

Social Networks of Family-Owned Businesses in Sri Lanka

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Abstract: The development of Family-owned Businesses in developing countries including Sri Lanka is of great importance for increasing national production, providing employment for youth, developing rural and village industries, establishing a sound national industrial base, encouraging indigenous creativity and reducing the dependence on imported goods. Although the Family-owned Businesses are a vital instrument for realizing the above mentioned goals, the Family Business industrialists who are considered as a principal character, have a very poor survival rate in the economy. Thus, the problem in which the present research will concentrate entails developing a better understanding of how Family-owned Businesses can avoid failure and improve their effectiveness by using outside assistance. For this purpose a sample of 45 Family-owned Businesses were studied. The units of analysis were the network of actors offering support services to Family-owned Businesses and the entrepreneur skills. For simplicity only selected actors of support were considered, but particular attention paid to some intermediary actors who have served to activate, maintain and promote the resource networks with the Family Business. The statistical analysis model has provided significant statistical support for the acceptance that the successes of the Family-owned Businesses are closely related with the Social Networks and the Entrepreneur Skills.

Keywords: Family-owned Businesses, Social Networks, Entrepreneur skills

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I. Introduction

Family-owned Businesses perform a strategic role in developed countries as well as in developing countries like Sri Lanka. Family-owned Businesses generate substantial benefits to the economy and to the society as a whole, including serving as an important source of job creation, and as a vital means of sustaining and transmitting important business and social values. Therefore the overall development of Family-owned Businesses and their establishment of linkages with the other sectors of the economy, particularly with the rural sector are important for Sri Lanka to reach the status of a developed country. It is generally recognized these type of businesses have the capacity to achieve economic growth faster in view of their high employment potential, small gestation period and relatively limited financial requirements (Remenyi, 2012). In Sri Lanka, governments have taken various steps to promote and develop Family-owned business since independence. This has resulted in the emergence of a number of entrepreneurship development programs intended to increase the number and quality of start-ups and to improve their chances of survival and further growth (Harry, (2002). Although the Family-owned Business represents a powerful force in the sustainable development of the most powerful nations in the world, when these business fails, the entire community suffers in one way or another through the loss of jobs, decreased local purchasing power, declining government tax revenues, and higher costs of welfare assistance. A study of organization and the structural features or patterns of relationships and of an organization by Michael H. Zack suggests that organizational systems may affect the ability of people in the organization to connect and communicate with social network. This capability may range from direct communication to indirectly exchanging information using a pull or subscription service, to creating organizational yellow pages to facilitate finding others with similar interests or needs. Further he says these relationships will enhance the business expansion process, chances of survival and further growth of the business (Anderson and Reeb, 2004). In this study, the term Family-owned business is used in a broad perspective and includes all activities such as industry, services and trade. Braun and Latham (2009) define Family-owned Business as A Company in which family members are directly involved in the ownership and/ or functioning.

II. The Research Problem

The family owned-business exists in all industries, from manufacturers to retail and service establishments, and range from the smallest ventures to large multinational corporations. But the shocking reality is that only very few of family businesses survive and last long. Most of the family –owned business

collapse within very limited time frame for various reasons. The research problem focused in this study is **“Low success rate of Family-owned Business in Sri Lanka.”**

According to the Industrial Development Board of Sri Lanka almost 95 per cent of all Sri Lankan business started as family businesses. Unfortunately, such a vital force has such a poor survival rate. Only a few family businesses continue to grow on a steady basis and among them a very small number survive till the third generation.

III. Objective of the Study

The study is basically attempting to examine empirically the relationship between social network and success of the family-owned business. Hence, the investigation’s focus is to study how family-owned business will remain successfully in their field of operation with the assistance of the social network. The analysis will be done in relation to family-owned business, but not considering the industry at which they are operating. This means the sample will consist of family-owned business in various industries. The sample size will be restricted to 30 Family-owned Businesses in a wide range of industries. The target sample will be from among business enterprises in Colombo and suburbs only, for feasible implementation reasons of the study.

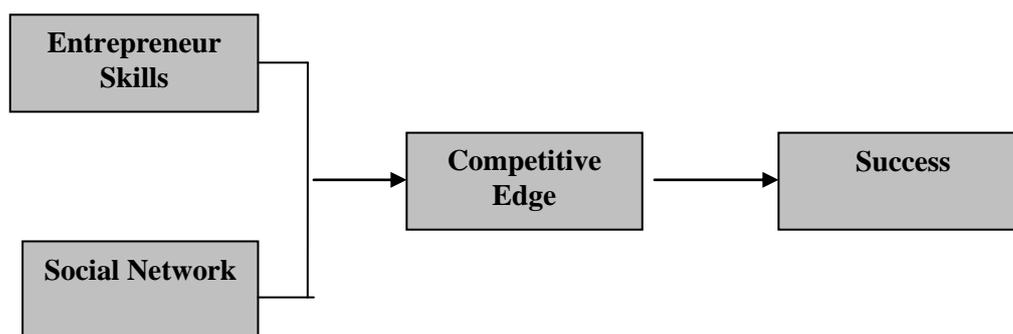
IV. Social Network

In today’s business environment no large-scale company or very small business can be treated as an isolated island. All firms are locked into a complex network of relationships with their suppliers, customers and other business partners, and even with competitors. The management of these relationships is a critical task and is of paramount importance for a company to be successful in their field of operation. No company exists in isolation. Each is dependent for its survival on customers and suppliers of products and services, finance and advice. All companies are affected by the actions of their competitors and by those with which they co-operate; whether to receive or supply products or services, develop new ones or to lobby the government for better trading conditions. A company will have close relationships with some of its customers and suppliers, perhaps developed over many years. It may fight constantly with other companies that it sees as competitors, but some will simply tolerate. The management of this wide variety of relationships with the complex network of companies that surround it is a critical element in any company’s success (International Finance Corporation, 2008). They believe the network form of multi-business organization or inter-firm collaboration has become critical for survival and the continued ability to maintain a competitive advantage. Beyond collaboration among members within a firm lies the issue of communication across firms. The growing appreciation that of industrial markets function through a ‘*dynamic network*’ of changing, inter-firm relationships highlights a broader role than traditional views of organization have allowed. (Beckhard and Dye, 1983a). Some other reasons for following a network or contextual approach to the study of the effectiveness of Family-owned Businesses support strategies can be found in Hollerbach, 2011. The support to entrepreneurs, although needed by them, must be indirect in nature, in order not to challenge their need for independence; any venture includes market and social concerns in itself, thus, it must be analyzed in its context; and the conception of new firms is encouraged by the context and the social networks of the entrepreneurs.

V. Conceptual Framework and Methodology

Constructing a conceptual framework that specifies an ideal type, which is then used to examine the reality comparative to the ideal, facilitates conducting a research. Based on the research question, such an ideal type of relationship between success of family-owned business and social network is described below. It is in general acceptance that powerful social network that ensures the competitive edge collaborates with the entrepreneur’s skill leads to success. Social network facilitates to bring physical and other resources to perform production task and to gather commercial information and disseminate information. Not only that it will enhance the process of delivery and service in all aspects. Hence, the powerful social networks give a competitive edge over the other business firms within the same industry. This competitive edge is again enhanced further by another variable, namely entrepreneur skills of the owner of the Family-owned Business. The relationship between these variables is shown in Figure 1. The model will serve the purpose of identifying different levels of variables of the study and hence will facilitate the operationalization process.

Figure 1 Framework for the Success of Family-owned Business



According to the above Figure 1 the success of the family-owned business is depend on a variety of factors. Therefore, while assessing success, especially in terms of the Family-owned Businesses, all these factors are to be taken in to account.

Operationalization of the Variables

The following Table 1 shows the Operationalization of the key variables used in the research proposal.

Table 1 Operationalization of the key variables

Concept	Variable	Indicator	Measurement
Social Network (SN)	Relationship Collaboration	Family Members Close Relatives Close Friends Bankers Previous Employers Education Institutes	Financial Support Information Gathered Knowledge Obtain Advice and Help
Competitive Edge (CE)	Achievements	Market share Assets Turn over	Market share Growth Asset Growth Turnover Growth
Entrepreneur Skills (ES)	Performance	Education Work Experience	Highest Education Years Working Experience Introduce new Products
Business Success (BS)	Performance Achievements	Growth Innovations Expansions	Employees/Year New Products & Business Assets Growth Turnover Growth Market Expansion

Sample Design and Data Collection

The Study is about the Success and Failures of Family-Owned Business and Attributes of Success. There are several organizations formed by the family-owned business all over the country. Among them for the study Colombo District Family Business Association were considered due to the constraints of time and other resources. There were two hundred and fifty six members in this Association. Forty five Family-owned Businesses were considered randomly among the registered members.

VI. Regression Analysis and Hypotheses testing for the Variables

Using the primary data the researcher fitted a linear regression model for the variables. The models were fitted by taking one variable at a time and the results can be tabulated as follows in Table 2.

Table 2 Summary of the Regression Analysis

Equation	R ²	SN	ES	ES_SN
$BS = \beta_0 + \beta_1 SN + \epsilon$.17	0.333 * (0.112)		
$BS = \beta_0 + \beta_2 ES + \epsilon$.24		0.368 * (0.099)	
$BS = \beta_0 + \beta_3 ES_SN + \epsilon$.25			0.008 * (0.002)

* Significant at 0.05 level.

Since the interaction variable namely ES_SN is significantly related to BS, it is not necessary to consider the relationships for individual variables SN and ES. The detail regression analysis is given on the annexure 3.

Test of Hypothesis

The Table 3 summarizes the output explanatory power of the independent variables. According to the result following conclusions can be made on the hypothesis.

Table 3 Summary of the Hypothesis testing

Hypothesis	Analysis	Coefficient	R ²	p	Decision
H ₁	Correlation	0.497	-	0.001	H ₀ rejected
	Linear Reg.	0.008	0.25	0.001	

The hypothesis is to be tested in the analysis is as follows;

(i) Hypothesis (H₁):

The higher the degree of cope with the social network and the entrepreneur skills, the Family-owned Businesses are able to survive and achieve a great success in their field of operation.

(ii) Null Hypothesis (H₀):

The social network and entrepreneur skills neither help nor hurt success of the Family-owned Businesses.

According to the analysis of data in Table 23 the above null hypothesis (H₀) is rejected at 0.5% significant level.

The null hypothesis of the research study can be rejected according to the following reasons.

- The correlation analysis has indicated that there is a positive and a strong relationship between the success of the Family-owned Business and the social networks as well as the entrepreneur skills at 0.5% significant level, since $r = 0.497$ and $p < 0.001$.
- Regression analysis also indicated a strong significant relationship between these two variables at 0.5% significant level since $R^2 = 0.25$ and $p < 0.001$.

Taking into consideration all results of the above analysis the null hypothesis (H₀) can be rejected and accept the alternative hypothesis.

VII. Conclusion

The foremost intention of the study was to examine the significance and the effectiveness of Social Networks for Family-owned Businesses in the Sri Lankan context. In Sri Lanka, at present, Family-owned Businesses represent perhaps the best alternative for future economic growth. Given the difficult economic and social situation existent in the country, more attention should be given to understand how Family-owned Business start, grow and survive. Specially, how Family-owned Businessmen can mobilize help from sources of outside assistance in order to survive and grow. The research into emergent entrepreneurship skills and their personal networking confirms that networks offer both stability and enhance the Family-owned Business. The overall personal network appears stable with long-lasting relationships although different parts of it are activated at different points in time. Hence the research indicates that there is a significant relationship between social networks and business performance, it indirectly does say that the personal networks are important to young entrepreneurs to grow in their field of operation. The fact that the personal networks embrace both social and business ties suggests that they, when needed, offer a social resort or operate as a provider of supplementary resources for the enactment and development of the Business ideas. The regression analysis has disclosed that Social Networks and Entrepreneur skills have strong positive significant relationship with performance and success of the Family-owned Businesses. According to the research findings small firms can become a large Organization through collective organization and concerted action with the help of entrepreneur skills. They state that the main problem for small firms is not being small but being lonely. Links and networks are paramount of importance to small firm success. It has been suggested that networks play an important role in the activities and the effective functioning of Family-owned Businesses. Thus, the ability of a firm to learn from and manage its inter-dependency with other stakeholders (such as the family, bank, customers, suppliers, big firms) is crucial for survival and in helping them scan the wider business environment, anticipate future needs and innovations. Networks may further provide a basis for resource sharing, information gathering and for harnessing the collective capacities of business.

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