



Strategic networks of discovery and creation entrepreneurs



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ARTICLE INFO

Article history:

Received 4 April 2016

Received in revised form

12 September 2016

Accepted 12 January 2017

Available online 30 January 2017

Keywords:

Entrepreneurship

Discovery

Creation

Strategic networks

Social network theory

ABSTRACT

Current research favors diversity within strategic networks as a source of idea generation and opportunity pursuit. However, diversity may not always be advantageous. Drawing from literature on entrepreneurial opportunities, social network theory, and cognitive psychology, it is argued in this paper that the level of diversity in entrepreneurial strategic networks differs based on the nature of the entrepreneurial opportunity context—discovery or creation. Competing hypotheses are developed for the nature of strategic networks in the discovery and creation opportunity contexts. The results from our two studies (using PSED II dataset and data collected from women entrepreneurs in India) show that entrepreneurial strategic networks differ based on whether entrepreneurs are pursuing discovery or creation opportunities, i.e., entrepreneurs operating in ‘discovery’ contexts tend to use networks ties with individuals who are relatively similar to themselves, while entrepreneurs in ‘creation’ contexts tend to use network ties with individuals who are relatively different from themselves. Further, the results also show that the diversity in strategic networks is not unidirectional in discovery and/or creation contexts but varies depending on the specific matters for which the entrepreneur seeks advice. Discussion and future research directions outline the unique findings of this study and potential implications for theory development.

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1. Introduction

Entrepreneurial networks have been of substantial interest to scholars both in the fields of entrepreneurship (Aldrich & Zimmer, 1986; Hite & Hesterly, 2001) and social networks (McEvily & Zaheer, 1999). Whether entrepreneurs intentionally create networks (Dyer, Gregersen, & Christensen, 2008; Stuart & Sorenson, 2007) or simply exploit the networks within which they already find themselves (Mayhew, 1980), prior work suggests that network contacts can provide entrepreneurs novel information, advice, and other critical resources, and can have important influence on entrepreneurial performance (Burt, 1992; Dyer et al., 2008; Stuart & Sorenson, 2007). In particular, this work has shown that entrepreneurs generally benefit most when their strategic networks are diverse, since diversity can provide entrepreneurs access to information that can be used to identify and exploit opportunities

(Aldrich & Zimmer, 1986; Dyer et al., 2008; Larson, 1992; Marsden, 1983; McEvily & Zaheer, 1999; Rodan & Galunic, 2004; Uzzi & Spiro, 2005; Vissa & Chacar, 2009).

However, prior research does not distinguish between the effects of different kinds of strategic networks in different entrepreneurial opportunity contexts. Specifically, recent work has distinguished between two entrepreneurial opportunity contexts: discovery (where opportunities are formed by exogenous shocks to pre-existing markets or industries) and creation (where opportunities are formed endogenously by an entrepreneur's actions) (Alvarez & Barney, 2007). It may be that different types of social networks are differentially effective for entrepreneurs operating in discovery and creation contexts.

The purpose of this paper is to develop and test theory about the relationship between entrepreneurial opportunity contexts and the effects of different types of strategic networks in these contexts. Competing arguments are developed for the impact of network ‘similarity’ and network ‘diversity’ on entrepreneurs operating in discovery and creation contexts. These arguments are then examined using two distinct datasets—the Panel Study of Entrepreneurial Dynamics (PSED II) and a survey of Indian women

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entrepreneurs. Consistent results are found in both these independent data sets: Entrepreneurs operating in ‘discovery’ contexts tend to use network ties with individuals who are relatively similar to themselves, while entrepreneurs pursuing ‘creation’ opportunities tend to use network ties with individuals who are relatively different from themselves.

2. Materials and methods

Prior work has recognized the importance of social networks for entrepreneurs, but has not examined how the nature of these networks might vary across opportunity contexts.

2.1. Entrepreneurs and strategic networks

Entrepreneurs rarely act as lone operators. More typically, they are embedded in social networks of interconnected relationships (Huovinen & Pasanen, 2010) that act as conduits of a wide variety of information and advice about potential opportunities and how those opportunities might be exploited. Examples of information obtained through networks include advice about technology trends, potential employees, sources of funding, and insights about competitors’ intentions (Aldrich & Kim, 2007; Baker, Miner, & Easley, 2003).

For entrepreneurs, networks may substitute for internal organization in aiding decision making. Unlike the case of large and established organizations, entrepreneurs often lack access to larger, well-developed internal organizational structures and resources that provide the information necessary for decision-making (Brush, Greene, Hart, & Haller, 2001). Networks fill these organizational support gaps by providing access to knowledge or experience to resolve problems and take advantage of opportunities (Granovetter, 1982; McGrath, Vance, & Gray, 2003). Consequently, we define strategic entrepreneurial networks as personal relations through which entrepreneurs access resources such as information, assistance, and guidance, that can be used in establishing their firms and help them gain and sustain competitive advantages.¹

In obtaining information from their networks, entrepreneurs can either exploit social ties they had before beginning their entrepreneurial activities, or they can seek to form new social ties that are likely to generate valuable information for their entrepreneurial efforts, or both (Hansen, 1999; Uzzi & Gillespie, 1999). In either case, networks are likely to have an important impact on the opportunities an entrepreneur is likely to identify (or form) and exploit (Baum & Wally, 2003; Eisenhardt, 1989; Fredrickson & Mitchell, 1984). When entrepreneurs access their pre-existing networks, these prior relationships are likely to influence the range of options entrepreneurs consider. When they develop new relationships, the information obtained through these ties can influence the path of entrepreneurs as they identify (or form) and exploit opportunities.

In general, prior research supports the idea that network diversity benefits entrepreneurs—whether they are exploiting their current networks and/or building new ones (Dyer et al., 2008; Filatotchev, Liu, Buck, & Wright, 2009). Network diversity provides access to non-redundant sources of information and helps entrepreneurs access a broad knowledge base of diverse ideas and perspectives (Dyer et al., 2008). This, in turn, can improve decision-making (Epple, Argote, & Devadas, 1991; Reagans & Zuckerman, 2001; Stuart & Podolny, 1996). However, prior work does not

recognize that diversity in networks may be more characteristic of certain opportunity contexts than others and that the value of the information through a network may vary with the context of the opportunity being pursued. In the sections that follow, the value of entrepreneurial strategic networks, contingent upon entrepreneurial opportunity contexts, is discussed.

2.2. Entrepreneurial opportunity contexts: ‘discovery’ and ‘creation’

Theoretically, entrepreneurial opportunity contexts have been largely characterized as ‘discovery’ opportunity contexts and ‘creation’ opportunity contexts (Alvarez & Barney, 2007; Welter & Alvarez, 2011). Discovery opportunities (or discovery opportunity contexts) arise from market imperfections due to exogenous changes in technology, consumer preferences, or some other industry or market level attributes (Kirzner, 1973). These opportunities exist independent of entrepreneurs and therefore entrepreneurs play a limited role, if any, in the formation of discovery opportunities. However, alert entrepreneurs can engage in search processes to discover opportunities formed by these exogenous shocks to a market or industry and then work to exploit these opportunities (Kirzner, 1989). The discovery search process is generally directed toward finding demand for existing supply or finding supply for existing demand (Miller, 2007; Sarasvathy, Dew, Velamuri, & Venkataraman, 2003). Although, the final outcomes of these efforts are rarely known with certainty ex-ante, the possible outcomes associated with these efforts, and their probability, can be known which enables entrepreneurs to have clear goals and objectives (Miller, 2007).

These search processes underscore the active role that entrepreneurs play in the pursuit of discovery opportunities. Recent research by Ardichvili, Cardozo, and Ray (2003) identified entrepreneurs’ personality traits, social networks, and prior knowledge as antecedents of entrepreneurial ‘alertness’ to business opportunities. Historically, research has suggested that those entrepreneurs that are “alert” (Kirzner, 1989), possess differential knowledge about opportunities (Hayek, 1946), and have favorable cognitions and personalities (Kirzner, 1997), are more likely to discover opportunities. The dual challenge for entrepreneurs pursuing discovery opportunities is to discover distinctive opportunities in an existing domain/industry and to efficiently exploit them (Romanelli, 1991).

Creation opportunities (or creation opportunity contexts), on the other hand, arise endogenously, by the actions, reactions, and enactment of entrepreneurs in both exploring ways to produce new products or services and generating demand for them (Baker & Nelson, 2005; Sarasvathy, 2001; Weick, 1979). This might involve the production of new products, services, processes, materials, or means of organizing (Schumpeter, 1934). In this opportunity context, neither supply nor demand exists a priori. The entrepreneur plays a causal role in creating both ‘supply’ and ‘demand’ (Venkataraman, 2003). By acting and then observing how consumers and markets respond, entrepreneurs form opportunities that could not have been known without their actions (Aldrich & Kenworthy, 1999; Alvarez & Barney, 2007; Berger & Luckmann, 1967). This process of creation involves problem solving with novelty, unconventionality, and persistence (Simon, 1981). Unlike discovery contexts, which are primarily about ‘search’, creation opportunity contexts entail the active role that entrepreneurs play in the formation of opportunities.

As suggested earlier, entrepreneurs are likely to have strategic networks that support their important strategic actions in respective opportunity contexts. These networks, like other entrepreneurial actions, may also be thought of as manifestations of the assumptions that entrepreneurs make about their opportunity

¹ This definition draws from works of Jarillo (1988) and Athanassiou and Nigh (1999). We consider ‘non-strategic’ networks as those comprised of relations that are not beneficial specifically to an entrepreneur’s pursuit of opportunities.

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