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THE ROLE OF NETWORKING TIES ON CONTRACTOR FIRM PERFORMANCE

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ABSTRACT

In this study, we applied the Institutional Theory to examine the direct effects of networking ties towards contractor firm performance in Sarawak, Malaysia. Non-probability purposive sampling was conducted on contractors (N = 119) to assess these correlations. By applying partial least squares-structural equation modelling, the data is then analysed using SmartPLS 3.2.9 software. The results found that business ties and government support had significant effects on the contractor firm performance. These findings provide a better understanding of the role of networking ties towards the contractor firm performance as business ties, and government support is found to be significantly related to the firm performance. Contractor firms must take advantage of the opportunities in an emerging market like Malaysia. Cultivating networking ties may be necessary to ensure the survival of firms to address demand and institutional steeplechases.

INTRODUCTION

The construction industry in Malaysia has long been regarded as one of the critical sectors contributing towards the nation's development in line with its target to achieve a fully developed country as premeditated in Shared Prosperity Vision 2030 document. The construction industry also acts as a driving force or stimulus to the expansion of other sectors (Ibrahim, Roy, Ahmed, Sultan, & Imtiaz, 2010). The steep

competition nature of today's economic landscape has exerted enormous pressure on Small and Medium Entrepreneurs (SMEs) in any part of the world, including Malaysia. Thus, SMEs need to adopt a progressive and dynamic strategy to succeed in today's business environment. According to Samad (2013) and Chong (2008), firm performance can be measured either in term of financial performance or non-financial performance. The previous study measured the firm's performance based on firm growth (Davidson, Nemec, Worrell, & Lin, 2002; Kolvereid, 1992; Rodríguez, 2003) the growth of the firm's sales, asset and profit (Lee & Tsang, 2001).

Meanwhile, the non-financial indicator can be measured by the number of the employees (Wren & Storey, 2002) or based on the quality of the product (Zuhir, Surin, & Rahim, 2017). Scholars also agreed that there are no final words regarding what are the perfect measurement that is suitable to measure the performance of SMEs either in term of financial or non-financial performance. Therefore, for this study, the firm performance will be measured using financial ratios analysis. This analysis includes company's Return on Asset (ROA) (Cheng & Shiu, 2007; Tong & Green, 2005), Return on Investment (ROI) (Ebaid, 2009), sales, market share, and profit growth rates to analyse the financial health of the company.

LITERATURE REVIEW

In examining the proposed framework, this study applied the Institutional Theory to investigate the role of networking ties, namely business ties, enforcement inefficiency, and government support towards contractor firm performance in Sarawak, Malaysia. Previous studies exposed that network ties to have a significant influence on firm performance. Therefore, this study anticipated three hypotheses to further assist in explaining the conceptual framework, as shown in Figure 1.

Institutional Theory

Literature under the banner of institutional theory incorporates theoretical and empirical studies related to social norms and shared expectations as a vital base of organisations' structures, actions, and outcomes. Organisational research widely recognised institutional theory as one of the most prominent approaches (David & Bitektine, 2009; Powell, & Colyvas, 2008). The institutional theory contends that an organisation's legitimacy explains survival. The substantial foundation of institutional theory derives from the research literature on institutional sociology (DiMaggio & Powell (1991); Meyer & Rowan, 1977; Scott, 1987). In line with institutional theory, social ties as informal governance become vital as legal and regulatory institutions improve, and a market support system develops (North, 1990; Peng, 2003). Therefore, the institutional theory is adopted to explain the conceptual framework in this study.

Business Ties

Business ties allude to a manager's associations with directors of other companies like suppliers, clients, and competitors (Peng & Luo, 2000). They authorise a director to secure resources and data from external organisations (Petruzzelli, 2011; Wu, 2011). Business ties provide firms with valuable market resources like market information, product information (Heide & John, 1992). Business ties also help entrepreneurs to get technology acquisition and knowledge transfer (Rindfleisch & Moorman 2001; Saxenian, 1996). Besides that, business ties assist the firm to attain network legitimacy in a very professional way (Rao, Chandy, & Prabhu, 2008). Through the integration of new knowledge in the existing knowledge, a business entity can improve its absorption capacity and knowledge (Cohen & Levinthal, 1990).

This relationship will provide companies with competitive capital to take advantage of market opportunities (Neneh, 2018). With the necessary resources, companies tend to improve their performance because the company knows which customers' needs to satisfy (Frambach, Fiss, & Ingenbleek, 2016). Building lasting business relationships can enable companies to utilise information and knowledge resources built into customer networks that can enable companies to be more innovative in offering services (Wang & Chung, 2013). Building business relationships with producers or other business owners make it possible to develop potential partnerships between companies that can benefit related businesses, especially in gathering resources to take advantage of opportunities that arise from their understanding of customer needs (Li & Zhou, 2010). According to Acquaah and Eshun (2010), collaborating with other companies will help small and medium-sized companies to reduce the uncertainty that exists when taking advantage of new opportunities. Thus, the above discussion leads us to hypothesise:

H1: Business ties have a positive effect on firm performance.

Enforcement Inefficiency

According to Ho (2001), enforcement inefficiency refers to the enforcement and regulatory legislation are problematic, which is reflected in companies' illegal or unethical behaviour. Furthermore, Djankov, Glaeser, La Porta, Lopez-de-Silanes, and Shleifer (2003) stressed this point by providing empirical evidence that corruption reflects an inefficient and highly regulated environment with discreetly enriched officials. In a highly regulated environment, the occurrence of bribery can prevent businesses from growing above a certain threshold, since otherwise business owners could be linked to corruption by officials, especially the tax administration (Barkhatova, 2000; Aidis, Estrin & Mickiewicz, 2012). Following this empirical development, the researcher argues that for businesses in an overly regulated environment, officials' expectations of such behaviour can discourage entrepreneurs from further growing their businesses, leading them to set a firm-wide threshold (Cliff, 1998) which can lead to poor corporate performance.

According to North (1990), third party law enforcement is a public policy provided by governments and can be more important than written law for supporting an excellent economic transformation system (North, 2005). If legal institutions do not apply effective penalties, and there is no illegal or unfair competition behaviour, market and economic activity will be disrupted (Ho, 2001). McMillan and Woodruff (1999) argue that it is difficult or expensive for a firm to perform standard processes to protect itself from such behaviour. Based on the above scenario, the researcher develops the hypotheses below:

H2: Enforcement inefficiency has a positive effect on firm performance.

Government Support

Government support echoes the extent to which government provides general and broad support to all or any businesses in the region (Li & Atuahene-Gima, 2001). This general support is different from the regulatory resources a firm can obtain through political connections. Strong government support can reduce the value of business ties (Amber & Witzel, 2004). If the government generously supports all or any business to foster economic exchange, the firm does not need to rely on political connections to achieve legitimacy and purpose (Rao, Pearce & Xin, 2005). Their study also showed that the value of regulatory resources derived from political relations could also decline with strong government support. The study also suggests that official government support reduces the effect of informal social ties, but previous literature also discusses whether formal and informal

government mechanisms are complementary or substitute. Formal government, like the contract, specifies the rules and obligations, while the informal mechanism refers to trust (Lazzarini, Miller, & Zenger, 2004; Poppo & Zenger, 2002; Stump & Heide, 1996). Thus, this study hypothesises:

H3: Government support has a positive effect on firm performance.

Firm Performance

Financial and non-financial indicators were adopted to measure firm performance. Financial performance is measured based on in term of cash, like profit or sales. Non-financial performance is measured based on the quality of the product. In this study, ROA is used as a measurement for firm performance. The adoption of ROA helps in coping with size bias related to the results. Many studies regarded performance referred to firm growth (Davidson et al., 2002; Kolvereid 1992; Rodríguez, 2003) also carries with its sales growth, the expansion of the company's assets and profit growth (Lee & Tsang, 2001). Thus, this study examines the roles of network ties (business ties, enforcement inefficiency, and government support) towards contractor firm performance in Sarawak, Malaysia.

METHODOLOGY AND DATA ANALYSIS

The study employed a quantitative approach to conducting this study. The samples comprised of small contractors in Kapit Sarawak, Malaysia. To ensure that the characteristics of the sample correspond to the nature of the study, we proposed a non-purposive sampling technique to ensure that the data collected came from valid sources. A 5-point Likert scale at anchor "strongly disagree" (1) was used to "strongly agree" (5) as a measure of independent and dependent variables. An estimate of the sample size was set using G * power 3.0 analysis (Faul, Erdfelder, Lang, & Buchner, 2007). Using G-Power Analysis software with f^2 effect size of 0.15, and error for 0.10, G*f* power 0.90 and 3 precursors tested. Thus, the minimum sample for this study is 82 respondents. Three hundred questionnaires were distributed, 119 completed, and usable copies were completed for analysis. Figure 1 shows the research framework, which contained the statements of the three variables monitored. We examined the variables using multiple items (Hayduk & Littvay, 2012) and then analysed the data using Smart PLS 3.2.9 (Ringle et al., 2020) to evaluate the hypotheses.

Framework and Hypothesis Development

Previous literature revealed that business ties, enforcement inefficiently and government support could influence the firm performance in Malaysia. Based on the literature, as mentioned earlier, this study proposes a conceptual model, as illustrated in Figure 1.

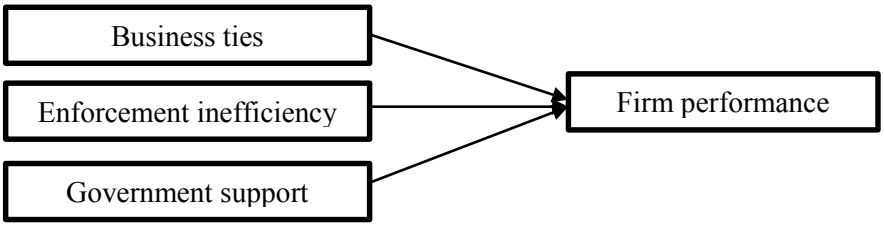

Figure 1 Conceptual framework

FINDINGS

A total of 119 respondents participated in this research. The study was conducted through a survey using an interview. Most of the respondents were males (89.1%), while the remaining were females (10.9%). More than 65 per cent of the respondents were above 50 years old. In terms of the education level, the majority of the respondents completed form five (64.7%) followed by SRP (14.3%), diploma level (13.4%), STPM (4.2%), primary school (1.7%) and degree (1.7%) respectively. All of the respondents were Sarawakians and from Sarawak native ethnic groups. Majority of the small construction firms in Sarawak generated annual revenue between RM200,000.00 to RM300,000.00. Table 1 summarised the respondent profile.

Table 1 Respondent profile

Variable		Frequency	%
Gender	Male	106	89.1
	Female	13	10.9
Age	21 – 30	1	0.8
	31 – 40	23	19.3
	41 – 50	17	14.3
	51 – 60	30	25.2
	> 60	48	40.3
Education	Primary school	2	1.7
	LCE/SRP/PMR	17	14.3
	SPM/MCE	77	64.7
	STPM	5	4.2
	Diploma	16	13.4
	Degree	2	1.7
Place of origin	Sarawak	119	100.0
Ethnicity	Bumiputera Sarawak	119	100.0
Annual revenue (RM)	200,000 – 300,000	101	84.9
	300,001 – 3,000,000	18	15.1

Measurement Model

Table 2 demonstrates the findings of constructs composite reliability (CR) and convergent validity testing. The results confirm that the constructs (or variables under investigation) to have high internal consistency (Roldán & Sánchez-Franco, 2012) and sufficient average variance extracted (AVE) to validate the convergent validity (Hair et al., 2017). There were no items deleted as Cronbach's Alpha, and composite reliability was above 0.708 (Hair et al., 2014). All indicators measuring each construct achieve satisfactory loadings value that is higher than the threshold value of 0.708 as advocated by Hair et al. (2017). The composite reliability (CR) values of 0.818 (Business Ties), 0.833 (Enforcement Inefficiency), 0.938 (Firm Performance), and 0.820 (Government Support) implies that these constructs possess high internal consistency. In the similar vein, these constructs also indicate satisfactory convergent validity with the average variance extracted (AVE) value for respective constructs is higher than the threshold value of 0.5, which demonstrates that the indicators explain more than 50% of the constructs' variances.

Table 2 Measurement model assessment

Construct	Item	Loadings	CA	CR	AVE	Convergent Validity (Ave
BT	BT1	0.866	0.707	0.818	0.542	Yes
	BT2	0.807				
	BT3	0.750				
	BT5	0.451				
EI	EI1	0.467	0.824	0.833	0.512	Yes
	EI2	0.754				
	EI3	0.753				
	EI4	0.572				
	EI5	0.938				
FP	FP1	0.898	0.911	0.938	0.791	Yes
	FP2	0.881				
	FP3	0.935				
	FP4	0.840				
GS	GS1	0.761	0.726	0.820	0.542	Yes
	GS2	0.907				
	GS3	0.497				
	GS4	0.720				

**No item was deleted due to poor loading Composite Reliability < .708 (Hair et al., 2010, & Hair et al., 2014)*

Table 3 shows the criterion of HTMT to evaluate discriminant validity (Ringle et al., 2020). The result confirms that the discriminant validity is well established at HTMT0.85 (Diamantopoulos & Siguaw, 2006). To assess reliability, this study is based on Henseler's heterotrait-monotrait ratio of correlations. There is no problem of multi-collinearity between the items loaded on different constructs in the outer model. The results pave the way to the next assessment known as a structural model assessment which means that it does not have the issue of discriminant validity as it does not violate the most conservative criterion (HTMT.85).

Table 3 HTMT criterion

	BT	EI	FP	GS
BT				
EI	0.463			
FP	0.667	0.232		
GS	0.442	0.442	0.507	

Criteria: Discriminant validity is established at HTMT0.85

Structural Model

The structural model assessment examines the proposed relationship between the variables in the research framework. Before measuring the structural model, this study addresses the issue of multi-collinearity using collinearity test. The VIF values below 3.3 (Diamantopoulos & Siguaw, 2006) for each of the constructs suggest that the problem of multi-collinearity is not a concern. Next, a 5000-bootstrap resampling of data is conducted to examine the hypotheses of this study (Hair et al., 2017). Table 4 demonstrates the assessment of the path coefficient, which is represented by Beta values for each path relationship. The

results show that two out of three hypotheses were indeed supported. The results for direct effects indicate that the business ties (BT) and government support (GS) were indeed to have a positive influence on the firm performance. On the contrary, enforcement inefficiency (EI) was shown to have contradicted results on the firm performance.

As depicted in Table 4, only two out of the three proposed relationships are significant. Specifically, the study found support for H1 (Business Ties → Firm Performance, $\beta = 0.212$, $p < 0.05$, LLCI = 0.028, ULCI = 0.371), and H3 (Government Support → Firm Performance, $\beta = 0.347$, $p < 0.01$, LLCI = 0.250, ULCI = 0.533). Nonetheless, this study did not find support for H2.

Table 4 Path coefficients

Direct Effect	Beta	S.E.	t-value	p-value	LLCI	ULCI	Decision
H1: BT -> FP	0.212	0.092	2.304	0.022	0.028	0.371	Supported
H2: EI -> FP	-0.040	0.120	0.330	0.742	-0.310	0.213	Not Supported
H3: GS -> FP	0.347	0.069	5.017	0.000	0.250	0.533	Supported

Path Coefficient 0.01, 0.05 (Hair et al. 2017)

Lateral Collinearity: VIF 3.3 or higher (Diamantopoulos & Sigouw 2006)

Next, we assess the coefficient of determination (R^2), the effect size (f^2) and the predictive relevance (Q^2) of exogenous variables on the endogenous variable in this study. Table 5 also displays the quality of the model. Business ties and government support were shown to carry substantial effect size f^2 on financial performance. H1 and H3 hypotheses were also found to pose a medium effect size f^2 on firm performance (Cohen, 1988). The coefficient of determination represented by R^2 which explains whether the business ties (BT), enforcement inefficiency (EI) and government support (GS) could explain the firm performance indicates substantial effect (Chin, 1998). Besides, multi-collinearity between indicators were assessed. All indicators for variables satisfy the VIF values, and there are consistently below the threshold value of 5.0 (Hair et al., 2014) and 3.3 (Diamantopoulos & Siguaw, 2006). Therefore, it can be concluded that collinearity issues do not reach critical levels in all variables and are not an issue for the estimation of the PLS path model.

The R^2 value for attitude is 0.548, suggesting that the antecedents able to explain a certain number of variances for the endogenous variable. The results also expose that business ties have a medium effect size on attitude ($f^2 = 0.16$). This implies that business ties are moderate element influencing firm performance. Meanwhile, government support also exerts a medium effect size ($f^2 = 0.19$) on firm performance. Therefore, the relationship was significant moderately. On the other hand, enforcement inefficient ($f^2 = 0.00$) does not exert any effect on firm performance. The predictive relevance values of all exogenous (independent) variables towards endogenous (dependent) variable were more substantial than 0, indicating that the independent variables (BT, EI, and GS) could predict the financial performance, as presented by Q^2 using blindfolding procedure (Hair et al., 2017).

Table 5 Model quality assessment

Direct Effect	f^2	R^2	VIF	Q^2
H1: BT -> FP	0.160	0.548	1.347	0.423
H2: EI -> FP	0.000		1.312	
H3: GS -> FP	0.190		1.090	

$R^2 \geq 0.26$ consider Substantial (Cohen, 1989)

$f^2 \geq 0.26$ consider Substantial (Cohen, 1989)

$Q^2 > 0.00$ consider large (Hair, 2017)

CONCLUSION

Even though the influence of network ties on firm performance has been extensively examined in the literature, previous studies reveal mixed results of the relationship between network ties and firm performance. Furthermore, defining network ties is complicated. Therefore, this study attempted to identify the role of networking ties that may help the contractors to achieve superior performance. This study has the hypotheses development, theoretical framework and research design were designed to meet the research objectives. In this study, the researchers highlight the direct effect of business ties, enforcement inefficiency and government support toward contractors' firm performance.

Based on the results, business ties and government support are significantly related to the contractors' firm performance. Therefore, it appears that networking ties play the most significant role for contractors as business ties provide firms with the platform to market resources. Most importantly, business ties offer critical market information that is not accessible in an open market, e.g. product information (Heide & John, 1992), relevant events or changes in the market (Lusch & Brown, 1996), and information such as the trustworthiness of business partners (Poppo & Zenger, 2002). Next, business ties ensure close social interactions and communications that able to encourage learning and mutual adaptation between business partners, promote knowledge transfer and technology acquisition (Rindfleisch & Moorman, 2001; Saxenian, 1996). A firm could increase its absorptive capacity and knowledge utilisation by integrating new knowledge with its existing knowledge (Cohen & Levinthal, 1990). Finally, business ties proved previous behaviour is visible and able to reflect firm's reputation, social ties enable the firm to obtain network legitimacy in the business community (Rao, Chandy, & Prabhu, 2008).

The government support also contributes significantly towards contractor firm performance in Sarawak. Authority's support explains to the extent on how the authority offers general and broad support to all or any firms (Li & Atuahene-Gima, 2001) including small contractor firms. Such public support differs from regulatory resources a firm can obtain through political ties. Thus, strong government support may reduce the worth of business ties (Amber & Witzel, 2004). If the authority provides excellent support to all or selected firms to facilitate economic exchanges, it is less necessary for the firm to depend upon political ties to achieve legitimacy and obtain a thing done (Rao, Pearce & Xin, 2005). In the global era, contractor firms must take advantage of the opportunities in an emerging market like Malaysia. Cultivating networking ties may be necessary to ensure the survival of contractor firms to address demand and institutional steeplechases. We hope future research will continue to explore other elements that may influence firm performance, especially issues on networking ties.

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