Social tie heterogeneity and firms' networking strategy

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Social Ties Heterogeneity and Firms´ Networking Strategy

ABSTRACT

The social ties of the owners, directors, and managers of firms have cross-level effects on firms' network development. Firms can develop affiliations to a business group and connections across business groups. The Authors (2018) examined the family and community ties of firms' leaders and their impact on firms' business group networks. We expand their theoretical focus and discuss the relational content heterogeneity of those ties and the associated logic in developing their networking strategy. We suggest alternative developmental processes of a firm's network development strategy.

INTRODUCTION

Social ties of firms' owners and managers and their business's networks have been important topics in family business research (e.g., Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Verver & Koning, in press). Building on this stream of literature, the Authors (2018) examined how two types of social ties (belonging to the same family or belonging to the same trading community) among owners and directors across companies influence a firm's networking strategy (i.e., clustering, bridging, and embeddedness in the global business groups' network). They find that, in the context of India, family ties prevent a firm from clustering by joining a business group, from bridging through cross-group connections, and from becoming embedded in the country network. By contrast, firm leaders' trade community ties show the opposite effect on the firm's networking strategy. The work of the Authors (2018) advances our understanding of how individuals' social ties result in different network patterns for firms.

While the Authors' (2018) primary focus is to differentiate the effects of different individuals' social ties on a firm's network, this commentary draws attention to the heterogeneity in the relational content of and logics behind those ties, which may alter the development of business networks. Following the network literature, we first look beyond the focus of the Authors´ (2018) study on the positive relational content shared within the same family or trading community (arising from socio-emotional wealth (SEW) and trust), which may not always share a homogeneous relational content (Discua Cruz, Howorth, & Hamilton, 2013). We argue that, even within the same family or community, the relational content can vary, such as the neutral relationships for only information exchange, or even with negative relationships with disliking (Casciaro & Lobo, 2008; Umphress, Labianca, Brass, Kass, & Scholten, 2003). Relational content can also change through time, such as shifting from positive to negative during the cross-generational transfer in a family firm (Kellermanns & Eddleston, 2004). These changes may influence how firm leaders utilize their interpersonal ties to determine the firm's network. Furthermore, we propose that the logic behind family and community ties may also change depending on the firm's performance level (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Martin & Gomez-Mejia, 2016). Firms' overperformance or underperformance may trigger an ex ante planning logic to preserve relational content or as an ex post outcome logic to pursue economic benefits. Figure 1 presents the model of this commentary with a more refined theorization about a firm's network development that emerges from inter-personal ties.

Insert Figure 1 here

HETEROGENEITY IN THE RELATIONAL CONTENT OF SOCIAL TIES

A key assumption in the Authors' (2018) study is that family and community ties convey positive relational affect resulting from SEW and trust among members. We relax this assumption by also considering neutral and negative relational content within groups, such as distant or competing relations within the family group (Verver & Koning, in press). Social ties can convey diverse relational content, including the positive affect of trust, the neutral affect of instrumental relationships, and the negative affect of dislike and conflict (Umphress et al., 2003). Intra-group members within a family or community group may have diverse degrees of relational quality towards one another (Discua Cruz et al., 2013), potentially changing the group behavior.

Differences in relational content can trigger different networking strategies in a social group. The positive or negative affective content may become an individual's primary evaluation criteria to assess a network, rather than following a rational cost-benefit analysis to evaluate the utility of a network. Casciaro and Lobo (2008) examined how the affective content shaped the development of individuals' task networks. They found that if an individual has negative affective content (i.e., disliking of the other team members), he/she may avoid interactions with others in the same team. Relatedly, Podolny and Baron (1997) found that structural holes with neutral affect that are primarily used for instrumental benefits as resource exchange can help an individual shift between diverse networks. However, positive affective content with mutual trust tends to result in locked-in relationships in a specific network. Thus, relational content could change how individuals develop the network. Non-positive relational content may lead individuals to explore networks outside the group (Landis, 2016), such as appointing more non-family managers to mediate conflicting family managers in a family firm (Kellermanns & Eddleston, 2004).

Additionally, relational content may change over time. For instance, in regard to the succession process in a family business, choosing a successor may alter an originally harmonious family relationship into a conflictive one that can eventually undermine the firm's decision making processes (Kellermanns & Eddleston, 2004). Methot, LePine, Podsakoff, & Christian (2016) have shown that the co-existence of friendship and instrumental ties (multiplexity) can induce a negative feeling of emotional exhaust from maintaining such ties over time. undermining an individual's job performance in the end. Given that the content of the tie may change (for example, from the positive content of trust to the negative content of exhaustion), this may alter the development of the network structure (Landis, 2016). Thus, the effects of family or community ties may not be constant but have intertemporal variations in how firm leaders evaluate network strategies.

In summation, we argue that the heterogeneous content within a family or trading community could alter the development of a firm's network. The neutral affective content in an instrumental relationship for resource exchange or the negative affective content of dislike may prevent members from developing long-term relationships, such as being constantly controlled by the parent company of a business group. Additionally, we suggest that the relational content may also change over time, such as from the positive liking to the negative disliking or the other way around, thus preventing or triggering different actions for the firm's network development.

HETEROGENEITY IN LOGICS BEHIND SOCIAL TIES

Another type of heterogeneity emerges from the strategic logics underlying these social ties. In the Authors' (2018) study, they assume that family ties induce the SEW logic to avoid the loss of affective content (such as the emotional attachment to preserve the family's control of the firm) (Gómez-Mejía et al., 2007), whereas trade community ties trigger the rational logic to pursue effective resource exchanges (such as the transfer of funds and knowledge) for better efficiency and economic performance (Fombrun, 1982; Umphress et al., 2003). However, these logics are not necessarily constant, especially since the family's logic can change between pursuing SEW or financial performance.

We argue that the dominance of a SEW or economic logic depends on the firm's performance compared to its aspiration level based on its own past performance or on its peers' performances (Gómez-Mejía et al., 2007). If a family firm's current financial performance is higher than or equal to its aspirational level, the controlling family is likely to maintain the SEW logic, as is the case in the Authors' (2018) study. Good performance provides enough slack resources such that the controlling family does not have the pressure to forgo the SEW logic and to adopt the economic logic to ensure that the family firm can survive, such as through increasing debts (Glover & Reay, 2015) or diversifying into different industries (Gomez-Mejia, Patel, & Zellweger, in press). Thus, the family can ex ante plan the firm's network development to maintain its affective content of SEW (Gu, Lu, & Chung, in press).

However, if a family firm's performance is below its aspirational level, there may be pressure to switch to the economic logic, similar to that of the trade community tie in the Authors' (2018) study. Although, with a slight underperformance, the controlling family may be willing to sacrifice the economic benefits of joining a network (Gómez-Mejía et al., 2007), greater underperformance raises non-family stakeholders' questions about the legitimacy of the family's SEW logic (Martin & Gomez-Mejia, 2016). As a result, the controlling family has the pressure to switch to an economic logic to expand its network (Gomez-Mejia, Makri, & Kintana, 2010).

Therefore, we argue that heterogeneity in the logic behind social ties may alter the development of business group networks observed in the Authors' (2018) study, depending on the firm's performance compared to its aspirational level. Performance equal to or above the aspirational level fosters the family logic (i.e., ex ante planning the network strategy to avoid SEW losses). Underperformance may force a switch to the logic to follow a network strategy for the ex post economic gains. Thus, we suggest that a business network development needs to consider the dynamic change of the strategic logics associated with each social tie (Borgatti & Halgin, 2011).

CONCLUSION

The Authors (2018) provide valuable contributions to our understanding about how individuals' family and trade community ties influence a firm's networking strategy. Building on their work, we delve into the mechanisms driving such network development by looking at the heterogeneity of social ties. First, we argue that the relational content of ties within a given social group may not always be positive, such as with the conflict between family members. Tie content and tie changes may create boundary conditions in predicting the effect of a given tie on the firm's network. Second, diverse strategic logics behind social ties may change as well, depending on the firm's performance. The performance pressure may force the family group to switch to a logic similar to that of a trade community group, focusing on the economic outcomes of network development instead of maintaining SEW.

In Table 1, we suggest some empirical approaches regarding how to examine the theoretical questions raised in this commentary. The measures of affective relational content (such as trust and emotional support (positive) or dislike and avoidance (negative)) tend to require primary data by asking individuals to generate names of whom they have a specific type of affect (Arregle et al., 2015). Instrumental ties with neutral content (such as financial resources or work-related advice) can be obtained from secondary data, such as corporate archives of intra-organizational communication and financial records (Labianca, 2014).

Insert Table 1 here

The strategic logic of the controlling owner-managers requires an examination on their cognition and perception, such as managerial attention (Ocasio & Joseph, 2017) and the prioritization of economic and non-economic focus (Chrisman, Chua, Pearson, & Barnett, 2012). These can be captured through laboratory experiments on individuals' cognitive responses (Welpe, Spörrle, Grichnik, Michl, & Audretsch, 2012), surveys questions about corporate goals (Cabrera-Suárez, Déniz-Déniz, & Martín-Santana, 2014; Chrisman et al., 2012), or content analysis of corporate reports (Ocasio & Joseph, 2017). For the firm-level network constructs, future empirical studies can follow the Authors' (2018) constructs of clustering, bridging, and embeddedness (Borgatti & Halgin, 2011). The data can be obtained through primary surveys on owner-managers and secondary databases, such as inter-locking of directors (Payne, Moore, Griffis, & Autry, 2011) and co-inventors in patent applications (Ahuja, 2000).

Future research can further examine the relational content and logic behind social ties. One question is the direction of the relational content. Our commentary focuses on the symmetric content shared by both parties of a relationship, while there may be asymmetric content (Landis, 2016). For instance, in a parent-child tie, the parent may possess a favorable liking to the child, but the latter may only look at the instrumental benefits from the parent's financial supports. Another question is to examine other types of social groups, such as political or religious communities, with different networking logics, such as promoting a policy change or spreading religious values. Future studies can also map the interaction effects between heterogeneous social groups and their asymmetric relational content on the network's actions (Fombrun, 1982).

In conclusion, this commentary highlights the importance of relational content and the underlying logic of social ties in determining a firm's network strategy. We provide an initial step to develop theory about how these differences may lead to diverse development processes of a firm's network. We hope this provides directions for future research to have a more refined examination regarding firms' cross-level network development processes.

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Figure 1

Tie Relational Content and Firms´ Networking Strategies

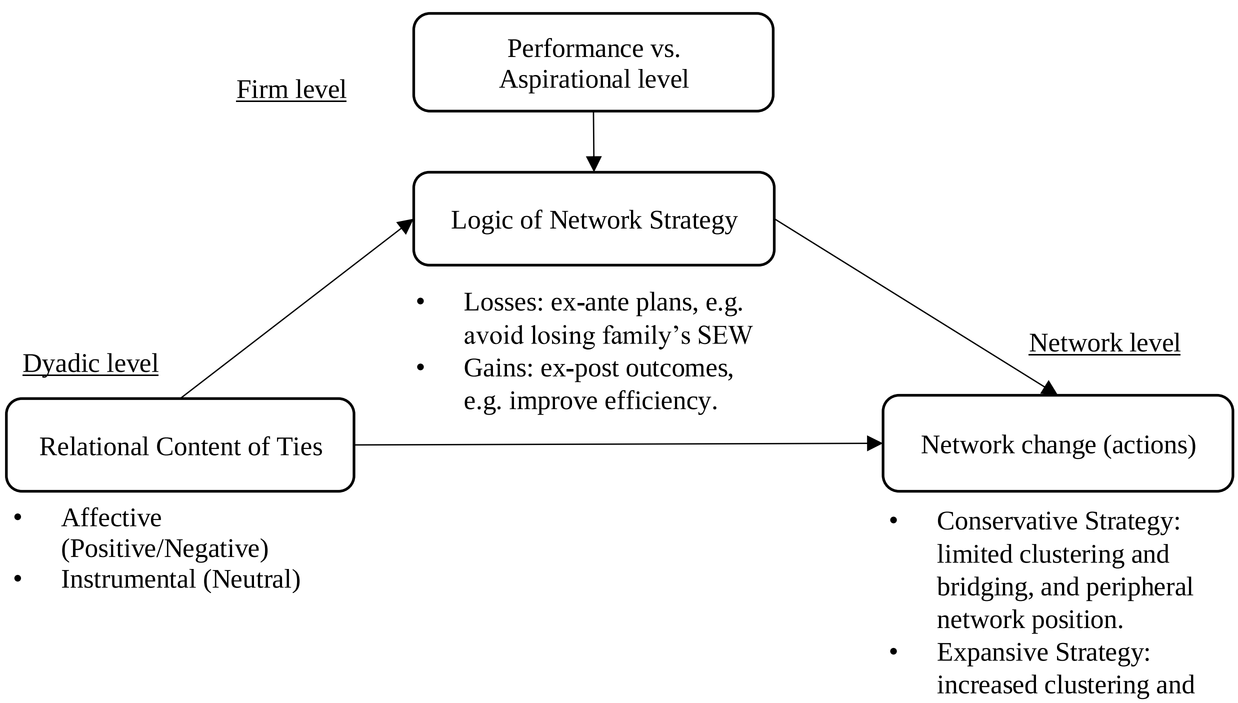

Table 1
Research Agenda for Studies of Firms´ Network Strategies

Level	Construct		Operationalization	Potential data sources	Research questions
Dyad	Relational Content	Affective: Positive	Liking, friendship, trust, respect, emotional support, etc.	• Name generation through surveys • Secondary records, e.g., organizational structure, transaction records, connections of social media profiles, etc.	• What are the effects of different relational content on network development? • When relational content change (for instance, from positive to negative), how does the firm's network develop?
		Affective: Negative	Dislike, conflict, avoidance, competition, bullying, etc.		
		Instrumental: Neutral	Advice, resource exchange, status, etc.		
Firm	Strategic logic	Gain economic benefits	Managerial attention Economic and non-economic (SEW) goals	• Experiments • Surveys • Text content analysis of corporate documents	• When does the strategic logic of the owner-managers change that may alter the firm's network development? • Under what condition do the economic and non-economic logics align and/or differ in determining the firm's network strategy?
		Prevent affective losses			
Network	Changes (Actions)	Clustering	Density, Clustering Coefficient	• Primary Surveys • Secondary databases, e.g., ownership and directorship, business alliance, co-authorship in patents, etc.	• How does a firm develop its business network – as an ex ante planning or ex post outcome of other strategy? • What is the long-term network development process when the relational content and strategic logics may change from time to time?
		Bridging	Structural Holes, E-I Index[1], Betweenness Centrality		
		Embedding	Degree and Closeness Centrality, Core/Periphery		

[1] Refers to external tie – internal tie index that is based on the ties inside and outside a social group (Krackhardt & Stern, 1988).