9 Social networks and new venture creation: the dark side of networks

Kim Klyver, Majbritt Rostgaard Evald and Kevin Hindle

INTRODUCTION

Since the beginning of the 1970s there has been an increased focus on social networks in a wide variety of organizational research. This has resulted in exponential growth of publications in the area (Borgatti and Foster 2003). In their review of social networks in organizational research, Borgatti and Foster (2003) argue that attention mostly has been directed toward positive consequences of network structure, rather than causes. This might be due to many reasons, but most likely this has to be due to the fact that the field is young and has strong aims to achieve legitimacy. The close association between social networks and social capital might also explain a possibly excessive attention to positive aspects. Social capital is often argued to be the value created and stored in social networks, and often social capital studies seek to explain variation in performance as a function of social network composition. Thus this focus has caused a sometimes undue fascination with the positive aspects of social networks. It may be argued that most studies so far have focused relatively more on positive opportunities provided by network structure rather than network constraints (Adler and Kwon 2002). One important ‘spillover’ effect of an overly sanguine view of what social networks contribute concerns research in new venture creation in the entrepreneurship field. Research into new venture creation has focused predominantly on which activities a single entrepreneur or team of entrepreneurs are creating in the process of new venture creation. This sets the primary focus on the positive achievements an entrepreneur can gain by activating his or her personal network to obtain valuable resources. What Adler and Kwon (2002) call ‘downsides’ and others call the ‘dark side’ of the social network phenomenon in general is therefore also applicable when the spotlight turns to how social networks influence the new venture creation process. The main purpose of this chapter is, therefore, to discuss academic achievements of research on social networks and new venture creation and specifically address the need to direct attention toward the often neglected detrimental consequences of networks in new venture creation research.
In the following section we define new venture creation. Subsequently we discuss how a network can influence the behaviour of individuals and which perspectives of the literature concerning networks and new venture creation should become focal for researchers. Then assumptions made in the body of research concerning networks and new venture creation are discussed, followed by a literature review of the ‘dark side’ of social networks. We end with a call for more research on the dark side of social networks, specifically with regard to new venture creation.

NEW VENTURE CREATION IN THE FIELD OF ENTREPRENEURSHIP

A contentious discussion takes place in entrepreneurship research concerning the definition and operationalization of entrepreneurship. Broadly, this discussion can be divided into two perspectives. The first perspective (the opportunity perspective) argues that entrepreneurship is about discovery, evaluation and exploitation of opportunities (Shane and Venkataraman 2000), whereas the second perspective (the emergence view) regards entrepreneurship as ‘firm emergence’ or ‘firm creation’ (Gartner 1993). In this chapter, both perspectives are appreciated, but our approach to entrepreneurship leans a little more to the emergence perspective, as is to be expected when the core subject matter is new venture creation. Central for new venture creation research is to uncover the initial stages of organization emergence, including getting an idea, evaluating it as a real opportunity, and conceptualizing the opportunity to an entrepreneurial project so that it can be exploited by materializing the opportunity to a new and emerging organization. By defining entrepreneurship as an emergence process, entrepreneurship can be seen as synonymous with the shaping of new structures, because new ventures typically are characterized by the extent to which they display formal structure, administrative procedures and objectives. However, an important boundary exists, as conventional organization theory ‘begins at the place where the emerging organization ends’ (Katz and Gartner 1988, p.429). This means that research into new venture creation in the entrepreneurship field primarily concentrates on the process that leads to the creation of a new venture, while organization theory primarily focuses on what happens when the organization has been created and is further developed.

Research in new venture creation is sometimes pictured as one out of many sequences a new venture goes through during its life cycle. Examples of such sequences are ‘initiation’ (Kroeger 1974), ‘conception’ and ‘gestation’ (Reynolds 1997) or ‘idea’, ‘opportunity’ and ‘project’ (Fayolle 2003). Common to most sequential models is to view the entrepreneurial process
as a linear and forward-moving process. However, Fayolle (2003) divides
the entrepreneurial process into various sequences, allowing relapse from
later phases to earlier ones to occur. In addition, the phases do not neces-
sarily develop in the outlined order. Some entrepreneurs, for example,
formally establish an organization before they have evaluated to what
extent the idea represents a real opportunity. Finally, the process can
stop at any given level. For example, a new organization may never come
into existence. Fayolle’s model shows that new venture creation does not
only consist of one single step – namely from a situation ‘without a new
venture’ to a situation ‘with a new venture’. On the contrary, it is possible
to talk about a number of steps on the way toward a new and indepen-
dent venture. Because of the fluid crossing between the situation ‘without
a new venture’ and the situation ‘with a new venture’, it is in practice hard
to decide when a new venture is created.

A central problem is, however, that the above-mentioned sequence
models do not catch what triggers or activates the new venture creation
process. As far back as 1985 Gartner had already tried to provide valuable
insight into different variables that constitute the process of new venture
creation by recognizing the need to explain new venture creation as a
multi-dimensional process that takes place as a result of an interaction
between four components: individual(s), the environment, the organiza-
tion and the process. The dominance of each variable during the new
venture creation process was however not explained, as the literature of
entrepreneurship at that point in time suggested that differences among
entrepreneurs and among their ventures were as great as the variation
between entrepreneurs and non-entrepreneurs and between new firms and
established firms (Gartner 1985, p. 696). Since then only a few attempts to
exactly identify what triggers new venture creation or what sub-processes
lead up to new venture creation have been discussed and suggested
(Davidsson and Honig 2003). A model worth mentioning is the process
model of new venture creation suggested by Bhave (1994), which focuses
on how new venture creation can be stimulated either externally or inter-
nally. As such, the model captures the sub-processes of initiating a new
venture in that some individuals consciously chase the creation of a new
venture while others seem to end up as entrepreneurs as a result of exter-
nal factors. Another way to uncover the new venture creation process is
illustrated in models that combine the theory of network and new venture
creation (Hite and Hesterly 2001). For instance, Davidsson and Honig
(2003) concluded that social capital especially was a strong predictor for
creating a new venture. The findings showed that ‘entrepreneurs would
be well advised to develop and promote networks of all sorts, particularly
interfirm and intrafirm relations’ (Davidsson and Honig 2003, p. 303).
Thus, broad consensus has emerged among entrepreneurship scholars that networks play a central role in successful firm emergence. The advantage with a network approach is no doubt that it captures the emergent processes of organizing by focusing on the evolving nature of linkages between units and exchange processes between actors (Gartner et al. 1992). A concrete model that captures this dynamic and ever-evolving process is suggested by Larson and Starr (1993). The model ‘depicts the dynamics underlying the acquisition of resources, the formation of exchange relationships, and the inherent trial-and-error discovery and learning process of new venture creation’ (Larson and Starr 1993, p. 4). Thus ‘the process describes the transformation of exchange relationships from a set of relatively simple, often single-dimensional dyadic exchanges into a dense set – a network – of multidimensional and multilayered organizational relationships’ (Larson and Starr 1993, p. 4). To know more about how network theory can be approached to enhance our understanding of the new venture creation process, we continue with a discussion on how a network can influence the behaviour of individuals. We also offer a further critique of extant research in this area.

NETWORK INFLUENCES ON THE BEHAVIOUR OF INDIVIDUALS

Theory of the particular relationship between entrepreneurship and networks is based on traditional social network theory. The traditional theory was originally developed in the field of sociology but has since expanded to a number of disciplines in the social sciences, including organization theory and entrepreneurship theory. The crucial argument in social network theory is that networks influence the behaviour of individuals. Lin (2001) mentions four fundamental ways in which networks influence the behaviour of individuals. Networks: 1) provide persons with information that can be used in relation to the situations which they face, 2) influence other persons in the network by influencing decisions and actions that are to be made, 3) create social legitimacy for persons within a network structure to get access to resources, and 4) develop and strengthen the identities of the persons.

The theory of entrepreneurship and network has primarily focused on the resources that can be obtained through networks. Hoang and Antoncic (2003) write:

Interpersonal and interorganizational relationships are viewed as the media through which actors gain access to a variety of resources held by other actors.
With the exception of work on the role of networks to access capital . . . most research has focused on the entrepreneur's access to intangible resources . . . A key benefit of networks for the entrepreneurial process is the access they provide to information and advice. (Hoang and Antoncic 2003, p. 169)

The resources which can be provided through social networks are often referred to as social capital. Social capital refers to the means and resources that the entrepreneur benefits by through his or her personal contacts and acquaintances.

Even though social network theory has a long history, the interest in networks within entrepreneurship is relatively recent. Birley (1985), Aldrich and Zimmer (1986) and Johannisson (1988) made the first contributions. These contributions can be seen as a backlash to the research dominated by the psychological approach in which the entrepreneur was treated as an individual without consideration of the environments and contexts that the individual was part of. On the contrary, as mentioned, in the theory of entrepreneurship and networks, an entrepreneur's network is considered a medium through which the entrepreneur can gain access to different resources. The individual and his or her environments are in this way in play at the same time in entrepreneurial network theory. Moreover, the importance of the network not only is related to the start-up of a new venture but is valid throughout the entire life cycle of the venture (Hoang and Antoncic 2003).

SOCIAL NETWORKS AND NEW VENTURE CREATION

In general, two main arguments and one synthesis can be found in research into the relationship between social networks and new venture creation. The first argument could be termed the 'heterogeneity' argument. Here it is argued that individuals can more efficiently obtain valuable resources and benefits from access to variation and diversity. Scholars have elaborated on the argument on two levels: the relationship level and the network level. Granovetter (1973) is a strong advocate for the 'heterogeneity' argument and focuses on the relationship level. He argues that the strength of ties impacts the nature of resources individuals can obtain from them. According to Granovetter (1973), individuals are more likely to obtain valuable resources - or information - from weak ties, as these weak ties are more likely to circulate in a higher volume and variety of social networks and therefore to possess different and wider-ranging resources. The argument is supported by Burt (1992). He argues that the typical disadvantage with strong network ties is that they involve closely related individuals
who, accordingly, possess similar information. As a consequence, many ties in such a network become redundant (from a utility perspective), as they do not add any new resources or information. Burt (1992) does, however, take the argument further to the network level and argues that what he calls structural holes in a network are important in order to obtain valuable resources and information. Structural holes emerge when certain people in a network are not connected. This has the consequence that some people become central and can act as bridges to resources and information. Individuals who have networks with many structural holes are more likely to access non-redundant resources and information.

The second perspective is basically the opposite and could be termed the ‘homogeneity’ argument. According to this argument, individuals obtain benefits from consistency, cohesion and minimal variation. The nature of disagreement between the two arguments is the kind of benefits or resources they focus on. The ‘heterogeneity’ argument focuses on resources that basically are available to everyone. However, people are limited in their access, owing to asymmetric information distribution. Thus, through their position in the network, they overcome some of these barriers of asymmetric information. The ‘homogeneity’ argument, on the other hand, focuses on resources and information that are only shared with certain others (Krackhardt 1992). Here resources and information do not travel from person to person just because a direct or indirect relationship exists. The relationship needs to contain certain properties, for example trust. Examples of the kind of resources the homogeneity argument is interested in include emotional support or sensitive market information. On the relationship level, it is therefore argued that, among strong relations, trust and mutual obligations are more likely to develop. And, based on these properties of the relationship, individuals are more likely to obtain emotional support and network contacts are more likely to share sensitive information. On the network level, it is argued that dense and cohesive networks, often based on trust and mutual obligations among relations, decrease the uncertainty of exchange and increase the ability to cooperate (Coleman 1988b, 1990). Aldrich and Zimmer (1986) talk about a collective action capacity developed through trust and common norms.

The main difference between the two arguments is thus that, while the heterogeneity argument stresses that weak ties and networks consisting of many structural holes are essential in order to obtain network benefits, the homogeneity argument stresses the importance of strong ties and cohesive networks. Accordingly, there seems, superficially at least, to be a battleground between the heterogeneity argument and the homogeneity argument. However, this is not necessarily the case. Many scholars have tried to bind the two arguments together in a synthesis. Proponents of
the synthesis perspective argue that it is a matter of balance rather than a battle (Uzzi 1996), and this balance depends on the situation and nature of the challenges individuals are facing. In different situations, individuals need access to different kinds of resources. Lin wrote (2001, p. 27):

For preserving or maintaining resources (i.e., expressive actions), denser networks may have a relative advantage. . . . On the other hand, searching for and obtaining resources not presently possessed (e.g., instrumental actions), such as looking for a job or a better job, accessing and extending bridges in the network should be more useful.

Following this synthesis, individuals need to activate a network with a balance between cohesion and variance that fits their resource needs. As their resource needs change, they develop their network according to the new requirements.

Several models, primarily stage models, attempt to describe how the entrepreneur’s network develops during the entrepreneurial process. In the very early stages of new venture creation when the entrepreneur looks for an opportunity, the entrepreneur needs non-redundant market information in order to be able to create or discover a new opportunity. Therefore the entrepreneur is interested in a network consisting of many different persons – a network with many structural holes and in which the entrepreneur has weak ties to other persons (Klyver and Hindle 2007). When the entrepreneur has identified an opportunity and is about to start the new venture, there is suddenly a need for other resources. In this stage, there is a demand for advice and support to be able to make the final decision about starting, and there might be a need for supply of capital. For that reason, the aim is a closer network consisting of many strong ties, including many family members (Evald et al. 2006). After the venture is started and the entrepreneur moves forward in the life cycle of the venture, some of the persons in the network are being replaced. At this stage, it is crucial to the entrepreneur to be established in the market and, consequently, the entrepreneur needs access to market information again. Therefore the network will once again change to a network consisting of many different persons – a network with structural holes and a network with more weak ties, for instance to new acquaintances (Larson and Starr 1993; Evald et al. 2006). It appears that the network changes during the entrepreneurial process and that these changes can be related to the problems the entrepreneur is confronted with and thus the resources the entrepreneur needs. However, as argued at the beginning of the chapter, the dark side of the nexus between social network and new venture creation has been neglected in the research so far. Attention is mainly focused on positive achievements an entrepreneur or team of entrepreneurs can gain
by activating their personal networks to get valuable resources. Hence prior research rests on a range of assumptions.

ASSUMPTIONS MADE IN RESEARCH ON THE NEXUS BETWEEN NETWORK AND NEW VENTURE CREATION

In most studies on social networks in new venture creation a rational choice approach is taken. Within this approach, individuals – being managers, entrepreneurs or employees – are perceived as purposive actors who include people in the network on a criterion of utility in terms of the resources those others can bring in support of the individual’s tasks. The people in the network are supporters who provide mostly tangible resources such as advice and funds, and perhaps also some less tangible resources such as legitimacy and emotional support. In this conceptuality, the business sphere is isolated from other spheres of life, meaning that any acts in the business life can be separated from other spheres and will not have any consequences. The relationship between the ego and actors in the network is typically specific (namely supportive), affectively neutral, contractual and short-term. The ‘other’ people are carefully selected by the ego actor in order to avoid constraints in the network. Thus four assumptions can be identified:

- Individuals are purposeful actors.
- Networks are selected.
- Relationships are specific.
- The business sphere is isolated from other life domains.

We believe that these assumptions might not be realistic. At least, this is the argument provided by what might be called ‘the embedded perspective’. First, previous research into individuals’ rationality shows clearly a lack of rationality or at least that only bounded rationality prevails. Individuals interact with others not only because they try to obtain benefits, but also because human interaction is part of being human! Second, it may be presumed that networks can have a history as well as a present selection mode. Individuals carry with them a ‘stable core’ of personal associations, some of which are inherited or acquired accidentally rather than purposively chosen. This core is more or less unchangeable. Third, some relationships between people tend to be diffuse (not only supporting, but also detracting), affective, trusting and long-term in contrast to being specific. Fourth, decisions and actions in the business sphere can have
huge impacts in other spheres of life. Research on family business, specifically on how business and family spheres interfere and conflict with each other, illustrates this. Thus it seems as though many previous studies on social networks and organizational behaviour have been under-socialized and have not taken sufficient account of the influence from people’s past and current contexts. It seems more realistic to assume the following:

- Individuals are not only purposeful actors.
- Part of the network is derived from the past.
- Relationships are also diffuse.
- Different spheres in life are mixed together.

These four new assumptions have profound implications for how social networks might influence organizational behaviour. Specifically, two limitations to the previously described ‘balancing’ act between cohesion and variance through network activation can be identified.

The life individuals have lived sets limits to people whom these individuals can ‘choose’ from when they are developing their networks. An individual’s life history has a major role in determining the range and nature of those who can reasonably be expected to form part of that individual’s network. In this sense, history opens or closes the window of opportunity on network participation. So individuals simply cannot choose to network with everyone – they need some sort of past direct or indirect connection. As individuals are different in nature and have lived different lives, some have a huge reservoir of potential network members to choose from, whereas others have a far more limited range of choice.

Now let us bring in the consideration, discussed earlier, that some relationships are diffuse and different spheres of life are all mixed together and another limitation on network choice possibilities emerges. Individuals develop mutual obligations with certain people – especially people close to them. These mutual obligations might contrast with their intentions and will potentially interfere with their ‘free’ choice. At least they have to consider how potential personal choices may influence people with whom they have mutual obligations. A classic ‘for instance’ is that it is for many people necessary to consider their spouse’s opinion before they take any huge final vocational decisions that might affect family life. They cannot, without profound personal consequences, just exclude (read ‘not select’) this part of the network. Mutual obligations potentially constrain individuals’ freedom of choice. They need to consider how their decisions affect those with whom they feel mutually obligated. From these diffuse mutual obligations emerges the ‘stable core’, the largely unchangeable network we have previously discussed. With or without individuals’ willingness this
core influences individuals' decisions. Changes in the core often have huge consequences.

Recognizing these two limitations on how people in organizational contexts can choose to network, we are moving into what we have previously termed 'the dark side' of the social network phenomenon when it comes to new venture creation. Below is a short review of the extant literature.

PREVIOUS RESEARCH ON THE DARK SIDE OF SOCIAL NETWORKS

Studies on the dark side of social networks have taken two main paths: a sociometric approach and an egocentric approach. The sociometric literature can further be divided into studies that focus on how being embedded in a certain community constrains community members and, second, how social capital on a community level can be used to achieve outputs that may be viewed as beneficial by the individual protagonist but detrimental by other members of the community.

An important contribution concerning how communities constrain community members is referred to by Portes (1998), who mentions Geertz's (1963) study of successful entrepreneurs in Bali who experienced excessive claims from other less successful kinsmen about jobs and loans. Owing to strong norms of mutual assistance, Geertz found, otherwise promising businesses were turned into less successful businesses, at least from an economic perspective. Portes and Sensenbrenner (1993) found a similar mechanism in their study. They found that entrepreneurs obtained benefits from cohesive networks to launch their business, but later this same cohesive network constrained their ability to exploit new opportunities, owing to obligations resulting from network associations. Portes (1998) also refers to different studies that provide evidence of downward-levelling norms. Here an individual's success outside his or her group undermines group cohesion, since the cohesion basically is grounded in the perception that success outside its bonds is impossible. Thus people experiencing success outside their group can be viewed by some as violating their social heritage, and their behaviour is perceived as disrespectful. Studies that support such downward-levelling norms include Bourgois' (1995) study of Puerto Rican crack dealers in the Bronx, Stepick's (1992) study of Haitian American youth in Miami, and Matute-Bianchi's (1986, 1991) study of Mexican-American teenagers in Southern California, as well as Foley's (2003, 2008) study of Indigenous entrepreneurs in Australia.

Another concept also dealing with constraints emerging from community norms is 'mixed embeddedness'. It was developed by Kloosterman et
al. (1999) in their study of immigrant businesses in the Netherlands. They developed the concept as a reaction to Granovetter’s (1985) concept of embeddedness, arguing that Granovetter’s concept is too narrow. Mixed embeddedness tries to capture the role of co-ethnic networks simultaneously with immigrants’ relations to their host society. Some of the main conclusions from the studies on mixed embeddedness are that immigrant individuals have problems breaking out from the traditional niches among which their community belongs, not only because of community embeddedness but also because of the economic and institutional conditions in the host society.

In studies of ethnic groups and communities, another dark side aspect of social capital has also been identified (Waldinger 1995). Here it is emphasized that the same strong ties that help people within a group are excluding people outside the group. Waldinger’s (1995) study of how white ethnics controlled the construction trades and the fire and police unions in New York is an often cited example, but another example includes Coleman’s (1988a, mentioned in Portes 1998 and Portes and Landolt 1996) study of Jewish merchants’ monopoly of the New York diamond trade.

The above examples focus on the constraining mechanism social networks potentially have on their members. However, as mentioned, studies on the dark side of social networks also include those situations where the benefits of social networks are used in order to achieve things not desirable for society. This is essential. Putzel (1997), for instance, argues that the high level of trust in Germany and Japan also might have made them particularly susceptible to fascism. Ostrom (1997) reminds us that ‘cartels and organized crime are networks of relationships that lower overall productivity while generating disproportional benefits for a few beneficiaries’ (Ostrom 1997, p. 162). Nee and Nee’s 1972 study of Chinatown inhabitants in San Francisco (mentioned in Portes and Landolt 1996) reveals that, even though communities may help community members in launching successful businesses and protect them from outside discrimination, this also has its downsides. The community is led by a family clan which uses the control of business opportunities to seize central control in many other aspects of life.

Also in the debate between the homogeneity argument and the heterogeneity argument discussions on the dark aspects of networks prevail. For instance, Gargiulo and Benassi (2000) perceive cohesive networks as the dark side, using the phrase ‘trapped in your own net’ because of their finding that managers with cohesive networks were less likely to adapt their networks to new requirements.

In other studies, it has been argued that individuals, owing to their
bounded rationality, develop inefficient social networks. For instance, Gargiulo and Benassi (2000) talk about relational inertia. Hence it is argued that individuals, even though they do not expect to gain anything from the relationship, stay in these mutual exchange relationships endlessly. Thus bounded rationality does seem to cause the inefficient development of social networks. In this regard, a finding by Uzzi (1997) is interesting even though the focus is on organizations and not individuals. Uzzi argues that embedded transactions are more functional than arm’s length transactions up to a point. An inverted U-relationship between embeddedness and performance seems to exist. While embedded transactions are superior to unembedded ones, it still remains possible for an organization to depend too much on embedded ties. If an unbalanced number of an organization’s relationships are embedded, then the organization becomes trapped by these relationships.

Also Adler and Kwon (2002) make us aware of the risk associated with building social networks. They argue that establishing and maintaining relationships may not be beneficial when the time spent is adequately taken into consideration. Using longitudinal data from the Australian Bureau of Statistics, Watson (2007) found that small business owners’ benefits from networking take the form of a reversed U-shape curve. In the beginning, increased networking increases performance. However, when a certain level of networking is reached, the time spent does not cover the additional benefits obtained. Watson, therefore, argues that only a certain level of networking activity is beneficial.

Finally, power disadvantages can be perceived as a dark side of social networks. Normally, power to influence others is something that is highlighted as a benefit of social networks (Sandefur and Laumann 1998). However, the power relationship might be reversed, in the sense that someone’s power advantage is another’s power disadvantage. Further, as argued by Ahuja (1998), the information benefits gained from having many direct ties with many other ties simultaneously create a power disadvantage, as the focal actor is no longer an essential actor in its ties’ network – they have many other relations to rely on too.

A CALL FOR MORE RESEARCH ON THE DARK SIDE OF SOCIAL NETWORKS IN NEW VENTURE CREATION

We have shown that there is some extant research attention paid to studies on the dark side of social networks, but, we argue, not nearly enough. We join other scholars who have emphasized the importance of further
research in this area. For instance, Portes (1998) argues it is important to emphasize the less desirable consequences of social capital for two reasons: first, to avoid a perception of social capital as an unmixed blessing and, second, to make sociological research in this area more dispasionate and keep it away from moralizing statements. Adler and Kwon (2002) also encourage research into the dark side of social capital: 'social capital research would benefit from a more systematic assessment of risks as well as benefits. We need to understand better the downsides of social capital both for the focal actor and for others' (p. 35).

In this chapter we have tried to advance this call for research into the dark side of social networks as they affect new venture creation. The focus on the benefits of social networks in entrepreneurship and new venture creation research is strong and, in common with sociology and organizational theory, entrepreneurship research has a great need for a more sophisticated perspective. The need for better, more balanced, less sanguinely biased research on the role of networks in new venture creation research is urgent. The key to improved future research is the need to take a starting point based in the more empirically realistic assumptions about networking outlined by the embedded perspective. Here it is argued not only that individuals are purposeful actors but that part of individuals' networks is derived from the past, that relationships are diffuse and that different spheres in life are mixed together. Using these assumptions as the starting-point, the vital study of the effects of social networks on new venture creation can generate improved research and provide the field with a more empirically realistic approach.

REFERENCES


