

RESEARCH INSIGHT

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Harnessing Kinship Ties to Foster Small Business Growth in the Kyrgyz Republic



The challenge

The use of kinship networks by small business owners in the Kyrgyz Republic has both positive and negative effects on their companies' profitability and revenue growth. In order to leverage these networks, technical advice to entrepreneurs should encourage discretion in the use of network connections, noting its advantages in the early stages of business development and cautioning against indiscriminate reciprocity at later stages.

Small businesses in developing countries often turn to members of their kinship networks to provide loans of capital, information about suppliers and customers, trusted employees, help in dealing with officials and competitors, business advice, and other forms of support. Reliance on kinship networks is particularly widespread where the formal institutions that typically provide these resources in market economies are lacking. Prior literature finds both advantages and disadvantages of using kinship ties: they can furnish indispensable start-up capital and timely resources that can facilitate business performance, but they can also hurt performance by introducing non-business considerations into decision-making and draining away capital that should be re-invested due to normative obligations to support family members. Our research empirically disentangles the positive and negative roles that the use of kinship networks by entrepreneurs play in the Kyrgyz Republic, pointing the way to technical advice that accentuates the potential benefits while steering entrepreneurs away from adverse consequences.

Our approach

The Kyrgyz Republic is an ideal country in which to study the impact of specific forms of network use on the performance of small businesses, because it occupies an intermediate position in terms of GDP per capita, entrepreneurial culture and the strength of kinship ties, its business environment is challenging, in part due to characteristics typical of transition countries, and it shares common traits with other Central Asian

republics, while still offering a hospitable environment for social science data collection. We carried out 20 in-depth interviews with entrepreneurs and a survey of 1000 small businesses in the Bishkek and Osh, the two largest cities in the country. Our interview guide and survey instrument contained unusually rich and detailed questions measuring the extent to which respondents receive specific forms of assistance from their kin networks and, in turn, provide similar assistance to their kin, as well as measures of business performance.

Our findings

Our qualitative and quantitative data confirm that kinship networks both help and hinder small business performance in concrete, intuitive, and measurable ways. First, we find that business networks in the Kyrgyz Republic are dominated by kin ties, constituting about two-thirds of all business connections. Statistical analyses with extensive robustness checks support the conclusion that drawing on kin-based network connections (network in-use), particularly in the early phases of a business, leads to better performance, while providing business assistance to kin (network out-use) tends to hamper performance. At the mean level of profitability and kin use, our estimates suggest that a 10% increase in in-use kin connections would lead to a 3% increase in profitability and a 10% increase in out-use kin connections would lead to a 1% decrease in profitability, holding other factors constant. Importantly, in- and out-use are positively correlated (0.48), thus their respective effects tend to offset one another when they are not disentangled empirically. Our findings also indicate that adopting formal business procedures tends to dampen the relationship between firm performance and usage of kin networks. Finally, the use of non-kin connections for business assistance has more unambiguously positive effects on revenue growth.

Research implications and impacts

Our findings should inform the type of advice provided to small business owners in the Kyrgyz Republic and other developing countries of a similar profile. Rather than discourage them from using their kinship ties for business purposes, they should be encouraged to judiciously turn to members of their networks for help with their business, particularly during the first few years of business development. However, as their businesses grow, they should more carefully provide assistance to members of their network in a manner that is less interrelated with business decisions and outcomes. Of course, some reciprocal obligations are both necessary and desirable in order to avoid rupturing the social fabric and to spread the benefits of successful enterprises to larger communities. Early planning with respect to both the receipt and the eventual provision of assistance from/to kin is likely to maximize the value of kinship. The intertwining of firm performance and social insurance complicates a commonly recommended policy tool to foster small business, credit market development. The impact of this tool could be limited when alternative means of social insurance to the extended family do not exist. When kin networks view firms as vital sources of cash flow for social insurance and offer financing at well below market rates, this creates low demand for formal credit to finance firm growth. Workshops and training materials should be developed to provide potential and actual entrepreneurs with guidelines regarding best practices in terms of network use as well as to emphasize that advantages of business formalization in insulating firms against the negative impact of excessive network use. Future research should build on our results in order to specify more precisely how the effects of network in-use and out-use on business performance varies by such factors as timing in the business lifecycle, the specific resources or services provided and the size and composition of entrepreneurs' networks. Ideally, training materials should be applied as an intervention, then their usefulness assessed using a randomized, experimental design.

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