

## CRITICAL EVENTS AND SOCIAL CAPITAL OF FAMILY BUSINESSES

**Purpose & Research Question:** Our study is set to investigate the way critical events influence social capital of family firms. We focus on macro-economic shocks (Hoffman et al., 2001; Ramey, 2016) that can trigger organisational transformation (Fligstein, 1991; Tan & See, 2004). We examine this phenomenon in the context of family-owned SMEs (Gersick et al., 1997; Lansberg, 1999), experiencing and dealing with a financial crisis as an instance of such shock. We consider family businesses as businesses in which the family has a hand-on involvement in the management of the business (Astrachan et al., 2002; Shanker & Astrachan, 1996). We examine social capital at the organisational level, which refers to resources an organisation accumulates as part of relations within and beyond its boundaries (Fischer & Pollock, 2004; Herrero & Hughes, 2019; Zahra, 2010). We consider the structural and relational properties of social capital (Moran, 2005; Nahapiet & Ghoshal, 1998). Structural social capital relates to the configuration of linkages between actors such as individuals and organisations upstream or downstream the value chain (Burt, 1992; Granovetter, 1985). Relational social capital focuses on the normative conditions that drive the relationships between actors in networks (Nahapiet & Ghoshal, 1998). Considering the above, we address the following research question: *How do critical events influence a family firm's structural and relational social capital?*

**Preliminary Literature Review & Gap:** Despite social capital being a mature field of research (Kwon & Adler, 2014), there is insufficient knowledge on the way critical events in the macroenvironment influence a firm's social capital. The limited evidence to date illustrates that a financial crisis (as an instance of a macroeconomic shock), can erode the relational ties, and specifically the trust, between a firm and its stakeholders (Lins et al., 2017). Macro-economic

shocks, in general, are found to trigger organisational changes (Hoffman et al., 2001; Tan & See, 2004) since they change the landscape in which organisations function (Fligstein, 1991). It is, therefore, expected that a firm's social capital would be an area in which relevant changes can be observed. This is because social capital has been identified to be linked to a set of historical ties created for a different purpose and so it may become inapplicable in a new landscape (Hughes & Perrons, 2011) at the aftermath of a financial crisis.

The family business is a unique context to explore social capital (Arrgle et al., 2007; Herrero & Hughes, 2019; Sharma, 2008). This is because family-owned businesses encompass an intersection of business and family systems (Pearson et al., 2008) and family dynamics encourage the creation, use and renewal of ties (e.g., Herrero & Hughes, 2019). Literature suggests that a family firm may possess more than one body of social capital – business social capital and family social capital (Arregle et al., 2007; Zahra, 2010; Herrero & Hughes, 2019). A family firm's business social capital refers to relations, norms, and knowledge shared within the firm (Putnam, 1995) and can be constructed through formal and informal ties between employees and through the connections of the firm with external stakeholders such as customers, suppliers, and other collaborators (Anand et al., 2002). Family social capital is goodwill among family members and between members of the controlling family and their communities (Bubolz, 2001; Danes et al., 2009). Studies illustrate that family social capital can be made available to and benefit the family business (Sorenson & Bierman, 2009). Controlling families act on specific dimensions of their social capital to affect value creation in their firm across the generations (Salvato & Melin, 2008). In many ways, family firms rely on social capital and inter-organizational relations to support business activities (Cesinger et al., 2016). Addressing, therefore, our phenomenon within the family business, can help provide theoretical insights on the way critical events can influence both

‘organisational’ and ‘family’ social capital. We can also extend implications to business managers and leaders of business families on the challenges associated with the management and use of social capital during and/or after major (macroeconomic) shocks.

**Methodology:** We focus on the 2008 global financial crisis, which had devastating economic, social, and business effects worldwide (Helleiner, 2011). The country contexts we focus on is Greece and Cyprus, which are EU members located in the south-eastern Mediterranean basin and have been hit hard by the global financial crisis (Gibson et al. 2012; Hardouvelis & Gkionis, 2016). Greece is as a context ‘still experiencing crisis’ and Cyprus as a context which ‘just experienced the financial crisis’. Greece and Cyprus are culturally close. Combined, they help shed light on influences and changes at the nexus of financial crisis and social capital.

We carried out in-depth interviews with owner-managers and successors of 30 family SMEs: 15 in Cyprus and 15 in Greece. A semi-structured interview guide was employed, which was pilot-tested with two separate owner-managers before carrying out the main investigation. Purposive sampling was employed, choosing firms and interviewees in line with a number of predetermined criteria: a) firms that are family owned and managed, b) firms smaller than 250 employees, and c) family business owners and/or successors who could elaborate on both the business and family dimensions of social capital. Analysis was conducted using the logic of abduction (Suddaby, 2006), which provides for a stronger reliance on theory when analysing qualitative data (Alvesson & Sköldbberg, 2000). Drawing on abduction, we use ‘social capital’ as an interpretive lens, where a ‘back and forth’ approach is adopted between empirical observations and theory, allowing for analytical inferences and theory development (Dubois & Gadde, 2002).

**Summary of Findings:** Our findings from the Cypriot part of the study illustrate diverse influences of the financial crisis for business social capital and family social capital. There are two sequential

facets or dimensions of this influence: First, an influence of the financial crisis on the family firm's external relations and family members' emotions; and second, an impact of changes in external relations and emotions on business and family social capital. Regarding the first dimension, the financial crisis led to negative developments in the family firm's external relations, involving distributors refocusing their priorities and abandoning the family firm without a notice, suppliers stop selling on credit, (business) clients shifting to competitors selling cheaper, and banks harshening their loan repayment terms. At the same time, the crisis brought the family firm into an emotional shock, making family members in business more reflective, sceptical, and emotional. Family members in business would experience diverse feelings in the firm as a result of crisis-induced experiences. From the one hand, disappointments from and frustration with partners that have 'abandoned' or 'betrayed' their firm. From the other hand, feelings of assurance that they could rely on the family to help the firm to make it through the crisis.

*Business social capital changes externally.* Relating to negative developments in their external networks and their feelings of disappointment with the behaviour of some partners, family owners facilitate substantial changes in the external-structural business social capital, involving changing a significant number of partners (e.g. new auditors, bankers, suppliers), reprioritising contacts, and placing less emphasis on strong ties with partners. External-relational social capital also changes as part of these influences, with family members in business becoming more conservative and suspicious in their relations with partners, having more difficulties to trust partners, and changing their perceptions and norms on relations with partners. *Family social capital is reinforced internally.* Internal-structural reinforcements involve the establishment of a denser network which facilitates closer connections between family members in business and family members outside the firm. The financial crisis sensitized family members outside the firm

to help the family-in-business with knowledge (e.g. on cost-reduction measures) and contacts (e.g. helping family members in business to locate new suppliers). Internal-relational reinforcements involve the enhanced bonding and trust between family members within and outside the firm and the establishment of new norms and obligations relevant to family members' alertness and contribution during critical events.

***Contributions to theory & practice:*** Our study contributes both theoretically and empirically to the fields of family business and social capital. Theoretically, we conceptualise the influences of the financial crisis on specific dimensions (structural – relational) and categories (external – internal) of business and family social capital. Empirically, we contribute new knowledge in the field of social capital in a number of ways: a) the way the structural and relational dimensions of social capital change as a result of a financial crisis, b) new knowledge on developments taking place simultaneously at two types of social capital: business and family social capital, and c) new insights on specific dimensions (i.e. relational and structural) and categories (internal and external) of family social capital, including their combinations, on which there is insufficient understanding. In the family business field, we contribute in the following ways: a) the way a family firm's social capital is influenced by a macro-economic shock and b) the diverse ways in which business capital and family capital are influenced by adverse macro-economic conditions.

Our study offers useful implications for practitioners. Conceptualising the way social capital changes as part of macro-economic shocks could help (owner-) managers to become more prepared to face complexities and challenges in the structural and relational dimensions of their social capital. Family business owners and/or managers can capitalise upon these findings to establish plans and other proactive procedures with the scope to minimise negative macroeconomic influences on business and family social capital.

## **REFERENCES:**

- Alvesson, M., & Sköldbberg, K. (2017). *Reflexive methodology: New vistas for qualitative research*. Sage.
- Anand, V., Glick, W. H., & Manz, C. C. (2002). Thriving on the knowledge of outsiders: Tapping organizational social capital. *Academy of management perspectives*, 16(1), 87-101.
- Arregle, J. L., Hitt, M. A., Sirmon, D. G., & Very, P. (2007). The development of organizational social capital: Attributes of family firms. *Journal of management studies*, 44(1), 73-95.
- Astrachan, J. H., Klein, S. B., & Smyrnios, K. X. (2002). The F-PEC scale of family influence: A proposal for solving the family business definition problem1. *Family business review*, 15(1), 45-58.
- Bubolz, M. M. (2001). Family as source, user, and builder of social capital. *The Journal of socio-economics*, 30(2), 129-131.
- Burt, R. S. (2009). *Structural holes: The social structure of competition*. Harvard university press.
- Cesinger, B., Hughes, M., Mensching, H., Bouncken, R., Fredrich, V., & Kraus, S. (2016). A socioemotional wealth perspective on how collaboration intensity, trust, and international market knowledge affect family firms' multinationality. *Journal of World Business*, 51(4), 586-599.
- Danes, S. M., Stafford, K., Haynes, G., & Amarapurkar, S. S. (2009). Family capital of family firms: Bridging human, social, and financial capital. *Family Business Review*, 22(3), 199-215.
- Dubois, A., & Gadde, L. E. (2002). Systematic combining: an abductive approach to case research. *Journal of business research*, 55(7), 553-560.
- Fischer, H. M., & Pollock, T. G. (2004). Effects of social capital and power on surviving transformational change: The case of initial public offerings. *Academy of Management Journal*, 47(4), 463-481.
- Fligstein, N. (1991). The structural transformation of American industry, 1919-1979. *The new institutionalism in organizational analysis*, 311, 336.
- Gersick, K. E., Gersick, K. E., Davis, J. A., Hampton, M. M., & Lansberg, I. (1997). *Generation to generation: Life cycles of the family business*. Harvard Business Press.
- Gibson, H. D., Hall, S. G., & Tavlas, G. S. (2012). The Greek financial crisis: growing imbalances and sovereign spreads. *Journal of International Money and Finance*, 31(3), 498-516.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American journal of sociology*, 91(3), 481-510.
- Hardouvelis, G., & Gkionis, I. (2016). A Decade Long Economic Crisis: Cyprus versus Greece. *Cyprus Economic Policy Review*, 10(2), 3-40.
- Helleiner, E. (2011). Understanding the 2007–2008 global financial crisis: Lessons for scholars of international political economy. *Annual Review of Political Science*, 14, 67-87.

- Herrero, I., & Hughes, M. (2019). When family social capital is too much of a good thing. *Journal of Family Business Strategy*, forthcoming.
- Hoffman, A. J., & Ocasio, W. (2001). Not all events are attended equally: Toward a middle-range theory of industry attention to external events. *Organization Science*, 12(4), 414-434.
- Kwon, S. W., & Adler, P. S. (2014). Social capital: Maturation of a field of research. *Academy of Management Review*, 39(4), 412-422.
- Lansberg, I. (1999). *Succeeding generations: Realizing the dream of families in business*. Harvard Press
- Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *The Journal of Finance*, 72(4), 1785-1824.
- Moran, P. (2005). Structural vs. relational embeddedness: Social capital and managerial performance. *Strategic management journal*, 26(12), 1129-1151.
- Nahapiet, J. & Ghoshal, S. (1988) Social capital, intellectual capital and the organizational advantage, *Academy of Management Review*, 23(2), 242-266.
- Pearson, A. W., Carr, J. C., & Shaw, J. C. (2008). Toward a theory of familiness: A social capital perspective. *Entrepreneurship Theory and Practice*, 32(6), 949-969.
- Ramey, V. A. (2016). Macroeconomic shocks and their propagation. In *Handbook of Macroeconomics* (Vol. 2, pp. 71-162). Elsevier.
- Salvato, C., & Melin, L. (2008). Creating value across generations in family-controlled businesses: The role of family social capital. *Family Business Review*, 21(3), 259-276.
- Shanker, M. C., & Astrachan, J. H. (1996). Myths and realities: Family businesses' contribution to the US economy—A framework for assessing family business statistics. *family business review*, 9(2), 107-123.
- Sharma, P. (2008). Commentary: Familiness: Capital stocks and flows between family and business. *Entrepreneurship Theory and Practice*, 32(6), 971-977.
- Sorenson, R. L., & Bierman, L. (2009). Family capital, family business, and free enterprise. *Family Business Review*, 22(3), 193-195.
- Suddaby, R. (2006). From the editors: What grounded theory is not. *Academy of Management Journal*, 49(4), 633-642.
- Tan, H. H., & See, H. H. (2004). Strategic reorientation and responses to the Asian financial crisis: The case of the manufacturing industry in Singapore. *Asia Pacific Journal of Management*, 21(1-2), 189-211.
- Zahra, S. A. (2010). Harvesting family firms' organizational social capital: A relational perspective. *Journal of Management Studies*, 47(2), 345-366.