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When business networks “kill” social networks: A case study in Bangladesh

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ABSTRACT

Social networks are a key contributor to the economic and social fabric of life. There is evidence that the social cohesion that social networks provide is critical for societies to prosper economically and for development to be sustainable. These social networks and the functions they perform co-exist with, influence and are influenced by the business networks of connected firms and other economic organisations that surround them. This is increasingly so in our ever-more-complex, internationalized and connected world. This paper explores the potential consequences of this influence via a case study that considers the changes to a community's social network and the associated norms emerging from the growing influence of a microfinance providers' network. A case study reports the impact of microfinance on a particular Bangladesh rural community. We show there is a breakdown in traditional social networks in this and other poor rural villages brought about by the taking of micro loans when the families have no means of paying them back. This increased indebtedness to NGOs is perpetuating their poverty and diminishing the community's quality of life including their traditions of bounded solidarity, where families support each other as best they can through common adversities. The case concludes by considering the mechanisms underpinning these processes. This includes competitive structure, i.e. the highly saturated and interconnected structure of the micro finance industry, the dominance of this business network in the economic structure of rural Bangladesh and changing norms, in particular the changes to traditional forms of financial exchange and associated support and risk management. We conclude that public policy and a different business model that is more accountable and altruistic are needed to guide this and other networks whose goals are economic development of the poor.

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1. Introduction

There is a substantial body of research in the Industrial Marketing and Purchasing Group (IMP) work that considers the formation, evolution and impact of business networks on participant firms and their members and customers, on industry configurations and on business practice. This paper focusses on the way this impacts on and is impacted upon by individuals in networks.

This influence is bi-directional. Individuals influence and change networks and relationships because their actions and interactions coalesce in bottom-up, self-organising ways to build systems of people, relationships, interactions and transactions that often have considerable impact (Wilkinson & Young, 2005). And, existing network configurations and the wider environment in which these individuals sit impact, often substantially, on individuals as well as on firms, relationships and other networks and on their opportunities and constraints (Emery & Trist, 1965). This has been a focus of considerable IMP work which has considered how individual firms “manage”, i.e. cope with the dictates

of business networks and wider environments (Wilkinson & Young, 2005) often seeking to adapt to increase their competitiveness. However the influence of business networks on individuals and their social configurations such as communities and the social networks within them is not generally considered when researching business network impact. This paper addresses this issue using the theoretical perspective of complexity theory to examine the impacts of a business network's activities on the creation and destruction of social capital in the community(s) they “serve”.

Business network impact has been considered in the international business sphere. However the focus of this work has been on the impacts of business network activities upon the network itself. Research is mostly about attempted market entry, reasons for success and failure and how this impacts on business capabilities and performance (Johanson & Vahlne, 1992). However this work does not consider to any great degree the impact of market entry upon the society, country or region that is entered; instead the (usually Western and powerful) entrant's problems, issues and opportunities are the focus (Dawson et al., 2014). The changes (particularly the social changes) that market entry precipitates for the community that is entered and its social networks are largely overlooked by this work, even when the work is network-focussed (e.g. Johanson & Mattsson, 2015, Johanson & Vahlne,

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1992). Occasionally the changes brought to a local economy's networks and the firms within them are considered (e.g. Mattsson, 2003), but it is the business rather than social implications that are then the focus. Social relationships and networks are considered only in terms of how they are used to facilitate market entry and success (e.g. Coviello and Munro 1995, Ellis, 2000, Ellis & Pecotich, 2001, Ojala, 2009). In some settings, e.g. entry into less developed countries, this may be particularly problematic given the vulnerabilities that local networks are likely to have (Fukuyama, 2001).

This paper addresses this important gap. Our research question is: what are the social and economic consequences for a poor community including the changes to their social network that come about as a result of the entry and evolution of a substantial business network into their environment? Our findings as to the consequences of this contribute to the increasingly prominent debates as to what the dimensions of businesses' social responsibilities should include. Our findings provide support for the increasing calls for this "responsibility" to extend beyond environmental and economic factors (Baldacchino, 2008).

This is in line with the arguments that to (at least) do no harm to the institutions which provide important benefits in sustaining (social) communities should be a primary goal of business development (DiMaggio & Garip, 2012). Amartya Sen, the Nobel Prize-winning economist, argues that development should be conceptualized as "process of expanding the real freedoms that people enjoy" which includes extended economic considerations such as public safety, basic education, public health, and infrastructure (Karnani, 2007a, 2007b), and the social networks of communities play important roles in this (Gostin & Powers, 2006, Szreter & Woolcock, 2004). This is even more the case in developing countries where the relative support of extended social networks is likely to be more necessary (Fukuyama, 2001).

Addressing this, the remainder of the paper is organised as follows: first we present background literature as to the nature and importance of business and social networks, with particular emphasis on their role(s) in developing countries. Next we consider this paper's context, the burgeoning microfinance industry and network in Bangladesh. As Khandker (2005) reports, the effectiveness of microfinance requires further scrutiny because the data collected to date has been anecdotal, or based on self-reports (Ahmed, 2009) and the main focus is on supply-side measures (Morduch, 2000). We therefore present a case study of the impact of the network of micro finance provision and providers on the social network of a typical poor rural community in Bangladesh. The paper concludes with consideration of the wider implications of this case for business practice, public policy and proposes future research.

2. The functions of social relationships and networks

The literature that informs this research considers the well-being that social relationships and networks provide to individuals, their families and the communities in which they reside. The term "well-being" indicates a multi-faceted positive state that includes a generalized lack of deprivation across physical, social, economic, political, and psychological/spiritual spheres (Chambers, 1995). The assumption is that overall well-being includes a minimum amount of most of not all of these but the necessary mix to achieve well-being will be individual and context-specific (Kwok, Chui, & Wong, 2013). Given the context of this paper is on how a community's social network declines and the economic and social consequences of that, we focus on the social aspects of well-being and frame these aspects in terms of the social and economic security and social capital that relationships and networks can provide.

The literatures of social psychology, social capital (management) and network and complexity theory are integrated to consider social well-being and the interrelationship between social and other aspects of well-being because this has not been well-considered in business and more generally social research (an exception is the literature of poverty which is considered in greater depth below and in the following

section) although there is consideration of social well-being in environmental and sustainability research. This gap is surprising given that social psychology theories highlight relationships' centrality – noting that social relationships are needed for physical and emotional well-being and survival (Heider, 2013). Social psychology theory also highlights that not only do relationships function to provide security and specialization but also supply the effective cognitive and emotional functioning which are needed for people to effectively engage with others, including in social and economic settings (Argyle, 1991).

The connections among relationships, i.e. the wider social network in which individual social relationships are embedded, also foster well-being. Social networks are collections of connected interpersonal relationships that function to link people and enable them to communicate and coordinate a large range of social and economic activities. Networks have important structural properties such as who interacts with whom, the nature of the connections between individuals (e.g. liking or not and the strength this) (Adar & Ré, 2007, Fleisher, 2005) and the distribution of power within them (Layton, 2009a, 2009b). Networks can enhance psychological security as they can act to buffer individuals from stress and alienation (Cohen & Wills, 1985), and can provide a coping mechanism that gives social support (Brisette, Scheier, & Carver, 2002). Their functional properties also include providing informational, contractual and social resources and they further function to link the personal, professional and business spheres of a society, particularly through the creating and transferring of knowledge (Brown & Duguid, 2002). They thus aid in the creation of resources, including social capital (Thompson, 2005).

At the core of the social capital concept is that family, friends and associates are a fundamental resource for individuals and family groups (Portes, 1998). The connections of network's members can vary in strength and closeness and thus its functioning. Where a social network is characterized by a preponderance of close, strong ties, the network can be relied on by its individual members and the close ties can be leveraged for material gain as well as being enjoyed in their own right. Similar to businesses who use networks to help to manage uncertainty and provide security, communities that are linked into a close, strong network or which have strong, close networks within them are considered better able to deal with adversity (Narayan, 1999). In other words, the linked relationships in a network are a form of social capital (e.g. Flap, 2002) that has the potential to provide a range of different kinds of value to the stakeholders within the community (Coleman, 1988). Networks of relationships also can assist in building of further social capital, i.e. they act to create or augment well-being (Tsai & Ghoshal, 1998).

Networks are defined by the nature of their members and by the nature and interdependence of links between them (Wasserman & Faust, 1998). While it has been argued that in business, firms seek diversity and complementarity via networks (Wilkinson, Young, & Freytag, 2005), communities' social networks are likely to be (more) homogeneous, i.e. to contain similar people with that similarity increasing when levels of development are lower and/or poverty is higher (Tigges, Browne, & Green, 1998). "Similarity" may be judged based on status, i.e. age, race, religion, and occupation and/or on values, attitudes, and beliefs. McPherson, Smith-Lovin, and Cook (2001) argue that greater similarity facilitates the formation and maintenance of social relationships and facilitates entities' linking of relationships within social networks. The strength of these connections and their strong impact on families and communities is also emphasized in the psychology literature which considers the cognitive stability that this predictability and connectedness provides (Kahn & Antonucci, 1980, Lewis, 1984, Takahashi, 2005).

The ties within a closely linked network are characterized as "strong". There are close bonds between many of the network's members (Eklinder-Frick, Eriksson, & Hallén, 2011). Weak ties are the connections or "bridges" across social networks (Wasserman & Faust, 1998, Wellman, 1997). Both are important in building resilient networks and creating social capital; strong ties provide social cohesion

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