Networking and Entrepreneurial Ventures

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Abstract

This paper examines the relationship between networking and entrepreneurial ventures. Based on the results of two exploratory studies, we reviewed recent literature to summarize the latest research on entrepreneurial use of networking. Based on this review, eight propositions were developed to better articulate alternate approaches to our understanding of the use of networking by entrepreneurs and their benefits. We conclude with a discussion of the research and managerial implications of our findings.

1 Introduction

Much of the current literature dealing with entrepreneurism supports the contention that entrepreneurial networking is a significant factor in the success of new entrepreneurial ventures. Nevertheless, two recent empirical exploratory studies revealed that one set of entrepreneurs as well as one set of key advisors to entrepreneurs did not rank the importance of networking to the success of new entrepreneurial ventures very highly at all.

This paper begins by briefly reviewing the results of these two exploratory studies of midwestern entrepreneurs and Small Business Development Center (SBDC) advisors. We then examine the literature dealing with the importance of networking relative to entrepreneurial ventures and propose a series of propositions that might be used to
examine the role of networking in entrepreneurial development in more depth. Finally, we discuss alternative ways these propositions might be used to encourage entrepreneurs and those entities that work with them, to re-consider the importance of networking.

2 A review of the two exploratory studies

Various authorities have identified skills necessary to the success of persons wishing to pursue entrepreneurial activities. Lichtenstein and Lyons (2001) identified seventeen specific skills, which were broken into four broad categories: 1) technical skills, 2) managerial skills, 3) entrepreneurial skills, and 4) personal maturity skills. One of the specific skills included under category 3) (entrepreneurial skills) is the ability to use an advisory board as well as the ability to utilize an entrepreneurial network.

Using these skills as its basis, an exploratory study (Smith et al. 2007) was conducted with a group of entrepreneurs who had sought technical assistance from the Kansas SBDC. The study measured the entrepreneurs’ perception of both the importance of the seventeen skills and their usefulness, along with the entrepreneur’s self-assessment of his/her ability relative to each skill. Following the original study, the same survey instrument was distributed to SBDC directors in mid-America (Schallenkamp and Smith, 2008).

The entrepreneurs surveyed ranked “using advisory boards and networking” dead last among the 17 skills, giving it a mean score of 2.949 out of a possible 5.0. The SBDC directors ranked it 15th out of the 17 skills with a mean of 3.49. The studies noted the limitations that the reference to advisory boards in the survey question may have had in influencing the ranking. In addition, of course, the respondents were asked to rank all 17
skills. It is reasonable and possible that many of the respondents value all 17 skills, but when forced to choose, simply find the other skills more valuable. Nevertheless, the low ranking of networking appears at odds with a large body of current literature suggesting that the ability to network is a critical entrepreneurial skill. Further, since use of networking (and advisory boards) by entrepreneurs is a relatively recent addition to their skill set, it may be that both sets of respondents are as yet unfamiliar with these terms.

The next sections will examine the literature with these considerations and limitations in mind.

3 Networking and trust

The benefits that accrue to the individual members of a network are well established in the literature. However, since the focus of this paper is limited to entrepreneurs, we limit the scope of this examination to benefits of networks to entrepreneurs. There is a large body of literature supporting the contention that networking is critical to, or at least a factor in, the success of entrepreneurial ventures (Aldrich and Zimmer 1986; Birley 1985; Dollinger 2003; Groen 2005; Johannisson 2000; Johannisson and Monsted 1997; Larson and Starr 1993; McAdam and McAdam 2006; Mitton 1989; Neegaard and Madsen 2004; O’Donnell 2004; Pages and Garmise 2003; Shaw 1997; Shaw and Conway 2000; Starr and MacMillan 1990). Within the literature there is no universal agreement as to a precise definition of the term “network” However, certain commonalities are significant. Gartner and Bellamy (2009) define an entrepreneur’s network as the sum total of his or her relationships and that it involves all the connections that a person has with other people. Kuratko and Welsh (2004) also focus
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on the personal nature of networks by pointing out that entrepreneurs make use of
resources that are external to the venture by establishing personal relationships that may
be used for professional assistance. They stress that the objective of networking is to
gain a competitive advantage by extending resource availability beyond the assets under
direct control of the entrepreneur. Dollinger (2003) defines networking as the process of
enlarging the entrepreneur’s circle of trust and stresses that networking is a function of
the negotiation process.

Similarly, Neegaard and Madsen (2004), while attempting to distinguish social
capital from social networks, suggest that networks are based on trust—that
entrepreneurs, when building networks, seek out persons described as ‘trusted alters’
(people with similar beliefs, experiences, patterns of association) such as relatives, old
friends or previous work associates. McAdam and McAdam (2006), while discussing the
benefits of business incubators in the UK, state that the results of their in-depth
longitudinal study of the operation of entrepreneurial networking within incubators shows
that the incubator environment enhances the development of social networks between
entrepreneurs housed within the incubator and that such growth depends upon trust.
They also point out that, especially in the technological arena, the growth of these
networks is sometimes inhibited by a lack of trust, often exhibited by an unwillingness to
share information. Bruneel et al. (2007) bring the concept of proximity and trust
empirically together in order to gain insights in their relationship in the context of
resource deficient, young, technology-based firms and its key partner network. Their
results indicate that proximity between the firm and its key network partners influences
the level of trust in the relationship.
Johannisson (2000), states “a network consists of interconnected dyadic relationships where the nodes may be roles, individuals or organizations”. Nevertheless, while discussing what he refers to as the personal network, he cites Araujo et al. (1998) in order to point out that it is the trust imbedded in individual ties that provides access to all other kinds of resources and also helps overcome institutional barriers. Aldrich and Zimmer (1986) and Ireland et al. (2001) define a network as patterned relationships between actors such as individuals, groups or organizations. While the need for trust is implied in this definition, it is not specifically stated.

Many authors distinguish between informal and formal networks (Dollinger 2003). Aldrich and Zimmer (1986) use the term “business” network, which seems to be nearly synonymous with “formal” network. Others state that the term network may include strategic alliances, joint ventures, licensing agreements, and even joint marketing agreements (Groen, 2005). Nevertheless, virtually all definitions of the term indicate a group which provides direct interaction between individual actors coupled with some level of trust. A synthesis of these works provides a working definition of an entrepreneurial network which, for purposes of this paper, may be characterized as a system of personal relationships, based on trust, and entered into for the purpose of enhancing ones competitive advantage.

Trust, then, is at the heart of our first proposition:

**Proposition 1** - Entrepreneurs benefit from the development of personal networks of associates based on trust; trust being defined as a comfort level which results from repeated interactions with people of similar beliefs, experiences, and patterns of association that may include relatives, old friends and previous work associates.
4 Networking and resource availability

Dollinger (2003) states that today’s entrepreneurs are deeply embedded in networks, partnerships and alliances. He distinguishes formal from informal networks and describes some of the benefits, to the entrepreneur, of belonging to an informal network. Networks provide entrepreneurs with information about their environment as well as assisting them in building a reputation and credibility, not only for themselves as individuals, but for the firm they are attempting to establish. He states that in some cases, the network itself can become a source of sustainable competitive advantage. In others, it can become a generator of resources that in turn gives rise to a sustainable competitive advantage. Similarly, Johannisson (2000) while examining entrepreneurial growth reveals that because of liabilities like newness and lack of legitimacy within the market, entrepreneurs use social networks to establish legitimacy for their own efforts as well as barriers to entry for possible competitors. He also states that these networks provide the entrepreneur with market intelligence as well as tangible resources. In addition, these informational networks remain important throughout the career of the entrepreneur.

Citing Birley (1985) as well as Aldrich and Zimmer (1986), Johannison maintains that personal networks supply entrepreneurs with what he describes as a “universal resource kit”. The kit assists the entrepreneur with enforcing his/her identity as well as building general support. In addition, it provides information about access to physical and financial resources. Lender (2003), concurs that access to networks can help small entrepreneurial firms to overcome the liabilities of newness and smallness. In addition, he says networks support the development of cooperative relationships, which can prove critical during the start-up stage of development.
Proposition 2 – Entrepreneurs use social networks to establish legitimacy for their own efforts thereby enforcing their identity while building general support.

Research focusing on measuring network interaction in terms of frequency, intensity, and durability has revealed that extensive networks are important to the growth of entrepreneurial ventures because they provide access to resources held by other actors within the network. (Neegaard and Madsen 2004; Shaw 1997; Shaw and Conway 2000). Neegaard and Madsen go so far as to state that the larger the network, the better the access to outside resources—implying ultimate success of the firm might hinge on the size of the informal network. A significant resource sought by entrepreneurs from other members of the network in the start-up phase of business development, is capital. A study of start-up technology-based firms in the southwestern US, revealed that the firms received a significant percentage of their start-up capital from network partners (Carayannis et al., 2000).

Johannisson and Monsted (1997), maintain that a principle strength of the entrepreneurial network is its bridging function. Specifically, they posit that networks provide a bridge between the social and economic dimensions of human conduct. Within this context, entrepreneurial networks provide four general benefits:

First, they help create new patterns of economic activity, assist innovation, bridge supply and demand and help integrate fields of activity that have previously been separated.
Second, they assist the entrepreneur in his/her efforts to scan the environment for opportunities that may be exploited in the future.
Third, they provide a type of governance for entrepreneurial behavior.
Fourth, interaction within the network assists the entrepreneur in building his/her own fund of social capital within the marketplace.
Groen (2005) maintains that entrepreneurial processes are quite dynamic. Within a rapidly changing environment, entrepreneurs face the challenge of identifying, attracting, and combining various resources. Simultaneously, they must also transform personal resources into organizational resources. Groen is not alone in his opinion that entrepreneurs operate in a dynamic environment.

Researchers such as Eisenhardt and Martin (2000), while not addressing entrepreneurial firms specifically, note that certain firms have a competitive advantage over others by virtue of their ability to function well in rapidly changing (dynamic) environments. These firms have what refer to as dynamic capabilities. That is they are able to integrate, build, and reconfigure both internal and external capabilities (including networks) in order to sustain a competitive advantage.

A related work (Schoonhaven and Romanelli, 2002), presents opinions of many who concur with Groen. The work abandons the old concept of the entrepreneur as an isolated figure building a business. Rather, he or she is part of a group, which includes individuals as well as institutions, and these various players interact to produce entrepreneurial opportunities. The authors repeatedly note that entrepreneurship is often a local process that is influenced by the resources available (or unavailable) in a particular local. The authors also contend that entrepreneurship is influenced by the specific characteristics of a region. Some of these characteristics may include ethnic communities, local institutions, and even government entities. This work identifies the entrepreneurial landscape as a dynamic and often confusing environment. However, like Groen, Eisenhardt and Martin and Schoonhaven and Romanelli share the opinion that
social and economic networks help entrepreneurs meet the challenges imposed by this dynamic environment.

**Proposition 3** - Being a part of networks provides the entrepreneur with increased access to both tangible and intangible resources.

**Proposition 4** – Being a part of networks broadens the exposure of the entrepreneur to additional environmental opportunities that may be exploited in the future.

5 **Types of networks**

There is a relatively small, but nonetheless significant, body of literature illustrating that many entrepreneurs eschew networking despite its obvious advantages. The authors of this body of work supply some explanations for this phenomenon. One relatively common reason that some entrepreneurs state for refusing to network revolves around trust—or specifically, a lack of it.

Dollinger (2003) states that differences between individual network members like decision making styles, flexibility, degree of independence, and management styles, while not fatal to the formation of networks, can decrease trust, which can complicate the process (p. 349). From their analysis, Tornikoski and Newbert (2007) suggest that while initially the structure of the network is not predictive of emergence, the content is and that the benefit of any increase in size of the network may be moderated by both the structure (in terms of size and strength) and the content of the network.
**Proposition 5** – Entrepreneurs receive less benefit from networks where the other members of the network differ markedly in such characteristics as decision-making styles, flexibility, degree of independence and management styles.

In their study of entrepreneurs operating within a British incubator, McAdam and McAdam (2006) note that trust appeared to be an important factor in establishing bonds between entrepreneurs and that trust was not automatically accorded as the result of being a member of the incubator. It had to be earned through social interaction. In many cases a trust relationship never developed at all. Often there appeared to be a latent fear among the entrepreneurs of giving away too much information (about their ideas) in network discussions. The entrepreneurs stated that while they valued social networking, they valued their intellectual property more. These examples would appear to support the contention that some entrepreneurs avoid networks altogether and others only enter networks with persons they know and trust as the result of direct social interaction.

Entrepreneurship and intrepreneurship studies have shown the knowledge transfer, joint collaboration planning actions and integrated systems each benefit from the incorporation of networks in their planning efforts (Antoncic 2007, Hadaya et al. 2007, and Lee et al. 2007).

Neegaard and Madsen (2004), while studying Danish entrepreneurs corroborated the need for trust within entrepreneurial social networks (see above). However, in addition, their study revealed that while almost all (94.1%) of the respondents agreed that it is important to have many contacts (in a network), some did not. Interviews with individual entrepreneurs revealed, “attitude to and perceptions of networking activities
exercised an important influence on networking behavior (p. 116).” Some of the entrepreneurs interviewed attached little importance to networking and three of the interviewees rejected its relevance altogether. Those rejecting it stated that they did not network, either because they saw no need for it or because they simply did not like to network. Interestingly, all of the individuals responding in this manner belonged to multiple member founding teams and all of them held positions within the team as technical officer or officer in charge of R&D. None of them considered themselves a CEO or Marketing officer.

**Proposition 6** – Entrepreneurs who rely heavily on technology and intellectual property rights may see networks as being a threat to their competitive advantage.

While it is possible that some of the entrepreneurs and SBDC directors included in the two exploratory studies may fall into the minority who simply don’t attach importance to networking, it seems extremely unlikely that all of them would. A more likely explanation may be supplied by Pages and Garmise (2003). While advancing the hypothesis that networks are a critical component to an entrepreneurial climate they stress that the entrepreneurs themselves establish most entrepreneurial networks, as well as the most effective networks. Specifically, these effective networks are not generally created by governmental agencies. They state further that each entrepreneur enters a network for entirely individual reasons but the principal causes for entry include a desire to learn from peers and to gain local expertise as to how to succeed in business. Moreover, individual
entrepreneurs cannot join networks for the reasons mentioned above unless they have been exposed to networks.

**Proposition 7** – Entrepreneurs find more satisfaction in networks that they had a part in creating as opposed to networks created by governmental or other entities.

Later in their work Pages and Garmise (2003) ask what happens in rural communities where only a handful of entrepreneurs exist. In such areas, interacting with other entrepreneurs may require traveling long distances, which might inhibit face-to-face interaction (p. 23). Individual entrepreneurs in such an environment may lack significant exposure to the benefits of networking with other entrepreneurs or stakeholders. In addition, they lack the opportunity to engage in the face-to-face interaction necessary for building a trust relationship. It is important to note here that a significant majority of the entrepreneurs included in the first exploratory study came from such a rural environment.

Since the respondents to the second exploratory study were SBDC personnel, it appears likely that they would be aware of some of the body of literature supporting the benefits of networking. Yet even they ranked networking very low in importance when compared to the other 17 skills included on the survey. Since all of the respondents came from relatively rural areas of the Midwest, it is possible that many do not value entrepreneurial networks because they have not been exposed to a specific successful network. This raises the question: what can be done to increase the use of, or at least awareness of, entrepreneurial networks?
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Here, Pages and Garmise (2003) offer some valuable suggestions. They acknowledge that networks require leadership from entrepreneurs. However, in areas where the environment does not encourage the “natural” growth of networks, they suggest public officials can offer assistance but should do so with a “light touch”. They caution that while public officials (e.g. municipal planners, university personnel, SBDC advisors) may provide the spark that creates a network, it is the entrepreneurs themselves who must run it. These public officials must be willing to avoid active intervention once the network is founded. They must even be willing to accept failure if the local network does not thrive.

It should also be noted that the type of networks Pages and Garmise reference are not specific entrepreneurial networks. That is: they are not a network formed by a specific entrepreneur in order to satisfy his/her personal or professional needs. Rather, they are general in nature and include entrepreneurs from different sectors of the economy. While such a network might not be ideal for each participating entrepreneur, it would allow him or her to share ideas and learn from others on a limited basis. It would also serve to increase awareness of the effectiveness of entrepreneurial networks as well as nurture a general entrepreneurial culture in the region.

Proposition 8 – Where entrepreneurs have difficulty building network relationships on their own, the establishment of entrepreneurial networks by governmental or other advising entities may be beneficial.
7 Discussion

This paper has examined the research literature related to the relationship between entrepreneurial networking activities and entrepreneurial development. We discovered that these relationships were often related to trust, the availability of resources, and the various types of networks involved. We found general support in the literature for the use of network, but also found some important examples where entrepreneurs felt the being a part of a network could have negative implications.

Several proposition were developed that might be useful in further examination of these relationships. These were reported as relating to trust factors, resource availability, and the types of networks in which entrepreneurs might become involved.

8 Implications for Managerial Practice and Research

These propositions might be used as an outline for discussion at workshops or seminars conducted for entrepreneurial education and outreach, for example. Simply bringing this kind of discussion to the attention of some entrepreneurs may be beneficial. For some, a more detailed or in-depth presentation and discussion may be required. For others, a longer exposure to the material from research literature may be needed for them to understand the value of networking to their particular entrepreneurial venture.

A survey instrument might be developed from these propositions that could be used in further research with a variety of constituencies to develop a better understanding of the relationship between entrepreneurial networking activities and entrepreneurial development and success. This instrument would allow a more detailed analysis of the
factors the different entrepreneurs take into account as they decide whether to join a particular networking alliance.

The presentation of this paper to interested and involved individuals working toward entrepreneurial success will also make one more contribution worthy of the effort.
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