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Enablers and inhibitors of the development of network capability in entrepreneurial firms: A study of the Irish micro-brewing network

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ABSTRACT

Focusing on the Irish micro-brewing industry, this paper identifies and describes the factors that both enable and inhibit the entrepreneurial firm's development of its network capability. The empirical research entailed in-depth interviews with the entire network of micro-brewery entrepreneurs in the Republic of Ireland and Northern Ireland comprising nineteen firms. Using multiple levels of network analysis, findings illustrate the complexity of network capability development. The factors inhibiting the development of network capability were found to outweigh the ones enabling it. Past network experience, information sharing and participation in coordinated consumer events represent some of the factors found to enable network capability. Conversely, a desire for control over decision making, a lack of knowledge sharing or joint problem solving and the perception of value chain activity links and resources as unnecessary inhibits network capability. The main contribution of the paper is a framework of factors enabling and inhibiting network capability based on a multi-level network analysis.

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1. Introduction

Networks comprise conduits and pathways to create value across organizational borders and between organizations in a system of interconnected relationships (Håkansson & Snehota, 1989, 1995). The study of entrepreneurial networks has deeply informed understanding of how entrepreneurs discover and develop opportunities through engagement with the socioeconomic system to which they are connected (Birley, 1985; Chen & Tan, 2009; Elfring & Hulsink, 2003). The benefits to entrepreneurial firms of being embedded in networks are manifold and include; access to external opportunities and resources, critical information, advice and ideas, and enhanced reputation (Hoang & Antoncic, 2003; Larson & Starr, 1993). Networks are particularly valuable to entrepreneurs to counteract the fragility that accompanies their small size by overcoming resource constraints (Dubini & Aldrich, 1991; Hanna & Walsh, 2008; Szarka, 1990). Each entrepreneurial firm begins its organizational life with a range of social and business connections. However, to develop the organization through networks the entrepreneur has to find pathways into them in a more deliberate way to use them as a strategic resource. Entrepreneurial firms that have been able to do this have been found to be more successful in formation, growth and performance (Anderson, Dood, & Jack, 2010; Hampton, Cooper, & McGowan, 2009; Huggins, 2000; Lechner & Dowling, 2003).

The ability to build business network linkages to access resources to grow the business requires the entrepreneur to develop its network capability. Network capability comprises a firm's ability to initiate, maintain, and utilize relationships to gain access to various resources held by other actors (Chen & Tan, 2009; Mitrega, Forkmann, Ramos, & Henneberg, 2012; Walter, Auer, & Ritter, 2006). Very few firms are born with a capability at this level and it has to be developed. In practice it may be at odds with the motivation of the entrepreneur in setting up the business in the first place, that is, a desire to become more independent. Yet the potential to gain from network resources and the paucity of these resources in new ventures makes the building of network capability an imperative business strategy for many entrepreneurial firms. It is not a strategy that can be fully managed by the entrepreneurial firm, given its dependence, but it has the potential to gain significantly through its proactive engagement of business relationships at a dyadic and network level.

This study aims to identify and describe the factors that enable and inhibit the development of network capability in the entrepreneurial firm. Entrepreneurs can set-up new enterprises to be more independent of the systems in which they were part, for example, working in a division of a large organization. Yet it is often from this system that the nascent business sources its idea and much of its social and economic capital for formation through network ties and for financing the early stage growth of the firm. Networks can represent a layer of complexity to a founding entrepreneur, and when one considers the multitude of tasks needed to develop a new business, is the ability to strategically develop networks a bridge too far? Network benefits are not inherent or instinctual and require the development of network capability (Möller & Svahn, 2003). As a process, network capability enables the access

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to and sharing of expertise and more tangible assets (Adamides & Voutsina, 2006). The process, as a capability, is built up over time and is evolutionary in its development (Powell, Koput, & Smith-Doerr, 1996; Teece, Pisano, & Shuen, 1997). The current authors address the factors that enable or inhibit the development of this capability. The existing empirical literature in the strategy and entrepreneurship fields presents networks as the savior to entrepreneurial woes yet not all entrepreneurs will develop network capability at the same pace or in the same manner. The question as to why some entrepreneurial firms are able to use networks to engage in joint activities and resource sharing routines and others are not has not been addressed in the literature. In response to this, this paper addresses the enabling and inhibiting factors for the entrepreneurial firm in developing its network capability.

The paper begins with a review of the rationale for the entrepreneurial firm's engagement in network capability building and delineates the four levels of analysis at which the factors enabling and inhibiting the development of network capability were established for this research – actor characteristics and preferences, inter-firm relationship governance, business network model and actors' network context, and socio-economic networks. These levels represent the boundary of the study and a classification scheme for the factors that emerged from the research. The methodology for the inductive empirical study is then presented. Findings and discussion are primarily based on semi-structured interviews with 19 micro brewing entrepreneurs and small businesses, the entire population of such businesses in the Republic of Ireland and Northern Ireland, comprising a total of 28 h of interview data. In addition to the primary data, web sites and newspaper reports on each firm were analyzed, and government policy and industry reports used to understand the wider context of the industry and to temper the potential bias of relying on the focal firms' perspectives only on their network. Covering the entire industry facilitated an analysis of the whole picture of enablers and inhibitors in a network, albeit from the focal firms' perspectives.

2. Background

Entrepreneurial firms are increasingly dependent on external resources and capabilities as they pursue their goals, as growth from internal resources alone is challenging for most entrepreneurs (Dyer & Singh, 1998; Lechner & Dowling, 2003). Hence, the ability to engage in effective cooperation is becoming a core skill of successful entrepreneurs to overcome the specific contextual challenges that they face. Contextual challenges such as resource constraints due to both liabilities of newness and smallness (Baum, 1996; Stinchcombe, 1965), dependency on a small market, a lack of finance and difficulty in accessing raw materials can be alleviated through external network ties enabling the entrepreneurial firm to grow and survive through bringing opportunities and resources into the firm (Hite, 2005; Lechner, Dowling, & Welp, 2006). For the entrepreneurial firm, its ability to develop its network capability is informed by its social capital (Chen, Zou, & Wang, 2009), dependence on others for resources (Smith & Lohrke, 2008), and its potential strategic use of network resources (Gemünden, Ritter, & Heydebreck, 1996; Gu, Hung, & Tse, 2008) to grow the business. Thus their resource access is highly dependent on the context of the firm and the founders' perceptions of same, given that they tend to be the main agent of the firm in relationship building in its early stage of development (Johannisson, 1998; Johannisson & Mønsted, 1997). Therefore, in studying the enablers and inhibitors of the development of network capability, a focal firm perspective was taken with the unit of analysis being the individual actor (owner/manager) and their perception of their ability to develop the capability to connect to other actors in a value creating network.

In the IMP approach, the focal firm and its set of business relationships to customers, competitors, suppliers, distributors, funding agencies, research institutions etc. constitute a network. For the purposes

of this study, networks are understood similarly but when we refer to networks for developing capability we are referring to networks as purposeful resource access nodes for the entrepreneurial firm to grow its business. The ability to develop and utilize business relationships to enhance the entrepreneurial firm's network capability through learning in interaction is not without challenges that come from its initial weaker position in its network. Developing network capability should enable it to evolve its network position to one that is more embedded in relationships that can aid its growth. Prior entrepreneurial research and empirical literature has examined why firms don't grow in general (Havnese & Senneseth, 2001; Reddy, 2007). Network studies have examined aspects of entrepreneurial activity in networks that can inhibit or enable growth but no previous study to our knowledge has examined what enables or inhibits the ability of the entrepreneurial firm to develop its network capability. There may be many reasons for this. Network capability development is a process and few studies examine process issues in the entrepreneurial literature (Coviello, 2005; Hoang & Antoncic, 2003; Jack, 2010; Jack & Anderson, 2002; Shaw, 2006). Research in entrepreneurial networks tends to focus on the entrepreneur and its immediate context, that is, the firm or ego-centric networks, for example on the strength of ties or embedded relationships, rather than taking a more contextual or whole network viewpoint (Edwards, Sengupta, & Tsai, 2010; Hite, 2005; Johannisson, Ramírez-Pasillas, & Karlsson, 2002; Uzzi, 1997). However, it is more likely to be just a question of timing as the study of network capability has gained traction in a wide variety of fields (for example, specialization in industrial districts (Lorenzoni & Lipparini, 1999), alliances (Kale, Dyer, & Singh, 2002), university spin-outs (Walter et al., 2006), and innovation (Capaldo, 2007)) which makes the current study timely. In order to capture the factors that might enable or inhibit the development of network capability a wide view of the network interaction possibilities with which an entrepreneur could engage was taken and involved multiple levels of analysis. This was also appropriate to the inductive nature of the study.

The logic of the network perspective is that the firm or entrepreneur cannot be viewed as an autonomous, self-reliant actor (Zaheer, Gözübüyük, & Milanov, 2010). It posits that firms access resources and capabilities through their networks of inter-firm linkages (Gulati, 1999). The network approach is valuable for gathering data that identifies the type of relationships between entities and network analysis is useful for uncovering the patterns of order underlying empirical observations between actors (Knoke & Kuklinski, 1982), and is therefore valuable in advancing our understanding of the factors enabling and inhibiting entrepreneurial network capability development. Network capability cannot be built in isolation by the entrepreneur; instead the emphasis is on identifying the evolution in orientation from an individual to more interdependent orientation. Therefore, multiple levels of network analysis are necessary to assess the research question and provide a deeper, richer portrait and allow for a more integrated inquiry. To capture the multilevel layers of the development of network capability and to appreciate that one aspect of network capability could be impacted by another layer, the authors used network analysis and network properties to provide a framework for a comprehensive analysis of the enablers and inhibitors to network capability of entrepreneurial firms and those in the associated network (Brass, Galaskiewicz, Greve, & Tsai, 2004; Gnyawali & Madhavan, 2001; Lincoln, 1982; Provan, Fish, & Sydow, 2007; Ritter & Gemünden, 2003). Network analysis and properties capture individual network nodes, dyadic interaction, and system or whole network levels which includes industry and environmental relationships (Knoke & Kuklinski, 1982; Zaheer et al., 2010). Taking the entrepreneurial firm and its set of relationships as the unit of analysis, a wide a view as possible of the factors that might enable and inhibit them build their network capability, and the process nature of capability development required us to translate the four levels of network analysis to the context of the entrepreneurial firm which became in order of above: actor characteristics and preferences; inter-firm relationship

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