

# Entrepreneur Networks



LM **THAPAR** School of  
Management  
new India starts here



- Abdul is very ambitious person and wants to expand his business.
- May be he is resourceful person but wants to utilize his resources optimally.

#### Resources :

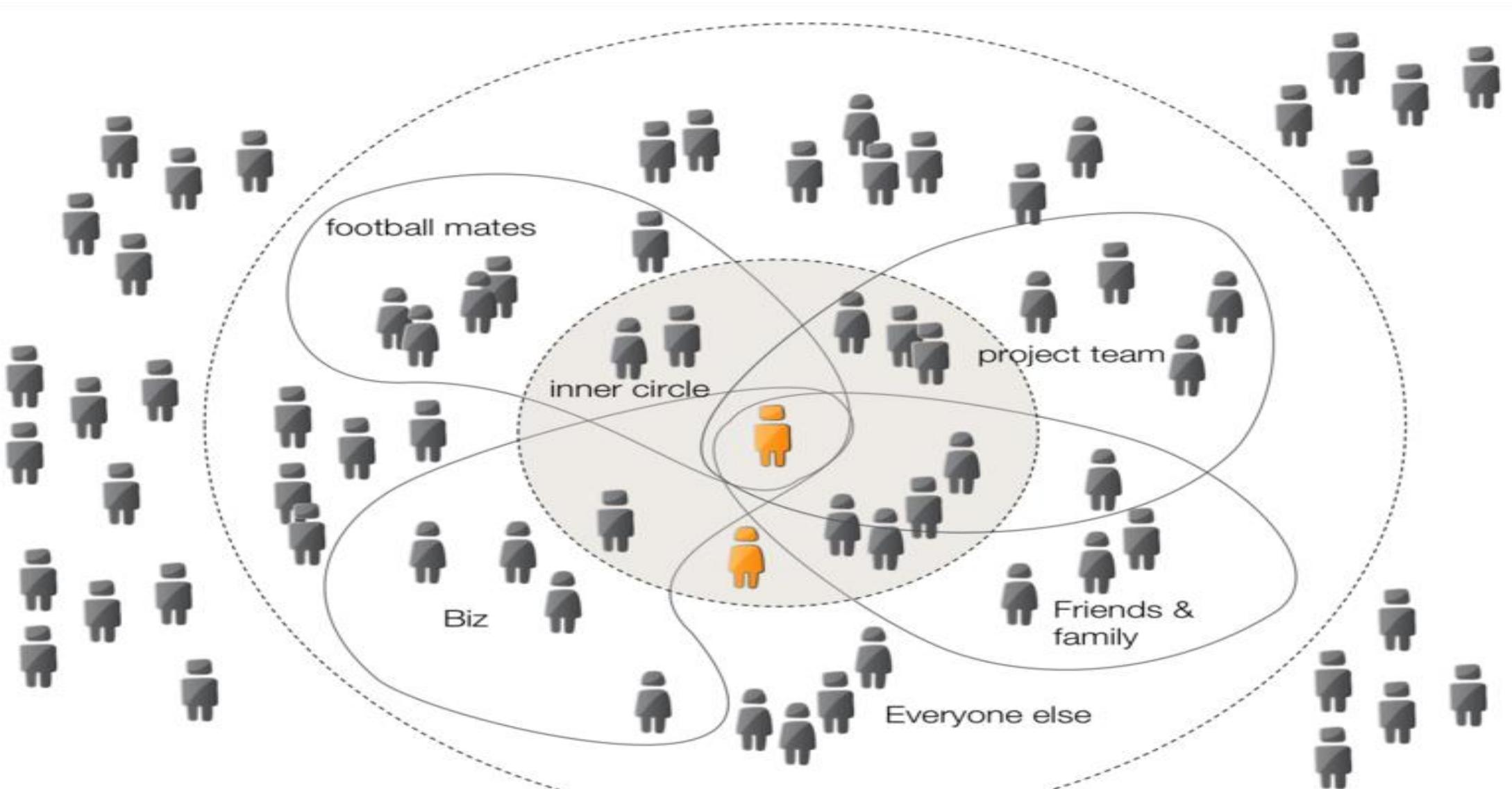
- Financial
- Technical
- Marketing
- Supplier
- Distributors

# NETWORK

- Entrepreneurial network is socioeconomic business process, offering different types of resources to start or improve entrepreneurial projects.
- In this process business people and entrepreneurs meet to:
  - form business relationship and
  - recognize, create, and act upon business opportunities,
  - share information and seek potential partners for ventures.

# Social Networks:

- The entrepreneur is embedded in a social network that plays a critical role in the entrepreneurial process (Aldrich and Zimmer, 1986).
- Social Networks are defined by a set of actors (Individual or organization) and a set of linkage between the actors ( Brass, 1992)



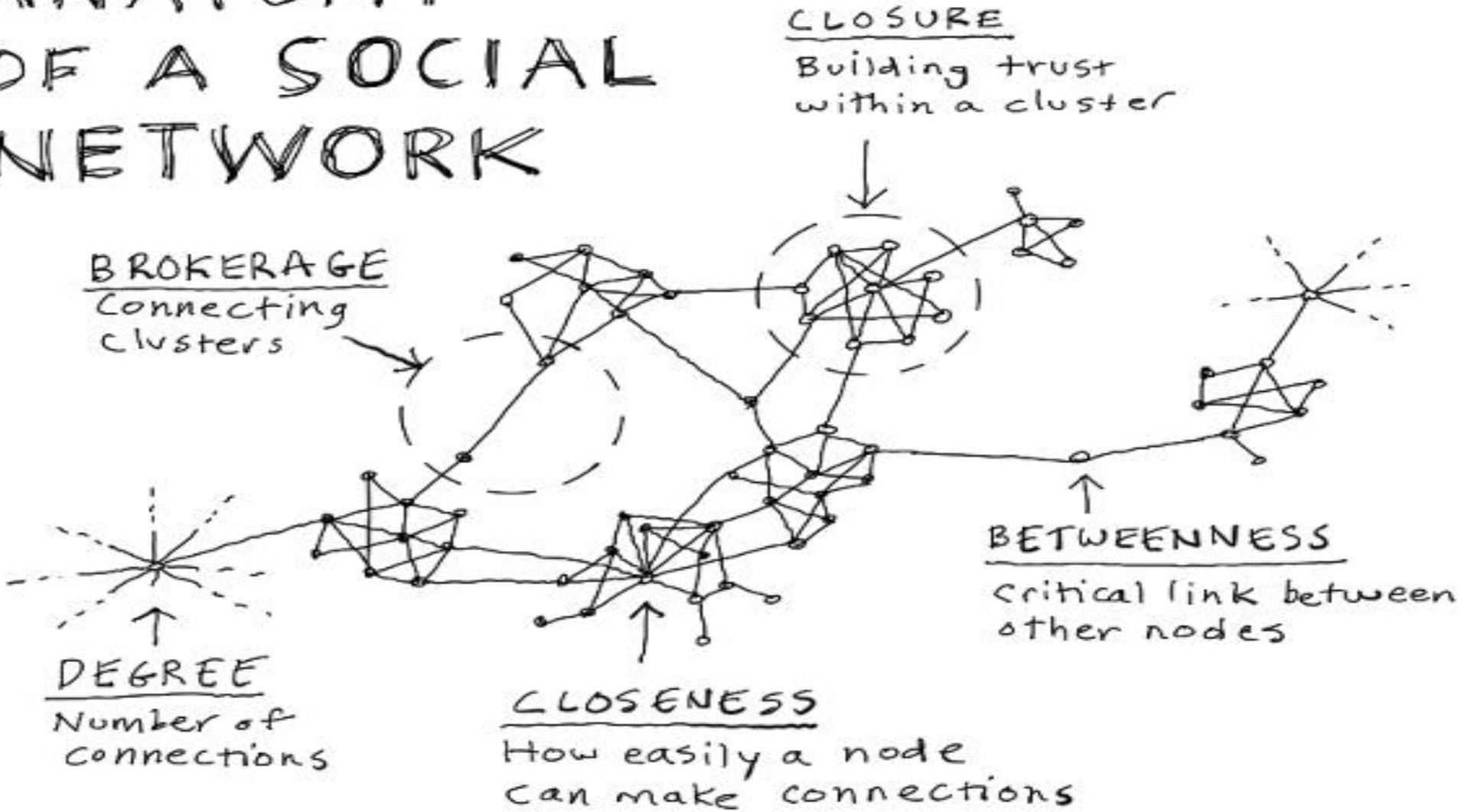
# What is Networking



# Elements of Networks

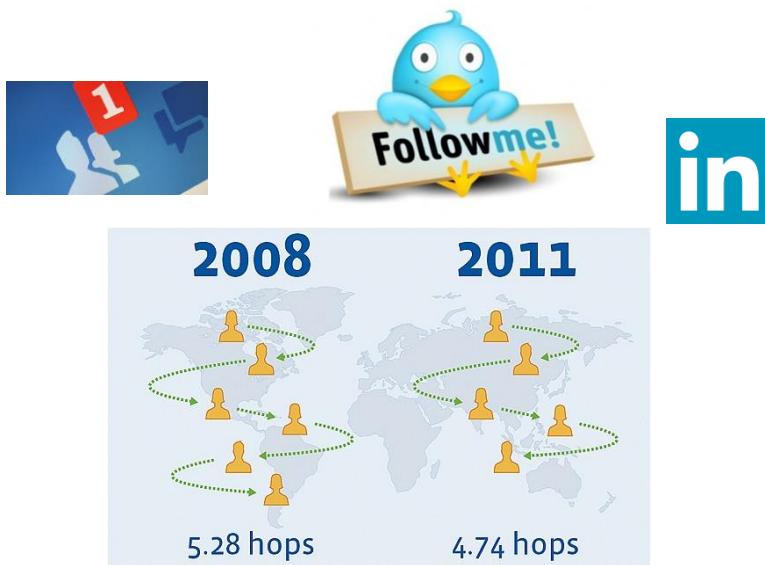
- Content: The nature of the content that is exchanged between the actors
- Governance: Governance mechanism in relationships
- Network Structures: Created by crosscutting relationship between actors.

# ANATOMY OF A SOCIAL NETWORK



# Weak tie formation

- 6 degrees of separation\*
- Communities (of practice etc.)
- Social networks
- Meetups

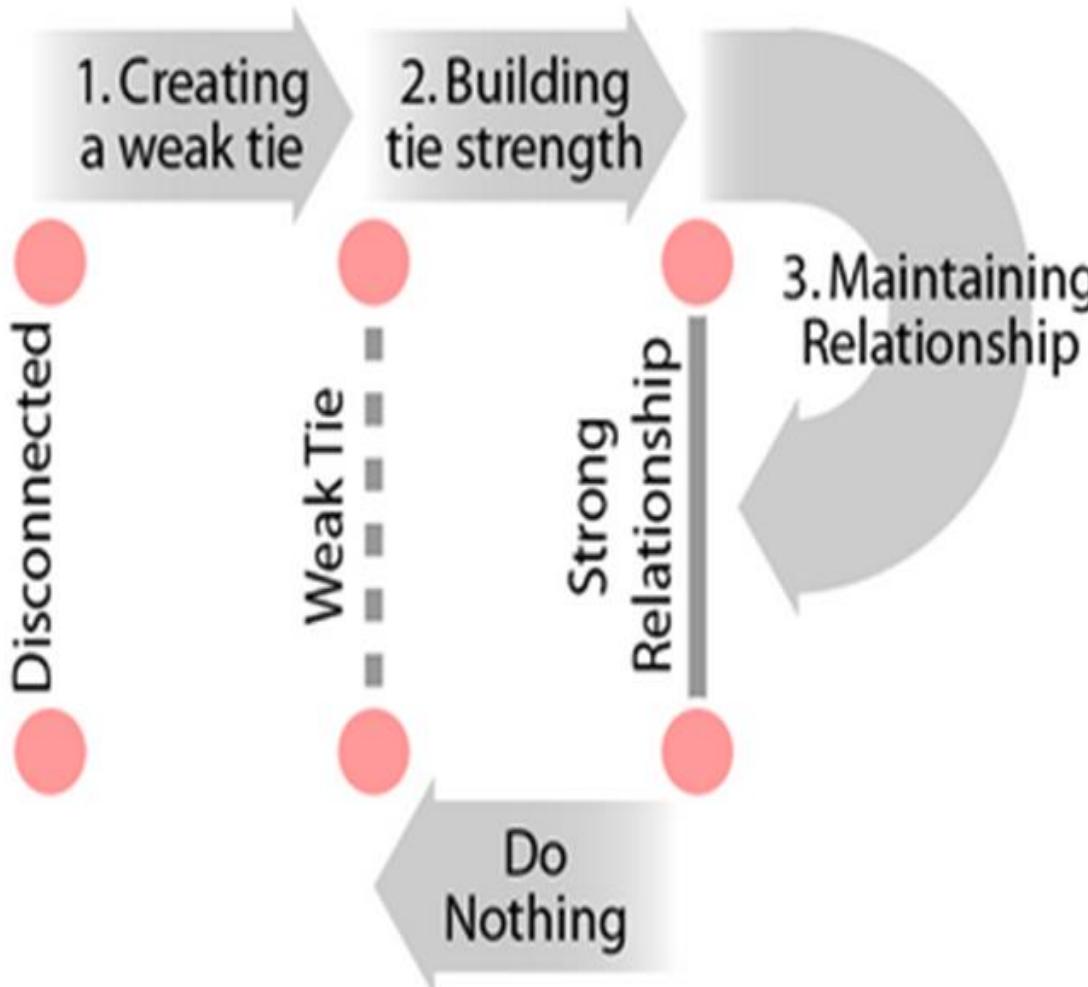


- Build outward
- Go for diversity, not volume
- Identify and use “hubs”  
(people who are great n’workers and can introduce you)

& willingness to connect

(Fischer, E., & Reuber, A. R. (2011). Social interaction via new social media:  
(How) can interactions on Twitter affect effectual thinking and behavior?  
Journal of Business Venturing, 26(1), 1-18.)

# Strong tie formation



- GIVE YOUR CLIENTS A PERSONAL CALL. Find out how things went with the project you were involved in. Ask if there's anything else you can do to help. Important: do not ask for a referral at this point.
- CALL ALL THE PEOPLE WHO HAVE REFERRED BUSINESS TO YOU. Ask them how things are going. Learn more about their current activities so you can refer business to them.
- LIST 50 PEOPLE TO STAY IN TOUCH WITH. Send them cards on the next holiday.
- FOLLOW UP. Two weeks after you've sent cards to your contacts, call them and see what's going on. If it is a former client - perfect time to ask for a referral. If it's a prospect – try set up an appointment.

# Strong, weak, absent?

## WEAK TIE HYPOTHESIS

### “The strength of the weak ties” (*Granovetter, 1973*)

- Explicit knowledge transfer (*Uzzi & Lancester, 2003*)
- Better for performance when the environment demands high levels of exploration behavior (*Rowley et al., 2000*)

Resource  
Access

## STRONG TIE HYPOTHESIS

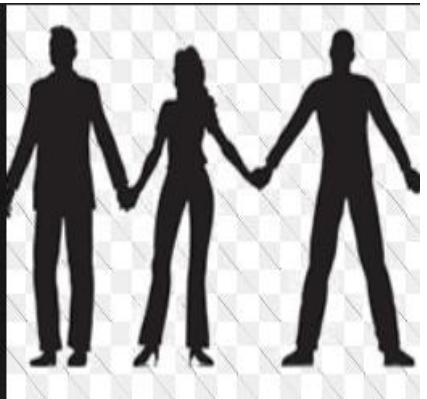
### “The strength of the strong ties” (*Krackhardt, 1992*)

- Implicit knowledge transfer (*Uzzi & Lancester, 2003*)
- Better for performance when the environment demands high levels of exploitation behavior (*Rowley et al., 2000*)
- Repeated ties between two organizations enhance the trust between them and engender future ties (*Gulati, 1995*)

Resource  
Access

Trust

# To hole or not to hole

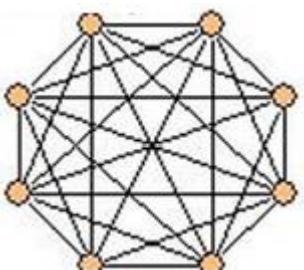


## STRUCTURAL HOLES

- Beneficial position for actor at the intersection between groups
- Information advantage: Access, timing, referral
  - “*A structural hole determines who knows about opportunities, when they know, and who gets to participate.*” (Burt, 1992)
- Control advantage: Brokerage between two unconnected groups enhances negotiation position and bargaining power
  - Actor is then the “*Tertius gaudens, the third who benefits*” (Burt, 1992)

Resource Access

Power/  
Control



## CLOSURE

- Opposite of structural holes: Network density
- Increased cooperation and trust in the network (Coleman, 1990)

Trust

## TIES & TIE FORMATION

- Strong and weak ties change in their importance according to the phase of the entrepreneurial process (*Evald, Klyver & Svendsen, 2006*)
- An efficient tie formation process plays an important role for entrepreneurs when seeking new investment ties (*Hallen & Eisenhardt, 2012*)

## CENTRALITY

- Higher network size facilitates innovation output, rate of NPD and VC investments (*Ahuja, 2000; Baum et al., 2000; Deeds & Hill, 1996*)
- Increased centrality enables startups to faster execute an IPO and grow within the first year (*Chang, 2004; Hansen, 1995*)

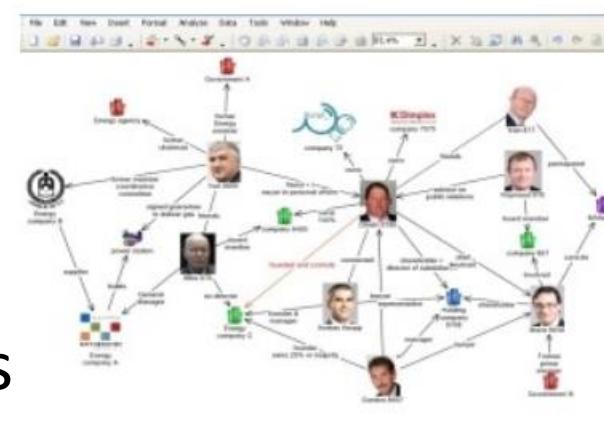
## STRUCTURAL HOLES

- Bridging structural holes improves opportunity recognition and finding good ideas (*Burt, 2004*)
- Motivation can lead an actor to pursue entrepreneurial opportunities arising from being the *tertius gaudens* (*Burt, 1992*)

# How do networks look like?

- **Relational networks:** direct interaction is main mechanism

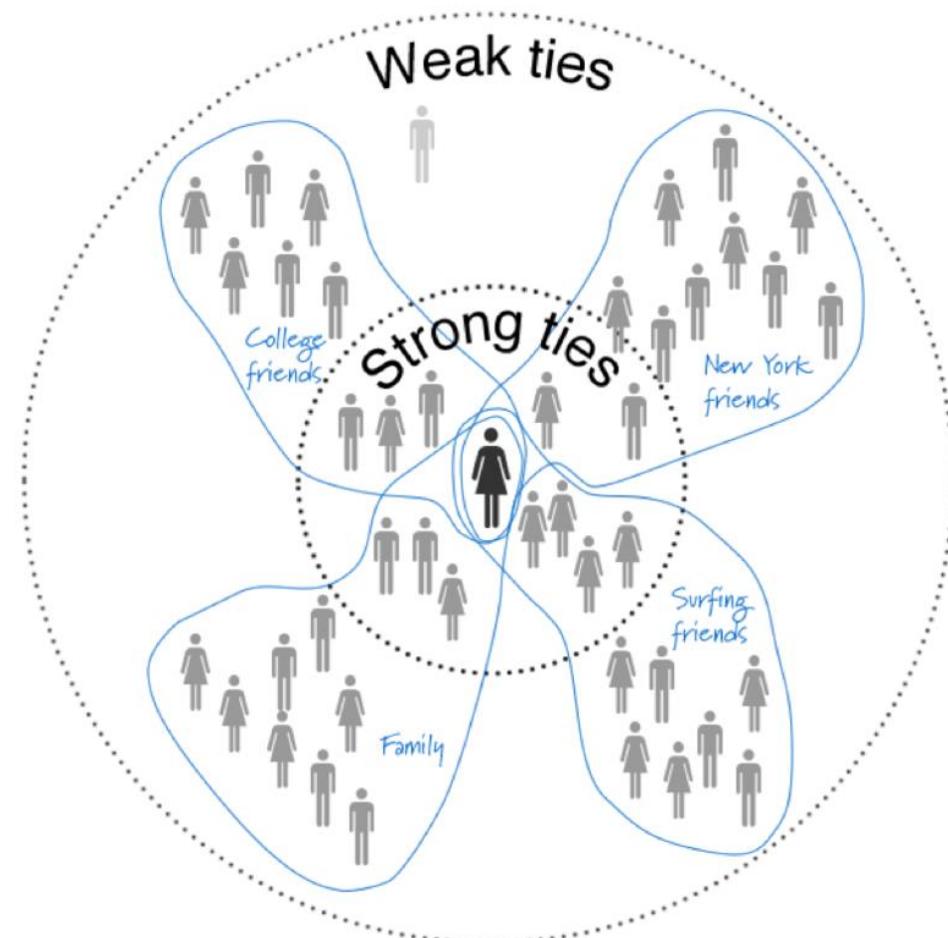
- a group of co-workers
- friends in a bar
- classmates
- direct clients and direct suppliers



- **Positional networks:** brokerage, centrality, or range
  - brokering between house sellers and house buyers
  - centrality defining relative number of received contacts
  - range defining how far a network is connected



# How do relational networks look like?



# Why do we network?

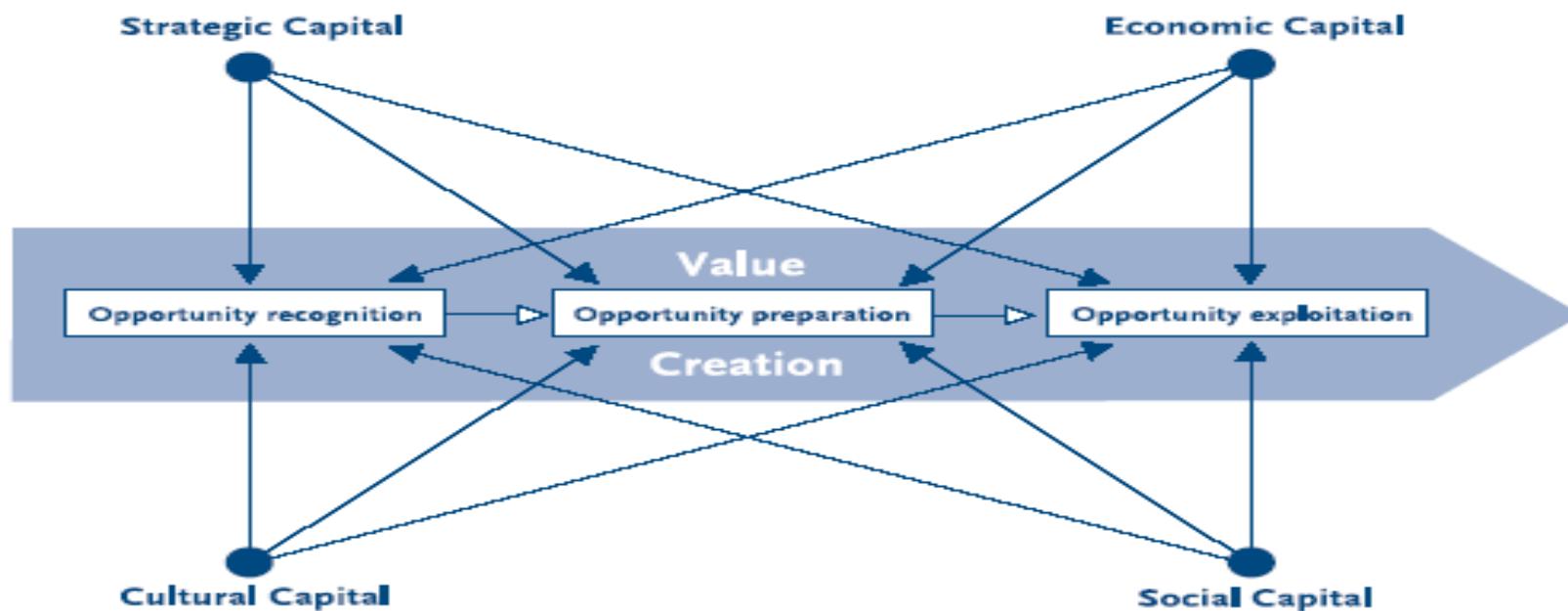
## BENEFITS / OUTCOMES

ACCESS TO  
RESOURCES

TRUST

POWER/  
CONTROL

SIGNALING

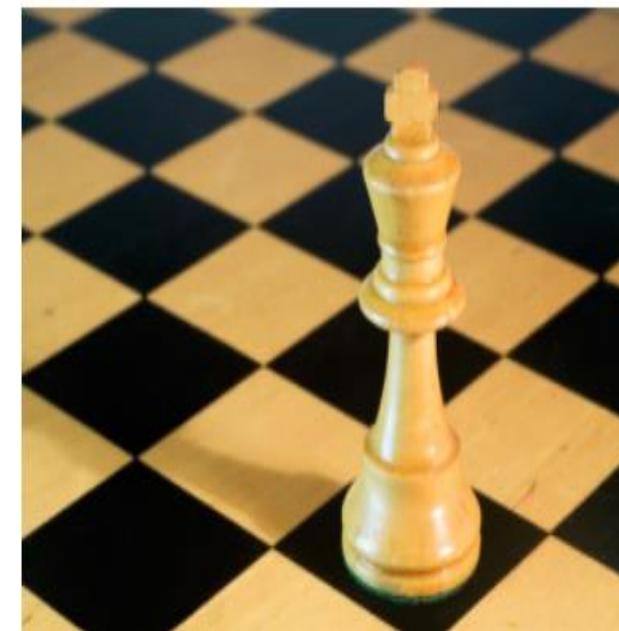


# Strategic Capital

- *Strategic capital is a critical element of Intangible capital. It can be both an asset and a liability--it all depends on how stakeholders view the performance of your strategic capital.*

## The core focus of strategic capital:

- a) Human capital
- b) Structural capital (processes, systems, knowledge)
- c) Relationship capital including customers at the core of your value proposition and partners who support your ability to deliver.



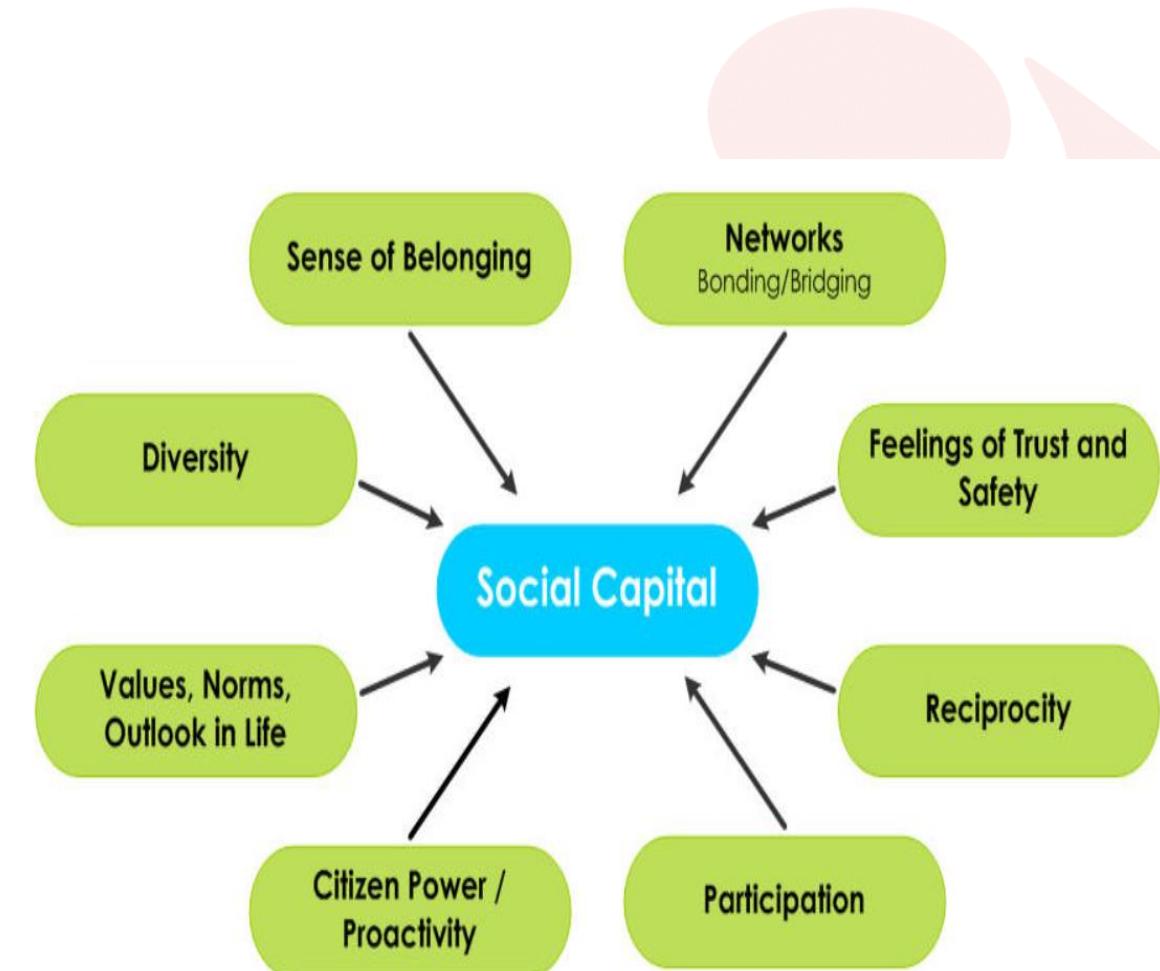
# Economical Capital

- **Economic capital** is the amount of risk **capital**, assessed on a realistic basis, which a firm requires to cover the risks that it is running or collecting as a going concern, such as market risk, credit risk, legal risk, and operational risk.
- **Economic capital** is the amount of capital that a firm, usually in financial services, needs to ensure that the company stays solvent given its risk profile. Economic capital is calculated internally, sometimes using proprietary models, and is the amount of capital that the firm should have to support any risks that it takes.



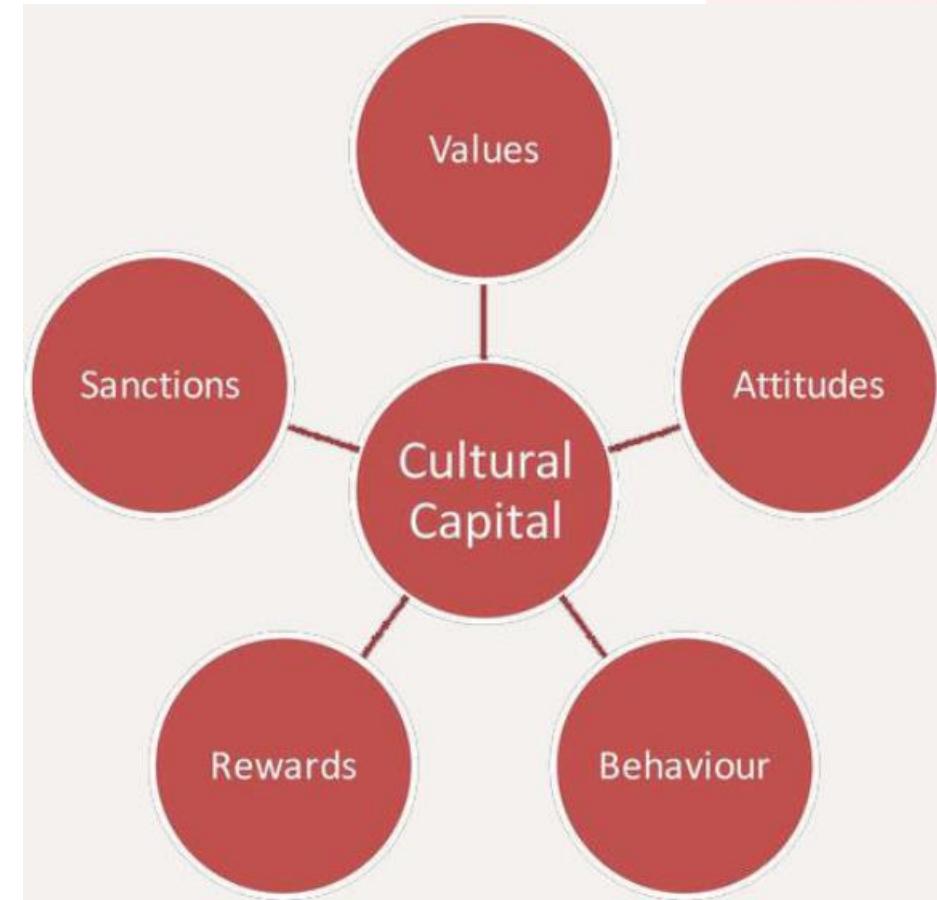
# Social Capital

- Who you know well enough to trust for advise or have confidence into get things done efficiently and effectively.
- The set of resources tangible or virtual, that accrue to a corporate player through the players social relationships, facilitating the attainment of goals (Gabbay et. al 1999)



# Cultural Capital

- **Cultural capital** refers to the social assets of a person (education, intellect, style of speech and dress, etc.) that promote social mobility in a stratified society



# Why do we network in startup ?

Strategic capital for:

partners with congruent goals  
high prestige partners for influence  
view on & protection of competitors  
influencing clients & suppliers

cultural capital for:

knowledge integration  
organizing methods  
certification of processes  
comparing values & norms (CSR)

economic capital:

pitching for FFF & formal investors  
searching buying power  
arranging cash flow/loans/subsidy

Social capital:

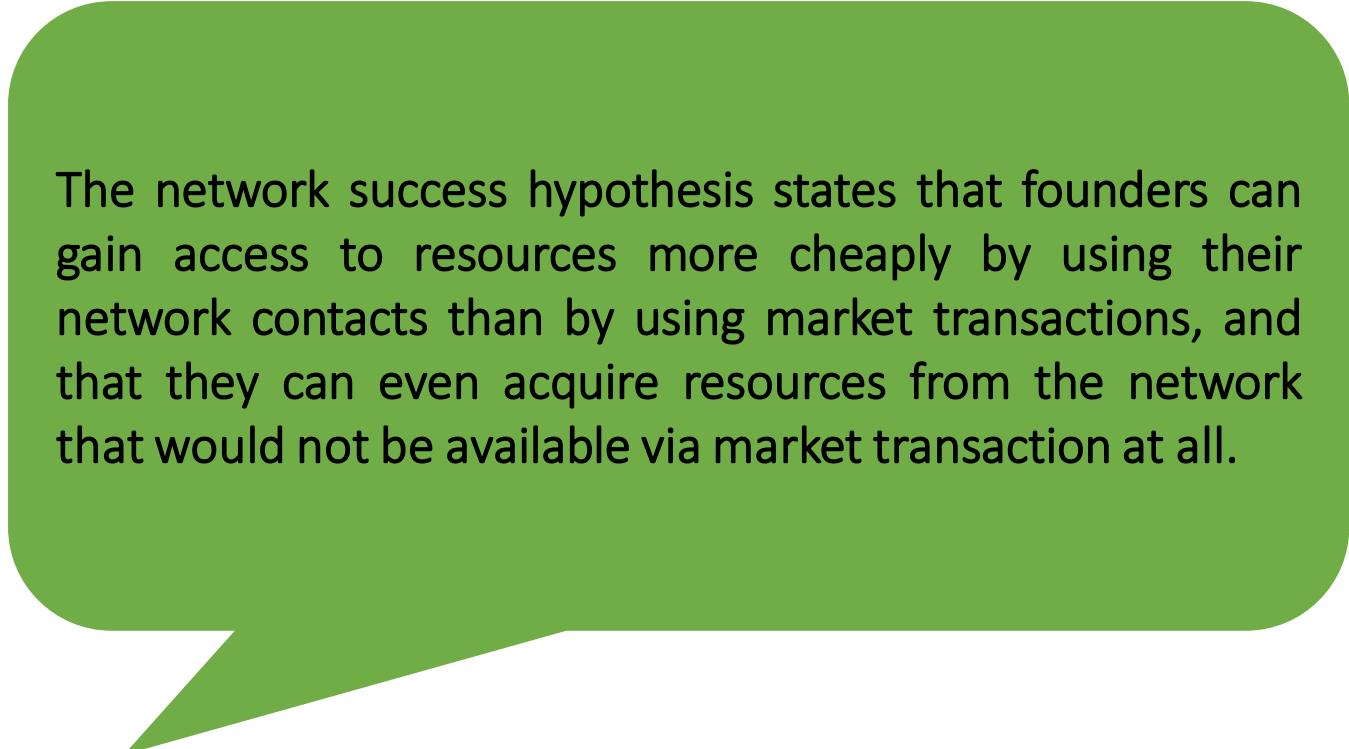
new contacts  
intensifying contacts  
getting structural position

spinoff-university  
experienced entrepreneur  
business intelligence / patent  
lead customer /first tier supplier  
co-developer

# Why do we network in existing business ?

- Strategic capital for:
- Alliances: Partners with congruent goals
  - Lobbying: high prestige partners for influence
  - Marketing: view on & protection of competitors
  - Marketing: influencing clients & suppliers
- Cultural capital for:
- Innovation: knowledge integration
  - continuous improvement
  - certification of processes
  - comparing values & norms (CSR)
- economic capital:
- Co-maker/supplier: efficient production network transactions with suppliers/customers
  - corp. Finance: cashflow/loans/subsidy/investment
- Social capital:
- maintaining contacts
  - intensifying and new contacts
  - maintain and develop structural position

# The network success hypothesis



The network success hypothesis states that founders can gain access to resources more cheaply by using their network contacts than by using market transactions, and that they can even acquire resources from the network that would not be available via market transaction at all.

# Conclusion

- Burt argues that network reach in structural holes create social capital for an actor, whereas conversely Coleman argues that closure does.
- Structural holes and closure are complementary rather than competing mechanism (Burt).

## Further Readings:

- Zaheer A. Et.al (2010) “It's the connections: The network perspective in Interorganizational Research”, Academy of Management Perspectives, 24(1):62-77

Thanks  
Comments  
Suggestion  
Questions ?