11 Entrepreneurship and Networking Processes

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Introduction

A network is generally defined in the entrepreneurship literature as a specific type of relationship linking a defined set of people, objects or events (Nelson, 1988; Szarka, 1990). Paché (1990) defines networks in the context of organised systems as long-lasting exchange relationships between two or more companies that focus on the mutual interests of their members.

In the hospitality and tourism industry, networks are instrumental in sharing information and resources, in building knowledge-sharing alliances and in obtaining economies of scale and scope. Networking processes are therefore considered as key opportunities for small business entrepreneurs to overcome resource-constrained conditions in tourist destinations. The importance of networking processes is widely recognised in destination development planning, not only in tourism and hospitality for start-ups, but also subsequently in view of the multifaceted nature of tourism products. The complex coordination of tourism products thus engenders extensive collaborative relationships in the industry. Network relationships are particularly important for the tourism sector where groups of organisations cluster together to form a destination context (Pavlovich, 2003). Networks also achieve social and environmental objectives in accordance with the growing importance of EU funds for development projects and programmes (Long, 1996) and cross-sector initiatives that bring together different stakeholders in sustainable development initiatives (Selin, 1999). Networks increasingly facilitate the ongoing development, preservation and nurturing of culture as a resource for rural tourism (MacDonald and Jollife, 2003).

The purpose of this chapter is to develop an understanding of networking processes from an entrepreneurial perspective. More specifically, by the end of this chapter you should be able to:

- Explain social networks and social capital in relation to entrepreneurial networking processes;
- Describe the elements of a network from a theoretical perspective;
- Discuss the links between local environments and networking processes.

The chapter begins by defining social networks and social capital before examining the fundamental elements of a network. Thereafter, the nature of ties is discussed, to identify the implications for business development. Finally, the local environment, cluster and networking processes are examined with a focus on destination development implications.

Entrepreneurship, social networks and social capital

Entrepreneurship

The concept of 'entrepreneurship' is associated with networks of continuing social relations whereby business implementation in an intense web of relationships is supported or constrained by links between entrepreneurs, resources and opportunities. Developing a new business idea requires different contacts and resources, as social relations affect the structure of decision-making processes (Starr and MacMillan, 1990; Reynolds, 1991; Larson and Starr, 1993; Borch, 1994; Hansen, 1995;) and are instrumental in obtaining advice and the salient resources to launch a new business (Granovetter, 1985, 1992).

Social networks

Social networks are defined by a set of actors (individuals or organisations) and a set of links between the actors (Brass, 1984). Social networks are not fixed structures; they represent the social context of businesses and can be activated according to different needs (Granovetter, 1985; Burt, 1992). Social network members can contact and organise themselves and thereby increase the opportunities they make available to entrepreneurs (Burt, 1992).

Family members and friends can play an essential part in analysing the nature of networks and thus entrepreneurs frequently involve their family members in their business networks to obtain help and support (Rosenblatt *et al.*, 1985). Birley (1985), Zimmer and Aldrich (1987) and Hara and Kanai (1994) find that a pre-existing web of relationships, in particular among friends and family, are resource providers in the new venture process.

In addition, the relationships between entrepreneurs and other actors provide resources that are important to establishing a business (Johannisson, 1988; Larson, 1991). More specifically, entrepreneurs require information, capital, skills and labour to start business activities. Although they hold some of the resources themselves, these are often complemented through accessing those of their contacts (Aldrich and Zimmer, 1986; Cooper *et al.*, 1995; Hansen, 1995). For example, entrepreneurs may have the ideas, knowledge and competencies to run the business but also require additional key factors to achieve their goals (Teece, 1987). They thus obtain support, knowledge and access to distribution channels through their social relationships.

Entrepreneurs are also linked to other people and organisations that interact and these contacts can increase the availability of resources that sustain a new firm (Hansen, 1995). These contacts are often informal work and non-work connections and the relations may extend across professional networks and to former colleagues.

Network reliance is not limited to the start-up stage, as entrepreneurs continue to rely on networks for business information, advice and problem-solving, with some relationships supplying multiple resources (Johannisson *et al.*, 1994).

Social capital

When the relationships of entrepreneurs contribute to their entrepreneurial goals, these social relations become their social capital (Burt, 1992). Social capital consists of the relationships that enable the achievement of successful outcomes and are a key component of entrepreneurial networks (Burt, 1992). Gabbay and Leenders (1999) define social capital as the set of tangible or virtual resources that accrue to actors through their social structure, and facilitate the attainment of their goals. In the entrepreneurship network literature, the following network elements emerge as critical to theoretical and empirical research:

1 The content that is exchanged between actors;
2 Trust and network governance;
3 The nature of the ties;
4 The network structure created by the intersecting relationships between actors.

These four elements are discussed in the following sections.

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