

Effect of Entrepreneurial Networks on Family Business Development: A Conceptual Consideration

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Abstract

Family businesses are generally affected by resource constraints. These resource constraints are occasioned by the vagaries in the business environment. Consequently, budding and established family business entrepreneurs are now resorting to the acquisition and sharing of intangible resources as a strategy for achieving family business development. One type of resource that is increasingly being employed is entrepreneurial networks. In spite of the known supports entrepreneurial networks give to entrepreneurs at the different states of family business development, empirical evidences are still rear. Based on the foregoing, this study undertook a literature review and thereafter proposes that: the effect of family network on family business start-up is significant; the effect of intra-industry network on family business formalization is significant; the effect of professional network on family business professionalization is significant; the effect of extra-industry network on family business diversification is significant; the effect of social network on family business internationalization is significant; and the effect of intra-firm network on family business succession is significant. For family business development to be influenced by entrepreneurial networks, budding entrepreneurs, founder and/or descendant CEOs and employees of family businesses need to be actively involved in network relationships that encourage and facilitates resource acquisition and sharing. Moreover, an empirical study is recommended based on these propositions. This is to validate the propositions and to further add to the family business development and entrepreneurial networks literature.

Keywords: Entrepreneurship, Entrepreneurial networks, Family business, Family business development, Tipping points.

1. Introduction

Family businesses are generally affected by resource constraint. Resource constraint is one of the biggest trickle-down effects of the turbulence in today's business environment (Sirec & Bradac, 2009; Onuoha, 2012; Ichrakie, 2013; Ottih, 2016). Business resources are the tangible and intangible resources that are owned and controlled by firms. Tangible resources have been made inadequate to support business development by business

environmental vagaries (Teece, 2007; Ichrakie, 2013). This trend is gradually shifting the focus of firms to intangible resources. Entrepreneurial network is one of the intangible resources that make family businesses unique (Conner, 2007). In spite of the resource constraint, family businesses are still sources of employment opportunities, tax revenues to the government, business competition, innovation, creativity, foreign exchange, savings and gross domestic product (Onuoha, 2012). In addition, entrepreneurial networks are known to provide information, technologies, access to markets and other complementary resources for family businesses (Conner, 2007).

The oldest and most dominant type of business in the world is family business (Abouzaid, 2008; European Family Business, 2012). In family business, the owning family controls the capital, participate in the management of the company and have the will to transmit the company to the next generation (Bchini, 2014). Family business is also known as family firm, familial entrepreneurship and family entrepreneurship (Bratkovic, Antoncic & Ruzzier, 2009; Zachary, Rogoff & Phinisee, 2011). They can be habitual entrepreneurship (serial, portfolio) and can be found in all sectors of the economy (Heck, Hoy, Poutziouris & Steier, 2008; Ogundele, Idris & Ahmed-Ogundipe, 2012). Family businesses are of different sizes (micro, small, medium, large, multinational) and forms (sole proprietorship, partnership, joint venture, public limited company) (Qurashi, Hussain, Mushtaq & Ullah, 2013). Families establish family businesses to create opportunities for their children, perpetuate family inheritance, hold the family together, give the families financial independence and inheritance (Ayranci, 2010).

During the early part of industrialization, the resultant effect of the environment was market failure. As a reaction to the uncertainty and market failure, families became the interface between the market and the firm (Casson, 1999). Within this period, the business owners acquired the needed managerial knowledge and experience from families and communities rather than through training (Colli, 1998, 2003). The rise of modern corporations has shown that families lack the financial and human capital to sustain the development of family businesses in the capital and technology intensive industries (Chandler, 1990). However, growing evidence abound that Chandler undervalued the capabilities of family businesses (Sluyterman & Winkelman, 1993). Areas where the capabilities of family businesses lie include the network of interrelated family businesses (Scranton, 1997), friendship and kinship ties (Colli, 2003). These capabilities have been employed by family businesses to increase their resilience in many sectors of the economy (Scranton, 1997).

Family business development is characterized by different entrepreneurial networks. Extant literature has shown that the most commonly used entrepreneurial networks are family, social, professional, intra-firm, intra-industry and extra-industry. Today, studies in business growth or development are witnessing a paradigm shift from stages of business development to tipping points. The identified tipping points in business literature are start-up, formalization, professionalization, diversification, internationalization and succession. However, studies on the effect of entrepreneurial networks on the tipping points in family business development are still rear. Thus, this study argues that entrepreneurial networks can affect the tipping points or states in family business development.

2. Literature Review

2.1 Family Business

Family business is “a small, medium-sized, large or multinational enterprise established or bought over through a solo or family (two or more individuals related by blood or marriage) entrepreneurial efforts and operated based on a high level of trust, commitment, familiness, involvement and control by the owning family and a somewhat fused ownership, management and/or governance systems with the founder, descendant or external CEO directing the achievement of the developmental and trans-generational visions of the family business” (Agbim, 2018a: 5; Agbim, 2018b: 3).

2.2 Entrepreneurial Networks

Entrepreneurial networks are the relationships and ties entrepreneurs create and maintain with family members, friends, other entrepreneurs and organizations for the purpose of acquiring and sharing resources for either family or non-family business development. Sirec and Bradac (2009) opine that entrepreneurial networks can originate from internalization or externalization. Internalization suggests intensification of internal cooperation, while externalization connotes limited to outsourcing relationship. Entrepreneurial networks provide the entrepreneurs with support, exchanges and resources (tangible and intangible) that constitute strategic tools with which they pursue business development (Seerat, Ali & Arif, 2011). However, “not all entrepreneurial networks are of equal value to the entrepreneur” (Bagwell, 2007: 379).

Moreover, networks can be formal or informal. Formal networks are intentionally formed groups of companies, generally operating in close proximity to each other. Informal networks consist of unintentional collection of organizations and individuals who have an interest in or links with the firm and/or its owner. Before the advent of the internet and social media, actors in a network interact on a face-to-face basis. Today, the internet and social networking platforms like Facebook have revolutionalized the activities of actors in a network. Entrepreneurial networks are continuously changing because they are not static with respect to entrepreneurial network type and the state of the business development in focus. This has necessitated first the use of one or a combination of any of family, intra-industry, professional, extra-industry, social and intra-firm entrepreneurial networks at the different states of business development. Second, the use of a combination of weak and strong ties in the pursuit of business development. Hamid (2013) asserts that the ties among family members are strong. Strong ties are reliable, but do not offer useful information like weak ties, while weak ties act as “bridges” to information sources not necessarily contained within an entrepreneur’s strong tie.

2.3 Tipping Points and Family Business Development

Researchers have previously focused on the stages of business development when studying business growth or development (Mckelvie & Wiklund, 2010). The results of such studies have raised more questions than answers. One of such key questions is: why is it that some firms grow and others do not? (Levie & Lichtenstein, 2010; Hansen & Hamilton, 2011). Other issues which have been raised concerning such studies are: there are no theories on the stages of business growth model; the questions that have been raised concerning the results of such studies have remained unanswered; and the stages of business growth model have not been validated empirically. Consequently, researchers conclude that the stages of business growth model have limitations (Leitch, Hill & Neergaard, 2010; Levie & Lichtenstein, 2010).

Some other researchers are of the view that the turbulence in today’s business environment further contribute in rendering the stages of business growth model irrelevant. Current studies on business growth or development show that researchers now focus on tipping points or critical problem areas (Phelps, Adams & Bessant, 2007; Omar, 2015). This suggests that they conceptualize firm growth through the notion of tipping points or critical problems rather than stages of growth. These researchers propose a shift from growth rate to growth mode (Mckelvie & Wiklund, 2010) and from growth stages to growth states (Phelps *et al.*, 2007).

The term “tipping points” is used to explain the critical incidents/problems faced by firms (Omar, 2015). Lamberson and Page (2012:2) define tipping points as “discontinuities in the relationship between parent conditions and future states of the system”. Kekale and Helo (2014:2) assert that, “the central idea of the concept of tipping points is that in some phase of the development or evolution of a phenomenon, some small and apparently insignificant changes can turn up to have consequences out of proportion to themselves. The idea of tipping point assumes a gradually developing process, where every added incident is a decision point. A decision point where one added incident makes the development follow one of two or several strongly differing paths is

the tipping point”.

Tipping points result from change in the state or variable of interest and changes in the context surrounding that variable (Lamberson & Page, 2012). Supporting Lamberson and Page’s view, Phelps *et al.* (2007:8) notes that “tipping points are encountered during growth or are the consequence of environmental changes, and will depend on the specific context of the firm in its environment”. Phelps *et al.* further notes that the managerial problems that formed the tipping points are people management, strategic orientation, formalization of systems, new market entry, finance, operational improvement and organizational knowledge.

Tipping points are the critical incidents that a firm face as it develops. These critical incidents occur due to environmental changes. Thus, family business development is the process of transitioning a solo or a group of family members entrepreneurially created (or bought) and/or managed family business through the critical incidents, problems or tipping points of start-up, formalization, professionalization, diversification, internationalization and/or intra and inter-organizational succession. This does not imply a sequential order of business development. This is because one family business can follow this order; another can even start as formalized, professionalized, diversified and/or internationalized firm.

3. Proposition Development

3.1 Effect of Family Network on Family Business Start-up

The start-up state in family business development is the time practical steps are taken to begin a business. At this state, the entrepreneur identifies business opportunities, draws a business plan and starts implementing the plan. Also, at this state, the entrepreneur is faced with challenges such as business funds, finding a suitable location for the new business, setting up business deals and agreements, hiring the right workers for the business, accessing information and acquiring skills. However, the most important challenge is initial capital (Anis & Mohamed, 2012; Ottih, 2014).

The starting point of any business endeavour is the identification of business opportunities (Ozgen & Baron, 2007). The ability of the entrepreneurs to identify opportunities with greater or lesser speed and intensity is influenced by the entrepreneurs’ involvement in entrepreneurial networks. Opportunity identification or recognition is the process of perceiving a possibility to create a new business or to significantly improve the position of an existing business, and in both cases, new profit potential emerges (Anis & Mohamed, 2012).

Some of the start-up resources come from the entrepreneurs, while others are obtained from the entrepreneur’s contacts or external environment. The most important source of initial capital is personal sources, that is, the family. Thus, the entrepreneur needs family network to obtain his start-up capital. Subsequently, the need for the entrepreneur to be involved in intra-industry, professional, extra-industry, social and intra-firm networks will begin to emerge (Stewart & Hitt, 2012; Abou-Moghli & Al Muala, 2012; Bellavitis, Filatotchev & Kamurimo, 2014).

Family network is the inter-relationship or interconnection among nuclear and extended family members for the purpose of accessing tangible and intangible resources. The nuclear and extended family members include some or all of grandfather, grandmother, father, mother, step father, step mother, brothers, sisters, step brothers, step sisters, nephews, nieces, cousins, uncles, aunties, and in-laws. These family members network electronically via the internet and traditionally during family meetings. Family networks can be created by birth, around sons and daughters. It can also be created by marriage, around wives and in-laws. Sons and daughters can build family network on secure and long-term basis. Family network created by marriage have characteristics that are different from other types of ties. Marriage creates a strong and long-lasting bond that binds family members together. Aside family network, marriage consolidate and reinforces friendship and other social ties. Marriage is one way of embedding a woman into her husband’s family.

Family network is formed by a group of people with a strong tie, kingship tie, an emotional closeness and a common past. The tie between this group of people, and within their family network is facilitated by the family norms, the trust mechanism, moral structure, information channels, collaborative dialogue and the family's point of view (Trevinyo-Ridriguez & Bontis, 2010). The norm and trust are respectively useful in forming the family social capital and problems solving capability. The moral structure and information channels help to ensure a good relationship among family members in a family network and between the family members and the community, and to ensure that the family members participate in external organizations. The daily decisions of the family members are enhanced by collaborative dialogue, while the family's point of view awakens and provokes moral perception (Andrade *et al.*, 2011).

Family network give entrepreneurs access to high quality and reliable information, knowledge and technology. For instance, when searching for business opportunities, entrepreneurs rely heavily on diverse networks (that lack ties between contacts) and weak ties. But when sourcing for start-up capital, entrepreneurs rely more on dense networks or strong ties because of the frequent contacts and emotional closeness. Omar (2015) found that personal networks (i.e., spouse, family, close relatives and close friends) are vital for both start-up and developing stages of business. The study carried out by Bagwell (2007) show that entrepreneurs rely heavily on strong family network ties for almost everything related to business operation and development. Based on the foregoing, it is proposed that:

Proposition 1: The effect of family network on family business start-up is significant.

3.2 Effect of Intra-Industry Network on Family Business Formalization

Family business formalization is the process of transitioning a family business from the informal to the formal sector through a change of form and orientation. Williams and Nadin (2012) opine that informal entrepreneurs or organizations are the organizations that participate in monetary transactions not declared to the State (government or its agency) for tax and/or benefit purposes when they should be declared but which are legal in all other respects. Many entrepreneurs carry on their businesses wholly or partially (Williams, 2006) in the large and growing informal sector all over the world (Charmes, 2009).

Formalization can be voluntary or involuntary. Voluntary formalization means graduating from the informal to the formal sector willingly without pressure from the relevant government enforcement agencies. Involuntary formalization is the abandonment of the informal sector (without conscious thought) to comply with the relevant laws governing the formal position as a result of coercion or compulsion from relevant government enforcement agencies. The result of the study carried out by Nelson and De Bruijn (2005) reveals that a good relationship among the founder/CEO (or successor), family members and employees enhances formalization. Intra-industry network is the tie, connection or relationship a firm has with other firms within the focal firm's industry (Stam & Elfringe, 2008; Bellavitis *et al.*, 2014). Intra-industry network provide cohesive environment, general behavioural rules, low risk and coordination costs, industry legitimacy, and reduced uncertainty regarding the firm's product or service quality (Coleman, 1988, as cited in Bellavitis *et al.*, 2014). Hence, the proposition that:

Proposition 2: The effect of intra-industry network on family business formalization is significant.

3.3 Effect of Professional Network on Family Business Professionalization

Professional network is the tie among employees of a firm who are members of similar professional association and who perform their duties based on the norms of the professional body. Greenwood, Suddaby and Hinings (2002) opine that the professional association plays a central role as carriers and promoters of desirable governance practices and organizing principles (Parada, Nordqvist & Gimeno, 2010). These employees or professionals play a critical role in strategic decision-making in family firms (Chua, Chrisman & Sharma, 2003) and in mentoring other employees to assist in playing professional roles (Amran & Ahmad, 2010). Family

business professionalization is a family business strategy of employing workers with specialized academic knowledge, membership of a professional body and who perform their task based on the professional norms of the professional body they belong to.

A family business is said to be professionalized when the family CEO is replaced by non-family CEO (Lin & Hu, 2007), functional structure and hierarchical governance are established and when professional norms and practices with well defined job positions and tax responsibilities are adopted (Hall & Nordqvist, 2008). The results of the study conducted by Parada *et al.* show that families in professional associations change their values and consultants/family-business relationships. In addition, their interactions with other family businesses in the professional association enable them to share experiences and to receive tangible and intangible supports (Parada *et al.*, 2010). Consequently, family business founder or descendant CEOs who wish to professionalize their firms can train family members to become professionals or employ professionals who will bring their professional norms and practices to bear on the firms' operations. Consequently, it is proposed that:

Proposition 3: The effect of professional network on family business professionalization is significant.

3.4 Effect of Extra-Industry Network on Family Business Diversification

Diversification is a family business group's way of extending their capabilities into new lines of business (Bru & Crespi-Cladera, n.d.). A business group is a collection of legally independent firms that are connected by social ties (i.e., family, kinship and friendship) and economic links (i.e., ownership, financial and commercial) that leads to operational links (Guillen, 2005; Granovetter, 2005; Bru & Crespi-Cladera, n.d.). During the diversification process, owner-managers of these companies stick to strategies that are compatible with maintaining socio-emotional wealth (Hernandez-Trasobares & Galve-Gorriz, 2016). The owner-managers select the market and technology for the new business. It can be new or existing market; new or existing technology. The basis for the selection is usually the available resources and the acquired capabilities (Scur & Queiroz, 2017). Family business diversification is the use of family business resources to start a new line of business.

Extra-industry network is "the relationship a firm maintains with firms that are established outside the focal firm's industry for the purpose of enhancing the identification of opportunities and acquisition of resources that are needed for diversification" (Agbim, 2018b: 3). Stam and Elfringe (2008) opine that extra-industry tie helps the focal firm to gain power and potential to identify opportunities, access diverse knowledge, heterogeneous and complementary resources that are not readily available within the focal firm's industry. Extra-industry network facilitate the learning of competencies and technologies, approaches, perspectives and idea that are not well established in the focal firm's industry (Hargadon, 2002). Ozkan-Canbolat (2014) found that organizations which are located relatively at the central part of the network and also have high level of ability to span structural holes take more risk to use diversification strategies. The results of the study conducted by Dries, Pascucci and Gardebreek (2012) shows that the relationship between a firm and other firms within and outside the focal firm's industry enhances diversification. Hence, the proposition that:

Proposition 4: The effect of extra-industry network on family business diversification is significant.

3.5 Effect of Social Network on Family Business Internationalization

Social network refers to the relationships among friends in a social club, social association or through social networking platform for mutual interest. These relationships facilitate resource sharing and exchange among participating actors (Agbim & Eluka, 2018: 1). Before now, people get involved in social network to create and maintain relationship. However, recently, budding and established entrepreneurs and firms are getting involved in it because of the large market size it offers. Today, the emergence of the internet and the advances in information and communication technology has enhanced the interaction among actors in social network. The closeness of the relationships among the actors is now enhanced by the use of social networking platforms like

Facebook. This closeness is measured on a scale that range from arm's length to social embeddedness. Arm's length relationship is characterized by lean and infrequent transactions; relationships started with special purposes and are limited to such purposes. Social embeddedness is the degree to which commercial transactions take place through social networks. Social embeddedness increase risk-taking and innovativeness inclinations in entrepreneurs, and reduces uncertainty through organizational co-ordination or mergers to show the usefulness of social network.

Social network help to identify opportunities and to access resources. Furthermore, social network supports venture creation and reduction in transaction costs - all the costs associated with the transfer of goods and services from one point to another. It enhances choice making with respect to foreign investment destination and internationalization (Seerat *et al.*, 2011; Ogunnaike & Kehinde, 2013). Family firms that are actively involved in social networks and advantageously positioned in the social web obtain resources and contacts that enhance business performance and promote internationalization process more quickly (Coutinho & Moutinho, 2012).

Family business internationalization is the process of learning and accumulating knowledge on international business in preparation to getting involved in export, investment in a foreign business, starting a foreign subsidiary, or inclusion of expatriates in the top management of the family business. Chelliah, Pandian, Sulaiman & Munusamy (2010) assert that international knowledge is knowledge in foreign ventures, foreign markets, information, multinational culture and the buyer behaviour in foreign market. International experience is referred to as the dealings with foreign business partners and the formation of co-operative agreements with foreign agents.

International knowledge and experience can be obtained by employing professionals with appropriate education and experience and from their networks. Thus, family businesses achieve internationalization faster when working in collaboration with others. This collaboration could take the form of exploitation of goods/services, shareholding by foreigners, inclusion of foreigners in the top management board and establishment of foreign subsidiaries (Chelliah *et al.*, 2010; da Silva & de Macedo-Soares, 2013; Pukall & Calabro, 2014). Most firms start small and gradually internationalize, while others start as international firms. However, small firms have stronger tendency to internationalize than large firms. This is because small firms are looking for broader markets for their products/services (Chelliah *et al.*, 2010). Zhou, Wu and Luo (2007) asserts that international business managers should consider social networks as efficient means of helping internally oriented SMEs to go international more rapidly and profitably. Seerat *et al.* (2011) found that small firms begin operations with the intent to internationalize and this intension is mainly enhanced once the entrepreneur discusses it with people whom he trusts most. Bello (2009) found that the capacity of SMEs to adjust to the requirements of the environments and to offer products adapted to the customers' needs at competitive prices is essential to their internationalization. Thus, the researcher proposes that:

Proposition 5: The effect of social network on family business internationalization is significant.

3.6 Effect of Intra-Firm Network on Family Business Succession

Succession is the process of ensuring that the management and/or ownership of a family business are transferred to competent family or non-family member (Mazzola *et al.*, 2008; Bjornberg & Nicholson, 2012; Lungeanu & Ward, 2012). Family business leadership or management succession is the transfer of management position and responsibilities to a new family or non-family manager. Family business ownership succession is the transfer of family business ownership to a family member or to a third party.

In family business, male successors are perceived to be more supportive, tougher and more competitive than female successors. In relation to female successors, male successors have larger networks, get more supports from the family networks and perform better (Amran & Ahmad, 2010). Female successors are more nurturing,

more supportive in the work environment and focus more on achieving the objectives of the business than on financial performance (Butner & Moore, 1997, as cited in Nwadukwe, 2012). These characteristics are influencing daughters and wives to rise in leadership positions in family businesses and to competitively participate in businesses initially/traditionally dominated by males (Nelton, 1998). Similarly, these characteristics are also responsible for the harmonious nature of the relationship between father and daughter. Daughters are less likely than sons to be in conflict with their fathers (Duman, 1992) over the transfer of the ownership or management of the family business.

However, it is important to note that the transfer of either ownership or management is done through succession planning (Luna, 2012). Succession planning helps to create the required talent pool of family members to meet future organizational needs (El-Chaarani, 2014). Owing to lack of succession planning, one-third of family businesses continue to the second generation and less than half of the second generation family enterprises make it to the third generation when the founder-manager retires or dies (Le Breton-Miller *et al.*, 2004).

Succession planning demands that owner-managers train a member of the family to take over the business. The business owner states his or her successor in the succession plan. This document is important in the case of the sudden death of the founder/manager (Barach & Granitsky, 1995). However, succession plan alone does not guarantee successful succession. Rather, knowledge has been identified as an important asset that must be combined with extensive succession plan to achieve higher performance. The business specific knowledge that must be created and transferred within the business enterprise is technical knowledge/skills (Ghingold & Johnson, 1997).

It is very important for the successor to join the business as early as possible in order to gain experience, loyalty and emotional preparation through on-the-job training (El-Chaarani, 2014). This training is facilitated through intra-firm network. Intra-firm network is the relationship a business CEO has with others within the focal organization. Such a network is made up of employees from diverse units as well as diverse levels within the same organization (Collins & Clark, 2003; Cao, Maruping & Takeuchi, 2006). Family business intra-firm network therefore is the relationship or connection among all the family and non-family members who are working in the organizational units of the same family firm. Collins and Clark (2003) assert that a high level of embeddedness in the intra-firm network can maximize the CEOs ability to gather information from various parts and levels of the organization. The CEO through the intra-firm network in the firm can make effective evaluation and judgment on where the competencies lie in the organization, and where incremental improvement can be made (Liu & Zhang, 2014).

Over time, the successor starts to share power with the current business leader and subsequently takeover the business from the founder (Pontent *et al.*, 2007; Mazzola *et al.*, 2008). Esuh *et al.* (2011) found that true succession will mediate the relationship between founder, successor and environment, and family business continuity. Gbadegesin (2013) found that awareness of the family business owners, the attitude of the owners towards intra-succession as a means of business continuity is related to preparation for succession and business continuity. Memili (2015:423) states that “intra-family succession is critical for family firms’ longevity”. Through the performance/evaluation feedback, the successor is assessed by the owning family on the basis of passion for the job, managerial aptitude, empathic personality, vision for the future, and attitude towards the business and other workers (Le Breton-Miller *et al.*, 2004; Fishman, 2009). The quality of the transfer is measured by the satisfaction of the stakeholders with the execution of the succession process (Sharma *et al.*, 2003; Le Breton-Miller *et al.*, 2004). Therefore, it is proposed that:

Proposition 6: The effect of intra-firm network on family business succession is significant.

4. Conclusion

The study proposes that entrepreneurial networks (i.e., family, intra-industry, professional, extra-industry, social and intra-firm) exert influence on the tipping points of family business development (i.e., start-up, formalization, professionalization, diversification, internationalization and succession). For a family business to be influenced by these entrepreneurial networks, the founder and/or descendant CEOs and employees of the family business need to be actively involved in relationships that encourages and facilitates resource acquisition and sharing. Involvement in these relationships has become more important now than ever before owing to turbulence and uncertainty in today's business environment. Moreover, the unpredictability of business environmental factors has been linked to resource constraint, particularly intangible resources. Nevertheless, extant literature reveals that entrepreneurial networks are forms of intangible resources. An empirical study is recommended based on these propositions. This is to validate the propositions and to further add to the family business development and entrepreneurial networks literature.

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