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### **Entrepreneurship as Renegotiated Exchange in Networks**

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### **Abstract**

Previous research highlights the difficulty of defining the terms, entrepreneur and entrepreneurship. Questions arise about the lack of conceptual underpinnings and perception of the entrepreneur as a distinct entity. These debates suggest that if entrepreneurship is to be understood, researchers need to divert their attention from dealing with the individual in isolation and examine the process involved in crafting entrepreneurial action. As a process, entrepreneurship concerns change; it also draws from the surrounding context and hence it is considered to involve the relationships in which an entrepreneur is immersed. In this study we draw on the IMP and exchange literature to arrive at a better understanding of entrepreneurship by conceptualising it as 'renegotiated exchange in networks'. To achieve this we consider the nature of ties, social capital and exchanges within relationships. Our theoretical discussion and conceptualisation allows us to argue that entrepreneurship is an 'agreed' outcome from the activation of exchange relationships in a network. Taking this perspective allows us to present five theoretical propositions for further analysis.

### **Keywords:**

Networks; Entrepreneurship; Exchange; Social Capital

### **Introduction**

Entrepreneurship can expand our view of exchange relationships in networks by adding an unpredictable and dynamic function into the operation of network that reshapes the existing order. The word entrepreneur itself connotes fabulous images of creativity and innovation, and epitomises the popular imagination of a heroic figure that creates new products or processes (Schumpeter, 1934), enters new segments or markets (Lumpkin and Dess, 1996), starts ventures (Gartner, 1985) and overcomes a series of adversities on his way toward reshaping existing business networks. Previous research, however, highlights the difficulty of defining the terms, entrepreneur and entrepreneurship (Gartner, 1985; Carland et al, 1988). Questions arise about the lack of conceptual underpinnings (Shane and Venkataraman, 2000) and perception of the entrepreneur as a distinct entity (Gartner, 1985; Chell, 1985). These debates suggest that if entrepreneurship is to be understood, researchers need to divert their attention from dealing with the individual in isolation and examine the process involved in crafting entrepreneurial action (Gartner, 1985; Bygrave and Hofer, 1991). As a process, entrepreneurship concerns change (Shane and Venkataraman, 2000); it also draws from the surrounding context (Jack and Anderson, 2002) and hence it is considered to involve the relationships in which an entrepreneur is immersed (Greve and Salaff, 2003).

The purpose of this paper is to arrive at a better understanding of entrepreneurship by conceptualising it as 'renegotiated exchange in networks'. To achieve this purpose, the paper presents an overview of current perspectives of entrepreneurship. In doing so it demonstrates a widely held view that entrepreneurs are intimately tied through their relationships to a broader network of actors and that networks not only influence the entrepreneurial process but also the shape and nature of entrepreneurial outcomes (Hoang and Antoncic, 2003). As a consequence of this view, the importance of social capital and the actual ties (usually termed as 'strong and weak') that form the network, are deemed important in the practice of entrepreneurship and in influencing the nature of exchange that takes place. Our perception is that as actors embedded in a network of exchange relationships (Gnyawali and Madhavan, 2001), entrepreneurs confront the existing order through a process of renegotiation, thereby, enabling changes to the status quo to take place.

While previous work recognizes the need to examine exchange relationships (Casson, 1985; Easton and Håkansson, 1996; Denrell, et al., 2003; Ford, et al. 2003; Biggart and Delbridge, 2004), there are few detailed discussions accounting for what actually happens between exchange relations. We find this surprising considering it is the ties from which a network is formed and what actually goes on within a network that are important aspects, influencing entrepreneurial outcomes. Two missing links might explain this. First, entrepreneurial action appears inextricably linked with the possibility of exchange.

Behind each entrepreneurial action lies an inherent capacity to establish exchange processes with other actors. It is often the case that research fails to take seriously the practice of exchange and tends to conceptualize the entrepreneur as a person who establishes a new venture (Shane and Venkataraman, 2000). Second, entrepreneurial action appears inextricably linked with renegotiation. Although the discovery of a business opportunity is a necessary condition for entrepreneurial action, the exploitation of opportunities requires something more. Entrepreneurship requires a confrontation with the existing order of exchange relationships and the finding of a new consensus. Through our discussion, we demonstrate that entrepreneurship is not necessarily a property that an entrepreneur owns but instead represents an 'agreed' outcome from the actual activation of exchange relationships in a network. Change to the structure occurs through activating network ties. Hence, it is the consent within exchange relationships that determines the extent of change that occurs. By conceptualising entrepreneurship as renegotiated exchange in networks, we argue that the discovery and the exploitation of profitable business opportunities are triggered only in conducive circumstances. This means that entrepreneurial action takes the form of providing the rationales and resources for other actors to act. This is an indirect mechanism that brings us to the essence of 'renegotiated exchange in networks' which is to find and arrange unique or better ways to deliver and capture value in exchange relationships.

The present study of entrepreneurship as renegotiated exchange in networks offers three important benefits. First, understanding the nature of ties, social capital and exchanges within relationships may help us broaden our understanding about the nature of entrepreneurship in business networks. Second, capturing what actually takes place within the spaces of exchange relationships will help us to enhance the real value, applicability and significance of each 'type' of tie. Third, examining the role of renegotiation will help us understand the unpredictable and dynamic function of entrepreneurship and thus will help us understand the process of reshaping the existing order in business networks. The paper proceeds as follows. First, we explore the idea of entrepreneurship and highlight the importance of taking a network perspective and thus we emphasize the relevance of context. Second, we introduce social capital, structural holes and network ties and demonstrate the relationship between these aspects. Third, we show the importance of exchange and how this represents a key feature of entrepreneurial networks. Fourth, our interpretations are drawn together to demonstrate that entrepreneurship occurs through renegotiated exchange in networks. Finally, we present our conclusions and some direction for further scholarly enquiry.

### **Entrepreneurship: In Search of Conceptual Foundation**

Entrepreneurship is becoming increasingly perceived as a mechanism which not only supports and transforms economies but also brings with it social and economic benefits (Aldrich, Jones and McEvoy, 1983; Hart, Harrison and Gallagher, 1993; Hyrsky and Ali, 1996; Storey, 1997; Thakur, 1998; Wiklund, Davidsson, Delmar and Aronsson, 1997). It is therefore probably not too surprising that interest in the area has grown dramatically in recent years. Such is the interest in the area that entrepreneurship is now regarded as an important and relevant field of study (Shane and Venkataraman, 2000: 224), while understanding entrepreneurship, the tools and mechanisms used to manage entrepreneurial ventures is increasingly viewed as an important area of research, not only within the entrepreneurship literature but also the wider management arena (Jack, 2005).

Although entrepreneurship is perceived to be more than "just a fad" (Harrison and Leitch, 2006: 351), in spite of its popularity the field has sadly been criticised for lacking a conceptual framework and being presented as a "broad label under which a hodgepodge of research is housed" (Shane and Venkataraman, 2000: 217). This is perhaps not too surprising considering conceptual and methodological debates are ongoing and the need for more theoretical developments and underpinning within the field has been argued (Harrison and Leitch, 2006: 353). A broad number of issues do indeed tend to be dealt with but by a diverse range of disciplines (Harrison and Leitch, 2006: 353). So, is there little wonder that consensus regarding definition and how to approach the study of the entrepreneur has yet to be reached (Carland *et al*, 1988; Gartner, 1988; Bygrave and Hofer, 1991; Johannisson and Sennesth, 1993; Rosa and Bowes, 1993).

Recent thoughts tend to build on the work of Gartner (1985: 701; 1988: 21) whose view was that entrepreneurship is about organisation creation and that this is what differentiates entrepreneurs from

non-entrepreneurs. Gartner (1988) saw entrepreneurship as a contextual event, the outcome of many influences. It is this perspective which has become popular and gained more credibility amongst entrepreneurship researchers. More recent requests to consider entrepreneurship as being broader than simply firm creation have been made (Shane and Venkataraman, 2000: 224). However, entrepreneurship is a broad field and those who have studied entrepreneurship have looked at “*sources* of opportunities; the *processes* of discovery, evaluation and exploitation of opportunities; and the set of *individuals* who discover, evaluate, and exploit them” (Shane and Venkataraman, 2000: 218).

The actual activity of entrepreneurship has been said to be concerned with the “discovery and exploitation of profitable opportunities” (Shane and Venkataraman, 2000: 217). However, the process of how this achieved and what is actually involved is less understood. We do know that entrepreneurial outcomes can be viewed as “the consequences of the entrepreneurial process” for instance, “the founding of a new venture and its performance” (Hoang and Antoncic, 2003: 173). We also know that entrepreneurial processes consist of opportunity identification, resource mobilization and the creation of an organization (Shane and Venkataraman, 2000). Moreover, we recognise that entrepreneurs tend to start with an idea, but alter that idea through experimenting, testing and influencing the system (Sarason et al, 2006: 301). We are also aware that entrepreneurship requires action over time, with an unknowable future outcome (McMullen and Shepherd, 2006: 132). Such entrepreneurial action can influence both opportunity discovery and resource mobilization (Hite, 2005: 114). Entrepreneurs have also been said to construct ventures over time, “partially through their ability to influence the social and economic system” (Sarason et al, 2006). This adds another complex dimension to the process entailed. Moreover, entrepreneurship is not just concerned with envisaging the future but in enacting it (Anderson et al, 2006). It is about change (Shane and Venkataraman, 2000; Anderson et al, 2006) and change is a reflection that the future will be different from the past (Anderson et al, 2006). If we take as an example the Schumpeterian sense of innovation, perceived to be a key feature of entrepreneurship, it is about change by shifting from doing things in a present way to a future way. As for more specific details about what the entrepreneurial process does really and actually involve, knowledge and understanding is gradually being accumulated. However, understanding has also perhaps been impeded - or at least hampered – by the way in which entrepreneurs are often perceived; “super action heroes...possessing competencies beyond belief” (Katz, Aldrich, Welbourne and Williams, 2000: 9). So, how do entrepreneurs deal with the complexities associated with their embeddedness in a wider context and how do they deal with the aspects of interdependence, change, complexity, opportunity identification, opportunity realization, resource constraints, resource mobilization but with unknown and indefinite outcomes?

### **Taking a Network Perspective on Entrepreneurship**

One way to in which we might be able to investigate the embeddedness of entrepreneurs in a wider context is to take a network perspective. By taking a network perspective, we attempt to articulate ‘connectivity’ and capture dynamic processes of interaction (Anderson, Håkansson and Johanson, 1994; Dyer and Singh, 1998; Gnyawali and Madhavan, 2001; Gadde, Huemer and Håkansson, 2003). Within the IMP literature, activity is viewed as taking place through co-ordination and interaction between firms in a network (Johanson and Mattsson, 1987): “firms are free to choose counterparts and thus “market forces” are at play....however, to gain access to external resources and make it possible to sell products, exchange relationships have to be established with other firms” (p.35). While we agree with this view, in this paper we are dealing with entrepreneurship and take the perspective that such exchange relationships are formed between individuals. It is the bonds that are formed between individuals that influence the exchange relationship and it is the social interaction that makes renegotiation possible. After all, when trying to get established in a new market a firm, or entrepreneur, has to build relationships and relationships are continuously re-negotiated. In other words, they are “established and maintained, developed and broken in order to give satisfactory, short-term economic returns and to create positions in the network, securing the long-term survival and development of the firm. Through the activities in the network the firm develops the relationships which secure the access to important resources and the sale of its products and services” (Johanson and Mattsson, 1987: 36).

The network perspective on entrepreneurship is anchored in the recognition of ‘context’ or ‘environment’ in which actors are embedded as networks of exchange relationships. Taking a network perspective on

entrepreneurship to examine interconnected exchange relationships allows us to operate at a higher level of aggregation than alternative research approaches. The network perspective moves beyond single entrepreneurs to one that examines whole networks of interrelated relationships as the unit of analysis. Moreover, the network approach is sensitive to developments over time; it assumes that entrepreneurs transform resources to carry out exchanges linked by strong or weak ties and that the cumulative effect of these exchanges influences both the position of the entrepreneur and the existing network structure in which the entrepreneur is located. Social interaction within network of exchange relationships has been offered as a mechanism which allows entrepreneurs to deal with the unknowable and uncertainty that surrounds entrepreneurship (Anderson et al, 2006). And, with the social context increasingly perceived as an impelling influence on entrepreneurial activity researchers are progressively looking to try and understand the role of the context and social interaction. Recognition of the effects and implications of these aspects has grown as it is becoming understood that individuals do not operate independently but instead are influenced by others (Harland, 1995). It has been argued that because actors do not make decisions in a vacuum but instead they consult, and are influenced by others in their environment, more recognition should be given to the influence and impact of the social context and the embedded nature of economic behaviour (Granovetter, 1985; Aldrich and Zimmer, 1986). Indeed, more recent perspectives have even described entrepreneurship as a “social undertaking” and one which must be “understood within the context of social systems” (Sarason et al, 2006: 287). The social context can certainly influence economic outcomes, for example a close friend is more likely to influence an entrepreneur when compared to someone unknown or un-trusted and a friend may offer an opportunity or resource which influences economic outcomes (Hite, 2005: 114). This suggests that entrepreneurship is about people and social relationships, which “evolve over time by leveraging social components” (Hite, 2005: 135).

These social relationship aspects are a key feature of networks. Traditionally, networks have been viewed as the “plumbing of the market...the channels or conduits through which “market stuff” flows” (Podolny, 2001: 33). Social networks affect economic performance and economic action is thought to be embedded in ongoing networks of personal relationships (Piore and Sabel, 1984; Powell, 1990; Granovetter, 1992; Ring and Van de Ven, 1992; Snow et al., 1992; Jones et al., 1997; Young, 1998; Arrow, 2000; Jack and Anderson, 2002; Jack, 2005). Uzzi (1997) and Uzzi and Gillespie (2002) identify a link between social factors and economic performance. Similarly, Granovetter (1992: 25) argued that economic action is embedded in ongoing networks of personal relationships and that economic goals are typically accompanied by non-economic goals related to the social context. According to Jack (2005), networking involves a social process which takes place over time; it is a process of identifying common interests, gaining knowledge and experience of other individuals and building trust.

Within the field of entrepreneurship there is a widely held that entrepreneurs are intimately tied through their social relationships to a broader network of actors (Hoang and Antoncic, 2003). The network approach appreciates the embeddedness of economic relationships within social settings and views the entrepreneur as a whole person, a socioeconomic actor with a personal history and private concerns as well as economic interests (Larson and Starr, 1993: 11). It may even be that entrepreneurship is a social process with economic outcomes, and one which requires taking both economic and social risks (Jack, 2005). After all, it has been argued that it is through relations, interactions and networks that entrepreneurship is actually carried out (Anderson et al, 2005). Social interaction provides a way to operate beyond organizational boundaries and to deal with elements of social structure that may resist change (Jarzabkowski, 2004). However, while there is a perception that aspects of the social context can impact on economic activity, calls for a greater understanding about particular aspects have been made, for instance the origins and persistence of structural embeddedness and social mechanisms (Jones et al., 1997). We know that networks influence entrepreneurship but despite the pervasion of the network concept and its increasing popularity, many questions remain unanswered about the actual content of interactions and the relationship between networks and entrepreneurship (Jack, 2006).

#### Social capital

A key feature of social networks is social capital, which individuals are perceived to possess. It is an important aspect of social networks because social capital is regarded as the value generated through and within social networks (Burt, 1992); the relationships individuals have with others, within and beyond

the firm, and collectively the social capital of people represents the social capital of organizations (Burt, 1992a: 9). Generally social capital refers to the set of norms, networks and organisations through which people gain access to power and resources that are instrumental in enabling decision-making and policy formulation (Serageldin and Grootaert, 2000: 45). It is a feature of social networks which facilitates co-ordination and co-operation for mutual benefit (Flora, 1998: 488).

Anderson and Jack (2001) argued that social capital was originally described as a relational resource of personal ties which individuals use for development (Jacobs, 1961; Loury, 1977; Tsai and Ghoshal, 1998). More recently, a broader conceptualisation has emerged as sets of resources embedded in relationships (Burt, 1992a; Burt, 1992b). Social capital includes a number of aspects related to the social context: social interaction, social ties, trusting relationships and value systems, facilitating action in a particular social context (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998). It is perceived as a capital that exists in the structure of relations between and among actors (Coleman, 1990; Burt, 1992b: 58; Coleman, 2000: 16) but which takes time and effort to produce, and therefore has an opportunity cost (Stiglitz, 2000: 61). It is perceived as an asset that essentially exists in social relations and networks but which is expressed through successful network interactions (Burt, 1997; Leana and Van Buren, 1999; Cooke and Wills, 1999).

Three dimensions of social capital have been identified in the literature; structural, relational and cognitive (Nahapiet and Ghoshal, 1998). Granovetter (1992: 33) originally made a distinction between structural and relational embeddedness (Håkansson and Snehota, 1995; Lindenberg, 1996). In Granovetter's (1992: 35) view, the structural dimension of social capital is about social interaction, whereby a social actor's contacts within a social structure provides advantages such as access to information or access to resources. The relational dimension refers to assets rooted in these relationships such as trust and trustworthiness (Tsai and Ghoshal, 1998). The cognitive dimension refers to those resources providing shared representations, interpretations, and systems of meaning among parties (Cicourel, 1973).

Social capital influences the formation of a network which proceeds through the establishment of new relationships (Walker et al, 1997). Firms with less social capital are more vulnerable to opportunistic behaviour and less able to build an enduring history of effective cooperative behaviour with partners over time and have to spend more time and effort monitoring the relationship (Walker et al, 1997). Leana and Van Buren (1999) and Coleman (1990) argued that social capital is a by-product of other organisational activities. However, in terms of entrepreneurship, Fafchamps and Minten (1999) identified that entrepreneurs do invest in social interaction and argued that if network capital is essential for firm growth then entrepreneurs should look to accumulate it as they would other resources. According to Walker et al (1997) firms with less social capital are more vulnerable to opportunistic behaviour so the more social capital available to a firm, the fewer resources it needs to manage existing relationships and the more resources it can use to establish new ones. Social networks, and the social capital that resides in them, shapes organizations (Anderson et al, 2006). So, social capital is a key feature of relations but, according to Burt (1992a 1992b), it is the space between relations which is really important.

#### Structural holes

Burt's (1992) structural holes thesis provides an alternative to the social capital argument (Walker et al, 1997). Burt's (1992a: 28) structural holes thesis deals with the hole, or gap, which is spanned between non-redundant contacts; "whether a relationship is strong or weak it generates information benefits when it is as bridge over a structural hole". Network contacts are redundant if they lead to the same people and hence provide the same information benefits, i.e. each person knows what the other people know (Burt, 1992a: 28; 1992b: 65). Therefore, it is the number of non-redundant contacts which becomes important. Non-redundant contacts are disconnected in some way - "either directly in the sense of no direct contact or indirectly in the sense of one having contacts that exclude others" (Burt, 1992b: 65). Burt (1992b: 66) demonstrated this by explaining that two contacts are redundant to the extent that they are connected by a strong relationship, for instance father and son, which provides easy access but leads to the same information. Where contacts have no direct ties with one another, they are non-redundant because each can lead to different information and resources. Accordingly, network positions associated with the highest economic return lie between not within dense regions of relationships, i.e. structural holes

(Walker et al, 1997). This point is of great importance for investigating entrepreneurship because structural holes may present opportunities for brokering information flows among firms and may result in greater economic payoffs as the broker's information advantage creates surprising potentials (Walker et al, 1997).

The structural holes argument is linked to the strength of ties and homogeneity. Burt's (1992; 1992b) thesis deals with the hole spanned between non-redundant contacts since it is this (structural) hole which he argues is important in generating information benefits. Although in Burt's (1992a; 1992b) view it is the space between the links (in a network) which is effective and important, the real value of the structural holes argument is in helping to understand the size of the hole and what is actually going on within that hole, particularly if a network is visualised as a grid of mutuality, where people with some commonality are brought together for a variety of reasons. This grid consists of strong and weak ties (Granovetter, 1973) bridging, in Burt's (1992a; 1992b) terms, different structural holes. These structural holes, between ties within the network, will represent different types of "nets", having different "net" sizes and, therefore, different sizes of holes. These holes will provide different information benefits. Burt (1992a: 47) argued that the substance of information benefits are access, timing and referrals. He argued that the network of the individual provides access to information well beyond what the individual could process alone. Burt (1992a: 47) pointed out that the network provides the information early which gives the individual an advantage in acting on the information. The network which filters information coming to the individual also directs, concentrates and legitimates information received by others about the individual. So, Burt (1992a: 47) argued that information benefits are maximised in a large diverse network of trusted contacts.

Burt (1992a; 1992b) makes the point that the number of structural holes increases with network size but that the holes are the key to information benefits. Hills et al (1997) discussed how even though a large network can offer more information, an entrepreneur with a network of redundant contacts will be exposed to redundant information, whereas an entrepreneur with a network which contains many structural holes will have access to a much more expansive and diverse level of information. Burt (1992b: 67) illustrated two key features which relate to structural holes but which impact on the form and design of the network. First, is the issue of efficiency whereby individuals should maximise the number of non redundant contacts in the network to maximise structural holes resulting in greater information benefits. Second, is the issue of effectiveness where individuals should perceive primary contacts as ports of access to clusters of people beyond their own social world and to reach separate, and more diverse, social worlds of network benefits. Thus, individuals need to focus on supporting primary contacts and expanding the network to include new contacts.

Theories of social capital and structural holes have fundamentally different implications for network formation (Walker et al, 1997: 109). Social capital implies a strategy of maintaining the structure of existing relationships and the value of those relationships; structural holes implies that forming new and unique relationships leads entrepreneurs to transform network structure (Walker et al, 1997). Following Burt's (1992a; 1992b) proposals, there is an implication that entrepreneurs should build networks that are diverse. Nevertheless, other studies have shown that it is strong ties which primarily provide the mechanism for building and bridging structural holes (Jack and Anderson, 2002; Jack, 2005). Moreover, knowledge about the entrepreneur within the structure is said to be maintained and reinforced through a combination of strong ties and being embedded (Jack and Anderson, 2002; Jack, 2005). This allows details about the entrepreneur to be fed into the wider social structure. Networks may even represent a series of bridges which link numerous individuals together within a structure (Jack, 2005). So, within the context of entrepreneurship at least, structural holes theory raises a problem. If, over time, firms seek to exploit the holes between the islands of social capital in which relationships are embedded, the social capital available to an entrepreneur is more likely to decrease as the firm forms new relationships (Walker et al, 1997).

#### Ties

Network, social capital and structural holes theory all present the importance of network ties. The IMP literature suggests that relationships between parties occur through exchange processes and that because of their often long lasting nature the process of 'fit' and 'adaption' that takes place, ties that form these

relationships do have aspects of social exchange (Johanson and Mattsson, 1987; 1992). Moreover, the ‘fit’ and ‘adaption’ is seen to strengthen bonds, reinforce relationships but also provide space to change the relationship if needs be (Johanson and Mattsson, 1987; 1992). Ties that form the structure of a network can have a significant impact on the type and extent of resources acquired (Jack, 2005). These ties can also influence and affect the growth and development of an organization and how it is actually managed (Jack, 2005). Network ties also bring opportunities and resources into the firm and, particularly for emerging firms, provide the “conduits, bridges and pathways” to opportunities and resources but the characteristics of ties influence how they are “identified, accessed, mobilized and exploited” (Hite, 2005, p. 113). Ties are normally perceived as being either strong or weak and it is the strength of a tie within a network that is really perceived to define the strength and quality of relations (Granovetter, 1973). Granovetter (1973) and Burt (1992a, 1992b) argued that a network should consist of both strong and weak ties because the nature of these ties influences the operation and structure of networks. Strong ties consist of frequent interaction, occurring at least twice a week (Granovetter, 1973) and are, therefore, perceived to be homogeneous because they provide redundant information as individuals are part of the same, or similar, social circles (Burt, 1992b). Homogeneity of strong ties means they are perceived to be less effective, breeding local cohesion but also leading to overall fragmentation (Granovetter, 1973; Ibarra, 1993; Maguire, 1983). Weak ties are described as heterogeneous ties and are perceived to be a critical element of social structure, enabling information to flow into other social clusters and the broader society (Burt, 1992a). Hence, weak ties (Granovetter, 1973) offer the possibility of connections to other social systems (Ibarra, 1993) and, particularly in terms of information relating to opportunities, a personal network predominantly characterized by strong ties is inefficient (Hills et al., 1997; Ibarra, 1993). Nevertheless, there is conflicting evidence about the strength of ties and in fact stronger ties have been found to be more beneficial than weak ties since they allow a greater amount of resources to move between actors (Podolny, 2001: 34). Similarly, Aldrich et al. (1987), Hansen (1995) and Lechner and Dowling (2003) all emphasize the importance of close strong ties, perceived to support and help justify the choices made by the entrepreneur and help to solve problems (Mönsted, 1995). It has also been found that within the entrepreneurial context it is the function of a tie and how that tie can be utilized that has been identified as being important (Jack, 2005). Ties that are relationally embedded enable exchange and influence economic choices on the basis of the relationship (Hite, 2003, 2005). In such instances, the most important thing is the maintenance of the social relationship, these ties tend to be governed through informal mechanisms (Hite, 2005: 114). So, perhaps, it is what goes on within and between network ties which is important and how this actually leads to entrepreneurship and entrepreneurial activity.

### **The Role of Exchange in Networks**

Exchange is a basic socio-economic activity (Biggart and Delbridge, 2004) and refers to a “voluntary agreement involving the offer of any sort of present, continuing, or future utility in exchange for utilities of any sort offered in return” (Weber, 1978: 72-73). Opportunities have been said to “not exist priori waiting to be discovered but become manifested to the entrepreneur and to others as they are conceptualized and developed by the actor as part of the venturing process” (Sarason et al, 2006: 287). Understanding the role of exchange in networks requires a fundamental insight of the process by which interdependent parties seek to create joint gains (McGinn and Keros, 2002; Biggart and Delbridge, 2004). Joint gains are achieved through ‘wise trades’ (Bazerman, Baron and Shonk, 2001) among parties who have the ability to see the broader picture and the connectedness of actions in the wider network. They require a shift in actors’ self-perception from ‘self as independent’ to ‘self as part’ of a larger whole (Bigelow, 1992). Exchange among network actors may involve interactions at numerous levels, plus a plethora of related information exchange activities, often with third parties such as professional communities and public bodies. Actors’ openness to move beyond existing task-specific exchanges and engage in heedful interactions is crucial for their ability to access and exploit new business opportunities (Mouzas, Henneberg and Naudé, 2007). It would seem reasonable to say that the structure of networks and the ‘types’ of ties that form the network must have an impact on such exchange. In discussions about networks strength of ties is frequently perceived as an important dimension (Granovetter, 1973). The strength of ties is often defined in terms of the strength and quality of relations (Granovetter, 1973); this view suggests that networks should consist of both strong and weak ties because the nature of these different ‘types’ of ties influences the operation and structure of networks (Granovetter, 1973; Burt, 1992). Nevertheless, primarily for reasons of homogeneity, strong ties are traditionally perceived as less beneficial than weak ties, perceived to present bridges to other social structures (Granovetter, 1973; Burt,

1992). Burt's (1992) structural holes thesis has been used to illustrate that it is actually the space between relationships – that is structural holes – and how these 'spaces' are bridged that are important. While the strong and weak tie hypothesis in particular has become an established paradigm within the field of entrepreneurship, questions have arisen over its applicability and the real value and significance of each 'type' of tie (Jack, 2005; Hoang and Antoncic, 2003).

While previous work recognizes the need to examine exchange relationships, there are few detailed discussions accounting for what actually happens between exchange relations. We find this surprising considering it is the ties from which a network is formed and what actually goes on within a network that are important aspects, influencing entrepreneurial outcomes. Two missing links might explain this. First, entrepreneurial action appears inextricably linked with the possibility of exchange. Behind each entrepreneurial action lies an inherent capacity to establish exchange processes with other actors. It is often the case that research fails to take seriously the practice of exchange and tends to conceptualize the entrepreneur as a person who establishes a new venture (Shane and Venkataraman, 2000). Second, entrepreneurial action appears inextricably linked with renegotiation. Although the discovery of a business opportunity is a necessary condition for entrepreneurial action, the exploitation of opportunities requires something more. Entrepreneurship requires a confrontation with the existing order of exchange relationships and the finding of a new consensus.

### **The Importance of Renegotiation of Exchanges**

Exchange relationships usually involve highly dynamic processes of interaction, by which interdependent actors with different backgrounds and potentials but also interests and aims seek to generate ongoing gains through a jointly agreed action (Sebenius, 1992; Mouzas, 2006b). Entrepreneurs know that it is often impossible to fix all terms of an ongoing exchange. Significant contextual variables often make it nearly impossible for actors to maintain exchanges unchanged (Hart and Moore 1988; Schwartz 1992). Such contextual variables usually include information asymmetries, unforeseen contingencies and significant transaction costs that force actors to seek renegotiation (Tirole 1986; Segal, 1999).

Consider the practical implications of an ongoing exchange between a supplier of consumer products and a grocery retailer that was based on strong ties and designed to secure substantial business or to achieve significant cost advantages. If technology changes rapidly or market conditions shift, an unchanged ongoing exchange could limit the parties' abilities to innovate or change their existing arrangements (Argyres and Liebeskind 1999). Actors may venture new projects or receive new offers and they may need to rethink the exclusivity of their supply or subcontracting policies. Thus, actors' underlying rationale may change and the two involved parties that share strong ties may need to renegotiate their exchange. Renegotiation may also be necessary because of the evolving complexity of multilateral exchanges between the two companies (Mouzas, 2006b; Mouzas, Henneberg and Naudé, 2007). For example, new requests from third parties in the wider network, new assignments or modifications in the offering, adjustments of volumes and prices, as well as necessary updates in terms of logistics and payment may create conditions of 'showery weather' which require a substantial renegotiation (Mouzas and Ford, 2006). The theoretical justification for the need for renegotiation can be found in the consent-based understanding of exchange relationships (Barnett, 1986). According to a consent based view, actors bring to the exchange certain rights (entitlements) and they manifest their consent to the transfer of these rights (entitlements). For this reason "the enforceability of all agreements is limited by what rights are capable of being transferred from one person to another" (Barnett, 1986). The implication of such a consent-based view of exchange relationships is that the exchange surplus, i.e. the joint gain, from the exchange is maximized only if an exchange involves an 'actual meeting of minds' (Kronman and Posner, 1979: p.5). This actual meeting of mind can only be achieved if actors tolerate and promote renegotiation of exchanges. By pursuing renegotiation, actors acknowledge their embeddedness in networks of relationships and redefine the terms of their previous agreement. Often entrepreneurs redefine the terms of their agreement with actors in strong ties in order to address customer needs of other actors the wider networks which are not directly linked with them. Consider the example of a manufacturer of consumer goods who capitalizes on wholesalers and grocery chains to reach a great number of retailers. Because of their individually insignificant economic importance, manufacturers have rather weak ties with single retailers. The development of strong ties with retailers is left to wholesalers and grocery retailers who

developed appropriate sale forces and logistical capabilities. Nonetheless, retailers are collectively significant for each manufacturer. If the manufacturer ventures a new product launch, introduces a new process, programme or promotion, he needs to renegotiate exchanges with wholesalers and grocery chains that allow him to feed out and draw in resources from the wider network of retailers. A direct activation of weak ties is in practice a) ineffective because of the lack of the previous direct exchanges and b) inefficient because of the high implementation cost. By using strong ties, the manufacturer activates and re-connects with retailers and thus bridges structural holes while retaining and maintaining strong, durable and robust social capital with wholesalers and grocery retailers.

### **Entrepreneurship as Renegotiated Exchange in Networks**

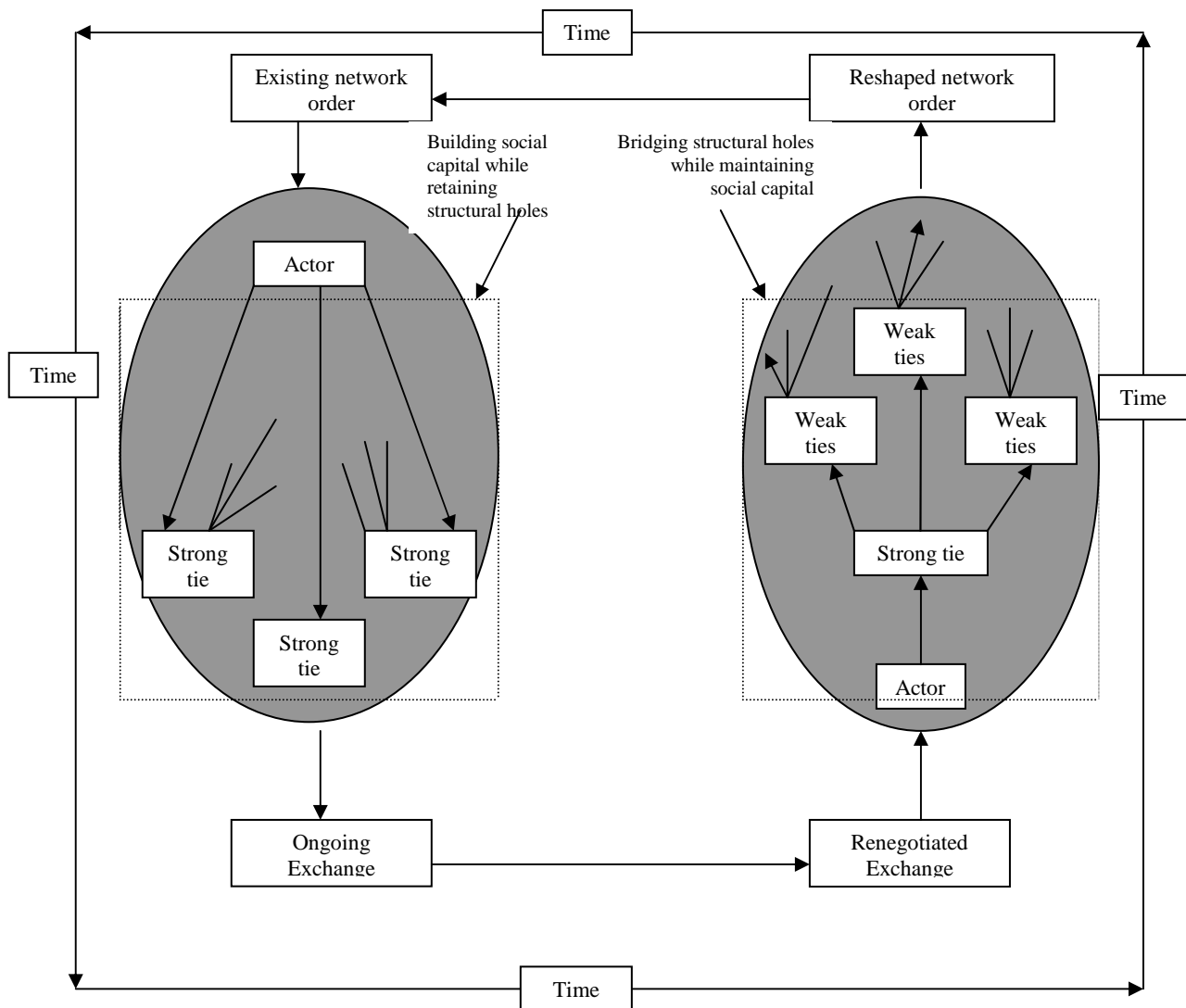
If entrepreneurship involves an interactive, social process then through the exchange that occurs within and between those actors that make up the network, economic outcomes are achieved. However, this is only achieved through a process that entails activating links to the context in which the entrepreneur is embedded. Embeddedness refers to the belief that actors are embedded in concrete, ongoing systems of social relations and that behaviour is so constrained by ongoing social relations that to construe them as independent is a misunderstanding (Granovetter, 1985). Therefore, from this perspective embeddedness is a core, if not critical, aspect of economic activity. An actor's embeddedness in social structures endows them with social capital (Portes and Sensenbrenner, 1993; Oinas, 1999). The creation of social capital takes place within the embedding process, an end (a product of networks) as well as a means (of enabling) (Anderson and Jack, 2002). It is perceived to represent a relational phenomena (Anderson and Jack, 2002). A community, business and more general society, is in fact a series or set of relationships (Anderson and Jack, 2002) formed by the creation of ties between individuals (Narayan and Pritchett, 1999). So, as well as being a means of enforcing norms of behaviour, social capital can also be a constraint (Walker et al, 1997: 111). For example, the entrepreneur and his/her venture is therefore likely to be constrained by the amount, type and/or extent of resources available through the network. But the network might also constrain and limit entrepreneurial behaviour in other ways, for instance if those to whom the entrepreneur is tied disapproves of his/her entrepreneurial behaviour or activity.

By being embedded within a network individuals are able to “unlock the social capital that resides within that network” (Anderson et al, 2007). If social capital represents the resources that are available to an individual by being a part of that network then it is only by being a part of that network that an individual is able to locate and draw on those resources that he or she may require. Therefore, it is only through network ties which provide his/her links to the context that social capital can be activated. Social capital represents the pool of resources an individual can draw on for entrepreneurship while a network represents the bridge between those individuals who make up the network.

Ties within the network tend to be strong in terms of social capital. However, through those strong ties that make up the network entrepreneurs are also able to access weaker ties, draw in from those weaker ties through their strong ties and, in effect, deal with the “space” (i.e. geographical/social/psychological content) between relationships. This also means that they are able to maintain, retain, build and develop the social capital that exists within the network, rather than diluting social capital by looking to construct a diverse network through increasing network contacts.

It is exchange that goes on within and between ties, a matter of giving to as well as taking from the pool of social capital and the social context. Through renegotiation within those social relationships, and confronting the existing order changes to the status quo take place. Therefore, things take on a different shape and form and are shifted to another level. This whole process is an interactive process and one which takes place only over time. In figure 1 we attempt to illustrate the concept of entrepreneurship as renegotiated exchange in networks. Our starting point is that entrepreneurs are actors embedded in a network of pre-existing exchange relationships. Entrepreneurs capitalize on strong ties with other actors to build social capital and maintain ongoing exchanges. This focus on strong ties, however, creates structural holes which imply information losses and thus missed opportunities. Through a renegotiation process, actors are able to re-arrange the terms of their agreements with other actors in strong ties. Renegotiation of exchanges aims at bridging structural holes while maintaining social capital. In this way, entrepreneurs are able to reconnect to the wider network and address the customer needs in other types of ties, e.g. weaker ties (see figure 1).

**Figure 1: Entrepreneurship as renegotiated change in networks**



### Propositions

Examining entrepreneurship by the use of intellectual lens of as renegotiated exchange in networks, we formulate five theoretical propositions for further analysis. These propositions merit further research as they represent new perspectives on entrepreneurship. They also provide an alternative hypothesis that partly contradicts existing literature in the area of entrepreneurship. We thus state:

#### Proposition 1:

*Exchange is more likely to occur and be sustained between actors that share robust social capital that consists of strong ties.*

Being embedded within a network of exchange relationships provides actors with knowledge, contacts, advice, information and support. It is more likely that the key network contacts drawn on and used for exchanges are stronger ties. Through interaction, social contacts are thus anticipated to provide the necessary resources that can be used for arranging and sustaining exchanges.

#### Proposition 2:

*Strong ties are a necessary condition for the conclusion of renegotiated exchanges*

Actors who capitalize on strong ties built over a long period of time are able to arrange the conclusion of renegotiated exchanges. Renegotiation in weaker ties becomes practically impossible because of the lack

of certainty and calculability of exchanges which can only be developed through replication of exchanges over time (Mouzas and Ford, 2006). The existence of weak ties is, therefore, a barrier to renegotiation. In contrast, in stronger ties actors rely on a foundation of previous exchange experiences and projection of anticipated exchanges. By using strong ties actors may activate and link into the wider network while retaining and maintaining strong, durable and robust social capital.

Proposition 3:

*The more the actor focuses on stronger ties the greater the number of structural holes*

Social capital theory (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998) implies that entrepreneurs need to concentrate efforts on building strong ties for gaining robust social capital. However, the more actors focus on stronger ties the greater the probability of structural holes (Burt, 1992). Structural holes imply the existence of diverse and disconnected networks of exchange relationships. The consequence of concentrating purely on strong ties that deliver social capital may include the possibility of missed business opportunities because of an under-utilisation of available but dispersed resources and information.

Proposition 4:

*The more the actor renegotiates exchanges that utilise strong ties to activate other ties (e.g. weak ties and/or other forms of ties) the more the actor is able to bridge structural holes*

Entrepreneurs who capitalize on strong ties can 'exploit' these ties to feed out and draw in resources from the wider network. Usually entrepreneurs exploit strong ties to address customer needs of other actors which are not directly linked with them (e.g. weak ties) in the wider network. This of course will pre-suppose the conclusion of renegotiated exchanges that allow a different arrangement (Tirole, 1986; Hart and Tirole, 1988). The entrepreneurs' counterparts (i.e. strong ties) give their consent to this renegotiated exchange because of the benefits that arise from this re-arrangement. What appears as a 'weak tie' for an entrepreneur may mean a 'strong tie' for the entrepreneur's counterparts.

Proposition 5:

*Renegotiated exchanges may reshape the existing network structure*

Relationships among actors define the structure of networks while interactions that occur within these relationships circumscribe the process of acting (Håkansson and Ford, 2002; Ford, Håkansson, and Johanson, 1986). In a way, renegotiation of exchange is a process of acting through which resources are reallocated, bonds are reshaped and ties are reconfigured and hence renegotiation of exchange reshapes the existing order relationships.

### **Conclusions and Agenda for Further Research**

The contribution of this paper to the IMP literature is significant in that it looks at 'exchange' and 'change' from an entrepreneurial perspective. By approaching the study of networks in the way presented here, we look to deepen our understanding about how networks are built and developed. By considering and monitoring the development of entrepreneurial firms and the networking activities of entrepreneurs from an early stage, particularly in terms of how growth occurs, we should be able to expand our knowledge about industrial networks as they are being developed. We recognise that within the entrepreneurial context, networks tend to be initiated on the basis of social liking, linking and/or understanding. Nevertheless, it is through exchange that change takes place within these networks that economic returns are made, business opportunities evolve and markets are developed. Indeed, by conceptualising entrepreneurship as 'renegotiated exchange in networks', the present paper has demonstrated that the discovery and the exploitation of entrepreneurial business opportunities are triggered only in conducive circumstances. This means that entrepreneurial action takes the form of providing the rationales and resources for other actors to change. This is an indirect exchange mechanism that brings us to the essence of 'renegotiated exchange in networks' which is to find and re-arrange unique or better ways to deliver and capture value in exchange relationships. In this way, change to the structure occurs through activating network ties; and the activation of weak ties through the use of strong ties becomes critical. Debates concerning the advantages, constraints and limitations of social exchange

relations on economic behaviour exist. Organization theorists maintain that social structure plays a significant role in economic behaviour but that social exchange relations can create market inefficiencies, suggesting that more research is needed which looks at how social structure facilitates, hinders or obstructs economic action (Uzzi, 1997). Through our theoretical discussion and conceptualisation, we have demonstrated that entrepreneurship is not necessarily a property that an entrepreneur owns but instead represents an 'agreed' outcome from the actual activation of exchange relationships in a network. A renegotiated exchange between entrepreneurs and institutional investors, for example, such as venture capitalists, may create and sustain a legitimated market space for new exchange (Mahoney, Eisenhardt, Compans, 2002). The consensus between network actors may even lead to new ways of doing things. Hence, it is the consent within exchange relationships that determines how ties are utilised, what actually goes on between exchange relationships and therefore the extent of change that occurs.

It would be useful if the propositions we put forward are tested through further research. This would allow more knowledge to be generated about the actual process of entrepreneurship and the real impact of networks. In order to broaden our understanding about the role, nature and impact of networks on entrepreneurship, we need to consider the actor and how he/she interacts, the reasons for his/her actions and at what points the decision to interact is taken. Much of the work to-date is about the formal nature of contracts but there is a need to really deal with the informal aspect and the informal nature of contracts and exchange, particularly within the field of entrepreneurship. In practical terms, this implies that research on the process of crafting entrepreneurial action needs to include the investigation and analysis of informal manifestations of agreements such as correspondence, memoranda of understandings, minutes as well as letters of intent. The present study has shown the importance of adopting an alternate theoretical lens in investigating entrepreneurship. Empirical research on how actors with different backgrounds, potentials and interests undertake a jointly agreed action that reshapes the existing order in networks may improve our understanding of the complex connectivity in a real world setting and may contribute to a new comprehensive theory. Such research theme comes in a time where a range of contextual factors, such as increasing global competition, financial markets, mergers & acquisitions and outsourcing are forcing many businesses to improve operational efficiency and maximize their market effectiveness (Mouzas, 2006a) by capitalizing on the knowledge, technologies and financial assets of other actors with whom they are not directly linked. Actors are now susceptible to changes in their surrounding networks more than ever and they need to renegotiate continuously in strong ties with other actors to protect and advance their own interests. Looking at the conceptual tools of renegotiated exchange, further research may explore how social capital is built and sustained through renegotiation of exchange in strong ties and how strong ties affect other types of ties in the wider network. An agenda for further research needs to include an investigation of how entrepreneurs deal with the inherent uncertainty in their particular networks and how these actors see this uncertainty as a possibility of exploring and exploiting new business opportunities. The notion of uncertainty has been a central construct in management theory, particularly in theories which describe and explain the relationship between the actors and their contexts (Duncan, 1972; Downey, Hellriegel & Slogum, 1975; Huff, 1978; Jauch and Kraft, 1986; Miliken, 1987). What deserves more attention is the investigation of two research problems: Firstly, investigation is needed on how actors incorporate uncertainty into the renegotiation of exchanges in the form of perceived entrepreneurial risks and on how these actors hedge against them. Secondly, research is needed on how entrepreneurs identify, develop and exercise current and emerging options through ongoing renegotiation in their surrounding networks. The pursuit of such research agenda would require the employment of research methods with the operational ability to 1) investigate the complexity of relationships, 2) to handle critically rich data, multiple sources of information and multiple rationalities 3) to investigate the multilateral exchange among actors and 4) to capture processual developments over time. Focusing on real, temporal and dynamic processes, we may consider the use of descriptions of unique experiences of the process of crafting entrepreneurial action which are accurate and rich in details. This type of work may require more longitudinal empirical work to complement and supplement existing work, providing a more coherent and robust theoretical understanding. The present paper has, hopefully, provided a theoretical platform to start this new exploration.

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