

## Do family and kinship networks support entrepreneurs?

### Family and kinship ties offer multiple benefits to developing country entrepreneurs but can also have adverse effects

Keywords: family and kinship networks, entrepreneurship, sharing norms, family labor

#### ELEVATOR PITCH

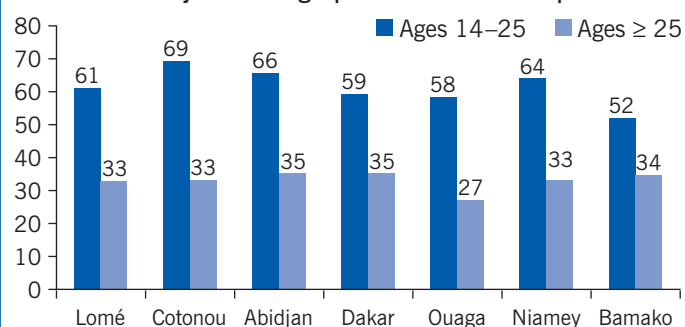
Family and kinship networks are important in helping people get jobs and start companies, as statistics for developing countries show. Promising new research has begun to assess the positive and negative effects of these family and kinship ties on entrepreneurial success. To what extent, and why, are family networks used, and do they result in better economic outcomes for entrepreneurs? Results point to the need for policymakers to identify and emulate efficient informal networks in order to develop innovative support policies for vulnerable entrepreneurs, especially for those who are attached to weak or inefficient networks.

#### KEY FINDINGS

##### Pros

- + For entrepreneurs in developing countries, family and kinship networks have the potential to generate learning spillovers.
- + Family and kinship networks may reduce uncertainties about market opportunities, the reliability of partners, and the productivity of employees, in particular family labor which needs less supervision by the entrepreneur.
- + Risk-sharing and informal credit arrangements can be enhanced by family networks.
- + Reducing transaction costs in various business relationships can be a positive result from family networks.
- + Family and kinship networks may promote innovation and enhance the returns to production factors.

#### Up to 70% of young urban workers in West Africa obtain their jobs through personal relationships



Source: DIAL. *Youth and Labour Markets in Africa: A Critical Review of Literature*. DIAL Working Paper No. 2007/02, 2007.

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##### Cons

- Sharing norms with family and kinship networks may lead to business inefficiency if entrepreneurs are unable (or unwilling) to control the influence of relatives who make excessive demands.
- Family labor is often less productive than hired labor.
- Measuring and explaining the existence and effects of social networks on the performance of small businesses is not easy because of the endogenous nature of social interactions.
- Because of the high degree of heterogeneity in the effects of family and kinship networks, sophisticated research and data collection designs are required to analyze the effects on firm performance.

#### AUTHOR'S MAIN MESSAGE

Entrepreneurial behavior and success are often influenced by decisions of the entrepreneurs' kinship group. Family and kinship ties provide benefits through learning and complementarities, risk-sharing, and lower transaction costs, but economically inefficient social norms that call for supporting family members can worsen firm performance. Where family and kinship ties have strong positive effects, networks may be compensating for market and institutional failures. Policymakers can address these failures through support policies for entrepreneurs, such as health and unemployment insurance and finance and credit.