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## ***The role of entrepreneurial networks in the process of start-ups creation and growth***

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**Abstract**

In today's world entrepreneurship is increasingly common. Every individual has their own network of family, friends and extended connections, and this study demonstrates, how the networks can influence the development of the start-ups to increase their competitiveness and decrease uncertainty. This article aims to highlight the benefits of the entrepreneurial network from the perspective of the entrepreneur. In order to obtain empirical data, interviews were conducted with start-up entrepreneurs from both Poland and Hong Kong.

One unexpected obstacle worth emphasizing which was discovered while conducting interviews for the survey is the reluctance of entrepreneurs to share their experiences about their social connections. However, it cannot be denied that entrepreneurial networks provide a set of significant benefits, which impact the activities of start-ups, to the extent that their impact should be investigated further.

This study will contribute to the field of entrepreneurship studies by providing insight into the usage of networks by start-up entrepreneurs in Poland and Hong Kong.

**Keywords:** entrepreneurial network, entrepreneurship, social networks' benefits, start-ups' development, start-up

**Rola sieci kontaktów w procesie zakładania oraz rozwoju start-upów****Abstrakt**

Dynamicznie rozwijające się start-upy przyciągają obecnie coraz większą uwagę. Jednym z czynników ich sukcesu są sieci kontaktów, składające się z więzi zarówno osobistych, jak i profesjonalnych. Celem artykułu jest pokazanie, w jaki sposób relacje społeczne wpływają na proces rozwoju start-upów przez zwiększenie ich konkurencyjności oraz zmniejszenie niepewności przedsiębiorców. Przedstawiono również zalety wykorzystywania sieci kontaktów z punktu widzenia przedsiębiorców. Zaprezentowane w artykule wnioski zostały oparte na analizie danych empirycznych zgromadzonych na podstawie słabo ustrukturyzowanych wywiadów przeprowadzonych z przedsiębiorcami w Polsce oraz w Hongkongu.

Jedną z niespodziewanych przeszkód napotkanych w trakcie przeprowadzania wywiadów była niechęć przedsiębiorców zarówno w Polsce, jak i Hong Kongu do wyjawiania ich doświadczeń związanych z wykorzystywaniem sieci kontaktów, co znacznie utrudniło pozyskanie danych. Odpowiednie pokierowanie wywiadem umożliwiło jednak zdobycie cennych informacji i dokonanie analizy mechanizmów wpływu sieci kontaktów na działalność start-upów. Co więcej, należy podkreślić, że korzyści wynikające z wykorzystania sieci kontaktów są znaczące i zróżnicowane.

**Słowa kluczowe:** sieci kontaktów, przedsiębiorczość, zarządzanie, korzyści wynikające z sieci kontaktów, rozwój start-upów

## 1. Introduction

The entrepreneurial network is considered to be one of the most powerful tools in the process of establishing a business in the contemporary world. This is due to the fact that there are numerous benefits that come with entrepreneurial networking both from the start-up and existing company perspective. However, the study of networks is considerably difficult because it is essentially the study of the behavior of individuals, which results in the creation of specific networks. Each network is built of many elements that cannot be measured using quantitative methods, such as ethnic or cultural diversity (Chen and Tan, 2009). Despite the fact that researchers are trying to find common factors within different networks, it is an extremely hard task, because the characteristics of any given network are influenced by many factors and therefore one common type of network does not exist.

This article consists of three major parts. The first part is dedicated to the analysis of the concepts, frameworks, and results of empirical research presented in the literature. This part will be divided into three subsections: definition and characteristics of the social networks, benefits, and entrepreneurial networks from the start-up perspective. The final sections are focused on the presentation of the results of research and discussion.

## 2. Entrepreneurial networks in the entrepreneurial process

Networking activities are extremely important throughout each stage of the entrepreneurial process. There is a direct and positive link identified between the power of the entrepreneurial network and the success of the start-up (Jenssen, 2001). Different resources can be obtained through the appropriate usage of relationships in the networks (Kreiser, Patel and Fiet, 2013). For instance, Du, Guariglia and Newman (2013). shows that the social network gives access to the external source of financing both short and long-term. These examples illustrate that social networks can be useful regardless of the target that the start-up or company has.

The following section is divided into three sub-sections of literature review: the definition and characteristics of networking, benefits of networking activities for entrepreneurs, and networking presented from the start-up's perspective. Each section is based on the analysis of publications such as books and articles from peer-reviewed journals, which present different perspectives on the topic under consideration.

## **2.1. Definition and characteristics of the networking**

The entrepreneurial network can be defined as the structure in which companies can relate to each other through relationships (Hakansson and Ford, 2002). This set of relationships constitute an entrepreneur's network. Furthermore, an entrepreneur's interpersonal relationships can be referred to as the social ties of the entrepreneur. Additionally, the term 'social capital' refers to the social relationships of the entrepreneur and 'social network' refers to the network of the entrepreneur.

It can be said that a social network is a set of actors, which can consist of both individuals and organisations, and a set of linkages among these actors (Brass, 1992). Moreover, all participants of the network are in a constant state of exchange. This network can be leveraged in order to obtain resources, decrease costs, or accomplish any other target (Gudkova, 2008). Companies, as well as people, should be encouraged to have social connections, as operating in a large and reliable network increases the chances of success (Harris and Wheeler, 2005).

These networks can be characterised by many factors, consisting of glocalization, ethnic diversity, strong and weak ties, embedded resources, and the network size (Chen and Tan, 2009); structural holes (Gudkova and Glinka, 2011); social capital (Du, Guariglia and Newman, 2013); and finally, the origin, purpose, extent, or directness of the network.

Glocalization is the process by which companies are shifting downwards and upwards simultaneously. It refers to when a company begins to be more regionally oriented, but simultaneously shifts from a national scale to a global scale. It means that social connections are becoming more transnational and localized at the same time (Swyngedouw, 2004). Chen and Tan (2009) state that glocalization is being both local and global simultaneously. Sorenson emphasised that in the process of starting a new business, local activities can be helpful because they help in resource acquisition such as tacit knowledge, human and funding capital, or valuable information. Chen and Tan (2009) add that networks that are globally dispersed are able to gain an advantage on knowledge, resources, and the flow of information.

The ethnic diversity of a network is the next important factor in the analysis of the characteristics of social networks, due to the fact that diversity can influence a network's structure and cross-scale ties. The possible collaboration and adaptiveness of the whole system can be affected by the ethnic variety (Barnes-Mauthe et al., 2013).

The linkages, which can also be referred to as "ties" are both formal and informal social connections between an entrepreneur and various other entities

such as suppliers, customers, business organisation or competitors (Sheng, Zhou and Li, 2011). These linkages can be further classified into strong and weak ties. A person has strong ties when the invested time, emotional involvement, degree of privacy and rate of exchange of the service are all high. Granovetter (2003) argued that power lies in weak ties because people within strong ties are generally similar to each other and the density of the network is developing (Gudkova, 2008; Felix, 2017).

The next important aspect of network analysis is social capital, which can be defined as the resources that are embedded within social networks and relationships that improve the competitiveness of the companies (Du, Guariglia and Newman, 2013). Since it is a study of human interactions, it is difficult to measure social capital within the social networks.

Grave and Salaff (2003) state that the size of the network can be different in the same country throughout different phases of the entrepreneurial process. According to the same author, the size can also vary depending on the country from which the individual originates; for instance, individuals from the USA have much larger networks than individuals from Norway, but individuals from Italy have similar network sizes to Norwegian entrepreneurs.

Another significant theory refers to what is termed as 'structural holes'. Such 'holes' means that an individual has the power to control information flow among unrelated individuals. Burt (2004), the author of this theory, claims that managers spanning structural holes have ideas which are more likely to be evaluated as being valuable. An advantage to this is that the structural holes concept is also connected with creativity and innovativeness (Rodan, 2010). Additionally, structural holes provide opportunities for sourcing better market opportunities and generating a high rate of return (Gudkova and Glinka, 2011; Brzozowska and Zdziarski, 2016).

The origin of the network is the differentiator which shows whether individuals built the networks during networking activities, such as meetings with other entrepreneurs, or the individuals belong to the network naturally such as family. A great example of how entrepreneurs can benefit from networks which are not correlated with the business is a family, because the family's involvement may be useful in business activity (Seaman, McQuaid and Pearson, 2017). Moreover, family ties can increase the efficiency of the family's business owners (Kwan, Lau and Au, 2011). Chen and Tan (2009) claim that different connections such as family, community, or business and professional networks help immigrant entrepreneurs to perform cross-border business activities.

The following characteristics are primarily focused on the purpose of networking activities. The first research discussed here is concerned with the action of establishing trust-based relationships with customers and business

actors in order to increase the chance of converting the entrepreneurial actions into international success (Hosseini, 2016; Harris and Wheeler, 2005). The second research claims that the social network is a relevant factor during the process of establishing a new venture (Jenssen, 2001). The third research states that entrepreneurs should rely on capital embedded in networks because the information and support from their relationships influence the progress of new venture creation (De Carolis, Litzky and Eddleston, 2009).

Despite the fact that classical types of networking activities such as face to face meetings are the most common, new technology that enables individuals to communicate with a global network of people is widely used in the process of extending the networks (Brzozowska and Zdziarski, 2016). This is a noteworthy point, as this new type of networking opportunity provides the opportunity for people and businesses to be more globally oriented, and indeed every company today is a part of a much wider collaboration (Hosseini, 2016). Moreover, it increases the extent of the networks and therefore individuals can extend their global reach, as well as their local, networks. Constantinidis (2011) carried out a study on how women use Facebook as a tool in entrepreneurial activities and concluded that it enables them to develop their networks and find new business opportunities, so it can be said that usage of the new technology creates the opportunity to develop and manage social contacts. Constantinidis' (2011) study also states that the usage of social media can add value to social capital and social media is widely used by entrepreneurs as well as other business actors. On the other hand, Chen and Tan (2009) state that networks require more maintenance and renewal in cases when they are graphically distributed among different countries because such connections are more frangible.

Networks can be further divided into the categories of direct and indirect. The former refers to individuals being directly connected, and the latter claims that individuals are connected with the support of a third party (Gudkova, 2008; Jing Zhang, 2010).

This chapter answers the question of how entrepreneurial networks are built and what factors can influence them. It provides a foundation for a deeper understanding of the possible benefits of networks in the entrepreneurial process.

## **2.2. Benefits of Networking Activities for entrepreneurs**

Researchers have argued that networks are a relevant factor in all stages of entrepreneurial development (Semrau and Werner, 2013). Moreover, previous research shows that companies with higher social capital have a greater chance of establishing a successful product (Ritter and Gemunden, 2003).

There are many advantages that the use of social networks can provide. The list of benefits consists of resource acquisition, recognition of profitable opportunities, support in the internationalisation process, access to shared knowledge, access to financial sources, improvement in marketing efficiency, support of the entrepreneur, personal development, and achievement of personal and company goals.

One of the primary challenges during early-stage entrepreneurship is resource acquisition (Sullivan and Ford, 2013). Social capital provides access to different types of resources that are currently needed for individuals in any stage of the company development (Anderson, Park and Jack, 2007; Semrau and Werner, 2013; Jenssen, 2001). Moreover, social network enables the company to share technologies, skills, and resources in cooperation with other companies (Gudkova, 2008; Hosseini, 2016).

One of the key benefits is the fact that belonging to a social network helps companies to recognise profitable opportunities on the market faster than their competitors (Hosseini, 2016). Other research adds that in some cases an opportunity can be identified as a result of the interaction within the network (Anderson, Park and Jack, 2007).

Usage of the network's power can be essential in the process of the internationalisation of a company because it increases the potential of the organisation (Hosseini, 2016). It is possible for smaller companies to overcome the threats involved in the process of internationalisation. Additionally, companies are able to identify and use international opportunities. The networking process is the best solution to surmount the threats of internalisation (Coviello and McAuley, 1999; Yeoh, 2004). Dlugoborskyte and Petraite (2015) claim that the development of networks is one of the main factors which determines the success of born global firms, but the appropriate use of the network is essential.

A well-developed entrepreneurial network can be extremely useful in acquiring financial resources, which is one of the most important factors in every stage of business development. It enables individuals to have access to external sources of financing (Du, Guariglia and Newman, 2013), and in addition, the higher social capital value of CEOs enables them to obtain cheaper sources of financing for organisations (Fang, Francis and Hasan, 2018).

Other benefits gained from the usage of social networks include the improvement of marketing effectiveness, for instance, the employees are creating marketing advertisements for the in-kind payment (Shaw, 1999). Social networks play an important role in developing the entrepreneurial competencies of an individual, including motivation, knowledge and skills, and self-efficiency. They also provide emotional support, which is extremely important especially during the early stages of the entrepreneurial process (Gudkova, 2008). The results

of the advanced social capital level are outcomes such as power, leadership, or mobility (Borgatti and Foster, 2003).

Ibarra and Hunter (2007) underline, that an effective networking strategy provides the possibility of acquiring the means necessary to achieve both personal and organisational goals. There are many examples of how entrepreneurs can manage the networking process to achieve their goals, but what is common among them is the fact that they spend their time on networking activities.

### **2.3. Networking from a start-up perspective**

Networking activities have significant value for start-ups because it enables them to bridge networks that are essential to the growth of the business (Felix, 2017). Jensen (2001) claims that there is a direct positive link between the power of the entrepreneurial network and the success of the start-up. It is crucial to separate a start-up's entrepreneurship, which is characterised as the process of establishment of the new company, and firm-level entrepreneurship (Hosseini, 2016).

There are two different definitions of the start-up. According to the Ewin Marion Kauffman Foundation, "startup businesses are defined as employer firms less than one-year-old employing at least one person besides the owner" (Morelix, Reedy and Russell, 2016, p. 11). On the other hand, the NESTA defines the startup as a "young, innovative, growth-oriented business in search of a sustainable and scalable business model" (Dee et al., 2015). Despite the fact that nowadays start-ups mostly fit into the second definition, in this study the first definition will be used.

Entrepreneurs use social capital in each phase of the entrepreneurial process, however, it is used in different ways during different stages of start-up development. During the first stage, which is the motivation to establish a business, entrepreneurs discussed their idea only with their closest relations. In the 2<sup>nd</sup> phase, which is the planning phase, owners spent much more time on building and maintaining contracts. In the 3<sup>rd</sup> phase, so during the process of start-up establishment, entrepreneurs decreased the sizes of their own networks. In most instances, the social network consists of only the important and helpful members from the last phase (Greve and Salaff, 2003).

Granovetter's theory of ties is important from the entrepreneur's point of view because the strength of ties should be on an appropriate level; this is due to the fact that there is a negative correlation found between the strength of the ties and effectiveness of funding activities (Kreiser, Patel and Fiet, 2013). The same authors claim that the number of ties is positively associated with founding



activities. It means that entrepreneurs can benefit more from social networks, which are wide, diversified and consist of weak ties. Moreover, entrepreneurs use successfully strong as well as weak ties in order to extend the pool of customers (Aldrich and Zimmer, 1986).

According to Kreiser, Patel and Fiet (2013), founders must configure their social capital to be able to align all resources at each stage of the organisation's development. Felix (2017) claims that entrepreneurs would be well recommended to extend and promote networks because such activities increase the likelihood of success.

The entrepreneurial network is one of the success' factors for start-ups established at universities because universities offer a wide range of potential partners such as current and former colleagues, graduate students, and the assistants, who can provide advice, expertise, or access to financial capital to the start-up. The ability to effectively manage a network strongly depends on the way in which the start-up is perceived by others because the crucial factor is to be perceived positively within the network (Leyden, Link and Siegel, 2013).

According to a study by Klyver, Hunter and Watne (2012), social networks not only affect existing companies and entrepreneurs already in business, but it also affects aspiring or emerging entrepreneurs. Personal relations of the entrepreneur, who has recently started a business, increase the innovativeness of a start-up as well as raises the technological advance of the start-up.

The social ties are an important factor, which influences the start-up' success. There are many advantages, which entrepreneur with a wide social network can possess compared to an entrepreneur without such networks. The examples of such benefits are the possibility to acquire all of the resources needed in each stage of the start-up's development or increase of the innovativeness of the business. The social network can be remark as the crucial factor in the process of a start-up's development.

### **3. The methodology of the research**

The aim of the research is to show how start-ups are using social capital and to investigate the mechanisms of the influence of social networks in the initial stage of the entrepreneurial process.

There are 2 research questions identified on the basis of the literature study.

*Research question 1:* What are the benefits of using social networks by entrepreneurs in different stages of start-up development?

*Research question 2:* What are the mechanisms of the influence of entrepreneurial networks on the start-up process?

In order to provide the answer to the research questions, in-depth semi-structured interviews were selected as a research method. Gathering the empirical data through the semi-structured interviews is associated with several important benefits, which are crucial for investigating such a sensitive topic as networking. According to Cohen (2006), interviewees during the conversation are able to express their ideas in their own terms. Semi-structured interviews encourage two-way communication. It provides a holistic view and reveals both the answer and the context behind it. Moreover, semi-structured interviews enable easier discussion of sensitive issues on the part of the interviewee. This last point is very important in the research of social networks as many entrepreneurs can be reluctant to reveal details regarding their social ties.

Empirical data has been collected through eight semi-structured interviews with entrepreneurs, who either currently run start-ups or have done it in the past. There are two main groups of entrepreneurs: the first group contains entrepreneurs from Hong Kong and the second group contains entrepreneurs from Poland. The purpose of collecting the data from entrepreneurs in these two countries was to analyse whether the culture, history, and approach of different countries influence entrepreneurs' usage of social networks. A short description of each interviewee can be seen below.

1. RU – A Polish entrepreneur, whose start-up was focused on providing services for suspended ceilings. The start-up was active on the Polish as well as the French market between 2003 and 2009. The headquarter was located in Łódź and the company had a total of 9 employees.
2. LI – A Polish entrepreneur, who is the owner of a start-up which produces clothes for children. The start-up is located in Tychy in Poland and operates on the Polish market. The company was established in 2001 and has a total of 10 employees.
3. PL – A Polish entrepreneur whose company, which was established in 1999, produces toys in Łódź for the Polish market. The company has a total of 25 employees.
4. GM – A Polish entrepreneur, who is the owner of a clothing production company located in Łódź. The start-up has been on the Polish market since 2004.
5. UD – An entrepreneur from Hong Kong, managing a start-up, which produces air filters for developed countries in Europe or the USA. The start-up was established in Hong Kong in 2015.
6. EH – An entrepreneur from Hong Kong, who is currently developing a start-up which aims to provide additional activities for primary school students in Hong Kong such as programming classes. EH has had many

different start-ups throughout his career, one of these being a tracking application. The current start-up was established in 2017 in Hong Kong.

7. DD – An entrepreneur from Hong Kong, whose company was importing high technology machines used in production between 2010 and 2015. The start-up was located in Hong Kong and most of the orders came from the local market.
8. WW – A video creator from Hong Kong, who is currently developing his own start-up focused on video creation. The start-up was started in 2016 and is located in Hong Kong.

The interviews were conducted both in Poland and in Hong Kong between June and November 2018. The collected empirical material has been transcribed and analysed.

#### **4. Benefits of the usage of entrepreneurial networks in start-ups**

The analysis of the data collected through the interviews has shown that entrepreneurial networks offer a wide range of benefits to the entrepreneur during the process of establishing a business. Social ties support the entrepreneur with different resources at different stages of a new venture's growth. To conduct an in-depth analysis of the benefits offered by the social network, the concept of the start-up development process developed by Salamzadeh and Kesim (2015) has been employed. According to Salamzadeh and Kesim's (2015) study, there are three main stages of a start-up. The first is the bootstrapping stage, which consists of the activities that transform the idea into a business and includes the following: team formation, development of the idea, and investments. The seed stage is the second step in the start-up development, which consists of activities such as prototype development, teamwork, market entrance and seeking support. The last stage of the start-up's development is the creation stage, which consists of activities such as operations, sales and the recruitment of the first employees. It is important to mention that the analysis of the empirical data collected through the semi-structured interviews has shown, that most of the benefits offered by the social networks are specific only to the first stage of the start-up development. However, there are also the benefits identified, which are present in all stages of the start-up's development process.

#### 4.1. Bootstrapping stage

All the interviewees were actively using networking activities in order to acquire different benefits during the bootstrapping stage. Four main categories of benefits were identified. These include the ability to find partners with similar interests, easier access to knowledge, better access to financial support and help with idea creation.

**Ability to find partners with similar interests.** The first advantage of using the social network is the fact that entrepreneurs are able to find the right business partners, which may contribute to the development of their new ventures in many different ways. The entrepreneur, whose start-up produces air filters, started the business as a result of meeting a person, who experienced the same health issues.

“During the MBA program at HKUST, I have met my friend Brian. Both of us had allergy and asthma problems. We have decided, that we have to go out of the program and we have started our start-up.” (UD)

What is interesting, an entrepreneur adds, that the start-up’s current main product, which is an air filter with smartphone app control, has been created by his business partner.

“I have found the co-owner during the MBA studies. He told me his idea, that’s now is our company’s main product.” (UD)

The next entrepreneur, operating in the clothes production industry, entered into the market due to the fact that a friend was interested in opening a company in that area. The entrepreneur joined him in order to become the co-owner of the start-up.

“In that time my friend wanted to open the clothing company. I joined him.” (GM)

**Easier access to knowledge.** Another benefit offered by entrepreneurial networks is the fact that entrepreneurs can gain knowledge and insights, which would not be so easily accessible without social ties. For the entrepreneur whose start-up produces air filters the university at which he was studying provided him with a team of engineering students as well as access to a development hub in order to give him the opportunity to improve his invention.

“They (the university) provide us the place to develop our idea and the engineering students that was helping us.” (UD)

The same entrepreneur claims that his company benefits from the fact that the CTO, who he studied with at the same university, has a very developed skill set that was required to improve the start-up's products. This example shows that networks can provide additional knowledge to entrepreneurs.

"He (the CTO) is insanely smart, and he increased the value of our start-up. I was lucky to meet him during the university program." (UD)

The owner of the start-up, which creates additional activities for children in primary schools (such as introductory classes to engineering or programming) claims that his social ties to teachers from different countries provided him with knowledge about learning methods, which was crucial in the company's development.

"When I was developing the idea, I went to Finland and Sweden in order to know more how they teach. That has changed my idea a lot because then I saw some of the mine assumptions will not work in real life, but I have also seen that some of them work well." (EH)

**Access to financial resources.** Most of the entrepreneurs that were interviewed were using their networks in order to get access to financial resources in the first stage of start-up development. The analysis of the empirical data has shown that there are three main mechanisms, which help entrepreneurs to acquire financial support. These are: sharing experiences about their access to financial sources, family financing, and partially family financing.

*Experience sharing.* The next group of entrepreneurs was financing their start-ups using their own sources, but they argued that more developed social ties increased the chances of obtaining financial support. Despite the fact that the owner of the start-up which provides additional activities to primary schools' students invested his own money into the company's development, he argues that extended social ties increase the chances of obtaining financial support, because the participants' of his social network asked him if he needs any help with interesting projects.

"I think that higher social networks increase the chance to get financial support from the financial institutions because when I was doing anything interesting people were coming to me and they have asked how they can help me." (EH)

The entrepreneur, whose start-up was offering suspended ceiling services, such as in set-up or repair, covered the initial investment from his own savings.

However, based on the experience of other companies, he stated that developed entrepreneurial networks improve the accessibility of potential funding.

“From my experience, I can say that capital is easier accessible when the entrepreneur has more developed social networks.” (RU)

*Family financing.* The co-owner of the clothing production company was a medical doctor before she became an entrepreneur. She was not able to earn enough money working in a hospital and so she decided to open a business with her friend. The money for the initial investment was given to her by her parents.

“The money to open the business I got from my parents.” (GM)

The next start-up, which makes children’s clothes, was funded by the entrepreneur’s parents, whose company was also producing children’s clothes, but their machines were too old to be able to compete with other companies on the national level.

“The needed money for the first month we (the entrepreneur and her husband) had from my parents. Later the money from customers was enough to fulfill the costs.” (LI)

The third entrepreneur, whose company manufactures toys, was sponsored by the family. The company was opened by her mother, who received the machine and financing from her father.

“My mother (who started the business) received the knitting machines as well as the money from her father.” (PL)

*Partially family financing.* The co-owner of the start-up which produces air filters was supported by his family when the start-up was at the very first stage of business development. Later on, in the development process, the entrepreneur began using his own money to finance the start-up’s operations.

“The start-up is financed by our own money, but our families gave us a certain amount that we have needed in order to improve the idea.” (UD)

**Business idea creation.** Another advantage of networks in the bootstrapping stage of a start-up is the fact that such networks can be useful in the process of idea creation. The entrepreneur behind the children’s clothing production company developed the idea based on the business model employed by the parents’ company, but with the elimination of its shortcomings.

“The idea was created when I saw the shortcomings of my parent’s business model”. (LI)

The same entrepreneur adds that discussions with key business customers provided an entrepreneur with new insights into profitable opportunities.

“Always in business discussions, it is possible to find a possibility to develop own company on the completely new market. As an example, I can say that once our main customers (one of the biggest shops with accessories for kids) asked me why my company is not producing the hats. Next season we have done it and it was one of the best products” (LI)

The mother of an entrepreneur, who manufactures toys, has been inspired to start her own business by the knitting machine received as a gift from her father. The idea for business has been based on a set of activities that could be performed by such a machine.

“My mother received a gift from her father – a knitting machine. She has started to design the toys and she was producing them. That’s how the business started.” (PL)

The owner of the company that was importing high technology machines used in production came up with the business idea during a conversation with his close friend, who was attempting to source technology which was not available on the market at that time.

“I have found the idea during the conversation with my close friend, who had the company, which needed a certain technology, but there were not companies on the market, which were able to provide such product.” (DD)

## 4.2. Seed Stage

The next stage of the start-up’s development is the seed stage, in which entrepreneurs are using the entrepreneurial network in order to obtain a different set of advantages. The list of benefits consists of superior resource acquisition, recognition of profitable opportunities, faster internalisation processes, recommendations and receiving orders from partners within the social network.

**Better resource acquisition.** The first advantage is the fact that entrepreneurs are either able to acquire resources at a lower price, or they have access to resources that are not easily accessible to others outside of the network. The entrepreneur whose current start-up runs extra-curricular activities for

primary school students leverages his network in order to gain access to products that are not accessible on his home market.

“Some products in China are hard to access compared to the products in Europe or US. My friends help me with access to such products.” (EH).

The owner of the company that was importing the high technology machines took advantage of the entrepreneurial network in order to decrease the prices of goods which required prototype creation for one of the final products.

“It was easier and cheaper with the good social network to buy some required products.” (DD)

The entrepreneur who makes videos for his YouTube channel as well as for his customers, claims that when he became well-known, he was able to learn recording skills from very experienced people. The entrepreneurial network gave him access to important knowledge that has proven essential to the start-up.

“I can say that the certain recognition gave me a possibility to learn from some top editors and directors from Hong Kong. It also boosted my skills to the next level.” (WW)

**Recognition of profitable opportunities.** The next benefit of the entrepreneurial network is improved recognition of profitable opportunities. Concepts for diversification could come either from within the start-up or from outside. The entrepreneur behind the video production start-up mentions that his team members have some concepts for further development, for example by recording a new series of videos for YouTube, therefore increasing the chances of the company’s profitability, due to the likelihood that these new videos will increase the recognition of the company.

“My new teammates always have some ideas and because of them we were able to expand our “business” activity into new fields.” (WW)

The owner of the suspended ceilings services company points out that during conversations with customers, he was able to recognize opportunities for new services that he could provide to his customers.

“Our customers were asking different things, which gave us ideas about how we can use our technology and knowledge in a different way.” (RU)

The owner of the company that was importing high technology machines has mentioned during the interview, that despite the fact that the initial idea of the start-up was his own, there were a lot of people involved in consultations at the development process.



“I was consulting the project with other people. The idea was mine, but other people helped me in the process of idea’s creation.” (DD)

**Faster internalisation process.** Entrepreneurs also marked the social network as an important factor in a start-up’s internalisation. The entrepreneur whose start-up created a tracking application mentions that a manager at Apple helped him to expand the application into a different market.

“He (Apple’s manager) heard what I was doing in that time and he asked me why I’m not on the foreign market. I told that I know how to operate in Hongkong, but he told me that I should go to try extending the business in the USA. I did so.” (EH)

The owner of the suspended ceiling services company, based in Poland, wished to expand the company’s activities into the French market. The owner claims that his social network provided him the necessary help that was required to enter the new market, which was not simple at that time due to the fact that the international regulations were more strict.

“Because of some social networks we were able to enter the French market, which was difficult in that time.” (RU)

The entrepreneur, who was importing high technology machines in Hong Kong, had the intention to begin to operate within different markets. He states that certain participants in his network provided his start-up with the necessary documentation that was required to enter the business into the new markets. Additionally, participants in this network gave him important information about the markets.

“Social network helped me to develop the company on the foreign markets because business partners gave help with all the formal documents that was needed as well as practical information about the market.” (DD)

**Recommendations.** The next noteworthy benefit is the fact that an entrepreneurial network can help to acquire new customers through recommendations. Two of the entrepreneurs from this study expressed that at the very beginning of the start-up’s operation on the market, customers and friends were recommending the start-up to their friends, and therefore, the start-up had more potential customers. Both entrepreneurs mentioned that the first customers they had were recommending the services of the start-up to other people.

“The people, for whom we were doing our work, recommended our company and that’s how we had more potential customers.” (RR)

“The social network provided us with the new customers, mostly because of the recommendation of the first customers.” (LI)

**Social networks’ orders.** The final advantage to the use of networks in the seed stage is the fact that networks can generate the very first customers for start-ups. Entrepreneurs that were interviewed mentioned that participants of their networks constituted some of the very first purchases made at the very beginning of the start-up’s operation in the market. The entrepreneur behind the children’s clothing manufacturing company declares that the first customers of her start-up were the people who were purchasing the products from her parents’ company because the range of products of both companies was very similar.

“First orders were made by the customers that were buying my parent’s products.” (LI)

The owner of the suspended ceiling services company argues that despite the fact that the first ceiling project was conducted in his own house, subsequent sales were made to customers who were family connections.

“The first investment was done in my home, but the next one was done for the customer strongly connected with my family.” (RU)

### 4.3. Creation stage

The final stage of a start-up’s development is the creation stage. In this phase, entrepreneurs are using the entrepreneurial network in order to cooperate with social network’s participants, acquire resources, obtain access to required knowledge, improve the marketing efficiency and secure the first orders from the participants of their social networks.

**Cooperation with business partners from the social network.** The first advantage is that there is a possibility to cooperate with the participants of the entrepreneur’s social network. The owner of the children’s clothing company claims that having positive relationships with the managers of other companies influences business cooperation in a positive way.

“I think that social networks increase the competitiveness of the company because good contacts with the other’s company managers always influence the cooperation in a positive way.” (LI)

The entrepreneur whose start-up was importing the high technology machines argues that entrepreneurial networks can bring positive insights into the company, however, it is essential to remember that to maintain such networks at an appropriate level certain work is required.

“Social capital gives more possibilities to develop, but it is necessary to remember that it requires to work on these networks in order to make them efficient.” (DD)

Another participating entrepreneur argued that social contacts can increase the speed of the company’s development, but it is important to note that this only applies to certain appropriate social contacts, and not all of them. In other words, not all participants of the social network can improve the development process.

“In my opinion, the appropriate social contacts give the possibility to develop faster.” (EH)

**Better resource acquisition.** Entrepreneurs are also leveraging their networks in order to acquire resources in daily operations. The owner of the suspended ceilings company claims that resource acquisition was a crucial part of his business model because the required resources were difficult to access. In fact, members of his social network were not only able to provide him with these resources, but they were also of the highest quality. In addition, he was able to negotiate the prices of these resources.

“For years we were collaborating with resources’ suppliers and because of this fact the quality was always on the highest level and the prices were negotiable. When we were buying the new machine the social contacts also were important.

Because of certain contracts, we had much better access to the full range of the products, which were much harder accessible for other companies.” (RU)

The owner of the children’s clothes production company leverages their entrepreneurial network to purchase the required resources at more cost-effective prices.

“We are using the business contacts in order to buy the material at the more attractive price because we are seen as the solid and good prospering company.” (LI)

Another entrepreneur revealed that despite the fact that the quality of the products purchased from her business partners remains consistent, leveraging her social network enables her to purchase materials at lower prices.

“Very often I use my social network in order to buy some material at lower prices.” (GM)

The entrepreneur behind the video production company states that social capital increases the development speed of the project because it reveals the individuals who have an interest in being involved in the project.

“I already know a lot of people, who are connected with movies making, so there is no problem to find someone for a specific project that we (the team) are doing.” (WW)

“I think that social capital gives the possibility to develop faster because basically more people involved in the project increase the speed of the project’s development. And we have access to people, because of the social network.” (WW)

**Access to knowledge.** Access to knowledge is the third-factor influencing start-ups. The interviewees were all in agreement of the fact that they wanted to share knowledge with other companies because this can improve processes within their start-up.

The entrepreneur of the clothes production company revealed that her company exchanges information and knowledge with companies managed by her friends.

“We have a couple of friend’s companies and we are helping each other among them.” (GM)

The same entrepreneur expressed that the assistance she received from her friend was essential to gaining a competitive advantage over her competitors.

“My friend gave me the information, which he received from his friend. It was the information what will be a trend on the market for the next season according to the very big company. I had more time for the preparation.” (GM)

The owner of the children’s clothes production company mentions that she exchanges knowledge with family members who also own companies. This is effective due to the fact that her family members also have companies that operate within the clothing market.

“We are exchanging the information between the companies, mostly from our market, which our family members own. We are helping each other in production as well as in managerial problems.” (LI)

The next entrepreneur states that he exchanges some information and knowledge with other companies, but most of the businesses in his industry protect their knowledge as much as they can.

“There were a couple of partners with whom we exchange some information, but most of the knowledge was undercover.” (RU)

The entrepreneur, whose company was importing high technology machines claims that he is open to exchanging knowledge and information in cases where it can provide any advantage over the start-up’s competitors.

“I am open to share ideas and information as well as to provide mutual support with others. It increases the competitive advantage of my company.” (DD)

The entrepreneur whose start-up provides additional activities for students in primary schools states that his friend, who was strongly connected with the target market, helped him to improve the business idea a lot.

“He (the friend) was really open-minded and we have started to work together on this project because he saw a number of shortcomings from his teacher perspective.” (EH).

**Marketing efficiency improvements.** Networking activities can increase the marketing efficiency of a start-up. Interviewees expressed that entrepreneurial networks can either increase exposure and recognition or decrease the cost of marketing activities.

The entrepreneur whose start-up manufactures air filters answered that having a developed entrepreneurial network can increase the company’s exposure, and therefore it can increase sales.

“Social network mainly increases exposure, which can generate more sales.” (UD)

The owner of the company that was importing the high technology machines argues that having a developed network can increase the company’s profitability by providing new possibilities in marketing and promotion.

“Good social network helps increase the possibilities in marketing and promoting” (DD)

Another entrepreneur claims that a company having high recognition increases the number of opportunities for securing business partners.

“I can say that higher recognition and more social contacts gave us the possibility to have business partners and do the well-paid job for them.” (WW)

The entrepreneur behind the start-up providing extra-curricular activities for children leverages his network in order to increase exposure.

“I think that social network is very important. I don’t do any paid marketing in my start-ups, because I just post the post on Facebook on which I have more than 5000 friends and they reach a lot of additional people.” (EH)

**Social networks’ orders.** The final benefit of the use of social networks in the creation stage is the fact that entrepreneurial networks can increase a start-up’s sales volume. In the case of the first entrepreneur, the participants of her network increased the sales directly because the friends of her husband were buying the start-up’s products.

“My husband’s friends need hundreds of t-shirts every half a year for their employees. They do it in my company.” (GM)

The next entrepreneur declares that the sales volume of his company increased indirectly due to the fact that business partners were bringing new customers to the company through recommendations.

“Social contacts gave us a couple of important clients for which we are making the commercials.” (PL)

#### **4.4. Benefits in all stages**

Support of family, friends, and mentors is a benefit which is common across all stages of the start-up’s development. This was emphasized by all the entrepreneurs as being an important factor for entrepreneurial success.

The entrepreneur behind the video production start-up expressed that he is motivated by his wife and father to work harder in order to achieve more. He cites the fact that his father was also a filmmaker as the reason for the development of his aspirations.

“My father and my wife, as well as my team, motivates me to work harder to accomplish more targets.” (WW)

The next entrepreneur expresses his increased motivation to work harder thanks to his wife and closest friends. He mentions also being motivated to work hard in order to achieve the aim of providing as much as he can for his wife.

“I think that people, who are close to me such as my wife, closets family, and friends. These people give me motivation.” (EH)

The entrepreneur behind the clothes production company describes being motivated by her family, and especially by her children. She expresses the desire to be able to give them better opportunities than were afforded to her.

“My family is the reason why I work so hard.” (GM)

The owner of the children’s clothes production company is motivated by similar factors, also expressing the fact that her children are the most important motivational factor for her.

“Mostly family motivates me to work hard.” (LI)

The entrepreneur behind the toy production company emphasizes being motivated by her mother, the creator of the company. She expressed a desire to develop the company as much as she can for her mother.

“The only person, who is motivating me is my mother because whatever would be she is always fighting for the company” (PL)

Another entrepreneur describes receiving emotional support from both his family and friends, who support him throughout highs and lows.

“The emotional support I get from the family as well as friends.” (RU)

The owner of the company that was importing the machines describes being influenced and motivated by his mentors.

“I have my mentors, who provide motivation and driving force for me to work harder.” (DD)

## **5. Discussion**

The main objective of the paper was to analyse how entrepreneurs are using their networks. The analysis of the data collected during the interviews suggested that there are many benefits that entrepreneurs can obtain at every stage of start-up development through the appropriate usage of entrepreneurial networks. The results of the study show that entrepreneurs from both Hong Kong and Poland are using social networks to find the partners with the similar interest, to get the easier access to knowledge, to have the access to financial resources, to recognize the profitable opportunities, to increase the internationalisation process, to get the recommendations about their start-ups, to have the orders from the social networks, to improve the marketing efficiency, and to increase the motivation.

The main limitation of this study lies in the fact that the group of entrepreneurs was relatively small, and thus the results cannot be said to be replicable in all cases. Additionally, it should be more diversified in terms of industries in further studies to gain a better understanding of different contexts.

This study shows that entrepreneurs are using their networks to gain many benefits at every stage of start-up development. The following benefits have already been analysed by the other authors. The first one is better access to financial support as a result of leveraging entrepreneurial networks. This is a phenomenon that has been previously identified by Du, Guariglia and Newman (2013). The present study supports the findings of the aforementioned study; interviewees from this study claimed that they had better access to knowledge in their start-ups due to their networks. This was also found to be true according to a study by Hosseini (2016).

The next stages of the start-up development give insights into the following benefits: better resource acquisition, recognition of profitable opportunities, a faster internationalisation process, improvement in marketing efficiency, motivation and emotional support. All of these advantages of entrepreneurial networks have already been identified by various authors such as Ritter and Gemunden (2003); Semrau and Werner (2013); Hosseini (2016); Shaw (1999); and Borgatti and Foster (2003) This study, therefore, offers further evidence in support of these findings.

There is also a networking benefit, which was discovered in this study. It is the ability to find business partners with similar interests within the entrepreneurial network.

On the other hand, there are benefits that were found by other authors, which were not found in this particular study. This study offered no evidence in support of the notion that the entrepreneurial network helps to achieve personal goals, as the interviewees made no claims that networking activities helped them to accomplish such goals. Nevertheless, the interviews were focused on organizational goals, so it does not mean that entrepreneurs did not accomplish any personal goals during their networking activities.

Additionally, it is worth mentioning that in the group of entrepreneurs that were analysed, there was no significant difference found in the use of entrepreneurial networks between entrepreneurs from Poland and entrepreneurs from Hong Kong. The main difference found was that the entrepreneurs from Poland were more open to sharing experiences connected to the benefits of the usage of their networks.



## 6. Conclusion

This paper addresses the question of how entrepreneurs are using social capital at every stage of start-up development in their start-ups. The first important insight highlighted by this study is the fact that start-ups can benefit from the use of entrepreneurial networks in many ways and across different areas, due to the fact that the list of benefits is very diversified and consists of factors such as the creation of business ideas, better resource acquisition, or orders from the network's participants.

This study demonstrates that some entrepreneurs were able to use the strength of their social networks at every stage of the start-up's development, however, there are also some entrepreneurs who were found to use the social benefits only in one or two stages and therefore their start-ups did not benefit as much as possible from networking activities. However, it also means that entrepreneurs can use social ties in different ways at each stage of the start-up's development.

The next significant insight gained from the research was the fact that some entrepreneurs were reluctant to share experiences connected to the use of social ties, due to the inherently sensitive nature of sharing personal information. Therefore, it is important to note that it is certainly a possibility that some interviewees were understating the extent of the benefits that networks had afforded them for these reasons and may not have been comfortable revealing this information. On the other hand, some entrepreneurs did not recognise that they had used the entrepreneurial network to obtain benefits.

The fourth noteworthy fact is strongly connected with the third insight, because the entrepreneurs who were aware of the range of benefits that the entrepreneurial network can provide were leveraging social networks more consistently at every stage of the company's development, compared to the entrepreneurs who did not recognize the opportunities that networks can provide. In addition, those entrepreneurs who were using social networks in order to obtain benefits did not appear to consider activities connected with networking, such as development, maintenance, or usage to be something inappropriate.

Another finding is the fact that entrepreneurs are obtaining benefits specific only for one start-up's development stage, for instance, marketing efficiency and sometimes universal ones which are relevant and helpful across all stages, such as emotional support.

The last conclusion is the fact that entrepreneurs, who commonly used the social ties, realised how important their social networks were and are therefore carrying out activities in order to develop an entrepreneurial network and their

networking skills. The examples of such activities are regular meetings with other entrepreneurs in order to share experiences, knowledge, and problems that can be solved with the help of other entrepreneurs. The example of such a situation is the fact that an entrepreneur who was importing the high technology machines solved a problem with the help of the other entrepreneur during the meeting of the start-up's owners.

This study of entrepreneurs from different countries has highlighted many important and noteworthy facts and insights connected with the benefits of the use of the entrepreneurial networks within start-ups. The entrepreneurs are using their social networks on each stage of start-up development in order to obtain many benefits discussed in this research. The entrepreneurs, who have an understanding of the social network's power, are using the social ties in the most extensive manner.

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