THE ROLE OF SOCIAL NETWORKS IN ENTREPRENEURSHIP RESEARCH

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What is entrepreneurship research?

- Do you think you can study entrepreneurship?
Enigma called...

- Entrepreneurship

- Why so?
  - How sub-atomic particles function
  - How to travel in space
  - We now have higher quality of living than 50 years ago.
  - Development is due to business
  - We understand the least about it
Scot Shane (2003) says,

“a visitor from another planet who came to earth for the first time would think that entrepreneurship was one of the best understood subjects examined by business school academics... Since capitalism itself relies on entrepreneurship as a cornerstone...but alas scholarly understanding of it is quite limited”
What do we know?

- We know that many people set up enterprise

- We also know that many of these enterprises go bankrupt in their first few years of operation

- We also know that some people are able to swim against the tide and become successful
Entrepreneurial Success

Survival

- Approximately 750,000 new businesses are founded every year in the USA.
- For every one firm that starts, there exists another ‘firm’ that could not start.
- About 40% of these fail to survive one year.
- 64% fail within five years.
- 75% fail to cross the 10 year mark.
- 88% fail to survive twenty years.
Entrepreneurial Success contd.

- Growth
  - In Employment or in Sales
  - Fewer than 10% of new firms ever grow
  - Fewer than 4 percent of all new firms become larger than 100 employees
  - So if your firm is growing then you are a successful entrepreneur
Entrepreneurial Success Contd.

- Operational profit
  - About 8% of self employed women and 21% of self employed men are able to generate profits.

- IPO
  - The firm signals to the capital markets that investors can safely purchase equity in the firm.
What is entrepreneurship?

Entrepreneurship is an activity that involves discovery, evaluation and exploitation of opportunities to do what?

- introduce new goods and services,
- find new markets,
- develop new processes,
- identify new raw material, etc.
Benefits of networks for entrepreneurs

- Access they provide to information and advice.
  - to recognize entrepreneurial opportunities

- Seek resources (financial, talent, legitimacy, etc.)

- obtain emotional support for entrepreneurial risk-taking
The reliance on networks is not constrained to the start-up stage.

Entrepreneurs continue to rely on networks for business information, advice, and problem solving with some contacts providing multiple resources.
A defining characteristic of a network perspective within entrepreneurship research is
- a focus on the dynamics of social structures and
- their impact on entrepreneurial phenomena.

Network structure is defined as the pattern of direct and indirect ties between actors.
Network structure of an entrepreneur
Who helps in a job search?

- Each of us have a set of close friends and family
- We interact often with them

- Most of these contacts
  - Know one and another
  - move around in the same social circles
  - the information they provide is not new
The strength of the weak tie

- We rarely meet our acquaintances

- They also have friends and family but they move around in different social circles.
  - Act as antennae into different parts of the society
  - The information they provide is different
  - There are high chances of providing valuable information
  - Act as bridges
Abstraction of networks

- Relational aspects
  - Strong ties
  - Weak ties

- Structural aspects
  - Sparse networks
  - Dense networks
Bonding and bridging Social capital

Bonding Network

Bridging Network
Bridging Capital

- Information is not evenly distributed in the society. Entrepreneurship is knowing some information that your competitors do not.

- Provides non redundant information

- Advantages for an entrepreneur
  - Access
  - Timing
  - Referrals
  - Brokering advantages
Networking efficiently

Time 1

Time 2

Time 3
Research Findings

- 36 to 40% more likely to get a top performance evaluation
- 43 to 72% more likely to get a promotion
- 42 to 74% more likely to be retained by the company
To conclude this section, these set of scholars suggest networks that provide bridging opportunities are sources of social capital.
Challenge to weak ties/struct. Holes

- Noise (Uzzi 1997)
- Exit (Aldrich 1995)
- Trust (Coleman 1990)
Bonding Capital

- A network is deemed closed if every member knows every other member

- Trust
- Problem solving situations
- Fine tuned information
These set of scholars argues networks that provide opportunities for bonding are sources of social capital
Which form of networking is better? Bonding? Or Bridging?
Networks and micro entrepreneurs
Contingency approach

- A third set of scholars argue that the network advantage depends on
  - the sophistication of technology
    - Business environment relatively turbulent
    - Business environment relatively calm
  - Volatile business environments require more bridging opportunities
  - Calm business environments require more bonding opportunities
Contingency approach (Contd.)

Fluctuating Tech Environment

Stable Tech Environment
Conclusion

- Social capital like human and financial capital is important for entrepreneurs.
- It manifests through social networks.
- Broadly we can say that there is bonding capital and bridging capital.
- Both are important.
Bonding capital is good for
- Trust,
- Fine tuned information and
- Voice.

Bridging capital can get you
- novel information that can be source of opportunity
- can help you get referrals and your name dropped at the right places and at the right time
- It can help you broker relationships between unconnected parts of your network
Improving social capital

- Realise that networking is crucial for success for leadership
- Allocate time on cultivating networks
- Establish new connections at often as possible

And most importantly

- Give as much as you take
  Help as many people as possible and seed obligations in your network so that when you require assistance, your network will help you.

- Weave networks – link your acquaintances who may have common interests/goals

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