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The Impact of Managerial Networking Relationships on Organizational Performance in Sub-Saharan Africa: Evidence from Ghana*

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This paper focuses on how managerial networking relationships developed with external entities affect organizational performance using survey data from organizations in Ghana. Networking relationships with external entities are established so as to obtain resources, valuable information, and to acquire and exploit knowledge, in order to overcome the high level of uncertainty in the business environment. The findings provide strong support that managerial networking relationships developed with top managers of other firms, government bureaucratic officials, community leaders, and leaders of employee unions and representatives enhance organizational performance. However, managerial networking relationships developed with politicians at different levels of government are either not related to performance or impede performance. Empirically, the findings confirm that managerial networking relationships may have beneficial as well as detrimental effects on organizations.

Key words: *Managerial networking relationships; Social capital; Organizational performance; Sub-Saharan Africa; Ghana*

The conventional wisdom about the impact of managerial networking relationships with external entities on the strategic organization of firm activities could be summed up in the common adage "it is not only *what* you know that affects your performance, but *who* you know also affects how you perform." Organizational and industrial sociological theorists have argued that managerial actions are embedded in social networks of relationships (Granovetter, 1985; Laumann, Galaskiewicz & Marsden, 1978). Building on this view, management researchers have argued that the social capital embodied in the development of managerial networking relationships with external entities affects an organization's competitive advantage and performance (e.g., Burt, 1997; Gulati, 1998; Peng & Luo, 2000). However, most empirical studies have focused on the impact of social capital developed from the managerial networking relationships with top managers of other firms (suppliers, buyers, and competitors) on organizational activities. Networking relationships managers develop with other organizational stakeholders such as the government (politicians and bureaucrats), community leaders, and employee unions and its impact on the strategic organization of firm activities and outcomes have been relatively unexplored.

In addition, social networking and ties are prevalent in the emerging economies of Sub-Saharan Africa because of the presence of strong collectivistic cultures (Adu-Febiri, 1995; Salm & Falola, 2002). However, there have been little empirical studies examining the effects of managerial networking relationships and social ties on a firm's activities in Sub-Saharan African emerging economies. Most of the empirical studies examining the role of managerial networking relationships on a firm's activities have either focused on advanced economies or the emerging economies of Asia (e.g., Park & Luo, 2001; Peng & Luo, 2000; Lee, Lee, & Pennings, 2001). Although, emerging economies in general may exhibit similar economic and institutional characteristics such as underdeveloped market-supporting institutions for fostering economic exchange, weak laws and poor enforcement capacity of the formal legal institutions (Khanna & Palepu, 1997), there are wide-ranging differences in the form of social norms, culture, and even the levels of environmental uncertainty and business risks. Thus, the role of networking relationships in facilitating the exchange of resources for the strategic organization of firm activities may be different in different regions of the world.

Organizational researchers have suggested that the greater the uncertainty in a firm's business environment, the more likely the firm will rely on managerial personal and social networking ties when entering into economic exchange relationships (Pfeffer & Salancik, 1978; Peng & Heath, 1996; Powell, 1990). The African business environment is highly uncertain because of the underdevelopment of the market mechanism in fostering economic exchange and weak enforcement capacity of the formal institutional structures (e.g., legal institutions), making it difficult to obtain the necessary resources for productive activities. Thus, managers are more likely to use networking contacts and social relations in Africa to reduce uncertainty in their business environments. Hoskisson, Eden, Lau, and Wright (2000) have noted that research on firm strategies in emerging economies have focused on China and some countries in Central and Eastern Europe, with little or no research attention to Africa/Middle East region, although "emerging markets are not a homogenous or clearly identifiable and recognizable group" (p. 257). They encouraged strategy researchers to broaden their research agenda to embrace developments in these countries to advance the development of theory and practice. Despite this call, strategy research in emerging economies is still dominated by studies from Asia and Eastern Europe (see the recent special issue of strategy research in emerging economies in the *Journal of Management Studies* edited by Wright, Filatotchev, Hoskisson, & Peng, 2005). This study responds in part to such a call for a better understanding of strategy issues in Sub-Saharan Africa.

This paper examines how the social capital developed by managers as a result of their personal and social networking relationships with external entities (top managers of other firms, political leaders, bureaucratic officials, community leaders, and leadership of employee unions and representatives) affect organizational performance using data from Ghana. This study makes several contributions to the social capital and networking literature. First, the study presents a broader perspective of the development of social capital through networking relationships by managers to include their access to resources, valuable information, and acquisition and exploitation of knowledge from other external entities beyond the top managers of other firms. Second, the study examines the impact of managerial networking relationships on different measures of organizational performance—growth in productivity, growth in sales and revenues, growth in net income/profit, return on assets (ROA), and return on sales (ROS). Third, this research extends the focus of the managerial networking performance link to include a Sub-Saharan African setting—Ghana. Such an inquiry will provide potential insight into the comprehensiveness of extant network theory by including management issues in Africa.

Ghana's Economic Environment and Social Context

Economic Environment

Ghana is a relatively small economy located on the west coast of Africa. The country is currently implementing the IMF/World Bank sponsored structural adjustment programs (SAP), which is characterized by the privatization of state-owned enterprises (SOEs) and liberalization of the domestic economy. After independence in 1957, Ghana pursued an inward-oriented state-controlled industrialization policy to modernize its economy. However, inefficiencies in the management of the SOEs led to huge excess capacity and the dependence of the SOEs on the government for subsidies to operate. The subsidies were provided to the SOEs to protect and enable them to survive using the infant industry argument. Political instability and economic mismanagement from the mid 1960s to the early 1980s led to the deterioration of the economy. The mismanagement had an adverse effect on the functioning and performance of economic, political, legal, and regulatory institutions in the country. The development of business enterprises was also stifled because of the inability to obtain resources through arms length transactions and the scarcity of foreign exchange to import the needed raw materials and inputs which could not be obtained domestically for productive activities (Acquaah, 2005). In order to turn around the economic crises, the government started implementing the IMF/World Bank led SAP in 1983 so as to promote operations efficiency, productivity growth, privately-owned enterprises, development, economic growth, and trade and investment. The contents of SAP include: monetary and banking reforms to improve access to capital; privatization of unprofitable state-owned enterprises; removal of import controls and foreign exchange restrictions; and removal of price controls and local production subsidies (Debrah, 2002).

Although the government of Ghana started the implementation of the IMF/World Bank SAP in 1983, serious commitment to the liberalization of the economy and privatization of the SOEs did not commence until 1988. Some of the policies have been targeted at the development of entrepreneurs and the promotion of small- and medium-sized businesses through the creation of new business enterprises (Government of Ghana, 1997; Yusuf & Saffu, 2005). The economic liberalization policies have nurtured an open economy, making it easier for the start-up of many new domestic owned small- and medium-sized enterprises. Moreover, it has minimized the hurdles that the already established domestic businesses need to clear in order to obtain raw materials and inputs, and other resources for productive activities. However, businesses in Ghana still face serious roadblocks in terms of their ability to competitively acquire the necessary resources through arms length transactions in the open market because of the poor institutional framework for implementing and enforcing laws facilitating the exchange of resources.

The Sociocultural Environment and Relationship Building

The establishment, organization and conduct of businesses activities in Ghana cannot be adequately understood unless the social system is also taken into account. The social system of Ghana revolves around the culture of the traditional societies. The Ghanaian traditional society is organized around kinship groups and collectivistic communities, in which the lineage or extended family (this family unit extends beyond the concept of the immediate biological family to include distant relatives spanning several generations apart), and the clan play an essential role in creating the norms, values and behavioral conduct acceptable to the society. This is summed up in a proverb by one of the largest tribes or ethnic groups in Ghana, the Akans, as "*Abusua ye dom*" (which means, "the family is a crowd"). The traditional social system in Ghana resembles a series of concentric circles in which the lineage and extended family is the core or center. The lineage systems establish the ownership, control, and distribution of property, ensure the maintenance of social norms and values, and the process of traditional social and political succession. Gyrating around the lineage and extended family is the web of personal and social relationships within the traditional social organization, which is made up of the clan, the community, and the tribe or ethnic group. The social organization (i.e., the extended family, clan, community, and tribe) is headed by kings who exercise traditional political authority with chiefs (lower level kings) and heads of extended families. Individuals who belong to a particular social organization, therefore, exhibit strong loyalty to that social organization and its traditional political authority.

Interpersonal and social interactions, connections and relationships among members in the social organization are highly cherished to the extent that the needs of the social group are valued over those of the individual (Salm & Falola, 2002). The social organization is thus a corporate unit with a specific identity and membership that owns and manages property (especially land), and not only enforces social norms, values, and expected behaviors among group members but also applies social sanctions to members who deviate from the group norms. Individuals in the social organization are bound together through various social benefits and obligations and are therefore committed to one another by norms of reciprocity and equity. Beginning with the extended family and the clan, the social organization functions as a "mutual aid assistance society" in which each member has both the obligation and responsibility to help others, and the right to receive assistance when needed (Codjoe, 2003). Individuals in the social organization who dishonor this commitment are at risk of not only losing their reputation and image but also disgracing their family. The behavior of an individual within the social organization is seen as a reflection of the moral character of that individual as well as that of the individual's entire extended family and sometimes the ethnic group (Salm & Falola, 2002). Thus the social organization with its network of interpersonal and social relationships acts as economic and social units of production in the traditional social system. It provides assistance such as financial resources and access to market opportunities for business operations for members in the group. This is because it is believed that the social organization will benefit from the businesses it offers support and that those businesses will be transferred to someone in the social organization (especially the family) when the owner is no longer around.

The modernization of the country since the attainment of independence in 1957 has led to the creation of formal political, economic, and legal institutional structures that govern how economic and business activities are conducted in Ghana. These formal institutions which follow the English common law traditions are expected to implement and enforce regulations, laws, and the conduct of arms length business transactions. However, the laws and regulations enacted from these formal institutions are poorly implemented and enforced so managers and entrepreneurs in Ghana rely on the connections and relationships they have developed with individuals who are members of their social organization (and sometimes from outside their social organization) who have the power and authority to get things done. Modernization and social change have created a tension between the various Ghanaian societies' allegiance to the social norms, values, and behaviors expected by the traditional social and political systems and the formal laws and regulations of the new nation state. However, Ghanaians' ties to their traditional social and political systems are never severed, making it an important means of avoiding the inefficient and ineffective implementation and enforcement of the formal bureaucratic arms length rules and regulations by activating their personal and social relationships. This provides an alternative way of dealing with the formal and bureaucratic institutions of the new nation state to obtain the scarce and necessary resources for business activities. Thus the personal and social connections and loyalties to the traditional social system in Ghana continue to be used as a source of obtaining resources for business activities, even in the presence of modern economic and political institutions, making it a form of social investment and capital.

Theoretical Background

Social capital theory is based on the premise that personal and social networking relationships and ties provide value to the actors by enabling them to tap into the resources embedded within that relationship for their benefit (Bourdieu, 1985; Lin, 2001; see also Adler & Kwon, 2002 for a recent review). The resources, opportunities, and information that accrue to individuals and organizations as a result of the personal and social networking and ties with other entities have been referred to as social capital (Bourdieu & Wacquant, 1992; 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 not be available without such relationships and ties (Gargiulo & Benassi, 2000).

Early usage of the concept of social capital focused on how the resources acquired by an individual through the development of close social relationships and networks influences his/her behavior, but the argument has recently been extended to organizations (e.g., Baker, 1990, Gulati, 1995). An organization can develop social capital through a variety of personal, social, and economic relationships with other constituents of the organization. These include relationships with suppliers, customers, competitors, trade or employee associations, government political and bureaucratic institutions, and community organizations and institutions. Several organizational and sociological researchers have theoretically argued that networking relationships contributes to organizational success. For example, Nahapiet and Ghoshal (1998) argue that social capital promotes the development of new intellectual capital and those organizations which develop high levels of social capital are more likely to perform better than their competitors. Moreover, Leanna and Van Buren (1999) suggest that social capital enables an organization to be flexible, manage collective action, and develop intellectual capital, which facilitates the creation of competitive advantage.

Empirically, several researchers have established a positive link between social capital embedded in networking relationships and ties and organizational performance. It has been shown that social capital facilitates new product development, technological distinctiveness, and sales cost efficiency (Yli-Renko, Autio, & Sapienza, 2001), and increases productivity and performance (Lee, Lee & Pennings, 2001; Peng & Luo, 2000; Rowley, Behrens, & Krackhardt, 2000). It also improves an organization's chances of survival (Fischer & Pollock, 2004; Pennings, Lee & van Witteloostuijn, 1998; Uzzi, 1996); adds value through product innovation (Tsai & Ghoshal, 1998); helps organizations secure financial resources (Uzzi, 1999); and facilitates the transfer of knowledge (Kale, Singh, & Perlmutter, 2000). Other studies have also shown that while managerial networking relationships and ties provide benefits to organizations they can also hinder their progress by acting as constraints on an organization's activities and thus its performance; the so called "dark side" of social capital (Gargiulo & Benassi, 2000; Portes & Sensenbrenner, 1993). Managerial networking relationships may, therefore, have beneficial as well as detrimental effects on organizations.

Managerial Networking and Organizational Performance

The managerial networking relationships and ties developed in Sub-Saharan African societies in general and Ghana in particular are mostly relational in nature (Salm & Falola, 2002). That is, they are created as a result of direct cohesive ties in the form of personal and social relationships and interactions between managers of organizations and external entities. A high level of intimacy, reciprocal services, and emotional intensity characterizes most of the connections and relationships—what Granovetter (1985) refers to as strong ties. This is especially true with the networking relationships developed with top managers of other organizations, employee union leaders and representatives, political leaders, and bureaucratic officials. Other networking relationships entail a limited amount of time, intimacy, and emotional intensity, as in the networking and ties developed with particular communities through their leaders—the so called strength of weak ties (Granovetter, 1973).

Managers forge personal and social networking relationships and ties with top managers of other organizations who may be their suppliers, buyers, or competitors (Dubini & Aldrich, 1991). Several studies have shown that when managers develop personal and social networking relationships and ties with top managers of other firms, they are able to acquire resources and valuable information and knowledge which are used to mitigate uncertainties and thus enhance performance. For example, networking relationships between managers and their key customers and suppliers facilitate the creation, acquisition, and exploitation of knowledge (Dyer & Nobeoka, 2000; Yli-Renko *et al*., 2001), which is used to improve productivity and performance. Furthermore, networking relationships and ties with customers may create both customer and brand loyalties, and increase sales (Park & Luo, 2001). In addition, networking and ties with suppliers will provide access to quality raw materials, superior services, fast and reliable deliveries (Peng & Luo, 2000), and financial resources; and ties with competitors may lead to the sharing of information about how to reduce operations costs (von Hippel, 1988), or collaborate to share resources to deal with competitive uncertainties in the environment (Park & Luo, 2001). Thus, managerial networking relationships and ties with top managers of other firms enable organizations to secure access to information, resources, and knowledge that are used to improve efficiency and organizational performance. Organizational performance in this study is conceptualized as a multidimensional construct in terms of growth and profitability as follows: growth in productivity, growth in sales and revenues, growth in net income/profit, ROA, and ROS. This leads to the following hypotheses:

> ***Hypothesis 1****: Managerial networking relationships and ties developed with top managers of other organizations will be positively related to organizational performance (i.e., growth in productivity, growth in sales and revenues, growth in net income/profit, ROA, and ROS).*

In Sub-Saharan Africa and many emerging economies, managers develop social networking relationships with politicians at different levels of government and officials in state bureaucratic institutions, especially regulatory, supporting, investment, and industrial institutions (Adjibolosoo, 1995; Peng & Luo, 2000). Most Sub-Saharan African countries have opened up their economies through the implementation of economic liberalization & privatization policies, but officials and leaders in government political and bureaucratic institutions still have considerable power and control. In Ghana, politicians and bureaucrats have power and control over most financial institutions, the award of major contracts (which are exclusively determined by the government), and regulatory and licensing procedures. These officials can therefore provide an organization access to financial resources; provide opportunities by awarding government projects and contracts; provide certification and approval to products as meeting government standards; and provide information about new and impending regulations which may affect the organization's activities and industry. In most Sub-Saharan African economies, formal institutional structures are poor, enforcement capacity is weak, and the market mechanism for fostering economic exchange is underdeveloped; thus creating a high level of uncertainty about the organization of business activities. Top managers therefore rely on social networking relationships and ties with politicians and bureaucratic officials to secure access to resources, information, and knowledge that enable them to offer a buffer against the high level of uncertainty in the business environment in these economies and Ghana is no exception. Therefore, organizations whose top managers develop stronger cohesive ties with politicians and bureaucratic officials will be successful in steering their firms to higher performance. Thus:

> ***Hypothesis 2****: Managerial networking relationships and ties developed with political leaders will be positively related to organizational performance.*

> ***Hypothesis 3****: Managerial networking relationships and ties developed with bureaucratic officials in regulatory, supporting, investment, and industrial institutions will be positively related to organizational performance.*

Sub-Saharan African cultures are highly communalistic in nature (Adu-Febiri, 1995). That is, the extended family and broader community play a significant role in the life and activities of individuals and organizations. In Ghana, community leaders such as local chiefs and kings, and religious leaders are very influential in garnering resources and providing access to valuable information and knowledge to businesses. Ties with community leaders are also used to mitigate environmental concerns that a community may have as a result of the operational activities of an organization. This enables organizations to reduce operational costs. Community leaders act as conduits for the transmission of information and resources as they serve as local bridges between an organization and the community. The relationships developed by an organization's managers with community leaders would provide the organization with valuable access to resources and information as the community leaders endorse the organization and its activities and refer it to their communities. This may enable the organization to obtain access to resources such as favorable leases to land for construction or agricultural purposes, enter new market segments, or obtain access to new customers, and/or acquire technological know-how. Thus, community leaders act as links to a broad marketplace, connecting organizations with their communities leading to the transmission of valuable information and resources. Kuanda and Buame (2000) have shown that the social networking and ties developed by entrepreneurs with community and religious colleagues in Ghana provided them with information about business opportunities, links with sources of financial resources, and markets for their products. Thus, an organization whose top managers cultivate stronger social networking relationships with community leaders will be able to utilize the benefits derived from such relationships to enhance performance. Thus, the following hypothesis:

> ***Hypothesis 4****: Managerial networking relationships and ties developed with community leaders will be positively related to organizational performance.*

Managerial networking relationships and ties with leaders of employee unions and representatives have the potential to improve organizational performance. Anecdotal evidence in the business press documents the negative effects of unions on productivity and profitability through activities such as the demand for wages above competitive levels and strike actions. However, empirical evidence from economists and industrial relations researchers show that while unions have no effect on productivity, they have a negative effect on profitability (see Doucouliagos & Laroche, 2003, 2004; Laroche, 2004 for recent reviews). In Ghana, no systematic study has been conducted to examine the impact of unions on productivity and profitability. But all public sector employees are members of a union, while almost all of the larger private sector organizations also have some form of a union or worker representation. The employees depend on unions or the leadership of employee representatives for collective bargaining on wages and working conditions. Confrontation between employee unions' leadership and both the government (public sector) and private sector management often marred the collective bargaining negotiations from the early 1970s to the late 1980s (Haynes, 1991). These adversarial relationships were detrimental to efficiency, productivity growth, and performance improvement. However, since the early 1990s negotiations between the leadership of employee unions and management in the private sector on wages and working conditions have improved significantly. This is due to the fact that most companies have included the leadership of employee unions in the decision-making process which has resulted in a decrease in labor actions (especially strikes) in the country over the past decade (Haynes, 1991; Visano & Bastine, 2003).

The development of networking relationships and ties between organizational managers and union and employee leaders could improve communication and lead to a harmonious and non-adversarial relationship between the two parties. The improvement in communication between management and leaders of employee unions could lead to cordial negotiations that would benefit both workers and the firm and thus improve employee productivity and performance. Most unions favor restrictive work practices and job classification systems, which have the potential to increase operating costs and impede employee productivity through restricting the pace of work, hours of work, skill development, and introduction of new technology (Doucouliagos & Laroche, 2003). Networking relationships between management and employee union leaders may minimize the restrictive work practices and narrow job classification.

Moreover, networking relationships may enable leaders of employee unions to provide additional information to management about employee preferences, thus allowing an organization to increase employee morale, motivation, and productivity by choosing a better mix among working conditions, workplace rules, and wage levels. Thus managerial networking with leaders of employee unions has the potential to increase efficiency, productivity, and performance.

> ***Hypothesis 5****: Managerial networking relationships and ties developed with leaders of employee unions and representatives will be positively related to organizational performance.*

Methods

Data, Sample, and Validity Checks

The data for this study were collected from senior executives (chief executive officers [CEOs]/ managing directors [MDs] and their deputies, and heads of the finance/accounting function) of manufacturing and service firms operating in Ghana. The sample consisted of the 200 largest companies selected from the *Ghana Business Directory* (2001) and the membership directory of the Association of Ghana Industries (AGI). Probability sampling was not used in selecting the companies; however, all the large companies in Ghana were included in the study. To solicit participation in the study, letters were sent to the CEOs/MDs of each of the selected companies. The letter explained the purpose of the study and requested their cooperation in completing the questionnaires. To ensure a high response rate and the provision of reliable and accurate responses, the CEOs were promised confidentiality of both the respondents and information that would be provided. It was further indicated that the respondents did not need to identify themselves; however, they would have to indicate their position in the company. They were also promised a summary of the results of the study if they include their company's address. Several weeks after the letters were sent to the selected companies; we personally visited the companies, gave the questionnaires to the CEOs/MDs and agreed on a date to collect the completed questionnaires. After several visits to the companies responses were received from 115 firms. All the questionnaires were usable, except nine for a response rate of 53 percent. The response rate of 53 percent compares favorably with similar studies conducted in similar environments (for example, 37 percent for Appiah-Adu [1998]).

In order to check for potential response bias and common method variance problems, we made sure that all the respondents who completed the questionnaires held senior management positions. On the average, the respondents have worked for their companies for nine years and have held their respective positions for over six years. Common method variance was examined through two methods during the survey design and administration, and one post-hoc statistical test. First, the questionnaires were designed such that information was solicited on managerial networking relationships for the three-year period 1998 to 2000. On the other hand, the information on performance was solicited for the two-year period 2001 and 2002. Second, information on the independent variables and the dependent variable were collected from different respondents. We collected information on the independent variables from CEOs/MDs and their deputies, while the performance information was collected from the head of the accounting/finance function with titles such as chief financial officer, director of administration (finance), and chief accountant. Third, Harman's (1967) one-factor test was used to check for common method variance problems. The rationale behind the test is that if common method variance were to be a serious problem in the data, then all the measures would tend to load on a single factor when both the independent and dependent variables are factor analyzed together. A factor analysis of the items on the performance and managerial networking variables yielded six factors with eigenvalues greater than one and the first factor accounting for about 20 percent of the variance. Thus, common method variance may not be causing the relationships between the dependent and independent variables in this study. The result of the factor analysis between the performance and managerial networking variables is shown in Table 1.

Measures

Organizational Performance

As a multidimensional construct, any single index for measuring organizational performance may not be able to provide a comprehensive understanding of the performance implications of the impact of managerial networking relationships. Organizational performance was therefore measured by focusing on growth and profitability indicators using five measures: growth in productivity, growth in sales and revenues, growth in net income/profits, *ROA*, and *ROS*. Because firms in Ghana are often reluctant to provide information about objective measures of performance (Amoako-Gyampah & Boye, 2001), self-reported performance data was collected from the head of the accounting and finance function in each organization. The respondents were asked to rate their organizations on the five measures of performance relative to their major competitors in the years 2001 and 2002. 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 is either not available or difficult to obtain (e.g., Bae & Lawler, 2000; Tang & Peng, 2003). Wall, Michie, Patterson, Wood, *et al* (2004) have recently demonstrated the convergent, discriminant and construct validities of using perceptual measures of performance as substitutes for objective measures in situations where objective measures may not be feasible or are unavailable.

Furthermore, there are precedents for using perceptual measures of performance in managerial networking studies in emerging economies (Park & Luo, 2001; Peng & Luo, 2000). In fact, there were only 22 companies listed on the Ghana Stock Exchange at the time of the study and 12 of those companies provided complete responses to the survey. Nonetheless, objective measures of growth in sales, growth in net income, ROA, and ROS were obtained from the annual reports of the 12 firms. The correlation between the objective and subjective measures were as follows: growth in sales and revenues ($r = 0.72, p < 0.001$); growth in net income/profits ($r = 0.85, p < 0.001$); ROA ($r = 0.74, p < 0.001$); and ROS ($r = 0.81, p < 0.001$).

Managerial networking relationships

These variables deal with managerial networking relationships members of the top management of organizations in Ghana develop with (1) top managers of other organizations; (2) political leaders; (3) bureaucratic officials; (4) community leaders; and (5) leaders of employee unions and representatives. Most of the items used in measuring the managerial networking relationships constructs were adapted from Peng and Luo (2000). The items, which were used to measure the various managerial networking relationships, are shown in Table 1 with the Cronbach Alphas in Table 2. The respondents were asked to assess the extent to which (1) top management have *used* personal, social, and networking relationships (*USED*); and (2) how such relationships have *benefited* their company through (a) access to information that could be used to the organization's advantage (*INFO*); (b) access to valuable resources and capabilities (*RESC*); and (c) the acquisition and exploitation of knowledge (*KNOW*), for the three-year period 1998 to 2000 on a seven-point scale, ranging from (1) "very little" to (7) "very extensive." A managerial networking relationship measure for each of the five variables was then developed as follows:

Managerial networking = [(USED x INFO) + (USED x RESC) + (USED x KNOW)]/3

Control variables

We controlled for a number of factors that may influence an organization's ability to use managerial networking relationships such as learning from customer and supplier relationships or having access to vital resources from governmental or other institutional contacts. The control variables were competitive strategic orientations (low-cost, differentiation, and low-cost x differentiation with the centered variables), organizational size, organizational age, organizational ownership, business sector, and market competition.

We controlled for competitive strategy by using the 16 competitive methods, which have been extensively utilized to operationalize Porter's (1980) generic competitive strategies (e.g., Dess & Davis, 1984; Kotha & Vadlamani, 1995). The respondents were asked to assess the extent to which their organizations have placed emphasis on the competitive methods from 1998 to 2000 on a seven-point scale ranging from (1) "much less" to (7) "much more." A factor analysis of the competitive methods yielded two factors—low-cost and differentiation strategies. *Low-cost strategy (α= 0.83)* was operationalized with six items: offering a broad range of products/services; operating efficiency; offering competitive pricing for products/services; forecasting market growth in sales; control of operating and overhead costs; and innovation in production process or service offerings. *Differentiation strategy (α= 0.84*) was measured with seven items: developing new products/service offerings; upgrading or refining existing products/services; products or services for high priced market segments; improvement of existing customer service; innovation in marketing products/services; advertising and promotion of products/services; and building brand and company identification. The other three competitive methods: offering specialty products/services; emphasizing high quality standards or high quality services; and effective control of channels of distribution loaded highly on both low-cost and differentiation. They were excluded from each of the strategic orientations. An interaction between the centered variables of low-cost and differentiation strategies was created to measure the *low-cost x differentiation strategy*.

Table 1
Factor Analysis of Organizational Performance and Managerial Networking Scales [a]

Scale and Items	1	2	3	4	5	6
Organizational performance						
Growth in sales and revenues	**0.567**	-0.014	0.168	0.280	0.063	0.121
Growth in net income/profits	**0.586**	0.037	0.159	0.206	0.016	-0.024
Return on assets	**0.572**	0.026	0.181	0.143	0.032	0.024
Return on sales	**0.482**	0.091	0.142	0.189	0.147	0.137
Growth in productivity	**0.478**	0.102	0.202	0.274	0.140	0.067
Networking with political leaders						
City council politicians	0.179	**0.804**	0.012	0.216	0.187	-0.064
District council politicians	0.109	**0.843**	-0.009	0.244	0.038	0.013
Regional government politicians	0.048	**0.874**	-0.098	-0.065	0.131	0.229
National government politicians	0.093	**0.538**	0.118	-0.213	0.331	0.109
Networking with top managers of other organizations						
Suppliers	-0.065	0.104	**0.905**	0.063	-0.005	0.020
Buyers	-0.184	0.309	**0.786**	-0.176	0.146	0.103
Competitors	0.302	-0.077	**0.922**	0.110	-0.001	0.013
Networking with community leaders						
Local kings, chiefs, and representatives	0.277	0.243	0.085	**0.746**	0.090	0.059
Religious leaders (e.g., Pastors, Imams, etc)	0.232	0.056	0.058	**0.861**	0.045	-0.007
Networking with bureaucratic officials						
Officials in regulatory and supporting institutions (e.g., Standard Board, Internal Revenue Service, Ministries, Central Bank, Environmental Protection Agency, etc.).	0.293	0.338	0.128	0.231	**0.631**	0.109
Officials in industrial and investment institutions (e.g., Investment Board, Export Promotion Council, Ghana Stock Exchange, etc.).	0.172	0.166	-0.051	0.268	**0.853**	0.152
Networking with employee union leaders and representatives						
Employee union leaders and representatives	0.172	0.131	0.018	0.046	0.169	**0.952**
Eigenvalue	3.225	2.649	1.827	1.286	1.073	1.052
Percentage of variance explained	20.158	16.556	11.418	8.035	6.709	6.573
Cumulative percentage of variance explained	20.158	36.714	48.132	56.167	62.876	69.449

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

Organizational ownership was operationalized using a dummy variable, coded 1 for wholly owned local organizations and 0 for foreign-domestic joint venture organizations. Consistent with Peng and Luo (2000), *business sector* was operationalized using a dummy variable, coded 1 for manufacturing organizations and 0 for service organizations. *Market competition (α= 0.73)* was measured using a previously validated instrument that has been used in an economic environment that has experienced deregulation and privatization of state-owned enterprises (Mia & Clarke, 1999). The respondents were asked to indicate the extent to which the following activities have taken place in their organization's industry between 1998 to 2000: (a) increase in the number of major competitors; (b) use of package deals for customers; (c) frequency of new products or service introductions; (d) the rate of change in price manipulations; (e) increase in the number of companies who have access to the same marketing channels; and (f) frequency of changes in government regulations affecting the industry. These activities were measured on a seven-point scale ranging from (1) "very little" to (7) "very extensive."

Statistical Analysis

To minimize the problem of causality, which is common in cross sectional studies, a lagged dependent variable model was used to examine the relationship between managerial networking relationships and organizational performance. The managerial networking variables in the study deal with the use and benefits from social, personal, and networking relationships for the three-year period 1998 to 2000, while organizational performance was measured using the average of the responses for the years 2001 and 2002. It is reasonable to expect that managerial networking relationships developed in previous periods will affect organizational performance in the current period. The lagged dependent variable model would provide a more robust test of the effects of an organization's strategic activities such as networking relationships on performance (e.g., Lee, Lee & Pennings, 2001; Mosakowski, 1993).

A hierarchical multiple regression analysis was used to examine the impact of managerial networking relationships and ties on organizational performance. Models 1 and 2 test the relationship between the control variables and performance. Model 1 does not include the competitive strategy variables, while model 2 adds the competitive strategy variables to examine the separate impact of the variables on performance (although no hypotheses were explicitly developed for the competitive strategy variables). Model 3 includes the managerial networking variables to examine the hypotheses. The validity of the econometric model was examined by performing several tests. The assumptions of equality of variance, independence of the error term, and the normality of the residual were all met. Table 2 provides the means, standard deviations, and the correlations among the variables. The variance inflation factors (VIFs) of the variables did not indicate a multi-collinearity problem.

Results

Table 3 presents the results of the standardized hierarchical regression models to examine the hypothesized relationships between managerial networking relationship and organizational performance. In models 1 and 2, where we test the relationship between the control variables and organizational performance, organizational size is significant and positively related to growth in productivity, growth in sales and revenues and ROS. These results indicate that in our sample of Ghanaian organizations, larger firms are able to enhance their productivity, sales, and revenues, and obtain more profits from their sales than smaller firms. Organizational ownership is positive and significantly related to growth in sales and revenues. Thus, the impact of the activities of wholly owned local firms on growth in sales and revenues are higher than those of foreign-domestic joint ventures. Business sector is negative and significantly related to growth in net income/profit, indicating that service organizations experience greater improvement in net income/profit than manufacturing organizations. Market competition is positive and statistically significantly related to all the performance variables except growth in net income/profit, implying that the higher the competition in the business environment the greater the performance.

The results in model 2 further show that the strategy variables significantly influence organizational performance. The differentiation strategy is positive and significantly related to all the organizational performance variables; low-cost strategy has a positive and significant impact on all the performance variables, except growth in net income/profit. Apart from its impact on the growth of net income/profit, which is not significant, the interaction between low-cost strategy and differentiation strategy is significant and negatively related to all the organizational performance variables. These results indicate that while the pursuit of singular competitive strategies (low-cost or differentiation) enhances performance, the pursuit of a combination strategy (as indicated by the interaction term) worsens performance.

Model 3 introduces the managerial networking variables to test the hypotheses. Hypothesis 1 states that managerial networking relationships developed with top managers of other firms will be positively related to organizational performance. The results show that managerial networking relationships and ties with top managers of other firms is positive and significantly related to all the performance variables. Thus, Hypothesis 1 is supported. Hypothesis 2 examines the impact of managerial networking relationships and ties with political leaders on performance. It was surprising to find that managerial networking relationships and ties with politicians have a negative impact on all the performance variables; although, it was significantly related to only two of the performance variables—growth in net income/profits and ROA. Therefore, Hypothesis 2 is not supported. Managerial networking relationships with bureaucratic officials (Hypothesis 3), on the other hand, is consistently positive and significantly related to all the performance variables, thus providing support for Hypothesis 3.

Managerial networking relationships with community leaders is positive and significantly related to all the performance variables, providing support for Hypothesis 4. Managerial networking relationships with leaders of employee unions and representatives is positively related to all the performance variables, although, it was significantly related to only two of the performance variables—growth in productivity and growth in net income/profits, thus providing partial support for Hypothesis 5. The inclusion of the managerial networking variables significantly improved the explanatory power of all the models as demonstrated by the F-test for the change in adjusted R^2. Overall, the results from the models show that the managerial networking relationships positively affect performance with the networking variables as a group explaining anywhere from 15 percent to 30 percent of the variance in organizational performance.

Discussion and Conclusion

Discussion

This study examines the impact of managerial social networking relationships and ties developed with external entities on organizational performance. Using data on 106 firms from Ghana, the results indicate that the managerial networking relationships developed with different external constituents by top managers are distinct and have differential effects on organizational performance. The results are interesting because they show that in an African context different social relationships with different external constituents of the firm may have different effects on organizational outcomes and these findings are different from those obtained in other emerging economy contexts.

Consistent with the results from prior studies in emerging economies (e.g., Park & Luo. 2001; Peng & Luo, 2000; Lee *et al*., 2001) managerial networking relationships with top managers of other organizations positively enhances performance. In fact, the results indicate that social networking relationships with top managers of other firms are more important than those developed with political leaders, bureaucratic officials, community leaders, and leaders of employee unions and representatives (compare the standardized coefficients of all the models in Table 3). This is contrary to the results obtained by Peng and Luo (2000), who found that the networking relationships managers in China forge with government officials have a greater impact on performance than their relationships with top managers of other firms. Political leaders and bureaucratic officials may have control and power in providing access to some resources, opportunities, and informational benefits in the business environment in Ghana. However, managers tend to look to their colleagues in other organizations to obtain a greater part of those resources and capabilities that would enable them to be effective and efficient in the ever changing competitive environment created by the implementation of economic liberalization policies.

The results further indicate that managerial networking relationships and ties with bureaucratic officials and community leaders are important sources of resources, information, learning, and knowledge that are used to enhance performance. However, networking relationships and ties with political leaders are either not related to performance or tends to impede performance. While community leaders may act as bridges between the organization and the larger community by spreading information and providing access to resources, they may also expect favors from the organization and this may overburden the organization and hinder rather than improve its performance (Portes & Sensenbrenner, 1993). The results indicate that for firms in Ghana community leaders do not overburden organizations, but rather they play a vital role in assisting firms to deal with uncertainties, which facilitates performance improvement.

The adverse effects of networking relationships with political leaders on performance may imply that there are considerable costs to be incurred (by reciprocating favors in the form of gifts and

Table 2
Descriptive Statistics and Correlation Matrix of Variables

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Return on Assets (ROA)																	
2. Return on Sales (ROS)	0.80																
3. Growth in Productivity	0.63	0.64															
4. Growth in Sales and Revenues	0.62	0.65	0.68														
5. Growth in Net Income/Profits	0.71	0.60	0.63	0.73													
6. Networking with union and employee leaders	0.30	0.41	0.46	0.47	0.30												
7. Networking with community leaders	0.29	0.35	0.39	0.34	0.33	0.25	**0.83**										
8. Networking with political leaders	0.07	0.15	0.17	0.09	0.09	0.10	0.24	**0.84**									
9. Networking with bureaucratic officials	0.24	0.35	0.37	0.35	0.28	0.28	0.17	0.24	**0.76**								
10. Networking with top managers of other organizations	0.48	0.42	0.41	0.47	0.48	0.35	0.19	0.18	0.38	**0.73**							
11. Low cost strategy	0.26	0.28	0.33	0.27	0.16	0.24	0.23	0.03	0.03	0.18	**0.80**						
12. Differentiation strategy	0.34	0.37	0.31	0.35	0.23	0.27	0.19	0.18	0.19	0.24	0.01	**0.84**					
13. Organizational size[a]	0.13	0.24	0.34	0.17	0.20	0.22	0.23	0.26	0..23	0.17	0.23	0.11					
14. Business sector	-0.19	-0.13	-0.12	-0.06	-0.29	-0.04	-0.17	-0.33	-0.16	-0.23	-0.17	-0.06	-0.24				
15. Organizational ownership	0.06	0.14	0.21	0.21	0.12	0.26	0.07	0.06	0.19	0.07	0.14	0.01	0.43	0.06			
16. Market competition	0.33	0.34	0.26	0.27	0.18	0.22	0.11	0.04	0.25	0.18	0.09	0.19	-0.01	-0.09	0.09	**0.73**	
17. Organizational age	0.07	0.16	0.11	0.02	0.04	0.02	-0.05	0.15	0.13	0.18	0.08	-0.01	0.48	-0.12	0.39	-0.01	
Mean	4.64	4.74	5.00	4.84	4.81	24.54	10.97	13.32	25.31	27.83	4.88	4.69	1.91	0.83	0.28	4.79	22.43
Standard Deviation	1.38	1.36	1.23	1.27	1.33	11.62	7.70	9.51	9.93	7.68	1.16	1.19	0.53	0.38	0.45	1.25	15.77

The values in diagonals are Cronbach's alpha.
[a] Log of number of employees
Significance levels: For $r > 0.19$, $p < 0.05$; $r > 0.26$, $p < 0.01$; and $r > 0.34$, $p < 0.001$

Table 3
Regression Analyses of the Impact of Managerial Networking Relationships on Organizational performance (*N=106*)

Variables and Steps	Growth in Productivity			Growth in Sales and Revenues			Growth in Net Income/Profits		
	Model 1a	Model 2a	Model 3a	Model 1b	Model 2b	Model 3b	Model 1c	Model 2c	Model 3c
Step 1: Controls									
Organizational size [a]	0.34**	0.25**	0.19*	0.15+	0.14+	0.12	0.13	0.10	0.10
Organizational age	-0.08	-0.07	-0.08	-0.12	-0.11	-0.10	-0.09	-0.09	-0.09
Organizational ownership[b]	0.07	0.05	0.06	0.17*	0.16*	0.16*	0.10	0.09	0.13
Business sector	-0.03	0.02	0.10	-0.02	0.02	0.07	-0.26**	-0.24**	-0.20*
Market competition	0.25**	0.20**	0.18*	0.26**	0.17*	0.16*	0.14+	0.09	0.09
Step 2: Strategic Orientation									
Low-cost strategy		0.34***	0.23**		0.29**	0.13		0.13	0.12
Differentiation strategy		0.38***	0.31***		0.33***	0.19*		0.20*	0.19*
Low-cost x Differentiation		-0.21**	-0.15*		-0.18*	-0.07		-0.13	-0.10
Step 3: Managerial Networking									
Networking with top managers of other organizations			0.33***			0.45***			0.52***
Networking with political leaders			-0.12			-0.11			-0.16*
Networking with bureaucratic officials			0.18*			0.17*			0.17*
Networking with community leaders			0.27**			0.23**			0.27**
Networking with employee union leaders and representatives			0.16*			0.13			0.16*
Adjusted R^2	0.19	0.40	0.57	0.13	0.29	0.53	0.14	0.19	0.49
Change in Adjusted R^2		0.21	0.17		0.16	0.24		0.05	0.30
F-Test for Change in Adjusted R^2		11.48***	7.28***		7.40***	9.41***		2.01*	10.91***
Model F	4.68***	8.01***	9.32***	3.01**	4.83***	7.83***	3.13**	2.77**	6.76***

[a] Logarithm of the number of employees
[b] Dummy variable coded (1) if wholly owned local firm, and (0) if foreign-domestic joint venture firm
Significance levels: + p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001.

Table 3 (Continued)
Regression Analyses of the Impact of Managerial Networking Relationships on Organizational Performance (*N*=106)

Variables and Steps	Return on Assets			Return on Sales		
	Model 1d	Model 2d	Model 3d	Model 1e	Model 2e	Model 3e
Step1: Controls						
Organizational size [a]	0.10	0.04	0.04	0.21*	0.18*	0.16*
Organizational age [b]	0.01	0.01	0.01	0.06	0.07	0.08
Organizational ownership	-0.02	-0.05	-0.03	-0.01	-0.04	-0.06
Business sector	-0.13	-0.08	-0.04	0.09	0.08	0.06
Market competition	0.42***	0.34***	0.29**	0.44***	0.35***	0.29**
Step 2: Strategic Orientation						
Low-cost strategy		0.30***	0.18*		0.31***	0.19*
Differentiation Strategy		0.30***	0.22**		0.32***	0.19*
Low-cost x Differentiation		-0.25**	-17*		-0.24*	-0.14+
Step 3: Managerial Networking						
Networking with top managers of other organizations			0.43***			0.27**
Networking with political leaders			-0.17*			-0.11
Networking with bureaucratic officials			0.16*			0.18*
Networking with community leaders			0.18*			0.24**
Networking with employee union leaders and representatives			0.07			0.13
Adjusted R^2	0.22	0.38	0.57	0.25	0.42	0.57
Change in Adjusted R^2		0.15	0.19		0.17	0.15
F-Test for Change in Adjusted R^2		7.94***	8.14***		9.61***	6.42***
Model F	5.60***	7.29***	9.34***	6.68***	8.70***	9.25***

[a] Logarithm of the number of employees
[b] Dummy variable coded (1) if wholly owned local firm, and (0) if foreign-domestic joint venture firm
Significance levels: + p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001

other perks) in cultivating relationships with politicians so as to obtain access to resources, information, and contract awards. This clearly shows that not all managerial networking relationships and ties with external entities are beneficial to organizations. There is indeed a "dark side" of social capital (Gargiulo & Benassi, 2000; Portes & Sensenbrenner, 1993). Ghanaian politicians right from the district level to the national level exercise their power and authority in providing resources and business opportunities to organizations. In the process of exercising their power and authority, politicians rely on the norms of reciprocity and therefore the value of the perks they demand and receive from organizations may be greater than the benefits the organizations receive from the favors of the politicians. Alternatively, when top managers develop networking relationships and ties with politicians, the benefits they expect to receive from such relationships in the form of resources opportunities and/or information may not fully materialize without building a stronger relationship with bureaucratic officials who are the implementers of government policies.

Networking relationships with leaders of employee unions and representatives enable an organization to improve its productivity and net income. This may be due to efficiency improvements as a result of the improved relationship between employees and management, an increase in employee morale and commitment, and the elimination or minimization of restrictive work practices. Overall, the benefits of social networking and ties with other constituents such as top managers of other firms, community leaders, government bureaucratic officials, and leaders of employee unions and representatives to organizations in Ghana outweigh the costs involved in developing and maintaining those relationships with political leaders. These findings are important because they imply that in an African setting, managerial networking may have beneficial as well as harmful effects on the strategic organization of firm activities, and this is different from the findings from other emerging economies. The results of the study further show that the sociocultural environment in Ghana is very important in the strategic organization of business activities and the improvement of performance of firms in Ghana. The collectivistic culture embodied in the Ghanaian social organization and its emphasis on relationship building acts as an alternative means of obtaining the necessary resources for the conduct of business activities. The activation of personal and social connections and networking relationships enable managers to circumvent the inefficient and ineffective implementation and enforcement of the formal legal structures and regulations that have been developed to facilitate arms length transactions. The results also indicate that managers developing personal and social relationships with politicians in order to obtain resources for their business activities should be cautious because obtaining those resources through the networking relationships may oblige the firm to offer reciprocal favors whose costs may outweigh the benefits.

The study addresses some concerns with previous research on networking and social capital. First, this study extends the development of social capital to include the social networking relationships and ties with other constituents such as government political leaders, government bureaucratic officials, community leaders, and trade or employee association leaders; extending the works of Peng and Luo (2000) and Park and Luo (2001). However, contrary to Peng and Luo (2000) and Park and Luo (2001), this study shows that the performance effects of the networking relationships with political leaders are completely different from those with bureaucratic officials. This indicates that the effect of managerial networking relationships with external entities in facilitating the exchange of resources for the strategic organization of business activities is distinct in different regions of the world. Therefore, it is imperative for researchers to conceptually and empirically separate these two dimensions of managerial networking relationships when conducting research in emerging economies.

Second, this study is set in a Sub-Saharan African environment where organizations face unpredictable and uncertain conditions in the conduct of their business activities. It extends the investigation of the micro-macro link in managerial networking studies in emerging economies beyond Asia and provides a robust test of the importance of social networking relationships and ties in a highly uncertain environment. Although the study used data from Ghana, the business and economic environmental conditions (e.g., implementation of economic liberalization and privatization policies, and increasing competition), the presence of strong collectivistic cultures would lend support to the generalizability of the findings in other Sub-Saharan African countries.

Limitations and Future Research

Mentioning the limitations of this study may provide ideas for further research. First, subjective measures of managerial networking and performance were used. Measuring networking relationships in a perceptual manner allowed us to capture the quality and richness embedded in the soft nature of personal and social networking relationships that have been developed between managers and other entities. It should also be noted that this has been the predominant method of conceptually operationalizing networking relationships in emerging economies. Moreover, perceptual measures of performance were used because it is difficult to obtain objective measures of performance from organizations in Ghana. However, to minimize common method variance problems, data on networking relationships and performance were collected from different respondents. Second, information on the formation of managerial networking relationships was solicited for the period 1998 to 2000, and performance for the period 2001 and 2002 to establish causality, but the results may be ascertaining associations between the hypothesized variables. It is possible that organizations experiencing better performance may be attracted to relationship formations from managers of other firms, government bureaucratic officials, community leaders, and leaders of employee unions and representatives (Granovetter, 1985). Third, moderating contingency factors that may affect social capital's ultimate value were not examined. For example, network and social capital researchers have started examining the task environment (e.g., Ahuja, 2000; Walker, Kogut, & Shan, 1997), organizational characteristics and strategies (e.g., Park & Luo, 2001; Peng & Luo, 2000), and human capital (e.g., Burt, 1992; Florin, Lubatkin, & Schulze, 2003) as contingencies in the relationship between managerial networking and organizational outcomes. Future studies in an African environment may do well to address these shortcomings.

Conclusion

This is one of the few empirical studies that have investigated the impact of managerial social networking relationships and ties on organizational performance in an African setting. In this study, we present a broader conceptualization of the networking relationships beyond those developed with top managers of other firms to include those with political leaders, bureaucratic officials, community leaders, and leaders of employee unions and representatives to provide evidence on the direct value of social capital. The analyses showed that the social networking relationships managers in Ghana cultivate with top managers of other firms, bureaucratic officials and community leaders, and leaders of employee unions and representatives are significant predictors of organizational performance. However, networking relationships developed with political leadership overburden organizations through reciprocity of favors and hinder performance. Managerial networking relationships developed with external entities could indeed be beneficial as well as detrimental to organizations. These findings would not only deepen our understanding of the relationships between managerial networking relationships and organizational performance, but will help in providing rich insights into a broader development of social network theory and practice.

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