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Managerial Ties and MNCs' Performance in Ethiopia: The Moderating Effect of Institutional support

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Abstract:
Managerial ties are becoming crucial success drivers for MNCs in developing and emerging economies. The managers of multinational companies establish networking relationships with government officials and other business actors to secure access to resources, information, and infrastructures that enables them to provide a buffer against the high level of business environment uncertainty. In this way, this study develops and tests an interactive perspective that emphasizes the interaction of managerial ties and institutional support (e.g., implementation of policies, industry information, import-export services, and local resources such as land, electricity and human resources) in influencing MNC performance in Ethiopia. The proposed hypothesis was tested using hierarchical regression results, which were then double-checked using a process model, and the results were consistent. Based on a sample of 227 multinational companies in Ethiopia, it is found that both political and business ties have positive and significant influence on firm performance, and political ties have stronger effect on firm performance than business ties. In addition, in both ties, the interaction effect of institutional support on firm performance is negative. As a result, we conclude that both political and business relations promote MNC performance, but that the value of political and business ties is conditional on the strength and weakness of the government's institutional support.

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1. Introduction

The impacts of managerial ties on firm performance are receiving more attention in strategic management and international business. Multinational corporations (MNCs) are corporations that participate in foreign direct investment (FDI) and manage value-adding activities in more than one country (Dunning, 1993). In this regard, costs of doing business abroad include international liability such as lack of awareness of the local environment and culture (Zaheer & Mosakowski, 1997), lack of external business networks (Lu & Beamish, 2001), and the need for adaptation to different host institutions (Kostova & Zaheer, 1999). In this regard, (Grosse, 1996) claim that the responsiveness of an MNC to the needs of the host government is an important way of improving formal or informal relations with government agencies. Furthermore, in contrast to MNCs operating in developed economies, multinational companies (MNCs) operating in emerging economies/developing economies are likely to be exposed to greater, more dynamic and less predictable political environment pressures on their operations (Meyer, Estrin, Bhaumik, & Peng, 2009). In this sense, previous studies indicate that firms strongly rely on managerial ties to conduct business and arrange exchanges, such as personal contacts between managers and links with government officials and other firms (Peng & Luo, 2000; Li, Zhou, & Shao, 2009). For example, in Ghana, (Acquaah, 2007) discusses how the link of social capital and organizational performance depends on the organization's competitive strategic orientation. Likewise, (Adomako & Danso, 2014) examined the connection between the regulatory environment, political ties, and environmental dynamism in the context of Nigeria. From social capital perspective, (Chen, Liu, Wei, & Gu, 2018) examine how the managerial ties of top managers influence the integration of supply chains, thereby enhancing firm performance. More precisely, (Fan, Liang, Liu, & Hou, 2013) explores whether contextual variables such as culture type, market environment, and company size have an effect on the link between managerial ties and firm performance. However, ongoing studies overlooked the direct impact of managerial ties on firm performance and highlight the moderating role of institutional distance, environmental uncertainty, industry type, and firm size between managerial ties and firm performance association. As a result, the moderating effect of institutional support between management ties and firm performance remains uncovered from the perspective of developing economies. In particular, no research has been conducted in developing economies to investigate business relations between MNC managers and local firm managers. To fill this gap in the literature, our research develops and tests an interactive perspective that emphasizes the moderating role of institutional support in the relationship between managerial ties and firm performance.

2. Literature Review and Hypothesis Development

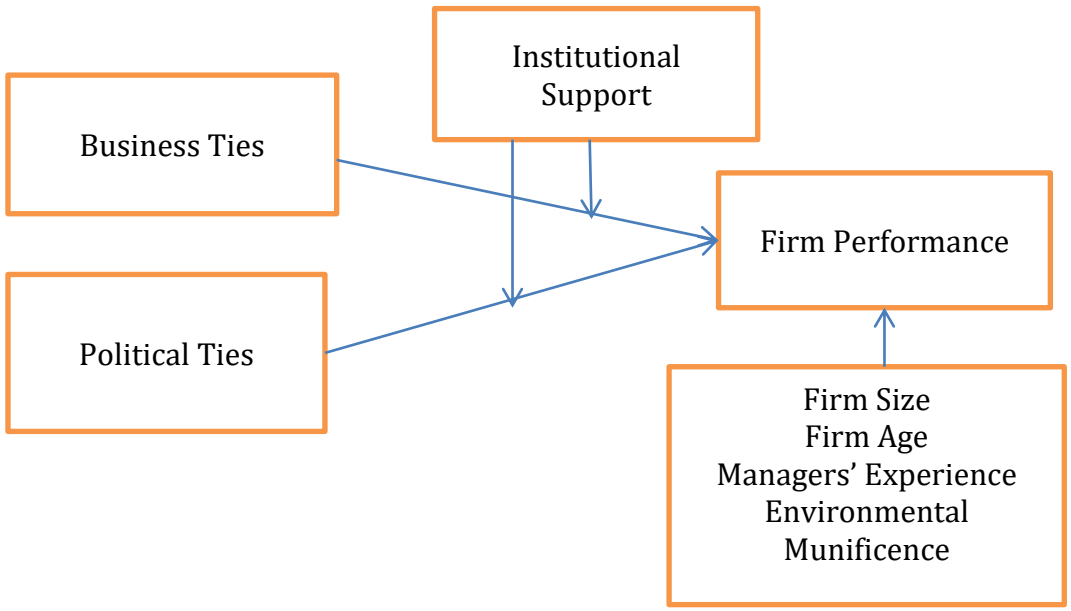
2.1 Social Capital, Institutions and Managerial Ties

According to, (Nahapiet & Ghoshal, 1998) social capital is the amount of real and potential resources embedded in, accessible through, and derived from an individual's or social unit's network of relationships. In addition, (Baker, 1990) described social capital as a resource extracted by actors from specific social structures and then used to pursue their interests; changes in the relationships between actors generate it. Furthermore, social capital acting as a critical substitute for incomplete formal institutions tends to provide companies with a variety of benefits, such as helping them obtain partner support and resolve institutional barriers (Peng & Luo, 2000). The personal and social networks created by relational integration act as conduits for the transmission of knowledge, resources, and opportunities that can be leveraged to the advantage of a business to fill this void (Gargiulo & Benassi, 2000). On the other hand, institutional theory predicts that during early transition phases in emerging economies in which market-supporting institutions are weak, social ties serve as a

key form of governance. Therefore, current literature has stressed the government's non-substitutability in developing economies, where managerial ties serve as a vital replacement for incomplete institutions (Park & Luo, 2001). In this context, institutional support creates social capital, which reflects a company's reputation and goodwill, allowing it to conduct business more efficiently than competitors in rapidly changing markets where opportunistic behavior is common (Peng et al., 2005).

"Managers' boundary-spanning activities and their related interactions with external bodies" are thus characterized as managerial relations (Geletkanycz & Hambrick, 1997). Because the economic activity is deeply rooted in networks of interpersonal relationships and these ties are valuable instruments for exchange coordination (Granovetter, 1985). In this regard, managers may control resource distribution and form economic actions by leveraging the social capital inherent in managerial relations (Batjargal & Liu, 2004). It is suggested that top managers' managerial ties reflect their informal personal ties with the counterparts of their external agencies (Peng & Luo, 2000), which would further enable them to trade favors with partners for the objectives of their business (Park & Luo, 2001; Peng & Luo, 2000). These relation were split into business and political relations (Sheng, Zhou, & Li, 2011; Wu, 2008). Business ties are the informal personal relationships that exist between top managers of the focal organization and managers of other firms, such as clients, suppliers, competitors, and other industry partners (Peng & Luo, 2000; Sheng, Zhou, & Li, 2011). Political relations, on the other hand, apply to a company's top executives' informal personal contacts with various government officials, such as those in industrial bureaus, state bank regulatory agencies, and tax bureaus (Peng & Luo, 2000). These two types of network relationships are distinctly different and can provide companies with unique strategic resources (Fan, Liang, Liu, & Hou, 2013). Overall the logic behind the spirit of social capital is that since economic activity is embedded in society, entrepreneurs are developing social capital through the development of contacts that provide them with information, as well as material and non-material support (Bahr & Abraham, 2016).

Figure 1: Conceptual Framework of the study



2.2 The Effect of Political Ties on Firm Performance

A growing number of academics are emphasizing the importance of firms' political relationships as emerging economies move to a more market-centered and rule-based structure, which is especially true in emerging economies with weak institutions (Acquaah, 2007). In addition, political ties are relationships of managers with host country government officials at different levels such as, political leaders, industry bureaus, and regulatory and support agency officials (Li, Zhou, & Shao, 2009). A company's relations with government officials include shortcuts to scarce resources such as property, bank loans, subsidies, and tax breaks, which are regulated by developing economies (Faccio, 2006). It has been discovered that links to policymakers and regulatory bodies have a positive impact on firm value (Faccio, 2006; Hillman, Zardkoohi, & Bierman, 1999; Peng & Luo, 2000; Park & Luo, 2001). Political relations, according to (Wu & Cheng, 2011), play a constructive and effective role in securing government assistance. In addition, political ties enable businesses to work closely with governments and gain access to privileged knowledge and services not accessible to the general public, giving them a competitive advantage (Peng & Luo, 2000; Sheng, Zhou, & Li, 2011). Because companies may obtain legal and key resources, such as proper policies, limited resources, and political credibility, as well as operational support, such as regulatory interpretation, contract enforcement, and negotiation resolution, by leveraging political relations (Dong et al., 2013). Furthermore, businesses with strong political ties would have easier access to government assistance (Sheng, Zhou, & Li, 2011); or the distribution of vital government resources including land and loans (Khwaja & Main, 2005). Such tools are crucial to companies' strengthening of their production process and competitive advantage. Overall, empirical studies carried out in China have shown the positive impact of political ties on corporate performance (Guo, Xu, & Jacobs, 2014) and (Li and Zhou, 2010). Furthermore, empirical studies show that ties with government officials and top managers in other businesses positively impact company performance (Peng & Luo, 2000). Based on the above empirical evidence we argued that, relation with government official's help companies obtain scarce resources, such as access to finance, assets, and human resources. Therefore in this analysis, we concentrate on the social capital of managerial ties established by the top managers of an organization through personal and social networking relationships with external entities.

H1: *Political ties positively and significantly influence MNCs' performance in Ethiopia.*

H2*: Political ties have more influence on firm performance than business ties in the context of MNCs in Ethiopia.*

2.3 The Effect of Business Ties on Firm Performance

Business ties represent the managers of a company who have links with their local business partners (Li, Lee, and Zhang, 2018); and, on the other hand, business ties reflect the ties of a company manager with international MNC partners (Kotab, Jiang, & Murray, 2011). According to (Sheng, Zhou, & Li, 2011) business ties have a greater positive impact on firm performance than political ties. This implies that business relations are the informal, interpersonal social relations that a company has with other members of the business community, such as customers, suppliers, rivals, and other collaborators. In this regard, business ties help companies to improve their environmental fit (Ang, 2008). Moreover, for solving common problems, business ties earn credits between companies through cooperation (Uzzi, 1997). On the other hand, business relations provide companies with valuable consumer resources: first, they provide vital market knowledge that isn't always accessible on the free market, such as product information (Heide & John, 1992). Thus firms have mutual interests in optimizing their economic gains in business relationships, so the parties collaborate to arrange exchanges (Ghosh & John, 1999). Similarly, (Guillen, 2000) also

finds that close relations within business groups allow businesses to gain a resource advantage, such as securing technology and know-how, coordinating financial packages, purchasing land and setting up plants, recruiting and training employees.
H3*: business ties positively and significantly influence MNCs' performance in Ethiopia.*

2.4 The Moderating Effect of Institutional Support

According to institutional theory, institutions assist in the smooth operation of the business mechanism (North1990), and when formal institutions collapse, informal governance structures like social relations step in to support economic activities (Peng 2003). Furthermore, other literatures have also stressed the government's non-substitutability in developing economies, where managerial ties serve as a vital substitute for incomplete institutions (Park & Luo, 2001). In emerging economies, the degree of institutional support is relatively low, as institutional rules are absent, inadequate, or poorly implemented (Khanna & Palepu, 2000; Hoskisson, Eden, Lau, & Wright, 2000). Due to this institutional climate, managers are often forced to rely on their relationships with the business community and government officials to conduct business and arrange exchanges (Li, Poppo, & Zhou, 2008).
The above studies indicate that foreign companies operating in countries with a low level of institutional development are likely to be involved in expensive and less effective business transactions, while foreign companies operating in countries with a higher level of institutional development are likely to be able to draw on the benefits of better-developed institutions. On the other hand, (Sheng, Zhou, & Li, 2011) indicated that government incentives play a vital role in emerging economies to improve sustainable competitive performance. Likewise, government incentives and growth programs contribute significantly to the success of firms' (Wei & Liu, 2006). The fact that institutional support is a general representation of government and its agencies' marketing information, financial and import-export facilitation support, which provide essential tools for company performance (Haiyang & Atuahene-Gima, 2001; Sheng, Zhou, & Li, 2011; Shu, Wang, Gao, & Liu, 2015). This implies that institutional support plays an important role in organizations' innovation strategies and further firm performance (Qian, Cao, & Takeuchi, 2013; Shu, Wang, Gao, & Liu, 2015).

Furthermore, the institutional theory reflects on the complex partnership between organizations and institutions, taking into account the strategic decisions made as a result of managerial ties (Peng, Wang, & Jiang, 2008). Thus, institutional factors such as the quality and quantity of infrastructure, the existence and level of compliance of business regulations, property rights and the openness of public resources are considered, apart from business characteristics, and to be important determinants of firm performance (Aterido, Hallward-Driemeier, & Pages, 2011). Therefore, to ensure access to rare resources, finance, and project support, institutional support plays a vital role for companies (Li, Zhou, 2010). In this sense, specific attention needs to be paid to the institutional environment of developing economies because governments, among other institutional powers, are key actors and directly influence the decisions of companies and specifically provide various forms of technological, financial, and institutional support (Cai, Jun, & Yang, 2010). Furthermore, government relations help their companies gain access to key resources such as land, licenses, distribution networks, and preferential government treatment (Khwaja & Main, 2005). Likewise, (Tortoriello, 2015) revealed that managerial ties bring in external resources, firms should bundle them with existing resources to promote firm performance. Moreover, (Fan, Liang, Liu, & Hou, 2013) investigate whether contextual factors such as culture, industry setting, firm size, and measurements have an impact on the managerial ties–firm performance link. Furthermore, (Nee, 1992; Nee et al., 2007) argues that the degree of market growth moderates the effect of political relations, and that as market institutions grow, the effect of political ties diminishes.

In our study context institutional support is emphasized on implementation of policies towards on MNCs' benefits, industry information, import-export services, and local resources such as land, electricity and human resources.

H4: *Institutional support moderates the relationship between business ties and performance of foreign MNCs in Ethiopia. The less institutional support is the more firms seek to build business ties. Because business ties are an important strategic advantage when coupled with the discovery of opportunity, and then it will boost firm performance.*

H5: *Institutional support moderates the relationship between political ties and performance of foreign MNCs in Ethiopia. This means that the less institutional support is the more firms seek to build political ties.*

3. Research Methodology

3.1 Sample and Data Collection

Our sample includes multinational corporations (MNCs) operating in the manufacturing sector in Ethiopia's three major regions (Addis Ababa Administration, Oromia, and Amhara Regional State). There are approximately 1200 multinational corporations (MNCs) operating in Ethiopia's manufacturing sector, with nearly 70%(840) of them located in these three regions. We selected manufacturing companies from the Ethiopian Investment Commission's list of multinational corporations (MNCs) using purposive sampling techniques. Purposive sampling is a technique in which particular locations, individuals, or incidents are intentionally selected to provide valuable data that cannot be obtained by other means (Maxwell, 1996). A questionnaire survey was conducted with the aid of industry park/Industry zone coordinators to gather data for this analysis. Then 300 questionnaires were distributed on-site, along with instructions and suggestions for filling them out, as well as a cover letter outlining the study's descriptions. Both respondents were asked to provide demographic information about their companies, including managerial experience, educational status of managers, firm size and age, and ownership type. In this sense, top managers (General Managers, Marketing Managers) were required to finish the questionnaire. Firm general managers and marketing managers are appropriate respondents because they are specifically in charge of the day-to-day operations and the reception of government officials and top managers of business partners. As a result, 238 questionnaires were returned, indicating a 79 percent response rate. After rejecting 11 incomplete questionnaires, we used 227 questionnaires to analyze our study hypothesis. Previous studies used sample size in similar business research, such as Chen, Liu, and Peng (2012) who used 159 samples, Abdo & Ding (2014) who used 209 samples, Acqauuh,(2007) who used 200 samples. Therefore, this sample size is adequately enough

3.2 Measurement Development:

The current study relies on previous studies for items to measure key constructs examined. The measurements of this study are based on published literature on international business mainly on the relationship of managerial ties, institutional support, and firm performance.

3.2.1. Dependent Variable:

Firm Performance: Although it is difficult to obtain publicly available information about firms' objective performance data in Ethiopia due to the unwillingness of most firms to provide such data**.** In cases where objective evidence is either unavailable or difficult to obtain, the practice of soliciting subjective performance information is normal (Acquaah, 2007; Li & Zhang, 2007; Tan and Peng, 2003). Some studies (Halaszovich & Lundan, 2016; Li J. J., 2005) used market-based or accounting measures, which have obvious advantages; nevertheless, we tend to use perceptual indicators from other studies due to firm

unwillingness and difficulties. In this sense, we adapted measure of firm performance from (Chen, Liu, Wei, & Gu, 2018; Li Zhang, 2007; Sheng, Zhou, & Li, 2011; Zhou, Yim, & Tse, 2007). Based on the above studies, we develop a four item scaled from 1 = fear below to 7 = fear above. The measure compares a company's performance to that of its major competitors in the same industry in terms of sales growth, market share growth, return on asset, and profit growth rate. As a result, the scores for the four performance indicators were combined to produce a composite measure of firm performance. In this regard, previous studies suggest that to capture the multidimensionality of the performance construct as well as for parsimony, a single global measure of firm performance is used (Bae & Lawler, 2000).

3.2.2. Independent variables:

Business ties: Business ties were measured by adapting the scales developed by (Peng & Lou, 2000; Liu et al., 2013; Li et al.,, 2009; Sheng et al., 2011), and the study develops a four-item scale. Business ties are estimated by managers' connections and ties with managers in the buyer, supplier, distributor, competitor and some other key firms in the host market. The extent to which MNCs' and local firm managers' ties reflect relationships with industry counterparts such as suppliers, consumers, distributors, and competitors was assessed. Each item was measured on a seven point Likert-like scale ranging from 1 = strongly disagree to 7 = strongly agree.

Political ties: Our studies measures of political ties were adapted from (Acquaah, 2007; Li et al., 2008; Peng & Lou, 2000; Liu et al., 2013; Li et al.,, 2009; Sheng et al., 2011; Li & Zhang, 2007; Xin & Peace, 1996), and the study develops a five-item scale ranging from 1 = strongly disagree to 7 = strongly agree. Political ties are determined by managers' relationships with political leaders at various levels of government in various industrial bureaus, as well as officials in regulatory and supporting organizations in the host sector, such as tax bureaus, banks, and commercial administration bureaus.

3.2.3. Moderator Variable:

Institutional support: Institutional support describes the extent to which central and other levels of local government support firms' by providing information, resources, permission for business action, etc. Institutional support measurement are then adopted (Li and Atuahene-Gima, 2001; Sheng et al., 2011; Zhang, et al., 2018; Guo et al., 2014; Li & Zhou, 2010) and the study measures institutional support using five items Likert-type answer format, ranging from 1 "strongly disagree" to 7 "strongly agree.

3.2.4. Control Variables:

We will monitor a variety of factors related to the firm's performance. Firm age: Older firms may have an expertise advantage or, instead, younger firms may have a greater capacity to gain new information (Aution, Sapienza, & Almeida, 2000). As a result, we used a firm age as a control variable. The firm age will be measured as the number of years since the company was founded or incorporated (Acquaah, 2007). The size of the firm may influence resource acquisition (Aution, Sapienza, & Almeida, 2000; Yli=Renko, Aution, & Sapienza, 2001). Larger firms may have more resources to devote to the institutional relationship. Managerial experience is an indicator of the extent of institutional relationships that can strengthen the opportunity to achieve institutional support for the company's activities (Shinkle & Kriauciunas, 2012). This study also selects environmental munificence as control variables.

4. Analysis, Result, Discussion and Conclusion

4.1 Sample Firms' Profile

As shown in Table 3, the study sample was manufacturing industries mainly food and beverage (13%), textile, garment and apparel (27.8%), steel and metal product (15.4%), rubber and plastic product (17.6%), leather and leather product (6%), and other covers

(19.3%). The sample companies confirmed respondent companies were the representative of manufacturing sector in Ethiopia.

Table 1: Distribution of Sample Companies

Industry type	Frequency	%
Food and Beverage	30	13.2
Textile Garment and Apparel	63	27.8
Leather, Leather product and shoes product	15	6.6
Steel and metal product	35	15.4
Plastic and Plastic product	40	17.6
Wood and Wood product	8	3,5
Motor and Machinery manufacturing	10	4.4
Pharmaceutical industry	6	2.6
Furniture Manufacturing	10	4.4
Others	10	4.4

4.2 Common Method Bias

Common method bias (CMB) is described by (Richardson, Simmering, & Sturman, 2009) as the systematic error variance shared across variables calculated with the same source or process. Moreover, (Reio, 2010) stated that CMB threats the validity of conclusions about the constructs' association and creates the systematic bias in a study either by inflating or deflating the correlations. In our case a common method variance problem may occur because we collected data from the same respondent on five constructs (business ties, political ties, institutional support, environmental munificence, and firm performance). To search for bias, I used three tests: i) Harman's single-factor test (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003); ii) correlation matrix (Bagozzi, Yi, & Phillips, 1991); and iii) variance inflation factors (VIF) (Kock, 2015). Frist, using SPSS 23.00 version I checked Harmon's single factors test for assessing the probability of CMB. The extracted number of square loadings has a value of 42%. The result shows that for a single factor, the overall value of total variance is less than 50%. Second, (Bagozzi, Yi, & Phillips, 1991) suggested another test for the existence of CMB. Our result shows that the correlations between constructs are not extremely high which are equal to or below 0.77. Third, I used the variance inflation factor to search for CMB estimations (VIF) and the result shows that all of the variables have a variance inflation factor (VIF) of less than 1.8. Therefore, these three tests show that the model is not affected by CMB.

Linearity: Scatter plot and Curve estimation regression was used to measure linearity for all direct effects in our model. The findings indicate that the variables' relationships are sufficiently linear (i.e., all p-values were less than 0.05). Additionally the scatter plot shows a linear relationship.

Multicollinearity Test: Before continuing to test the hypotheses, we ran a series of tests to ensure that our test statistics were acceptable for the sample data. Furthermore, tests of the largest variance inflation factor (VIF) revealed that it was less than1.8, well below the benchmark of 5 (Neter, Kutner, Nachtsheim, & Wasserman, 1996). The result indicates that there is no multicollinearity problems, as the values of tolerance are above the 0.2 threshold, and all values of VIF are below the threshold of 5. In addition, all of the independent variables were mean-centered to reduce the risk of possible multicollinearity while testing the moderation effect (Aiken & West, 1991).

4.3 The Measurement Model

From our study perspective business ties, political ties, institutional support, and firm performance are the latent variables in the measurement model, which is derived from the initial proposed theoretical model presented in Figure 1. We first calculated the instrument's composite reliability and Cronbach-Alpha. Business ties have a Cronbach alpha value of 0.84,

political ties 0.87, resource acquisition 0.88, institutional support0.88, and firm results have a Cronbach alpha value of 0.85. Based on the estimation result, the composite reliability values and Cronbach's values both exceeded the criterion of 0.7, suggesting reasonable reliability (Hair, Black, Babin, & Anderson, 2010). Second to assess construct validity, we performed discriminant and convergent validity. All item loadings were higher than 0.70, as presented in Table 2. The average variance extracted (AVE) scores were all higher than 0.50 (Fornell & Larcker, 1981; Hair, Black, Babin, & Anderson, 2010). According to (Fornell & Larcker, 1981), the convergent validity criteria is that the average variance extracted (AVE) is greater than 0.5 (see Table 2). The results confirmed the convergent validity of our measures.

Table 2: Convergent Validity and Reliability Test

Construct	Indicators	Loading	Cronbach Alpha	CR	AVE
Business Ties	BT1	0.784	0.846	0.846	0.5787
	BT2	0.775			
	BT3	0.749			
	BT4	0.734			
Political Ties	PT1	0.732	0.877	0.880	0.5961
	PT2	0.701			
	PT3	0.777			
	PT4	0.807			
	PT5	0.840			
Institutional Support	IS1	0.774	0.884	0.885	0.6053
	IS2	0.796			
	IS3	0.747			
	IS4	0.807			
	IS5	0.765			
Firm Performance	FP1	0.772	0.857	0.858	0.6017
	FP2	0.771			
	FP3	0.804			
	FP4	0.755			

After we estimate AVE we also checked for discriminant validity by examining if the square root of AVE for each construct (within-construct variance) is greater than the correlations between constructs (Fornell & Larcker, 1981). As shown in Table 3, the result shows that the square root of AVE of reflective construct of firm performance, institutional support, business ties, and political ties is larger than the corresponding latent variables correlations.

Table 3: Discriminant Validity Test

	BT	**PT**	**IS**	**FP**
BT	**0.761**			
PT	0.629	**0.772**		
IS	0.524	0.524	**0.778**	
FP	0.713	0.769	0.771	**0.776**

Third, we estimated goodness of model. Eighteen observed indicators were used to measure five latent constructs. The result show that both factor loadings were statistically significant at $p < 0.05$ ($\chi 2$ /df = 1.360, GFI = 0.919' AGFI=0.892; RMSEA = 0.040; CFI = 0.976; NFI=0.928; RFI=0.914; IFI = 0.91; TLI=0.976; CFI = 0.980. All model fit estimation was acceptable.

4.4 Results and Findings

All of the variables' means, standard deviations, and correlation coefficients are mentioned in Table 4. The independent and control variables relatively had low correlation coefficients, indicating that there was no significant multicollinearity between the variables. The variance inflation factor (VIF) values were evaluated to confirm whether multicollinearity existed in

the regression model, and no substantial multicollinearity was observed, suggesting that multicollinearity was not a serious problem in our models.

Table 4; Correlation Matrix

	fp	bt	pt	is	em	edu	ext	fage	fsize
fp	1.0000								
bt	0.6087	1.0000							
pt	0.6788	0.5471	1.0000						
is	0.6754	0.4641	0.4664	1.0000					
em	0.5579	0.5240	0.4440	0.4767	1.0000				
edu	0.2751	0.1766	0.2968	0.2505	0.1541	1.0000			
ext	-0.0301	-0.0190	-0.1253	-0.0051	-0.0865	-0.0751	1.0000		
fage	0.2305	-0.0226	-0.0256	0.0397	0.0338	-0.0254	0.2961	1.0000	
fsize	0.3919	0.3030	0.3636	0.4038	0.2634	0.3645	0.0575	0.0165	1.0000
Mean	4.53	4.71	5.11	4.72	4.40	3.31	8.25	8.35	416
SD	0.74	0.75	0 .64	0 .81	0 .88	0 .57	4.7	4.4	511

4.4.1 The Moderating effect of Institutional Support

To deal with the possibility of multicollinearity between the interaction terms and their components, we mean center each scale that makes up an interaction term and multiply the corresponding mean-centered scales to get the interaction terms (Aiken & West, 1991). The VIF for each variable was less than the bench mark. As a result, the largest variance inflation factor (VIF) was less than1.8, which was far below the benchmark of 5 (Neter, Kutner, Nachtsheim, & Wasserman, 1996). Therefore, multicollinearity was not an issue in our analyses (Neter, Kutner, Nachtsheim, & Wasserman, 1996).

Furthermore, we used a three-stage hierarchical regression model to test our hypotheses (Slotegraaf, Moorman, & Inman, 2003; Baron & Kenny, 1986). In hierarchical approach in which the control variables are added first, followed by the focal variables, and finally the interaction terms and the Mode1–Model3 are the products of this hierarchical process. As shown in Model 1 of Table 5, it provides the baseline results for the effects of the control variables on firm performance. In model 1 we found that education ($\beta = 0.12$, $t = 2.26$, $p = 0.025$); firm age ($\beta = 0.22$, $t = 4.2$, $p < 0.001$, firm size ($\beta = 0.22$, $t = 4$, $p < .0001$, and environmental munificence ($\beta = 0.49$, $t = 8.9$, $p < .001$). are significantly related to MNCs' performance, whereas experience found to be negatively ($\beta = -o.044$, $t = -0.82$, $p = .41$) related and not significant to MNCs' performance. In model 2 we added the independent variables (business ties, political ties and institutional support) and examined the effect on firm performance. As we proposed that H1 and H3 predict both political and business ties have a positive and significant effect on firm performance respectively. The results show that business ties have positive and significant effect on firm performance ($\beta = 0.19$, $t = 3.9$, $p < 0.001$), and political ties also have positive and significant effect on firm performance ($\beta = 0.34$, $t = 7.2$, $p < 0.001$). In addition, institutional support also have positive and significant effect on firm performance ($\beta = .34$, $t = 7.5$, $p < .001$). The result introduced that both ties (ties with local firm and ties with government official) have a positive significant effect on MNCs' performance in Ethiopia. These result supporting both H1 and H3. Moreover, in Model 2, adding business ties and political ties increases explained variance in firm performance over the base model.

We then tested the relative power of ties with local firms and ties with government officials. In this regard, H2 predict that ties with government officials have more influence on firm performance than ties with local firms. The value of the equality of these two coefficients

were business ties (β = 0.19, t= 3.9) and political ties (β = 0.34, t = 7.2), and this indicates that the coefficient of ties with government officials is significantly greater than that of ties with local firms. This result also supported hypothesis 2.

In Model 3, adding the moderation terms further improves the explained variance of firm performance based on Model 2. In this sense, we added the interactions of business ties and political ties. In this regard, H4 predict that institutional support moderates the relationship between business ties and performance of foreign MNCs in Ethiopia. This means that the less institutional support is, the more firms seek to build business ties. Because business ties are an important strategic advantage when coupled with the discovery of available tangible and intangible resources, and then it will boost firm performance. Similarly, H5 predicted that institutional support moderates the relationship between political ties and firm performance of foreign MNCs in Ethiopia. This means that the less institutional support is, the more firms seek to build political ties. As shown in Model 3 of Table 5, the interaction term of business ties and institutional support have negative and significant relation to firm performance (β =-0.124, t= -2.86, p = 0.005), and the interaction term of political ties and institutional support have negative and significant relation to firm performance (β=-0.93, t = -2.12, p < 0.035. As a result, both H4 and H5 were accepted.

Table 5: Moderation Result of Hierarchical Regression

Variables	Firm performance					
	Model 1		Model 2		Model 3	
	b	t	b	t	b	t
Control variables						
Education	0.123	2.25	0.028	0.71	0.013	0.36
Experience	-0.62	-1.16	-0.041	-.08	-0.06	-1.58
Firm age	0.23	4.39	0.24	6.4	0.21	5.8
Firm size	0.28	4.01	0,03	0.66	0.094	2.26
Environmental munificence	0.47	8.84	0.12	2.65	0.12	2.71
Independent Variables						
Business ties(BT)			0.191	4.05	0.189	4.24
Political ties (PT)			0.35	7.4	0.8	3.36
Institutional support (IS)			0.34	7.6	0.94	2.88
Interaction effects						
Business ties*institutional support (BT*IS)					-0.13	-3.02
Political ties*institutional support (PT*IS)					-0.96	-1.98
Model summery						
R^2	0.435		0.715		0.747	
Adjusted R square	0.422		0.704		0.735	
R^2 change	0.435		0.280		0.032	

We further conducted a robustness test to examine the stability of our findings. In addition to the hierarchical regression analyses; we used process macro analysis to test our hypothesis. We used a PROCESS macro (Hyes, 2013a) for SPSS to test the hypothesis. First we employed the moderating effect of institutional support between business ties and firm performance and the model summery revealed that F(7,219=42.87, p<.001), R^2-0.68. As shown in Table 6, the main effect of the moderation process show that the impact of business ties (effect =0.29, t(219) =6.2, p = .0000) on firm performance is a positive and significant. In addition, the results indicate that institutional support (effect = 0.326(219) = 7.27, p < .0001) is positively and significantly predictor of firm performance. Furthermore, the interaction effects of the process model analysis also show that (effect = -0.21, t(219) = -4.53, p = .0000), this implies

that the interaction effect is negative. This means that as institutional support increase business ties decreases. Second, we also employed the moderating effect of institutional support between political ties and firm performance and the model summery show that ($F(7,219=69\text{-}08, p<.001$), and $R^2 = 0.72$. In addition the main effect of the moderation process shows that political ties ($\beta = 0.4338$, $t(219) = 8.34$, $p <.0001$). This implies that political ties are a positive and significant predictor of firm performance. The effect of institutional support (effect = 0.31, $t(219) = 7.24$, $p < .0001$), also positively and significantly on firm performance. Furthermore, the interaction effect shows (effect = -0.22, $t(219) = -4.13$, $p < .0001$) is negative and this indicates that as institutional support increase political ties decreases.

Table 6: Moderation result of Process model 1

Variables	Model	Process macro regression result					
		B	t	p	LLCI	ULCI	R^2
Political ties	PT→FP	0.43	8.34	.0000	0.3314	0.5362	0.7171
	IS→FP	0.31	7.27	.0000	0.2223	0.3884	
	PT_IS→FP	-0.22	-4.13	.0001	-0.3172	-0.1123	
Business ties	BT→FP	0.29	6.2	.0000	0.1963	0.3811	.6777
	IS→FP	0.33	7.27	.0000	0.2373	0.4140	
	BT_IS→FP	-0.21	-4.56	.0000	-0.3019	-0.1196	

Overall results show that institutional support has a moderating impact between managerial relations (political ties and business ties) and MNC performance in both regressions, with the interaction effect being negative in both. As a result, our findings are trustworthy, confirming the predetermined conceptual models and hypotheses in the relationship between managerial ties and MNC performance in Ethiopia

4.5 Discussions

We used hierarchical regression to test the proposed hypothesis, and we double-checked (robustness test) the results with a process model, and the results were consistent. Based on a sample of 227 multinational companies in Ethiopia, it is found that there is a positive and significant influence of political ties on firm performance. Studies employed by (Peng and Luo, 2000; Li and Zhang, 2007; Zhang and Li, 2008; Sheng et al., 2011; Zheng et al., 2014; and Guo et al., 2014) all highlighted the positive impact of political ties on firm performance, which is consistent with the findings of our study. In addition, previous research has found that business relations have a positive impact on firm performance (Acquaah, 2007), which is consistent with the findings of our study. MNCs' business relations with local firms provide the firm with important market information so that it can better serve its customers. In terms of political relations, Ethiopian government officials have retained tight control over the key tools that multinational corporations depend on to invest and compute in the market. The result confirmed that managers' close ties to government officials can assist them in obtaining information about potential changes in government policy, scarce resources, industry dynamics, and business opportunities (Davies et al., 1995). Second, our result confirmed that in the context of MNCs located in Ethiopia, ties with government officials seem more important than ties with managers at other firms. On the other hand, this result is contradict with the result found by Li, Chen, Liu, and Peng (2014) that managerial ties have a positive effect on firms' performance, and ties with other firms (business ties) have a stronger positive effect than ties with government officials. This inconsistency is that Ethiopian government officials prefer to focus their attention on influential multinational companies that have the potential to significantly increase job opportunities, tax revenue, and technology transfer (EIC, 2019). This is because the government still controls a significant amount of public

resources and key knowledge that shape a firm's business environment in most emerging and developing economies (Sun, Mellahi, & Wright, 2012). Similarly, the government wields considerable influence in terms of allocating resources, distributing materials, granting bank loans, and authorizing projects, among other things (Shi, Markoczy, & Stan, 2014). Therefore, MNCs' managers have taken the advantage of political ties rather than business ties in Ethiopia. Third, we also investigate the moderating effect of institutional support between managerial ties and firm performance. In this regard, our study consider institutional factors such as government institutional support (e.g., implementation of policies, industry information, import-export services, and local resources such as land, electricity and human resources) to develop a more comprehensive understanding of the way social ties affect firm performance. This study provides evidence that institutional support has a negative moderating effect on the political ties–firm performance; and business ties-firm performance relationship, however; while the level of institutional support increases beyond a certain point, the support may have a reduced effect on managers' ties with other firm and with government officials. Both political and business relations help MNCs perform better, but the value of political and business ties is dependent on the strength and lack of the government's institutional support. The fact that, given the underdeveloped market mechanisms that exist in developing economies, institutional support plays a particularly significant role for firms operating in such contexts. One form of this type of assistance is the help derived from government policies, which intends to expand the range of a firm's strategic choices. In addition, the government provides loans or grants certain privileges, such as permission to import license, export support, and infrastructure such as land, electricity, and human resource availability. This finding reflects companies use managerial ties to gain access to useful knowledge and scarce resources, as well as to compensate for institutional weaknesses and, as a result, to achieve superior performance (Acquaah, 2007; Li et al., 2009; Peng & Luo, 2000). This finding is consistent with those of Peng (2003) and Peng and Zhou (2005), who claimed that in transitional economies, business and political ties, are less relevant as legal and political institutions evolve with market liberation and economic reform. Likewise, (Danis, Chiaburu, & Lyles, 2010) found that the importance of political ties diminishes over time, as exemplified by the institutional transition. On the other hand, when a firm operates in the context of weak institutional environment, the main purpose of building ties with government and ties with other firms should be to improve resource acquisition (human resource, finance, information and import and export facility services).

4.6 Conclusions

We conducted this research in Ethiopia, using a sample of 227 multinational companies, and the findings have both theoretical and empirical implications in the literature. First, our study enriches literatures by investigating the impact of managerial ties on MNCs' performance from social capital perspective. Furthermore, in the context of MNCs in Ethiopia, our conceptual model investigates the complementary effects of managerial ties-institutional support–performance linkage. As a result, we found that business ties and political ties act as mechanism through which managers interact with others firms and government officials to obtain resources (e.g., human resource, financial resources, market and industry information, electricity, and import-export facilities), and further enhance firm performance. Second, this study enriches managerial ties literatures by investigating the independent and different effects of business ties and political ties on firm performance. By empirically comparing the difference effects of these two ties, we found that ties with government are more helpful than ties with other firms in the context of MNCs in Ethiopia. The findings show that while both types of relations are important in Ethiopia, political ties have a greater impact on firm performance by providing knowledge, services, and import-export facilities to MNCs.

Furthermore, both ties are essential for MNCs' performance, but it depends on the institutional support provided by government institutions. This means that multinational corporations (MNCs) need close political and business relations in order to survive and prosper, as well as to protect the host country's institutional weaknesses. On the other hand, foreign firms must actively build ties with local business communities, such as buyers, suppliers, and competitors to expand their market and in turn to maximize their long term profitability. Thus, managers are encouraged to actively build and take advantage of ties with the top managers of their suppliers, competitors, and buyers, as well as officials at various levels of regulative and supporting organizations such as government, industrial bureaus, tax bureaus, state banks, and commercial administration bureau.

Based on this study result we recommended that MNCs close ties to government officials and ties with local firms help able to see more business opportunities, which contributed to an improvement in firm performance. In addition, MNCs' have resolved disadvantages, by having strong ties to a network of government leaders at various levels. Due to business ties (ties of MNCs' managers with local firms) of MNCs managers' should develop their ties with local firms to improve mutual benefits towards marketing and managerial skills as well as technology and knowledge sharing. In this sense, the government should focus on assisting MNCs and local firms in moving up the value chain and reaping the benefits of FDI spillovers, which are still limited in Ethiopia. Since political and business relations are critical for MNCs investing in Ethiopia to survive and perform well, as they protect the host country's institutional weaknesses.

We discovered some important results in this research, which greatly improve our understanding of the direct influence of managerial relations on firm performance as well as the moderating effects of institutional support on managerial ties and firm performance relationships. In this regard our study has considered only the two types of managerial ties (political and business ties) as a social capital dimension; future studies can test the proposed model with other type of social capital dimensions (e.g., community ties). Second, in the context of Ethiopia, which has a poor institutional environment, our study examines the moderating effect of formal institutional support and finds a significant interactive impact on firm performance. On the other hand, informal institutions also may affect the relationship of managerial ties and firm performance in developing economies. Because in the meantime, Ethiopia is the largest recipient of multinational companies especially in manufacturing industries, and therefore, future research should focus on other types of social ties (community ties) and informal institutions (cultural differences). In addition, we are suggesting future research using objective measure for firm performance.

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