SUSTAINABILITY OF ANTI-POVERTY MEASURES: THE HIDDEN USE OF KINSHIP NETWORKS

ESMERALDA GASSIE

Graduate Centre of Business/ Centre for European Studies, University of Limerick, Republic of Ireland

Esmeralda.gassie@ul.ie

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ABSTRACT:

Business development is a direct cause for reducing poverty and enhancing social inclusion. Using a recent analysis on LSMS data for Albania, this paper shows that the kinship network does influence business growth and as such deserve additional attention. The purpose of this paper is twofold. On one hand, increase awareness on the socio-economic policies, such as anti-poverty measures, undertaken on time resistant and self sustained foundations. Policies based on local social networks are proofs of sustainability and efficiency. On the other hand, the aim of this paper is to demonstrate the validity of the kinship network as a positive contributor to firm growth when they are used constructively.

The model presented in the paper introduces the kinship network participation in firm growth with the same legitimacy as other economic variables. Its contribution to understanding the underpinnings of poverty and inequality are yet to be explored.

Keywords list: Albania, Firm growth, Kinship network, Living Standards Measurement Survey (LSMS)
INTRODUCTION

Small firms are the most common type of firms found in post-communist Balkan countries. Not only do they remain small but their main objective is to support households and secondarily to make profit and grow. Confronted to the embryonic and dysfunctional levels of market and state intervention (O’ Brennan and Gassie 2009), firm growth, which is the pillar of economic growth in the region, often depends on existing socio-economic networks. A common custom in the Western Balkan countries, using one’s social network for business or other purposes is considered as fueling corruptive practices. Reports on economic and administrative transparency in the region have been very critical towards the little progress shown in fighting nepotism, favoritism, bribing and other forms of corruption. Economic growth pulls populations out of poverty and increases the standard of living.

Part of anti-poverty measures consists in fostering private entrepreneurship as the core factor of economic growth. Growth is based on building a sound market economy which cannot properly function if all economic transactions are not validated by the market. Producing represents the supply side of the market. Firm growth, defined as the increase in size (number of employees) and turnover of a producing unit, is key to capital accumulation and economic growth. When social networks are found to be involved in business activities, the latter are categorized as informal. A lot of research, accompanied by policy, has been done to help economic agents render their operations formal. Nonetheless, the discrepancy observed in day-to-day business operations between firm growth obstacles and their importance as the first revenue source for many households, in addition to empirically based proof of family firms sustainability over time and across countries, suggest a change of perception.

This paper is based on the assumption that social as well as economic factors participate to firm growth. It considers a firm growth model that incorporates the most influent type of social network: the kinship network. As such, it goes beyond the conclusions of family business studies as it enlarges the nuclear family to the inclusion of other members of the stem family. The database used is the World Bank’s
Living Standard Measurement Survey for Albania from 2002 to 2005. This paper is organized as follows. First empirical evidence is given on the importance of the kinship network for firm growth in the Balkan region. Secondly, the socio-economic model of small firm growth in Albania and its results are presented. Finally conclusions are drawn on the implications for sustainable anti-poverty and social inclusion policies.

KINSHIP NETWORKS AND FIRM GROWTH: AN EMPIRICAL PHENOMENON

In the Albanian National Institute of Statistics (INSTAT)’s annual survey of enterprises, there is no reference to the ownership structure of firms except for the distinction between public/private and national/foreign. The most accurate information on ownership classification is found in empirical academic studies as well as in the Business Environment and Enterprise performance survey conducted by the EBRD and the World Bank in 2002 and 2005. The latter surveys show that 8.2 per cent of the 170 surveyed CEOs claim that the largest shareholders are family members (E.B.R.D and W.B. 2002). The figure increases to 22 percent of the 204 respondents having participated in 2005. For that same year, more than 40 percent of the 200 businessmen surveyed claim that family and friends were ‘very’ and ‘extremely’ important as potential sources of information about new customers. A contemporary study on the financing problems of Albanian SMEs, emphasized that one third of the interviewed managers were family members and a preference was given to local partners compared to foreigners (Bitzenis and Nito 2005). In addition, of all 226 respondents, 41 percent borrowed from friends and acquaintances. Even if they might not reflect all the existing practices, given the concentration in central urban areas and the unclear definitions of family, these figures show that the kinship network is involved in funding, management and possibly ownership and employment. Many empirical studies on the Balkan region have shown the presence of extended family members as employees or as business financing sources (Bartlett, Bateman, and Vehovec 2002; Pistrui, Welsch, and Roberts 1997; Poutziouris, O’Sullivan, and Nicolescu 1997). None of these studies build models to actually show quantitative proof of the phenomenon.
Firm growth involves amongst others investment. Financing investment is one of the first issues firms face in Albania. Not only bank funding is low but FDI is also the lowest in the region. Very often it is claimed that FDI in Albania remains limited mainly due to a relatively insecure investment environment, poor infrastructure (Kaltani 2007), heavy administrative procedures (Hashi 2001; Hashi and Mladek 2000; Hashi and Xhillari 1999), corruption in both the public administration (Feecke-Tiemann 2006; Gërrixhani and Schram 2004) and the judiciary spheres as well as relatively high taxes (Bitzenis and Nito 2005; Muent, Pissarides, and Sanfey 2001). The investment obstacles and reluctance to cross-border capital increase are not only dependent on the infrastructure/business environment in Albania, but indeed trust. Trust is also the rule that regulates economic interactions. For historical and cultural reasons, trust towards cooperation with strangers is the Balkan region does not have the same intensity as partnerships within close-knitted social networks. Thus, the lack of trust hampers economic activities at large, including those necessary to firm growth, such as re-localisation, cost cutting, mergers and acquisitions. The exclusiveness generated by the lack of trust, or the preference for kin has consequences on the success of business relations. The erosion of the social net has taken deeper proportions as the Balkans have lived under the egalitarianism system of the extended family and community life (Milicic 1998), far away from capitalist individualism. Counting on the kinship network was a survival strategy during the shortage economy (Berend 2007).

Many authors have evidenced such phenomena. Aligica (2003) highlights the importance of ethnic and religious forces in the Balkans, more so than the cooperative or collaborative ones. Grupe et al. (2006) demonstrate the lack of cooperation amongst the countries in the region, in spite of the encouragement of the European Union (Dangerfield 2004; Ficici, Rajamanickam, and Thirunavukkarasu 2004; Tzifakis 2007), of the various free trade agreements signed amongst them (Altmann 2003; Busek 2004; Dangerfield 2006; Messerlin and Miroudot 2003) or of the regional organizations put in place to foster cooperation (Hyde 2004). Meanwhile, the national balances of payments for each Balkan country, the worst situation being found in Albania, show consistently that less than 10 percent of overall trade is with
the regional neighbours (Uvalic 2001; Uvalic 2006). Kernohan (2006) argues that the Balkan countries’ openness is even lower than it was for the Central and Eastern European countries, before they joined the European Union. The general lack of partnership with foreigners is a recurrent phenomenon in South Eastern European countries: people who trust only one’s kin or ethnic group were 48 percent in Romania, 65 percent in Bulgaria, 47 percent in Serbia, 38 percent in Montenegro and 72 percent in Macedonia (Mungiu-Pippidi 2005). Bartlett et al. highlight the ‘general distrust of strangers [which] leaves individuals with a very narrow choice of informal contacts, mostly kinship and friendship ties’ (2002: p61) in South Eastern Europe. Hohmann and Welter (2005) mention the ‘trustworthiness criteria’ as an important element in business. So, on one hand trust is enforceable amongst kinsmen compared to other types of relations, but it can have, on the other hand discriminatory effects towards non-kin, particularly business partners. ‘Trust can be defined in relational terms as the belief that the trustee will take one’s interests to heart […], the belief that the trustee will not take advantage of one’s vulnerability ’ (Beckett and Zafirovski 2006: p. 690). Fukuyama (1995) observed that in some South European countries, trust is mirrored in more fluid economic transactions while in other more individualistic countries, higher levels have to be disbursed to ensure efficiency.

Groups which claim common descent from a common ancestor, even if they cannot demonstrate exactly how this descent came about, are known as clans. They differ from lineages, therefore from the kinship network, as members may not be able to state their exact links to each other’ (Fox 1983: p. 90). In the case of Albania, Ireland or Scotland, clans have been the basis for the constitution of independent units, politically organized and economically sustained. So the denomination ‘clan’ suggests a politically inspired concept which is historically outdated, compared to the socio-biological kinship network, and is not the basic unit of the contemporary Albanian society, as it has often been claimed (Fuga 1998; Gërxfhani and Schram 2004; Kaser 2001; Kressing and Kaser 2002; Schwandner-Sievers and Fischer 2002). But the kinship network is not a clan as it does not have political aims and forms. The case of kinship involvement in firm growth remains to be proven quantitatively.
FIRM GROWTH MODEL WITH THE INVOLVEMENT OF THE KINSHIP NETWORK

Based on a similar study on financial firms in Ghana using LSMS data (Masakure, Cranfield, and Henson 2008), except for the emphasis on the kinship network, and empirical economic models of small firm growth (Audretsch and Dohse 2007; Bigsten and Gebreeyesus 2007; Brown, Earle, and Lup 2005; Demirgüç-Kunt and Maksimovic 1996; Hall 1987; Headd and Kirchhoff 2009; Major 2008; Nichter and Goldmark 2009; Oliveira and Fortunato 2006; Terjesen and Szerb 2008), three sets of variables are built. The first regroups firm-specific economic indicators (number of employees: \(EMPL\), longevity: \(LONG\), location: \(GEO\), access to a bank loan: \(BANK\), growth rate of the industry the firm belongs to: \(SECT\)). The second group \((DEM)\) includes personal indicators of the business owner/manager (age, marital status, gender). The third set contains variables related to the presence of the kinship in business \((KN)\) complemented by social capital \((SOCE)\) variables (nephew/niece owns or manages the business, employees who are household members, number of close friends, trust in central and local governments, and existence of a business association in the community). Two groups of firms will be tested against each other: firms exhibiting a rather important influence from the kinship network on sales growth \((\Delta SA)\) for each firm \(i\) compared to the ones with no presence, while economic parameters are kept identical.

\[
\Delta SA_i^{KN} = a_1\Delta EMPL_i + a_2\Delta SECT_i + a_3\Delta GEO_i + a_4BANK_i + a_5KN_i + a_6LONG_i + a_7DEM_i + a_8SOCE_i + u_i
\]

The firm growth model is not exhaustive so the error term \(ui\) is assumed non nil. It will demonstrate the validity of the following hypothesis: The kinship network does influence firm growth, i.e. \(a5\) is significantly different from 0.

Amongst publicly available databases, LSMS data was chosen based on two criteria. The long time period the survey has been implemented, ensuring survey experience, data availability and quality. Carried out in Albania since 2002, the LSMS is a collaborative project between the World Bank and the National

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1 Further statistical results and methodology is available upon request
Statistics Institute of Albania (INSTAT). It is a triennial nationally representative household survey of the level of poverty in urban and rural areas based on the 2001 census. The census population is divided in four strata (coastal, central, mountain and Tirane). Each of them is equally represented in the sample so that representativity is not an issue. Within each geographical stratum, the population is further divided into urban and rural totaling up to 14 clusters. Finally, household units are randomly selected in a fixed pre-determined proportional number, thus respecting the weight of the ratio urban/rural and the stratum representativeness. Consequently, the regional strata, clusters and household units are each selected following a different sampling method. Several questionnaires are utilized of which the non-agricultural economic activities together with the community modules are of interest for this paper. The non-farming business questionnaire is used mainly to measure self-employment, as it is directed to the head of the household. Nevertheless questions involve the measurement of businesses employing, managed or owned by non-family and family members. Thus the issue of control groups, i.e. the presence of family versus non family businesses, is addressed.

The business sample represents 512 respondents, i.e. 2 percent of the overall sample. The sample population distribution is not represented given that the primary objective of the LSMS was not to measure firm growth but households’ living standards. The latter problem exists for the 2005 business sample representing 4 percent of the LSMS total sample (716 operational business observations over 17,302 respondents). In order for the business sub-sample to be representative at the national level, the LSMS data have to be compared to the list of firms in Albania for 2002 and 2005 proportional to the population census. Other studies using the LSMS in Albania have been able to proceed by triangulation because of the closeness between their topic of research and the LSMS questionnaires (Tzavidis, Salvati, Pratesi, and Chambers 2008). It is not the case here. Therefore, the business sub-sample at hand is not considered as a statistically significant representation of Albanian firms. In addition, the 2005 LSMS survey is different from the 2002. The Enumeration Areas are different and the business questionnaire
does not collect exactly the same variables. Consequently, the data have been analyzed as a single time period. Nevertheless, the model is run with a time dummy and strata dummies.

Once the missing values analysis is performed, a linear model is envisaged. After corrections, the estimated linear model explains more than half, i.e. 53 percent, of the change in natural logarithm of sales. From the 16 original variables, after deletion of the correlated ones, four were not statistically significant. According to the estimated statistically significant coefficients, the equation regressed is the following:

\[ \text{LNSA}^* = 12.5 + 0.22 \text{AGE}^* - 0.338 \text{GEN}^* + 0.388 \text{URBAN}^* - 1.377 \text{SECT1}^* - 0.844 \text{SECT2}^* - 0.835 \text{SECT3}^* + 1.22 \text{KNEMPL}^* - 1.028 \text{KNO}^* + 0.63 \text{EMPL}^* - 0.382 \text{LONG}^* + 0.902 \text{ASSOC}^* - 0.282 \text{BANK}^* + u_i \]

Growth factors include the advanced age of the owner/manager, having numerous employees including kindred, belonging to a community where associations are present and operating in an urban area. The highest positive predictor is kin-employees, while kin ownership is negative, as foreseen by literature on capital control. Sales growth is hindered for female or younger entrepreneurs. Business owners/managers who share firm’s control with their kin and/or obtained a bank loan, while living in rural areas see the sales level decrease. The firm activity does not benefit from being agricultural, industrial or in services. In addition, time in operation does not have a positive impact on sales growth. The high intercept indicates that the initial sales level is not negative. Masakure (2008) did not conclude on the type of influence of social capital but belonging to a community where associations, including professional ones, exist increases sales by 90.2 percent. Firm longevity decreases sales by 38.2 percent evidencing the higher growth of younger firms. The positive influence of the operating in an urban area and hiring additional employees confirms Masakure et al. results (Masakure, Cranfield, and Henson 2009) while the negative impact of being a female entrepreneur on sales growth was also observed occurring in Ghana (Masakure 2008). An additional kin employee in Albania increases sales by 122 percent while non-kin employees by
only 63 percent. The conclusion cannot be that kin members have a positive impact as the presence of an additional kin-member in the firm’s capital decreases sales by 102.8 percent.

The hypothesis to be tested is: the kinship network does influence firm growth, i.e. a5 is significantly different from 0. In the case of the estimated equation, a5 represents the coefficient of KNEMPL (a5.1) and KNO (a5.2), i.e. kin employees and kin owner(s): H0 : a5.1 = a5.2 = 0 ; H1: a5.1 = a5.2 ≠ 0

A univariate ANOVA is performed on both variables. The null hypothesis is rejected at 95 percent significance level for both variables\(^2\). So both ownership and employment related kinship variables do influence sales.

**POTENTIAL IMPLICATIONS FOR ANTI-POVERTY MEASURES: A NEEDED CHANGE IN PERCEPTIONS**

Anti poverty measures intend to include in virtuous growth circles populations that are excluded from growth spill-over. Fostering economic activity through the use of the kinship network primarily affects the poor while they experience difficulties in accessing the market. Measures that legitimize economic activities while recognizing the benefits of the kinship network are sustainable through time and across countries. Theoretical models do not yet allow for such encompassing perspectives. Since the beginning of the 20th century, Weber (Weber and Parsons 1965) opposed the kinship network influence on economic activities, as a proxy for primitive forms of exchange, and market institutions. The family or the kinship network has been considered as negative for economic growth in that it has prevented the development of proper market institutions by its reluctance to innovate (Azariadis and Stachurski 2005), or by nepotism (Grassby 2001; Siu-lun 1985), generally described as a lack of transparency in economic transactions. Consequently, when the influence of social groups, like the kinship network or family, is historically analyzed in development economics, it supposedly reflects a low level of development of the geographical area studied.

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\(^2\) These results are valid within the context of the numerous statistical assumptions underlying the Expectation Maximisation missing values method and the ordinary least squared regression model in SPSS.
Institutionalists affirm that increased wealth brings in issues of ownership and competitiveness, leading to negative consequences of kin involvement in business. Family business scholars indeed show that successful family businesses still persist nowadays. Economics focuses on issues of efficiency and growth, thus concluding in a similar way to institutionalists. Finally, social network analysis temper both aspects of the issue by considering only the frequency of the links amongst actors and not their finality. So far, the analytical frameworks that have been developed are rather historically contextualised. They consider the unit of analysis adapted to the study of the socio-economic transformation as experienced by western countries (household/ nuclear family/ individual). Or else they do not consider social groups as important determinants of economic decision processes. Colli and Rose (2008) emit the hypothesis that family firms emerge in times of uncertainty. From an empirical perspective, historically and culturally based institutions, such as the kinship network, coexist with market based ones. A similar observation was made by Ruggles (1987) on 19th century England and America rejecting the institutionalist perspective on economic transition. It would not be a surprise that, as Sunderland (2007) comments on social relations during the industrial revolution, there is a biologically based trust in kin.

Firms considered within their cultural and social embedding, are an interesting bridge towards overcoming the consequences of the current economic crisis. Be it because of their locality or their flexibility, small firms are the perfect antidote to economic mayhem. The objective in anti-poverty policy making should therefore privilege a bottom up approach. A further and appropriate survey of culturally based economic behaviour would indicate structural patterns. The kinship network can be collateralized when material collaterals are difficult to find, such as for Chinese small businesses (Chua, Kellermanns, Chrisman, and Wu 2007). The kinship network can be mobilized in rural areas and they have already proven to be effective for increasing employment (Yusheng Peng 2004). When combining family and transnational business networks the effect on firm growth can be very valuable (Yeung 2000).

Katzner (2008) states decision making represents a set of ‘mental acts [...] relying heavily on the symbols and their interpretation’ (Katzner 2008: p. 5). Different cultures mould economic agents’ choice making
and preference expressions in different ways. In ‘quasi’ capitalist economies, such as the Japanese one, agents do not base their decisions on cost/benefit analysis only, but also on loyalty to ‘the family, company or society’ (Katzner 2008: p. 85). Katzner shows that efficiency at all costs is not a prerogative. The rationale, in the western sense would be for Japanese operators, to choose the second optimal decision, in order to respect to other criteria required by the cultural context, such as for example employees’ respect for their superiors. Therefore the policies and analytical frameworks cannot be the same for different culturally based economies.

CONCLUSION

Alternative ways of fighting poverty and social exclusion need using local leveraging channels. For countries where social structure is dense, i.e. resorting frequently to non-market or social structures, discarding different types of economic practices other than market ones will have shortcomings. Concessions to the bottom-up methods of implementing market organized practices can lead to beneficial effects over time for the population targeted and for funding institutions and will be valid independently of public governance. On one hand corruption in program administration and implementation is avoided as the projects are managed at the usual micro-level. On the other hand, the change of perception in the legislation of bank systems, aid institutions, fiscal authorities or investment regulations can generate global spill-over effects and facilitate the insertion of economic activities using social networks.

The use of social networks and more specifically the kinship network needs proper identification and transparent evidencing of the spill-over mechanisms between the social and economic spheres of activity in particular contexts. This paper showed the existence of the kinship network influence for business activities in Albania and explored paths of application to anti-poverty measures in Western Balkan countries. The latter cannot occur without the adoption of encompassing models. This paper evidenced that including anthropological considerations in firm growth models allowed obtaining interesting but limited results. The limitations are due to the lack of interest for socio-economic data collection and
analysis in developed and developing countries. A change of methodological frameworks in socio-economic policy making and data collection institutions has to occur in order to identify, analyze and utilize empirical growth factors. Encompassing social and economic factors can lead to enriched results in policy making (Gassie 2008; Gassie and Hu 2009).

The issue of involving the kinship network into business growth goes beyond the Balkan region. Similar phenomena have been observed in many other countries with positive effects on growth of firms. The use of the kinship network involves the exploration of particular channels it takes in various countries and regions. The survival of successful family firms (Anderson, Jack, and Dodd 2005; Anderson and Reeb 2003; Bruland and O'Brien 1998; Colli 2003; Grassby 2001; Hamilton 2006; Hoffman, Hoelscher, and Sorenson 2006; Yanagisako 2002) or the recent findings on the issue of homophily proving that social capital is indeed built based on familiar networks (McPherson, Smith-Lovin, and Cook 2001; Mouw, Cook, and Massey 2006) do make of the kinship network a concept whose applicability is to be studied at a global and structural level.
REFERENCES


