

Firm-Specific Managerial Experience and the Social Capital-Performance Relationship in a Sub-Saharan African Transition Economy

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Acquaah, M., & Appiah-Nkrumah, J. (2011). "Firm-Specific Managerial Experience and the Social Capital-Performance Relationship in a Sub-Saharan African Transition Economy." *Journal of African Business*, 12(1): 8-30. <https://doi.org/10.1080/1536710X.2011.555251>

This is an Accepted Manuscript of an article published by Taylor & Francis in *Journal of African Business* on 30 March 2011, available online:

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Abstract:

The authors examine the direct and moderating effects of firm-specific managerial experience on the relationship between social capital and performance. Using data from Ghana, the findings show that social capital from bureaucratic officials and community leaders, as well as firm-specific managerial experience, have a positive influence on performance, while social capital from politicians has a negative influence on firm performance. Furthermore, firm-specific managerial experience positively moderates the relationship between (a) social capital from politicians and performance, and (b) social capital from community leaders and performance. Therefore, firm-specific managerial experience attenuates the detrimental effects of social capital from politicians on performance. The findings contribute to knowledge in the social capital and resource-based view literature.

Keywords: firm performance | firm-specific managerial experience | Ghana | social capital | sub-Saharan Africa | transition economies

Article:

INTRODUCTION

The importance of social capital in management research in recent years cannot be overemphasized. Although there are significant differences among researchers about the definition of social capital, it is generally considered as a valuable resource that is embedded in a network of social relationships (Coleman, 1988, 1990; Granovetter, 1992). Social capital developed through social networking relationships and ties has, therefore, been regarded as one of the most intangible and least fungible resources that could be used to create competitive advantage in a firm (Steier, 2001). Thus, the social capital created through the development and exploitation of social networking relationships with external entities establishes the avenues for

the exchange of valuable information, resources, and knowledge for firms (e.g., Adler & Kwon, 2002; Burt, 1997; Gargiulo & Benassi, 2000).

Despite the growing literature examining the performance implications of the social capital developed from social networking relationships in transition economies (e.g., Acquaah, 2007; Acquaah & Eshun, 2010; Li, Poppo, & Zhou, 2008; Peng & Luo, 2000), very few have investigated how the social capital–performance relationship is contingent on the endowment and utilization of a firm's internal resources and capabilities. Moreover, most of these studies have focused on resources and capabilities such as financial resources and technological capabilities and managers' functional experiences (e.g., Li et al., 2008; Li & Zhang, 2007). Notwithstanding the utility of firm-specific managerial experiential knowledge in fostering learning, creation of social relationships, and leveraging the advantage from such relationships, no empirical study has explored how firm-specific managerial experience (FSME) moderates the relationship between social capital and firm performance. It has been suggested that the choice of external entities with which firms develop social networking relationships to create external social capital and the deployment and leveraging of the resources and capabilities obtained from the social networking relationships depends on the firm-specific experiential knowledge of top managers (Miller, Lee, Chang, & Le Bretton-Miller, 2009; Penrose, 1995). However, there has been relatively little attention devoted to how the use and benefits from external social capital is contingent on FSME in creating value for firms (Kor & Sundaramurthy, 2009).

The main purpose of this study is to examine the effect of the interaction between social capital and FSME on firm performance using data from a transition economy in sub-Saharan Africa (SSA)—Ghana. We focus on FSME because it serves as a source of critical managerial capabilities, as it signals the possession of an intimate and tacit knowledge of a firm's resources and capabilities that enable the assessment of viable opportunities available to the firm. Transition economies in SSA have historically insulated domestic firms from global and sometimes domestic competition. However, these countries are currently transforming their economies from state-controlled to free market capitalist systems. Governments in most of these SSA economies have been implementing economic transformation policies for almost three decades (e.g., dismantled protectionist barriers, adopted free trade policies, created market-friendly institutions, and integrated these economies into the global economy), thus intensifying domestic market competition, increasing uncertainty, and creating greater turbulence in the domestic business environment. However, the impact of the economic transformation policies have been slow to take hold; therefore, SSA economies are still characterized by high levels of market imperfections and “institutional voids”—the absence of market-supporting institutions, specialized intermediaries, contract-enforcing mechanisms, and efficient transportation and communications networks (Khanna & Palepu, 1997).

As a result of these institutional voids, firms lack key raw materials, easy access to capital at a reasonable cost, and effective managerial and technical capabilities. These resources and capabilities deficiency, institutional voids, and structural obstacles in SSA economies create potential dilemma in the strategic organization of business activities. One way of acquiring the necessary resources and capabilities to navigate the complex and uncertain institutional and business environment in SSA is through the external social capital from networking relationships and ties (Acquaah, 2007; Dubini & Aldrich, 1991). We argue that the resources and capabilities

obtained from external social capital could be used by firms in SSA to create competitive advantage. Moreover, FSME is crucial in leveraging and allocating these resources and capabilities efficiently and effectively to create value for the firms.

This study contributes to the growing literature on social capital and the resource-based view of the firm in transition economies by assessing the extent to which the effect of social capital on firm performance is dependent on FSME. Therefore, the study informs the debate on the value of social capital as FSME become more heterogeneous. In the process, this study examines how the utilization of managers' external social capital and the leveraging of FSME influence firm performance. By using data over two time periods, this is one of the few studies to examine the relationship between social capital, FSME, and their interaction on performance in a transition economy.

GHANA: THE ECONOMIC, SOCIOCULTURAL, AND POLITICAL ENVIRONMENT

Ghana is a relatively small SSA country located on the West African coast and was the first in SSA to gain independence from colonial rule (from Great Britain) in 1957. The U.S. Central Intelligence Agency's (CIA) *The World Factbook* (2010) estimates that in 2009, Ghana had a population of about 24.3 million, a GDP of US\$15.51 billion, a real GDP growth rate of 3.5%, a per capita GDP of US\$1500.00, and an inflation rate of 19.3%. Although Ghana is considered one of the fastest growing economies in Africa (Blankson, Owusu-Frempong, & Mbah, 2004), the country is highly dependent on foreign aid and assistance.

Ghana's implementation of free-market economic reforms through the International Monetary Fund (IMF) and the World Bank-led structural adjustment programs (SAPs) have nurtured an economy that is relatively open (Mmieh & Owusu-Frimpong, 2009), but real institutional change and business infrastructure development have been slow because of corruption and bureaucratic procedures and processes. Obtaining the necessary resources through arms-length transactions for organizing business activities in Ghana is therefore challenging.

Ghana has had a stable political climate with a constitutional democratic government since 1992, but corruption is still pervasive because of the presence of red tape and regulatory meddling in the economic and business environment by politicians and bureaucratic officials. The political climate in Ghana is further characterized by what could be called the “winner-takes-all” syndrome, where the supporters of the political party in power are the primary beneficiaries of most opportunities and resource allocation by the government (Acquaah & Eshun, 2010). Thus, the institutional framework for executing and enforcing the laws facilitating the exchange of resources is weak and favors the supporters and sympathizers of the political party in power.

Ghana is a collectivistic society that is characterized by strong interpersonal and social relationships. Traditional Ghanaian society is organized around social systems (kinship groups and collectivist communities), in which the clan and extended family play an indispensable role in creating the norms, values, and behavioral conduct acceptable to the society. Individuals who belong to a particular social system therefore exhibit strong loyalty to that social organization and its traditional political and sociocultural authority (Codjoe, 2003). Interpersonal and social interactions, connections, and relationships among members in the social system are highly

cherished. Individuals in the social system are bound together through various social benefits and obligations and therefore are committed to one another by norms of reciprocity and equity (Cudjoe, 2003).

Because the institutional framework for implementing and enforcing the laws and regulations governing conduct of arms-length business transactions is weak, managers in Ghana depend on the interpersonal and social relationships with individuals who have power and authority to help them obtain the resources and capabilities for their businesses (e.g., Kuada & Buame, 2000). Interpersonal and social connections have thus become vital for obtaining resources in order to circumvent the often inefficient and ineffective implementation and enforcement of the formal bureaucratic arms-length rules and regulations governing business activities.

THEORY AND HYPOTHESES

Social Capital

Social capital theory postulates that social networking relationships provide value to actors (e.g., individuals, organizations, or communities) by allowing them to tap into the resources embedded in such relationships for their benefit (Coleman, 1988; Lin, 2001). Top managers in organizations develop social capital through a variety of personal, social, and economic relationships with their constituencies. These include personal and social networking with suppliers, customers, competitors, trade associations, government political and bureaucratic institutions, and community organizations and institutions. In this study, we focus on the social capital that is developed by a firm's top management through personal and social networking relationships with leaders in government political and bureaucratic institutions, and in communities. The social capital developed through these networking relationships function as conduits for the transmission of information, resources, and opportunities that could be leveraged to a firm's advantage (Gargiulo & Benassi, 2000). Previous studies in transition economies have demonstrated that because of the high levels of market imperfections and lack of "institutional voids" (Khanna & Palepu, 1997), top managers develop networking relationships with politicians, government bureaucratic leaders, and community leaders to obtain the resources for the strategic organization of their activities leading to improved performance (e.g., Acquah, 2007; Li & Zhang, 2007; Peng & Luo, 2000).

Recently, researchers have shown that while social capital provides benefit to organizations, it 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). This phenomenon is pronounced when firms engage in networking relationships with government political officials in transition economies (Li, Zhou, & Shao, 2009; Siegel, 2007). Siegel (2007) has shown that in South Korea, managerial ties with political officials decreases an organization's chances of forming strategic international alliances when the political regime changes. Li et al. (2009) also found that foreign firms benefit from ties with the top managers of other firms in China but suffer from ties with political leaders and officials. Thus, external social capital could be beneficial as well as detrimental to organizations depending on the external constituents with whom the networking relationships are developed.

In the Ghanaian business environment, external social capital from politicians and bureaucrats can provide firms 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 provide information about new and impending regulations that may affect their strategic activities (Acquaah, 2007; Acquaah & Eshun, 2010). At the same time, networking with politicians can be costly and can hinder performance because of the excessive demands they place on firms for favors in the areas of employment for family members who may not be qualified and for monetary contributions to political campaigns and political parties. External social capital from community leaders facilitates the firm's legitimacy and promotes access to resources and information as the community leaders endorse the organization and its activities in their communities. This may enable the organization to obtain access to resources such as sources of financial resources, favorable leases to land for construction or agricultural purposes, new market segments or new customers, and/or technological know-how (Acquaah, 2007; Kuada, 2009; Kuada & Buame, 2000).

Thus firms that are more proactive and assertive in creating external social capital would be able to acquire the resources, information, and knowledge needed to deal with uncertainty in the business environment and to improve performance. Such external social capital (from politicians, government bureaucrats, and community leaders) is especially important to firms in SSA as they act as the means of obtaining the deficient resources, information, and opportunities that could be used to the firms' advantage. Firms will therefore experience more performance benefits from the development and exploitation of higher levels of social capital from community leaders and bureaucratic officials. However, the benefits that firms obtain from the social capital from politicians will be tempered with the costs of maintaining that relationship such that its effect on performance will be neutralized.

Hypothesis 1a: Higher levels of social capital from politicians will not influence firm performance.

Hypotheses 1b and 1c: Higher levels of social capital from (b) bureaucratic officials and (c) community leaders will have a positive influence on firm performance.

Firm-Specific Managerial Experience

The resource-based view (RBV) of the firm conceives the firm as a bundle of idiosyncratic resources embedded in its various organizational units (Penrose, 1995; Wernerfelt, 1984). The RBV postulates that firms in less than perfectly competitive markets are heterogeneous in terms of their resources and capabilities (Wernerfelt, 1984). Thus, firms that are able to generate competitive advantage and earn superior performance must possess resources and capabilities that are valuable, rare, difficult to imitate, imperfectly substitutable, and organized to be exploited (Barney, 1991). The capabilities of a firm's top management team exhibit these characteristics. A firm's top management capabilities refer to the possession of knowledge, skills, and experience that enable the managers to handle a difficult and complex task and to make informed resource allocation decisions unique to a firm in a particular industry (Acquaah & Chi, 2007). The bundles of FSMEs in a firm can epitomize the skills, expertise, and knowledge

as well as the competencies of top managers (Castanias & Helfat, 2001; Harris & Helfat, 1997; Kor, 2003).

Top managers with a high level of firm-specific experience possess an intimate knowledge of the firm's idiosyncratic resources, capabilities, and commitments that provide them with tacit know-how and expertise of the firm's strategic issues. Thus, FSME involves the accumulation of tacit knowledge of that firm's resources and capabilities that could be leveraged to allocate resources efficiently and effectively to deal with its strategic initiatives and for value creation. For instance, it is argued that top managers' capabilities in the form of firm-specific knowledge and experience with a firm's products or services, human resource availability, manufacturing capability, technology, etc., may provide the skills necessary to effectively and efficiently manage and deploy those resources and capabilities to create competitive advantage and superior performance (Kor, 2003).

Moreover, a high level of FSME also creates a high level of the focal firm's industry-level knowledge and experience. This FSME and its subsequent industry-level experience generates a detailed knowledge and understanding of the opportunities, threats, competitive conditions, technological developments, and regulations that may be used to the advantage of a specific firm (Kor & Misangyi, 2008). The FSME could further lead to the detection of emerging opportunities, customer preferences, and new trends that a firm may need to exploit in its industry to develop competitive advantage and create value for the firm. As stated by Kor and Misangyi (2008, p. 1346), "Experiential knowledge of customer preferences and competitors' commitments and competencies is instrumental to product positioning and in managing competitive dynamics."

The FSME involves tacit knowledge of firm-specific capabilities such as employee skills, financial resources, organizational routines, and relationships with suppliers and buyers that are difficult to imitate (Kor & Mahoney, 2005) and industry-specific knowledge such as competitors, customers, market conditions, and technology. Thus, the RBV suggests that there is an important causal relationship between FSME and the identification, development, and exploitation of a firm's endowment of superior resources and capabilities to create sustainable competitive advantage. This is precisely the assertion by Collis (1994), who states that firms with superior managerial capabilities have the ability to utilize them effectively and efficiently for the organization of strategic activities through the manufacturing, offering, and delivery of products and services that meet customer needs. Because FSME is rooted in firm-specific knowledge and experiences and enables an intimate knowledge and understanding of the focal firm's industry, we expect that firm with top managers who exhibit high levels of firm-specific experiential knowledge will be able to create competitive advantage in the marketplace and thus obtain superior performance.

Hypothesis 2: Higher levels of firm-specific managerial experience will have a positive influence on firm performance.

Moderating Effect of Firm-Specific Managerial Experience

External social capital enables firms to obtain the resources and capabilities that are used to organize strategic activities and create value. But, according to the RBV, firms earn sustainable competitive advantage and superior performance not just because of the endowment of resources and capabilities they possess but also because of their effective management of those resources and capabilities (Mahoney, 1995). Penrose (1995, p. 5) asserts, “It is shown not only that the resources with which a particular firm is accustomed to working with will shape the productive services its management is capable of rendering (where management is defined in the broadest sense), but also that the *experience of management* will affect productive services that all its other resources are capable of rendering” [our emphasis]. Barney (1991) and Castanias and Helfat (1991) have argued precisely that the potential for firm resources and capabilities to create competitive advantage and superior performance depends on the effectiveness with which top managers use their experiential knowledge to manage and deploy those resources and capabilities. Therefore, we argue that the value of the resources and capabilities obtained through external social capital is contingent on FSME.

FSME leads to the development of detailed knowledge of the firm, its problems and strategic initiatives (Kor and Sundaramurthy, 2009). Therefore, firms with extensive FSME will make effective and efficient use of the resources that are derived from external social capital. Managers with extensive FSME have accumulated tacit knowledge of their firms' organizational routines, physical and human resources, and capabilities so they would be able to properly match those resources and capabilities to minimize threats and exploit opportunities in the firm's external environment.

Because firms possess different resources and capabilities, they also differ in their resources and capabilities needs for the strategic organization of their activities (Newbert, 2007). FSME is therefore imperative in effectively shaping the future direction of a firm (Kor & Sundaramurthy, 2009). Firms with extensive FSME would be able to allocate the limited financial, human, technological, and marketing resources acquired through external social capital to develop quality relationships with customers and suppliers, while enhancing their ability to deal with competitors. Since top managers of firms exhibit different kinds of FSMEs, we expect those firms whose top managers have extensive FSME to achieve greater benefits. This is because they can leverage their extensive FSME and often tacit knowledge to mobilize complementary external resources and capabilities obtained through networking relationships.

Hypothesis 3a: FSME will moderate the relationship between social capital from politicians and performance. The effect of social capital from politicians on performance will be positive when FSME is high rather than low.

Hypothesis 3b: FSME will moderate the relationship between social capital from bureaucratic officials and performance. The effect of social capital from bureaucratic officials on performance will be stronger when FSME is high rather than low.

Hypothesis 3c: FSME will moderate the relationship between social capital from community leaders and performance. The effect of social capital from community leaders on performance will be stronger when FSME is high rather than low.

METHODS

The hypotheses were tested with data collected in 2002 and 2005 from senior executives (e.g., chief executive officers [CEOs]) and the chief financial officers of firms operating in Ghana. The sample is made up of the 200 largest companies selected from the 2001 edition of the *Ghana Business Directory*. Probability sampling techniques were not used in selecting the companies, but instead were focused on the 200 largest companies listed in the *Ghana Business Directory*. We contacted the CEOs of the selected companies to participate in the study in the latter part of 2002. To ensure a high response rate and the provision of reliable and accurate responses, the CEOs were promised strict confidentiality about the respondents and company information. Several weeks after contacting the selected companies, one of the researchers personally visited the companies, gave the questionnaires to the CEOs, and agreed on a date to collect the completed questionnaires. After several visits to the companies, responses from 115 firms were received with 106 being useable for a response rate of 53%. In 2005, we collected follow-up data from the 106 firms using the same questionnaire survey that was administered in 2002 to ascertain the nature of social capital developed with external entities over time. All the firms completed the survey administered in 2005, but only 100 of the 106 firms provided complete responses to all the questionnaire items, for a response rate of 94%. 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 more than 9 years. We examined common method variance through two methods. First, information on external social capital were solicited for the 3-year periods of 1998–2000 for data collected in 2002, and 2001–2003 for data collected in 2005, while information on performance was solicited for the following two-year periods: 2001–2002 for data collected in 2002 and 2004–2005 for data collected in 2005. Second, performance information was obtained from the heads of the accounting/finance function, while the independent variables were obtained from the CEOs/deputy CEOs. Third, a factor analysis of the items on the performance and social capital variables yielded 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).

Measures

Firm performance was measured using two measures: return on assets (ROA) and return on sales (ROS). Self-reported performance data were collected from the head of the accounting/finance function in each organization. The respondents were asked to rate their organization's ROA and ROS relative to the major competitors in their industry for the 2-year periods of 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 of performance is common in situations where objective data are either not available or difficult to obtain because the firms are reluctant to provide such information (e.g., Amoako-Gyampah & Acquah, 2008; Tan & Peng 2003), as in the situation in Ghana because only 12 of the organizations in the study are publicly traded companies. Moreover, the convergent, discriminant, and construct validities of using perceptual

measures of performance as substitutes for objective measures have been demonstrated by Wall et al. (2004). We obtained objective measures of the dependent variables from the annual reports of the 12 companies listed on the Ghana Stock Exchange. The correlations between the objective measures and the subjective measures using the pooled data were as follows: ROA ($r = 0.79, p < .001$) and ROS ($r = 0.86, p < .001$).

Our assessment of *social capital* was adapted from the work of Peng and Luo (2000) whose instrument has been used by several studies in transition economies (Li et al., 2008, 2009; Li & Zhang, 2007). Social capital was measured by assessing top managers' development and utilization of interpersonal and social relationships with (a) political leaders, (b) government bureaucratic officials, and (c) community leaders. The respondents were asked to assess the extent to which top managers have used personal and social networking relationships for the 3-year periods of 1998–2000 and 2001–2003, respectively, on a 7-point scale, ranging from 1 (*very little*) to 7 (*very extensive*). The social capital measure for each of the three variables was operationalized by using the average responses to the items. Social capital from *political leaders* ($\alpha = .78$) was operationalized using four items: relationship with city council politicians (mayor and council members), district council politicians (chief executive and members of district council assembly), regional government politicians, and national government politicians (e.g., ministers and parliamentarians). Social capital from *bureaucratic officials* ($\alpha = .83$) was measured using two items: 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.). Social capital from *community leaders* ($\alpha = .84$) was measured using two items: relationship with local kings, chiefs, and/or their representatives and leaders of religious organizations (e.g., pastors, priests, traditional religious leaders, and imams).

FSME is measured as the average top management tenure in a firm (i.e., the average number of years that top managers have spent in a particular firm). This variable is a proxy for the level of experience, expertise, and knowledge that is preserved at the top management of firms (Kor & Mahoney, 2005).

We controlled for firm age, firm size, business sector, firm ownership, year dummy, and industry competition. *Firm age* was measured as the logarithm of the number of years since the formation or incorporation of the firm. *Firm size* was measured as the logarithm of the number of employees. *Business sector* was operationalized using a dummy variable, coded 1 for manufacturing firms and 0 for service firms. *Firm ownership* was measured as dummy variable, with wholly domestic-owned firms coded 1 and foreign-domestic joint venture firms coded 0. Because we pooled two periods of data, we included a dummy variable, *Year dummy 2002*, coded 1 for data collected in 2002 and 0 for data collected in 2005 to pick up any fixed effects that varied between the two periods.

Industry competition ($\alpha = .76$) 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 3-year periods of 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 7-point scale ranging from 1 (*very little*) to 7 (*very extensive*).

Reliability and Validity Analysis

The reliability and validity of the measures were assessed by computing Cronbach alpha coefficients (α), content validity, and the use of factor analyses. The constructs, which have all been used in several past research studies, provide evidence of the validity of the scales (Anand & Ward, 2004). The reliability coefficients (α) of each measure are shown on the diagonal in Table 1. The α values range from .76 for industry competition to .84 for social capital from community leaders. All α values are greater than .70 and therefore indicate acceptable levels of reliability (Nunnally & Bernstein, 1994).

We used factor analyses to examine measurement convergent and discriminant validity. Convergent validity is typically considered to be satisfactory when items load high on their respective factors. All items had high loadings (greater than .40) on their respective factors, signifying desirable measurement convergent validity. Discriminant validity was assessed by examining whether each item loaded higher on the respective factor than on other constructs. The overall results indicated no cross-loadings, signifying that reasonable discriminant validity has been achieved.

Statistical Analysis

To establish causality, which is difficult in cross-sectional studies, a pooled time series and cross-section (TSCS) regression model with a time lag between the dependent and independent variables was used to examine how social capital, FSME, and the interaction between social capital and FSME affect firm performance (e.g., Wiklund & Shepherd, 2003). A pooled TSCS regression model was used because only two periods of data from 106 firms were available. The following model was estimated in a hierarchical manner:

$$\begin{aligned}
 Performance_{it} &= \alpha_1 + \beta_{1it}Firm\ Age_{it} + \beta_{2it}Firm\ Size_{it} + \beta_{3it}Business\ Sector_{it} \\
 &+ \beta_{4it}Firm\ Ownership_{it} + \beta_{5it}Industry\ Competition_{it} \\
 &+ \beta_{6it}Year\ Dummy_{it} + \beta_{7it}Politicians_{it} + \beta_{8it}Bureaucrats_{it} \\
 &+ \beta_{9it}Community_{it} + \beta_{10it}FSME_{10it} + \beta_{11it}(Politicians \times FSME)_{it} \\
 &+ \beta_{12it}(Bureaucrats \times FSME)_{it} + \beta_{13it}(Community \times FSME)_{it} + \varepsilon_{it} \quad (1)
 \end{aligned}$$

where $Performance_{it}$ is a subjective measure of ROA and ROS for firm i at time $t = 1, 2$.

TABLE 1. Descriptive Statistics and Correlation Matrix of Variables ($N = 206$)

Variable	1	2	3	4	5	6	7	8	9	10	11
1. Return on assets (ROA)											
2 Return on sales (ROS)	.80										
3. Community	.39	.44	.84								
4. Politicians	.07	.15	.23	.78							
5. Bureaucrats	.34	.42	.24	.32	.83						
6. Firm size ^a	.13	.24	.23	.25	.23						
7. Business sector ^b	-.19	-.13	-.17	-.34	-.16	-.23					
8. Firm ownership ^c	.05	.13	.06	.05	.18	-.44	.06				
9. Industry competition	.46	.43	.15	.03	.27	.03	-.11	.07	.76		
10. Firm age ^d	.09	.20	.01	.15	.20	.48	-.14	-.33	.02		
11. Firm-specific managerial experience	.30	.32	.22	.01	.15	.04	.05	.11	.13	.22	
Mean	4.67	4.77	4.83	3.97	4.74	1.97	0.83	0.51	4.88	1.29	9.18
SD	1.38	1.35	1.19	1.34	1.29	0.48	0.38	0.50	1.32	0.29	5.49
Minimum	1.00	1.00	1.00	1.00	2.00	1.00	0.00	0.00	2.00	0.60	0.50
Maximum	7.00	7.00	6.00	7.00	7.00	3.30	1.00	1.00	7.00	1.94	43.00

Note. The values in diagonals are Cronbach alpha values (reliability coefficients).

^a Log of number of employees.

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

^c Firm ownership is a dummy variable coded 1 for wholly-owned domestic firms, and 0 for foreign-domestic joint venture (JV) firms.

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

Significance levels: For $r > .13$, $p < .05$; $r > .17$, $p < .01$; and $r > .23$, $p < .001$.

Note. ^a Coefficients are standardized coefficients ($N = 206$).

† $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$.

TABLE 2. Results of Time Series Cross-section Analysis of the Relationship Between Social Capital, Firm-specific Managerial Experience, and Firm Performance ^a

Variables	Return on Assets (ROA)			Return on Sales (ROS)		
	Model 1 β (t-value)	Model 2 β (t-value)	Model 3 β (t-value)	Model 4 β (t-value)	Model 5 β (t-value)	Model 6 β (t-value)
<i>Controls</i>						
Firm age	.028 (0.39)	-.035 (-0.54)	-.031 (-0.47)	.117†(1.67)	.063 (1.03)	.055 (0.88)
Firm size	.094 (1.21)	.084 (1.19)	.098 (1.38)	.177* (2.36)	.132* (2.00)	.143* (2.14)
Business sector	-.109†(-1.67)	-.126* (-2.10)	-.135* (-2.25)	-.014 (-0.23)	-.001 (-0.02)	-.002 (-0.04)
Firm ownership	-.028 (-0.40)	-.067 (-1.07)	-.073 (-1.17)	-.024 (-0.035)	-.064 (-1.09)	.063 (-1.06)
Industry competition	.448*** (7.16)	.340*** (5.97)	.382*** (6.58)	.468*** (7.70)	.343*** (6.46)	.358*** (6.53)
Year dummy for 2002	.029 (0.46)	.094†(1.67)	.120* (2.08)	.045 (0.73)	.097†(1.84)	.101†(1.87)
<i>Social capital</i>						
Politicians		-.127* (-1.99)	-.125* (-1.98)		-.071 (-1.19)	-.071 (-1.18)
Bureaucratic officials		.193** (3.00)	.171** (2.69)		.255*** (4.26)	.247*** (4.09)
Community leaders		.181** (2.92)	.177** (2.88)		.231*** (4.01)	.233*** (4.02)
<i>Management experience</i>						
Firm-specific managerial experience		.316*** (5.08)	.374*** (5.38)		.272*** (4.70)	.281*** (4.28)
<i>Interactions</i>						
Politicians × Managerial experience			.193** (2.86)			.105†(1.67)
Bureaucratic × Managerial experience			-.032 (-0.45)			-.061 (-0.91)
Community × Managerial experience			.169** (2.99)			.153** (2.83)
Adjusted R ²	.217	.409	.463	.263	.488	.520
Model F	10.44***	15.17***	12.76***	13.15***	20.51***	15.99***
Durbin-Watson statistic	1.906	1.869	1.752	2.082	1.910	1.906

Note. ^a Coefficients are standardized coefficients ($N = 206$).

† $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$.

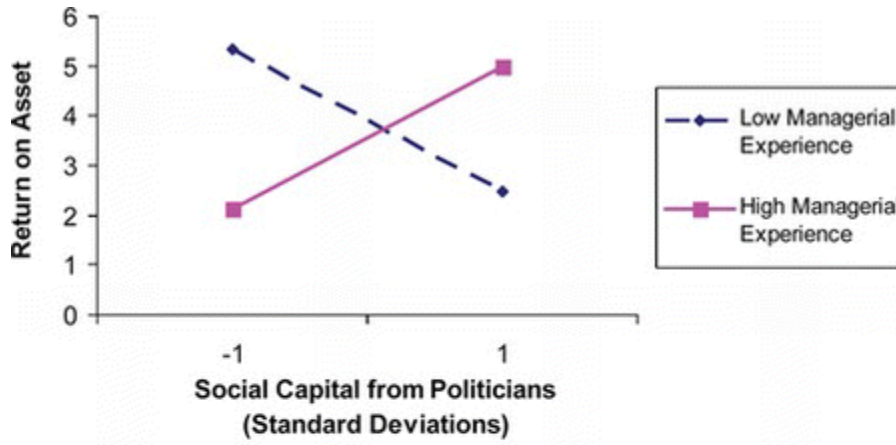
RESULTS

Table 1 provides the means, standard deviations, and correlations among the variables. It shows significant correlations among some of the variables, especially between firm size and firm ownership ($r = -0.44$). However, the variance inflation factors (VIFs) of the hypothesized variables were all less than 10, indicating that multicollinearity is not a problem (Neter, Kutner, Nachtsheim, & Wasserman, 1996). The validity of the econometric model was further examined through the use of several tests. The assumptions of equality of variance, independence of the error term, and normality of the residual were all met. Durbin–Watson statistics also indicated that autocorrelation is not a problem and thus the pooled TSCS model is adequate (Gujarati, 2003). Table 2 presents the standardized results of the pooled TSCS regression models examining hypotheses 1a through 3c. In models 1 and 4, we present the results for the control variables on ROA and ROS, respectively. The social capital and FSME variables are then added in models 2 and 5, respectively. The results from model 2 indicate that while social capital from bureaucratic officials and community leaders is significant and positively related to ROA ($\beta_{\text{Bureaucratic}} = .193, p < .01$; $\beta_{\text{Community}} = .181, p < .01$), social capital from politicians is significant and negatively related to ROA ($\beta_{\text{Politicians}} = -.127, p < .05$). FSME is also significant and positively related to ROA ($\beta = .316, p < .001$). At the same time, the results from model 5 shows that social capital from bureaucratic officials and community leaders is significant and positively related to ROS ($\beta_{\text{Bureaucratic}} = .255, p < .001$; $\beta_{\text{Community}} = .231, p < .001$), while social capital from politicians is negatively related to ROS ($\beta_{\text{Politicians}} = -.071, p > .10$), but it is not significant. Firm-specific managerial experience is also significant and positively related to ROS ($\beta = .272, p < .001$). Thus, hypotheses 1b, 1c, and 2 are supported, while hypothesis 1a is partially supported for the effect of social capital from politicians on ROS.

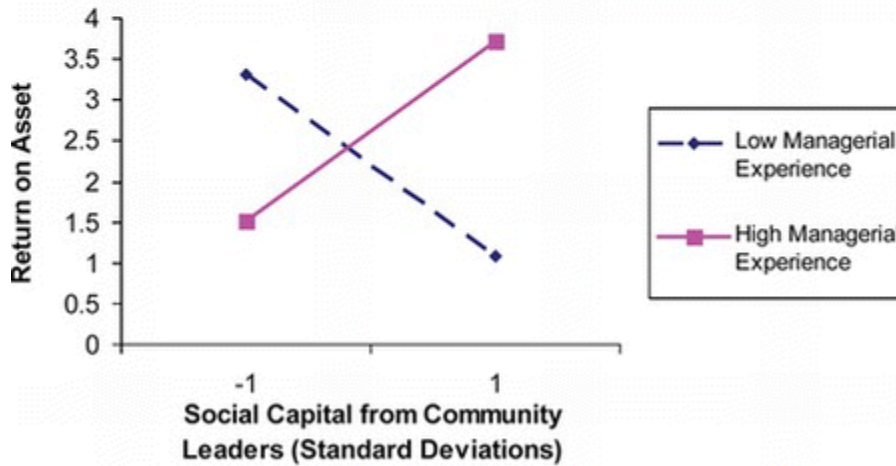
Models 3 and 6 show the results of the interaction analyses estimated to test hypotheses 3a, 3b and 3c, where centered values of social capital and FSME are used to create the interaction terms. Models 3 and 6 allow examination of how top management FSME moderates the relationship between top management social capital from politicians, bureaucratic officials, community leaders, and ROA and ROS, respectively. The results from both models 3 and 6 indicate that the interaction between social capital from politicians and firm-specific managerial experience, and social capital from community leaders and FSME were both positive and significantly related to ROA ($\beta_{\text{Politicians} \times \text{FSME}} = .193, p < .01$; $\beta_{\text{Community} \times \text{FSME}} = .169, p < .01$), and ROS ($\beta_{\text{Politicians} \times \text{FSME}} = .105, p < .10$; $\beta_{\text{Community} \times \text{FSME}} = .153, p < .01$). However, the interaction between social capital from bureaucratic officials and FSME is negative but not significantly related to both ROA and ROS. Thus, while hypotheses 3a and 3c are supported, hypothesis 3b is not supported.

To gain more insight into these interaction effects, we follow Aiken and West (1991) and graphically plot the interactions depicted in models 3 and 6. These plots are shown in Figures 1 and 2, respectively. The plots in Figures 1 and 2 indicate that at high levels of FSME, firms gain more from the social capital from both politicians and community leaders. On the other hand, at low levels of FSME, the gain from social capital from these external constituents decreases. Integrating the direct effects of social capital from politicians, bureaucratic officials, and community leaders and the moderating effects of FSME on the social capital–performance

relationships, the results suggest that social capital has a stronger effect on firm performance when FSME is high than when it is low.



A.



B.

FIGURE 1 **A.** Moderating effects of firm-specific managerial experience on the relationship between social capital from politicians and return on asset. **B.** Moderating effects of firm-specific managerial experience on the relationship between social capital from community leaders and return on asset.

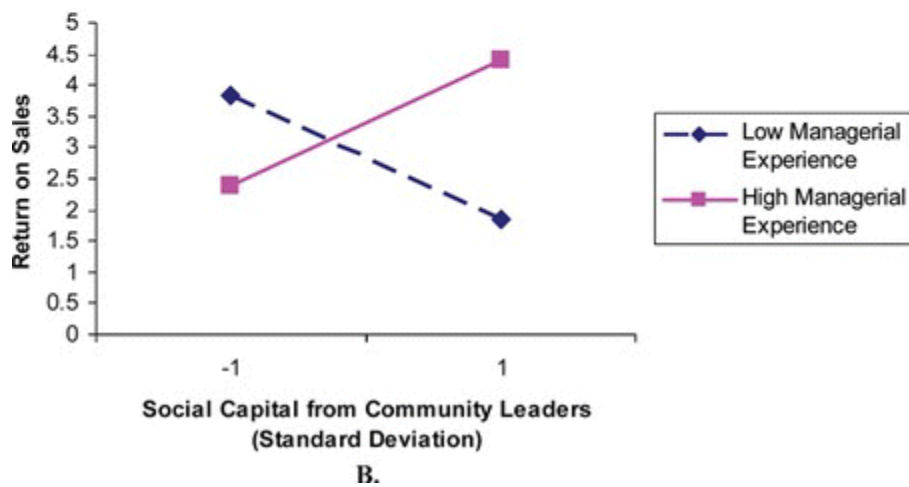
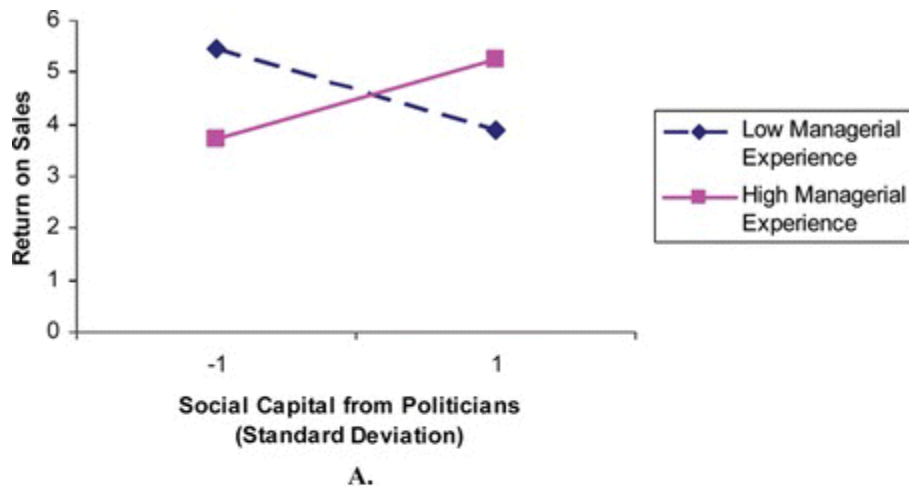


FIGURE 2 A. Moderating effects of firm-specific managerial experience on the relationship between social capital from politicians and return on sales. **B.** Moderating effects of firm-specific managerial experience on the relationship between social capital from community leaders and return on sales.

DISCUSSION AND CONCLUSION

This study examined the impact of social capital developed from networking relationships with external entities, FSME, and the interaction between the two on firm performance. Specifically, our main hypotheses posited that the impact of social capitals from politicians, bureaucratic officials, and community leaders on firm performance would be stronger for firms whose top management has extensive FSME. It was also hypothesized that top management firm-specific managerial experience would be positively related to firm performance. These hypotheses were tested using survey data collected over two time periods from 106 firms from Ghana.

Existing theoretical and empirical research in the social capital literature shows that social capital created from the networking relationship and ties with external parties function as conduits for the transmission of information, resources, and opportunities that could be leveraged to a firm's advantage and facilitate firm performance (e.g., Acquaah, 2007; Adler & Kwon, 2002, Li & Zhang, 2007; Nahapiet & Ghoshal, 1998; Peng & Luo, 2000). The findings of the direct effects

of social capital on performance from this study are consistent with extant research in transition economies (Acquaah, 2007; Acquaah & Eshun, 2010; Li et al., 2008, 2007; Peng & Luo, 2000). The findings show that the direct effect of social capital from networking relationships with community leaders positively influences firm performance. Thus social capital from networking relationships forged with community leaders provides firms with access to resources, information, learning, and knowledge that are used to minimize threats, exploit opportunities, and enhance performance in the formal institutional environment.

The findings further indicate that social capital from networking relationships with government bureaucratic officials is beneficial to firms because it enables them to obtain the necessary resources to improve performance. However, the findings also show that the direct effect of social capital from networking relationships with politicians is detrimental to firm performance, although we hypothesized a neutral effect. The finding is, however, consistent with studies from transition economies (e.g., Li et al., 2009). The finding implies 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 may adversely affect performance. In reconciling the outcomes from social capital from politicians and that from bureaucrats, it may be argued that the influence of networking with politicians on firm performance may be related to the fact that bureaucratic officials, and not politicians, implement most government policies. In Ghana, politicians make excessive demands for favors from firms with which they have established connections usually by stipulating a specific monetary contribution they must give to their political campaign and party, and also request that firms employ their relatives who may not have the necessary skills and expertise. Therefore, when top managers develop social capital from networking relationships with politicians, the benefits they expect to receive from such relationships in the form of resources (e.g., access to financial resources), opportunities (e.g., awarding of government projects or contracts, certification and approval of products as meeting standards, etc.), and/or information (e.g., new and impending regulations) may not fully materialize without building a stronger relationship with bureaucratic officials (Acquaah, 2007).

Moreover, the findings show that extensive FSME is beneficial to firms. Top management with extensive firm-specific experience have accumulated tacit knowledge of their firm's idiosyncratic resources, capabilities, and strategic issues, in addition to the industry's opportunities and threats, and these experience-based capabilities allow the top managers to effectively and efficiently manage and deploy other resources and capabilities in their firms to enhance performance.

In addition, the positive moderating effects of FSME on the relationship between social capitals from politicians and community leaders on firm performance suggest that the resources and capabilities obtained from social networking relationships are better managed and leveraged when managers possess extensive firm-specific experience and knowledge. In fact, the positive influence of the interaction between social capital from politicians and FSME on performance suggests that extensive FSME attenuates the negative effect of social capital from politicians on performance. Thus, FSME is crucial in enabling firms in transition economies to be selective in establishing networking relationships to obtain the required resources, capabilities, and information that are used to exploit market opportunities and enhance firm performance.

The importance of the crucial role of FSME in effectively managing the resources and capabilities obtained from social capital can be observed in Figures 1 and 2. While the direct effect of social capital from politicians is negative, Figures 1 and 2 indicate that it is only so for firms whose top management does not have extensive firm-specific experience. Moreover, while the direct effect of social capital from community leaders positively influences firm performance, Figures 1 and 2 show that it is only true for firms whose top management have extensive firm-specific experience. The results thus demonstrate that although social capital derived from external entities contribute to firm success in transition economies, top managers' role in leveraging their capabilities to deploy the resources and capabilities obtained from the social relationships is even more important. These findings corroborate the RBV that top managers' experience-based capabilities are important in deploying and transforming other resources and capabilities to create value (Kor, 2003; Kor & Mahoney, 2005; Penrose, 1995).

Overall, the results provide some managerial insights for firms in Ghana in particular and in other transition economies in general. The findings imply that there are significant benefits to firms from the social capital created from networking relationships with government bureaucrats and community leaders, but managers should be cautious about their interpersonal and social networking relationships with politicians. Top managers should also recognize that FSME plays a vital role in cultivating meaningful networking relationships with external stakeholders to develop social capital and benefiting from such relationships. Even though firms who forged social networking relationships with politicians do not seem to benefit from the social capital so developed, it only applies to those firms with limited top management firm-specific experiential knowledge. In fact, in a transition economy like Ghana where the government's economic policies are transforming the economy into a market-based economy albeit high levels of institutional voids, the development and utilization of market-related managerial capabilities are crucial in exploiting opportunities in the business environment. As noted, a market-based capability such as FSME and knowledge was the difference between firms that benefited from social capital from politicians and those that did not. Extensive FSME enables a firm to be selective in cultivating social capital from politicians to obtain the necessary resources for the strategic organization of activities.

The findings should be interpreted within the limitations of the study. First, we used subjective measures of performance instead of objective measures. Objective performance measures would have been preferable but only 12 firms were publicly owned so objective performance information was difficult to obtain for all the firms. Even if such performance data were provided by the firms, they may suffer from inaccuracies, as such data are often not audited in privately held organizations. Moreover, Wall et al. (2004) demonstrated the validity of subjective performance measures as substitutes for objective performance measures. Second, we measure FSME as the average tenure with a particular firm. This is only one of the measures of the managerial resource construct and thus a limitation of the study. Future research could explore other measures of the managerial resource construct such as top management knowledge base, firm-specific industry experience, and/or top management educational background/qualifications. Moreover, this study could be replicated in other African countries to ascertain the applicability of the findings.

In conclusion, this study informs this fascinating area of research by showing that the development of social capital from networking relationships with external entities, possession of FSME, and their interactions have a complex impact on performance for firms in Ghana. Future research should examine these relationships in other transition economies so as to deepen our understanding of the impact of social capital from networking relationships and FSME on performance and thus help in providing us with rich insights into social networking theory and practice and the leveraging of managerial capabilities.

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