Transcending homophily: How entrepreneurs navigate institutional change in socially contested environments

ABSTRACT

Many entrepreneurs operate within settings characterized by ethnic fragmentation. In these socially contested environments, radical institutional change would be expected to lead to an increase in ethnic clustering because people tend to connect with similar others when facing uncertainty. However, in our inductive study on the networking behavior of entrepreneurs in the context of a major institutional change in an ethnically fragmented society (Kenya), entrepreneurs responded by using practices such as ethnic hedging. We contribute the notion of transcending homophily, showing how (and why) under conditions of institutional change in socially contested environments entrepreneurs navigate their networks beyond close-knit groups.
INTRODUCTION

Emerging economies are often characterized by volatile formal institutions (Ahlstrom & Bruton, 2006; Meyer, 2001; Peng, 2000). In settings of weak or changing formal institutions, social networks often serve as major means for trustworthy coordination and behavior (Ahlstrom & Bruton, 2006; Hoang & Antoncic, 2003; Peng, 2003). Social networks facilitate access to information, opportunities, and resources (Khavul, Bruton, & Wood, 2009; Kotha & George, 2012), and help overcome the lack of reliable formal institutional arrangements (Batjargal & Liu, 2004; Pen, 2000). Networks are particularly relevant to entrepreneurs in emerging economies, who tend to rely on kinship ties for resource acquisition and venture development (Chrisman, Chua, & Steier, 2005; Davidsson & Honig, 2003; Khayesi & George, 2011). Kinship ties primarily refer to relationships by blood and marriage, but in many societies, they encompass whole ethnic groups such as tribes (Mbiti, 1969; Yenkey, 2015).

The network literature has used the concept of homophily to describe the tendency of people to bond with “people like them,” usually related to social class, gender, or ethnicity (Marsden, 1988; McPherson, Smith-Lovin, & Cook, 2001). This can be explained by individuals’ preference for association with peers who are similar to them (Marsden, 1988; McPherson, Smith-Lovin, & Cook, 2001; Reagans, 2011). However, an individual’s attraction to and influence by homophilous peers is not only linked to patterns of social cohesion and resource access, but also to fragmentation because it can limit the willingness to share information or opportunities with diverse others (Ingram, & Morris, 2007; Lamont & Molnar 2002; Rao, Greve, & Davis 2001). Homophilous networks can constrain social and economic activities due to over-embeddedness (Adler & Kwon, 2002; Granovetter, 1985), parochialism (Meagher, 2005), and cognitive and relational lock-in (Gargiulo & Benassi, 1999; Uzzi, 1997).

Institutional change can have a major effect on the (networking) behavior of entrepreneurs because wide-ranging changes often lead to real or perceived uncertainty (Edelman & Yli-Renko, 2010; Khanna & Palepu, 2010; Mair & Martí, 2009; Stephan, Uhlander, & Stride, 2015). This is particularly salient in socially contested environments—contexts characterized by social friction, such as ethnically, politically, or religiously fragmented societies (Yenkey, 2015). However, our collective understanding of

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1 In this paper, we define institutions as humanly devised constraints that structure economic, political, and social interaction (North, 1990).
how entrepreneurs in socially contested environments are affected by and respond to institutional change is limited. More specifically, we know little about how entrepreneurs develop their relationships—their *networking behavior*—to navigate institutional change in these contexts (Barkema et al., 2015; Yenkey, 2015).

Our initial observations of entrepreneurs encountering a major institutional change in an ethnically fragmented context (Kenya) revealed a theoretical puzzle. Facing the uncertainty (and potential opportunities and constraints) induced by the decentralization of government (“devolution”), the entrepreneurs hedged, reframed, and bridged a variety of ethnic networks. This is in contrast to expectations in the network literature, which predicts that with increased uncertainty, social actors turn to close, in-group contacts, and that relationships become increasingly localized and clustered (see, e.g., Moody, 2001; Reagans, 2011; Rogers, 2003; Zeng & Xie, 2008; Zucker, 1986). In a context in which ethnicity is paramount, we would thus have expected a reinforcement of ethnic identities and a related deepening of intra-ethnic ties—for example, via the increased engagement of same-tribe government officials. Intrigued by this puzzle, we ask: *How do entrepreneurs in ethnically fragmented societies develop their networks in the face of institutional change?*

This question is theoretically important because the overarching contextual phenomena (ethnic segmentation or intergroup political differences) are commonly found across countries and contexts (Alesina & La Ferrara, 2005; Yenkey, 2015), and “studying why homophily leads to segmentation and how to break the pattern in the context of a developing country can enrich this line of research without sacrificing generalizability” (Yenkey, 2015:588f.). It is also practically relevant because many entrepreneurs operate within settings characterized by ethnic diversity (Khayesi et al., 2014).

To detect underlying patterns, we used an inductive qualitative research approach (Flick, 2009), and over the period of 3.5 years, we collected data of IT firms in Kenya. We selected Kenya because it is an ethnically fragmented country with relatively weak and frequently changing formal institutions (World Bank, 2009; Yenkey, 2015). The ethnically motivated post-election violence in 2007/2008 and the subsequent institutional change—devolution of government—provided an intriguing context for our research (see Yenkey, 2017). The government ceded control to local counties in a number of areas,
particularly those related to local revenue collection and purchasing decisions (Mitullah, 2013; Njuguna, 2016). However, county governments re-ignited ethnic consciousness because of the perception that county resources belonged to (ethnic) communities living in that region (own interviews; Yenkey, 2017).² Kenya thus provided an intriguing setting to study entrepreneurs’ network behavior in the context of institutional change in an ethnically fragmented society.

Our findings point to two types of network responses: leveraging homophily and transcending homophily. The entrepreneurs in our study leveraged same-tribe ties pragmatically. However, in their quest to circumvent potential constraints and get access to opportunities, information, and new markets, they surprisingly also transcended homophily, and we identified overcoming ethnic boundaries and ethnic hedging as two underlying practices. Previous experience with inter-group ties emerged as potential moderator. Based on these findings, our study offers three theoretical contributions.

First, we present a boundary condition of network theory, particularly in relationship to research on homophily. Previous research has shown that with increasing uncertainty, the influence of culturally similar peers tends to become increasingly important (Rogers, 2003; Zucker, 1986; also see Yenkey, 2015). Thus, enterprises would have been expected to develop ties with same-ethnic contacts (e.g., in councils dominated by individuals from the same tribe). However, for pragmatic and ideological reasons, entrepreneurs in our study developed cross-ethnic ties. We contribute the notion of transcending homophily, capturing how entrepreneurs under the condition of institutional change in an ethnically fragmented society use ethnic hedging and overcoming ethnic boundaries to overcome potential constraints. This contributes to elucidating the black box concerning whether and how individuals transcend group identities (Abascal & Baldassari, 2015) and adds to the emerging literature on (overcoming) the constraints of social networks (Barkema et al., 2015; Khayesi & George, 2011; Khayesi, George, & Antonakis, 2014).

Second, we contribute to the entrepreneurship literature a network response model related to institutional change in socially contested environments. In our study, two types of network behaviors emerged: leveraging ethnic homophily and transcending ethnic homophily. We contribute to a deeper

² Devolution thus served as a trigger of ethnic tensions that usually might have been latent but not expressed in the day-to-day life of Kenyans (Yenkey, 2017). Our interviews indicated that ethnic tensions were often incited by politicians.
understanding of the interaction between formal institutions and networks in socially contested environments—a context that despite its importance has been neglected in the literature (Yenkey, 2015). This builds on previous research analyzing entrepreneurial responses to institutional change (Bruton, Ahlstrom, & Li, 2010; Peng & Heath, 2006; Oliver, 1991) and fills a gap in our collective understanding of the interplay of networks and institutional change (see Batjargal et al., 2013; Phelps, Heidl, & Wadhwa, 2012).

Third, we identified a potential moderator between institutional change and transcending homophily: prior experience with inter-group ties. Our data pointed to the importance of predispositions such as inter-ethnic upbringing and inter-ethnic partnerships that potentially enable people to think and act beyond group boundaries. This builds on literature regarding reflexivity (e.g., Suddaby, Viale, & Gendron, 2016) and social skill (see Fligstein, 2001), and helps explain why entrepreneurs transcend homophily.

In all, we contribute the notion of transcending homophily, stipulating how (and why) under conditions of radical institutional change in socially contested environments actors can reframe or even rise above homophily.

THEORETICAL BACKGROUND

Institutional change and entrepreneurs' responses

Institutions are humanly devised constraints that structure political, economic, and social interaction (North, 1990).3 Weak formal institutions and changes in formal institutions can have a major effect on

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3 Institutions have often been categorized into formal and informal institutions (e.g., Chacar, Celo, & Hesterly, 2017; North, 1991). Formal institutions refer to written (codified) rules or constraints such as laws, constitutions, regulations, contracts, property rights, and formal agreements (North, 1991, 2005). Informal institutions, in contrast, refer to the typically unwritten yet socially shared constraints and rules such as customs, traditions, beliefs, sanctions, common values, and taboos that are often expected or taken for granted (North, 1991, 2005). Formal institutions (e.g., formal rules such as laws) and informal institutions (e.g., taken-for-granted rules and behaviors) are at the core of understanding enterprise development and performance (Dacin, Ventresca, & Beal, 1999). Due to the importance of institutions and their dynamics, recent research has urged exploration of firms’ behaviors in the context of institutional contexts rather than in a vacuum (Eden, 2010; Kostova, Roth, & Dacin, 2008). Scott (1995; 2005) categorized institutions into regulatory, normative, and cultural-cognitive elements. Regulatory institutions are the most formal. They represent the standards provided by formal rules such as laws. Normative institutions are less formal and define the actions and roles expected of individuals. They are often manifested through authority systems such as medical associations. Cultural-cognitive institutions refer to the taken-for-granted rules and beliefs that are established through social interactions. They guide behavior in more informal ways, and their principal means are a community’s culture (Scott, 1995; 2005). Following this understanding, the institutional change discussed in this paper (devolution) primarily represents a change in formal (regulatory) institutions, with severe implications for other areas.
entrepreneurs because they often lead to real or perceived uncertainty (Edelman & Yli-Renko, 2010; Khanna & Palepu, 2010; Liao & Gartner, 2006; Mair & Martí, 2009; Stephan, Uhlander, & Stride, 2015). This is particularly salient in emerging economies, in which fragile institutional environments, volatility, and unpredictability are common (Ahlstrom & Bruton, 2006; Meyer, 2001; Peng, 2000). Those economies often undergo institutional change, and it is paramount to understand its impact on and the responses of entrepreneurs (Dau, Chacar, Lyles, & Li, 2017).

The potentially detrimental effects of weak formal institutions—especially during periods of institutional change—put the spotlight on entrepreneurs' choices and responses to tackle the related uncertainty (Ahlstrom & Bruton, 2006; Tracey & Phillips, 2011). The literature has shown that responses of enterprises to institutional change can include loosening institutional attachments, changing domains, challenging and/or defying the sources of institutional pressure, importing influential constituents and stakeholders, and dominating institutional processes (Bruton & Ahlstrom, 2010; Oliver, 1991; Peng & Heath, 2006). Limited internal resources to mitigate the changes, a narrow client base, and reliance on a single service or product line increase the risk of fatal consequences (Davidsson & Gordon, 2016). For example, Bradley et al. (2011) showed that the propensity of independent businesses to exit increased by over 60% during drastic environmental change. Thus, weak and radically changing political institutions can restrict social activities that in turn form barriers to entrepreneurial opportunity identification (Batjargal et al., 2013; Tsai, 2007).

Because fragile and volatile formal institutions tend to result in distrust among social actors such as entrepreneurs, networks often serve as alternative ways for social support, trustworthy coordination and behavior, and access to resources (Ahlstrom & Bruton, 2006; Peng & Heath, 1996; Tsai, 2002; 2007; Zucker, 1986). To reduce costs such as transaction and opportunity costs, entrepreneurs often employ network-based strategies (Batjargal et al., 2013; Ostrom, 2005). However, despite their importance, we know surprisingly little about how actors actually navigate their networks in response to institutional change (Phelps et al., 2012).

**Social networks**
Social networks—sets of actors and the ties that connect them (Brass et al., 2004)—can facilitate or constrain social and economic activities (Adler & Kwon, 2002; Aldrich & Kim, 2007; Carpiano, 2006). Entrepreneurs overcome potentially adverse conditions by developing networks (Webb et al., 2009) because they can give access to information (Burt, 1997; Schutjens & Stam, 2003), social support (Bruderl & Preisendorfer, 1998; Provan & Milward, 2001), and tangible resources (Batjargal et al., 2013; Busch, 2014; Lin, 1999; Zane & De Carolis, 2016). Networks often also serve as protection against dysfunctional and ineffective institutions and as safety nets (Ostrom, 2005). However, research has increasingly exposed the potential negative effects of networks, including relational and cognitive lock-in (Gargiolo & Benassi, 1999; Maurer & Ebers, 2006). Thus, recent papers have investigated the conditions under which characteristics and outcomes of networks can vary, including temporal dynamics (e.g., Hallen & Eisenhardt, 2008; Vissa & Chacar, 2009), task characteristics (e.g., Hansen et al., 2001), and culture (Khayesi & George, 2011; Xiao & Tsui, 2007).

The network literature has used the concept of *homophily* to describe the tendency of people to associate and bond with people similar to them, whether similar in social class, gender, race, or ethnicity (Marsden, 1988; McPherson et al., 2001). This can be explained by individuals’ preference for association with peers who are “like them” (Marsden, 1988; McPherson, Smith-Lovin, & Cook, 2001; Reagans, 2011). Entrepreneurs often approach kinship members for resources and opportunities (Busch & Barkema, 2018; Khayesi et al., 2014; Stewart, 2003), particularly in those contexts in which kinship extends beyond the nuclear family, as in sub-Saharan Africa (Khavul et al., 2009; Mbiti, 1969; Smith, 2009; Yenkey, 2015). Given that the kinship system connects actors to several family members, it implies that “each individual is a brother or sister…or something else, to everybody else” (Mbiti, 1969: 104). This broad understanding of kinship results in large social networks comprised mostly of kin members, resulting in large ethnic groups such as tribes (Prince, 2008; Yenkey, 2015).

The term *ethnic group* refers to “a named social category of people based on perceptions of shared social experience or one's ancestors' experiences. Members of the ethnic group see themselves as sharing cultural traditions and history that distinguish them from other groups. Ethnic group identity

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4 Our focus is on the relationships with persons or businesses that influence the functioning of the entrepreneurial firm in one way or another (Maurer & Ebers, 2006; Schutjens & Stam, 2003).
has a strong psychological or emotional component that divides the people of the world into opposing categories of ‘us’ and ‘them’” (People & Garrick, 2010: 389). Membership in ethnic groups plays a particularly important role in identity formation in contexts such as East Africa (Brewer, 1968). Shared identity creates mutual understanding and goodwill among members, which encourages mutual support and social exchange (Croppenzano & Mitchell, 2005).

However, an individual’s influence by and attraction to homophilous peers has not only been linked to patterns of social cohesion, but also to fragmentation (Blau, 1977). Social fragmentation has been discussed both with regard to repulsion from dissimilar others and to preference for similar others (Skvoretz, 2013). These socially constructed group identities often lead to multiple forms of segmentation and exclusion, including reduced willingness to share information from those diverse others or devaluing information received from them (Ingram & Morris, 2007; Lamont & Molnar, 2002; Rao, Greve, & Davis, 2001; also see McPherson, et al., 2001). It has been shown that inter-ethnic social and political tensions—common in socially contested contexts such as ethnically fragmented populations—reduce cooperation (Alesina & La Ferrara, 2005; Easterly & Levine, 1997).

Spatial proximity between two or more actors is a core determinant of their interaction because it provides the opportunity space to discover shared traits, which then potentially promotes social exchange (see Blau, 1977). However, physical proximity combined with social dissimilarity can lead to conflict and exclusion. Indeed, research has shown that diverse populations that are in close proximity to each other are more likely to form clusters based on their homophilous attributes (Moody, 2001; Reagans, 2011; Zeng & Xie, 2008). Thus, socially diverse populations can stimulate the formation of socially homogenous groups (Moody, 2001). And indeed, there is broad evidence that ethnic group members experience reduced social capital and increased isolation in more diverse communities (Marsden, 1988; McPherson et al., 2001; Reagans, 2011; Putnam, 2007; Yenkey, 2015).

Thus, research has suggested that ethnic groups tend to cluster (more) in diverse environments, and social network theories predict that relationships become increasingly localized and clustered in the context of uncertainty-enhancing change. This suggests that enterprises faced with uncertainty-enhancing (and a “diversifying”) institutional change in ethnically divided societies would orient
themselves towards their own ethnicity, and that ethnic-based cooperation would be enhanced. However, surprisingly, we found that the entrepreneurs in our study not only leveraged existing ethnic networks, but also, for the most part, extended their networks through practices that *transcended* (ethnic) homophily.

**METHODS**

Given the lack of collective knowledge about this setting, we used a qualitative, theory-building approach with a multiple case study design (Eisenhardt, 1989; Flick, 2009). Comparative case studies are particularly effective for detecting underlying patterns and mechanisms (Eisenhardt et al., 2016). As a country with relatively weak formal government institutions and recent institutional change in an ethnically fragmented context (Yenkey, 2015), as well as being a key hub for entrepreneurial activity in Africa (UNDP, 2013), Kenya provided a useful setting for our study.

**Research setting**

Since its conception, Kenya has suffered from inefficient government regulations and services and a lack of formal support structures (Hope, 2013; Yenkey, 2015). The implementation of the county government system—devolution—presented a major institutional change envisioned to improve the situation (World Bank, 2014).\(^5\) In pre-devolution Kenya, centralized institutions were associated with exclusion and marginalization of certain regions. The decentralization of government and redistribution of power to the local level were hailed as ways to make formal political-legal (and ultimately, economic) institutions more accessible to citizens and create a more nurturing environment for companies (World Bank, 2014).

The constitution took power away from the national government and created new bodies, including the Commission on Revenue Allocation, to lead a more transparent and objective process of deciding how to share resources. Former local municipality governments were assembled into 47 new

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\(^5\) Devolution is a common feature in many countries (Rodriguez-Pose & Gill, 2003). In the literature, the decentralization/centralization debate has been ongoing on different levels. For example, Andersson and Ostrom (2008) highlight the multi-level dynamics of policy reforms. On the organizational level, Pertusa-Ortega, Zaragoza-Sáez, and Claver-Cortés (2010) showed how centralization can have a negative influence on (knowledge) performance, while complexity can have a positive influence. Fredrickson (1986) discussed the interplay of centralization, formalization, and complexity with strategic decision processes and actions.
governments—the “counties,” which were led by county governors. The national government ceded functions such as maintenance of main roads, health care, and collection of local revenue to these counties. Bodies such as the auditor general’s office were established to oversee the counties and enhance accountability (Mitullah, 2013; Njuguna, 2016; The Constitution of Kenya, 2010). The constitution that paved the way for the county system was adopted in 2010; however, the bicameral system of government and the county system only came into force with the holding of the first election under the new constitutional dispensation in 2013 (Lakin & Mudida, 2015).

This institutional change happened in the context of an ethnically divided society. According to the Planning Ministry’s census in 2009, around 17% of the population were from the main tribe, the Kikuyu, who control the majority of economic and political institutions in Kenya. Two other large ethnic groups compete with the Kikuyu: the Kalenjin and the Luo. Throughout its short history—Kenya gained independence from Britain only in 1963—these three tribes have competed for public and private sector positions, which control access to resources that could be redistributed among their respective ethnic groups (Wrong, 2009; also see Yenkey, 2015). Yenkey (2015) reports on the Afrobarometer survey in 2005, in which 70% of respondents answered to the question “How much do you trust Kenyans from other ethnic groups?” with “Not at all” or “Just a little.” Posner (2004) rated the country as one of Africa’s most ethnically fragmented nations.

Thus, Kenya provided an intriguing context to study the networking behavior of entrepreneurs in the context of institutional change in an ethnically fragmented society.

**Sampling and data collection**

To allow for a valid comparison among cases, we focused on one sector (see Hallen & Eisenhardt, 2012) and decided on the ICT sector as an area in which relationships are particularly important given that decisions on digital infrastructure (e.g., of government institutions) have wide-ranging implications. The ICT sector is also at the core of the “Vision 2030”—the government’s plan to turn Kenya into a competitive middle-income country by 2030 (Source: “Vision 2030” documents; own interviews). We started by mapping the context based on information from public sources and internal databases (e.g., Strathmore Business School). To gain additional understanding about the context, we
interviewed six experts from local incubators and government bodies. We also read literature on the local entrepreneurial context (e.g., Ogbor, 2009) to identify the potential case companies.

We tapped into a broad range of networks to gain access to potential cases, including local business schools (University of Nairobi and Strathmore Business School) and incubators (iHub and NaiLab). To be able to compare and contrast, we selected the cases to be as similar as possible in as many respects as possible (Flick, 2009). All enterprises were located in the same country (Kenya), and had their headquarters in the same city (Nairobi). They were from the same sector (IT), performed similar activities (providing ICT services and digital infrastructure), were of the same nature (for-profit), and were founded before the start of the devolution process. Given our interest in entrepreneurial ventures, we selected founder-run companies (based on the classification of business founders as entrepreneurs; see Begley & Boyd, 1987) with a minimum of five employees and a maximum of 50 employees (this follows the accounting definition of “small enterprises”; see Companies House, 2014). Based on initial scoping and expert interviews, we initially shortlisted eight companies that fulfilled these criteria. We followed a purposive sampling logic (Flick, 2009), and based on considerations such as access to informants and relevance to our study, we dropped three of these ventures.

The remaining four ventures formed our sample (Garg & Eisenhardt, 2017; Maurer & Ebers, 2006). All ventures were based in Kenya’s capital, Nairobi, and employed between five and 30 people at the time of our study. All companies had active founders, with similar levels of education and socio-economic background (Flick, 2009). All companies were founded before 2013—that is, before the start of devolution—and all provided ICT services to businesses and the government. We covered the period from the organizations’ inception until February 2018, and we collected data over 3.5 years (from September 2014 to February 2018).

Given that in small entrepreneurial ventures the founders tend to be responsible for external tie development (see, e.g., Maurer & Ebers, 2006) and that in the context of sub-Saharan Africa, important relationships are rarely delegated to subordinates (Ogbor, 2009), our focus was on the ventures’ founders, who usually constituted the senior team (the “entrepreneurs”). Insights from our preliminary
interviews concurred with findings in the literature on business in sub-Saharan Africa (e.g., Ogbor, 2009; Vorobyov & York, 2017), namely that the founders were in charge of important external relationships such as with government officials. We thus conducted interviews with all active founders. Following the logic of theoretical sampling (Charmaz, 2006), we then spoke to other main protagonists who appeared relevant with regard to networks. The interviewees we identified via a “snowballing” approach (Morgan, 2008) included senior advisors and software leads. However, those discussions often did not lead to much relevant information beyond broader insights (particularly once our focus shifted toward ethnic networks). The following statement from the software lead at iPay, who is responsible for executing outside projects, illustrated this:

> From the point I come in, these kind of networks are usually already established. The foundation has already been done...so I have a contact I am going to deal with. So, I don’t have to look for a network...that is the senior management area. I go where I am required. Personally [if I was a founder]...it would be [more about] "Where you are from?"

The founders substantiated this impression—for example, the founder of Kikosi told us: “In relations with outside partners, I am the main link.” Still, we interviewed all members of the ventures’ senior management teams (at two of the companies, the senior management team was founder-only). We also interviewed stakeholders that had an understanding of the broader context of the ventures (e.g., government officials; ICT council members; see Table 1 for an overview).

Round 1 of our interviews focused on the nature of the institutional change and the general (network) responses of entrepreneurs. The initial interviews and discussion with local experts (e.g., team members of local incubation centers in Nairobi) and the literature on networks and institutions helped to frame the topic guide. Following Merton and Kendall (1946), to allow for retrospective inspection, we made explicit references to particular key events. Example questions included: What are the most important changes that you have observed in Kenya in the last few years?; What have been the implications of devolution on your business?; Which of these changes have been the most relevant for your business?; Has your company made any specific changes to respond? The questions to experts and general stakeholders (e.g., local academics) followed the same framing, but were formulated slightly different (e.g., Which of these changes has been most relevant for the IT
sector?). Our questions were semi-structured, theoretically sensitized by the literature, yet open enough to allow new ideas, concepts, and constructs to emerge (Flick, 2009).

What increasingly emerged from our data was the important role of ethnic networks. Thus, we revised our topic guide to reflect the emerging insights (Flick, 2009), and focused round two (early 2016) and round three (early 2018) of our data collection on ethnic networks. Building trust with study participants took time, particularly given the sensitivity of asking questions related to ethnicity in this socially contested context. We often needed to make several attempts to get an interviewee to discuss these issues. Following a theoretical sampling logic, we re-interviewed all founders, as well as other individuals who could give insights into ethnic networks. In total, we performed 32 interviews with 27 respondents.

The interviews were recorded and transcribed whenever possible. Following Yin (2003), we triangulated these interviews with archival data and internal documents to gain additional contextual understanding. In addition to company documents such as growth plans, we had access to internal databases (e.g., including an overview of ICT companies) of a local university and a local incubator. Due to strong relationships with local government officials, we received access to the internal development plans of all three counties in which the companies operated: Homa Bay, Nairobi, Taita. These documents detailed the counties’ long-term plans, as well as potential opportunities and constraints for entrepreneurs (e.g., planned investments into ICT infrastructure and services). These documents helped us to add contextual information. However, given the political nature of these documents, we treated those and other documents not as information containers, but rather as effective means for contextualization (Flick, 2009). We incentivized openness and tackled informant bias by promising confidentiality and asking “courtroom questions” that focused on factual accounts (Hallen & Eisenhardt, 2012). Our final sample consisted of four IT-companies that had their main operations in Kenya. Table 1 provides an overview.

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Data Analysis
To understand the nature of the institutional change and the related (networking) responses/behavior, we composed individual time accounts of the respective cases (Eisenhardt, 1989; Sonenshein, 2014). We then identified core concepts and emerging themes first within the individual cases and then across cases. First, we used in-vivo coding (Strauss and Corbin, 1990), i.e., the language used by the informants, whenever possible. If this was not possible, we used simple descriptive phrases (e.g., “county governments are tribal cocoons”). Second, we assembled those into second order (analytical) themes (e.g., “tribalization of counties”). Finally, we aggregated those into broader theoretical dimensions that formed the basis for our emergent framework (e.g., “reinforced ethnic divisions”) (Corley & Gioia, 2004; Gioia et al., 2013). We proceeded both theory- and data-driven, and the existing literature helped us imagine potential demarcations without imposing them (Flick, 2009). We used between-case analysis to detect similarities across cases (see Gehman et al., 2017) and employed replication logic to test emerging theoretical constructs and relationships (Flick, 2009). This allowed us to arrive at a more structured and comprehensive understanding of patterns related to the entrepreneurs’ networking behavior.

To tackle the challenge of potentially unlimited coding options, we used concepts from the literature to imagine potential demarcations without imposing them. When ethnic networks emerged as overarching topic across the cases, we started coding across related dimensions (e.g., “using first names only” (first order)> “overcoming ethnic boundaries” (second order)> “transcending ethnic homophily” (third order), and re-focused our paper around the related literature on networks. We concluded the process of data interpretation when we expected that additional coding would not lead to new insights (Eisenhardt, 1989).

Figure 1 shows how we moved from first order codes to our theoretical dimensions (Corley & Gioia, 2004; Gioia et al., 2013). Tables 2 and 3 illustrate representative quotes related to the emerging concepts (see Bingham et al., 2015; Gioia et al., 2013).

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Given this dynamic process of constant iteration, the two authors—one a scholar specializing in social networks, the other on local traditions and customs—consistently challenged each other and developed the codes in an interactive process. To improve accuracy, validity, and completeness, we discussed these preliminary findings with each other and with colleagues (Flick, 2009). We also performed member checks, wherein we presented two of the participating entrepreneurs with our data and findings to discuss resonance with their experiences. In addition, we discussed our findings with four experts from enterprises, incubators, and academia to improve the consistency and credibility of our findings (Flick, 2009).

FINDINGS

Our findings revealed the characteristics of the institutional change and its consequences, as well as the entrepreneurs’ related networking behavior. The institutional shock of devolution to counties led to both constraints and opportunities for the entrepreneurs in our study (source: internal county development plans of Nairobi, Taita, and Homa Bay; own interviews; see Appendix 1 for evidence). For example, the three counties in which the entrepreneurs operated in reserved large budgets for IT infrastructure, automation, and services—the core business of these entrepreneurs. The co-founder 1 of iPay observed:

“With the new constitutional dispensation…we have seen a lot of business opportunity….Because counties are looking to automate revenue collection, counties are looking to try and leverage technology to be able to meet their key performance indicators, to be able to meet their reporting requirements to central government.”

The founder of Kikosi highlighted the scope of emerging opportunities for his venture:

“Now they are 47 similar ministries across the country…So that means there are now 47 more opportunities you can tap into.”

Importantly, devolution increased the complexity of the environment in which IT services got delivered because the shift to counties as primary points of contact led to a shift from a single customer (central government) to multiple (county-level) customers. A senior advisor to Red Brick Africa described:

Before devolution, you would walk into one ministry, talk with one person, and then roll out something nationally. Now you have to walk into 47 offices, and then you
need to close the deal one by one. The politicians have been experts at creating frameworks, but not at implementing them.

In this context of a radical institutional change that led to both opportunities and constraints for the entrepreneurs in our study, *ethnic divisions* came to the fore across the country.

**Reinforced ethnic divisions**

The companies in our study operated in three counties: Nairobi (all four companies), Taita (iPay), and Homa Bay (Atos). While Nairobi was a relatively affluent and cosmopolitan county, Homa Bay and Taita were among the poorer rural counties (evidence: county development plans of Nairobi, Taita, Homa Bay; own interviews). Homa Bay, for example, came 38th out of 47 counties in an internal review of socio-economic parameters. Taita was run by officials from the Taita tribe, a small tribe with separatist tendencies, while Homa Bay was run by Luos. Nairobi was run by a mix of tribes (evidence: interviews with stakeholders including local government ministers).

Ethnic fragmentation based on association with tribes had always played a role in Kenya and was a daily reality for the entrepreneurs in our study. However, our data showed that as ethnic groups captured county governments, devolution reinforced ethnic divisions. Two themes emerged from our data that manifested this: *entrenched ethnic lines* and *tribalization of counties*.

*Entrenched ethnic lines.* The co-founder 1 of iPay illustrated how ethnic lines were reinforced via the institutional change:

> People are more willing to cut deals with people of their own tribes...especially [as] somebody in small business, you will really come across it very often. **[Devolution]** has completely entrenched [ethnic lines]. This is because people work with people they know....I would rather do business with someone I know, someone I can vouch for, than a complete stranger I have never heard of whose documents look pretty....Same thing happens in devolved environments....it all depends on the relationships. In a tribal society such as ours, that carries a lot of weight, people feel that **they will give the work to one of our own.** [emphasis added]

A local government worker stated simply: “If you want a job in this county, you need to be from their tribe”. And indeed, all founders discussed the fact that county officials tended to hire people from their own tribal networks. Devolution also led to a *tribalization of counties*.

*Tribalization of counties.* Devolution exacerbated ethnic fragmentation across the country.

Said the co-founder 1 of iPay:
Because of Kenya’s historical past and political past, the county governments are unfortunately for the most part tribal cocoons….many of those communities were disenfranchised, and many of them felt marginalized. For them, they said, “Now it’s our turn, it’s our way we want these resources”…It has been a double-edged sword.

The founder of Atos illustrated how contingent this phenomenon was upon the respective counties:

What we've done in this country is, we've just basically divided the counties according to the tribes. Except for…cosmopolitan areas like Nairobi, Mombasa and maybe Nakuru. All these other counties are basically just tribal divisions….If you go to Homa Bay…I did not meet anybody else who was not a Luo in that place….I've also seen the same thing at Kiambu County.

Enterprise activities in urban areas were less affected by tribal politics than those in rural areas:

In some places [like Nakuru]…there are many tribes around there…[and] for government to have an “all-inclusive government” is a challenge….if you are like…someone from another tribe, to get…a job where one tribe is more popular, it would be very hard for you. (Founder, Kikosi)

Thus, the institutional change reinforced (ethnic) divisions, particularly in more rural areas.

We define reinforced ethnic divisions as fortifying the tendency of ethnic fragmentation. Table 2 provides an overview of representative quotes.

| Insert Table 2 about here |

Emerging network responses

How did the entrepreneurs navigate their networks in the face of this institutional change? In their search for contract opportunities (source: county development plans; own interviews), the entrepreneurs in our study responded to these dynamics by developing their networks. The founder of Atos illustrated:

It's just being aggressive, networking, talking to as many people as possible. If anybody tells you they work at the county office, you get their business card, and you get their number. You call them, even for a social meet up. You find out what's happening at the county. For me, that has been it [to get county contracts].

Two major network responses emerged from our data: leveraging ethnic homophily and transcending ethnic homophily.
1) **Leveraging homophily.** Not surprisingly, entrepreneurs in our study leveraged their tribal networks wherever possible. Two sub-dimensions emerged from our data: *leveraging same-tribe relationships* and *signaling tribal affiliation*.

**Leveraging same-tribe relationships.** Even those without stronger previous government relationships were now able to directly connect with government, leveraging tribal affiliations:

Previously, very few of us had any connections with the government at all…but now because of devolution, all of us have relatives somewhere who are in a place of position of authority within the devolved government….it demystifies what the government is, and it makes it easier for you to access services and to get to know what’s going on….it sounds very nepotistic and selfish, but it’s a reality. Nowadays there are 47 governments running in this country. That’s a lot of pile that has come down. (Founder, Red Brick Africa).

The co-founder 1 of iPay illustrated:

In this country, it is very difficult to win a tender…fully by merit. Where due process was followed, that only happens when the tender is being funded by the World Bank, the IMF, or foreign donors. But where the county and central government are procuring, you will find that everyone will default to a survival mechanism where you try to build informal networks….ethnicity plays a part because of the emotional part that ethnicity gives. It is like an ”old boys network”….in our country, it is a little bit over-played and has turned into something negative.

**Signaling tribal affiliation.** One (implicit) practice that some entrepreneurs used was to signal tribal affiliation:

It is a bit nepotistic but it's sometimes good to show you are part of the community that is in the county government. (Founder, Red Brick Africa)

However, this practice was contested, and the entrepreneurs in our study did not go deeper into this question. The cofounder 1 of iPay told us:

"We have decided that we are going to run our business with ethics; ethics doesn’t mean that you sign a memorandum. Whereby you have been in business for a long time and you start asking yourself….‘When I go to these offices, must I have to speak my mother tongue to be able to show affiliation?’ I don’t like the case whereby I have to speak my mother tongue, but if that is what it takes, that is not too bad to show loyalty? For the same emotional connection. But I do not have that kind of loyalty to the same tribe."

Thus, we found only limited evidence for this sub-dimension—in contrast to *leveraging same-tribe relationships*, which could be observed across all companies (see Table 3).
Thus, all entrepreneurs leveraged same-tribe ties whenever possible, and some signaled tribal affiliations. In all, they leveraged (ethnic) homophily. We define leveraging homophily as developing or making use of contacts similar to one whenever needed.

2) Transcending homophily. Our data showed that the entrepreneurs in many cases transcended (ethnic) homophily. Two sub-dimensions emerged from our data: overcoming ethnic boundaries and ethnic hedging.

Overcoming ethnic boundaries. To defy the constraints of ethnic boundaries and open up new opportunities, the entrepreneurs developed networks that went beyond tribal demarcations toward communities of shared interest or faith. The founder of Red Brick Africa pointed out:

The community has been defined by ethnicity up until now, and we know that’s all by historical factors….[we are now] moving away from an ethnic basis to more of an economic basis, and more of a shared interest basis. For example, I am a church guy, and so I know a lot of my friends are people who share the common faith….And I know them as business people, I know what they do, so the next time I need something done, I can relate it….a lot of people who I knew in church would also give me referrals…because [they] know who you are and what you’re doing. Then you end up getting referrals from that social setting sort of like default.

Indeed, the entrepreneurs developed their ties beyond ethnic boundaries:

I have friends who are in the county government of Embu, I have friends in the county government in Mombasa. And these are people who are not in my ethnic community….it’s going to be about who you know personally, regardless of the ethnic background. (Founder, Red Brick Africa).

The co-founder 1 of iPay discussed how he formed a business network with people from different tribes, which in itself formed his own “tribe”:

We refer each other, give business opportunities to each other. [We] try to work together, support, and sometimes we meet just for social purposes. It is a tribe because we are like-minded.

The enterprises not only reframed homophily beyond ethnic boundaries, but at times even completely overcame it. The co-founder 2 of iPay discussed how he used tactics such as using first names (last names usually indicate the respective tribe):

I don’t really think about ethnic boundaries when forming business partnerships. It is not the first thing that comes to mind. To be honest though, after the happenings of last year’s general elections, it’s become a bit challenging. For instance, there are a number of social networks that I am in—e.g., WhatsApp—strictly for business. I started seeing some biases in these networks, for example, someone would be looking
for a caterer but would insist that they should come from a particular tribe. Because of this, **I have resorted to using my first name in most first-hand interactions, rather than my ethnic name.** [emphasis added]

The Co-founder 2 of iPay shared another strategy to overcome tribal boundaries by signaling his inter-tribal connectedness:

If I get into business with someone, say as I did with [my co-founder from another tribe], he has introduced me to people that he has done business with, and I have done the same for him….What I found helps people open up their networks to me, is I open up my networks to them. All meetings I have with my clients are at the hotel café [his co-founder owns the café], and so he will always see me with my clients, and I introduce him. The more I do this, the more the tribal and ethnic angles become invisible.

Thus, the entrepreneurs in our study tried to **overcome ethnic boundaries** by tactics such as using first names, moving towards communities of shared interests or faith, and signaling inter-tribal connectedness.

*Ethnic hedging*. The entrepreneurs also used the tribal affiliations of people close to them and developed cross-ethnic networks (e.g., cross-ethnic consortia). The co-founder 1 of iPay articulated the related challenge:

In our context, generally it [major factor] is ethnicity, unfortunately. In our networks, we try to at least have someone who can “play the ethnic part,” if called upon. Very unprofessional, true, but it works.

The founder of Kikosi—a Kikuyu—discussed how he hedged against not being from the same tribe as potential clients and other stakeholders by using the tribal affiliations of his romantic partner—a Kisii—whenever necessary:

If I am having a challenge in getting into the county that she [romantic partner] comes from, I can request my romantic partner who is from the same tribe to approach the county on my behalf, so that we are able to overcome the challenge.

The same was true for other people close to the entrepreneurs. The founder of Kikosi explained:

For example [if you were a good friend], maybe I know your wife, and I know [her tribal affiliation], so I use her networks to approach a particular company, a person in the institution who knows her—because her reference is as good as going to the bank.

Given the uncertainties of institutional change and county access, the entrepreneurs increasingly developed consortia across tribes to be able to tackle the changes:
We do not work alone…[teaming] up with people who have experience with the counties and favorability in the counties because, truth be told, counties come with other challenges such as nepotism, tribalism. You would find county X has all these companies, but if company X is one of us, or someone who is working there is one of us, so why should we give it to person Y, let’s give it to one of our own. That happens, it’s no secret. So it’s better to partner with company X that will get their foot in the door better than you. (Co-Founder 2, iPay; emphasis added)

This consortia-building allowed them to diversify and to get access to a broader range of officials. The co-founder 1 of iPay discussed his strategy:

We formed consortia. In different counties the question would be, "Who is the strongest partner?"…we have formed different networks, where as we speak we’ve taken a back seat and have primarily made them technology partner and let them handle the politics at the front.

Thus, entrepreneurs hedged by using tribal affiliations of those close to them (e.g., romantic or business partner)—a mechanism that we labelled ethnic hedging.

In all, the entrepreneurs in our study transcended homophily by overcoming ethnic boundaries and ethnic hedging (see Table 3). We define transcending homophily as developing or making use of contacts different to one when needed.

Our findings—particularly in follow-up interviews—also indicated what happened if these kinds of relationships were not established in response to devolution (“counterfactuals”). While the network responses above enabled entrepreneurs to get new contracts and sense new opportunities, the non-existence of those networks had the opposite effect. For example, the founder of Kikosi, who was used to dealing with the more “cosmopolitan” central government based in Nairobi rather than the new local government branches (i.e., counties) in the rural parts of the country, highlighted:

I try to interact with as many communities as possible, but I have found that people are tribal. For example, to get a business in the Western part of Kenya is quite difficult. It is like being shot in the foot at the first attempt….if you are a small company and are not known, it becomes difficult….A couple of years ago when we tried to penetrate into the county business, we had challenges because of the cronies…we have been trying to present ideas but the people there are not responsive….after pushing for two years….we pulled out of businesses [in many counties].

Prior experience with inter-group ties. This discussion only briefly touched on potential
reasons why entrepreneurs transcended ethnic homophily. These included pragmatic reasons (more diverse access to government officials, resources, and potential clients), as well as in some cases ideological reasons ("rising above it all"; "developing a business environment that works for everyone"; Co-founder 2, iPay). While it goes beyond the scope of this study, we found suggestive evidence regarding potential indicators of why the entrepreneurs in our study might have had a propensity to engage in cross-ethnic networks: inter-ethnic partnerships and inter-ethnic upbringing.

Regarding inter-ethnic partnerships, the co-founder 1 of iPay, for example, was from the Luo tribe, whereas his wife came from the Kikuyu tribe. His business partners were Luo and Embu. The co-founder 2 of iPay was Kikuyu, his partner Luo, and his business partners Luo and Kikuyu. The software lead at Atos was Kikuyu, his wife Kamba and Digo. Regarding inter-ethnic upbringing, the co-founder 1 of iPay told us about the dynamics:

How you do business has a lot to do with your values. I know people with single ethnic background, but by virtue of their past, have been brought up in Nairobi and they interact with others….the fact that we are in a melting pot, we go to the same schools, live in estates with different ethnic backgrounds. We are generally forced to appreciate and accommodate people….People from rural areas are culturally cocooned, like to hang out with their kind of people who speak their mother tongue….it is what they know, that is their social exposure and construct, how they were brought up. They are at ease at a place like this, where everyone is affiliated….urbanization just continues to break that down.

The co-founder 2 of iPay corroborated:

My family setting does not allow me to think in a tribal way. My daughters have both Kikuyu and Luo names. I am therefore pretty vocal against ethnic prejudices, even with people I do business with. My background has also allowed me to overcome those boundaries. I grew up in this city. My dad came to this city when he was five years old, and because of this I haven’t grown up to have any of these biases.

The software lead at Atos discussed:

I developed an open mind from interacting with people from different walks of life. I have been very fortunate so to speak, to have gone a very diverse secondary school, even on campus you get to mix with people from all walks of life who have no similar traits that you built in, and that helps…one understands that whoever that person is, is either coming from a different ethnic background.

Urbanization—and being raised in an urban environment—played a role:

Urbanization…the people we were dealing with were not necessarily born or bred in the counties. These are often people who lived in a cosmopolitan environment therefore they are de-ethnicized to a certain extent. Yes, they still have ethnic boundaries, but they
are able to understand, or exposed to the fact that for you to be able to get a job, you have to go beyond your ethnic person. (Co-founder 1, iPay)

Thus, the prior experience with inter-group ties, such as inter-ethnic upbringing and inter-ethnic partnerships, emerged as important reasons for why the entrepreneurs were ready to develop inter-group ties. We define prior experience with inter-group ties as previous exposure to groups other than one self’s own group—in this case, other tribes. While our data pointed towards these potential pre-dispositions, our findings are merely suggestive at this point, and follow-up research could dive deeper into the question of why some entrepreneurs might be more likely than others to transcend homophily.

Figure 2 shows the emerging conceptual model. The institutional change—devolution—reinforced existing ethnic divisions, a potential constraint for enterprises. However, given the potential opportunities in the counties, the entrepreneurs responded in two ways: leveraging homophily, and transcending homophily. Suggestive evidence points to the suggestion that transcending homophily might be moderated by previous experience with inter-group ties, and that these responses facilitate the exploitation of opportunities (here: contracts with counties).

DISCUSSION

Our study showed how (and why), in the context of institutional change in socially contested environments, entrepreneurs can transcend ethnic homophily. We make three theoretical contributions, which we discuss in more detail below.

I. Expanding the boundaries of network theory

First, we present a boundary condition of network theory, particularly in relationship to research on homophily. Previous research has shown that with increasing institutional uncertainty, the influence of culturally similar peers tends to become increasingly important (Rogers, 2003; Zucker, 1986; also see Yenkey, 2015). Research has stipulated that diverse populations that are in close proximity to each
other are more likely to form clusters based on their homophilous attributes (Moody, 2001; Reagans, 2011; Zeng & Xie, 2008). Given the primacy of ethnic ties in Kenya, this would have led us to believe that enterprises would relay back to their own ethnic groups (tribes). And indeed, the institutional change led to general reinforced homophily. However, while entrepreneurs did leverage same-ethnic ties (e.g., in councils dominated by individuals from the same tribe), entrepreneurs rethought on which dimensions to cluster—and if to cluster at all. They transcended (ethnic) homophily by overcoming ethnic boundaries and ethnic hedging.

In a socially contested context in which ethnicity is paramount (Kenya), this was intriguing. We know from the literature that shared identity can be derived from shared codes (Nahapiet & Ghoshal, 1998), bounded solidarity (Portes & Sensenbrenner, 1993), framing resonating messaging (Yenkey, 2015), or being part of similar professions (Maurer & Ebers, 2006). We build on this research, showing how entrepreneurs in socially contested environments leverage common denominators such as similar interests to reframe and even overcome (ethnic) homophily. We show how entrepreneurs developed meaningful spaces for increased cross-ethnic interaction (see Moody, 2001; Rydgren, Sofi, & Haellsten, 2013) and fill a gap in our collective understanding of how and why actors integrate with diverse others—and how to break dominating patterns of social organization (Yenkey, 2015).

By illustrating the constraints—and the potential transcending—of homophilous networks, we also synthesize two literatures that have often remained separated: those on benefits and constraints of networks (see, e.g., Adler & Kwon, 2002; Aldrich & Kim, 2007; Khayesi et al., 2014; Paquin & Howard-Grenville, 2012). Previous research in management has shown that intentional network management can help overcome constraints such as cognitive or relational lock-in via horizontal and vertical integration of relationship management (Maurer & Ebers, 2006). At the same time, research in sociology and development studies has uncovered simple network mechanisms such as accumulating non-sharable durables at the expense of shareable durables (Di Falco & Bulte, 2011) and cutting ties with members of the same group (Granovetter, 1995). However, these mechanisms are essentially about cutting or avoiding initial ties. We contend that in a socially contested context where particularly cohesive networks such as ethnic groups might be essential for survival (Yenkey,
2015), these simple coupling and decoupling mechanisms do not capture the complexity of actual networking strategies and behavior. We show how entrepreneurs navigate challenges when faced with uncertainty in a given institutional context and extend the literature by offering two concrete strategic options: transcending homophily and leveraging homophily. This extends research on social networks—which has focused on structural analysis—by providing an account of concrete network strategies in socially contested environments.

II. Network response model related to institutional change in socially contested environments

Second, we extend the entrepreneurship literature by proposing a network response model related to institutional change in socially contested environments, showing how enterprises in an ethnically fragmented society navigated their networks in the face of a major institutional change.

We know from previous research that weak political institutions can restrict social activities that in turn form barriers to entrepreneurial opportunity identification and development (Batjargal et al., 2013; Tsai, 2007) and that institutions impact the characteristics and potential outcomes of networks (Boettke & Coyne, 2009; Djankov, Qian, Roland, & Zhuravskaya, 2006). During periods of institutional change, firms' responses can take the form of active organizational resistance, passive responses, or proactive manipulation (Oliver, 1991). It has been shown that entrepreneurs can overcome adverse conditions by building networks because they allow access to non-redundant information, social support, and other resources (Batjargal, 2006; Webb et al., 2009). However, we know little about how entrepreneurs navigate their networks in response to institutional change—the dynamic interplay of formal institutions and network behavior of entrepreneurs has been under-theorized (Batjargal et al., 2013; Narooz & Child, 2017; Owen-Smith & Powell, 2008). Studies have focused on large firms (e.g., Child, Tse, & Rodrigues, 2013; Frynas, Pigman, & Mellahi, 2006), even though entrepreneurs are more likely to depend on networks, particularly in contexts in which their institutional access is uncertain (Child & Rodrigues, 2011; Narooz & Child, 2017).

We contribute to the literature an understanding of how a radical institutional change reinforced ethnic divisions (as ethnic groups captured county governments), constraining
entrepreneurial activity on some levels while opening up opportunities on others. We show how ICT ventures—innovative businesses—responded by finding ways to transcend ethnic networks. In our study, entrepreneurs adjusted by orchestrating their networks, which helped mitigate the effects of uncertainty-inducing institutional change (decentralization of government). Two responses emerged: leveraging homophily (sub-dimensions: leveraging same-tribe relationships and signaling tribal affiliation) and transcending homophily (sub-dimensions: ethnic hedging and overcoming homophily). Thus, our study contributes to a deeper understanding of the interaction between institutional change and networks (Batjargal et al., 2013; Ostrom & Basurto, 2011).

III. Potential moderator between institutional change and transcending homophily

Our data also pointed toward a potential moderator between institutional change in socially contested environments and transcending homophily: prior experience with inter-group ties. Factors related to inter-ethnic partnerships and inter-ethnic upbringing might help explain why the entrepreneurs were open to transcending their (ethnic) networks—and potentially the different degrees of doing so. The co-founder 1 of iPay, for example, was from the Luo tribe, and his wife was Kikuyu. His business partners were Luo and Embu. The “trigger”—arising ethnic tensions related to devolution in a context in which (potential) ethnic conflicts were previously latent rather than enacted (Yenkey, 2015)—brought to the fore those potential inter-ethnic pre-dispositions.

While our data pointed toward these pre-dispositions, they are merely suggestive at this point. However, they might lead to important insights and build on important literature. For example, we know from the literature on reflexivity (e.g., Suddaby, Viale, & Gendron, 2016) that (and how) one’s institutional biography can increase reflexivity when it involves exposure to diverse institutional settings. One potential interpretation of our findings is that it is not the ties per se that predict future ties, but the reflexivity that enables people to think beyond their ethnic group boundaries and become open to multiple bases for relationships. People exposed to multiple institutional settings are often able to pick and chose among them—and so have the social skill to be able to adapt. Further research could build on these important insights and relate them to transcending homophily. It could also relate it to
research that showed that if one becomes accustomed to multiple ways of being and doing things, one has more flexibility in response to triggers or contradictions and can reinterpret disruptions for others in ways that privilege oneself (Beckert, 1999; Fligstein, 2001). Thus, further research could dive deeper into these potential antecedents and moderators of transcending homophily.

Practical implications
In addition to these theoretical implications, our study has several practical implications. Networks are particularly important in contexts in which formal institutions are weak and/or in flux (Ahlstrom & Bruton, 2006; George et al., 2012). We discussed concrete practices that enterprises can employ to navigate their networks in ethnically fragmented societies. Approaches such as ethnic hedging or overcoming homophily will likely be useful for entrepreneurs operating in socially contested environments (such as ethnically or politically fragmented societies), as well as multinational businesses aiming to expand into those contexts.

Furthermore, we show how ethnic divisions in ethnically fragmented societies can be overcome by entrepreneurial agency. We contribute to the question of how we can better resolve inter-ethnic conflict (see, e.g., Easterly, 2001) and show that supporting entrepreneurial initiatives could be an effective means to bridge ethnic divides. This will likely be helpful for support organizations operating in these contexts, such as international organizations.

Last but not least, in a time where entrepreneurship and “entrepreneurial ecosystems” are high on the agenda of policy-makers and incubators (Davidsson & Gordon, 2016), it appears important that a more holistic understanding of entrepreneurial venturing during institutional change—particularly in ethnically fragmented societies—is being developed. Our paper indicates potential foci of training programs for upcoming entrepreneurs—such as focusing on developing experiences and (social) skills (Fligstein, 2001) related to bridging previously disconnected groups.

Limitations and further research
A key challenge of qualitative papers, ours included, is the potentially limited transferability of findings. Kenya is a relatively novel setting for entrepreneurship and network theory, but we expect
our findings to be transferable to other socially contested environments. The overarching contextual phenomena (e.g., ethnic segmentation or intergroup political differences) are commonly found across countries and contexts (Yenkey, 2015), both in developing and developed countries (Alesina & La Ferrara, 2005). The insights from this study are thus theoretically important and practically relevant beyond ethnically fragmented contexts in emerging economies because ethnic groups tend to function similarly to close-knit social groups in developed countries (Yenkey, 2015). In a time of increasing ethnic tensions around the world, elucidating mechanisms behind these appears timely and important (Yenkey, 2015; also see Alesina & Zhuravskaya, 2011; Easterly and Levine 1997).

Further research could test the emerging networking behaviors in other contexts, for example, political partisanship in the US. Indeed, there is a clear need to understand how networking behavior plays out in the context of ethnically or politically divided societies. Researchers could look at ethnic communities within countries such as Germany, the UK, or the US (e.g., with regard to migrant communities) and across sub-Saharan Africa (e.g., based on tribes). Researchers could employ an inductive case study approach to investigate what drives changes in the related network structures and governance mechanisms, as well as how these network elements might change over time. Under what conditions are entrepreneurs able to orchestrate inter-ethnicity networks? What different factors determine the efficacy of network orchestration in these contexts? Why are they (not) effective? How could new technologies such as social media be used to map and enforce network constellations? What is the role of entrepreneurs’ previous experience, education, personality type, network composition, tribal affiliations, and skillsets in relationship to social networks?

Furthermore, we focused on founders and core leadership team as the “spears” for developing new relationships. Whenever we interviewed non-founders, we came across the notion that they were often operating on “pragmatic execution.” Further research could use “projects” as units of analysis and look at related activities longitudinally (e.g., from the initial contact to the finishing of the project) and establish a timeline of when pragmatism starts to trump ethnicity. For example, a hunch might be that once the core team “closed” a contract—and thus overcame the “tribal hurdle”—the actual implementation might be less fraught with ethnic obstacles and more focused on execution.
Moreover, at present, there is still little (novel) management theory on non-Western settings, especially with regard to (in-)effective networks in emerging country settings (George et al., 2016). This opens up a number of intriguing avenues for further research. Emerging countries on the African continent, for example, often manifest uncertainty due to relatively fragile formal institutional frameworks, often forcing entrepreneurs to rely on informal networks (Barkema et al., 2015; Khayesi & George, 2011). This could provide a fertile context to explore how networks develop.

Last but not least, while the majority of the enterprises transcended ethnic homophily, they did so to differing degrees. What are the predictors of this? Much work needs to be done on potential antecedents and moderators of transcending homophily, as well as its potential outcomes. Ours was not a study on causation, and while we have evidence regarding potential moderators (prior experience with inter-group ties) and outcomes (here: county contracts), these are suggestive and could benefit from further research. Researchers could look into the surrounding dynamics and develop hypotheses related to potential antecedents and outcomes. There might also be differences depending on the size of the respective tribe: do members of large tribes (e.g., Luo or Kikuyu) need cross-ethnic networks as much as those of smaller tribes (who presumably have less intra-tribal contacts at fewer counties)?

In this paper, we analyzed four ICT enterprises in the context of institutional change in a socially contested environment. We observed intriguing network behaviors in relationship to an uncertainty-inducing institutional change—the decentralization of government in Kenya. We contribute the notion of transcending homophily, stipulating how (and why) under conditions of uncertainty-inducing institutional change in a socially contested environment, entrepreneurs overcome ethnic boundaries. We hope that our research might inspire further work in this intriguing empirical setting.
REFERENCES


### Table 1. Overview

<table>
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<tr>
<th>Company name</th>
<th>HQ</th>
<th>Industry</th>
<th>Characteristics</th>
<th>Number of employees (incl. freelancers)</th>
<th>Founding</th>
<th>Informants</th>
<th>Additional data (per company)</th>
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<td>Nairobi</td>
<td>ICT</td>
<td>Providing organizations with ICT infrastructure</td>
<td>18</td>
<td>2005</td>
<td>Founder (2x); Software/Social Media Lead</td>
<td>On-site meetings; 23 pages of archival data</td>
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<td>2004</td>
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<td>2007</td>
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<td>2005</td>
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<td>On-site meetings; 21 pages of archival data</td>
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### Additional data (not company-specific):

Archival data: Internal "County Integrated Development Plans" (for the three counties: Homa Bay, Taita, and Nairobi); incubator database; university database; publicly available information

Interviews: 4 local incubation managers; 2 local academics; 1 former federal government minister (ICT); 1 county government minister; 1 local government worker; 4 local entrepreneurs; 2 investors; 2 members of ICT council
Table 2. Representative evidence

<table>
<thead>
<tr>
<th>QUOTES FOR REINFORCED ETHNIC DIVISIONS</th>
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<td><strong>Entrenched ethnic lines.</strong> &quot;If you want a job in this county, you need to be from their tribe.&quot; (Local government worker) &quot;[Devolution] has completely entrenched [ethnic lines]. This is because people work with people they know...in devolved environments, a lot of things have been localized, the people who would go for certain businesses, know the people who have been sent there. It all depends on the relationships. In a tribal society such as ours, that carries a lot of weight, people feel that they will give the work to one of our own. They say, why should they support someone else and we have all met the requirements. So that’s one very negative thing about devolution. Because it makes it harder, people will look for people they know.&quot; (Co-founder 1, iPay) &quot;There is a project that I carried out doing cabling for a 4-story building. Relations were very good. I started the work in December 2016, but there were a few delays here and there. We completed the job in May/June 2017. Initially, there were no issues. This was an NGO. After the August 8th elections, there were pending payments. Suddenly, a lot of requests started coming in of things not done, but when we go to check, the new demands are not per the initial specifications we had. Similar small things started to come up, which delayed the payment from coming in. We also started to observe a lot of in-fighting within the said NGO, with two ethnic camps within the organization. The employee in charge of processing payments did not process the payments of a few suppliers who had certain ethnic affiliations. The delays caused brought a mess for him, especially with credit lines with suppliers.&quot; (Co-Founder 2, iPay) &quot;They [county officials] hire people from their own network.&quot; (Founder, Atos)</td>
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<td><strong>Tribalization of counties.</strong> &quot;What we've done in this country is, we've just basically divided the counties according to the tribes. Except for...cosmopolitan areas like Nairobi, Mombasa, and maybe Nakuru. All these other counties are basically, they are just tribal divisions...If you go to Homa Bay, the entire staff are Luo...I did not meet anybody else who was not a Luo in that place...I've also seen the same thing at Kiambu County...[where] I used to work closely with the senator.” (Founder, Atos) “Nakuru, besides Nairobi, I think Nakuru is better. Mombasa is also better, Machakos. Those are the exceptions...those places also tend to be a little more cosmopolitan. But if you go to a county which does not have a major town to speak of, there's very little integration.&quot; (Founder, Atos) &quot;In some places [like Nakuru]...there are many tribes around there...[and] for government to have an “all-inclusive government” is a challenge...if you are like... someone from another tribe, to get...a job where one tribe is more popular, it would be very hard for you.” Founder, Red Brick Africa) &quot;You come to apply for a tender...which had already been decided seven months earlier...like my father tells me that 'every tender has a shareholder'...Any big government job has a shareholder...It is friendship, tribalism, and sometimes nepotism.&quot; (Founder, Kikosi) “[The different types of social networks at play in counties are] people from the same age bracket and mother tongue.&quot; (Head of software, iPay) &quot;[In terms of counties], if you look at Nairobi, we have people of different tribes as opposed to Mandera, where the majorities are the Somalis and people from the northern part of Kenya. I tend to think to think that in business, they tend to favor someone who is from that particular part of the country.&quot; (Head of Software, iPay) &quot;If it is a parastatal, you find that some tribes get more jobs. If you know someone, for example a procurement officer, and he knows that you are from a particular community, sometimes you get more jobs...tribal affiliation is very high in the counties.&quot; (Founder, Kikosi) &quot;Because of Kenya’s historical past and political past, the county governments are unfortunately for the most part tribal cocoons...many of those communities were disenfranchised, and many of them felt marginalized. For them, they said, ‘now it’s our turn, it’s our way we want these resources so that we can develop'...It has been a double-edged sword in that area.&quot; (Co-founder 1, iPay)</td>
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<tr>
<td>Company name</td>
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Table 3 (cont.). Representative evidence

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<tr>
<th>Kikosi</th>
<th>Leveraging same-tribe relationships. &quot;If I take places like Mandera, you would [see that] all the government maybe is from one tribe...so I had focused maybe where it’s cosmopolitan counties now.&quot; (Founder)</th>
<th>Overcoming ethnic boundaries.</th>
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<td></td>
<td>Signaling ethnic affiliation.</td>
<td>Ethnic hedging. &quot;If I am having a challenge in getting into the county she comes from, I can request my romantic partner who is from the same tribe to approach the county on my behalf so that we are able to overcome the challenge.&quot; (Founder) &quot;For example [if you were a good friend], maybe I know your wife, and I know [her tribal affiliation], so I use her networks to approach a particular company, a person in the institution who knows her—because her reference is as good as going to the bank.&quot; (Founder) &quot;Let me take a place like Nakuru or something, you’d find there are many tribes around there...so sometimes you would find [that] if a governor came from one side, maybe try to have more people from this tribe.&quot; (Founder)</td>
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| Red Brick Africa                | Leveraging same-tribe relationships. "Previously, very few of us had any connections with the government at all, personal connection, but now because of devolution, all of us have relatives somewhere who are in a place of position of authority within the devolved government...it demystifies what the government is, and it makes it easier for you to access services and to get to know what’s going on...it sounds very nepotistic and selfish, but it’s a reality. Nowadays there are 47 governments running in this country. That’s a lot of pile that has come down." (Founder) | Overcoming ethnic boundaries. "I have friends who are in the county government of Embu, I have friends in the county government in Mombasa. And these are people who are not in my ethnic community...it’s going to be about who you know personally, regardless of the ethnic background." (Founder) "The community has been defined by ethnicity up until now, and we know that’s all by historical factors... moving away from an ethnic basis to more of an economic basis, and more of a shared interest basis. For example, I am a church guy, and so I know a lot of my friends are people who we share the common faith...And I know them as business people, I know what they do, so the next time I need something done, I can relate it." (Founder) "A lot of people who I knew in church would also give me referrals...I tried sort of being very active about it and proactive and going to someone and saying, ‘You know, I am doing this thing, give a card, hook me up something,’ but I realized that was straying relationships. So eventually, what then happened, because guys know who you are and what you’re doing, then you end up getting referrals from that social setting sort of like default, because people would know who you are. But I think it was partly the fact that I was very active in that community." (Founder) |
|                                 | Signaling ethnic affiliation. "It is a bit nepotistic but it’s sometimes good to show you are part of the community that is in the county." (Founder) | Ethnic hedging. |
Figure 1. Data structure

First Order Concepts

- Devolution has entrenched ethnic lines
- Counting officials hire people from their own tribe
- County governments are tribal cocoons
- Counties were essentially divided along tribal lines
- Because of devolution all of us have relatives somewhere
- Having someone in the team who can play the ethnic card
- Speaking mother tongue if required
- Showing that part of the ethnic community
- Using first names only
- Moving beyond ethnicity towards communities of shared interest
- Using tribal affiliations of people such as the romantic partner
- Developing consortia across tribes
- Founders married to partner from other tribes
- Business partners from different tribes
- Going to school with people from different ethnic backgrounds
- Growing up with people from different tribes

Second Order Concepts

- Entrenched ethnic lines
- Tribalization of counties
- Leveraging same-tribe relationships
- Signaling ethnic affiliation
- Overcoming ethnic boundaries
- Ethnic hedging
- Inter-ethnic partnerships
- Inter-ethnic upbringing

Aggregate dimensions

- Reinforced ethnic divisions
- Leveraging homophily
- Transcending homophily
- Prior experience with inter-group ties
Limited evidence

Incentive to overcome these potential constraints: new opportunities

Figure 2. Conceptual model

**Context**

- Reinforced ethnic divisions*
  - Entrenched ethnic lines
  - Tribalization of counties

- Institutional change in socially contested environment

**Entrepreneurs’ networking responses**

- Contracts with counties
  - Overcoming ethnic boundaries
  - Ethnic hedging

- Networking responses
  - Leverage same-tribe relationships
  - Signaling tribal affiliation**

**Antecedent**

- Prior experience with inter-group ties
  - Inter-ethnic partnerships
  - Inter-ethnic upbringing

**Suggestive**

Context manifestation

Company response

Antecedent

* Incentive to overcome these potential constraints: new opportunities
** Limited evidence
|------------------------------|----------------------------------|----------------------------------|-----------------------------------------------|----------------------------------|
| "The counties have lots of budget for ICT. Like digital infrastructure. If you are an IT company in this country, now is an exciting time." (Former ICT minister) "It has been easier to engage with the public sector...suddenly, we have opportunities to replicate certain systems across the board. Instead of selling to central government, who normally would look at foreign companies...or extremely large local companies, we've been given an opportunity...That change of government structure has actually opened many doors." (Co-founder 1, iPay)  "We've been able to get some work in the counties, although it's not very different from dealing with Central government, [it's] even more challenging because our business is based here in Nairobi, which, was initially very easy, because you would not need to move anywhere because service would be provided here, you will do all your follow ups here but right now, for us...if I am going for work in a different county, I have to travel there, and travelling there means expenses...and then...when you are following up payments it’s not any faster...So in a nutshell, we have benefited, but not so much." (Co-founder 1, iPay)  "With the new constitutional dispensation...we have seen a lot of business opportunity...Because counties are looking to automate revenue collection, counties are looking to try and leverage technology to be able to meet their key performance indicators, to be able to meet their reporting requirements to central government." (Co-founder 1, iPay)  "Now they are 47 similar ministries across the country...So that means there are now 47 more opportunities you can tap into." (Founder, Kikosi)  "You can [now] go and talk to the Minister of Health in Homa Bay County...It’s a senior level official. And that person has a budget, has resources. If you need something done you can go to them, you’ll actually get the work done. You get connection. Before, that was not the case...you’d have to go through the Ministry of Health in Nairobi, and then be referred to...the health officer." (Founder, Red Brick Africa)  "Before devolution, some of the institutions that you had to do business with ‘government’ were opaque, they were unapproachable really...So it was very difficult to do business...because they would come down huddle on you...and even when you reached out to them, it was very difficult." (Co-founder 1, iPay)  "You’d find most jobs [written out by government], sometimes there's no way in this country where you bid for a job...[and] you are going to win that job, because that job has been planned before it was put up." (Founder, Kikosi)  "Benefiting from digital infrastructure. "You find that now they [central government] are trying to digitize everything...KRA is almost fully digital now...the current president and the people around him are very tech oriented, and that’s what’s driving this." (Founder, Red Brick Africa)  "It has, more opportunities for people [entrepreneurs like ours] to grow. There are people who never used to use computers, never. There was never a need, but now that they have to use computers, they must log in somewhere, they must do a lot of things online, and the offices have been equipped and empowered. Without devolution, they would not have all those things." (Co-founder 1, iPay)  "ICT firms are providers of technology, whether it’s you are providing payments...all those systems need to reside somewhere, so there are different ICT firms, companies that provide networking infrastructure. They’ve been able to provide fibre links to these counties, radio links to these counties. These counties need systems for revenue management. They need to sit somewhere, so companies that provide servers, companies that build data centers...It means that these companies are able to sell more of what their core competences are." (Co-founder 1, iPay)  "If [digitization] is also helping to eliminate corruption as well, because everything goes to a system so you can’t hide...that’s going to go a long way to making sure that all these small bribes that people pay every now and then are eliminated. ‘You have to get a receipt?’ – ‘Just go to the system...’ It’s good for our ICT companies." (Founder, Red Brick Africa)  "We used to go and spend endless hours queuing...[to] get licenses. Now it’s just available at the click of a button. You no longer have to face the frustrations of somebody sitting on your documents and you having to sit and try and find out how can I get these papers out, so that has gone." (Co-founder, iPay)  "The county offices tend to have less qualified and less experienced staff [than central government]...the people that you are supposed to be working with hand in hand, they don’t know half the stuff that you are talking about. The decision making process becomes very slow, and sometimes when they make the decision, it’s ill-advised...that’s a problem I never used to experience before. At least most IT professionals in central government have had a lot of experience and are highly qualified, because getting those jobs was much more competitive than at the county level...they’re getting people with very little experience to handle those positions." 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