

The role of networks in shaping entrepreneurial leadership: A longitudinal case study

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Abstract

This paper explores the relationship between leadership and networks in entrepreneurial firms. A historical perspective is adopted to consider how leadership evolves and develops over time in an entrepreneurial setting, based on how leaders draw on networks in which they are embedded. Findings from a qualitative study of an organisation operating for over 70 years and including over 50 business-owning families are presented. These show that networks not only shape and define the leadership of the entrepreneurial firm, but also that firm's evolution, growth and development are the result of how networks entwine with leadership. These findings are theorized in the form of an entrepreneurial life-cycle model that is driven by the form and reach of embedded network connections and draws on Leader-Member Exchange (LMX) theory. The paper concludes with some thoughts on the benefits of networks for practicing leaders.

Key words: collective leadership; Leader-Member Exchange theory; LMX; relational leadership; networks; entrepreneur; entrepreneurial firm

INTRODUCTION

This study is motivated by a need for more understanding about how leaders in entrepreneurial businesses use their networks to enhance the evolution, growth and development of the firm and its activities. According to Borgatti and Halgin (2011) a network consists of a set of actors or ‘nodes’ together with the ties of a specific type (e.g. kinship) that connect them, with the pattern of these ties expected to produce certain structures and outcomes. Networks can add value in the form of the provision of information, opportunities and resources seen as crucial to starting or developing a firm (Greve and Salaff, 2003), or of social capital: that is, an asset that resides within a network of relations and that is accessed through social interactions and exchange (Anderson et al, 2007; Davidsson and Honig, 2003). As noted by Borgatti and Halgin (2011) networked organizations can achieve more by working together than they can separately, through the virtual transference of capabilities facilitated by the connections between network members.

Whilst network theory is now well established in the management literature, including its application to entrepreneurial contexts (Birley, 1985; O’Donnell et al, 2001; Jack et al, 2008; Dodgson, 2011), there exists a lack of clarity concerning the overlaps between ‘leadership’ and ‘entrepreneurship’, with the resultant ‘entrepreneurial leadership’ (e.g. Leitch et al, 2012; Renko et al, 2015) occupying an ambiguous position between the two research domains. It has been argued that the entrepreneurial leadership construct ‘remains atheoretical and lacks definitional clarity’ (Leitch and Volery, 2017: 148; Leitch et al, 2013) and there have been calls for further theoretical and empirical work (Leitch and Volery, 2017) to rectify this weak grounding. In particular, Leitch and Volery (2017: 154) urged scholars to ‘consider studies based on more processual and relational views in which temporality and contextuality are stressed’ in preference to more traditional, essentialist notions.

In responding to this call, we draw on understandings of networks as prominent social collaborative structures, and explore their significance for the leaders and leadership of entrepreneurial firms. We suggest that this significance might be more than has so far been appreciated and might contribute to our definition and understanding of entrepreneurial leadership (Brass et al, 2004). For entrepreneurs, the use of networks – and hence the importance of understanding their operation and impact - is necessitated by the mounting pressures of globalization (Parkhe, Wasserman and Ralston, 2006), whilst from a research perspective network theory usefully shifts the focus away from atomistic

explanations of phenomena to relationships among systems of dependent actors (Wellman, 1988: 561). This latter affords a more dynamic understanding of phenomena – in the current case, of the evolution, growth and development of entrepreneurial firms – at the same time as acknowledging the inherent relational embeddedness of leadership/entrepreneurial activity. We build on this important perspective with an in-depth longitudinal case study, as set out below.

Our specific research question asks: *how does entrepreneurial leadership evolve through the use of networks as entrepreneurial firms grow and develop?* To address this question, we adopt an historical perspective, which allows us to demonstrate the importance of temporality to understanding the long-term evolution of leadership and its implications for entrepreneurial firms (Oinas, 1999). The research is based on an in-depth qualitative case study of SEUR, a Spanish express transport network business that has sustained operations for more than 70 years and has evolved from small beginnings to operate with more than 50 business owning families organized in a cooperative horizontal network structure. We adopt perspectives from relational leadership (McCauley and Palus, 2021), and in particular Leader-Member Exchange (LMX) theory (Graen and Uhl-Bien, 1995), to theorize a life-cycle model of how entrepreneurial leadership evolves through different stages of the entrepreneurial firm’s growth and development, driven by the form and reach of the entrepreneur’s network connections. This model has parallels with LMX theory, ‘scaled up’ to consider multiple rather than individual relationships. Through this rich case study, we contribute to the entrepreneurial leadership literature, and specifically our understandings of the evolution of entrepreneurial leadership as the firm develops, by demonstrating the fundamental role of social networks within the enactment of leadership in entrepreneurial settings. The findings from this study can be seen to have relevant implications for researchers and practitioners beyond the boundaries of entrepreneurial organizations.

ENTREPRENEURIAL LEADERSHIP AND THE ROLE OF NETWORKS

Entrepreneurial leadership – an atheoretical concept?

The concept of entrepreneurial leadership has emerged as a critical issue in the late 20th and early 21st centuries, as a response to the economic pressures and globalization that have impacted on businesses around the globe (Leitch et al, 2013). Renko et al (2015: 54) define entrepreneurial leadership as involving ‘influencing and directing the performance of group members toward achieving those organizational goals that involve recognizing

and exploiting entrepreneurial opportunities.’ For Leitch and Volery (2017: 147) entrepreneurs are leaders ‘par excellence’ through their ability to ‘identify opportunities and marshal resources from various stakeholders in order to exploit these opportunities and create value.’

Claimed as a ‘new paradigm’ (Fernald et al, 2005) for business, entrepreneurial leadership was initially framed in terms of the traits and behaviours required to enact leadership in an entrepreneurial context, such as vision, opportunity-focus, achievement orientation, risk-taking, high tolerance for ambiguity, tenacity and self-confidence (Renko et al, 2015). More recent work evolved to incorporate process perspectives (Antonakis and Autio, 2007) and to recognise the importance of developing entrepreneurial leadership through resocialization and adaptive learning undertaken within learning networks. This interaction with peers in a networked context is an important point of departure for our own study. Also important is the adoption of relational ontologies (Sklaveniti, 2017) to explore the emergence of entrepreneurial leadership in new ventures, and the use of a life history approach (Dean and Ford, 2017) to capture the role of environment in shaping entrepreneurial leadership experiences.

Relationship leadership and LMX

In her seminal paper on relational leadership theory, Uhl-Bien (2006: 655) characterized leadership and organization as ‘social constructions that emanate from rich connections and interdependencies between organizations and their members’. A relational orientation thus ‘starts with processes and not persons and views persons, leadership and other relational realities as *made* in processes’ (2006: 655 original emphasis). From this perspective, relational leadership is defined as ‘a social influence process through which emergent coordination (i.e. evolving social order) and change (e.g. new values, attitudes, approaches, behaviours and ideologies) are constructed and produced’ (2006: 655). On this view, leadership is seen as occurring in relational dynamics throughout the organization rather than being confined to persons in hierarchical roles or positions. This definition draws heavily on the work of Hosking (1988), which sees ‘leaders’ as those who ‘consistently make effective contributions to social order, and who are expected and perceived to do so’ (Hosking and Morley, 1985; cited in Hosking 1988: 153). To be seen as a leader, a participant must be perceived as salient relative to others (Hosking, 1988) and as making particularly important or influential contributions to skilful organizing.

Within the relational domain, the entity perspective focuses on individuals (i.e. leaders and followers) and the intentions, perceptions and behaviours they bring to their

relationships with one another (Uhl-Bien, 2006). Described by Ospina and Foldy (2010) as a trend in leadership research which enquires into the type of leadership required to foster collective problem-solving, this approach is exemplified by leader-member exchange (LMX) theory (Grean and Uhl-Bien, 1995) and, to a lesser extent, charismatic leadership (Howell and Shamir, 2005). Drawn from a Realist ontology, in which individuals are viewed as separate, independent, bounded entities, the entitative perspective acknowledges the importance of interpersonal relationships for leadership but locates them in conditions of already 'being organized' (Uhl-Bien, 2006: 665). This contrasts with the relational perspective, which sees leadership as fundamentally socio-relational and focuses on the social construction processes by which certain understandings of leadership come about and are given a privileged ontology (Uhl-Bien, 2006). Nonetheless, this perspective's focus on the relational processes through which leadership is produced and enabled still has relevance for us, as does the notion that leadership is 'a process of organizing' undertaken in the context of ongoing local-cultural-historical processes' (Uhl-Bien, 2006: 665).

Network theory as a lens for understanding entrepreneurial leadership

Networks - a set of actors or 'nodes' together with the ties of a specific type (e.g. kinship) that connect them (Borgatti and Halgin, 2011) - can add value to entrepreneurial businesses in the form of the provision of information, opportunities and resources seen as crucial to starting or developing a firm (Greve and Salaff, 2003). They can also be a source of social capital, the benefit of which resides within the network of relations themselves and which is accessed through social interactions and exchange (Anderson et al, 2007; Davidsson and Honig, 2003). Effective usage of such networks allows organizations to achieve more by working together than they can separately, through the virtual transference of capabilities facilitated by the connections between network members (Borgatti and Halgin, 2011). Networking between individuals who share similar values and the same social background is a business strategy that has historically allowed business survival under uncertain environments (Colli et al, 2003; Fernández Pérez and Rose, 2010).

While it is now generally accepted that networks can play a role in the development of an organisation, much less is known about how those networks in which leaders are embedded can work to shape and influence their leadership and the entrepreneurial firm with which they are associated (Brass et al, 2004). The shift from viewing entrepreneurs as 'atomistic' individuals to viewing them as people embedded in a network (Elfring and

Hulsink, 2003) has led to a consensus concerning the relevance of network relations for entrepreneurs and a growing realization that networks can play a critical role in entrepreneurial success (Grandi and Grimaldi, 2003; Jack, 2010). There is as yet, however, little empirical research concerning the relationship between leadership and networks, nor how leaders actually collaborate with network contacts within the entrepreneurial setting (Huxham and Vangen, 2000; McGuire and Silvia, 2009; Silvia and McGuire, 2008).

METHODOLOGY

Study context

To address our research questions, set out above, we utilised an in-depth case study approach (Yin, 2013), focusing on the Spanish courier company SEUR. This organization was selected due to its structure as a networked business, owned and operated by more than fifty families. SEUR is the oldest Spanish express logistics company and one of the most prominent in the Spanish market (Tápies, San Román and Gil, 2012). It was founded in 1942, by two young men with no relevant training, university education or resources. These two entrepreneurs launched the business idea of delivering goods, between two Spanish cities, as fast as possible. As the company grew, new partners were selected from the founder's relatives, friends or employees. When they joined SEUR, they were responsible for promoting the business in one or more Spanish provinces. All of them shared similar values and social background, making the company a homogeneous group in which every partner depended on the others. This homogeneity made it easier to sustain network-like arrangements (Powell, 1990).

Historical perspective

A historical perspective is key to our intended contribution, which is to show how networks not only shape and define the leadership within an organization, but also the entrepreneurial firm itself, its evolution, growth and development. Our study therefore demonstrates that while networks act to provide economic and social resources, they also have a critical role to play in leadership and firm development. Maclean et al (2016: 609) define historical organisation studies as 'organisational research that draws extensively on historical data, methods, and knowledge, embedding organising and organisations in their sociohistorical context to generate historically informed theoretical narratives.' As noted by Parke et al (2006) the inclusion of time as a variable, and the consequent focus

on processes makes longitudinal studies - in our own case, explicitly embedded in a historical perspective – vital to capturing organizational dynamics. In drawing on a unique set of longitudinal data 70+ years of the case study organisations' histories, the paper acknowledges 'the exceptional value of the long timespan' (Braudel, 1980: 27). An historical understanding of time, which 'generally take[s] it as given that events are embedded in what sociologists call "temporal and spatial contexts" and in "particular social times and places"' (Abbott, 1997: 1169, cited in Rowlinson et al, 2014: 258) is integral to our research.

Research design

Data collection was primarily interview-based, with a total of 50 interviews being undertaken over a period of approximately one year. During this time, we were able to interview almost all partners of SEUR and some of the top managers, giving us a rich understanding of the evolution of the company. Interviews lasted between one and three hours, and were organized around a protocol which focused on understanding the historical stages of the organisation's development. Our respondents were asked to detect the different necessities at each stage as well as the long-term process of evolution and change within the company. They were also asked to identify who the leaders in each stage were, why they were perceived as leaders, and what features characterized them as such. This oral information source was particularly important to understanding the social background of SEUR and the specific ties and relationships that helped build an extensive network covering the whole of Spain. The majority of partners joined SEUR in the 1980s and their testimonies were of a strong historical nature.

We also had access to a wealth of archival records that helped us to analyse the firm's evolution process in its early years, and to triangulate interview data. As one of the two founders (Justo Yúfera) noted, for a long time SEUR worked without any legal documentation, with a handshake being trusted and representing the agreement for and acceptance of decisions. For that reason, the main business documentation that we have studied started in the 1980s. Documents reviewed included an internal corporate magazine, published from February 1983 to November 1985, diverse strategic reports, the minutes of the Board of Directors since its constitution in 1984, and the minutes of the shareholders' meetings.

The research process generated a large amount of data, allowing us to gather a rich written record that was studied at length. Information about each partner was compiled as a separate case study and then compared with the others to determine categories and general

patterns of activities. This process involved reading and re-reading interview material, revisiting notes and material generated through the data collection process, summarizing, categorizing and searching for patterns (Halinen and Tornroos, 2005). To support the process of data analysis, themes were identified from the literature relating to entrepreneurial and relational leadership and networks. Transcripts were coded using broad principles of template analysis (King, 2012), a form of thematic analysis that combines an initial coding template with scope to incorporate emergent interpretation (Brooks, McCluskey, Turley and King, 2015).

EARLY FINDINGS

When looking at the long term evolution and development of leadership of the SEUR network through its 70 years of history, it became apparent that four stages seemed to exist: 1) small-scale leadership at the beginning of the network (1942-1970); 2) Informal and relational leadership at framing the network (1970-1984); 3) professional leadership in a formal structured network (1984-2000); and 4) formal leadership when meeting strategic operations in a globalized market (2001-2013). Each of these stages seemed to be influenced by the organisation context and how the entrepreneurial network could be drawn on to support the firm development over time. These stages are outlined below, and will be fully warranted by data extracts as our analysis continues.

1) Small-scale leadership at the establishment of the network (1942-1970): because of the very limited scope of the firm at this time and the difficult economic environment during the start-up, leadership was focused on ensuring the firm survived. The two entrepreneurs who established and led the venture were persevering and tenacious and their main strategic resource was to introduce a novel business idea in Spain: express transport. Once established, they also wanted to ensure this business survived. Since the network was still very small, leadership behaviours by the two founders were critical in integrating their initial resources - such as skills, information, knowledge, tasks, processes and the small sum of money they could provide – into a workable business. Leadership was transactional in nature, with as yet no common vision or values beyond survival.

2) Informal and relational leadership at framing the network (1970-1984). From 1959 to 1975 Spain had experienced uninterrupted growth, with increasing openness and the integration of Spain into international markets supporting the expansion of private consumption. This allowed SEUR to grow and realize the potential of extending the

business into new Spanish provinces. That opportunity took some time to materialize, enough for the context to reverse. From 1973, the global economic crisis strongly affected all Western Europe, while in Spain the transition into democracy after Franco's death in 1975 was another source for instability that hampered recovery. Within this environment of economic and political instability and market imperfections the SEUR network expanded throughout Spain. In a country burdened by lack of credit, the network of partners was built because there were no other resources for growing the business. Of the first two partners to join the network, one was the son-in-law of one of the founders and the other (unusually) answered an advertisement. Both would become core members of the network and provide crucial leadership to the business. As the firm developed, both brought in family members and friends to extend the network. They also brought the strategic capacity to integrate new partners through structuring the norms and values of the network, enhancing cohesion and agreement among all people who joined SEUR and, above all, developing a shared, collective vision for the network. Interestingly, whilst operating as de facto leaders during this period, neither of them held formal leadership positions.

3) Professional leadership in a formal structured network (1984-2000). A changing context forced the adaptation of the SEUR network. The incorporation of Spain into the European Union boosted economic development, and the arrival of foreign competition meant Spanish companies had to make a big effort to modernize and become more competitive. From the mid-1980s SEUR began an intensive process of professionalization and legal reorganisation. In 1984 SEUR España was founded as a company owned by all the partners according to their turnover. It was set up to represent them and to take over the management of common services such as accounting, advertising, insurance contracts, relationships with shared clients and legal advice as well as tax and labour advice. Along with these structural changes, in the 1980s SEUR began to hire professional managers, with professionalization being the main strategic resource that leadership brought to the network. They hired a CEO with both financial and legal training to assume the actual leadership during this period. He was also responsible for sustaining commitment to the network and adding the professionalization needed to give a formal structure to the business. In 1984, when he joined SEUR, the organisation generated income of €15 million per annum: when he left, the entire SEUR network earned €500 million.

- 3) **Formal leadership when meeting strategic operations- in a globalized market (2001-2012).** During this period, SEUR sought to find a solid international partner to strengthen its market position in Spain and internationalize, initially without success. In 2004, the arrival of the French Company GeoPost, as a foreign partner, meant a change in leadership and in the strategic direction. Leaders at that time looked to maintain the ties within their network and bring stability as well as creating inter-organizational links. The French company bought out partners who no longer wanted to continue in SEUR and thereby gave stability and solidity to the remaining business. At the same time, the new partner created stable relationships between its own organization and SEUR, providing valuable information, economic resources, international presence and the discipline that SEUR required to compete in the new times this period brought. This business alliance led to improved trust and collaboration between representatives of both companies.

To sum up, leadership at SEUR evolved through four stages: small-scale leadership at the establishment of the network, informal and relational leadership during its initial growth, professional leadership to structure the network once it was well established, and formal leadership to internationalize the organization. Over the life of the organization, the SEUR network was not only looked on to provide resources that would help sustain the growth and development of the organisation but also shape its future development, especially in terms of leadership and how the leaders functioned. It appears to have been accepted that by engaging with SEUR, network members would help lead the organisation. Our early theorization of these stages of development are set out in Table 1.

FUTURE DEVELOPMENT

From SEUR's history, it is evident that the network shaped and influenced leadership over time and had a strong significant impact on the evolution of leadership. Leadership emerges as a dynamic process, embedded in the social sphere of the network and shaped by the context in which it is developed. As noted from our case study, leadership was able to evolve and change by adding new capabilities as a response to new challenges. Between now and the conference in September, we will develop our analysis around the idea of a process model of the role of networks on entrepreneurial leadership, drawing on LMX theory. We envisage this taking the form of a life cycle model, showing how both the network and the formality of the leadership required evolved over the life of the organization, leading to a final phase where some members of the network exited the

business and others renewed their commitment and involvement as part of the new, international organization.

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Table I: Early theorization of stages of development

Leadership phase/ Characteristics	Transactional Leadership	Identity/ Values Based Leadership	Professional Leadership	Transitional/ Change of Leadership
Basis of Relationship	Common need	Common values	Documented policies	Divergent paths
Network Connections	Few and direct	Many and indirect	Many and formalized	Joiners and leavers
Business Phase	Start up	Growth and expansion	Maturity/ franchises	Merged/ subsumed
Quality of Relationships	High trust/ shared risk	Social/ sense of family	More distant	Breakdown or recommit
Degree of Network Influence	High – based on shared experiences	Highest – deeply embedded	Declining or distancing	Disconnected/ disillusioned or reformed