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Social networking for entrepreneurship

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Abstract

Every individual has aspirations to be successful in life and to make it big one day, the approach may differ from people to people, nevertheless ultimately individuals resort to becoming an entrepreneur. However, it is not a simple task to become a businessman, it takes lots of efforts, resources or capital (labour, financial, technology) and other things that may be deemed as important. For the purpose of gathering these aforementioned resources, entrepreneurs engage in social relationships (network) to gain access to information that may ultimately lead in the acquisition of such resources. It was suggested that the activation or use of social relationships (networks) is primarily done in the establishment phase. Therefore, the objective of this paper is to disapprove such notions and further investigate the phenomenon of social networking and social capital.

Keywords: entrepreneur, social network, business plan, centrality, network construction

Introduction

The field of entrepreneurship has been quite relatively researched and the likely cause could be the generous contributions it makes to public policy goals, such as economic growth, creation of employment, innovation in technology, enhancement of productivity and structural realignments (Shane, 1996) [22]. There could be many more other reasons for studying or researching entrepreneurship but the goal here is not explained 'why' but 'how' aspect of entrepreneurship.

Moving further, the entrepreneur is just an actor in the entrepreneurship process, where entrepreneurship is defined as an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goals and services, ways of governing markets, process and raw materials through organizing efforts that previously had not existed (Shane & Venkataraman, 2000) [23]. Entrepreneurship as a process where individuals use organized efforts and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled (Kobia & Sikalieh, 2010) [17].

The process of entrepreneurship can be initiated by any individual provided s/he is creative, skilful and resourceful and determined enough to tackle any obstacles. There are many sets of attributes and behaviours that can be attributed to entrepreneurship and such attributes form the backbone of enterprise culture. However, Gibb (1987) [12], discusses various other components of enterprise culture and he mentions that one of those components is the entrepreneur's network, comprised of independent business, family contacts and other links that reinforce familiarity and provides opportunities related to market entry and Sally Caird (1992) [8] also mentions (social) networking and contacts as one of the frequently cited examples of enterprise competency.

Ljungress and Kolveried (1996) did a study on the gender aspect of entrepreneurship, which is not relevant here, however, they surveyed or found out to what extent or how much the networks of each person (male & female) supported them in their setting up of enterprise/venture. They

discovered that though women may have much stronger social networks than men and that women could compensate for limited knowledge and experience by organizing and rallying support from their networks. One thing that can be learned from this particular study is that (social) networking and contacts can be very useful and crucial for entrepreneurs, regardless of their gender, ethnicity, etc.

In such corporate world, a social network can bring stability to entrepreneurs in many ways, such as assisting in getting access to information, finances, knowledge, market insights, etc., not only related to business, they can also aid by giving moral support. In addition, these social networks are not fixed and it can be utilized or set in motion according to different needs. As per requirement of the enterprise, entrepreneurs can use networks and bring specific contacts that s/he feels can contribute to that cause or objective and also family members play an important part in decision making.

The Literature on Social Networking

The entrepreneurial process or entrepreneurship is heavily dependent on the social network where entrepreneurs are driven by opportunity-seeking behaviour and not by a simple desire to invest resources (Stevenson, 1984) [25]. Entrepreneurs are always on the lookout in seeking the highest profit maximization and they can only achieve this by exploiting and capitalizing on opportunities coming their way. One way of sensing and making the most of opportunities is by tapping into one's social network, where a social network is thought to be an actual set of links of all kinds amongst a set of individuals (Brass, 1992) [5]. Social relations are embedded in the economic action/behaviour of individuals or firms (Granovetter, 1985) [15].

Aldrich and Zimmer (1986) [1] propose an alternative perspective of entrepreneurship where they view it is embedded in networks of continuing social relations. They added that through this complex network of relationship, entrepreneurship is either facilitated or controlled by linkages between entrepreneurs, resources and opportunities. One of the key benefits of networks to individuals is the access they provide to information and advice which are necessary for the

establishment of an institution or corporate (Freeman, 1999) [11].

For Granovetter, the society where strong and weak ties hold several members of society together (Barabasi, 2003) [3]. He proposed a weak tie hypothesis in which he said that if two individuals are randomly selected (A and B), form a set/group of people (A, B, C, D, E...) of all the persons with ties to either or both of them, then for instance that A is strongly linked to B and C both, a tie between B and C exists and it always present (Granovetter, 1983) [15].

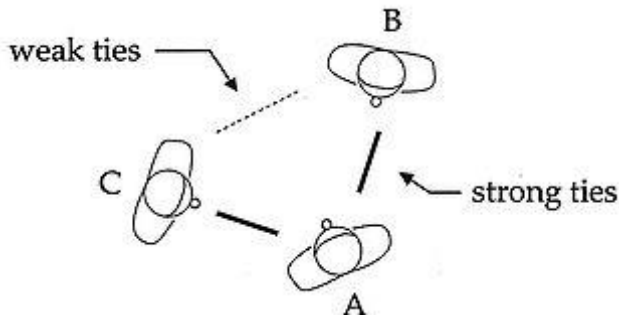


Fig 1: Weak-Strong Ties (Granovetter, 1973) [15]

Hence, the weak tie hypothesis puts forward the concept that cluster of social structure will form, being bound primarily by strong ties and that weak ties will operate as the crucial bridge between any two densely knit clumps of close friends. Throughout his work, he has highlighted the importance of

acquaintances in social networks and argues that the only thing that can connect two social networks with strong ties is a weak tie (Granovetter, 1973; 1983) [15].

In the context of entrepreneurship, social capital is those intangible assets or resources that the entrepreneur obtains or is provided by the contacts s/he is associated with their respective social structure. Entrepreneurs need information, skills, labour, capital and other kinds of resources, though some of these things are already held by an entrepreneur, for the other things s/he attains through own social network. The contacts, or persons that are able to meet the actor's goal or help them in achieving their target, those contacts become the social capital for the entrepreneur and to the firm as well (Portes, 1998) [21].

Entrepreneurship

Entrepreneurship is the mere act of being an entrepreneur, undertaking innovation, investment and business insight in an attempt to transfer resources into economic goods and services (tangible or intangible). This may result in the formation of a new venture or a part of revitalizing existing corporates in response to the rising opportunities (Shane, 2003) [24]. Entrepreneurial process is not just a mere task of starting a new venture, it is much more elaborated and a dense system which requires lots of effort and dedication. The entrepreneur needs to go through several steps before establishing a firm. Sometimes, people bet a business idea by coincidence (chance encounter) or through sheer dedication and deliberate search (Bygrave & Zacharakis, 2010) [7].

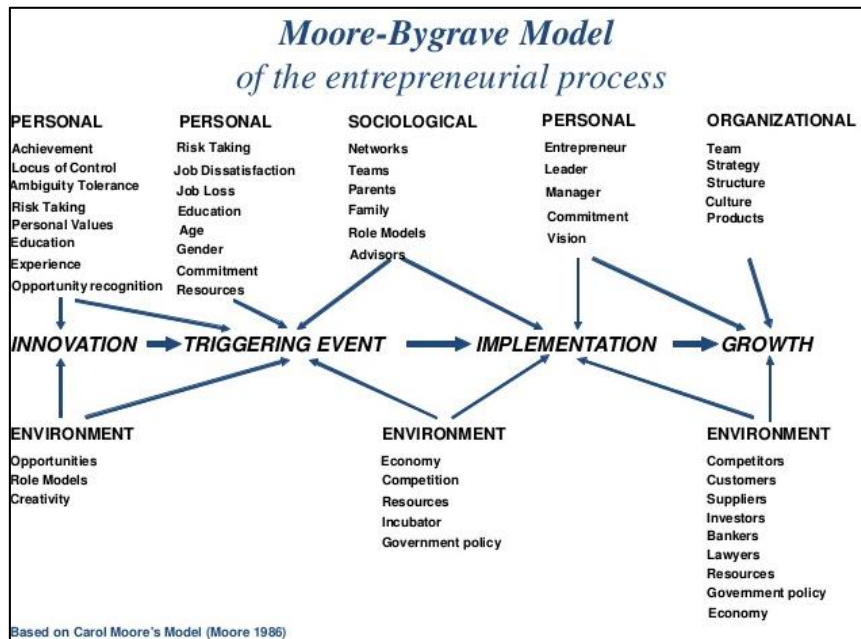


Fig 2: A Model of Entrepreneurial Process (Moose, 1986)

Entrepreneurial Model

An alternative view of the entrepreneurial model is quite similar to this but not quite the same, where the author states that the formula of starting a contemporary venture is embodied in the entrepreneurial process, which involves four distinct phases i) identification and evaluation of the opportunity, ii) development of the business plan, iii) determination of the required resources, and iv) management of resulting enterprise (Hisrich et al., 2005) [16].

Identification and Evaluation of the Opportunity

Generally, most good business prospects do not appear straight away but instead, result from an entrepreneur's awareness to potential ideas or in some extreme cases might be the outcome established formal mechanisms (e.g. surveys, periodical study etc.) to identify potential opportunities (Hisrich et al., 2005) [16]. Regardless of the mechanism used by the entrepreneur to generate a business idea or ideas, each of the opportunities identified needs to be carefully examined

and appraised. At this stage, the majority of the entrepreneurs would not have access to formal mechanisms to evaluate their business idea, so the only best option available is to discuss it with people in their social network. It is no surprise that often the best advice is from potential consumers, business associates, technical people and people in the distribution system. This evaluation phase is possibly very crucial as it notifies the entrepreneurs of the resources required against the potential returns from the investment.

Development of the Business Plan

To realise the full potential of the idea, it is imperative that the entrepreneur writes a detailed business plan. A business plan is a formal document containing a set of business goals or objectives, reasons for their coexistence and a detailed plan or scheme in reaching those aforesaid goals and objectives (Longnecker *et al.*, 2006) ^[19]. It could also include background information about the firm, the entrepreneur or the management team. A business plan's primary function is to guide individuals within the firm to be aligned with the firm's goals and strategies and to aid in the development of relationships with outsiders who could help the corporate achieve its goals (Longnecker *et al.*, 2006) ^[19].

Once the initial phases are complete, the latter two phases become the vital organ of the operation. It might be relatively easier to come up with a business idea, but it is twice as hard in trying to make the business successful.

Determine the resources required

Consequentially it is imperative for the entrepreneur to gather resources (finances, labour etc.) before the startup of the firm. Some resources are more critical than others and so the entrepreneur should assess and identify what resources are required for the commencement of the business and also the resources necessary depends on how to beat the competition. Acquiring the requisite assets in an appropriate time while giving up less control (ownership stake) is very essential, as the business develops more funds will be needed to finance the growth of the venture. So it is quite important that the entrepreneur retains ownership as much as possible in the startup stage. Understanding the resource supplier needs will enable the entrepreneur to acquire resources at the lowest possible cost and the least loss of control.

Managing the enterprise

Once the resources are acquired, it is time to implement the business plan that the entrepreneur devised earlier in the entrepreneurial process. A key to this step is in understanding the operational problems and tweaking them to bring maximum output. It is also in this phase that a management style and structure is established and identifying key variables for success. Also, a control system needs to be instilled so that any problem can be quickly identified and solved.

Characteristics of social network

The key to understanding entrepreneurship through social networks is by looking at the individualistic view of relations or transaction among two people. A relation may comprise or contain some features such as i) the transfer of advice or information from one person to another (communication content); ii) the goods/services exchanged among the two people (exchange content) and iii) the expectations each of the persons have each of other due to some particular trait

s/he possess (normative content). To measure the strength of the tie, the frequency and cooperation of relationships between the two individuals have to be accounted for to see if it is a strong or a weak tie (Aldrich & Zimmer, 1986) ^[1].

Relationships between a couple of individuals (customers, entrepreneurs, suppliers, investors etc) regardless of the content and their social role can be extended and persons can be included in the network in ways that would expand a unit of analysis indefinitely. Network theorists, therefore, have come up with features that help to explain social networks and to set up boundaries – role set, action set and network (Aldrich & Zimmer, 1986) ^[1].

Role Set

It consists of all those persons with whom the entrepreneur (focal person) has direct relations. A role set is a situation where a person having a single status may have more than one role attached to it. For instance, an entrepreneur, the roles would be of a partner, venture capitalist, supplier, distributor, or even family member. Interestingly a conflict of interest arises which is produced by differing expectations from members from the entrepreneur's role set. The entrepreneur is at the centre of demands from various people from the role set, such as the expectations from the spouse that home time will be spent at home versus requests from business partners that weekends be used to close a business deal. Hence, an entrepreneur needs to manage and adopt strategies to resolve such conflicts or else such conflicts could act as a hindrance for business success.

Action Set

It consists of a number of people who have formed a brief union for a specific purpose. This concept is often used by anthropologists who find a specific behaviour as a tool of reference to study social change. Most research on action set examines the purposeful behaviour of an entire aggregate of persons, where it has been found that action set may be centred on the behaviour of one individual (Aldrich & Zimmer, 1986) ^[1].

Network

It is defined as the total number of people connected by a certain type of relations and is built by findings the ties among all the people in population regardless of how it is organized into role sets and action sets (Aldrich & Zimmer, 1986) ^[1].

Critical dimensions of networks

Networks have six dimensions that are useful in the social analysis – density, reachability, centrality (Aldrich & Zimmer, 1986) ^[1], size, focus and composition (Baker, 2000) ^[2].

Density

It refers to the depth of ties between persons and is calculated by comparing the actual number of ties present in the network to the potential number that would occur if everyone in the network was connected to everyone else. The easier measure of density is just by counting either the presence or absence of a tie, though most complicated measures would also include the strength of a tie. Density is expressed in percentage, calculated by looking at the number of actual relationships among alters in a network (Aldrich & Zimmer, 1986) ^[1]. A high density of connections indicates that the

network contains redundancy (Backer, 2000).

Reachability

It talks about the distance or the path between two persons, or rather the notion of being able to get from one vertex to another vertex. People can be ranked by how many intermediaries a path travels before the person is indirectly linked with another person. Travers and Milgram (1969) [26] through their study shows that two random individuals may have the potential to know each other personally, only if these two people looked in their specific network.

Centrality

The central point in an entrepreneur's network may be determined by the total distance from a focal person to all other persons and the total number of people who can contact the focal person. The more persons that can be reached and the shorter the distance to these persons, the centrality point are higher for the focal person (Freeman, 1978) [11]. People who have extensive ties to different parts of the network can play a major role in the entrepreneurial process, acting as the communique between different individuals, serving as a broker to an inclusive their party dealings or to be role model for other people in the network (Bygrave & Zacharakis, 2010) [7].

Size

It is quite self-explanatory, it refers to the size of the network. However, it should be noted that the mere size is not important, in some respects the structure of the network matters more than the size. This means the arrangement of the ties is more important than the number of ties. For instance figure 3 and 4 explain both the persons have the same number of contacts, but the connections among connections are absolutely dissimilar.

Composition

This reflects the demographic features of the contacts in the network, for instance, age, gender, ethnicity, religion and many more similar characteristics.

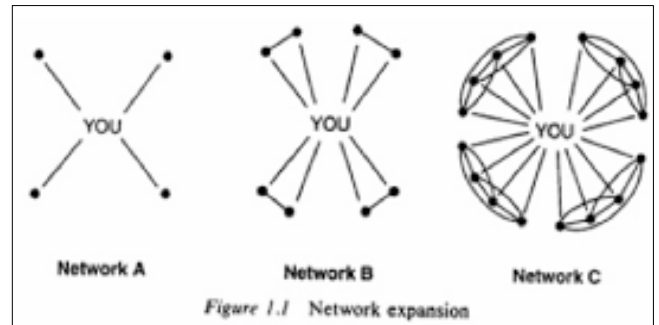
Focus

It highlights the extent to which the networks are concentrated in certain areas, activities or interests. For instance, if most of the relationships in a network are work-related, then the focus is on work or vice versa. There are basically three sub-genres (focus area) which are – Work Vs. Family, Global Vs. Domestic and Affiliations (groups, clubs etc.). These three areas of focus really identify whether the network is focused internally or externally.

Network Construction

Entrepreneurs can expand their network by adding more and more contacts, by making more cold calls (random calls to prospective clients), affiliation with more social clubs, attending more social functions or socializing at pubs, bars, to raise the chances of meeting new people. The process is illustrated in the following figure, where the original four contacts in network A helps to double the contacts in network

B and quadrupling it in network C (Burt, 1992) [6].



Source: 1992, pp.17

Fig 3: Network Expansion (Burt, 1992) [6]

However, increasing the network size would be unjust and counterproductive if the added people do not bring diversity to the network. The additional members should not be deemed redundant, meaning that the contacts do not lead to the same set of people, hence offering the same information benefits (Baker, 2000) [2].

Many entrepreneurial opportunities may arise from the network, especially when there are many structural holes or gaps. A structural hole is a relationship of non-redundancy between two contacts (Baker, 2000) [2]. The structural hole or gap between groups does not mean that people in those groups are unaware of one another, they are simply too busy with their own activities to be concerned about the other group/s. For instance, the hole in the network acts like a buffer, the same way an insulator works in an electric circuit (Burt, 1992) [6].

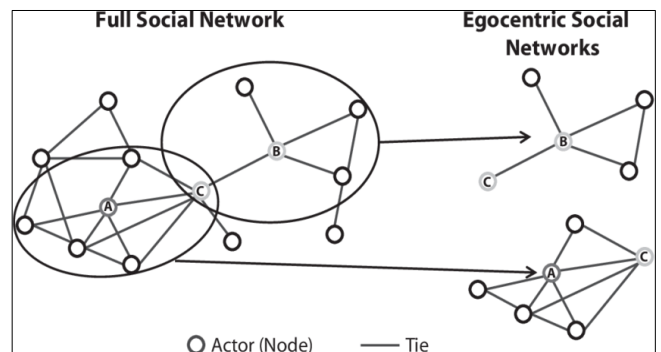


Fig 4: Egocentric Networks (Baker, 2000)

For a complete network, where the two networks of Liz and Pat are merged into one network diagram, wherein group 1, all of the ties are directly related to Pat. Liz has ties with group 1, but she also has ties that extend to other groups in the network in which Liz acts as the bridge connecting other unrelated groups (group 2, 3 & 4). All these illustrations confirm the basic principle of networks that if there are fewer connections among connections, the more likely the network would be also large. The network of Liz if more inclined towards an entrepreneurial network where she is likely to get hold of the information quickly, hence identifying opportunities quicker than other entrepreneurs.

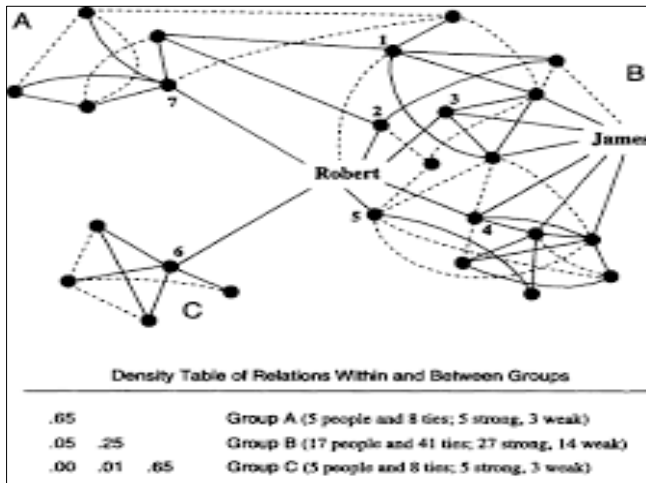


Fig 5: A Complete Network (Baker, 2000)

Conceptual Framework

There is ample proof that social relations or rather the social network of entrepreneurs are found to be of great value and immense contributor to the entrepreneurial process and to the entrepreneur itself (Casson & Giusta, 2007) [9]. Entrepreneurs acquire vast and varied types of resources from their networks that not only help them but allow entrepreneurs to utilize such resources to gain a competitive advantage over their rivals.

Literally, the entrepreneurial process consists of all the activities relating to the establishment of a firm – ranging from idea generation to the eventual commencement of the firm and to its subsequent growth. In every process, the social network is a likely source of social capital that facilitates and affects the handling of each phase. The characteristics of the network influence the arrangement of the network, where arrangements mean how many formal or informal contacts the individual has, whether the network has weak or strong ties, the mere size of the network and any other dimensions of the network (Blad, 2008) [4].

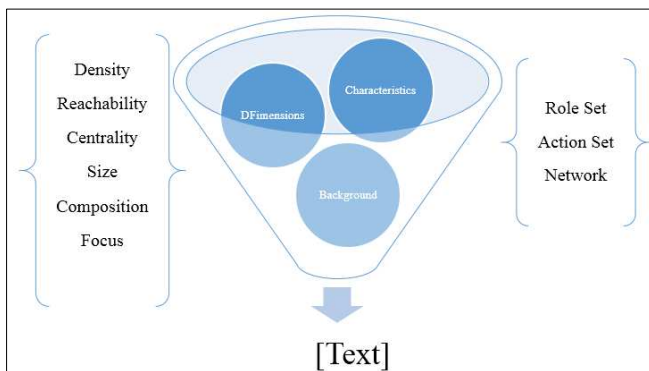


Fig 6: Conceptual Framework (Blad, 2008) [4]

Concluding Remarks

Almost every day, human beings are somehow embroiled in a relationship and they are in regular contact and human beings utilize these relationships for either personal or business gains. The gain's that received from that relationship is called social capital, a sort of capital or sources that is available in the network. These resources contain information, ideas, business opportunities, financial capital, emotional support and many more. However, these resources may remain hidden or remain inaccessible if the network is

not well-built or properly managed.

This paper counters such claims by suggesting that social capital not only helps entrepreneurs in the establishment phase of the business but continues to be a big contributor to its success also in the later stages of the business. Nevertheless, the paper also makes it very conclusive that the activation and utilization of the social network are marginally more in the early stages (innovation phase) that in comparison to other stages. It would be fair to conclude that the use of network and utilization of social capital is equally important in other stages of the business and one should not be ignorant and completely avoid using it in the latter stages.

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