Business Strategy and Competitive Advantage in Family Businesses in Ghana: The Role of Social Networking Relationships

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Abstract

The business strategy perspective argues that achieving competitive advantage hinges on pursing a coherent competitive strategy. Family businesses are also said to manifest a strong desire to develop enduring and committed social relationships with external stakeholders. Nevertheless, there has been relatively little attention devoted to the business strategic activities of family businesses and how they use social networking relationships developed with external entities to bolster their business strategy and build competitive advantage. Using data from sub-Saharan African economy, Ghana, over two time periods, this study examined effects of business strategy on performance of family businesses and how the social networking relationships the managers of family businesses develop with external entities moderates the business strategy – performance link. The findings from 104 family firms over two time periods indicate that the business strategies of cost leadership and differentiation were both positively related to return on performance. Though, not hypothesized, social networking relationships with community leaders and government bureaucratic officials enhanced the performance of family businesses, but social networking relationships with political leaders was detrimental to performance. The findings also indicated that the effect of cost leadership on performance is strengthened by social networking relationship with community leaders. However, cost leaderships influence on performance is impeded by networking relationships with political leaders. On the other hand, the effect of differentiation on performance was augmented by networking relationships with community leaders. The findings indicated that (1) the pursuit of the business strategies of cost leadership and differentiation create competitive advantage for family businesses, (2) social networking relationships with government bureaucratic officials and community leaders are beneficial to family businesses, but social networking relationships with political leaders is detrimental to family businesses, and (3) the benefit of business strategy to family businesses is moderated positively by networking with community leaders, but negatively by networking with political leaders.

Keywords: Africa**,** Business strategy, Family businesses, Ghana, Social networking relationships, Performance

INTRODUCTION

This paper argues that the effects of family businesses' business or competitive strategic activities on performance in developing or emerging economies would be moderated by managerial social networking relationships with external entities. This is because social networking relationships fill the "institutional voids" – the absence of market-supporting institutions, specialized intermediaries, contract-enforcing mechanisms, and efficient transportation and communication networks (Khanna and Palepu, 1997) – by garnering the resources and capabilities that serve to facilitate business activities in developing and emerging economies such as those in Africa. Family businesses are prominent in the business landscape in Africa and other developing economies and are widely recognized as playing a significant role in these economies both in terms of their contributions to employment, entrepreneurship, community development, and economic growth and development. The ability of family businesses in Africa to create and sustain competitive advantage depends on their capacity to obtain and leverage financial, human and other resources and capabilities for the organization of business activities.

The strategic management literature has emphasized that achieving competitive advantage in today's dynamic and intensely competitive environment hinges on formulating and implementing a coherent business or competitive strategy (henceforth business strategy and competitive strategy are used interchangeably throughout the paper) (Hoskisson et al., 2000; Porter, 1980, 1985). According to the business strategy perspective, a firm's competitive advantage lies in its ability to develop or obtain organizational resources and capabilities, take a strategic position in a market and implement a competitive strategy that takes into consideration the opportunities and threats in the external environment (Porter, 1980; Miller and Friesen, 1986). A plethora of empirical studies have been conducted in advanced industrialized economies to corroborate the proposition that the implementation of a coherent business strategy enhances competitive advantage by influencing organizational outcomes (e.g., Bowman and Ambrosini, 1997; Campbell-Hunt, 2000; Miller and Dess, 1993). Research focusing on the business strategic activities of firms in emerging economies is also gradually taking shape (e.g., Acquaah, Adjei and Mensa-Bonsu, 2008; Acquaah and Yasai-Ardekani, 2007; Kim, Nam and Stimpert, 2004; Spanos, Zaralis and Liouks, 2004). However, despite the important role family businesses play in the economies of developing countries, we know little about their competitive strategic activities.

Family businesses in African economies are facing institutional and business environments that are experiencing rapid changes making it difficult to obtain the necessary resources for their business activities. The high levels of market imperfections and the weaknesses inherent in the market-supporting institutions and contract-enforcing mechanisms present serious challenges to family businesses in obtaining resources through arms-length transactions. It has been suggested that developing and utilizing managerial networking relationships with external entities such as political leaders, government bureaucratic officials and community leaders in developing and emerging economies would provide firms with the opportunity to acquire the necessary resources for their business activities (Acquaah, 2007; Peng and Luo, 2000; Li and Zhang, 2007; Li, Poppo, and Zhou, 2008). This is especially relevant to family businesses because of their desire to develop enduring social relationships to create social capital with a wide variety of external entities who could provide them with critical resources and capabilities (Arregle, Hitt, Sirmon, and Very, 2007; Miller et al., 2009).

The empirical evidence from the competitive strategy literature in both advanced industrialized economies and emerging economies indicate that the implementation of a coherent business or competitive strategy leads to superior performance (e.g., Acquaah and Yasai-Ardekani, 2007; Bowman and Ambrosini, 1997; Campbell-Hunt, 2000; Kim et al., 2004; Li, Zhou and Shao, 2009; Miller and Dess, 1993; Spanos et al., 2004). It has also been shown that social networking relationships with external entities in emerging economies enhances firm performance (Acquaah, 2007; Li et al., 2008; Li and Zhang, 2007; Peng and Luo, 2000). Nevertheless, despite the importance of business or competitive strategy in creating competitive advantage there has been relatively little attention devoted to the business strategic activities of family businesses. Even less is known about how family businesses use social networking relationships developed with external entities to obtain resources and capabilities to bolster their business strategy and build competitive advantage. To address this research gap, this study investigates whether the effectiveness of the business strategic activities of family businesses is facilitated or hampered by the social networking relationships they develop with external entities using data from a developing economy in sub-Saharan Africa – Ghana.

This study therefore examines the effects of business strategy on performance and the interaction of the business strategic activities and social networking relationships of family businesses on performance. The study, therefore, highlights the moderating role of social capital developed from social networking relationships on the link between business strategy and performance. The complementary nature or otherwise of social networking relationships is important to family businesses, but their implication for the implementation of business strategy and the achievement of superior performance is unknown. Family businesses offer an interesting setting to examine how the interaction between business strategy and social networking relationships influences performance as the social networking activities of family businesses might augment of hinder business strategy's effect on performance because of the unique characteristics of family businesses. A family business' strong sense of loyalty, identity, unique social system, integrity, commitment to building enduring relationships, and "familiness" (Habbershon, Williams and MacMillan, 2003; Miller et al., 2009) can significantly impact the type of social networking relationships they develop with different external constituents to secure resources. Family businesses in Africa in general and Ghana in particular are embedded in a collectivistic social system that is both a social and corporate organization. Thus personal and social relationships which are part of the social system may affect the effectiveness with which family businesses implement business strategies (Burt, 1997; Granovetter, 1985). The attempt in this study to investigate the moderating effects of social networking relationships on the relationship between business strategy and firm performance in family businesses is one of the few to examine the interdependence of the competitive strategic initiatives and network-based activities. Figure 1 depicts the theoretical model investigated in this paper.

***********INSERT FIGURE 1 ABOUT HERE****************************

CONCEPTUAL BACKGROUND AND HYPOTHESES

Brief Review of Business Strategy Literature

The strategy literature presents several typologies of business or competitive strategic orientations to describe how an organization develops competitive advantage in an industry relative to its rivals (e.g., Miles and Snow, 1978; Miller and Friesen, 1986; Mintzberg, 1988; Porter, 1980 &1985). The common inclination in all these business strategy typologies is a focus on the relative emphasis a business places on efficiency versus market effectiveness (differentiation). For example, Miles and Snow's (1978) defender strategy and Porter's (1980) overall cost leadership strategy describes a firm's relative focus on efficiency so as to become the lowest cost producer in the industry. On the other hand, the prospector strategy (Miles and Snow, 1978) and differentiation strategy (Porter, 1980) describes a firm's relative focus on the search for market opportunities to create and offer unique products and services to customers. I focus on Porter's (1980, 1985) generic competitive strategy typology to depict the business strategic orientations of family businesses because of its influence and dominance in strategy research (see Campbell-Hunt, 2000).

Porter (1980, 1985) argues that the generic competitive strategies of cost leadership, differentiation, and focus (cost leadership or differentiation in a narrow market segment) represent different strategic orientations available to a firm to compete and achieve competitive advantage it its industry. Thus, cost leadership and differentiation represent two fundamentally different means of achieving competitive advantage and superior performance. A firm that implements a cost leadership strategy achieves competitive advantage by becoming the lowest cost producer or service provider in the industry. A cost leadership strategy places emphases on "aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on" (Porter, 1980: 35). A firm can, therefore, gain a competitive advantage over its rivals through achieving the lowest cost structure in an industry without ignoring other areas such as product and service quality (Porter, 1980). A differentiation strategy, on the other hand, focuses on developing a product or service that is unique or perceived to be unique in the minds of customers to create competitive advantage. The firm creates the perception that the firm or its products and services are superior to those of its competitors and also possess characteristics (e.g., design, quality, innovativeness) that are distinctive from those of its competitors (Miller; 1988; Porter, 1985). A firm generates these perceptions through advertising programs, marketing techniques and methods, offering products with greater reliability, durability, features and aesthetics, and superior performance than their competitors (Mintzberg, 1988, Porter, 1985). The differentiation strategy is typically bolstered by heavy investment in research and development, marketing, and product and service innovation.

Empirically, most previous studies of the competitive strategy-performance relationship using Porter's (1980) typology, which have mostly focused in advanced industrialized countries, have provided support for the viability and profitability of implementing cost leadership and differentiation strategies (Beal and Yasai-Ardekani, 2000; Bowman and Ambrosini, 1997; Campbell-Hunt, 2000; Dess and Davis, 1984; Hambrick, 1983; Kotha and Vadlamani, 1995; Miller and Dess, 1993; Miller and Friesen, 1986). Recent empirical studies examining Porter's framework have been conducted with data from the emerging economies in Africa, Asia, Latin America, and Europe. These studies have also provided support for the economic viability of implementing cost leadership and differentiation strategies in emerging economies (Acquaah et al., 2008; Aulakh, Kotabe and Teegen, 2000; Kim and Lim, 1988; Kim, et al., 2004; Spanos, et al., 2004). Acquaah et al., (2008) showed that both cost leadership and differentiation strategies of manufacturing and service firms in Ghana were positively related to performance (return on assets and return on sales). Aulakh, et al., (2000) found that both cost leadership and differentiation strategies were positively related to export performance among firms from Brazil, Chile, and Mexico. Kim and Lim (1988) showed that cost leadership and differentiation were positively related to firm performance for firms in the electronic industry in Korea. Kim et al (2004) found that business-to-customer (B2C) firms, obtained from a Korean online shopping mall, pursing the cost leadership and differentiation strategies experienced significant performance benefits. Using data from Greece, Spanos et al (2004) found that of the competitive strategies of cost leadership, marketing differentiation and technology differentiation, cost leadership appears to be the most viable and profitable strategy. These studies have arguably enhanced our understanding of how competitive strategy influences performance in both advanced and emerging economies. However, none of these studies have specifically examined the competitive strategic activities of family businesses. Thus, what remains unexamined is whether (a) family firms will benefit from pursuing cost leadership and differentiation strategies, and (b) the benefits family businesses may obtain by pursuing the cost leadership and differentiation strategies will be bolstered or hampered by their social networking activities, given their unique characteristics and the turbulent institutional environments in developing countries in which they operate.

Family Businesses and Business Strategy

Family business researchers point to several unique characteristics of family businesses that allow them to strategically organize their business activities efficiently and effectively. According to Hoffman, Hoelscher and Sorensen (2006), the unique characteristic that distinguishes a family business from other businesses is the influence of the family relationships on the business. These relationships are revealed in the following characteristics. First, in family businesses there is a paternalistic relationship between the owners/managers and employees (Bertrand and Schoar, 2006), have cohesive clan cultures in which employees are hired for the long-run and treated generously (Miller and Le Breton-Miller, 2005). Second, family businesses have unique capabilities which engender trust, inspiration, motivation, and commitment among the workforce. Moreover, there is a strong desire to develop customer relationships and the demonstration of flexibility in decision-making (Tokarczyk et al., 2007). Third, the reputation of family businesses are more trustworthy and experience a lower overall transactions cost (Tagiuri and

Davis, 1996). Family businesses are apt to build social relationships and connections, and are known to have the integrity and commitment to keep those relationships (Miller et al., 2009). Finally, families may control their businesses by giving priority to family members in top management and other sensitive positions, and are also selective in their recruitment procedures (Bertrand and Schoar, 2006). This allows family businesses to have lower recruitment and human resource costs, and thus makes them more efficient than other labor-intensive businesses (Levring and Moskowitz, 1993). These characteristics create a unique and flexible work environment that inspires employees to be motivated, committed and loyal to the business, and focus on the well-being of customers, in order for the business to implement an efficient and effective business strategy.

Cost leadership strategy

Cost leadership strategy is usually developed around organization-wide efficiency. In order for firms implementing the cost leadership strategy to maintain a strong competitive position and sustain their profit margins for a considerable period of time, they have to place a premium on efficiency of operations in all functional areas (Porter, 1980). Firms that implement a cost leadership strategy are able to secure a relatively large market share by being the lowest cost producers or service providers in their industry or market. Thus, firms implementing the cost leadership strategy can obtain above-normal profits because of their ability to lower prices to match or even below those of competitors and still earn profits. In Ghana, the cost leadership strategy is widely pursued by firms who manufacture or offer standardized products and services. This is because with the low level of incomes in the country price is an important factor influencing consumer choice and purchasing decisions. Family businesses characteristics of paternalistic relationship with employees, long-term hiring strategy, the stability and long tenure of family executives, trustworthiness, and enduring social relationships can facilitate in creating efficiency in the use of resources and capabilities. These unique characteristics can also assist in reducing human resource-related and other transactions costs by providing reliable access to low-cost raw materials, distribution networks, and financial resources to sustain capital investments and increase the efficacy of existing manufacturing and service operations. Thus, family firms in Ghana will benefit by implementing the cost leadership strategy.

Hypothesis 1(a): *A cost leadership strategy will be positively related to performance for family businesses in Ghana.*

Differentiation strategy

Differentiation strategy is usually developed around many characteristics such as product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques. Thus, a firm that implements a differentiation strategy enjoys the benefit of price-inelastic demand for its product or service. This would in turn help the firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits (Porter, 1980). Although the average disposable income in an African emerging economy such as Ghana is low, consumers' preference for quality and branded merchandise has increased because of their exposure to foreign made goods making the differentiation strategy both appealing and profitable. The unique characteristics of trust, paternalism, flexibility, integrity, reputation, social relationship building and customer focus of family businesses in Ghana would allow them to build customer loyalty required for the successful implementation of the differentiation strategy. Moreover, the flexibility that can be exhibited by family business managers imply that they have greater authority and discretion in how they use the financial, human and other resources and capabilities of the business. Therefore, family businesses in Ghana can easily embark on innovative activities to improve the quality and durability of their products or services. They can also act more aggressively and decisively when entering new product markets or developing new products (Carney, 2005). The dedicated and motivated workforce of family businesses can also act as a valuable, scarce, and inimitable resource that can assist them in implementing a differentiation strategy (Barney, 1991). In fact, it has been found that family businesses in advanced economies tend to value creativity and pay more attention to investment in research and development (Ward, 1997).

Hypothesis 1(b): *A differentiation strategy will be positively related to performance for family businesses in Ghana.*

Moderating Role of Social Networking on Business Strategy-Performance Relationship

One of the defining characteristic of family businesses is their affinity to establish enduring and committed social connections or networking relationships with external stakeholders such as community leaders, political leaders and government bureaucratic officials. This may be especially valuable in developing economies as the social networking relationships family businesses are able to establish can make up for the "institutional voids" – the relative lack of intermediary firms, weak regulatory systems, and underdeveloped contract-enforcing agencies and mechanisms (Khanna and Palepu, 1997). These institutional voids fetter arms-length transactions and economic exchange in the product, labor and capital markets in developing economies (Miller et al., 2009). Thus the social networking relationships family firms develop with external stakeholders build social capital and enable them to obtain the critical resources in the form of information, knowledge acquisition and exploitation, financial capital, human capital, and marketing and technological opportunities. In this section, I argue that the social networking relationships family businesses build with external stakeholders may help provide them with the necessary resources and capabilities that would be required to support their business strategic activities.

Social Networking Relationship with Community Leaders and Business Strategy

The social system of Ghana is highly collectivistic and embedded in cultures and traditions that thrive on communal bonds, interpersonal relationships, and strong allegiance to community and family leadership (Adu-Febiri, 1995). The extended family and broader community (especially kings of ethnic groups, chiefs of towns and cities, and village heads) are seen as the cultural standard bearers, and they play a critical function in the lives and activities of individuals and organizations. Religious leaders, whether traditional or modern (e.g., Christianity, Islam, etc.), have also become very influential in decision-making among individuals and business leaders in Ghana. This is because of the high levels of shared trust, norms and values developed from the repeated informal interpersonal relationships between a community and its traditional and religious leadership. Community leaders in Ghana are the guardians of societal norms, shared understandings, and expectations, which define socially acceptable practices and behavior in a community's business environment (Salm & Falola, 2002). Moreover, community leaders are very influential in garnering resources and providing access to valuable information and knowledge to family businesses. Managerial connections with community leaders will provide a family business with the resources for the successful implementation of both differentiation and cost leadership strategies.

The successful implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 1980). Similarly, to implement the cost leadership strategy successfully, a family business would need resources such as secured source of raw materials, access to low-cost distribution networks, financial resources for sustained capital investments to increase the efficiency of existing operations through continual improvements, and technical personnel with process engineering skills and expertise.

The social networking relationships developed by family businesses with community leaders would facilitate their legitimacy and promote access to resources and information as community leaders endorse and refer the products and/or services of family businesses to their communities. The social networking relationships may also enable family businesses to obtain access to resources such as favorable leases to land for construction or agricultural purposes, enter new market segments or acquire access to new customers, and/or gain technological know-how. It has been shown that entrepreneurs in

Ghana cultivate personal and social networking relationships with community leaders (kings, chiefs and religious) to avail themselves to information about business opportunities, and establish links to sources of financial resources and markets for their products (Kuada & Buame, 2000). Thus, social networking relationships with community leaders will strengthen the effects of business strategy on performance.

Hypothesis 2*: Social networking relationships with community leaders will positively moderate the influence of (a) cost leadership strategy and (b) differentiation strategy on the performance of family businesses in Ghana.*

Social Networking with Government Officials and Business Strategy

The government also plays an important role in regulating business activities and providing resources and opportunities to businesses in Ghana because of the relative lack of intermediary firms, weak regulatory systems and legal institutions, and underdeveloped contract-enforcing agencies and mechanisms. This creates a high level of organizational dependency on the government for valuable resources and favorable regulations for the strategic organization of business activities. Government officials are made up of political leaders and bureaucratic officials. In Ghana, there is a distinction between the role of political leaders and bureaucratic officials. While political leaders are elected into office for a specified period of time, bureaucratic officials are supposed to be politically neutral in the performance of their duty and therefore hold their position irrespective of the political regime in power. Moreover, while political leaders have significant influence and control over the award of major projects and contracts, and access to financial resources for business activities, bureaucratic officials control the regulatory and licensing procedures such as providing certification and approval to newly manufactured products as meeting government standards.

The social networking relationships family businesses in Ghana develop with political leaders at different levels of government, and officials in government bureaucratic institutions provide them with the opportunities to obtain access to resources and opportunities which may help them implement the business strategies of differentiation and cost leadership. I argue that while social networking with political leaders may negatively moderate the relationship between business strategy and performance, social networking with bureaucratic officials will positively moderate the business strategy and performance relationship for family businesses. Both political leaders and government bureaucratic officials have considerable power and control over the allocation of resources in Ghana. However, politicians are in office usually for a short period of time. The political system in Ghana is also characterized by the "winner takes all" syndrome which encourages political leaders to extract as much benefit as possible from their social networking relationships before they leave office. Moreover, because of family businesses desire to create enduring and committed social relationships with external stakeholders, political leaders are more likely to request family businesses to reciprocate the benefits they may obtain from their social networking relationships with favors in the form of providing gifts, offering perks, and hiring unqualified family members. Thus, the social networking relationships with political leaders may be costly since they entail significant obligations in the use of resources to reciprocate the favors which may limit the ability of family firms to effectively implement both the differentiation and cost leadership strategies.

Conversely, bureaucratic officials usually have a long-term appointment to their positions and cherish the enduring and committed connections they develop with family businesses. Moreover, government bureaucratic officials in investment institutions have the responsibility to promote investment, funding and market opportunities to enable businesses succeed. Thus they are more likely to treat family businesses more favorably by providing them with information about new and impending regulations that may affect their businesses and industry; investment, funding and market opportunities; access to available contract to be awarded by the government; and help with certification and approval to newly manufactured products in order to meet government standards. Bureaucratic officials can therefore provide family businesses access to resources and opportunities which may affect an organization's activities by maximizing the efficiency and effectiveness and thus facilitate the successful implementation of the differentiation and cost leadership strategies. Therefore, family businesses that develop extensive personal and social networking relationships with bureaucratic officials will more easily be able to secure the resources necessary for the strategic organization of their activities and be successful in guiding their firms to higher performance through the implementation of the differentiation and cost leadership strategies. Thus, the following hypotheses:

Hypothesis 2*: Social networking relationships with political leaders will negatively moderate the influence of (a) cost leadership strategy and (b) differentiation strategy on the performance of family businesses in Ghana.*

Hypothesis 3*: Social networking relationship with bureaucratic officials will positively moderate the influence of (a) cost leadership strategy and (b) differentiation strategy on the performance of family businesses in Ghana.*

METHOD

The hypotheses were tested with data collected from senior executives (e.g., chief executive officers (CEOs)), and the chief financial officers) of family-owned businesses operating in Ghana in 2002 and again in 2005. The sample consisted of 80 family-owned businesses selected from the 2001 edition of the *Ghana Business Directory*. While the family business literature offer several definitions of a family business (e.g., Anderson and Reeb, 2003; Chrisman, Chua, and Sharma, 2005; Westhead and Cowling, 1998), I define a family business as a business that is owned and controlled by a specific family, and where family members are involved in the business' management and decision-making processes. This definition is effective for this study because in Ghana a business is considered a family business if it is usually 100 percent owned by a specific family. I therefore asked the CEO's of the businesses to indicate whether (1) the business is 100% owned by a specific family ("yes" or "no"), (2) family members controlled the business, and (3) family members were involved in the business as directors or employees. A "yes" response to all the three questions is required to be included in the sample.

The senior executives of the family-owned businesses were sent letters in the latter part of 2002 requesting their participation in the study. To ensure a high response rate and the provision of reliable and accurate responses, the senior executives (mostly CEO's) were promised that information about the respondents and the company will be kept in strict confidence. Several weeks after the letters were sent to the selected companies', personal visits were made to the companies. The CEOs were given the questionnaires and a mutually agreed upon date to collect the completed questionnaires was determined. After several visits to the companies, responses from 61 family businesses were received with 54 being useable for a response rate of 57.5% percent. In 2005, a follow-up data was collected from the 54 family businesses using the same questionnaire survey that was administered in 2002. All the firms completed the survey administered in 2005, but only 50 of the 54 family businesses provided complete responses to all the questionnaire items. Thus the total observations collected in the two time periods are 104.

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' tenure with their companies was 11.6 years, and their managerial position tenure was about 9 years. Common method variance was examined through two methods during the survey design and administration, and one post-hoc statistical test was run. First, information on business strategy and social networking relationships developed with external entities were solicited for the three-year periods 1998-2000 for data collected in 2002 and 2001-2003 for data collected in 2005, while information on organizational performance was solicited for the following two-year periods: (a) 2001-2002 for data collected in 2002; and (b) 2004-2005 for data collected in 2005. Second, information on the independent variables was obtained from the CEOs and their deputies, while the performance information was collected from the heads of the accounting/finance function. Third, a factor analysis of the items on the business strategy and social networking relationship variables yielded five factors with eigenvalues greater than one and the first factor accounting for about 24 percent of the variance. Thus, common method variance is minimized (Harman, 1967).

Dependent and Independent Variables

Firm Performance

Firm performance was measured by focusing on return on assets (ROA) and return on sales (ROS). I solicited self-reported data on ROA and ROS from the head of the accounting and finance function in each family business. The respondents were asked to rate their business' ROA and ROS relative to their major competitors in their industry for the two-year periods 2001-2002 and 2004-2005. ROA and ROS were both measured on a scale ranging from (1) *'much worse'* to (7) '*much better'*. The use of perceptual measures is common in situations where objective data are either not available or difficult to obtain. Many studies have established the convergent, discriminant, and construct validities between perceptual measures of performance which are used as substitutes for objective measures of performance (e.g., Wall et al., 2004). While the use of perceptual performance data may introduce measurement errors and the potential problem of mono-method bias, a second set of respondents were used for the performance information to minimize these problems. The correlation between the ROAs in 2002 and 2005 was 0.81, $p < 0.001$, and that between the ROSs in 2002 and 2005 was 0.79, $p < 0.001$.

Business Strategy

Business strategy was measured by using Porter's generic typology. My assessment of business strategy was based on 13 items derived from the theoretical and empirical literature (e.g., Dess and Davis 1984; Campbell-Hunt 2000; Kotha and Vadlamani 1995). The respondents were asked to assess the extent to which their businesses have placed emphasis on several competitive methods for the three-year periods 1998-2000 and 2001-2003 on a seven-point scale ranging from (1) *"much less"* to (7) *"much more."* *Cost leadership strategy* ($\alpha = 0.85$) was assessed 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 = 0.79*) 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.

Networking Relationships

Networking relationships was measured by examining the development of interpersonal and social networking relationships by top managers of family-owned businesses in Ghana with (1) community leaders; (2) government political leaders; and (3) government bureaucratic officials. The managers were asked to assess the extent to which (1) top managers in their businesses have *developed* and *used* personal and social networking relationships for the three year periods 1998 - 2000 and 2001-2003 respectively on a seven-point scale, ranging from (1) "*very little'* to (7) *'very extensive*'. Social networking relationships with *community leaders (α = 0.77)* was measured using two items: social networking relationships with local kings, chiefs and/or their representatives, and leaders of religious organizations (e.g., pastors, priests, traditional religious leaders, and imams). Social networking relationships with *political leaders (α = 0.85)* were measured using four items: social networking relationships with city council politicians (mayor and council members), district council politicians (the district chief executive and members of district council assembly), regional government politicians, national government politicians' (e.g., ministers and parliamentarians). Social networking relationships with *bureaucratic officials (α =0.89)* was measured using two items: civil/public service officials in regulatory and supporting institutions (e.g., Internal Revenue Service, the Central Bank, Environmental Protection Agency, etc.), and officials in investment and industrial institutions (e.g., Investment Board, Export Promotion Council, the Stock Exchange, etc.).

Control Variables

The control variables included in the study are firm age, firm size, business sector, market competition, and year dummy. *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 businesses and 0 for service businesses. Because I pooled two periods of data, I included a dummy variable, *Period dummy*, which was coded 1 if an observation corresponds to a data collected in 2002 and 0 if an observation corresponds to a data collected in 2005 to pick up any fixed effects that varied between the two periods. *Competitive intensity (α = 0.79)* was operationalized with six items. The respondents were asked to indicate the extent to which the following activities have taken place in their firm's industry within the three-year periods 1998-2000 and 2001-2003: (a) increase in the number of major competitors; (b) use of package deals for customers; (c) frequency of new product or service introductions; (d) the rate of change in price manipulations; (e) increase in the number of companies which have access to the same marketing channels; and (f) frequency of changes in government regulations affecting the industry (Mia and Clarke, 1999). These activities were measured on a seven-point scale ranging from (1) *"very little"* to (7) *"very extensive."*

Statistical Analysis

A pooled time series and cross-section (TSCS) regression model with a time lag between the dependent and independent variables was used to examine the relationship between business strategy, social networking relationships and firm performance in family businesses (e.g., Mosakowski, 1993; Wiklund and Shepherd, 2003). The business strategy variables of cost leadership and differentiation, and social networking relationships with external entities were solicited over the three-year periods 1998-2000 and 2001-2003. The performance variables, ROA and ROS, on the other hand, were measured using the responses for the two-year periods 2001-2002, and 2004-2005 for data collected in 2002 and 2005 respectively.

RESULTS

Table1 provides the means, standard deviations and the correlations among the variables. It shows significant correlations among some of the variables, especially between the business strategy variables and firm performance on the one hand and networking relationships and firm performance on the other hand. The validity of the econometric model was examined through several tests. Multicollinearity was examined by checking the variance inflation factors (VIFs) of the hypothesized variables in the estimated model. All the VIFs were all less than 10 indicating that collinearity was not a problem (Neter et al., 1996). The assumptions of equality of variance, independence of the error terms, and the normality of the residuals were all met. The Durbin–Watson statistics also indicated that autocorrelation is not a problem and thus the pooled cross-section and time series model is adequate (Gujarati, 2003).

***********INSERT TABLES 1, 2A AND 2B ABOUT HERE**************

The standardized results of the estimated pooled TSCS regression models are presented in Tables 2A and 2B. Models 1 and 5 present the results of the base models using ROA and ROS as dependent variables respectively. In Model 1, business sector and competitive intensity were significantly related to ROA while only competitive intensity was related to ROS in Model 5. In Models 2 and 6, I added the business strategy and networking relationship variables to the control variables to examine hypotheses 1a and 1b. The results indicate that the business strategy variables of cost leadership and differentiation were both significant and positively related to ROA and ROS for family businesses. Thus, hypotheses 1a and 1b were supported. Moreover, while networking relationships with community leaders and bureaucratic officials were significant and positively related to ROA and ROS, networking with political leaders was significant and negatively related to both ROA and ROS.

In Models 3 and 7, I included the interaction between cost leadership strategy and the social networking variables (community leaders, political leaders and bureaucratic officials) to the variables in Models 2 and 6, while Models 4 and 8 adds the interaction between differentiation strategy and social networking variables to Models 2 and 6. Hypothesis 2 (H2) examines the moderating effect of networking with community leaders on the relationship between business strategy and firm performance for family businesses. The results in Models 3 and 7 indicate that networking with community leaders positively moderates the relationship between cost leadership strategy and ROA ($\beta = 0.148$, $p < 0.05$) but not ROS. However, from Models 4 and 8, networking relationship with community leaders positively moderates the relationship between differentiation strategy and both ROA ($\beta = 0.175$, $p < 0.05$) and ROS ($\beta = 0.160$, $p < 0.05$). Thus H2 is partially supported.

Hypothesis 3 states that networking relationships with political leaders will negatively moderate the influence of cost leadership strategy and differentiation strategy on the performance of family businesses. The results from Models 3 and 7 show that networking relationships with political leaders negatively moderates the relationship between cost leadership strategy and both ROA ($\beta = -0.286$, $p < 0.001$) and ROS ($\beta = -0.217$, $p < 0.01$). On the contrary the results in Models 4 and 8 show that the interaction between networking with political leaders and differentiation strategy does not influence both ROA and ROS for family businesses. Thus H3 is also partially supported. Hypothesis 4 states that networking relationships with bureaucratic officials will positively moderate the influence of cost leadership strategy and differentiation strategy on the performance of family businesses. The results from Models 3 and 7, and also Models 4 and 8 indicate that networking relationships with political leaders do not moderate the influence of cost leadership strategy and differentiation strategy on the performance of family businesses. H4 is therefore not supported. Figure 2 presents the plots of the moderating effects of social networking relationship with community leaders and political leaders on the relationship between business strategy and ROA. As depicted in the graphs, in congruence with the hypotheses, the effects of the cost leadership and differentiation strategies on ROA become more positive the extensive the social networking relationship with community leaders, while the effects of the cost leadership strategy on ROA becomes negative the extensive the social networking relationship with political leaders.

********** INSERT FIGURE 2 ABOUT HERE**************************

DISCUSSION AND CONCLUSION

Family businesses dominate the business landscape in Africa and other developing economies and contribute significantly to employment, entrepreneurship, community development, and economic growth and development. This study examined the direct effects of the implementation of the business strategies of cost leadership and differentiation on the performance of family businesses in Ghana. The research further examined how family businesses' development of social networking relationships with external stakeholders moderates the effects of business strategy on performance. The findings lend support to most of the hypothesized relationships. The findings indicate that both cost leadership and differentiation enhance the performance of family firms in Ghana. The findings further show that social networking relationships with different external stakeholders moderate the influence of both cost leadership and differentiation strategies on the performance of family businesses. The findings are interesting because social networking relationships with different external stakeholders moderate the benefits of cost leadership and differentiation differently. Specifically, while social networking relationships with community leaders augment the positive impact of both cost leadership and differentiation strategies on the performance of family businesses, social networking relationships with political leaders impede the positive effect of both cost leadership and differentiation on the performance of family businesses. At the same time, social networking relationships with bureaucratic officials do not influence the business strategy-performance relationship for family businesses.

The findings contribute to the family business literature in several ways. First, despite the importance of business strategy in the strategic activities of family businesses, little is known about how family businesses business strategies affect their performance. The findings provide support for the viability and performance benefits for pursuing cost leadership and differentiation strategies by family businesses. The reliance of family businesses on their unique characteristics of paternalism, long-term employment relationships, stability and tenure of executives enable them to become efficient in several areas of the business activities and thus benefit from the cost leadership strategy. On the other hand, family businesses leverage the advantages inherent in their unique characteristics of flexibility, paternalism, generosity, long-lasting relationships, and close and emotional ties to employees to create a dedicated, motivated and committed workforce. These dedicated, motivated and committed employees focus on customers to build customer loyalty and are more likely to engage in innovative activities that enhances the quality of their products and services and provides significant benefits to family businesses implementing the differentiation strategy.

Second, the findings also contributes to family business research by showing that social networking relationships that are developed by family businesses can be both beneficial as well as detrimental to the implementation of business strategy. The findings indicated that business strategic activities of family businesses are moderated by social networking relationships with community leaders and political leaders in different directions. Social networking relationships forged with community leaders is a critical source of resources, information, learning, and knowledge that is leveraged to minimize threats, exploit opportunities and support the successful implementation of business strategy. Thus community leaders in Ghana act as bridges between the family businesses and the larger community by spreading information, endorsing and referring products, and providing access to resources.

In contrast, social networking relationships with political leaders impede the effect of business strategy on performance. Social networking relationships with political leaders entail significant obligations to reciprocate the favors, which may limit the ability of family businesses in Ghana which are already resource-poor to pursue new opportunities and efficiently and effectively pursue a business strategy that may enhance performance (Gargiulo and Benassi, 2000). These findings clearly indicate that there is a potential downside to cultivating social networking relationships with external stakeholders in developing countries. The findings reinforce the arguments by Gargiulo and Benassi (2000) and Portes and Sensenbrenner (1993) about the “dark side” of social capital. Moreover, Li et al (2009) have shown that ties with political leaders (defined as politicians and government bureaucrats) negatively moderates the effect of differentiation strategy and performance of foreign firms operating in China. Thus, while social networking relationships with community leaders strengthens the effects of both cost leadership and differentiation on performance, social networking relationships with political leaders is detrimental to the performance of family businesses in Ghana.

Although social networking relationships with bureaucratic officials has a direct positive influence on performance for family businesses, it does not moderate the influence of both cost leadership and differentiation strategies on performance for family businesses. This may imply that the benefits family businesses obtain by developing networking relationships with bureaucratic officials are independent from the benefits of implementing a business strategy. The findings from the interactive analyses imply that family businesses in Ghana should be circumspect about the extensive use of social networking relationships with political leaders as they overburden the organizations through the reciprocity of favors, and thus decrease the benefits they experience from their business strategic activities. Family businesses in Ghana should rather strengthen their connections with community leaders so as to gain legitimacy in their communities and obtain the resources, information, endorsement, and market opportunities for implementing their business strategies.

Limitations

This study is not without limitations. First, I used subjective measures of performance instead of objective measures. Objective performance measures would have been preferable but all the family businesses were privately owned so objective performance information was difficult to obtain. Moreover, as stated earlier, Wall et al (2004) have demonstrated the validity of subjective performance measures as substitutes for objective performance measures. Second, a study that explicitly uses longitudinal data over a longer time period would provide more robust conclusions about the direct effects of business strategy and the impact of the interaction between business strategy and social networking relationships on performance for family businesses. I have made the attempt to longitudinally link cause and effect relationships between business strategy and performance, on the one hand, and the interaction between business strategy and social networking relationships and performance, on the other hand for family businesses in Ghana. Nonetheless, the results may not be completely free from ascertaining associations between the independent variables and performance. But, by soliciting information on business strategy and the development of social networking relationships from one time period and performance (ROA and ROS) from another time period, the results may indeed be establishing causality. Third, the study was limited to a small developing economy in Sub-Saharan Africa, which obviously may affect its generalizability to other emerging economies in Asia, Latin America, and Central and Eastern Europe. However, the cultural, institutional and economic environment in Ghana may be similar to those in other low-income Sub-Saharan African countries and thus the findings could be generalized to those environments.

Conclusion

This is one of the few empirical studies that have examined the direct and interactive effects of business strategy and social networking relationships on the performance of family businesses. Moreover, the study uses data over two time periods, a rarity in family business research in emerging or developing economies. The study demonstrates that family businesses rely on their unique characteristics to benefit from the implementation of both cost leadership and differentiation strategies. Moreover, the unique characteristics of family businesses predispose them to the development of enduring and committed social connections with external stakeholders. The social networking relationships family businesses in Ghana create with different external stakeholders interact with business strategy to influence their performance differently. Future research should examine these relationships in other emerging or developing economies so as to deepen our understanding of the interactive effects of business strategy and social networking on performance for family businesses and help in providing us with rich insights into their interplay in family business research.

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Table 1: Descriptive Statistics and Correlation Matrix of Variables (N=104)

Variables	**1**	**2**	**3**	**4**	**5**	**7**	**8**	**9**	**10**	**11**	**12**
1. ROA											
2. ROS	0.80										
3. Networking with community leaders	0.31	0.34	**0.77**								
4. Networking with political leaders	-0.02	0.02	0.16	**0.85**							
5. Networking with bureaucratic officials	0.25	0.26	0.02	0.39	**0.79**						
7. Cost leadership strategy	0.36	0.28	0.24	0.10	-0.03	**0.79**					
8. Differentiation strategy	0.37	0.47	0.04	0.08	0.28	-0.11	**0.85**				
9. Firm size [a]	0.04	0.08	0.24	0.26	0.10	-0.12	0.07				
10. Business sector [b]	-0.24	-0.14	-0.28	-0.44	-0.13	-0.10	0.02	-0.43			
11. Competitive intensity	0.41	0.40	0.06	-0.08	0.06	0.21	0.46	0.05	-0.01	**0.79**	
12. Firm age [c]	-0.12	-0.01	-0.05	0.01	0.04	-0.20	0.06	0.17	-0.04	-0.12	
Mean	4.64	4.59	3.96	2.72	4.99	4.56	4.62	1.60	0.85	4.91	1.39
Standard Deviation	1.34	1.31	1.12	1.19	1.27	1.34	1.11	0.25	0.36	1.26	0.25

The values in diagonals are Cronbach alphas (reliabilities).
[a] Log of number of employees
[b] Manufacturing firms coded 1, service firms coded 0.
[c] Log of the number of years since incorporation or formation of organization.
Significance levels: For $r > 0.19$, $p < 0.05$; $r > 0.26$, $p < 0.01$; and $r > 0.34$, $p < 0.001$.

Table 2A Regression Analyses of Pooled Data for Return on Assets (ROA) as Dependent Variable (N=104)

Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
Controls	***β (S.E.)***	***β□ (S.E.)***	***β□ (S.E.)***	***β (S.E.)***
Business sector [a]	-0.284** (0.093)	-0.281** (0.088)	-0.294*** (0.082)	-0.259** (0.090)
Firm Age [b]	-0.058 (0.085)	-0.043 (0.074)	-0.042 (0.069)	-0.009 (0.069)
Firm Size [c]	-0.115 (0.104)	-0.089 (0.093)	-0.002 (0.088)	-0.029 (0.102)
Competitive Intensity	0.506*** (0.084)	0.299*** (0.086)	0.267*** (0.080)	0.330*** (0.087)
Period dummy 2002 [d]	0.054 (0.093)	0.047 (0.080)	-0.007 (0.075)	-0.011 (0.082)
Independent Variables				
Cost leadership strategy (CLS)	-	0.271*** (0.080)	0.265*** (0.075)	0.287*** (0.080)
Differentiation strategy (DFS)		0.224** (0.087)	0.217** (0.081)	0.225** (0.087)
Community leaders		0.188* (0.078)	0.253*** (0.074)	0.187* (0.076)
Political leaders		-0.267** (0.087)	-0.334*** (0.083)	-0.232** (0.089)
Bureaucratic officials		0.249** (0.080)	0.315*** (0.076)	0.249** (0.082)
Interactions				
Community leaders x CLS			0.148* (0.069)	
Political leaders x CLS			-0.286*** (0.073)	
Bureaucratic officials x CLS			-0.008 (0.071)	
Community leaders x DFS				0.175* (0.075)
Political Leaders x DFS				-0.067 (0.095)
Bureaucratic officials x DFS				-0.038 (0.086)
Adjusted R^2	0.296	0.482	0.559	0.508
Change in Adjusted $R^{2\,d}$		0.186	0.077	0.026
Durbin-Watson Statistic	2.357	2.144	2.017	2.239
Model *F*	9.67***	10.57***	11.03***	8.86***

N = 104. The reported coefficients are standardized values.
[a] Dummy variable coded (1) for manufacturing businesses, and (0) service businesses.
[b] Log of the number of years since incorporation or formation of organization.
[c] Logarithm of the number of employees.
[d] Dummy variable coded (1) for data collected in 2002, and (0) for data collected in 2005.
Significance levels: + *p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001.*

Table 2B Regression Analyses of Pooled Data for Return on Sales (ROS) as Dependent Variable (N=104)

Variables	**Model 5**	**Model 6**	**Model 7**	**Model 8**
Controls	***β□(S.E.)***	***β□(S.E.)***	***β (S.E.)***	***β (S.E.)***
Business sector [a]	-0.138 (0.097)	-0.100 (0.091)	-0.094 (0.091)	-0.099 (0.093)
Firm Age [b]	-0.050 (0.088)	0.058 (0.076)	0.074 (0.077)	0.119 (0.082)
Firm Size [c]	-0.20 (0.108)	-0.036 (0.096)	0.002 (0.098)	-0.009 (0.106)
Competitive Intensity	0.515*** (0.087)	0.289** (0.089)	0.280** (0.089)	0.323*** (0.090)
Period dummy 2002 [d]	0.010 (0.097)	0.016 (0.083)	0.007 (0.083)	0.011 (0.085)
Independent Variables				
Cost leadership strategy (CLS)	-	0.212** (0.082)	0.223** (0.084)	0.218** (0.082)
Differentiation strategy (DFS)		0.304*** (0.090)	0.298*** (0.090)	0.309*** (0.091)
Community leaders		0.265*** (0.080)	0.280*** (0.082)	0.268*** (0.079)
Political leaders		-0.161+ (0.089)	-0.189* (0.092)	-0.165+ (0.092)
Bureaucratic officials		0.205* (0.082)	0.240** (0.084)	0.216* (0.085)
Interactions				
Community leaders x CLS			0.013 (0.077)	
Political leaders x CLS			-0.217** (0.084)	
Bureaucratic officials x CLS			-0.065 (0.079)	
Community leaders x DFS				0.160* (0.079)
Political Leaders x DFS				-0.055 (0.099)
Bureaucratic officials x DFS				0.091 (0.089)
Adjusted R^2	0.243	0.449	0.486	0.484
Change in Adjusted $R^{2\,d}$		0.206	0.037	0.035
Durbin-Watson Statistic	2.011	1.945	1.993	2.239
Model *F*	7.60***	9.41***	7.63***	8.86***

N = 104. The reported coefficients are standardized values.
[a] Dummy variable coded (1) for manufacturing businesses, and (0) service businesses.
[b] Log of the number of years since incorporation or formation of organization.
[c] Logarithm of the number of employees.
[d] Dummy variable coded (1) for data collected in 2002, and (0) for data collected in 2005.
Significance levels: + *p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001.*

FIGURE 1: Conceptual Model

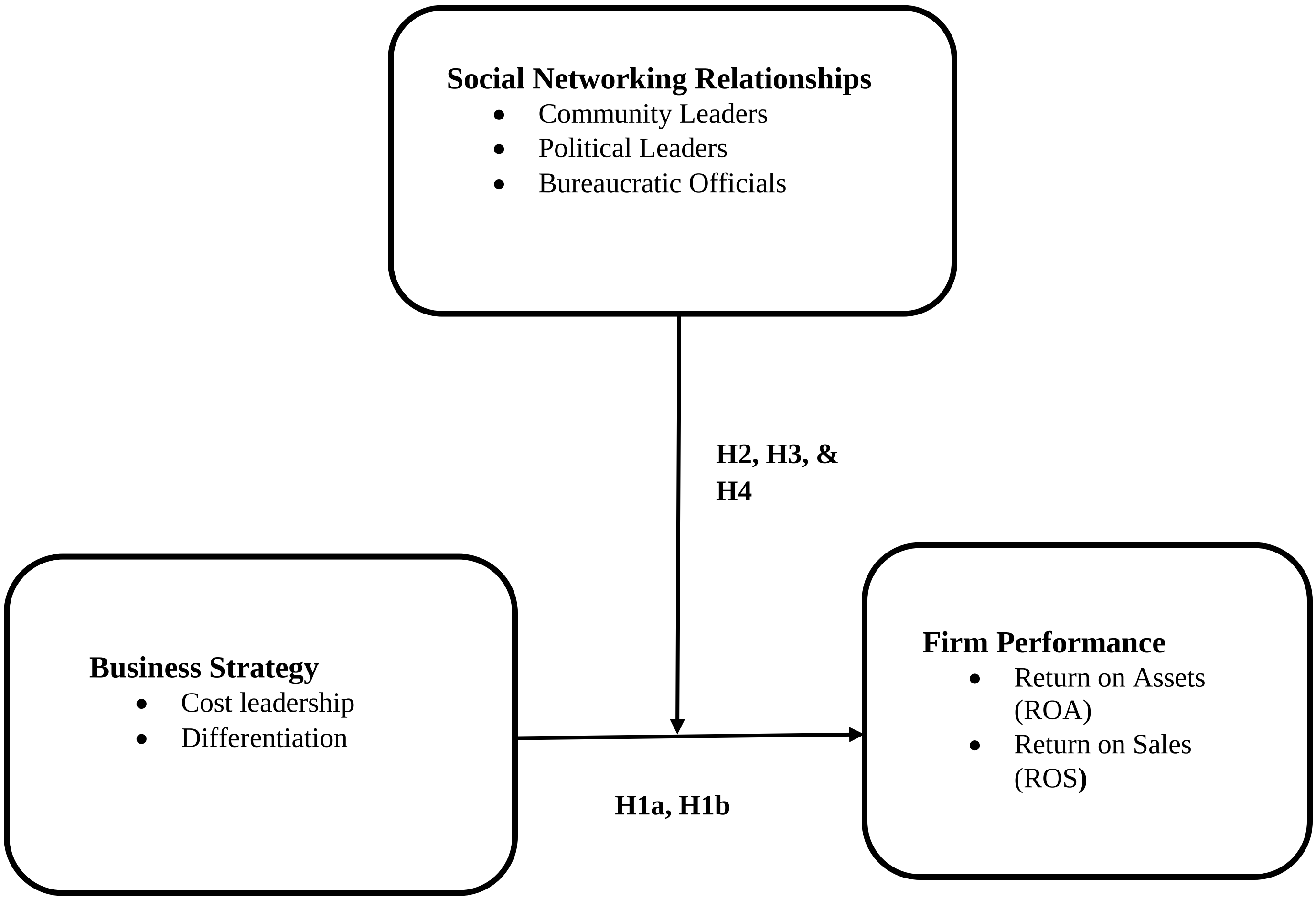
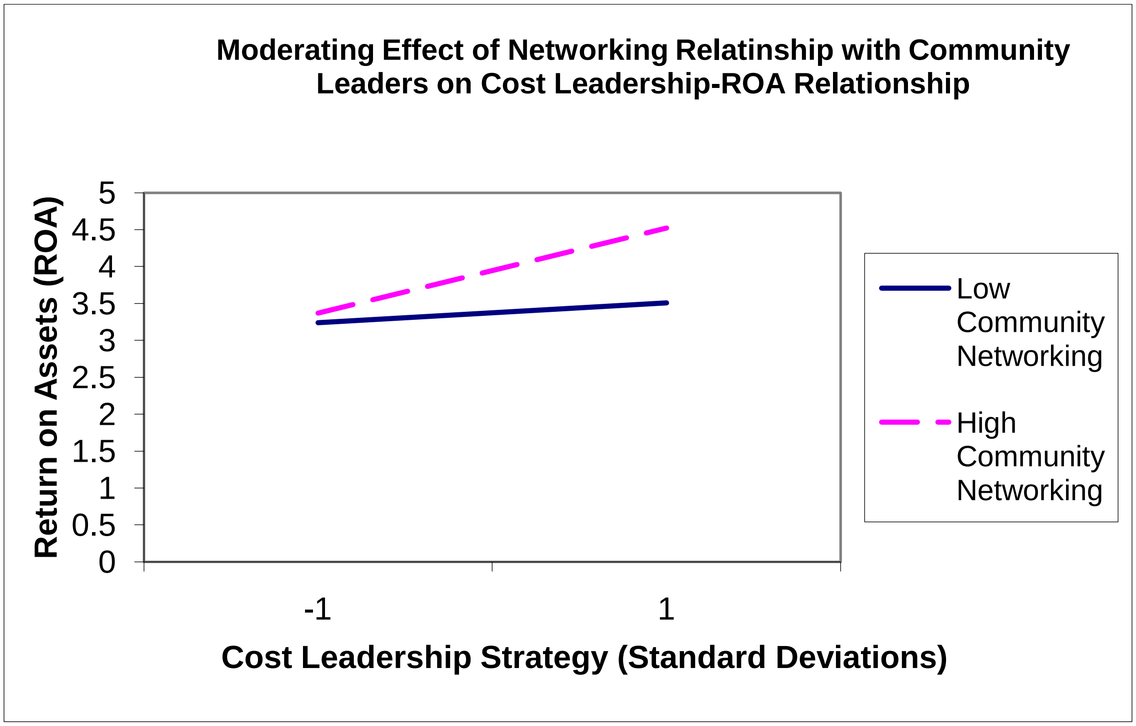
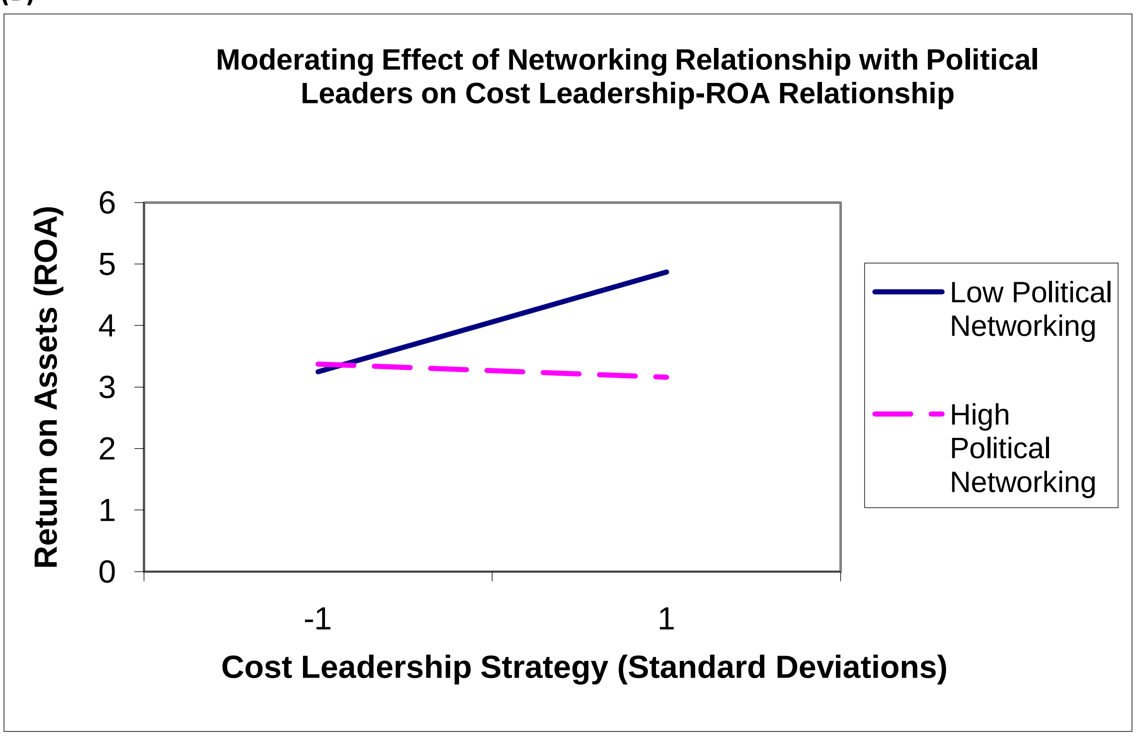


FIGURE 2: Plot of Interaction Relationships

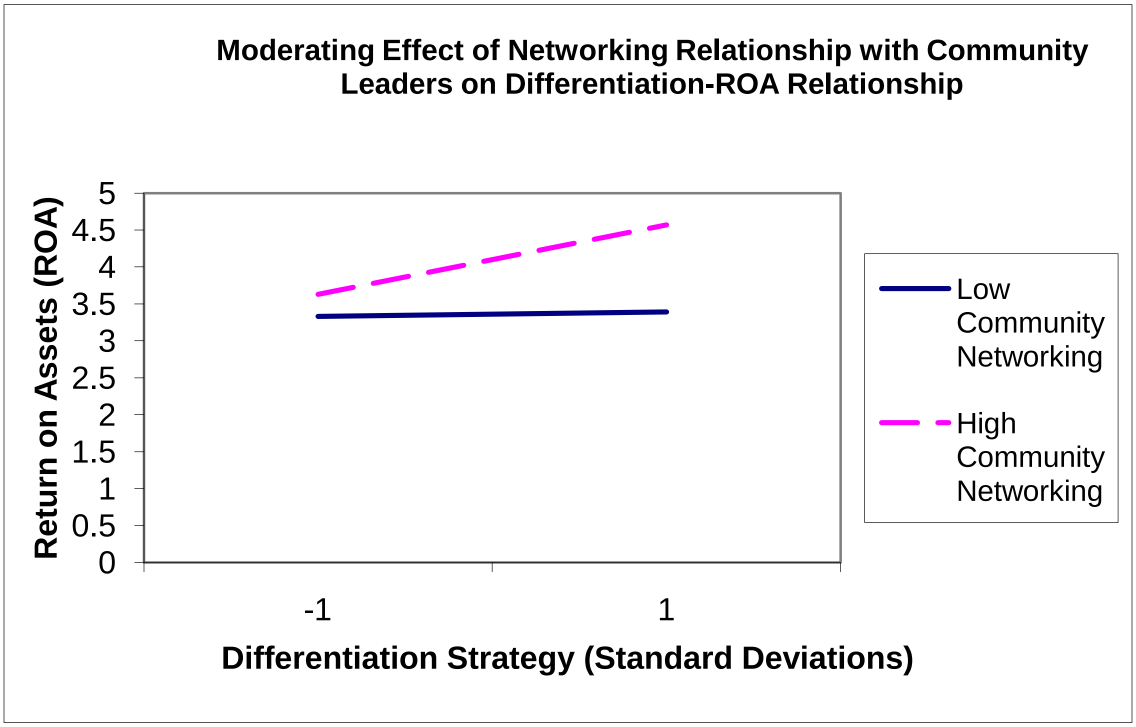
(A)



(B)



(C)


Moderating Effect of Networking Relationship with Community Leaders on Differentiation-ROA Relationship
Return on Assets (ROA)
5
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
-1
1
Differentiation Strategy (Standard Deviations)
Low Community Networking
High Community Networking