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Evolving Processes of Entrepreneurship Networks

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ABSTRACT

Throughout the entrepreneurship literature there is consensus that the network plays a critical role in the entrepreneurial process, as it provides the entrepreneur with access to resources that can facilitate the likelihood of the firm's emergence and growth. There is also agreement among entrepreneurship scholars of the need to develop a more complete and integrated understanding of network development and change processes. This paper proposes a study of entrepreneurship network development, using survey research to capture data on interrelationships and network structure. The focus is on the transformation of entrepreneurship networks, and how they develop over time. This research addresses an important gap in the entrepreneurship literature, where network relationships and network structure are simultaneously explored, and the dependent variable is the network itself. By drawing on the arguments of Larson and Starr (1993), where the evolution of the entrepreneur's social network is the outcome of the selection, variation and retention of ties that occurs as the business is established and grows.

Keywords

Entrepreneurship, networks, processes, relationships, structure.

1 INTRODUCTION

Entrepreneurs often mobilize different networks, such as networks of family and friends, or networks of business contacts, investors and strategic partners. Ties that enable or influence the firm's economic choices on the basis of the relationship are considered "relationally embedded". Often the initial opportunities and resources available to the entrepreneur are embedded ties of the entrepreneur's social network, such as family and close friends which influence economic actions of the emerging firm (Granovetter, 1985; Portes and Sensenbrenner, 1996; Uzzi, 1996, 1997; Jack, 2002).

Although social networks have many characteristics, it is the mix of strong and weak ties that permeates much of the debate, as the characteristics of entrepreneurial ties will influence the opportunities and resources that can be recognized, made accessible and utilized (Granovetter, 1973, 1985; Uzzi 1997; Jack 2005). Hite and Hesterly (2003) and Larson and Starr (1993) suggest that relationally embedded ties will have different characteristics, and can evolve overtime in their degree of embeddedness. They propose that it is important to develop a time-based understanding of the network of relationships in which the firm is embedded. Larson and Starr (1993) emphasize tie content or the meaning attached to a relationship (social vs. economic, embedded vs. arms-length, etc.), and therefore refer to the extent to which the network is connected.

The focus of this paper is on the transformation of entrepreneurship networks, and how they develop over time. This research addresses an important gap in the entrepreneurship literature, where network relationships are explored, and the dependent variable is the network itself. By drawing on the proposed arguments of Larson and Starr (1993), this research would provide scholars the ability to evaluate the various, and often conflicting, theoretical arguments, through a micro and macro-level lens, assessing changes in network ties and patterns of network structure. Using a combination of qualitative and quantitative methods, the aim is to gain more robust knowledge of network relationships across a sample of entrepreneurs, by life cycle stage and business context. The model and method proposed here provides an opportunity to contribute to an area of the entrepreneurship research domain that is seen as scarce, and presents a framework that can be used as the basis for future empirical studies of network processes.

2 LITERATURE REVIEW

In a detailed review of network research in entrepreneurship, Hoang and Antoncic (2003) assess the then-extant literature and define two categories of research. The first positions the network as an *independent* variable by trying to understand how networks effect the entrepreneurial process and outcomes. The second positions the network as a *dependent* variable by focusing on how entrepreneurial processes influence network development. Two trends emerge from this comprehensive critical examination of the literature:

- 1) Research on the impact of entrepreneurial outcomes (new venture performance) has been very productive, with a large number of empirical findings, here the network is treated as the independent variable.
- 2) Research on process-related aspects of entrepreneurial initiatives are relatively few, with limited empirical findings to aid in theory development, here the network is treated as the dependent variable.

In the second critical review of the entrepreneurship literature, Slotte-Kock and Coviello (2010) extend Hoang and Antoncic (2003) by assessing other network process literature published since their review or not included in their original arguments, bringing it up-to-date with research examining how the entrepreneurship literature views networks, with specific focus on the network as a dependent variable and various interpretations of the concept of process. They identify seventeen articles, only five of which are empirical studies of network development processes, and one conceptual argument (Hite & Hesterly, 2001) the remaining eleven focused on how networks influence entrepreneurial outcomes or processes. This lends further support to Hoang and Antoncic's assertion that there is a void of knowledge in the area of network development.

Slotte-Kock and Coviello (2010) suggest a more integrated approach to the study of entrepreneurial networks, where the network is positioned as the *outcome* of change and development processes. Comparing Larson and Starr (1993) and Hite and Hesterly (2001), the former discusses how the entrepreneurial firm's network develops through the stages of exploring, selecting, and using dyadic ties. This process is driven by the entrepreneur or firm, and actions are shaped by the actor's social context. Larson and Starr argue that over time, the network reflects increasing density, complexity, and interdependence of actors, leading to the creation of an organization. In comparison, Hite and Hesterly argue that networks change from being identity-based to more calculative and the network shifts from being dominated by socially embedded ties to having a balance of embedded and arm's-length ties. As the firm develops, the initially cohesive network is expected to shift to one that is sparse or loosely integrated, and characterized by structural holes.

The combined perspectives offer an understanding of both dyadic relationships and the overall network development. This allows for an understanding of both macro and micro perspectives, and the endogenous and exogenous variables. The framework proposed where the network is positioned as a developmental outcome of a new venture's entrepreneurial process, the new venture and the network develop in a predictive manner that follows a life cycle approach and indeed, the firm and network co-develop. This process of tie variation, selection, and retention parallels the arguments of Larson and Starr, and occurs within and through the organizational stages discussed by Hite and Hesterly.

3 METHODOLOGY

A cross-sectional survey enables analysts to consider issues relating to the contextual and relational aspects of social ties. For the survey research, participants are asked to reflect on up to five relationships that have influenced their business activities, and the context of each relationship. For example, if the individual is a business associate versus family members. Ratings will be collected on attributes that measure closeness, accessibility, length of relationship, intimacy, level of business knowledge, and type of support or resources provided (Bailey and Marsden, 1999; Greve and Salaff, 2003; Marsden, 1987). For each relationship, respondents are asked if the individual, or relational tie, is an entrepreneur, and if they offered business advice, financial support or information and other resources. Thus, the survey data will allow for identifications of changes in relational ties as the entrepreneur's network develops, over various phases of the firm's life cycle.

Five hypotheses will be tested, based on the arguments presented by Larson & Starr (1993):

H₁: Ties are selected, dropped and added to establish those essential the firm during the planning stages of the new venture.

H₂: Ties transform from one-dimensional relationships into two-dimensional socioeconomic exchanges as the new venture moves from planning to emergence.

H₃: Ties become more multidimensional, adding business functions, activities and levels of exchange, as the new venture moves through early growth and later growth.

H₄: Ties stabilize as the venture approaches later life-cycle stages.

Research will be conducted October-November, 2018.

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