

Entrepreneurial networking strategies in emerging industries: A community perspective on the creation and exploitation of social capital

Abstract

Recent studies in entrepreneurship research suggest that most new ventures that exploit new technological opportunities are likely to fail in their efforts due to their limited knowledge of required competences, lack of legitimacy among potential resource providers, and restricted access to needed resources. This 'liability of newness' should be especially severe for start-ups commercializing new-to-the-world innovations that have the potential to augment existing market structures and even establish entire new industries. In this context, entrepreneurs cannot rely upon an already established industrial infrastructure for innovation that supports their activities. Instead, this industrial community needs to be created and includes for example institutional arrangements that regulate and legitimate a new technology and market creating arrangements that inform and educate consumers about the new product. Drawing on social capital theory, this study proposes that the barriers to growth faced by innovative new ventures operating in emerging industries can be diminished by the resources that their founders derive from embeddedness in networks of personal relationships, referred to as their social capital. Accumulating entrepreneurship research suggests that social networks may provide entrepreneurs with social capital through the acquisition of information and knowledge, material resources, emotional support, legitimacy, and competitive capabilities. So far however, little agreement exists regarding the question what kind of network is most optimal for entrepreneurs in generating social capital. Both its relational dimension, i.e. strength and content of ties, and its structural dimension, i.e. the pattern of relations, are proposed to generate social capital. Empirical studies provide mixed findings concerning the contributions of these network characteristics to new firm growth. For example both dense networks as well as sparse networks rich in structural holes are found to be positively related

to new venture performance. Recent work reconciles these opposing views by proposing that the value of these particular network characteristics may be time and context dependent. This implies that optimal network design is contingent upon the stage of a new firm's development as well as the industrial setting in which it operates. Contributing to this discussion, this paper examines the networking strategies that are available for entrepreneurs in emerging industries. In doing so, it extends earlier work that focuses on entrepreneurs' set of direct network ties (i.e. ego-networks) by developing a community perspective on entrepreneurial networks. In this multi-level perspective, the environment of new foundings is conceived of as a community of various actors that simultaneously compete for resources and cooperate by collectively building an infrastructure for innovation. Actors in this community include for example private firms, governmental institutions, research institutes, and non-profit organizations that are embedded in networks of social relationships. The paper develops propositions regarding the relation between entrepreneurs' embeddedness in these community networks and their capacity to discover new opportunities, acquire resources, and attain legitimacy. Initial network data on the community of organizations active in the emerging Dutch open source software industry allows for illustrations of the key arguments by showing possible networking strategies of entrepreneurs commercializing a new innovation.

Keywords: Entrepreneurship, social networks, industry emergence, legitimacy.