



Managerial Social Networks Affect on Firm Performance: A Research in Five Star Hotels

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Abstract

The purpose of this study is to examine the relationship between external social networks and firm performance. For this purpose, the sample and method of research were determined. The effect of the characteristics of top manager's social networks, such as the network size and the strength of ties, on firm performance, was measured. The data came from the survey completed by the top managers of five-star hotels in İstanbul and Antalya. First, explanatory factor analysis (AFA) for the construct validity of the scales and then reliability analysis (Cronbach's alpha) were performed in the study. The regression analysis was used for methodology. According to the results, there is no relationship between the network size and firm performance. There is a positive correlation between the strength of the ties and firm performance. Furthermore, we found that there is a positive correlation between ties with government officials and firm performance. Both findings support and extend social network theory and firm performance literature.

Keywords: External social networks, social networks, firm performance

1. INTRODUCTION

Managers naturally reflect their background and experience when they make strategic decisions. In this context, it is believed that managers' social networks, business connections, and network relations affect the strategic decisions and firm performance (Peng-Luo, 2000). When environmental uncertainty increases, it is suggested that firms are more likely to rely on social network relationships of managers (Powell, 1990). A social network can be defined as: "the relationship between a defined set of people or social actors" (Seibert, et al. 2001: 220).

Social capital theory suggests that external social networks have contributed widely to the performance of an organization (Leenders and Gabbay, 1999). Firms interact with suppliers and other firms to produce products and/or services at competitive prices and quality (Lee, Lee, and Pennings, 2001). Many studies have examined the effect of social capital on the performance of individuals (e.g. Burt, 1992) and firms (e.g. Koka and Prescott, 2002). However, these studies have examined the effect of top manager's ego-networks on firm performance and top manager's ties with government officials on firm performance. In this study, we focus on the social capital developed by the top managers through personal social network relationships with other firms and government officials may have for firm performance.

Several studies have shown that when managers develop network relationships with top managers of other firms, they can acquire resources, valuable information, and knowledge. Therefore, they can reduce uncertainties using these resources and thus improve their firm performance (Acquaah, 2007: 1239). For example, Park and Luo (2001) have shown that social networks with customers can increase sales by creating both customer and brand loyalty. Thus, managerial social ties and ties with managers of other firms can be used to improve organizational performance by allowing organizations to access knowledge, resources, and information.

This research tests whether two social network characteristics the size of the network and strength of the ties. Furthermore, the research test hotel manager's ties with government officials affect their firm performance. Finally, we present the conclusions and limitations of the research.

2. THEORETICAL FRAMEWORK

2.1. Social Networks

The external social network, defined as the systems of relationships that top managers have with other actors outside their organization (Collins-Clark, 2003), is largely recognized as a critical determinant in reaching knowledge and information (Gulati et al, 2000). The top managers of an organization can develop social capital via the number of personal, social and economic relationships with their competitors,



customers, suppliers, financial institutions and governmental institutions and community organizations. This capital can then be used for their organizations (Fernandez-Perez et al., 2013:136).

According to social network theory, managers who have better interpersonal communication tend to earn more income, get more frequent promotions and have the better career. There is a clear relationship between managers' social networks and achievements (Peng-Luo, 2000).

Two important characteristics of social networks are the size of network and strength of the ties (Cross-Cummings, 2004; Gabbay-Leenders, 2001). The size of the network is important because each link in the network represent an information channel (Anderson, 2008). Another important aspect of social network which is the influence of the flow of information is the strength of the ties. It facilitates information exchange among actors by establishing strong ties through these networks, which are based on continuous interaction, a common past and mutual trust (Fernandez-Perez et al., 2013). The strength of the ties is important to evaluate all the connections of actors in a network. Thus, information flows from one actor to other actors (Haythornthwaite, 1996: 327).

Social networks vary according to the size of network and intensity of the connections at the connection points (Burt, 1982). For example, a top manager can develop a very large social network with current and potential customers, but less communicates with other actors (such as competitors, suppliers, financial institutions). However, social networks can also vary according to the strength of the ties (Granovetter, 1973).

2.2. Firm Performance

Firm performance can be defined as the total measure of qualitative and quantitative contributions of an employee or group to their respective departments and their goals. In this context, it is important that an individual's performance will affect his/her firm performance. It is the duty of managers to improve the performance of the organization and therefore managers responsible to improve the performance of the employees (Bayram, 2006: 48).

There are two general approaches to measure firm performance: Subjective approach and objective approach. Non-financial performance dimensions such as

efficiency, quality, customer satisfaction, value creation in production, efficiency, product development, quality of working life and public responsibility can be used as the subjective approach (Erdem, et al. 2011: 85). Financial measures are objective indicators of firm performance such as return on investment, return on sales, and return on assets. Non-financial indicators measure firm performance (such as customer satisfaction, ethical behavior, stakeholder satisfaction) with subjective indicators (Jusoh-Parnell, 2008). Firm performance can be measured by obtaining data from secondary data (such as data from available sources) as well as primary data (for example, data obtained directly from the firm) (Venkatraman-Ramanujam, 1986).

2.3. External Social Networks and Firm Performance

External social networks are defined as the system of relationships that top managers have outside their organizations. External social networks are thought to be a critical determinant in reaching data and information (Fernandez-Perez, et al. 2013:135). Social capital theory suggests that a firm's external social networks contribute greatly to its performance (Leenders-Gabbay, 1999). Firms interact with suppliers and other partners produce products and/or services at competitive prices and quality (Lee, et al. 2001). Social network relationships between managers, key customers, and suppliers facilitate to acquire resources, valuable information, and knowledge. Moreover, network relationships with customers can create both customer loyalty and brand loyalty at the same time network relationships with suppliers can facilitate to obtain quality raw materials, superior service, and reliable distribution. It can be used for minimize uncertainties and thus, enhance performance (Acquaah, 2007).

In a managerial sense, business networks include top manager's ties with managers of other firms such as suppliers, buyers, and competitors (Hsu, et al. 2012). Many researchers have been done in the hotel management related to the managers' networks. Research conducted in Portugal by Barros and Santos (2009) revealed that hotel managers' earnings are positively related to their personal social networks. Ingram and Roberts (2000) showed that friendship relationships with hoteliers' opponents improve hotel performance. For example, Park and Luo (2001) showed that social network relationships with customers can increase sales



by creating both customer and brand loyalty. Thus, managerial network ties and network relationships with top managers at other firms can be used to improve firm performance by allowing organizations to access data, resources, and information.

From a social capital perspective, we suggest that the size of the network and the strength of the ties may have implications for firm performance. The network literature proposes that the size and strength of the internal and external social networks of top managers can lead to competitive advantage, resulting in higher firm performance (Collins-Clark, 2003). For example, relations with suppliers or customers will provide access to quality information, superior service, fast and reliable deliveries (Peng-Luo, 2000). This leads us to make the following hypothesis:

H1: External social networks of hotel managers, positively affect firm performance.

H1a: External social networks of hotel managers, network size positively affect firm performance.

H1b: External social networks of hotel managers, the strength of the ties positively affect firm performance.

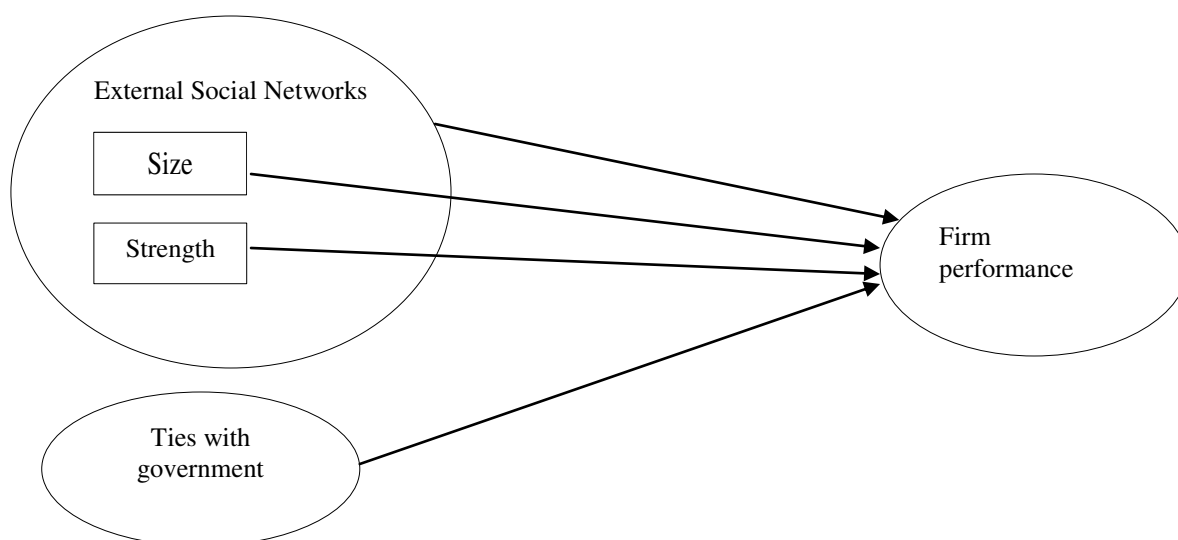
Peng and Luo (2000) classify managerial ties; ties with other firms and ties with government officials. The first type is ties with top managers of other firms, such as suppliers, buyers, and competitors. The second type is ties with government officials, such as the political leaders in the public, public officials in the industry branches, officials in regulatory organizations (Hsu, et al. 2012:478). Peng and Luo (2000) have shown that managers in China help improve firm performance via ties with other firms and government officials. Acquaah(2007) showed that social relationships with government officials enhance organizational performance. Based on social capital theory, managerial ties are the important type of social capital (Li, et al. 2014), for that reason, we propose that hotel manager’s ties with government officials improve firm performance. This leads us to make the following hypothesis:

H2: Hotel manager’s ties with government officials positively affect firm performance.

3. METHODOLOGY

We develop a conceptual model illustrated figure 1. The model shows that how the network size of managers, the strength of the ties and ties with government officials effect on firm performance.

Figure 1. Research Model





3.1. Sample and Data Collection

The survey is done for our research. We chose five-star hotels from İstanbul and Antalya because they are popular destinations in Turkey. There are several reasons why we sampled five-star hotels. First, they attract many tourists. The reason for choosing Antalya and İstanbul for the research is that they are the first place in the order of the ones that have the tourism enterprises which are the most important places for Turkish tourism (Kingır, 2006) and attract the most of the tourists. According to Incoming Tourism Report 2017 data, İstanbul is the first with 33.11% (10 730 510); Antalya is second with 29,26% (9 482 050) (www.tursab.org.tr). We conducted purposive sampling of 300 hotel managers from Turkey. The data were collected from top managers with five-star hotels from İstanbul and Antalya. Top managers from five-star hotels are search criteria. Because the research focuses on perceived business performance, we chose top managers as the key informants.

The questionnaire was originally designed in Turkish and was translated into English. A pilot test was done by 30 Turkish hotel managers. The pilot test was collected by face to face survey. The result of the pilot test was used for making final form of the survey.

3.2. Measures

Based on scale developed by Fernandez-Perez et al. (2013), we measured external social networks of hotel managers network size and the strength of the ties which

is shown in eight categories: Managers of same industry, managers of other industries, suppliers, customers, competitors, financial institutions and government officials. The size of network is the number of manager's contacts that gives him/her information and knowledge about tourism sector. In this context, we asked them open-ended question: "On average, how many people are important sources of information and knowledge regarding business or industry trends and issues?". The strength of ties is measured by the frequency of communication and intensity of trust in the relationship. Adapting from Li et al. (2014), we measured ties with government by three items to show the hotel manager's relationship with government officials. Denison and Mishra (1995) scale was used to measure firm performance. The scale includes net profitability, market share, return on investment and growth of revenues. We measured subjectively firm performance by a 5-point Likert scale (1= much worse than main competitors, 5= much better than main competitors).

Reliability and construct validity

Table 1 shows the result of reliability coefficients. Generally, reliability coefficients of .70 or higher are considered sufficient (Nunnally,1978). In Table 1, Cronbach's alphas ranged from .736 to .870. Therefore, we can say that measures are reliable.

Table 1. Coefficient Alphas

Variables	Cronbach's Alpha
The network size	0,736
The strength of the ties	0,765
Ties with government	0,870
Firm performance	0,757

Construct validity is demonstrated by factor analysis. A factor loading .70 or higher indicates that about half of the item's variance (squared loading) can be attributed to the construct indicating its validity (Li, et al. 2014: 282). As shown in Table 2, all are over .70. The KMO (Kaiser-Meyer-Olkin) value is between 0 and 1. This value should be greater than 0.60. The single factor explains 79,394 % of the total variance.



Table 2. Factor Analysis for Ties with Government Scale

Items	Loading
Ties with government	
1. We ensure good relationships with influential government officials.	0,883
2. We have invested heavily in building relationships with government officials	0,894
3. Improving our relationships with government officials have been important to us	0,896
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (%)	0,740
Bartlett's Test of Sphericity	Chi-square = 440,947 p<0.05
Total Variance Explained (%)	79,394

Table 3 shows that Kaiser-Meyer-Olkin value is .750 and it is close to 1, so it is convenient for factor analysis. Loading are over .70 and the single factor explains 58.304 % of the total variance.

Table 3. Factor Analysis for Firm Performance Scale

Items	Loading
Financial performance	
1. Growth of revenues	0,767
2. Net profitability	0,812
3. Market share	0,743
4. Return on investment	0,730
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (%)	0,750
Bartlett's Test of Sphericity	Chi-square = 287,728 p<0.05
Total Variance Explained (%)	58,304

4. RESULTS

4.1. Hypothesis Testing

We performed correlation and regression analysis to test our hypotheses. Table 4 shows the result of the means, standard deviations and correlations. According to results, there is no correlation between the size of network and firm performance ($r = -.018$). There is a positive correlation between the strength of the ties and firm performance ($r = .206$). We also found that there is a positive correlation between ties with government and firm performance ($r = .404$).



Table 4. Means, Standard Deviations and Correlations

Variable	Mean	Std.	1	2	3	4
1. Size	13,01	9,43	1	,164	-,012	-,018
2. Strength	47,15	8,13	,164**	1	,283**	,206**
3. Ties with government	8,46	2,03	-,012	,283**	1	,404**
4. Firm performance	11,59	2,01	-,018	,206**	,404**	1

Notes: **p<0.01, n=300

Table 5 shows that the network size doesn't affect firm performance ($\beta = -.053$; $p > 0.01$). So, H_{1a} isn't supported. The strength of the ties affects firm performance ($\beta = .214$; $p < 0.01$) and H_{1b} is supported. Finally, Ties with government officials affect firm performance ($\beta = .404$; $p < 0.01$). So, H_2 is supported.

Table 5. Results of Multiple Regression Analysis

Model	Unstandardized Coefficients			Standardized Coefficients	R ²	t	Sig.
	Constant	B	Std.	Beta			
Size	9,232	-,011	0,12	-,053	0,45	-,930	,353
Strength		,053	,014	,214		3,730	,0001
Ties with government	8,204	,400	,052	,404	0,16	17,975	,0001

Dependent Variable: Firm performance

5. DISCUSSION AND CONCLUSION

This research was performed in order to contribute to the current literature and especially in the tourism field. The research examines the impact of external social networks on firm performance, but it also investigates the impact of ties with government on firm performance. The findings of this study underline the importance of hotel manager's social networks and ties with government officials.

In this study, the strength of the ties was examined by the intensity (closeness) of communication and frequency of relations with each category (such as suppliers, customers, competitors) of the hotel managers' social networks. The study shows that in contrast to the weak ties in hotel firms, strong ties are important. As the strength of the hotel managers' external social networks grows, firm performance also increases positively.

Unlike literature, the results show that the network size has not a positive and significant effect on firm performance. However, the strength of the ties has a

positive and significant effect on firm performance, as we proposed. Ties with government also have a positive and significant effect on firm performance, as we proposed. This finding supports the literature. A study in China shows that ties with government officials are more important than ties with other firms (Peng-Luo, 2000). A study again in China reveals that ties with government officials and other firms are both important (Li, et al. 2014). According to this result, hotel managers need to attach importance to social network relations such as government officials, Tourism Ministries, tax offices, regulatory agencies and public banks. Thus, they can contribute to their hotel performance.

Hotel managers act not only with their own identities, but also with their corporate identities. Hotel managers' personal social networks also include professional networks. In this context, the information and resources obtained from these networks can contribute to the development of social capital and positively affect business performance.



Limitations and Future Research

This study has several limitations that suggest directions for future research. First, this research is limited to top managers of five star hotel firms. Second, social network characteristics are various; we measured hotel managers

'external social networks; the network size and the strength of the ties. Finally, the absence of objective measures is a limitation. We measured subjectively firm performance. Future research can investigate both objective and subjective performance.

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