

Gokhan Ertug: The Relationship Expert

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SMU Assistant Professor Gokhan Ertug is studying the role of intangible assets such as status, reputation and trust in business relationships.

AsianScientist (Dec. 23, 2013) – By David Tan – Looking for a relationship expert? Gokhan Ertug is the man to call. Assistant Professor Gokhan Ertug from the Singapore Management University (SMU) Lee Kong Chian School of Business studies the key aspects of status, reputation and trust in relationships that range from social networks to international business.

Human beings are social animals and Professor Ertug is intrigued by how social networks within a company can affect the productivity of employees.

“We know that social networks have value because they are related to social capital, similar to human capital or financial capital. There has been a lot of research that showed social networks are positively related to performance,” he says.

Social capital is the expected benefits that arise from cooperative relationships between people, explains Professor Ertug. Together with colleagues at INSEAD, Professor Ertug wanted to find out whether there were any positive externalities of social capital; that is, whether a leader’s social capital might help not only that leader’s own career but also the work of their subordinates, or even the work of those who depend on their subordinates.

Diving into the shark-infested waters of an investment bank with 2,000 employees, Professor Ertug and colleagues examined peer-ranking data collected during bonus season.

During the bonus review process, bankers rate their peers and well-ranked bankers would receive higher bonus payouts. The study, published in the *Academy of Management Journal* (AMJ), found that across the entire company, having colleagues with high social capital did not improve one's ratings.

However, digging a little deeper, Professor Ertug was intrigued to find that for relationships between a leader and their subordinates, as well as between employees and their higher-ranked contacts in general, it was possible to benefit from the leader's social capital.

Employees in units with well-connected leaders, and employees who had well-connected more-senior contacts, generally fared better in the rating exercise. According to Professor Ertug, this is evidence that "the social capital of higher-ranked contacts of an employee or the social capital of their unit leader positively contributed to how much the employee added value to their contacts."

He believes these results mean that companies should take into account social capital when choosing and grooming leaders. Well-connected leaders would have a positive effect on their team's productivity. Similarly, people should consider social networks when voting for their leaders.

"Clearly, a leader's social capital matters for their subordinates' performance," Professor Ertug says. "It may not be the first thing people think about because, unlike a person's qualifications or charisma, networks are not visible. But they are still very important."

Status and reputation in the workplace

Like social capital, status and reputation are considered "intangible assets". Whereas status is constructed through social processes, based on upon observable achievements such as winning an award, reputation is built through measurable outcomes such as productivity, and is therefore considered objective.

To tease apart the effect of status and reputation on performance, Professor Ertug and Assistant Professor Fabrizio Castellucci from Bocconi University in Italy studied National Basketball Association (NBA) teams. The results of their study, published in AMJ, showed the outcome for NBA teams that recruited high status basketball players was increased ticket sales and more spectators at games. Meanwhile, NBA teams that recruited reputable players fared better on the court and achieved better athletic results.

“In the end, it matters what the organisation wants to achieve: if you want greater exposure, then you should go for high status service providers. If the concern is to increase objectively measurable quality, then hiring employees who have an actual record of excelling in those quality dimensions is better,” explains Professor Ertug.

“Problems happen when status and reputation are confused. Looking at what awards people have won is less informative than finding out what they have actually done. Because finding that out takes time, people tend to substitute status for reputation. Hiring ‘stars’ gives you greater exposure, not necessarily greater performance.”

International business and trust

Turning to international business, Professor Ertug is interested in how trust between international joint venture partners is influenced by cultural perceptions.

“We know that country-level differences in the propensity to trust others, that is, whether you trust others more or less, and how much others trust members of a country, both matter for the actual levels of trust in international joint ventures. We also know that trust is positively associated with performance and with governance,” he says.

In collaboration with Assistant Professor Ilya Cuyppers from the SMU Lee Kong Chian School of Business and colleagues from INSEAD and Tilburg University, Professor Ertug has found that different countries trust differently. Their study, published in the *Journal of International Business Studies*, reports that firms from certain countries had a greater tendency than others to trust partners, which influenced how they transacted with those partners. Some countries are trusted more than others too. For example, as consistent with data reported in the World Values Survey, firms from Denmark are deemed by partners from many countries to be trustworthy.

“This is often based on stereotype and is not necessarily factually true,” says Professor Ertug. “The overall effect is that a given company could be at an advantage simply because of their provenance. Nevertheless, these cultural differences can be mitigated by prior interactions and also by the duration of a relationship.”

As a follow on to this research, Professor Ertug is again collaborating with Professor Cuyppers to study how the desire for control over a relationship is affected by cultural, religious and linguistic distance, as capturing important differences between partners from different countries.

“With people similar to you, you could expect them to act and think like you, so you are less concerned with control. The more dissimilar you are, the greater the uncertainty, so the more likely you would want to take control,” he says.



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In highly diverse societies such as Singapore, however, Professors Ertug and Cuypers find that, because people have experience working with people from various backgrounds, they are more aware of possible problems that might arise, and better prepared to take measures to rule out or address these problems.

“People from homogeneous societies, on the other hand, have not spent the time and effort in interacting with people from a different background to be as adept in handling relationships with partners from different countries,” said Professor Ertug.

Indeed, diversity at home may confer an advantage when working with international partners, says Professor Ertug, a nod to Singapore’s multi-cultural society that has made it a leading financial and business capital in Asia.

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