis-à-vis nonfamily firms (Miller et al., 2009).

From a conceptual point of view, Lester and Canella (2006) have asserted that community-level social capital which is generated by a network of family-controlled businesses is an important determinant of the survival and persistence of individual family businesses. Arregle et al. (2007) have argued that family social capital influences the creation of social capital for the family firm through factors such as organizational identity and rationality, human resource practices, and social network overlaps. They further contended that factors such as stability, interactions, interdependence, closure, along with family's size, commitment and ability to provide critical resources for the firm, which underlie family social capital influences the creation of organizational social capital for the family firm. Pearson et al. (2008) have maintained that the social capital perspective provides the context for identifying the unique behavioral resources and capabilities that are created by family interactions and involvement in the business that constitute familiness. The conceptualizations by Arregle et al. (2007) and Pearson et al. (2008), however, focus on internal view of networking relationships to create social capital within the family and/or family business (Sharma, 2008).

Sharma (2008), therefore, extended the works of Arregle et al. (2007) and Pearson et al. (2008) by arguing that both families and family businesses have stocks of social capital.

However, the flow of social capital between the family and the business should be bidirectional and balanced in order to create distinctive familiness, which is indicated by enhanced social capital stocks for both family and businesses. At the same time, Nordqvist and Goel (2008) have asserted that the family firm is embedded in a network of social relationships with competing claims to its resources which is crucial in understanding its governance. They therefore argued that social networks should be used as a governance mechanism, in addition to agency and stewardship theories, in family firms because social networks emphasize relational aspect of governance. In family firms, the main governance mechanisms are social characteristics such as personal affection, trust, shared norms and values, mutual reciprocity, and reputation. Therefore, these conceptual studies indicate that the family plays an important role in the creation of social capital. Furthermore, that social capital could be used to create value for family firms by using it as a governance mechanism, and to obtain resources such as information, knowledge, and legitimacy from the external entities for the strategic organization of its activities to improve performance and chances of survival.

Despite the renewed interest in applying social network theory to family business research, empirical studies examining the role of social networking relationships in family firms is very scanty (Miller et al., 2009, Salvato and Melin, 2008, Steier, 2001, Young and Tsai, 2008). Steier studied how social capital is transferred to, created, and managed by next-generation entrepreneurs within family firms in Canada. The findings indicated that within family firms, social capital is transferred to next-generation entrepreneurs through several modes: unplanned sudden succession, rushed succession, natural immersion, and planned succession and transfer of social capital. Moreover, Steier (2001) identified several means by which next-generation entrepreneurs in family firms manage social capital: deciphering existing network structures, deciphering the transactional content of network relationships, determining the relationships that are the most critical for firm survival and success, attaining legitimacy, clarifying the optimal role in the management of the firm (technical, managerial, stewardship, or a combination of all three), managing ties through delegation and division of labor, and striving for optimal network configuration by reconstituting network structure and content.

Young and Tsai (2008) also conducted an empirical study on the role of CEO external social capital in determining the compensation of family CEOs and nonfamily CEOs in Taiwan. They found that CEO social capital is an important determinant of CEOs pay level for nonfamily CEOs but not for family CEOs. Salvato and Melin (2008) using case studies of four family-controlled businesses from Italy and Switzerland show that those family-controlled businesses ability to renew and reshape social networking relationships within and outside the family facilitate their access to strategic resources that are used to create financial value across generations. Recently, Miller et al. (2009) have shown that network formation by family and nonfamily high-technology firms through their employee community and external stakeholders help them to overcome the institutional void in emerging economies. Using data from high technology firms from South Korea, they also found that networking relationships with employee community and external stakeholders were more beneficial to family firms than nonfamily firms. Apart from Miller et al. (2009) which focused on high-technology firms, none of the studies reviewed above have examined the value of networking relationships to family firms, and compared it with nonfamily firms. Thus, there is a dearth of studies investigating how family-owned and nonfamily firms utilize networking relationships with external entities to

create social capital and its impact on organizational outcomes despite the heterogeneity of the resource configurations and organizational characteristics in these two types of firms. Therefore more research is needed to examine the value of networking relationship to family-owned firms and how they compare with nonfamily firms.

Hypotheses

Utilization of networking relationships

Top managers of both family-owned and nonfamily businesses develop social capital through a variety of personal, social and economic networking relationships with their constituencies that could be used for the benefit of their organizations. These include the managerial personal and social network relationships with suppliers, customers, competitors, leaders of government political and bureaucratic institutions, and leaders of community organizations' and institutions. As states earlier, this study will be limited to the networking relationships top managers of family and nonfamily firms have developed with leaders of government political and bureaucratic institutions and leaders of communities and their institutions. It is well established in the family business literature that family firms are "rich in intangible resources" (Habbershon & Williams, 1999, p. 3) in the form of relationship building within the family and with external entities, trust, loyalty, commitment, patient capital, and the ability to motivate employees to achieve business goals. These advantages that exist in the family business environment has been termed "familiness" to denote the unique bundles of resources that reside in family that could be used to create competitive advantage (Tokarczyk, Hansen, Green, & Down, 2007).

However, family-owned firms face a lot of challenges in the strategic organization of their business activities in Ghana and many transition economies. The challenges they face include lack of financial, human resources, and managerial and technical competencies and capabilities (Robson et al., 2009). These challenges are exacerbated by the complexities and uncertainties in the business environment in Ghana because of the absence of effective market-supporting institutions, weak legal enforcement mechanisms, and the inability to effectively foster economic exchange through arms-length transactions. Thus the social capital developed through relational ties and connections with external parties are used by top managers of family-owned firms to circumvent the complexities of the business environment, overcome the institutional void and obtain the necessary resources and exploit the opportunities in that business environment for the benefit of their organizations. Previous studies in transition economies have demonstrated that because of the high levels of complexity, uncertainty, market imperfections and presence of "institutional voids" (Khanna & Palepu, 2006), top managers in organizations in transition economies develop and exploit networking relationships with government political leaders, government bureaucratic leaders in civil and public service institutions, and community leaders to secure access and facilitate the exchange of resources, information and knowledge for the strategic organization of their activities leading to improved performance (e.g., Acquah, 2007, Li and Zhang, 2007).

Family-owned and nonfamily firms, however, have different resources, information and knowledge needs. Most nonfamily businesses in Ghana are former state-owned enterprises, joint ventures with multinational corporations, or subsidiaries of multinational corporations which,

tend to be more established, resource-rich and powerful. They are also stable, have acquired institutional legitimacy, and established long-standing relationships and connections with political leaders, bureaucratic officials, community leaders, and their peers for resources and knowledge acquisition and exploitation. They therefore have more resources that could be used to develop competitive advantage and improve firm performance. Thus they are less likely to emphasize the development of networking relationships and ties with these external entities to obtain resources when compared with family-owned firms. Family-owned firms, on the other hand, have been found to exhibit some capabilities such as the abilities to engender trust; inspire, motivate, and develop commitment among the workforce; develop customer relationships; and demonstrate flexibility in decision making (Tokarczyk et al., 2007). Nevertheless, family-owned firms 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 market or customer segments, which could be exploited to overcome the complexities and uncertainties in the business environment. Furthermore, family-owned firms typically lack legitimacy that is necessary for navigating the uncertain institutional and economic environment to obtain the resources needed for their survival and growth. Thus family-owned firms will make considerable investment in building social networking relationships and ties with external entities when compared with nonfamily firms. This is a way for family-owned firms to obtain resources and gain legitimacy to traverse the complex and uncertain business environment. Family-owned firms, therefore, utilize their capabilities of flexibility in making decisions and building trust to emphasize the development social networking relationships to garner the resources required for mitigating their institutional and strategic disadvantages. Thus the following hypothesis:

Hypothesis 1. The extent to which family-owned firms utilize social networking relationships with political leaders, government bureaucratic officials and community leaders to create social capital will be greater than that for nonfamily firms.

Value of networking relationships

In the Ghanaian business environment, personal and social networking relationships with politicians and bureaucrats by both family-owned and nonfamily firms can provide them with access to financial resources (from government controlled financial institutions), offer opportunities by awarding government projects and contracts, certify products as meeting government standards, and providing information about new and impending regulations which 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, while connections and ties with top managers of other businesses provide access to new business practices, new technological processes, quality raw materials, fast and reliable deliveries, and customer and brand loyalties. These networking relationships and ties may enable both family-owned and nonfamily firms to obtain access to resources such as sources of financial resources, favorable leases to land for construction or agricultural purposes, new market segments and new customers, and/or technological know-how (Acquaah, 2007, Kuada, 2009, Kuanda and Buame, 2000). The social capital developed from networking relationships and ties with external entities can create value for both family-owned and nonfamily firms in Ghana. However, we argue that while the impact of social networking relationships on performance for family-owned firms

would exhibit a curvilinear (inverted U-shaped) relationship, that for nonfamily firms will have a positive and monotonic relationship with performance.

Family-owned and nonfamily firms are fundamentally different in their organizational structures, cultural norms, the availability of managerial skills and expertise, and technical know-how. These differences may affect the ability with which the social capital derived from networking relationships and ties developed with external stakeholders may be utilized to create value, and the benefits that would be derived from those social networking relationships. Family-owned businesses in Ghana are characterized by an environment that encourages personal affection, trustworthiness, commitment, mutual reciprocity, and focus on the long-term decision making horizons and viability of the business (e.g., Dunn, 1995, Lyman, 1991). It is also interesting to note that neither growth nor efficiency have been emphasized by most family-owned firms in Ghana with particularism used as the criteria in deciding most top executive positions. Because of their tendency to be patient in waiting for long-term outcomes and the strong norms of trustworthiness and reciprocity, and focus on family values and control of the business, family-owned firms over-extend the connections and ties they develop with external stakeholders and over-reciprocate favors to the extent that the benefits they receive from the networking relationships begin to erode after a certain level.

In fact, having a high disposition to developing and utilizing networking relationships and ties may produce negative effects after a certain level as it compromises the quality of relationships and the attendant resources and information obtained from such relationship. In such cases, the relationship between managers in family-owned firms and politicians, bureaucrats, and community leaders may suffer from “overembeddedness” which results in redundant information exchange and decreased benefits from social networks (e.g., Uzzi, 1997). Moreover, politicians, government bureaucratic officials in civil and public institutions, and community leaders have a lot of power and control over resources in transition economies. The power and control they exercise may enable them to extract more benefits from the rents they would help family-owned firms to generate from the use of their connections through excess reciprocity of favors. This has the potential of limiting the benefits family-owned firms could derive from networking relationships after a certain threshold.

On the other hand, because nonfamily firms tend to be former state-owned enterprises, joint ventures with multinational corporations, or subsidiaries of multinational corporations they are more selective in building networking relationships to obtain the necessary resources and information. They also tend to have short-term decision making horizons and are result-oriented. Because of their short-term and results-oriented focus, nonfamily firms are more efficient and effective in utilizing the resources and information derived from the networking relationships and ties with external stakeholders to create value. They are more likely to gain from regulatory and licensing procedures, government contracts, absorption of new technological and market knowledge, and favorable access to land for business activities. In short, nonfamily firms are more likely to continually benefit from networking relationships and ties with politicians, government bureaucrats, and community leaders than family-owned firms.

Moreover, due to lack of the necessary managerial and technical skills and expertise, lack of employee talent due to the small labor pool, and inadequate employee training, even if family-

owned businesses are more proactive and assertive in utilizing social networking relationships to acquire the resources, information and knowledge needed to deal with uncertainty in the business environment, they may not be as efficient and effective as nonfamily businesses in utilizing the resources and information they obtain from the connections to create value. Due to the inefficiencies of the organizational structures, and the lack of managerial and technical expertise, family-owned firms are likely to experience diminishing returns from the social capital they develop from the networking relationships with external entities in Ghana. Therefore the following hypotheses are proposed:

Hypothesis 2a. Networking relationships with external stakeholders (politicians, bureaucratic officials, and community leaders) will have an inverted U-shaped relationship with firm performance for family-owned firms such that the positive effect decreases after a threshold level.

Hypothesis 2b. Networking relationships with external stakeholders (politicians, bureaucratic officials, and community leaders) will have a positive and monotonic relationship with firm performance for nonfamily firms.

Methodology

Two waves of data was collected from senior executives (e.g., chief executive officers (CEOs), and the head of the accounting and finance function (e.g., chief accountant, head of finance, etc.)) of family-owned and nonfamily firms operating in Ghana in 2002 and 2005 to test the hypotheses. A non-probability sampling method was used to select the sample businesses for the study. The sample of family-owned and nonfamily firms was selected from the 2001 edition of the *Ghana Business Directory*, which lists the largest businesses in Ghana. The sample consisted of the 200 largest companies in the directory. The CEOs of the selected firms were sent letters in early 2002 requesting their participation in the study. To ensure a high response rate and the provision of reliable and accurate responses, the CEO's were promised that information about the respondents and the company will be kept in strict confidence. They were also promised a summary of the results of the study if they included their company's address on the survey. Several weeks after the letters were sent to the selected companies, personal visits were made to the companies. The CEOs were given the questionnaires and a mutually agreed upon date to collect the completed questionnaires was determined. After several visits to the companies, responses from 115 firms were received with 106 being useable for a response rate of 53%. In 2005, a follow-up data was collected 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 observations collected in the two time periods are 206.

In order to check for potential response bias and common method variance problems, the data were collected from individuals occupying senior management positions. On average, the respondents had worked for their companies for 12 years and had held their respective managerial positions for over nine years. Common method variance was examined through two methods during the survey design and administration, and one post hoc statistical test was run. First, information on managerial networking relationships developed with external stakeholders

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 firm 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/deputy CEOs, while the performance information was collected from the heads of the accounting and finance function. Third, a factor analysis of the items on the performance and social networking variables resulted in six factors with eigenvalues greater than one, with the first factor accounting for about 20% of the variance. Thus, common method variance is minimized (Harman, 1967).

Dependent and independent variables

Firm performance

Firm performance was measured with 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 organizations on the five measures of performance relative to the firms they consider to be their major competitors in their industry for the two-year periods 2001–2002 and 2004–2005. The performance items were measured on a scale ranging from (1) ‘much worse’ to (7) ‘much better’. The use of perceptual measures is common in situations where objective data are either not available or difficult to obtain. Moreover, Wall et al. (2004) have established that there are convergent, discriminant, and construct validities between perceptual measures of performance which are used as substitutes for objective measures of performance.

While the use of perceptual performance data may introduce measurement errors and the potential problem of mono-method bias, a second set of respondents (heads of accounting and finance function) were used for the performance information to minimize these problems. Furthermore, there are precedents for using perceptual measures of performance in social networking studies in transition economies (Miller et al., 2009, Park and Luo, 2001, Peng and Luo, 2000). The correlation between the performance variables over the two time periods was 0.84, $p < 0.001$. I also obtained objective measures of GSALES, GNI, ROA, and ROS from the annual reports of 12 firms (these firms were all nonfamily firms) in our sample that were 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

Consistent with networking studies in transition economies (Li and Zhang, 2007, Li et al., 2009), *Networking relationships* was measured by focusing on the development of interpersonal social and political networking relationships by top managers of family-owned and nonfamily businesses in Ghana with (1) government political leaders; (2) government bureaucratic officials; and (3) community leaders. The respondents were asked to assess the extent to which top managers have *used* personal and social networking relationships with political leaders, government bureaucratic officials, and community leaders for the three year periods 1998–2000

and 2001–2003 respectively on a seven-point scale, ranging from (1) “*very little*” to (7) “*very extensive*”.

Networking relationships with *political leaders* ($\alpha = 0.78$) were measured using four items: political networking relationships with city council politicians (mayor and council members), district council politicians (the district chief executive and members of district council assembly), regional government politicians, national government politicians’ (e.g., ministers and parliamentarians). Networking relationships with *bureaucratic officials* ($\alpha = 0.83$) was measured using two items: political and social networking with civil/public service officials in regulatory and supporting institutions (e.g., Internal Revenue Service, the Central Bank, Environmental Protection Agency, etc.), and officials in investment and industrial institutions (e.g., Investment Board, Export Promotion Council, the Stock Exchange, etc.). Networking relationships with *community leaders* ($\alpha = 0.84$) was measured using two items: social networking relationships with local kings, chiefs and/or their representatives, and leaders of religious organizations (e.g., pastors, priests, traditional religious leaders, and imams).

Family-owned firms

In this study, a family firm was defined as a firm that is owned and controlled by a specific family, and where family members are involved in the firm’s management and decision-making processes. This definition is effective for this study because in the Ghanaian business environment, a business is considered a family firm if it is 100% owned by a specific family. I therefore operationalized family-owned and nonfamily firms by asking the respondents to indicate whether or not their firm is a family-owned firm (“yes” or “no”). The respondents were also asked 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%) who answered “yes” to whether the business is family-owned also responded “yes” to the other two questions – control and involvement. A family-owned firm was, therefore, operationalized as a dummy variable coded 1 for “yes” responses to the above questions, while a nonfamily firm was coded 0 for a “no” responses to the above questions. This operationalization was then used to separate the sample into the family-owned firms and nonfamily firms’ mini-samples for the analyses.

Control variables

The control variables included in the study are firm age, firm size, business sector, year dummy, and market 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*, which was 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 waves of data collection periods. *Market 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) increase in the number of major

competitors; (b) use of package deals for customers; (c) frequency of new product or service introductions; (d) the rate of change in price manipulations; (e) increase in the number of companies which have access to the same marketing channels; and (f) frequency of changes in government regulations affecting the industry (Mia & Clarke, 1999). These activities were measured on a seven-point scale ranging from (1) “*very little*” to (7) “*very extensive*.”

Analytical approach

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 the relationship between networking relationships and firm performance (e.g., Mosakowski, 1993, Wiklund and Shepherd, 2003) for both the family-owned firm and nonfamily firm samples. The social networking variables in the study deal with the utilization of personal and social connections or ties with external stakeholders for the three-year periods 1998–2000 and 2001–2003. The firm performance variable on the other hand, was measured using the average of the responses for the two-year periods 2001–2002, and 2004–2005 for data collected in 2002 and 2005 respectively. A pooled TSCS regression model was used because only two periods of data from 106 firms were available.

Results

Table 1 provides the means, standard deviations and the correlations among the variables. It shows high correlations among some of the variables, especially between family-owned firm and firm size ($r = -0.65$). This indicates that most family-owned firms in Ghana are also small firms. The variance inflation factors (VIFs) of the hypothesized variables were, however, all less than 10 in the estimation models indicating that multicollinearity is not a problem (Neter, Kutner, Nachtsheim, & Wasserman, 1996). The validity of the econometric model was further examined through several tests. The assumptions of equality of variance, independence of the error terms, and the normality of the residuals were all met. The Durbin–Watson statistics (see Table 3) also indicated that autocorrelation is not a problem and thus the pooled cross-section and time series model is adequate (Gujarati, 2003).

Hypothesis 1 states that the extent of social networking utilization to create social capital will be greater for family-owned firms than nonfamily firms. As can be seen from Table 1, the correlation between networking relationship from community leaders and bureaucratic officials, are significantly related to family-owned firms. These imply that the extent of networking relationships utilization may be different between family-owned and nonfamily firms. I then examined the extent of networking relationships utilization between family-owned and nonfamily firms for each of the networking constructs by using a *t*-test to compare the means of the variables. The results of the *t*-test of the means of the networking variables, which are presented in Table 2, reveal that family-owned firms utilize networking relationships with community leaders (mean, family-owned = 3.96; mean, nonfamily = 3.59; $t = 2.25$, $p < 0.05$) and bureaucratic officials (mean, family-owned = 4.99; mean, nonfamily = 4.50; $t = 2.77$, $p < 0.01$), more than non-family firms. However, nonfamily firms utilize networking relationships with politicians (mean, family-owned = 2.72; mean, nonfamily = 3.23; $t = -2.77$, $p < 0.01$) more than family-owned firms. Thus Hypothesis 1 is partially supported.

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

Variables	1	2	3	4	6	7	8	9	10
1. Firm performance	0.91								
2. Social networking with community leaders	0.46***	0.84							
3. Social networking with politicians	0.16 ⁺	0.23*	0.78						
4. Social networking with bureaucratic officials	0.38***	0.24*	0.32**	0.83					
6. Firm size ^a	0.23*	0.23**	0.25*	0.23*					
7. Business sector ^b	-0.16 ⁺	-0.17 ⁺	-0.34**	-0.16 ⁺	-0.23*				
8. Family-owned firm ^c	-0.17 ⁺	0.16 ⁺	-0.14	0.18 ⁺	-0.65***	0.04			
9. Market competition	0.34**	0.15	0.03	0.27**	0.03	-0.11	0.03	0.76	
10. Firm age ^a	0.07	-0.06	0.13	0.11	0.47***	-0.12	-0.34**	-0.01	
Mean	4.81	4.83	3.97	4.74	1.97	0.83	0.51	4.88	1.29
Standard Deviation	1.08	1.19	1.34	1.29	0.48	0.38	0.50	1.32	0.29
Minimum	2.00	1.00	1.00	2.00	1.00	0.00	0.00	2.00	0.60
Maximum	7.00	7.00	4.67	7.00	3.30	1.00	1.00	7.00	1.94

The values in diagonals are reliabilities (Cronbach alphas).

^a Firm size is log of number of employees; firm age is log number of years since formation or incorporation.

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

^c Family-owned firms are coded 1, nonfamily firms are coded 0.

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

Table 2. Means, standard deviations, and test of differences between the social networking variables.

Social and political networking	Family firms ($N = 104$)		Nonfamily firms ($N = 102$)		t -test ^a
	Mean	S.D.	Mean	S.D.	t -value
Networking with politicians	2.72	1.19	3.23	1.44	-2.77**
Networking with bureaucratic officials	4.99	1.27	4.50	1.27	2.77**
Networking with community leaders	3.96	1.12	3.59	1.24	2.25*

^a Test of differences between the mean values of family-owned firms and nonfamily firms' social networking variables.

* $p < 0.05$. ** $p < 0.01$.

Table 3 presents the standardized results of the pooled TSCS regression models examining Hypothesis 2a, Hypothesis 2b. In Model 1 we present the results from the overall sample to ascertain whether there are performance differences between family-owned and nonfamily firms, and also examine the impact of networking relationships on firm performance. The effect of the family-owned firm variable on firm performance also indicates that in general nonfamily firms perform better than family-owned firms ($\beta = -0.155$, $p < 0.05$). The results from Model 1 also show that networking relationships with bureaucratic officials and community leaders have direct and significant relationship with firm performance. However, only the networking relationship with community leaders have a curvilinear relationship with firm performance (both the linear and the squared terms are significant with a positive linear term ($\beta = 0.738$, $p < 0.001$) and a negative squared term ($\beta = -0.419$, $p < 0.05$). But, networking relationships with politicians is significant and has a linear and negative relationship with firm performance ($\beta = -0.233$, $p < 0.05$).

Table 3. Standardized regression analysis of the relationship between networking relationship and firm performance.^a

Variables	All firms (<i>N</i> = 206)	Family firms (<i>N</i> = 104)		Nonfamily firms (<i>N</i> = 102)	
	Model 1 β (<i>t</i> -value)	Model 2 β (<i>t</i> -value)	Model 3 β (<i>t</i> -value)	Model 4 β (<i>t</i> -value)	Model 5 β (<i>t</i> -value)
<i>Controls</i>					
Firm age ^b	0.012 (0.19)	-0.117 (-1.21)	-0.101 (-1.19)	0.013 (0.13)	0.141 ⁺ (1.87)
Firm size ^b	0.02 (0.22)	-0.078 (-0.66)	-0.028 (-0.26)	0.191 ⁺ (1.85)	0.073 (-0.91)
Business sector ^c	-0.045 (-0.73)	-0.231* (-2.17)	-0.222* (-2.35)	0.006 (0.06)	0.018 (0.26)
Market competition	0.198*** (3.34)	0.264** (2.77)	0.213** (2.65)	0.391** (4.21)	0.158* (2.13)
Year dummy ^d	0.029 (0.051)	-0.046 (-0.44)	0.046 (0.51)	0.056 (0.62)	0.173* (2.46)
Family-owned firms ^e	-0.155* (2.13)				
<i>Social networking</i>					
Politicians	-0.233* (0)		-0.080 (-0.77)		-0.188* (-2.29)
Politicians squared	0.114 (0.61)		-0.146 (-1.16)		0.001 (0.02)
Bureaucratic officials	0.379* (2.08)		0.480*** (5.29)		0.358*** (3.92)
Bureaucratic officials squared	-0.003 (-0.01)		-0.187* (-2.15)		-0.026 (-0.32)
Community leaders	0.738*** (4.10)		0.393*** (3.60)		0.552*** (6.47)
Community Leaders Squared	-0.419* (2.31)		-0.196* (-1.97)		-0.113 (-1.59)
Adjusted <i>R</i> ²	0.393	0.090	0.429	0.167	0.576
Change in adjusted <i>R</i> ²			0.339***		0.409***
Model <i>F</i>	12.08***	3.03*	6.29***	5.04***	13.46***
Durbin-Watson statistic	1.863	2.169	2.035	1.858	1.862

^a Coefficients are standardized coefficients.

^b Firm age is log number of years since incorporation or formation; Firm size is log of the number of employees.

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

^d Data collected in 2002 coded 1, data collected in 2005 coded 0.

^e Family-owned firms coded 1, nonfamily firms coded 0.

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

Models 3 and 5 in Table 3 present the results of the effects of networking relationships on firm performance for family-owned and nonfamily firms, respectively. Hypothesis 2a posits that the networking relationship with external stakeholders will have an inverted U-shaped relationship with performance for family-owned firms such that the positive effect decreases after a certain threshold level. Model 3 in Table 3 shows that networking relationships with both bureaucratic officials and community leaders have positive linear impact on performance for family-owned firms (bureaucratic officials, $\beta = 0.480$, $p < 0.001$; and community, $\beta = 0.393$, $p < 0.001$). Networking relationships with politicians is not significantly related to family-owned firms'

performance. Moreover, networking relationships with bureaucratic officials squared ($\beta = -0.187, p < 0.05$), and community leaders squared ($\beta = -0.196, p < 0.05$) were both negative and significantly related to performance for family-owned firms. These findings indicate that a curvilinear (inverted U-shaped) relationship exists between the utilization of networking relationships and performance for family-owned firms. This implies that there are diminishing returns to extensive networking relationship use with these external stakeholders (bureaucratic officials and community leaders) for family-owned firms. Again, networking relationships with politicians squared is not significantly related to the performance of family-owned firms. Therefore, a curvilinear (inverted U-shaped) relationship exist between the utilization of some networking relationships with external stakeholders and performance for family-owned firms providing partial support for Hypothesis 2a.

Hypothesis 2b predicted that the use of networking relationships with external stakeholders will have a positive and monotonic relationship with performance for nonfamily firms. The results in Model 5, Table 3, show that networking relationships with bureaucratic officials ($\beta = 0.358, p < 0.001$) and community leaders ($\beta = 0.552, p < 0.001$) are positively related to performance, while their squared terms were not significantly related to performance. Thus networking relationships with both bureaucratic officials and community leaders have positive and monotonic relationship with the performance of nonfamily firms. The development of networking relationships with politicians, on the other hand, was significant and negatively related to performance ($\beta = -0.188, p < 0.05$). Hypothesis 2a is also partially supported. With the exception of the findings from networking relationships with politicians, the findings in Table 3 generally indicate that while family-owned firms encounter diminishing returns to the positive effects of networking relationships utilization with external stakeholders on performance after a certain threshold level, nonfamily firms experience positive and monotonic benefits from networking relationships with external stakeholders.

Discussion

Extant theoretical and empirical research in the social network literature shows that networking relationship and ties with external parties function as conduits for the transmission of information, resources and opportunities which could be leveraged to create a competitive advantage and facilitate firm performance (e.g., Acquaah, 2007, Adler and Kwon, 2002, Li and Zhang, 2007, Nahapiet and Ghoshal, 1998). Recent theoretical and empirical work in the family business literature have also noted the importance of networking relationships as a governance mechanism, and a means to obtain resources to enhance the legitimacy and survival of family firms (e.g., Lester and Canella, 2006, Miller et al., 2009, Nordqvist and Goel, 2008). That is, networking relationships matter for both family-owned and nonfamily firms. Despite the intrinsic value of networking relationship to family-owned firms, little empirical work has directly examined the extent to which family-owned firms utilize networking relationships and how the social capital created from the networking relationships is used to create value and enhance performance.

To advance the literature in social networks and provide insight into the importance of social networking relationship to the strategic organization of family-owned firms' business activities, this study examined and compared the utilization and performance implications of social

networking relationships between family-owned and nonfamily firms. Specifically, this study hypothesized that family-owned firms will exhibit higher levels of networking relationships and ties utilization with external stakeholders than nonfamily firms. Moreover, while the impact of the social capitals developed from the networking relationships with politicians, bureaucratic officials, and community leaders on firm performance will exhibit a curvilinear (inverted U-shaped) relationship for family-owned firms, that relationship will be linear, positive and monotonic for nonfamily firms. These hypotheses were tested using survey data collected over two time periods from 106 firms from Ghana.

The findings indicated that while networking relationship matter, its benefit was contingent on whether the firm was family or nonfamily owned. Specifically, the results showed that family-owned firms in Ghana tend to utilize networking relationships with bureaucratic officials and community leaders to a greater extent than nonfamily firms, while nonfamily firms utilize networking relationships with politicians to a greater extent than family-owned firms. The findings further indicated that family-owned firms experience diminishing returns to performance (i.e., an inverted U-shaped relationship) from networking relationships with bureaucratic officials and community leaders. However, networking relationships with politicians does not influence performance for family-owned firms.

On the other hand, the findings indicated that nonfamily firms experience a linear, positive and monotonic performance benefit from networking relationships with government bureaucratic officials and community leaders. The findings for nonfamily firms further indicated that networking relationships with politicians is linear but negatively related to performance. It should be noted that the effect of networking relationship with politicians on performance for the overall sample is negative and significant (see Model 1, Table 3). This may imply that there are indeed considerable costs to be incurred in cultivating relationships with politicians so as to obtain access to resources, information, contracts, etc., and these costs have an adverse effect on the performance of nonfamily firms than that of family-owned firms. The result may also imply that political ties create political capital which is beneficial to firms but it may not be directly tied to economic gains in the short-run since most politicians are usually in office for a short term or the benefits may be non-economic.

There are some interesting and intriguing findings from the study. First, although family-owned firms use personal and social networking relationships to a greater extent with external stakeholders (bureaucratic officials and community leaders) to create social capital than nonfamily firms do, family-owned firms experience a competitive disadvantage in benefiting from these extensive networking relationships when compared with nonfamily firms. The networking relationships with bureaucratic officials and community leaders have a positive linear effect on performance for nonfamily firms, but a curvilinear (inverted U-shaped) effect on firm performance for family-owned firms. These findings imply that the value to family-owned firms from these networking relationships dissipate after a certain threshold level. The competitive advantage enjoyed by nonfamily firms over family-owned firms in the utilization of networking relationships with these external stakeholders to create value in Ghana may be due to the differences in organizational cultures and the availability of managerial and technical abilities, skills and expertise in the two types of organizations.

The “familiness” nature of family-owned firms to relationship building, which is characterized by personal affection, trustworthiness, commitment, loyalty and mutual reciprocity (Habbershon and Williams, 1999, Lyman, 1991) make them susceptible to over-extending their connections thus suffering from “over-embeddedness” with external stakeholders. This results in excess reciprocity of favors and also provides external stakeholders the ability to extract more from the value family-owned firms derive from networking relationships. The differences between family-owned and nonfamily firms in their possession and leverage of managerial and technical abilities, skills and expertise also affect the effectiveness and efficiency with which the resources, information and knowledge acquired from the networking relationships are utilized to create competitive advantage and improve performance. The lack of managerial and technical abilities, skills and expertise in family-owned firms relative to nonfamily firms minimizes their ability to effectively use the resources and information they acquire from networking relationships and ties, eroding the value from the social networking relationships and leading to diminishing returns from such social capitals the networking relationships create.

Second, while the finding from the overall sample indicated that networking relationships and connections with politicians has a linear and negative effect on firm performance, this finding was true for only nonfamily firms. That is, networking relationships with politicians is not valuable for family-owned firms, but it is detrimental to nonfamily firms. The finding implies that when the leadership of nonfamily firms 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 turn into a burden and adversely affect performance. Nonetheless, both family-owned and nonfamily firms should minimize or desist from forging networking relationships with politicians since the favors they may extract from these firms may overburden them and impede rather than improve their performance.

These findings offer some insight on how networking relationships may help family-owned firms navigate the complex and uncertain business environment in Ghana. Networking relationships matter for family-owned firms in that it initially provides them with the resources and information that are required to minimize threats and exploit opportunities in the complex and uncertain business environment, enhance their legitimacy, and offer them the ability to pursue new opportunities that may enhance performance. However, networking relationships does not completely eliminate the deficiencies and weaknesses of family-owned firms which may include the lack of managerial and technical abilities, skills and expertise, and less absorptive capacity. The findings show that the benefit to networking relationships to family-owned firms increase only up to a certain level then declines indicating that an inverted U-shaped relationship exists between networking relationship and firm performance.

Overall, the empirical findings from this study challenges the conventional wisdom from most of the relational social network research, which states that networking relationships always provides value to organizations: that is higher levels of relational networking enhances firm performance outcomes. The findings indicate that contrary to this conventional wisdom, the effects of networking relationships on performance are more complex than postulated. The results show that both family-owned and nonfamily firms benefit from networking relationships with

government bureaucrats and community leaders. However, family-owned firms are admonished not to cultivate extensive networking relationships with these external entities in Ghana otherwise the benefits they derive from such relationships and connections will decline after a certain threshold. The inverted U-shaped relationship between networking relationships with government bureaucrats and community leaders, and performance for family-owned firms is a caution to them about the value of extensive networking relationships. Extensive levels of networking relationships will hinder their performance prospects in the marketplace, but moderate levels of networking relationships are more likely to assist in creating value. Thus, family-owned firms should find ways of utilizing the limited expertise and experience of top management to exploit the benefits from the networking relationships with bureaucratic officials and community leaders. For nonfamily firms, the negative relationship between networking relationship with politicians and performance clearly indicate that they should cease from developing networking relationships with politicians since it is not valuable.

Several limitations of this study warrants discussion. First, networking was measured by focusing on the extensiveness of relational networking between managers and external stakeholders. Although it is the common method of operationalizing networking in studies that have been conducted in transition economies (e.g., Acquah, 2007, Li and Zhang, 2007, Li et al., 2008, Li et al., 2009, Miller et al., 2009, Park and Luo, 2001, Peng and Luo, 2000), it does not allow us to quantitatively determine the structure of network formation such as density, centrality, size, etc. Moreover, it is possible that the qualitative meaning of what is extensive would be different from one respondent to another respondent. However, measuring networking by focusing on relational ties allowed us to capture the quality and richness embedded in the soft nature of personal and social relationships that have been developed between managers and other external stakeholders that cannot be easily subjected to quantitative measurements. Second, a perceptual measure of firm performance was used. The choice of a perceptual measure of performance was based on the fact that it is difficult in practice to obtain objective measures of performance from organizations in Ghana (and other transition economies) which are not publicly traded. This is compounded in family firms where there is lack of formal record keeping and business and family life overlap (Robson et al., 2009). Perceptual measures of performance are, therefore, used extensively in networking studies focusing on transition economies (e.g., Li and Zhang, 2007, Miller et al., 2009, Park and Luo, 2001).

Third, a study that explicitly uses longitudinal data over a longer time period would provide more robust conclusions about the impact of networking relationships on performance for both family-owned and nonfamily firms. This study has made the attempt to longitudinally link cause and effect relationships between networking and performance, but the results may not be completely free from ascertaining associations between them. However, by soliciting information on networking relationships from one time period and performance from another time period, the results may indeed be establishing causality. Fourth, because the sample is made up of family-owned and nonfamily firms from only one African country – Ghana – the applicability of the results may not be generalizable to other African or transition economies without a replication of this study. Future work should consider testing the applicability of the hypotheses in this study using data from other African and transition economies in order to generalize the applicability of the findings.

In conclusion, this study has shown that family-owned and nonfamily firms utilize networking relationships to a different extent to build social capital: family-owned firms utilize extensive networking relationships to create social capital than nonfamily firms. Moreover, the social capital that is developed from the networking relationships has different impact on performance for family and nonfamily firms in Ghana. Future research should examine these relationships in other emerging economies so as to deepen our understanding of the effect of relational networking on performance for family-owned and nonfamily firms and help in providing us with rich insights into the application of network capital theory to family business research.

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