



Building networks into discovery: The link between entrepreneur network capability and entrepreneurial opportunity discovery[☆]



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ARTICLE INFO

Keywords:

Network capability
Opportunity discovery
Network centrality
Ties strength
Power distance

ABSTRACT

Social networking is increasingly important to entrepreneurs because it can help them to recognize valuable opportunities. A model of entrepreneur network capability concerning the agent role of nascent entrepreneurs in developing and managing social networks, which is further related to entrepreneurial opportunity discovery, is proposed in this study. Drawing on the tie generation and network management literature, we propose entrepreneur network capability as a four-dimensional construct, including network orientation, network building, network maintenance, and network coordination. A sample of 212 nascent Chinese entrepreneurs collected at two time points supported the positive relationship between network capability and opportunity discovery after controlling for entrepreneurs' prior knowledge, cognitive bias, and political skills. Further, the relationship was found to be mediated by enhanced network configuration (i.e., network centrality) and moderated by entrepreneurs' power distance orientations. Entrepreneurs' network capability exerted a stronger effect on opportunity discovery for those of low power distance. The implications of our findings are discussed.

Market imperfections provide potential for entrepreneurs to create economic returns by introducing new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously had not existed (Kirzner, 1979; Shane, 2003). When someone makes a “conjecture that a set of resources is not put to best use”, entrepreneurial opportunity can be discovered (Shane & Venkataraman, 2000, p. 220). As the crucial initial step in the entrepreneurial process (Ozgen & Baron, 2007; Shane & Venkataraman, 2000), opportunity discovery has been acknowledged as a central construct and outcome of the agenda of entrepreneurship research because it may result in the formation of new firms (Foss & Foss, 2008; Foss, Lyngsie, & Zahra, 2013; Shane, 2003; Shane, 2012). Opportunity discovery consists of actions initiated by individuals directed at identifying a neglected opportunity (Foss et al., 2013). Despite their objective existence (e.g., unexplored technologies, processes, and markets), entrepreneurial opportunities are not open to everyone. Thus, scholars have been enthusiastic about exploring why some are able to discover new business ideas while others are not (Baron, 2004; Shane & Venkataraman, 2000).

The current literature generally provides two perspectives for understanding the discovery of entrepreneurial opportunities (Arenius &

De Clercq, 2005; Suddaby, Bruton, & Si, 2015). The first one explores how the internal knowledge of entrepreneurs influences their recognition of opportunities, such as prior knowledge or experience (Baron & Ensley, 2006; Dimov, 2010; Ucbasaran, Westhead, & Wright, 2009), creativity (Gielnik, Frese, Graf, & Kampschulte, 2012; Shane & Nicolau, 2015), and cognitive processes (De Carolis, Litzky, & Eddleston, 2009; De Carolis & Saporito, 2006). The second perspective focuses on how entrepreneurs search for and acquire information from external sources, and social networks have been dominant in this perspective (Arenius & De Clercq, 2005; Bhagavatula, Elfring, van Tilburg, & van de Bunt, 2010; Davidsson & Honig, 2003; Ma, Huang, & Shenkar, 2011; Ozgen & Baron, 2007).

The network-based entrepreneurial research has accumulated rich knowledge about the role of social networks in the discovery of opportunities. Since information is distributed according to the unique life circumstances of each person (Venkataraman, 1997), social networks help entrepreneurs to establish information corridors across populations, close knowledge gaps and reduce the uncertainties facing them. Considerable evidence has shown that high-quality network relationships or superior network positions facilitate the discovery of entrepreneurial opportunities (Arenius & De Clercq, 2005; Davidsson &

[☆] This research was supported by research grants from the National Natural Science Foundation of China (No. 71372064).

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Honig, 2003; Hoang & Antoncic, 2003; Jack, 2010; Ma et al., 2011; Street & Cameron, 2007).

However, network ties are not born naturally. Research has so far exclusively addressed network characteristics as exogenous variables and has discussed how different network configurations are linked to entrepreneurial success (Semrau & Sigmund, 2012; Stuart & Sorenson, 2007), but only a few studies have investigated how entrepreneurs proactively construct their networks in the first place (e.g., Baron & Tang, 2009; Maurer & Ebers, 2006). Previous research has indicated that people generally differ in their abilities to proactively and dynamically develop and manage entrepreneurial networks in which they can benefit from certain types of network ties (Stuart & Sorenson, 2007). For example, Maurer and Ebers (2006) compared six biotechnology start-ups, the founders of which were initially similar in their network embeddedness (essentially consisting of scientific professionals). They found that only some of these start-ups survived and became successful. The founders of the more successful firms *developed* and *managed* their network ties intentionally, helping new ventures to connect with various communities, such as lawyers and politicians. The founders of the less successful firms, in contrast, experienced both relational and cognitive locks in their scientific communities, which impeded their ability to acquire necessary information regarding the market and industry. Unfortunately, this agentic role of entrepreneurs in the entrepreneurial network has not been well conceptualized in the research on entrepreneurial opportunity.

In the current study, we developed a framework to capture individual differences in the abilities to develop and manage network ties, defined as *entrepreneur network capability (ENC)*. We propose entrepreneur network capability as a four-dimensional construct that explains how entrepreneurs motivate, build, maintain and coordinate network ties to facilitate the discovery of opportunities. First, we discuss the theoretical domain of the construct and develop the measurement scales. Then, hypotheses concerning the possible effects of entrepreneur network capability on opportunity discovery are proposed. In particular, entrepreneur network capability is expected to have a positive influence on opportunity discovery through two paths: a) an enhanced entrepreneurial structure configuration (i.e., network centrality); and b) improved relational quality (i.e., tie strength). Finally, we examine the potential boundary conditions of network capability on outcomes regarding entrepreneurs' cultural value by examining the role of power distance orientation.

Our research intends to contribute to the entrepreneurship literature by conceptualizing the variations in entrepreneurs' ability to acquire external support from social networks and establishing the linkages among entrepreneur network capability, entrepreneurial network configurations and opportunity discovery. Research on opportunity discovery has focused on certain individual characteristics that facilitate new venture creation, mainly from the cognitive perspective, such as creativity and propensity for risk (cf. George, Parida, Lahti, & Wincenc, 2016). Although some research has noted the role of traits related to social relationships (i.e., social competence, Baron & Tang, 2009), such explorations reflect only part of the full picture in one's ability to develop and manage entrepreneurial networks. Further, rather than discussing the effects of existing network configurations on opportunity discovery, we focus on the *agentic* role of entrepreneurs in the opportunity discovery process, thus extending our understanding of how superior entrepreneurial networks can be achieved and proactively changed. Finally, our research examines the interesting question of the circumstances under which the role of network capability will be amplified or inhibited by discussing the internalized cultural values of entrepreneurs. Since individual culture value exerts significant influence that directs entrepreneurs' behavior, examining the personal ability-value interaction could better reveal the complicated mechanism underlying the process of opportunity discovery.

1. Theories and hypotheses

1.1. Entrepreneur network capability

Since no existing theories of network development adequately capture the unique context and challenges faced by nascent entrepreneurs, we derive our model by integrating and drawing lessons from existing theories of tie generation processes (e.g., Nebus, 2006), corporation network management (e.g., Möller & Halinen, 1999) and social competence (e.g., Baron & Markman, 2003). Theories of tie generation focus on the dyadic tie formation process, and these theories have posited that a tie is formed as a result of personal preference (Farh, Bartol, Shapiro, & Shin, 2010; Nebus, 2006). Motivation is the primary factor that influences one's intention to engage in a particular behavior (Vroom, 1964). A person will use social networks to seek information when he/she holds a positive belief or valence toward the role of the network in entrepreneurial activities (i.e., network orientation).

Another important perspective in understanding the ENC is grounded in the network management theory of the firm (i.e., Möller & Halinen, 1999). Möller and Halinen (1999) proposed that firms were facing a fundamental change from traditional markets to networks of interrelated firms under the increasing competitiveness of business environments. To cope with the challenges in managing different levels of business relationships, firms must develop corresponding capabilities. For example, firms must create a valid strategic view of the networks from which opportunities can be perceived. In addition, firms must evaluate the value of each relationship so that they can develop an optimal customer/supplier portfolio. Based on their theoretical frameworks, some of the following studies have also been proposed to address similar questions. For example, Walter, Auer, and Ritter (2006) proposed and defined a spin-off firm's abilities to initiate, maintain, and utilize relationships with various external partners. This research had important implications for network capability from a process perspective.

The final perspective emphasizes interpersonal communication skills during networking (Baron & Markman, 2003). Social competence is considered to be one's overall effectiveness in interacting with others. Scholars have proposed that entrepreneurs should be able to perceive accurately, to make good first impressions, or to change their attitudes when interacting with contacts (e.g., venture capitalists, potential customers) (Baron & Markman, 2003). Considering that ENC is an individual characteristic of social interaction, social competence is inevitable when building and maintaining relationships with others.

Combining the above perspectives, we developed the construct of ENC to describe the individual's motivation and behaviors in sensing, building, maintaining, and coordinating their network relationships as methods to attain access to entrepreneurial information and resources. Essentially, entrepreneurs with high ENC positively believe in the importance of social networking and are prepared to proactively expand their networks, maintain and strengthen their network ties, and appropriately utilize and coordinate various relationships. We treat ENC as a composite construct with four dimensions: network orientation, network building, network maintenance, and network coordination (See Fig. 1).

Network orientation is the extent to which a person is willing to depend on social networks in his/her daily socialization. We argue that people with high levels of network orientation would like to maintain the norms of dependence, cooperation, and reciprocity because they tend to believe that friends or social connections can secure their survival in an uncertain society. Research has shown that people with high network orientation capitalize more on interpersonal relationships to bridge resource or information gaps between unlinked or outside stakeholders (Su, Yang, Zhuang, Zhou, & Dou, 2009). Once they derive benefits from their connections, they are expected to return the favor a few times over.

Network building refers to relational efforts to expand social

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