Network Capitalism In Pakistan: Role Of Human Resources In Transforming A Startup Into A Corporation

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Abstract

This paper aims to explore the black box of network capitalism in Pakistan and figure out the power of well-connected human resources in the growth of a small venture into a full-fledged corporation. Scholarship (Saher & Mayrhofer, 2014, Williamson and Cable, 2003; Provan, Fish and Sydow, 2007; Mueller-Seitz, 2012; Tung and Worm, 2001; Collins and Clark, 2003; Khilji, 2003; Ibarra and Deshpande, 2007; Wolff and Moser, 2009; Farh, Bartol, Shapiro and Shin, 2010) has already highlighted the significance of social networks in identifying and developing prospects for individuals as well as firms (Shane & Venkataraman, 2000). The current prodigy of globalization, open markets and cut throat competition have further elevated the role of human networks. Trustworthy and reliable connections have become a major source for gaining competitive advantages. This paper extends a rare in-depth insight about the ways business is initiated and successfully managed in local markets.

Keywords: Power of human resources, cultural mechanisms of human network, in-depth research, corporate performance, Pakistan.

1.Introduction

Human resources and their personal connections are deep rooted in all societies and influence socio-political and economic spheres especially in developing countries (Butler & Purchase, 2004; Liu, 2001; Michailova & Worm, 2003; Rauch, 2001; Fafchamps, 1999; Lomnitz & Sheinbaum, 2004). This phenomenon facilitates survival as the formal system is not sufficient to provide basic amenities and services to its people in developing countries. Consistently, well placed human resources are developed as a substitute to combat sluggishness of the formal system (Lomnitz & Sheinbaum, 2004). Lomnitz & Sheinbaum (2004) have proposed that these culturally prevailing mechanisms of networks of human resources are not just the "residue of traditionalism but also an intrinsic element in many of today's complex modern societies,…growing importance of informal exchange in the formal sectors of modern

societies, …understanding the cultural rules governing kinship and friendship may be more essential than ever for gaining an insight into the operation of the economy and state (p.24). In a similar vein, Dasgupta (2000) highlighted the consensus developed during a session in an international institution regarding the significant impact of social networks on economic performance. The availability of literature on the mechanism of local social networks in various cultures, like Guanxi in China, Wasta in the Middle East, Blat in Russia, Compadrazgo in Latin America and Sociolismo in Cuba, and their role in the local economies have further reinforced the importance of these institutions in the functioning of society.

In Pakistan, Khilji (2003) found a "mechanism of social allegiance in contemporary organizations that was binding and generally takes precedence over rules…members of a group feel obliged to look after each other" (p.115-116). But interestingly, Khilji (2003) has used the word, "guanxi" (a Chinese concept of reciprocal networking) to depict the prevailing phenomenon of social network (family-like ties with reciprocal obligations) in Pakistani society and organizations (p.116). "Guanxi", despite sharing some similarities, is different from the indigenous phenomenon of social networks named as Vartan Bhanji (VB) (Saher & Mayrhofer, 2014). For example, the fundamental principles of exchange are different in VB and guanxi; VB works on reciprocity and gender specific (women oriented) considerations (Eglar, 1960) whereas guanxi centers on reciprocity and empathy (Wang, 2007:84). Similarly, both VB and guanxi have their roots in different religions; guanxi in Confucian ethics (Hutchings & Weir, 2006 a; Hutchings & Weir, 2006 b) whereas VB in Hindu caste (jati) system (Mandelbaum, 1970: 552). The tradition of Vartan Bhanji (an institutionalized custom of gift/service exchange), that is maintained among relatives (familial network,

Bradri) is prevalent in Pakistan as well as in India (Cialdini, 2001). The phenomenon of VB was observed in academic literature almost five decades ago (Eglar, 1960). Yet, few researches are conducted on this topic and there is no significant contemporary literature available on VB revealing its role in current Pakistani society and business relations. Actually, the academics and researchers did not consider VB significant because of two main reasons. First, the multi-faceted representation and the illusive role of VB made it less attractive to be considered for exploring socio-economic and political phenomena in Pakistan; second, as an institution of Punjabi culture, it is not deemed relevant to the changing Pakistani society. However, social allegiance of non-kin into kin groups through exchange of goods and services (VB) is a very significant feature of Pakistani society (Lyon, 2002). Authors like Lindholm (1996) have argued that diversity in the social order of the various subcultures of Pakistan is more of intensity rather than nature. Consistently, people networks remain a significant feature of contemporary Pakistani society that has a significant influence on personal interaction, political formation, business relations, and organizations (Abbasi, 2010 a; Abbasi, 2010 b; Khalid, 2010; Khilji, 2003; Saher & Mayrhofer, 2014). Considering this gap between research and practice, this paper explores the function of VB in transforming a small personal venture into a well-established corporation. The authors unravel the ways reliable human resources are connected through the VB mechanism that contributes to the transformation of organizations.

2. Theoretical Framework

VB is a system of establishing and maintaining relationships through gift/service exchange (Eglar, 1960:106). In the agrarian societies of Punjab, it performed the role of a network of mutual help and cooperation (Gill 2003: 98). This relationship mainly developed among people

belonging to a system of reference called "biradri" (people related through blood and marriage). However, depending on the situation, friends and neighbours are also incorporated into this familial network (Alavi, 1978:12; Eglar, 1960; Wakeel, 1970). On the basis of strength of relationship and mutual obligation, this familial network can be categorised into two groups: Pakki Vartan (PV - core relationship) and Katchi Vartan (KV - courtesy relationship) (Alavi, 1978:12; Eglar, 1960; Wakeel, 1970). The first group is made up of close relatives and friends. People belonging to PV (inner core) maintain strategic relationships and the fulfilment of mutual expectations (of help and support) is mandatory despite interpersonal conflict (Alavi, 1978:12). However, in case of critical situations sanctions are imposed (on the VB members) and relationships are terminated (Alavi, 1978:12). The system of VB works on two basic principles: gender specific obligations (a daughter's right in her parent's home) and reciprocation of gifts or services (Eglar, 1960:108-110). Furthermore, the exchange of material and immaterial possessions is processed through offerings (the material offerings on the occasion of marriage are locally named as "Neotta" or "Neondra") and demands (of help/belongings named as "Mang"). The tradition of VB, its characteristics and functions depicted by Eglar (1960), Wakeel (1970) and Alavi (1978) have not remained the same due to the strong influences of industrialization, migration and urbanisation (Choudhary, 1999). Now, for example, the record of gifts is not openly maintained and gifts are not openly exchanged at the workplace. As a contained cultural value, it (VB) influences individual and collective interaction in personal and professional settings. Lyon (2002) and Khilji (2003, 2004) argued that family is still the center of the local social system in Pakistan and family-like relationships are developed with non-kin for their social integration into the kin group (Khilji, 2003:115; Lyon, 2002:1). This phenomenon of network extension is institutionalized on the embedded assumption of Vartan-Bhanji and the family roles & reciprocal obligations are transposed on the non-kin relations (Lyon, 2002:1). To be precise, the ingrained principles of kin relations like intervention, indebtedness, loyalty and reciprocation influence human interaction and integration in all domains of life (Lyon, 2002:1-2). In this regard Lyon (2002) contends that "Pakistanis employ very fundamental-role relationships which are learnt in the security of kin groups to deal with situations in which there is no market, political or other structural security"(p. 228). Through field work, the researchers will explore the role of well-connected human resources in uplifting a venture into a full-fledged corporation.

3. Research Methodology

To effectively explore the formation and function of connected human resources in contemporary organizations in Pakistan, the case study method was selected as the most effective approach to understand this complex social phenomenon (Yin, 2003:2). This method was selected for this research because it facilitates researchers in gathering a holistic and meaningful insight of real-life events like organizational and managerial processes. Actually, organizations represent a very intricate situation for human behavior and case study appears to be the ideal strategy to explore the prevailing phenomenon in the studied organization (Yin, 2003). In line with this perspective, a medical corporation in the capital city of Pakistan was selected as the research locale. There were three main reasons to choose this organization as a research target. First, it was launched in the early 1990s, when the government of Pakistan launched a comprehensive program of de-regulation to foster a climate favorable for private investment in Pakistan (Asian Development Bank, 1998). Second, its modern management techniques like ISO 9000 and HRM practices since 1994 have

made it a relevant locale for this research. Last, a culturally diverse work force and clientele also attracted the interest of the research to select it as a research target. The first author conducted field work in this organization for almost two years. Multiple research methods like in-depth interviews, key informants, case studies, and document analysis were used to get an in-depth understanding of organizational phenomena as recommended by various researchers (Aycan et al., 2000; Cassell and Symon, 1994; D'Iribarne, 1997; Forster, 1994; Marshall, 1994; Mayer and Tuma, 1990; Punnett and Shenkar, 1995). The interviews were administered in Urdu and Punjabi languages. Case studies, personal as well as situational, were also carried out to cultivate an in-depth insight of the issue at hand. To gather the formal stance of the management, document analysis was additionally performed. The documents like annual reports, mini-mag, organization news, website and HR manual were considered for this purpose. The qualitative content analysis as proposed by Leedy and Ormrod (2001) was used to process field data and compile results. In this regard the data, at the first level, was synthesized by forming matrices to develop themes from the document analysis and in-depth interviews as suggested by Strauss and Corbin (1998). At the second level, content was analyzed in a consistent manner with reference to the history and the context of the firm.

4. Field Data and Analysis

The field data has revealed that the idea of developing an international standard medical facility in Pakistan was conceived in New York, USA in the mid of 1985. It was gathered from the document analysis that a group of close friends, who was doing their medical studies, initiated this idea. The field data has further revealed that the hospital sponsors kept expanding from all across the globe, however interestingly all these sponsors were from the personal networks (relatives, friends, and colleagues) of the five

founding members. As shared by a key informant in the senior management (member of pioneer work team) that these sponsors offered different amounts of financial resources depending upon the nature of the relationships (with the pioneer entrepreneurs on the behalf of whom they gave money) and based on the model of Neondra (money offered as gift on the occasion of marriage but actually reciprocal in nature). It was shared that the close friends or relatives with Pakki Vartan Bhanji (strong obligations) granted more money as compared to distant relatives and friends upholding Katchi-Vartan-Bhanji (feeble obligations). The document analysis revealed that the number of sponsors had crossed 400 plus sponsors with equity of five million by the time of this hospital's opening on June 26, 1993. It was uncovered by the field data that all the financial and material resources were generated and mobilized on the personal level; and a public limited medical organization equipped with modern technology was initiated on social obligations maintained among friends and relatives. The document analysis has figured out that adequate financial resources (collected from social networks) enabled the management to establish block-A of the hospital with a five-level structure, along with a deck slab area and a mosque; and the hospital was ready to take its first patient on June 26, 1993. At the time of this research, the hospital comprising of blocks A, B, C, D, E, G and H was efficiently functioning; and the hospital which started with eight consultants in seven specialties have been (at the time of this research) progressed to more than 120 highly qualified consultants in almost all specialties.

a. Founding Members

From the field data, the researchers have figured out that the outstanding task of developing an international standard hospital privately has been accomplished successfully with the help of the dedicated pioneer team of experts, managers, and workers. It was informed by a key informant in

the senior management that these professionals were gathered from within as well as outside the country to develop a hardworking and loyal team to effectively achieve the target of managing a private hospital in the capital city, where some good government hospitals were already offering medical services. The field data figured out that this hospital was designed to target the elite class in the capital city in particular and all over Pakistan in general. Furthermore, it was gathered from the field that most of the pioneer professionals who joined the hospital were Pakistanis and they were from the personal social networks of the founding members. It was informed by the key informants in the senior management that the founding members personally requested these professionals to join the hospital and helped them in developing a public service project. Furthermore, some of these professionals were well settled in the foreign countries that joined the firm because they were highly obliged and could not deny the request (Mang) of the founding members. The field data has also highlighted that a trustworthy team of closely related workers was developed to run this firm.

The research data has identified three main figures in the firm, Dr. Rehman (medical director), Shah Sahib (senior manager finance) and Adil Ch. (chief operating officer). The field data points to these persons as the main power centers around which people gathered. In this way, three main employee social networks (alliances) prevail in the firm. It was gathered from the document analysis and first-hand data that Dr. Rehman was one of the pioneers and a permanent member of the hospital's board of directors whereas Shah Sahib was with the firm for more than two decades. However, Adil Ch. worked as the chief operating officer (COO), a contractual post, though being operational manager directly involved in the employees' issues. To elaborate on how employees formed

their social network in the firm, we would like to share the statement of one of the key-informants, before the joining of Adil Ch., "this firm felt like ABC (village of Shah sahib), but after his joining it has transformed into XYZ (native city of Adil Ch.)." This statement highlights that before the joining of the present COO (at the time of this research) most of the employees were from the native area of Shah sahib (senior manager finance) but later most of the employees were hired from the native region of COO. The field data has uncovered that despite the implementation of human resource management practices, employee referrals were a visible feature of the firm. Senior management, as uncovered by the field data, had a strong influence on selection and compensation practices. The field data has also revealed that whenever a supervisor/head of the department was assigned a job, they would like to work with their own loyal team. To clarify this point, we would like to share the case of the COO who did not join the firm alone but joined with the group of various level professionals (doctors, nurses, and others). It was informed during the field that at the time of joining, a free hand was given to the COO so that he could develop his own team to effectively launch a successful improvement plan in the firm. As a result, he hired a lot of people from his close personal network. Consistently, the field data has clearly revealed that most of the employees had reciprocal relationships with some employees before their employment in the firm.

Additionally, the data has disclosed that these respondents managed to get jobs with the help of their relatives or friends in the firm. This was witnessed in the field that those who did not have any acquaintances among the employees in the firm faced serious problems in the process of organizational adaptation and adjustment. In such a situation, these employees invested reasonable efforts to develop reciprocal relationships with

their colleagues and immediate seniors; interestingly kin-roles were transposed to develop close and intimate relationships. In this way they managed to become part of some employee social network and in-turn, these members were supported by the coworkers, though the level of the support varied in accordance with the duration of relationship and loyalty offered.

The field data further revealed that employees took more responsibilities, stayed for longer working hours, worked at less pay but stuck with their mentors in hard times and even performed their personal tasks in order to win the confidence of their mentors. In this way, the field data uncovered the significant role of social networks in the development of loyal and cohesive work teams; however, the workers exhibited more loyalty to their mentors than the organization and its system. In the field, the first author witnessed sustainable social expectations and mutual bindings between the workers and their supervisors/managers; this phenomenon promoted paternalistic management style in the firm. It is also pointed out by the field data that employees not only cooperate but also compete with each other to secure prime position in the social circle as well as to grab the attention of their mentors. A similar trend is witnessed among the prevailing social networks to secure more authority and central position in the firm, as uncovered by the field data. Therefore, the mentors in position supported people from their social circle in the HRM practices of selection, job appraisal, promotion and compensation. For employees, as shared in the in-depth interviews, these social networks are the support system in professional as well as social domains in a society where government and legal support is not available.

b. **Social Network and Organizational functions**

The field data also uncovered the central role of the social networks in the organizational development and functioning of this firm. As mentioned earlier, employee sifarish (informal referrals) were a common feature of the firm. The reference persons (government officials, politicians and others) facilitate the management of the firm in the effective management of organizational functions in the elite oriented society and system of Pakistan in return for the employment of their referrals. For example, the senior manager of the department of patient coordination revealed that timely release of payments from various government departments was impossible without personal penetration which was managed through various connections with government employees. Similarly, a variety of other organizational processes like procurement, import of medical machinery and other critical activities were actualized with the help of social networks. The field data highlighted that the founding members who were actually leading this firm (at the time of this research) maintained strong connections within as well as outside the country, with the medical professional as well as technocrats, within media circle as well as in the government machinery; and they not only actualized this firm with the help of these connections but they were successfully transformed it into a functioning corporation in the capital city of Pakistan.

5. **Conclusion and Implications**

One of the key findings and insights from this research is that well-connected human resources work as a pivotal factor in the development of the corporation under study. The qualitative in-depth data revealed the complex relationship between the various actors in the formation and execution of a social network, and uncovered the significance of social networks for organizations, management and employees - a phenomenon that has been found in other countries such as Russia (Butler & Purchase, 2004). The research results

have supported the phenomenon of social bonds that existed among Pakistani employees and between/among employee and employer as pointed out by Saher & Mayrhofer (2014), Khilji (2003) and Lyon (2002) which endorsed 'patron-portege' relationships between/among workers-supervisors which consequently promote paternalistic management styles in firms. The rare in-depth field data revealed that the mechanism of mobilizing material and human resources to develop and successfully manage this corporation through the indigenous social relation institution of VB -Neondra (offerings of goods and services) and Mang (demands of goods and services). Finally, this research has established that human resources connected through VB contributed to the initiation of a venture in Pakistan that later grew into a well-known corporation. We did not extend our study to foreign organizations because it was beyond the framework of this research. Nonetheless, contemporary research results have revealed that practices of foreign companies extend more similarities with local organizations rather than the organizations of home countries (Khilji, 2003). Further research can explore if and how indigenous social networks (e.g. VB) process and influence multinational companies working in Pakistan. Last but not the least, this paper can be helpful in extending rare insight to national as well as international managers to comprehend the complexities of managing a successful business in Pakistan.

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