



Kim Klyver

Australian Graduate School of Entrepreneurship, Swinburne University of Technology

GEM Australia is a multi-faceted project. Each year, GEM Australia, as one of its components provides an "Action Focus", a paper designed to be useful to practising, early-stage entrepreneurs. Each annual GEM Australia Action Focus is designed to cover a topic area of particular importance to early-stage entrepreneurs and to do so by providing a set of practical guidelines that are based on leading-edge research in the specific topic area. Past Action Focus sections of GEM Australia have dealt with a simple but effective approach to the management of opportunity (GEM Australia 2003) and a 'down and dirty' system for selling a business in a trade sale (GEM Australia 2004). This year, Dr Kim Klyver presents a regime for managing the crucially important area of social networks.

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Aim of this paper: To describe how entrepreneurs effectively use social networks.

INTRODUCTION

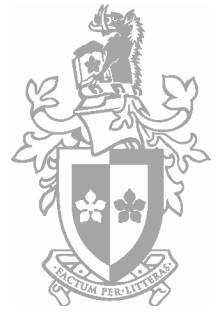
Over the last 15-20 years the importance of social networks to entrepreneurs has been increasingly emphasised in the formal entrepreneurship literature (Hoang & Antoncic 2003). Social networks play an important part in recognising, evaluating and exploiting opportunities. Accordingly, apart from the fact that social networks are important from a social point a view, they also play a major role in all aspects of the entrepreneurial process - e.g. with facilitating and helping entrepreneurs to cope with the emotional stress associated with starting and running a venture.

This year's GEM Australia Action Focus provides recommendations to entrepreneurs on how to manage and make use of social networks throughout the business life cycle of their venture; from when they have an intention to start a venture right through until they are running the established business.

To some extent social networks have their own life and are not controlled by entrepreneurs themselves. Entrepreneurs are embedded in social contexts. Parts of the entrepreneur's social context demand greater attention at various times when they are confronted with different activities or decisions. Such social contexts might be constituted by relationships with whom entrepreneurs have strong ties and where mutual obligations exist. As an example, entrepreneurs need to consider the consequences for his or her family before a decisive decision might be taken regarding their business.

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Accordingly, as a result of strong involvement in the entrepreneur's life some relationships are naturally involved in the activities and decisions entrepreneurs confront – these are more or less independent of the patronage of entrepreneurs. Thus, social networks consist of a constant core – named the *primary network* – which is not controlled by entrepreneurs but rather is merely a consequence and heritage of the life they have lived.

However, in addition to this primary network, entrepreneurs also have recourse to a broader more *general network* that might be of assistance for various activities or decisions they are confronting. The general network is constituted by all the people an entrepreneur knows. The general network is therefore accessible as a result of the lived life, and differs dramatically between entrepreneurs depending upon their age, educational background, personality, business experience and so forth.

In this action focus we explore how the entrepreneur activates parts of the general network in order to facilitate the activities or decisions they are about to undertake. This activated network is termed *the active network*. Depending on the concrete activities or decisions that have to be completed, different resources have to be obtained, and therefore different parts of the general network have to be activated.

Thus, we are dealing with three network levels that are depicted in Figure 1.



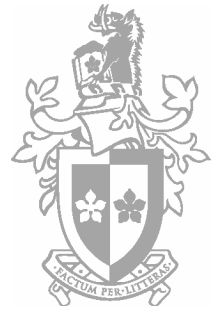
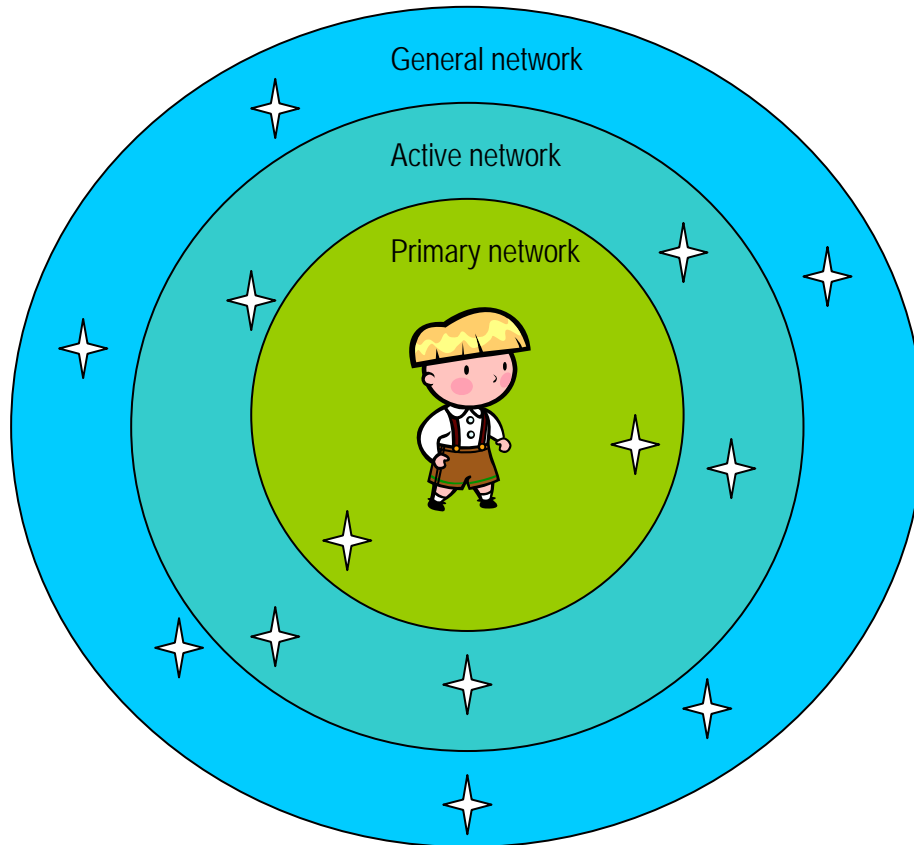


Figure 1: Three network levels

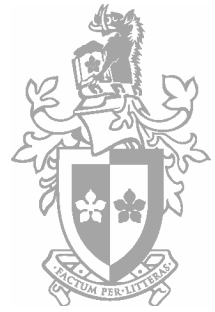


Source: Own construction based on Klyver (2005)

As entrepreneurs complete some activities and confront new and different ones, they will progressively try to activate different parts of their general network that better support the new activities. In this sense, the active network becomes dynamic and develops as entrepreneurs and their ventures move through the business life cycle.

Accordingly, the assumption in this action focus is that entrepreneurs have the potential (within certain limitations constituted by the social embeddedness from the lived life) to choose and activate those parts of the general network that they expect will fill the need for complementary resources and help.





A LIFE CYCLE APPROACH TO ENTREPRENEURSHIP

Although every start-up process has its own unique nature, it is possible on a more general level to identify different stages that are characterised by certain features. In Figure 2 below four stages in the business life cycle is presented. The depiction of these stages serves to provide a link between the network and the business development activities for this discussion.

Figure 2: Four stages in the business life cycle



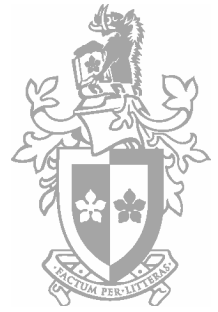
Source: Klyver (2005)

The discovery stage primarily involves an individual's cognitive process where the main activity is concerned with opportunity recognition. Entrepreneurs cannot progress from the discovery stage before an opportunity has been recognised. In the process of recognising opportunities, entrepreneurs need information on opportunities or information that is distilled from different components of their network that in turn builds their capability to recognise opportunity.

The second stage is the firm emergence stage. This is primarily a social embedded process where entrepreneurs confront the hard decision to start or interrupt the start-up process. Many considerations have to be thought-out; for example, is the start-up consistent with the life the entrepreneur wants? Besides that, the entrepreneur confronts financial issues. How should the business be financed? Will the entrepreneur use his or her own money or should the business be financed by external capital? If the preference is external finance, the entrepreneur has to identify and attract investors or lenders. Thus, the stage involves some fundamental decisions about starting or not and afterwards, dependent on the financial preferences, how to get in contact with potential investors or lenders.

The establishing stage is the third stage and can be characterised as a commercialisation process embedded in a business context. In this phase a sustainable business foundation has to be established including a financial foundation, a market foundation, and an organisational foundation. Since the venture is already established essential to survival is attracting customers and being able to meet their demand. The entrepreneur has to become established and known in the market and therefore new customers have to be attracted. Even though the stage is highly market-oriented, it is important that the entrepreneur works on balancing the financial foundation, the market foundation, and the organisational foundation. In this stage the purpose is to exploit the early opportunity and maybe further develop the opportunity into an economically sustainable business.

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The operating stage is the fourth stage where the entrepreneur on one hand has to maintain the existing business units and on the other has to cultivate new opportunities. Markets and market conditions are changing all the time and in order to stay in business entrepreneurs need to maintain their existing business units. Apart from that – and depending upon an entrepreneurs’ ambitions and growth intentions – developing new business units might also be essential activities to this stage.

USE OF SOCIAL NETWORKS: WHO TO ACTIVATE?

It is now known what characterises each of the four stages including the main activities and decisions. In Table 1 this knowledge is used to deduce which kinds of resources that entrepreneurs need to obtain in different stages of the business life cycle and accordingly which type of networks they respectively need to activate.



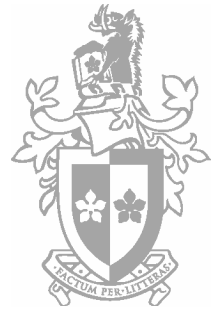


Table 1: Useful networks in different stage of the business life cycle

	Discovery stage	Firm emergence stage	Establishing stage	Operating stage
Phase characteristic	Individual cognitive process with creative treatment of input from the network	Social process embedded in the entrepreneurs close network	Commercialisation process embedded in a business context	A maintenance and re-development process embedded in a business context
Activities and decisions	Recognise opportunity	Making final decision to start or not Choose how to finance Get in contact with investors or lenders	Development of a financial foundation, a market foundation, and an organisational foundation	Maintenance Re-development
Resources	Information about business opportunities	Emotional support Financial resources	Contact to and legitimacy with regard to customers	Dependent on the situation
Network level	General network	Active network	Active network	General/active network
Characteristic of the network	Large heterogeneous role-set Strong ties to relationships in role-set A social and business context	Small dense activated role-set Strong ties to relationships in the activated role-set Social context	Large heterogeneous activated role-set Strong ties to relationships in the activated role-set Business context	Large heterogeneous role-set and activated role-set Strong ties to relationships in the role-set and the activated role-set Business context

Source: Klyver (2005)





In the discovery stage, the activities are primarily individual and cognitive, and therefore it is crucial that entrepreneurs interact with as many as possible of their general network. During this activity, entrepreneurs collect, evaluate and give meaning to the information that flows in from the network, and this activity is the main source – all-be-it coupled with alertness – for opportunity recognition. Often actors in the general network do not need to know about the entrepreneurs' intention to start a business. The entrepreneur's probability of identifying opportunities increases with a large heterogeneous general network with strong ties to as many as possible – large, as it gives access to more sources, and heterogeneous as it reduces redundant information (Burt 1992). Normally, interactions between the entrepreneurs and actors in the general network take place both in a social and in a business context where entrepreneurs search for opportunities.

In the emergence stage entrepreneurs have need for emotional support and for access to financial resources. This is most efficiently obtained in small dense active networks where ties are strong. It is primarily a social context as the preferred actors in this phase are contacted through social relation more than through existing business relations.

In the establishing stage, the entrepreneur needs contact to potential customers and legitimacy with regard to these customers. Legitimacy is created when actors in the active network create trust between the entrepreneur and a third party outside the active network. Thus, there is a need for a large heterogeneous active network where the entrepreneur has as strong ties as possible and where these relationships are to be found in a business context.

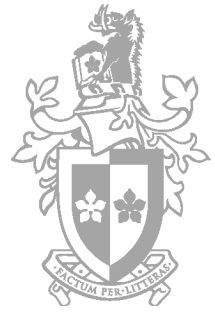
Finally, in the operating stage, entrepreneurs – in order to maintain existing business units – have to strengthen his or her ties to existing business partners. It is essential that trust is created between the entrepreneur and the business partners, as it makes co-operation frictionless and uses fewer resources. Meanwhile, development of existing business units is also central to business survival. Both maintaining and developing existing business units forces entrepreneurs to operate on both the general network level and on the active network level. They first of all operate on the general network level to serve the purpose of development (and expansion), and secondly they operate on the active network level to serve the demands of maintaining existing business units. The entrepreneurs have - on both network levels - to work hard on increasing the size of the network, creating more heterogeneous relationships, and strengthen the ties of existing relationships.

IDENTIFYING AND ACTIVATING IMPORTANT RELATIONSHIPS

In Table 1, some general guidelines about which kinds of social networks that might be useful in different stages of the business life cycle are outlined. However, the question still remains how to choose and activate the persons that seem to be important in regards to confronting activities. Below, in Box 1, a range of questions are suggested that help to identify the useful persons to activate from the general network in respect to the activities and decisions that the entrepreneur faces.

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Box 1: Identifying a useful active network

1. What are the activities and decisions that I need to complete the next couple of months?
2. What are the resources and information I need in order to complete these activities or decisions?
3. Do I know anybody who might know something on this issue?
4. Do I know anybody who might know someone who might know something on this issue?
5. How is my relationship to this person? Which resources do I expect to obtain from him/her?
6. How should I approach him/her to maximise the help and resources I expect to obtain from him/her?
 - a. Can I offer him/her something in return?

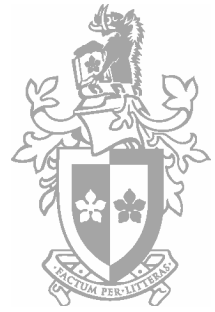
SOCIAL NETWORKING AS LIFE LONG ACTIVITY

In this action focus social networks have been treated as if they are something special to entrepreneurs. It is therefore necessary to point out that social networks are important in all aspects of social life and that social networking is a natural part of being a human being. However, for entrepreneurs it is important to notice the fact that social networks develop and that they have the potential to influence the entrepreneurial process by activating people in their networks. Therefore, entrepreneurs need to activate those people who seem to be most useful according to the decisions and activities entrepreneurs are about to face.

As a more general implication, it is essential that entrepreneurs always try to develop their general network. This can be done in many ways – e.g. entrepreneurs can participate in social events with the purpose of meeting new people and they might as well keep a record of potential important people including contact detail, their knowledge and resources, when and where they have met and so forth.

Meanwhile, it is also vital to notice social networking can be difficult. One never knows who will become useful. Social networking is not only a goal-oriented and purposeful activity – it is also a natural part of being a human. Thus, most social interaction and networking is not done as a means to an end or with an expectation of getting something out of it – most social interaction is done unconsciously in order to function as a human being. Therefore, sometimes and maybe most often, the most useful relationships are created through unconscious interaction without calculative goals. They emerge unconsciously through social interaction without any of the actors trying to get benefit from the relationship. They just enjoy their interaction.





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