SOCIAL TIE HETEROGENEITY AND FIRMS' NETWORKING STRATEGY

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ABSTRACT

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

INTRODUCTION

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

While Mani and Durand's (in press) primary focus was 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 those ties and their underlying logic, both of which could alter the development of business networks. Following the network literature, we first look beyond the focus of Mani and Durand's (in press) study regarding the positive relational content shared among members of a family or trading community—arising from socioemotional wealth (SEW) and trust—who may not always share homogeneous relational content (Discua Cruz, Howorth, & Hamilton, 2013). We argue that, even within the same family or community, relational content can vary, as in neutral relationships for information exchange only and even negative relationships involving dislike (Casciaro & Lobo, 2008; Umphress, Labianca, Brass, Kass, & Scholten, 2003). Relational content can also change with time, such as shifting from positive to negative during cross-generational transfer in a family firm (Kellermanns & Eddleston, 2004). These changes can influence how firm leaders utilize their interpersonal ties to determine their firm's network. Furthermore, we propose that the logic behind family and community ties can also change, depending on the firm's performance level (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Martin & Gomez-Mejia, 2016). A firm's over- or underperformance can trigger an ex ante planning logic to preserve relational content or a logic to pursue ex post economic benefits. Figure 1 illustrates the model of this commentary, with more refined theorization about a firm's network development that emerges from interpersonal ties.

Insert Figure 1 here

HETEROGENEITY IN THE RELATIONAL CONTENT OF SOCIAL TIES

A key assumption of Mani and Durand (in press) 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 a family group (Verver & Koning, 2018). 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). The relationships between group members within a family or community group can have diverse qualities (Discua Cruz et al., 2013), potentially changing the group's behavior.

Differences in relational content can trigger different networking strategies in a social group. Positive or negative affective content can become an individual's primary evaluation criteria for assessing a network rather than following a rational cost–benefit analysis to evaluate the network's utility. Casciaro and Lobo (2008) examined how affective content shapes the development of individuals' task networks. They found that, if an individual has relationships that generate negative affective content (i.e., dislikes other team members), that individual would avoid interacting with others on the team. Relatedly, Podolny and Baron (1997) found that structural holes of neutral affect that are primarily used for instrumental benefits, such 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 their networks. Non-positive relational content can lead individuals to explore networks outside the group (Landis, 2016), for example, by appointing non-family managers to mediate between conflicting family managers in a family firm (Kellermanns & Eddleston, 2004).

Additionally, relational content can change with time. For instance, choosing a successor in a family business can 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, and Christian (2016) have shown that the co-existence of friendship and instrumental ties (multiplexity) can induce negative feelings of emotional exhaustion from maintaining such ties over time, ultimately undermining an individual's job performance. Changes in the content of ties (e.g., from the positive content of trust to the negative content of exhaustion) can alter the development of the network structure (Landis, 2016). Thus, the effects of family or community ties on firm leaders' evaluation of network strategies may not be constant but have intertemporal variations.

In sum, we argue that heterogeneous content within a family or trading community could alter the development of a firm's network. Neutral affective content in an instrumental relationship for resource exchange or negative affective content involving dislike can prevent members from developing long-term relationships, as in Mani and Durand's (in press) case of being constantly controlled by the parent company of a business group. Additionally, we suggest that relational content can change with time, for example, from positive to negative or vice versa, thus preventing or triggering different actions in the firm's network development.

HETEROGENEITY IN THE LOGIC BEHIND SOCIAL TIES

Another type of heterogeneity underscores the strategic logic behind family and community ties. Mani and Durand (in press) assumed that family ties induce SEW logic to avoid the loss of affective content (e.g., emotional attachment to preserve a family's control of the firm; see Gomez-Mejia et al., 2007), whereas trade community ties trigger rational logic to pursue effective resource exchanges (e.g., transfer of funds and knowledge) for greater efficiency and economic performance (Fombrun, 1982; Umphress et al., 2003). However, such logic is not necessarily constant, especially since a family's logic can change between pursuing SEW and financial performance.

We argue that the dominance of SEW or economic logic depends on the firm's performance compared to its aspiration level based on its past performance or that of its peers (Gomez-Mejia et al., 2007). If a family firm's current financial performance is above or equal to its aspirational level, the controlling family is likely to maintain SEW logic, as in the case of Mani and Durand's (in press) study. Good performance provides enough slack resources such that the controlling family is not under pressure to forgo SEW logic and adopt an economic logic to ensure the firm's survival, for example, by increasing debt (Glover & Reay, 2015) or diversifying into a different industry (Gomez-Mejia, Patel, & Zellweger, 2018). Thus, the controlling family can ex ante plan the firm's network development to maintain the affective content of its 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 an economic logic similar to that underlying the trade community ties in Mani and Durand's (in press) study. Although, given slight underperformance, the controlling family could be willing to sacrifice the economic benefits of joining a network (Gomez-Mejia et al., 2007), greater underperformance raises non-family stakeholders' questions about the legitimacy of the family's SEW logic (Martin & Gomez-Mejia, 2016). The controlling family is thus under pressure to switch to an economic logic to expand its network (Gomez-Mejia, Makri, & Kintana, 2010).

We therefore argue that heterogeneity in the logic behind social ties could alter the development of the business group networks observed by Mani and Durand (in press), depending on the firm's performance compared to its aspirational level. Performance equal to or above the firm's aspirational level fosters family logic (i.e., ex ante planning a network strategy that avoids SEW losses). Underperformance could force a switch to a logic to follow a network strategy for ex post economic gains. Thus, we suggest that business network development needs to consider the dynamic changes in strategic logic associated with social ties (Borgatti & Halgin, 2011).

CONCLUSION

Mani and Durand (in press) made valuable contributions to our understanding of 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, as in conflicts between family members. Tie content and changes can create boundary conditions in predicting the effect of a given tie on a firm's network. Second, the types of strategic logic behind social ties can change as well, depending on the firm's performance. Performance pressure can force a 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 empirical approaches to examine the theoretical questions raised in this commentary. Measures of affective relational content (e.g., trust and emotional support on the positive side and dislike and avoidance on the negative side) tend to require primary data, for example, by asking individuals to generate the names of those with whom they feel a specific type of affect (Arregle, Batjargal, Hitt, Webb, Miller, & Tsui, 2015). Instrumental ties with neutral content (e.g., financial resources or work-related advice) can be obtained from secondary data, such as corporate archives of intra-organizational communications and financial records (Labianca, 2014).

Insert Table 1 here

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

Future research could further examine the relational content and logic behind social ties. One question is the direction of the relational content. Our commentary focuses on symmetric content, shared by both parties of a relationship, while there could be asymmetric content (Landis, 2016). For instance, in a parent–child tie, the parent may have a liking for the child but the child may only look at the instrumental benefits of the parent's financial support. Another research avenue could be the examination of other types of social groups, such as political or religious communities, with different kinds of networking logic, such as ones promoting policy change or spreading religious values. Future studies could 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 could lead to diverse development processes of a firm's network. With this commentary as a guideline, future research can examine firms' cross-level network development processes in greater detail.

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Figure 1
Relational Content of Ties and Firms' Networking Strategies

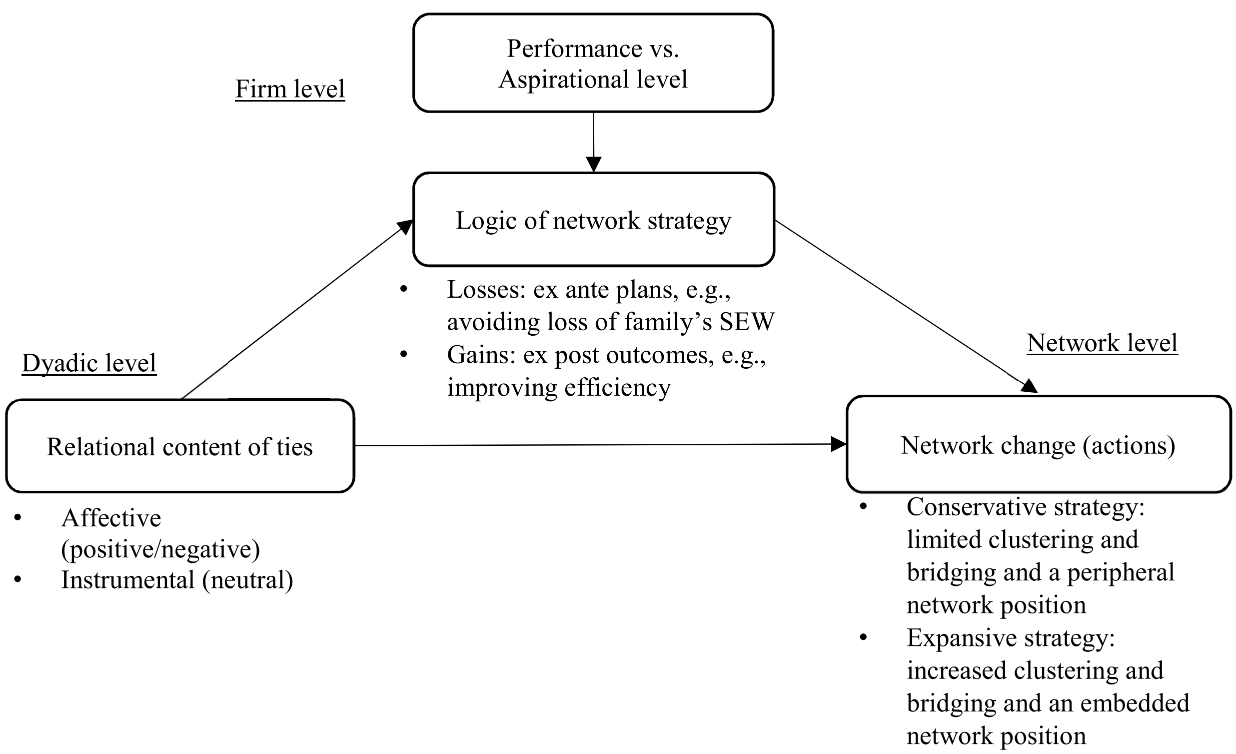

Table 1

Research Agenda for Studies on 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	• What are the effects of different relational content on network development? • When relational content changes (e.g., from positive to negative), how does the firm's network develop?
			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 • Content analysis of corporate documents	• When does the strategic logic of owner–managers change and thus alter the firm's network development? • Under what conditions do economic logic and non-economic logic align and/or differ in determining a 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	• How does a firm develop its business network—as an ex ante planning strategy or an ex post outcome of another strategy? • What is the long-term network development process when the relational content and strategic logic can change from time to time?
		Bridging		Structural holes, E–I index[a], betweenness centrality		
		Embedding		Degree and closeness centrality, core/periphery		

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