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THE ROLE OF 'PROFESSIONAL ADVISORS ON FINANCIAL MATTERS' IN ENTREPRENEURIAL NETWORKS

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This study investigated the influence that 'professional advisors on financial matters' have in comparison with other people with whom entrepreneurs discuss their venture. Based on follow-up surveys completed in relation to the Danish participation in the Global Entrepreneurship Monitor (GEM) survey, it was found that professional advisors on financial matters only play a minor role in the two early phases of the entrepreneurial process before the venture is actually started. It was further revealed that the ties between professional advisors on financial matters and entrepreneurs often are weaker than the ties entrepreneurs have with others in their discussion network. Two practical implications for professional advisors on financial matters emerged from the study.

Keywords: Advisor; financial matter; social networks.

INTRODUCTION

This study sought to investigate, from a social network approach, how influential 'professional advisors on financial matters' are compared to other

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people with whom entrepreneurs discuss their venture. We were interested in the *relative* influence of these professional advisors on entrepreneurs' decision making compared to the influence of other people. 'Professional advisors on financial matters' are defined as persons in entrepreneurs' discussion networks who entrepreneurs (1) categorize as professional advisors and (2) with whom they discuss financial matters. This applies regardless of whether or not the advisors provide financial resources.

Thus, the concept of professional advisors on financial matters can be divided into two main categories. One which contains those advising on financial matters without being economically involved themselves, and another category containing those providing financial advice while at the same time being economically involved in the business. The first category might include lawyers, accountants, management advisors, consultants and similar advisors possessing financial expertise (Bennett and Robson, 1999), whereas the second category might include people from government associations, venture capitalists, banks, or business angels (e.g. Bygrave *et al.*, 2003). Importantly, the concept does not include lay people — only professionals.

Previous studies clearly show that social networks are essential to entrepreneurs' success (see Hoang and Antoncic, 2003 and O'Donnell *et al.* 1999 for comprehensive reviews). Through networks entrepreneurs access and obtain non-redundant resources that make them perform better. Thus, social networks provide entrepreneurs with resources they do not possess themselves and thereby inform the decision making process.

Most previous research regarding professional advisors on financial matters has investigated the *dyadic* relationship between these advisors and the entrepreneurs (e.g. de Clercq and Sapienza, 2001; Kelly and Hay, 2003), whereas the role of these advisors as part of a *whole* network is almost neglected. Two studies have broadened the perspective to more than just dyadic relations. Rosenstein *et al.* (1993) found that CEOs do not value the advice from venture capitalists any higher than the advice received from board members. Choi and Stack (2005), in a later study, explored the difference in value adding among advisory board members, boards of directors, investors and others, finding that directors and informal advisors add significant value, while investors — especially business angels — add surprisingly little. Although these studies are valuable for their effort in exploring the relative role of investors (mainly venture capitalist) by changing the dyadic approach taken in many previous studies toward a focus on the whole network, they have their limitations. They are circumscribed in the sense that their investigations were conducted in a very specific context containing growth-oriented high-technology ventures. This context might be particular rather than general in regard to the use of advisory boards and board members and in their need for external finance. Further, the studies did not account for possible changes in the value added by various advisors at various stages of venture development. They concentrated on evaluating *instrumental* advice ignoring the essential emotional and moral support that might be obtained from professional advisors. And finally, they did not explore how the characteristics of CEOs might influence how they perceived the advice they received.

Thus, it remains essentially unknown how influential professional advisors on financial matters are compared with other people with whom entrepreneurs discuss their venture. This study provides a comparison of advisors on financial matters and other people in entrepreneurs' social networks in a traditional business context. Use of a social network approach (Hoang and Antoncic 2003; O'Donnell *et al.* 2001) enabled investigation on the *relative* importance of professional advisors on financial matters. We further aimed to investigate the nature of the relationship between these professional advisors and entrepreneurs, and how certain characteristics of the entrepreneur may influence involvement of these advisors.

ENTREPRENEURS, FINANCIAL MATTERS AND PROFESSIONAL ADVISORS

The Concept of 'Professional Advisor of Financial Matters'

The concept of 'professional advisor on financial matters' adopted in this study includes professional advisors with whom entrepreneurs discuss financial issues, irrespective of whether these advisors provide entrepreneurs with finance or not. Accordingly, two basic types of professional advisor exist. There are outsiders who bring capital into the venture and outsiders who do not. The first category might include people from government associations, venture capitalists, banks, or business angels (e.g. Buttner and Rosen, 1988; Sapienza, 1992; Fried and Hirich, 1995; Harrison *et al.*, 1997; Warhuus, 1999; Bygrave *et al.*, 2003). The second category might include advocates, accountant, management advisors and so forth (Bennett and Robson, 1999; Johansson, 1999; Chrisman and McMullan, 2004; Damgaard *et al.*, 2004; Berry and Sweeting, 2006; Christensen and Klyver, 2006).

In contrast to most previous research, this study does not distinguish between those professional advisors on financial matters who provide financial resources and those who do not. We do not make this distinction due to two reasons. First of all, we are studying more traditional businesses. Many of them have not obtained or need to obtain external finance, and therefore they will not receive advice from investors. Thus, the nature of professional advisors being used by traditional businesses is different from those professional advisors being used by growth-oriented businesses in high-tech industries (Christensen and Klyver 2006). Second, we are not, like Rosenstein *et al* (1993) and Choi and Stack (2005), specifically interested in investors' value adding, but rather how entrepreneurs, through the start-up process, perceive the role of professional advisors on financial matters and their relationships to them compared to other people (e.g. family, friends or colleagues) in their networks. Thus, investigating the difference between the advice received from investors and other advisors on financial matters is beyond the scope of this paper.

The Relationship between Entrepreneurs and Professional Advisors on Financial Matters

Several studies have investigated the relationships between entrepreneurs and professional advisors on financial matters. Most of these studies are focused on the dyadic relationship between either: entrepreneurs and venture capitalists (e.g. Fried and Hisrich, 1995; Barney *et al.*, 1996; de Clercq and Sapienza, 2001; Cable and Shane, 1997; Sapienza and Cupta, 1994; Sapienza, 1992; Sapienza and de Clercq, 2000; Shepherd and Zacharakis, 2001; Parhankangas and Landström, 2004), between entrepreneurs and business angels (e.g. Bygrave *et al.* , 2003; Harrison *et al.*, 1997; Sørheim, 2003; Kelly and Hay, 2003), between entrepreneurs and bankers (e.g. Warhuus, 1999; Binks and Ennew, 1997; Zineldin, 1996; Butler and Durkin, 1998; Buttner and Rosen, 1988; Young, 1996; Binks, 1996), between entrepreneurs and employees in innovation centres/government associations (e.g. Bøllingtoft and Ulhøi, 2005; Sherman and Chappell, 1998; Allen and Rahman, 1985; Bollinger *et al.*, 1983; Hansen *et al.*, 2000; Chrisman, 1999), or between entrepreneurs and accountants, advocates or management advisors (Johansson, 1999; Johansson, 1997; Mønsted, 1985; Storey, 1994; Chrisman and McMullan, 2004; Damgaard *et al.*, 2004; Christensen and Klyver, 2006).

Many previous studies conclude that entrepreneurs often rely heavily on informal relations such as family and friends on issues — such as financial issues — where one would expect them to rely on professionals and specialists (Anderson *et al.*, 2005). This tendency to rely on informal contacts, even on highly complex and specialized issues, is often explained by entrepreneurs' emphasis on trust (Christensen and Klyver, 2006). Often entrepreneurs prefer to obtain advice from people they know and trust due to their common history and previous interaction experiences, even though these people might not be the most qualified on the subject. Thus, it often means more to entrepreneurs that they trust their advice and resource providers than whether they hold pertinent knowledge and skills.

Empirical studies on the dyadic relationship between entrepreneurs and their professional advisors on financial matters have applied different theoretical perspectives including agency theory, procedural justice theory, theory on interorganisational learning or knowledge-based theory. The basic question all these approaches try to address is how partners can benefit from their involvement. Some approaches predominantly concentrate on a one-partner perspective, whereas others mainly view the relationship from the perspective of the mutual benefits and obligations involved in the relationship.

Agency theory, in which a principal delegates work to an agent, emphasises the importance of common goals and risk aversions in order to create a cooperative and beneficial relationship (Sapienza and Gupta, 1994). In contrast to agency theory, procedural justice theory emphasises the importance of trust in relationships between professional advisors and entrepreneurs (Sapienza and Korsgaard, 1996; Korsgaard *et al.*, 1995). According to procedural justice theory, trust and commitment is developed in a relationship when partners feel the procedures used to make decisions are fair (Korsgaard *et al.*, 1995; Sapienza and Korsgaard, 1996). In the interorganisational learning or knowledge-based approach, it is assumed "… that people's actions are not solely guided by self-interest, but also by reciprocity, i.e. individuals' tendency to treat others as they are treated" (de Clercq and Sapienza, 2001, p. 109). Here, both partners benefit from each others' experience and knowledge when they work mutually to serve the relationship as a whole.

A Social Network Perspective on the Use of Advisors on Financial Matters

The above-mentioned theories and analytical approaches have provided vital knowledge on the relationship between entrepreneurs and advisors on financial matters. However, they are limited in the sense that they only enable investigation on the dyadic level, not taking into account the relative importance of these advisors compared to other people.

A social network perspective enables a more holistic approach where all people in the network can be investigated and compared at the same time.

Social network theory was introduced to entrepreneurship literature in the mid 1980s and draw heavily on the resource based view (Wernerfelt, 1984). The basic idea is that social networks (in diverse ways) provide entrepreneurs with a wide range of valuable resources not already in their possession and help them achieve their goals (e.g., Hansen, 1995; Jenssen, 2001; Ripolles and Blesa, 2005; Welter and Kautonen, 2005). Among the most important resources that networks can provide are: information; access to finance; access to skills, knowledge and advice; social legitimacy; reputation and credibility. It is also well established that different social network structures and different persons in the network provide various resources. Thus, entrepreneurs need to interact with different people depending on which resources they are seeking.

From an entrepreneur's perspective, all professional advisors on financial matters are expected to add resources to the venture, although the nature of these resources varies depending on the type of professional advisor. Some professional advisors on financial matters mostly provide finance, whereas others might provide entrepreneurs with knowledge, coaching, operating service, moral support, legitimacy, networks and so forth. In the literature, some studies have a strong focus on the financial resources that entrepreneurs may obtain from their professional advisors on financial matters (e.g. Rosenstein *et al.*, 1993; Shane and Cable, 2002; Bygrave *et al.*, 2003; Choi and Stack, 2005), whereas other studies have a strong emphasis on the knowledge they gain from interacting with these professional advisors (e.g. Sapienza and Korsgaard, 1996; Shepherd and Zacharakis, 2001).

Whatever focus previous studies have taken, a common theme is that empirical results strongly indicate that professional advisors on financial matters are important and that they influence the decisions taken by entrepreneurs. A few studies do, however, find that investors provide surprisingly little value in areas such as strategy and financial planning (Rosenstein *et al.*, 1993; Choi and Stack, 2005).

However, what is still unknown is *how influential* professional advisors on financial matters are compared to other people with whom entrepreneurs discuss their ventures. From entrepreneurial network theory it is known that entrepreneurs discuss their decisions regarding their venture with people in their discussion networks (e.g. Aldrich and Zimmer, 1986; Jenssen, 1999; Davidsson and Honig, 2003; Hoang and Antoncic, 2003). These discussions influence entrepreneurs' decision making. The question remaining is how frequent and how involved professional advisors on financial matters are in these discussion networks compared to other involved people.

The Discussion Network

The discussion network is a well-known and common way to operationalize and measure social network structure. The methodological approach — also termed the name-generator approach — was developed in the mid 1980s and has been extensively used for more than 25 years in the American General Social Survey (GSS) (Burt, 1984). The discussion network involves people with whom a focal entrepreneur has direct relationship and who are active in the context of the actions and decisions the entrepreneur confronts (Burt, 1984). In order to investigate an entrepreneur's decision making, the discussion network must be considered. People included in discussion networks are people who influence entrepreneurs' decision making. In order to explore the *relative* influence from professional advisors on financial matters on entrepreneur's decision making, one needs the foil of understanding obtained by examination of the entire discussion network.

Most previous research has focused on the dyadic relationship. The research is important, but it cannot answer the question of relative importance. Three sub-research questions are raised in this study in order to answer the overall research question about how influential professional advisors on financial matters are compared to other people with whom entrepreneurs discuss their venture:

(1) When do professional advisors on financial matters participate in entrepreneurs' discussing networks?
(2) What is the nature of the relationship between entrepreneurs and their professional advisors on financial matters compared to their relationship with other people involved in their entrepreneurial decision making?
(3) How do entrepreneurs' characteristics influence involvement of professional advisors on financial matters?

Sub-question 1 will be empirically tested in hypothesis 1, sub-question 2 will be empirically tested in hypotheses 2a and 2b, and sub-question 3 will be empirically tested in hypothesis 3.

HYPOTHESES

Entrepreneurs face a lot of challenges that have to be managed throughout the entrepreneurial process. For measurement purposes it is usual to distinguish different broad-level phases in the continuous process of entrepreneurship as though they were synonymous with precise phases of a business life cycle.

It is a well-demonstrated fact that social networks are dynamic (Johannisson, 1996; Greve and Salaff, 2003; Batjargal, 2006; Evald *et al.*, 2006; Klyver, 2006), and it is possible, therefore, that entrepreneurs rely on different compositions of social networks in different stages of the entrepreneurial process. Emerging results indicate that entrepreneurs in the process of starting a business, who face the decision about starting or not often rely more heavily on dense networks and strong ties. Their networks often include a high proportion of family members. Strong ties, such as those often involved in family membership, provide emotional and moral support surrounding the stressful decision about whether to start a new venture (Larson and Starr, 1993; Brüderl and Preisendörfer, 1998; Greve and Salaff, 2003; Anderson *et al.*, 2005; Neergaard *et al.*, 2005).

As entrepreneurs move forward in the entrepreneurial process they need to create the conditions for sustainability in the market place. At this stage, the prevailing argument in the extant literature is that they return to reliance upon diverse (rather than dense) social networks that include many weak ties (Larson and Starr, 1993; Greve, 1995; Hite and Hesterly, 2001). Moreover, social networks at this stage are more embedded into a business context than before (Larson and Starr, 1993; Evald *et al.*, 2006).

Professional advisors on financial matters obviously play a major role in providing entrepreneurs with financial advice. Previous research reveals that the challenges and tasks entrepreneurs face through the entrepreneurial process change and specifically that knowledge concerning financial issues becomes increasingly important as entrepreneurs move forward in the entrepreneurial process (e.g. Terpstra and Olson, 1993; Brush and Manolova, 2004). Thus, it may be surmised that professional advisors on financial matters will be increasingly included in entrepreneurs' discussion networks as they move forward in the entrepreneurial process.

Hypothesis 1: The inclusion of professional advisors on financial matters into the discussion network (compared to other role-relations) increases as entrepreneurs move forward in the entrepreneurial process.

Financial issues might be perceived as less emotional than more personal issues such as entrepreneurs' dreams and life visions. In fact, financial issues involve the most vital aspects of the economic reality of the business opportunity. These issues, compared to more personal issues, are often discussed with people less close to the entrepreneur (Birley, 1985; Johannisson, 1988; Brüderl and Preisendörfer, 1998; Jenssen and Koenig, 2002; Jenssen and Greve, 2002; Davidsson and Honig, 2003; Shane and Cable, 2002).

Hypothesis 2a: Professional advisors on financial matters are more weakly connected to entrepreneurs than other role-relations.

Social support theory (House, 1987) has been interpreted as comprising four kinds of support: emotional or moral support, instrumental support, information, and social companionship (Agneesens *et al.*, 2006). Prior research on the value of professional advisors on financial matters has mostly been focused on instrumental support and information, whereas moral support and social companionship have been largely neglected as foci of research. In this study, emphasise is on moral support.

Different network compositions and different strengths of ties provide support for different activities, actions and challenges (Lin, 2001). In entrepreneurship research, it has been argued that weak ties have an advantage in relation to divergent activities such as opportunity recognition and venture growth, whereas strong ties have an advantage in relation to convergent activities such as taking the final decision to start the business or not (Evald *et al.*, 2006). Thus, weak ties are presumably more likely to provide entrepreneurs with non-redundant information whereas strong ties presumably are more likely to provide entrepreneurs with emotional and moral support.

It may be assumed that entrepreneurs receive the preponderance of their emotional and moral support from closely connected role-relations such as family members, whereas people with whom they discuss financial issues more often provide criticism (Birley, 1985; Foss, 1994; Brüderl and Preisendörfer, 1998; Jenssen, 1999; Davidsson and Honig, 2003). Discussions on financial issues call, by their very nature, for facts, and a critical approach to confronting reality.

Hypothesis 2b: Professional advisors on financial matters more often provide criticism rather than encouragement compared to other role-relations.

As discussed above, entrepreneurs activate different elements of their general social network according to the activities and decision-making needs, as and when they occur. Furthermore, it cannot be expected that entrepreneurs will behave in identical ways. Similar situations are bound to provoke different emotional responses, and there will be differences in individual strengths and weaknesses when looking at issues such as personal and financial insecurity, level of ambiguity, and degree of challenge. Also, they do not possess the same set of capabilities. Thus, to support similar activities and decisions, entrepreneurs tend to activate and draw on different kinds of social networks from which they search for assistance (Renzulli *et al.*, 2000; Greve and Salaff, 2003). Thus, it may be expected that involvement of professional advisors on financial matters varies with characteristics of the entrepreneur.

Hypothesis 3: Involvement of professional advisors on financial matters is dependent upon distinguishable characteristics of the entrepreneur.

METHODOLOGY

Data: Danish GEM Population Survey 2002-2003 and Two Follow-Up Surveys

This paper applies the Global Entrepreneurship Monitor (GEM) methodology and criteria (Minniti *et al.*, 2006) and accordingly a life cycle approach to organisational development is adopted (Quinn and Cameron, 1983).

Two associated databases were used to test the four hypotheses. The first was the Danish population survey carried out as part of the Global Entrepreneurship Monitor (GEM). The data used for this article encompasses data from the Danish participation in 2002 and 2003. A sample of Danish adults were interviewed by telephone and asked questions relating to current involvement in entrepreneurial activities, their attitude toward entrepreneurship, and demographic factors. The research population comprised adults in Denmark between 18 and 64 years old and the sample frame was based on a complete list of telephone numbers in Denmark. Telephone numbers were randomly selected from the sample frame and interviewers requested to speak to a person in the household between 18 to 64 years old. The second database comprised data collected in two follow-up surveys connected the Danish GEM 2002 and 2003 population surveys. Our follow-up surveys were not part of GEM international. Here additional questions were asked to people identified by the GEM population survey who reported involvement in entrepreneurship. The empirical data used in this study are comprised of both the GEM population survey and our follow-up survey. Appendix 1 provides an overview of the data.

Our Follow-Up Survey: Discussion Networks

Respondents who, in the original GEM population survey, were classified as entrepreneurs according to their progress within the entrepreneurial process were contacted after the GEM survey and asked further questions about their social networks. For that purpose the name-generator approach was used to identify entrepreneurs' discussion networks. The name-generator instrument has been used extensively for more than 25 years. It has been used since the mid 1980s in the General Social Survey in US (Burt, 1984; Marsden, 1987). It was later introduced to entrepreneurship research and has become the most established instrument to quantify entrepreneurs' social networks. Some of the main contributions to entrepreneurial network research apply this instrument (Greve, 1995; Jenssen, 1999; Singh, 2000; Greve and Salaff, 2003). The basic idea behind this approach is to identify people's social networks by asking them to name persons with whom they have discussed 'important matters'. In this specific study 'important matters' are the intention to start a business, the business idea, or the business depending on which phase the entrepreneur is operating in.

Thus, following the name-generator approach respondents were asked the following question: "Name five persons with whom you have discussed your (intention to start a business; business idea; business), and if you have discussed your (intention to start a business; business idea; business) with more than five persons, then the five persons who have influenced you most." For all of the people within the network, their names, their role-relation to the entrepreneur (that of family, friend, colleague, professional advisor, etc.), the strength of tie between the entrepreneur and the network contact, the received moral support/criticism, and the discussion issue, were measured.

Validity in Research Design

The findings were based on 264 completed questionnaires collected in 2002 and 2003. In total, the combined returns identified 1,103 instances of relationships between entrepreneurs and professional advisors in their discussion networks. The response rates were respectively 92 per cent in 2002 and 73 per cent in 2003. Thus, all in all, the response rate is acceptable compared to rates generally achieved in the social sciences (Yo and Cooper 1983; Baruch 1999; Bartholomew and Smidt 2006). A non-respondent analysis of the follow-up data revealed no significant differences between respondents and non-respondents with regard to demographic variables such as gender distribution and mean age. Thus, respondents in the follow-up survey are representative of the sample frame. In contrast to many other studies within entrepreneurship and especially within the entrepreneurial network domain, the research design therefore enables a generalisation of the results, at a minimum, to the population of Danish entrepreneurs. The fact the respondents were interviewed contemporaneously, in the very acts of entrepreneurship and business creation, avoided hindsight and memory biases. This further strengthens validity of the results.

EMPIRICAL RESULTS

Introduction to and Presentation of Data

Table 1 presents descriptive statistics on the entrepreneurs involved in the investigation.

It shows that the mean age of entrepreneurs in the sample was 40.2 years and that women entrepreneurs counted 33% of the whole sample. 18.8% had no higher education, 30.8% had vocational education, whereas the remaining entrepreneurs had higher education. The average size of the entrepreneurs' discussion network was 3.39 persons.

In Table 2, the distribution of role-relations between family, friends from educational institutions, friends from elsewhere, colleagues, professional advisor, and others, are shown with respect to several matters (including financial matters) under discussion between entrepreneurs and their counterparts.

Both variables included in Table 2 are nominal variables, and therefore a chi-square analysis was used to detect whether an association could be found between role-relations and matters under discussion. Table 2 reveals that discussions concerning the fundamental business opportunity and life considerations are the most frequent issues in the discussion network, whereas discussions concerning financial matters are less frequent and only count for 20.8% of all discussions between entrepreneurs and their counterparts. The tabulated results further indicate that financial matters are mostly discussed with family members or professional advisors, and that financial matters are the most frequent matter under discussion when entrepreneurs discuss with professional advisors.

Table 1. Descriptive Statistics.

Variables	Description
Mean age of entrepreneurs	40.2 years old
Percentages of women entrepreneurs	33 %
Education level	
—No higher education	18.8 %
—Vocational education	30.8 %
—Higher education — less than 3 years	6.9 %
—Higher education — 3-4 years	18.1 %
—Higher education — more than 4 years	25.4 %
Mean size of network	3.39 persons

Table 2. The Distribution of Role-Relations and Matter Under Discussion.

		Matter Under Discussion			**Total**
		Financial	**Organizing**	**Opportunity and life considerations**	
Family	Count	74	51	164	289
	% within role-relation	25,6%	17,6%	56,7%	100,0%
	% within discussion issue	39,8%	32,3%	29,8%	32,3%
Friends from education	Count	5	8	52	65
	% within role-relation	7,7%	12,3%	80,0%	100,0%
	% within discussion issue	2,7%	5,1%	9,4%	7,3%
Friends from else where	Count	25	40	159	224
	% within role-relation	11,2%	17,9%	71,0%	100,0%
	% within discussion issue	13,4%	25,3%	28,9%	25,0%
Business relations	Count	30	41	144	215
	% within role-relation	14.0%	19.0%	67.0%	100,0%
	% within discussion issue	16.1%	25.9%	26.1%	24,0%
Professional Advisor	Count	49	17	25	91
	% within role-relation	53,8%	18,7%	27,5%	100,0%
	% within discussion issue	26,3%	10,8%	4,5%	10,2%
Anything else	Count	3	1	7	11
	% within role-relation	27,3%	9,1%	63,6%	100,0%
	% within discussion issue	1,6%	,6%	1,3%	1,2%
Total	Count	186	158	551	895
	% within role-relation	20,8%	17,7%	61,6%	100,0%
	% within discussion issue	100,0%	100,0%	100,0%	100,0%

Note: Chi-square = 0.001 (two-tailed).

Table 3. Changing Involvement of Advisors on Financial Matters.

	Phase in the Entrepreneurial Process				
	Discovery Phase %	Emergence Phase %	Young Business Phase %	Operating Phase %	Total %
Professional advisors on financial matters	3.2	2.9	7.0	10.5	5.6
Other role relations	96.8	97.1	93.0	89.5	94.4
Total	100	100	100	100	100

Note: Chi-square = 0.001 (two-tailed).

The Changing Involvement of Professional Advisors on Financial Matters

In Table 3, hypothesis 1 is tested again using chi-square analysis. In hypothesis 1, it was argued that inclusion of professional advisors on financial matters in the discussion network increases as entrepreneurs move forward in the entrepreneurial process.

Table 3 supports the hypothesis. Only respectively 3.2% and 2.9% of the role-relations are professional advisors on financial matters in the two early phases of the entrepreneurial process. However, after the venture is established, they become a more frequent part of entrepreneurs' decision making. In young ventures, 7.0% of the role-relations are professional advisors on financial matters, and this frequency increases to 10.5 for ventures older than three and half years. Table 3, thus, lends strong support to the proposition that professional advisors on financial matters are increasingly involved in entrepreneurs' discussion network as entrepreneurs move forward in the entrepreneurial process. The step from the emergence phase to the young business phase involves the most pronounced increase in the involvement of professional advisors on financial matters. A logistic regression controlling for age, gender and education level reveals similar results ($p = 0.004$). Accordingly, hypothesis 1 has received support and cannot be rejected.

The Relation between Entrepreneurs and Professional Advisors on Financial Matters

Table 4 tests hypothesis 2a using linear regression. Multiple regression estimates the joint relationship between the dependent variable and two or more independent variables, minimizing the error sum squares. Multiple linear

Table 4. Linear Regressions: The Relation Between Entrepreneurs and Professional Advisors on Financial Matters.

	Strength
Professional advisor on financial matters (0 for other role-relation; 1 advisor on financial matter)	0.659****
Moral support (1 for encouragement; 2 for criticism)	−0.070
Constant	2.031****
N relations	N = 895
	$R^2 = 0.025$

Notes: Note: (one-tailed).
*p = 0.05, **p = 0.01, ***p = 0.005, ****p = 0.0005.

regression analysis was the appropriate technique as the dependent variable was a scale variable. In hypothesis 2a, it was hypothesized that entrepreneurs are connected more weakly to professional advisors on financial matters in contrast to other role-relations.

Table 4 supports hypothesis 2a. It reveals that the strength of ties is influenced by functional nature of role-relationship. If the role-relationship is that of professional advisor on financial matters in contrast to other role-relations (such as family member or business acquaintance), this increases the likelihood that the tie is weak ($p = 0.0005$). Thus, professional advisors on financial matters are most often weakly connected to entrepreneurs in contrast to other role-relationships in the discussion network.

Table 5 tests hypothesis 2b using multiple logistic regression.

Table 5. Logistic Regression: The Relation Between Entrepreneurs and Professional Advisors on Financial Matters.

	Moral Support (1, Encouragement; 2, Criticism)	
	B	Exp(B)
Professional advisor on financial matters (0 for other role-relation; 1 advisor on financial matters)	1.089****	2.972
Strength (1 for strong; 2 neutral; 3 weak)	−0.088	0.916
Constant	−1.234****	0.291
N relations	N=895	
	R^2=0.020	

Notes: Note: (one-tailed).
*p = 0.05, **p = 0.01, ***p = 0.005, ****p = 0.0005.

For this statistical test, multiple logistic regression was the most appropriate technique as the dependent variable was a dichotomy. In hypothesis 2b, it was hypothesized that entrepreneurs more often receive criticism rather than encouragement from professional advisors on financial matters in contrast to what they receive from other role-relations. Consistent with the expectations, Table 5 indicates that professional advisors on financial matters provide more criticism than other role-relations ($p = 0.0001$). Thus, hypothesis 2b received support and cannot be rejected.

Entrepreneurs' Characteristics and the Involvement of Professional Advisors on Financial Matters

In hypothesis 3 it was hypothesized that involvement of professional advisors on financial matters is dependent on the distinguishing characteristics of entrepreneurs, which is empirically tested in Table 6. Once again multiple logistic regression was the technique selected as the dependent variable 'professional advisor on financial matter' is a dichotomy.

Table 6. Logistic Regression: Entrepreneurs' Characteristics and Involvement of Professional Advisors on Financial Matters.

	Final Model	
	B	Exp(B)
Characteristics of the Entrepreneur		
Age (reference is less than 30)		
Mid (30–49 years old)	1.053	2.866*
Old (50 or older)	1.319	3.739*
Gender (male is 1; female is 2)	0.063	1.065
Education (reference is no higher education)		
Vocational education	0.768	2.156
Higher education — less than 3 years	−17.652	0.000
Higher education — 3–4 years	0.817	2.265
Higher education — more than 4 years	0.737	2.089
Constant	−4.546	0.011
N relations	N = 895 $R^2 = 0.056$	

Notes: Note: (two-tailed).
*p = 0.05.

The logistic regression in Table 6 partly supports hypothesis 3. Neither entrepreneurs' gender nor their education levels have any significant effects on the involvement of professional advisors on financial matters. However, the entrepreneurs' age is associated with the involvement of professional advisors on financial matters. From Table 6, it is suggested that age has a positive influence on involvement of professional advisors on financial matters. Entrepreneurs between 30 and 49 years old, in contrast to entrepreneurs younger than 30, have 2.8 times higher odds of involvement with professional advisors on financial matters ($p = 0.05$). For entrepreneurs over 50 years old, their odds increase nearly five times compared to entrepreneurs younger than 30 years old ($p = 0.05$). Accordingly, hypothesis 3 has received partial support and cannot be rejected.

INTERPRETATION OF THE EMPIRICAL RESULTS

Previous research has investigated the relationship between professional advisors on financial matters and entrepreneurs in different stages of the entrepreneurial process (e.g. Binks, 1996; Fried and Hisrich, 1995; Bygrave *et al.*, 2003). From this research a rough picture of this specific relationship has emerged, but it is unknown how influential and important this relationship is compared to other relationships that influence entrepreneurs' decision making. This lack of knowledge is due to the often dyadic approach taken in most previous studies (e.g. Bygrave *et al.*, 2003; Harrison *et al.*, 1997; Shepherd and Zacharakis, 2001).

We now have a less hazy picture. The main conclusion drawn from this study is that professional advisors on financial matters are important resource providers to entrepreneurs during the entrepreneurial process. Among other resources, professional advisors on financial matters provide entrepreneurs with financial resources and emotional and moral support. However, the current study indicates that entrepreneurs rely more heavily on other people when they search for emotional and moral support. Further, they rely more heavily on other people in the early stages of the entrepreneurial process. It seems that professional advisors on financial matters play a larger role when entrepreneurs are searching for instrumental support, whereas they only play a minor role when they search for moral and emotional support.

This study suggests that professional advisors on financial matters are activated in discussion networks according to lifecycle phases and the activities and decisions the entrepreneurs confront in these phases. They are mostly involved when entrepreneurs need financial resources and criticism on economic and financial issues, whereas other resources, typically, are obtained from other relationships. In previous studies it has often been argued that entrepreneurs and small business owners are closely connected to their accountants, bankers and professional advisors in order to obtain advice and help on various subjects from these relationships (e.g. Christensen and Klyver, 2006; Berry and Sweeting, 2006). This study provides conflicting evidence. Here, professional advisors on financial matters tend to be related only relatively weakly to the entrepreneurs, usually being activated when financial resources need to be obtained. These conflicting results might be due to the dyadic approach previously taken in former research, which does not enable a comparative analysis of professional advisors on financial matters and other people in the discussion network.

As has been demonstrated, this study has indicated that professional advisors on financial matters only play a minor role in the two early phases of the entrepreneurial process before the venture is actually started. Entrepreneurs might have relationships with these advisors in these stages, but they are rarely included in the discussion network. To most entrepreneurs, other role relationships are more important first, to their ability to recognize opportunities in the discovery phase (Singh, 2000; Ardichvili and Cardozo, 2000; de Koning, 2000) and second, in the emergence phase, to actually make the decision to start or not (Neergaard *et al.*, 2005; Anderson *et al.*, 2005; Davidsson and Honig, 2003). This study indicates that the activities and decisions that dominate the two first phases — recognizing opportunities and making the committed decision to start or not — are not decisions supported by the involvement of professional advisors on financial matters. Instead, entrepreneurs find their support in other places and from other sources. They may search for opportunity through their discussions with earlier or current colleagues or other business associates (Singh, 2000) and they may obtain emotional support to make the final decision to start or not from more close role relations such as a spouse or other family members (Anderson *et al.*, 2005).

In the extant literature on relationships between professional advisors on financial matters and entrepreneurs, the importance of close and mutually obligating relationships has often been emphasised (e.g. Butler and Durkin, 1998; Fried and Hisrich, 1995; Harrison *et al.*, 1997). In order to benefit from the relationship, both partners have to trust each other and be committed to co-operation. Otherwise, the benefit from interactions in the relationship decreases or disappears. This study has revealed that the tie between professional advisors on financial matters and entrepreneurs often are weaker than the ties entrepreneurs have to other in the discussion network. Clearly, and perhaps surprisingly given the importance of financial resources to early stage of venture development, as a matter of entrepreneurs' choice, professional advisors on financial matters only have minimal influence, compared to people with whom entrepreneurs are more closely connected. However, since many professional advisors on financial matters provide essential resources — not just advice — so, their influence may often force its way into entrepreneurial decision making and they may play a major role although they are only loosely connected to the entrepreneur. The results of this study therefore indicate that the building of close and trusting relationships between professional advisors on financial matters and entrepreneurs is an area worthy of much deeper investigation.

This study also reveals that the inclusion (or not) of professional advisors on financial matters in an entrepreneur's discussion network is significantly influenced by differing characteristics that distinguish one entrepreneur from another. In particular, older entrepreneurs have a higher tendency to include professional advisors on financial matters in their discussion networks. It might be that these older entrepreneurs have had businesses for several years in which they have used the same professional advisors. Through time the relationships to these professional advisors may have developed into proven, trusted relationships, which might have increased both the perceived and actuality of the relationship. This study reinforces the findings of many others that developing trusted relationships with professional advisors on financial matters is a long-lasting, continuously evolving process.

IMPLICATIONS AND CONCLUSION

Several implications can be drawn from this study. We have demonstrated the value of investigating the relationships between professional advisors on financial matters and entrepreneurs from a non-dyadic, broader perspective in the context of an entrepreneur's discussion network.

For future research we need more sophisticated information on the power structure that pertains between different role-relationships. The power structure (influence adhering to different role-relationships) in this study was measured by the frequency of inclusion in discussion networks, but power arises from a lot of other sources, such as the nature of dependency. It is also likely that a study which was able to categorise different subcategories among professional advisors on financial matters would improve ability to draw inferences from the data. A division that separated professional advisors on financial matters who are economically involved in the business and professional advisors on financial matters who are not would be especially valuable.

Following traditional social network logic and assuming that strong ties are more likely to involve trust, a practical implication for entrepreneurs that emerges from the current study is to re-consider their emphasis on trust. This study indicates that entrepreneurs may over-emphasize trust when activating their discussion networks. The following consequence is that they may rely on advice from less qualified individuals than if they involved professional advisors. Meanwhile, it is important to keep in mind that it is not a battle between strong and weak ties or between trusty family members and professional advisors, but merely a matter of balance (Evald *et al.*, 2006).

Another practical implication of the current study is that different professional advisors on financial matters need to consider how to strengthen their generally weak role in the early phases of entrepreneurial development. A lot of important decisions are made in these phases — decisions that might endure for years.

Furthermore, professional advisors on financial matters might consider how to become more closely related to entrepreneurs in order to increase mutual benefits from early and later stage co-operation. Previous research indicates the importance of close relationships, but this study has revealed that professional advisors have relatively weak ties to the entrepreneurs compared to others in their discussion networks. Such a position in the discussion network decreases entrepreneurs' commitment to the relationship with the professional advisors and the benefits they both gain from the relationship.

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APPENDIX 1. Variables and questions.

Variables	Questions	Coding
Identification of discussion network	Name five persons with whom you have discussed your (intention to start a business; business idea; business), and if you have discussed your (intention to start a business; business idea; business) with more than five persons, then the five persons who have influenced you most	
Professional advisor on financial matters		
Role-relation	Was person (1, 2, 3, 4, 5) mostly a family member, a friend from education, a friends from elsewhere, a colleague, a professional advisor / consultant or another role-relation.	1. Family member 2. A friend from education 3. A friends from elsewhere 4. A colleague 5. A professional advisor 6. A professional consultant 7. Another role-relation.
Content of relation	What have you mostly been discussing with person (1, 2, 3, 4, 5): financing, organizing or the opportunity/life considerations?	1. Financing 2. Organizing 3.Opportunity/life considerations
The variable 'professional advisor on financial matters' was created based on the two above questions. A network contact was an advisor on financial matters if the respondent mentioned the person as an advisor /a consultant with whom he or she discussed financial matters.		
Characteristic of entrepreneur		
Age	Can I ask what year you were born?	
Gender	Interviewer record gender	1. Male 2. Female
Education	What is the highest level of education you have attempted?	0. No higher education 1. Vocational education 2. Higher education — less than 3 years 3. Higher education — 3–4 years 4. Higher education — more than 4 years.

APPENDIX 1. (*Continued*)

Variables	Questions	Coding
Nature of relationship		
Strength of tie	**Two or three persons in network:** Among the (2, 3) persons in your network, which person is you strongest connected to?	1. Strong tie 2. Neutral tie 3. Weak tie
	Among the (2, 3) persons in your network, which person is you weakest connected to?	
	Four or five persons in network:	
	Among the (4, 5) persons in your network, which two person are you strongest connected to?	
	Among the (, 5)4 persons in your network, which two persons are you weakest connected to?	
Moral support	Has person (1, 2, 3, 4, 5) mostly been encouraging or critical?	1. Encouragement 2. Criticism
	Entrepreneurial process	
Entrepreneurs in the discovery phase	Within the next three years, are you, alone or with others: expecting to start a new business, including any type of self-employment?	0. Not discovery phase 1. Discovery phase
Entrepreneurs in the firm emergence phase	Currently are you, alone or with others; trying to start a new business, including any self-employment or selling any goods or services to others	0. Not emergence phase 1. Emergence phase
Entrepreneurs in the baby-business phase	Currently are you, alone or with others; _the owner_ of a company you help manage; self-employed, or selling any goods or services to others	0. Not young business phase 1. Young business phase
	Has the business paid any salaries, wages, or payments in kind, including your own, for more than 42 months?	
Entrepreneurs in the operating phase	Currently are you, alone or with others; _the owner_ of a company you help manage; self-employed, or selling any goods or services to others	0. Not operating phase 1. Operating phase

APPENDIX 1. (*Continued*)

Variables	Questions	Coding
	Has the business paid any salaries, wages, or payments in kind, including your own, for more than 42 months?	

Notes: A control procedure made sure that each respondents were classified in the right phase with the following questions:
To distinguish between discovery and firm emergence:
Over the past twelve months, have you done anything to help start a new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a business
To distinguish between firm emergence and baby-business:
Has the business paid any salaries, wages, or payments in kind, including your own, for more than 3 months?
To distinguish between baby-business and operating:
Has the business paid any salaries, wages, or payments in kind, including your own, for more than 42 months?
If any (serial) entrepreneurs were operating in more than one phase (thus having more than one business), they were told to choose only one of the businesses.