

## **Entrepreneurs with Ties**

### **1. Abstract**

Concerns about our understanding of the network process and how this process might impact on entrepreneurship have been raised. The purpose of this paper is to broaden understanding about this relationship. To do so, we consider what goes on within network ties so that entrepreneurial change is brought about. We argue that through social exchange within network ties, entrepreneurs challenge the status quo and that through a process of (re)negotiation within network ties, they change the existing order. The exchange process within network ties provides the rationales, resources and assurances that “allow” the entrepreneur to act. We, therefore, propose that entrepreneurship occurs through the renegotiation of exchange that takes place between and within network ties.

**Key words:** entrepreneurship, network, exchange

### **2. Introduction**

Within the field of entrepreneurship, there is a paucity of knowledge about the formation and maintenance of networks (Davis et al, 2006), the nature of exchange processes and connectivity linking actors, networks and outcomes (Johanson and Mattsson, 1987; Larson, 1992; Jones et al, 1997; Renzulli and Aldrich, 2005; Anderson et al, 2010). More specifically, a theoretical deficiency is present, which has prevented researchers from comprehending what really goes on within network ties (Uzzi, 1997; Batjargal and Liu, 2004; Rodan and Galunic, 2004; Elfring and Hulsink, 2007). This theoretical deficiency has now become more transparent due to the increasing attention to question how networks shape and form entrepreneurial outcomes (Hoang and Antoncic, 2003; Jack, 2010; Slotte-Kock and Coviello, 2010). Given that the social context is increasingly perceived to exercise impelling influence on entrepreneurial activity and

outcomes, networks in which individuals are embedded can impact on the success or failure of projects (Ibarra et al., 2005).

In this paper we help address this theoretical deficiency; to do so, we consider what goes on within the network process that leads to entrepreneurial outcomes. To arrive at an understanding we consider the connectivity of entrepreneurs with other actors: the types of ties between actors, the nature of exchange that takes place and how that exchange comes about to create a process through which the existing order is renegotiated to produce unforeseen outcomes and, thus, the dynamics that this exchange process involves. While the majority of network perspectives of entrepreneurship emphasize the patterns of ties (Hoang and Antoncic, 2003), the contribution that we make is to develop a conceptualization of what actually flows through ties and how those flows are managed. As a way of starting to redress this, we use ‘exchange’ and ‘negotiation’ as conceptual tools to understand what flows through entrepreneurs’ to others, how those flows are governed, how networks shape the flow and the ways in which actors’ active management of flows can re-arrange and re-shape the existing network order. In doing so, we deal with elements of process and outcomes of network development and entrepreneurship.

Our overarching research question is *what goes on within network ties so that entrepreneurial change is brought about*. By using exchange and negotiation, our interest, is in social interaction and what takes place in order for entrepreneurial outcomes to be re-shaped and re-formed. In dealing with this question, a conceptual view of the relationship between connectivity through ties and exchange is offered. We argue that entrepreneurship occurs through the renegotiation of exchange that takes place between and within network ties. In this way, this work supports the growing view that entrepreneurs are intimately tied through their social interactions 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 taking this network view, we consider the importance of the actual ties, often termed as ‘strong and weak’ (Brüderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Jack, 2005) that form the network, and the nature of exchange that takes place in the practice of entrepreneurship. As we perceive entrepreneurship as the outcome of renegotiated exchange, we demonstrate that this occurs because entrepreneurs utilize network ties and engage in an exchange process through which changes to the existing network structure take place. Having relationships with others and access to idiosyncratic resources and capabilities of others underpins networks; and networks are important to entrepreneurs because they enable and constrain relationships, connections and access to knowledge, information, physical and monetary assets (Uzzi, 1997; Davidsson and Honig, 2003; Hite, 2005; Renzulli and Aldrich, 2005).

We use the term renegotiation to describe how entrepreneurs challenge the status quo by taking the existing order to another form, shape or level, i.e. they renegotiate it. They do not accept trading exchange as others do; instead, through social exchange they challenge the status quo. This occurs through the exchange that takes place within network ties. Such exchange within network ties provides the rationales, the resources and the assurances that give actors the confidence to act and the belief in their actions. In doing so, entrepreneurs find and arrange unique and/or better ways to deliver.

The contribution of this paper deepens our understanding of the way we think about network ties and the exchange process; and, hence, unearths what actually goes on within networks so that entrepreneurship happens. Our perception is that as actors embedded in networks of exchange relationships (Uzzi, 1997; Gnyawali and Madhavan, 2001), entrepreneurs confront the existing order through a process of exchange and renegotiation, thereby, enabling changes to the status quo to take place.

Considering the relationship between connectivity through ties and the nature of exchange offers three important benefits. First, understanding the connectivity of actors and type of ties leads to a better understanding of the embeddedness of entrepreneurship. Second, capturing what actually takes place within the spaces of exchanges will help understanding about the real value, applicability and significance of ties within networks, the actual nature of exchange and how networks might impact on the success, or indeed failure of the entrepreneurial venture. Third, understanding the role of renegotiation will help inform understanding about the dynamic function of entrepreneurship and, thus, the process of reshaping the existing order in networks to bring about change.

The paper proceeds as follows. First, we explore the idea of entrepreneurship and highlight the importance of taking a social network perspective when looking at entrepreneurship to embrace the relevance of context. Second, we show the importance of exchange and how this represents a key feature of entrepreneurial action. Third, we discuss the importance of renegotiation of exchanges as a response to contextual contingencies such as unforeseen events. Fourth, our interpretations are drawn together in a conceptual matrix to demonstrate that entrepreneurship occurs through renegotiated exchange in strong ties. Finally, we present our five theoretical propositions and provide direction for further scholarly enquiry.

### **3. Entrepreneurship and social networks**

The social context and the nature of interaction are perceived to be impelling influences on entrepreneurial activity. Social networks facilitate interaction and there is an emerging view that not only do they affect economic performance but that economic action is embedded in ongoing networks of personal relationships (Piore and Sabel, 1984; Powell, 1990; Ring and Van de Ven, 1992; Granovetter, 1992; Jones, Hesterly and Borgatti, 1997; Arrow, 2000; Jack and Anderson,

2002). Since entrepreneurship has been argued to be socially embedded in network structures, it is understandable that it is now becoming more widely accepted that entrepreneurs do not operate independently, nor are they viewed to make decisions in a vacuum; but instead, are influenced by others in their surrounding social networks (Aldrich and Zimmer, 1986; Aldrich et al, 1987; Johannisson, 1998; Jack and Anderson, 2002; Elfring and Hulsink, 2003; Casson and Della Guista, 2007).

Perceived in this way, a network approach appreciates the embeddedness of economic relationships within social settings (Uzzi, 1997; Johannisson, 2000; Uzzi and Gillespie, 2002). In doing so, such an approach also recognizes that entrepreneurship is a social process with economic outcomes, and a process which requires the entrepreneur to take both economic and social risks (Johannisson, 2000). Some have even gone so far as to argue that it is through the relations in which an individual is immersed and the interactions an individual has with others that entrepreneurship is actually carried out (Johannisson, 2000; Anderson et al, 2010). This perception is probably not too surprising considering social networks have been argued to influence critical aspects of entrepreneurship, for instance opportunity seeking (i.e. gathering information), resource acquisition (i.e. mobilising labour and capital but from reliable sources hence the role of trust) and market organization (i.e. diverting trade away from existing channels into new channels that he/she has established) (Casson and Della Guista, 2007).

Recent review articles have also shown that the relationship and link between networks and entrepreneurial activity has generated substantial interest with networks increasingly perceived as being key for entrepreneurship (Hoang and Antoncic, 2003; Jack, 2010; Coviello and Slotte-Kock, 2010). However, while the extensive work carried out has shown that networks are relevant for entrepreneurship, areas in need of further investigation to broaden understanding about the link between entrepreneurship and networks have also been highlighted. More

specifically, further work has been requested that looks to address a gap related to the involved process, including the nature of exchange and connectivity among network actors (Johanson and Mattsson, 1987; Larson, 1992; Jones et al, 1997).

Within the entrepreneurial context a network has been described as “a set of actors and some set of relationships that link them” (Hoang and Antoncic, 2003, p.167). Networks are seen as important for entrepreneurship because they stimulate entrepreneurial activity (Bruderl and Preisendorfer, 1998). This occurs because the entrepreneur is motivated by the relationships in which he/she is immersed and the socialising agents to which he/she is linked (Aldrich and Zimmer, 1986). Brüderl and Preisendörfer (1998) pointed out that through social ties and social activity existing social relationships are activated and new ones created and formed to obtain resources for entrepreneurial activity. Since networks provide access to capital, knowledge, information, power, resources and other networks that compensate for environmental constraints and facilitate entrepreneurial processes, it is little wonder that networks are viewed as powerful assets (Birley, 1985; Aldrich and Zimmer, 1986; Johannisson, 1987; Chell and Baines, 2000; Elfring and Hulsink, 2003).

Within entrepreneurship the network perspective is anchored in the recognition and envisioning of the ‘context’ or ‘environment’ in which actors are embedded as interconnected webs of exchange relationships. The network approach is sensitive to developments over time; it assumes that actors transform resources to carry out exchanges through links to others and that the cumulative effect of these exchanges influences both the position of the actor and the existing network structure in which the actor is located (Halinen, Salmi and Havila, 1999; Ford, Gadde, Håkansson and Snehota, 2003; Gadde, Huemer and Håkansson, 2003). In this way, ties may act as a device for screening information and conveying legitimacy (Elfring and Hulsink, 2007), while social interaction within ties can be seen as a mechanism which allows actors to

deal with the unknowable and uncertainty that surrounds entrepreneurship (Anderson et al., 2010).

Social interaction provides a way to operate beyond organizational boundaries and to deal with elements of social structure that may resist change (Jarzabkowski, 2004). For instance, employees can not only be useful in informing a local community about the activities of an entrepreneur but also provide a mechanism for an entrepreneur and his/her activities to gain credibility (Jack, 2005). However, while aspects of the social context impact on economic activity, ties and exchange lie at the very core of calls for greater understanding highlighted earlier. And, while we know that networks influence entrepreneurship, despite the pervasiveness of the network concept and its increasing popularity, many questions remain unanswered about the actual content of interactions, the exchange process, the relationship between networks and entrepreneurship, the ties individual have to others and what really goes on within network ties (Hoang and Antoncic, 2002; Elfring and Hulsink, 2007; Jack, 2010; Slotte Kock and, 2010). Given that exchange lies at the very heart of networks, there is a need for more consideration.

### 3.1 Ties and Exchange

Ties and exchange work to strengthen social bonds; they reinforce relationships but also provide space to change the relationship if necessary (Johanson and Mattsson, 1987, 1992). Relationships between parties occur through exchange processes and because of their often long lasting nature, ties that form these relationships have aspects of social exchange (Johanson and Mattsson, 1987, 1992). Therefore, ties that form the structure of a network can have a significant impact on the type and extent of resources acquired and the actual exchange process (Jack, 2005). Such ties can also influence and affect the growth and development of an organization and how it is actually managed (Jack, 2005). This is because network ties also bring opportunities and resources into the firm. So, network ties and the characteristics of ties can

influence how key elements of entrepreneurship, such as resources and opportunities, are “identified, accessed, mobilized and exploited” (Hite, 2005: 113).

Discussions about networks highlight strength of ties to be an important dimension (for a fuller discussion see Granovetter, 1973, 1982; Burt, 1992; Ibarra, 1993; Hills, Lumpkin and Sing, 1997). Even though the distinction between strong and weak ties has been described as “crude” because it ignores crucial ways ties actually operate (Elfring and Hulsink, 2007: 866), within the wider management literature, the strong and weak tie hypothesis has become an established paradigm. However, within the field of entrepreneurship, questions have arisen over its applicability (see Hoang and Antoncic, 2003; Jack, 2005). Aldrich et al (1987), Hansen (1995), Lechner and Dowling (2003), Batjargal and Liu (2004) and Jack (2005) all emphasize the importance of close strong ties.

What is especially interesting about entrepreneurship has been said to rely on networks of ties, which “evolve over time by leveraging social components” (Hite, 2005: 135). It has also been said that within the entrepreneurial context, 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 (Jack and Rose, 2010). Once established, trust functions as a “remarkably effective lubricant to economic exchange [that] reduces complex realities far more quickly and economically than prediction, authority or bargaining” (Powell, 1990: 305) and both substitutes for and complements formal contracts (see Woolthius et al, 2005). Thus high-quality communication, social solidarity, personal similarity fuels relational trust and in turn makes various exchanges like investor-entrepreneur relationships more effective (Cable and Shane, 1997; Shane and Cable, 2002). However, networks, the activity of networking and entrepreneurship all involve elements of exchange. Due to the consequences such exchange can have on entrepreneurial activity, it would seem that exchange is key for

entrepreneurial action. If this is the case then it is what goes on within exchange relationships, between network ties and how this actually leads to entrepreneurship and entrepreneurial activity that are important questions. Interestingly, this raises a number of points. Primarily these relate to the complexities associated with the process through which entrepreneurs draw on networks to identify and realize opportunities and operate networks to mobilise resources, even in resource constrained environments.

Exchange would seem to be key to this process but the form of such exchange and its nature is less understood. While recent work on exchange within organisations, especially between employers and employees, has been carried out (see Cropanzano and Mitchell, 2005 for an overview), our understanding of the nature of exchange within the context of networks and entrepreneurship has yet to be fully explored. Yet, if exchange is a key aspect of network process, and networks are increasingly recognised as being critical for entrepreneurship, then enhancing understanding about the nature of exchange provides one way to enhance our understanding about the relationship between networks and entrepreneurship. So, how can we specify the nature of exchange?

Notions of exchange with others run through much of the early writings regarded as being core to the foundations of social network theory. Indeed, early writings imply that the individual is a social animal immersed in a social exchange process (Jack and Rose, 2010). For instance, in 1924 and 1926 Park was referring to the fact that society exists through communication and that in all our personal relationships we are clearly conscious of the degree of intimacy we have with others. Park (1926) also referred to how social interaction represents an aspect of social phenomena but that social relations are far from homogeneous: they are subject to change. Simmel (1950) also talked about interaction and how society is produced through interaction and the coming together of people through the ties that link them. In this respect, human

language, developed through a long period of evolution, evolved to support inter-individual interaction. In comparison to other animals, humans have an evolutionary advantage in their ability to engage in complex processes of social exchange. Human interaction works relatively well and anthropologists have demonstrated a number of patterns, e.g. politeness, that seem to transcend different geographies and cultures (Brown and Levinson, 1987). While there are different views of exchange, there is a common understanding that it involves a series of interactions and these generate obligations (Emerson, 1976). Thus, it would seem that it is not purely interaction which is important but the ties which people have to others and how these ties might impact on individuals, effect and influence the way they live their lives through the exchanges that take place (Jack and Rose, 2010).

Social exchange is considered to be an underlying factor in relations between individuals (Blau, 1964). Blau (1964) argues that individuals associate with one another because they can profit from the other and through being associated with the other. He argues that the basic idea of social exchange is based on reciprocity and social reward so the mutual exchange that occurs over time creates a social bond between individuals. Levi-Strauss' (1969) theory of social exchange is the idea and principle of reciprocity, a social usage consisting of what he refers to as univocal or directional reciprocity. Homans (1961) talks about interaction and social contacts and describes social behaviour as representing an "exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons" (p.13). Homans (1961) also describes how one individual might change (even influence) the behaviour of others through the exchange process.

It seems that the nature exchange would represent a basic socio-economic activity (Biggart and Delbridge, 2004) that implies 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). Understanding the nature of exchange 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). Nevertheless, exchange among actors may also include non-economic 'give-and-take' processes (Easton and Araujo, 1992); it may be task-specific as well as non task-specific. Within the entrepreneurial context, exchange among actors, for example, 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 ongoing exchange and engage in heedful interactions is crucial for their ability to access and exploit new business opportunities. Recent research in business networks involving manufacturers of consumer goods, pharmaceutical companies, producers of semiconductors and telecommunication and utility service providers suggests that actors' capability to transcend existing task-specific exchanges may lead to entrepreneurial learning; in these circumstances actors are able to mobilize other actors to create a competitive advantage that is crucial for innovation and change (Mouzas, Henneberg and Naudé, 2008).

It appears that a key element of exchange is achievement of consent within network ties. Consent is an inter-cognitive achievement and the moral component that differentiates between valid and invalid exchanges among actors (Barnett, 1986). 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 utilized, what actually goes on between exchange relationships and therefore the extent of change that occurs. Understanding the role of consent within ties, however, requires new insight specifying the substance of rights that actors may

possess, acquire, or transfer in their interactions with other actors (Coase, 1960; Demsetz, 1966). At this point, a research gap appears to exist within the field of entrepreneurship. Although entrepreneurial action is inextricably linked with the possibility of exchange, our understanding of the entrepreneurial shaping and reshaping of the exchange patterns remains limited. Nonetheless, behind each entrepreneurial action lies an inherent capacity to establish exchange processes with other actors but also to question and re-arrange the patterns and rules of exchange. In this way, entrepreneurial action appears inextricably linked with the possibility of 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 exchanges and the achievement of a new consensus. Entrepreneurship is, therefore, not necessarily a property that an entrepreneur owns but instead represents an ‘agreed’ outcome from the actual activation of others in a network. Change – a key aspect of entrepreneurship - occurs through activating ties with others. It seems that it is network ties that determine the extent of change – and hence entrepreneurship - that occurs.

### 3.2 The Importance of Renegotiation of Exchange

A basic element of social exchange theory is that “relationships evolve over time into trusting, loyal and mutual commitments” but “to do so parties must abide by certain rules of exchange that become the guidelines of exchange processes, and that influence the nature of exchange and the outcomes of exchange” (Cropanzano and Mitchell, 2005: 875). Exchanges usually involve highly dynamic processes of interaction, by which interdependent actors with different backgrounds and potentials but also interests and aims seek to generate gains through a jointly agreed action (Sebenius, 1992; Mouzas, 2006). Interdependent actors 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; Mouzas and Ford, 2006). Such contextual variables usually include information asymmetries, unforeseen contingencies and significant transaction costs; they impose huge uncertainties and barriers to the conclusion of informed and voluntary exchange and may force actors to seek renegotiation of their arrangements (Akerlof, 1970; Maskin and Tirole, 1999; Segal, 1999; Tirole, 1986, 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, 2006; Mouzas et al., 2008). 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 or 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: 292). 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: 5). This actual meeting of minds can only be achieved if over time actors tolerate and encourage renegotiation of exchanges. By pursuing renegotiation, actors acknowledge their embeddedness in networks and reconfirm or 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 an entrepreneur who manufactures consumer goods and who capitalizes on wholesalers and grocery chains to reach a great number of retailers. Because of their individually insignificant economic importance, the entrepreneur is likely to 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 the entrepreneur. If the entrepreneur 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 entrepreneur activates and re-connects with retailers and, thus, links to the wider network structure while retaining and maintaining strong, durable and robust strong ties with wholesalers and grocery retailers. Similarly, take the emerging organisation where uncertainty and insecurity mean strong ties become critical for tacit knowledge and trusted feedback about opportunities, whereas a mix of ties is needed to gain wider legitimacy (Elfring and Hulsink, 2003). However, this will depend on entrepreneurial requirements and how these are re-negotiated through the network.

#### **4. Entrepreneurship as renegotiated exchange in strong ties**

As we are dealing with entrepreneurship, we take the perspective that exchanges are shaped through the relationships in which entrepreneurs are embedded and through the ties to others that entrepreneurs activate and invoke. This means that it is the ties that are formed between individuals that influence exchanges and that it is social interaction that makes renegotiation possible. When trying to get established in a new market an 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” (Johanson and Mattsson, 1987: 36). Elfring and Hulsink (2007) argue that especially when the entrepreneurial venture moves into the growth phase, new weak ties might be added, others dropped and others might develop into strong ties. However, this will depend on resource requirements and how these are negotiated and then renegotiated through the network. It will also depend, of course, on what that tie can “supply” to the entrepreneur.

To create a theoretical structure that underpins our view of what happens within network ties, we now construct a conceptual matrix for the study of entrepreneurship. The conceptual matrix links the perspectives of the research areas together by considering relationships between concepts contained in a number of different literatures, and creates new meaning which is elaborated in a number of theoretical propositions. The proposed matrix considers the 1) type of ties (strong ties and weak ties) and 2) the nature of exchange (ongoing exchange and renegotiated exchange) and results in four possible outcomes (connection, relationship, access and entrepreneurship). The matrix operates a model; in this way the 2x2 model is a reduction of a more complex real world. By limiting the real world in four fields, *connection*, *relationship*, *access and entrepreneurship*, it is possible to connect it to ideas that are general, imprecise, but

dynamic verbal statements and produce theoretically structured descriptions of social life (Ragin, 1992).

#### 4.1 Connection

While weak ties are particularly useful in terms of gathering and screening information relating to opportunities (Granovetter, 1973), ongoing exchange in weak ties provides the benefit of belonging to a wider community and, thereby, provides valuable possibilities of a *connection* to other social systems (Ibarra, 1993). We see connections as being different to relationships. With a connection it is the linking and/or ability to link to others and through others that is relevant. Connections may, therefore, represent latent opportunities that lie dormant but might be developed and made manifest to become deeper and more robust relationships at some point in the future, should the need and desire arise. But not all connections share the possibility for a connection to develop into a stronger tie. This relies on some form of social trust. Consider, for example, the links that many actors have in social, business, cultural or sport clubs, associations or communities. Many of these will tend to represent weaker links. Often the rules of the game in an ongoing exchange in weak ties are regulated by a diversity of conventions which are customary, expected and often self-enforcing within particular networks. These conventions imply a shared order of values, norms and rules that transcends any single actor or dyadic relationship (Lewis, 1967; Nee, 1998).

#### 4.2 Relationship

Ongoing exchange within ties may strengthen the relationship and consequently that tie. It is the strength of the ties that differentiates a connection from a relationship. So, the stronger the tie the more intense the relationship will be. While strong ties imply frequent interaction among actors (Granovetter, 1973), ongoing exchanges in strong ties have been criticised as they may lead to homogeneous and standardized network structures as individual actors are part of

comparable or similar social circles (Burt, 1992). However, within the entrepreneurship literature, entrepreneurs are seen to rely on strong ties (Bruderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Jack, 2005). Moreover, for entrepreneurship it seems as though it is the function of a tie and how that tie can be utilized to support the entrepreneurial process rather than frequency of contact that is perceived to be important as strong ties need not necessarily be active but can lie latent and dormant within the network (Jack, 2005; Elfring and Hulsink, 2007). Consider the relationship between the entrepreneur and a key customer, the relationship between two partners, the relationship between family members or the relationship between friends. These relationships are often characterized by a shared understanding of a regular, ongoing exchange which may be economic, social or physical. However, within the entrepreneurial context there is a tendency towards social trust in relationships drawn on for entrepreneurial activity, something which is less apparent with connections.

#### 4.3 Access

Renegotiated exchange in strong ties provides the benefit of access to other actors; in this way, the entrepreneur already has an exchange relationship with these strong tie individuals based on previous exchange relationships and/or social trust. However, these strong ties in turn invoke the ties they have to others in the wider network structure. This provides the opportunity for the entrepreneur to draw in to the business from weaker ties that exist within a network. Hence, access is a relevant, complementary element to the process of crafting entrepreneurial action. Hite (2005) refers to this as network entry through social capital whereby a common third party acts as broker introducing the entrepreneur to a new network partner. Although the existence of information asymmetries, unforeseen contingencies and significant transaction costs may encourage individual actors to renegotiate exchanges with others (Tirole, 1986; Segal, 1999), the heterogeneous nature of weak ties (Burt, 1992) implies that any renegotiated exchange has rather a marginal effect on the existing network structure. Consider, for example, the

renegotiation and rearranging of exchanges in weak links that many actors have in clubs, churches or associations. Through renegotiation of exchanges in weak ties, actors might not alter substantially the existing status quo nonetheless, they may gain access to resources of others, obtain support or receive informational benefits that are valuable (Granovetter, 1973; Ibarra, 1993).

#### 4.4 Entrepreneurship

Renegotiated exchange in strong ties defines an entrepreneurial action that utilizes strong ties to identify and exploit opportunities, to found new ventures to mobilize resources or create and organize a new set of exchanges. This is possible because stronger ties enable and support rearrangement choices that transfer a greater volume of assets between actors (Aldrich et al., 1987; Hansen, 1995; Podolny, 2001; Lechner and Dowling, 2003; Hite, 2005). Consider, for example, the set up of new ventures or companies triggered by a renegotiated exchange among actors that had a pedigree of strong ties with key customers or major suppliers in a homogeneous business network, industry or social circle. However, weak ties might be converted into stronger ties through the entrepreneurial process, thus ensuring resource flow. While this would reshape the network, it could also have a positive impact on the entrepreneurial venture and allow entrepreneurial opportunities to be realised. In effect this might involve new combinations of resources that exploit opportunities. Rowley, Behrens and Krackhardt (2000: 384) argue that for the purpose of exploring the environment for new innovations and unique information, additional weak ties lead to higher performance.

**Insert figure 1 about here**

### **5. Ties, exchange and entrepreneurship**

Our conceptual matrix (see figure 1) links ties and exchanges among actors. By being embedded within networks, individuals are able to unlock the network and the potentials that lie within (Anderson, Park and Jack, 2007). Take venture capital as an example, where interaction can have an impact on venture growth and a supportive network can help survival (Steier and Greenwood, 2000; Batjargal and Liu, 2004). 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 through ties which provide his/her links to the context that resources for entrepreneurship can be activated and exchanges can be arranged or renegotiated. The stronger the ties within the network, the stronger, sounder and more robust the information and resources will be perceived to be. This is because the relationships are well knit and social trust is present. Furthermore, through those strong ties that make up the network, entrepreneurs are also able to access weak ties, draw in from those weak ties through their strong ties and, in effect, deal with the “space” (i.e. geographical/social/psychological content) that exists between relationships. This is because strong ties will direct the entrepreneur towards other ties and because of the perceptions associated with the judgement of strong ties, the more credibility, respect and trust there will be associated with the weak tie.

This also means that as well as being able to draw on, maintain, retain and utilise strong ties actors are also able and enabled through strong ties to create, build and develop further and additional ties that exist within the wider network. As a consequence, rather than diluting strong ties and the network by looking to construct a diverse network through increasing network contacts, actors can retain and strengthen their ties and in effect activate the links to others that exist to work for them and actually create further ties and entrepreneurial opportunities. So, in turn, strong ties can help turn weak ties into embedded ties enabling the benefits of relationships to be maximized (Jack, Drakopolou Dodd and Anderson, 2008).

It is exchange that goes on within ties. Through renegotiation within those ties, 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 recursive time. This implies that entrepreneurship is not a collection of isolated, non-related exchanges or ties. Instead, interaction among individual actors is both multi-faceted and takes place over time as a recurrent pattern of episodes within continuously evolving ties and exchanges. Routines, habits, meetings, and formal and informal forms of social interactions are manifestations of recursive time. Examples include the gathering of information, developing local knowledge and expertise, reviewing tasks and activities, informal and more formal meetings, annual contract negotiations and periodic task reviews. Often the time perspectives of different actors are not aligned. Each actor may have a quite different view of the actual or desirable evolution or progress of their exchanges or ties, despite extensive interactions between them (Mannix, Tinsley and Bazerman, 1995; Mouzas et al., 2008).

## **6. Entrepreneurship as renegotiated exchange**

From our examination of the literature relating to entrepreneurs with ties, we formulate five theoretical propositions for further analysis. These propositions merit research as they help to further develop and extend knowledge and understanding about the network perspective, its relationship to and impact on the actual process involved in the crafting of entrepreneurial action. We, thus, state:

### **6.1 Exchange and relationships between actors**

Being embedded within a network of social ties provides actors with knowledge, contacts, advice, information and support. Within the entrepreneurship context at least the growing evidence is that it is more likely that the key network contacts drawn on and used for exchanges

are stronger ties (Brüderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Jack, 2005). Through interaction, social contacts are, thus, anticipated to provide the necessary resources that can be used for arranging and sustaining exchanges. In this regard, the role of relationships created through ongoing exchange in strong ties is crucial. By embracing contextual circumstances, relational approaches in organisational studies (see e.g. Dyer and Singh, 1998) have expanded insight into the nature of exchange relationships and have captured our attention regarding sources of competitive advantage. However, while relational approaches have broadened our perspective they have not deepened understanding of how actors interact within strong ties to arrange and sustain exchanges. The relationships in which an entrepreneur is immersed are important as they help craft the shape and form of entrepreneurial activity (Batjargal and Liu, 2004). However, where exchange occurs it is more likely to be with actors where social trust exists through previous exchange. We thus state:

*Proposition 1: Ongoing exchange is more likely to occur and be sustained between actors that share strong ties.*

## 6.2 Conditions for renegotiated exchanges

Renegotiation in strong ties captures the essence of entrepreneurship. The process of renegotiation for entrepreneurship means that entrepreneurs invoke the ties in which they are embedded and through exchange, renegotiate the existing order. In the early stages entrepreneurs are resource constrained and apprehensive about discussing their ideas, who do they trust after all (Smith and Lohrke, 2008). The liabilities of being new and small, compounds the entrepreneur's ability to acquire support and resources (Stinchcombe, 1965; Baum, 1996). So, in the early stages of start-up, growth and development interactions and exchange tends to take place with strong ties based on trust, history of past dealings, associations and experiences (Smith and Lohrke, 2008). Actors who capitalize on strong ties are better able to conclude effective renegotiated exchanges. Renegotiation in weaker ties becomes practically less effective

because of the lack of certainty and calculability of exchanges which can only be developed through replication of exchanges over time (Mouzas and Furnston, 2008). 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 ties. Commitment, depth of relationship and knowledge of (each) other means that issues such as divergent expectations, uncertainty about the structuring of interactions and commitment to the renegotiation are less likely to occur between stronger ties because of the social trust and social understanding, the etiquettes and protocols that go on within the network of stronger ties and that ensure the formation and continuation of entrepreneurship. We thus state:

*Proposition 2: Strong ties are a necessary condition for effective renegotiated exchanges.*

### 6.3 Discovery and exploitation

The resources that are necessary to craft an entrepreneurial action are not available in a concentrated form and certainly not within a limited set of strong ties itself. It is more likely that these resources are widely dispersed between many different actors, organisations or networks or regions (Barney, 1986; Denrell, Fang and Winter, 2003). A network that relies only on strong ties alone may therefore suffer in terms of ‘efficiency’ in utilising dispersed resources and over-embeddedness (Ibarra, 1993; Uzzi, 1996; Hills et al., 1997). In contrast, by incorporating weak ties into their exchanges, entrepreneurs can bring about a ‘connection’ to other remote parts of a network and they may gain valuable access to dispersed informational, physical or intellectual resources (Granovetter, 1973; Ibarra, 1993). However, at a time of shifting economic conditions, rapid advances in the area of life sciences and telecommunication as well as global competition for access to new and emerging markets, the dispersion of resources creates formidable uncertainties about the proper course of action, existing possibilities as well as appropriate

priorities. Notwithstanding the existence of perceived uncertainties (Duncan, 1972; Downey, Hellriegel and Slogum, 1975; Hargadon and Fanelli, 2002), business opportunities that actors exploit, can only be identified if actors are specifically prepared for them (Denrell et al., 2003). The challenge of embracing dispersed business opportunities requires a preparation process to achieve connection with a diversity of actors and access to valuable resources. This preparation requires an activation of strong ties which in turn activate other ties (e.g. weak ties and/or other forms of ties) in order to identify and utilise dispersed resources and opportunities. So, while strong ties are relevant for allowing opportunities to be realised, weak ties aid the opportunity discovery process because they operate and feed into the wider structure and are therefore more peripheral. Weak ties are important in the search for new information (Granovetter, 1973). However, these ties also help the entrepreneur gain legitimacy and generate credibility within a wider market but offer the entrepreneur the opportunity to draw information into the business from a wider and broader base than would exist otherwise. But, it is how entrepreneurs access and invoke weak ties for entrepreneurship that is interesting. We thus state:

*Proposition 3: Weak ties are a necessary condition for opportunity discovery and opportunity exploitation.*

#### 6.4 Entrepreneurship and access

The consequences of concentrating purely on strong ties may mean the possibility of missed business opportunities and an under-utilisation of otherwise available but dispersed resources and information. So, what entrepreneurs may do is capitalize on strong ties and ‘exploit’ these ties to feed out and draw in resources from the wider network; for example, entrepreneurs who exploit strong ties to address customer needs of other actors who are not directly linked to them (e.g. weak ties) in the wider network are likely to have a more rounded and informed understanding of a wider number of customers. This perspective appeals to Shane and Venkataraman’s (2000) idea of entrepreneurial process definition. Of course, this 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. So, in turn the entrepreneur can 'use' his/her strong tie to activate those ties of the entrepreneur's counterpart. Boissevain (1974) refers to this as friends of friends. Moreover, weak ties may be selectively turned into strong ties, as well as being activated by existing strong ties. In this way, access becomes complementary to the entrepreneurial process following certain weak ties across structural holes (for information) and then, if critical, turning them into stronger ties (to ensure resource flow). Strong ties provide legitimacy (Aldrich and Fiol, 1994) and feedback about the weak tie and help to focus the search for weak ties that might provide the new information needed to support the entrepreneur. In doing so, the entrepreneur relies on his/her strong ties to help govern and manage the flows through ties. Therefore, strong ties help shape what flows through the network but this also means that it is strong ties that arrange and re-arrange network architectures, albeit in conjunction with the entrepreneur. Strong ties also facilitate the identification and realisation of opportunities, as well as the shape and structure of entrepreneurial networks.

We thus state:

*Proposition 4: The more the actor renegotiates exchanges that utilize strong ties to activate other ties (e.g. weak ties and/or other forms of ties) the more the actor is able to link into the wider network structure.*

## 6.5 The outcomes of renegotiated exchanges

Relationships among actors define the structure of networks while interactions that occur within these relationships circumscribe the process of acting (Ford, Håkansson and Johanson, 1986; Håkansson and Ford, 2002). In this 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 of relationships. We thus state:

*Proposition 5: Renegotiated exchanges may reshape the existing network structure*

We appreciate that the proposition that renegotiated exchanges may reshape the existing network structure might not sit comfortably with the stream of network research that is based on the assumption of an actor's network. This proposition complements the idea that actors choose to establish a network for their purposes and that actors seek to design and develop a network structure over time as a strategic resource to meet their objectives (Madhavan, Koka and Prescott, 1998; Lorenzoni and Lipparini, 1999; Gulati and Nohkia, 2000; Zakeer and Bell, 2005). This is because this proposition suggests how networks that function as strategic resources may evolve and change, and of course the idea of evolution lies at the very heart of entrepreneurship. Our proposition rests on the assumption that a network is not limited to those actors with which any one actor has a relationship or connection or access. Hence, network structures imply no centre; they also imply that a network is not the creation of an individual actor, nor that a network can be owned, designed or controlled by any one individual actor (Ford et al., 2003). Our proposition implies that a network is comprised of an evolving structure of ties and exchanges among actors that pre-exists the entry of any individual entrepreneur or actor and, therefore, a network has no identifiable boundary (Araujo, Dubois and Gadde, 2003). The exchange process ensures flows through networks, through renegotiation changes take place that lead to entrepreneurial outcomes, changes to the status quo and re-evolution. Hence, entrepreneurial outcomes occur through the renegotiation of exchange but so does evolution of the network because the ties involved in the process of renegotiation help shape and form the structure of the network.

Having discussed our theoretical propositions and presented the implications of these according to our conceptual framework, we now provide an overview of these in Table 1 which demonstrates how they link with Figure 1.

**Insert table 1 about here**

## **7. Conclusions and agenda for further research**

Taking a network perspective has helped us generate a deeper appreciation of the dynamic process involved in crafting entrepreneurial action. Given that entrepreneurship is increasingly perceived as being influenced by the networks in which individuals are immersed, such a perspective does seem appropriate. Our overarching research question was *what goes on within network ties so that entrepreneurial change is brought about*. Through our conceptualisation, we have demonstrated that entrepreneurship is an outcome of renegotiated exchange which takes place through the utilization of strong ties which in turn are used to activate weaker ties; hence, changes to the structure of a network are brought about. It is through exchange that change takes place within social ties that economic returns are made, business opportunities evolve and markets are developed and hence entrepreneurship takes place. 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.

Research in entrepreneurship often fails to take the practice of exchange seriously (see Shane and Venkataraman, 2000). Addressing our research question has highlighted the importance of moving beyond the exploration of strong and weak ties and adding two critical elements - ongoing exchange and renegotiated- exchange for understanding the process of entrepreneurship. Drawing on the work of Venkataraman (1997), Shane and Venkataraman (2000) argue for a process definition of entrepreneurship and direct us towards looking at “how,

by whom and with what effects opportunities to create future goods and services are discovered, evaluated and exploited” (p.218). If entrepreneurship is a process, then the notion of renegotiation within network ties to bring about change deserves more attention because it helps us to understand and appreciate how entrepreneurial outcomes are arrived at. In this way, the arguments presented in this paper link with Shane and Venkataraman’s (2000) work but also extend it. This work also ties in with Aldrich and Fiol’s (1994) work on how entrepreneurship involves the negotiation of legitimacy. In the early stages the entrepreneur tends to lack legitimacy and his/her ability to gain this can be critical for success (Aldrich and Fiol, 1994). The work presented here demonstrates that it is through network ties and exchange processes that entrepreneurs negotiate the legitimacy of their activities. The work shown here also demonstrates that the content of networks, ties and the exchanges that take place between actors influence structural aspects of networks. Thus, they cannot be looked at in isolation. Network analysis must consider both structure and the nature of interactions between network actors (Granovetter, 1973; 1985; Burt, 1992; Rodan and Galunic, 2004).

In terms of the wider literature, debates concerning the advantages, constraints and limitations of social ties on economic behaviour exist (Bloodgood, Sapienza and Carsrud, 1995; Jones et al., 1997; Arrow, 2000). 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 and Compansy, 2002).

It would be useful if the propositions we put forward are tested through further research. This would allow empirical insights to be generated about the actual process of entrepreneurship and the real impact of networks. What also deserves attention is the investigation of two further research problems: Firstly, investigation is needed on how entrepreneurs incorporate uncertainty into their ongoing exchanges in the form of perceived 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 renegotiation of exchanges in their strong ties. Investigating these problems will broaden understanding about the role, nature and impact of ties and exchanges on entrepreneurship, how the entrepreneur interacts, the reasons for actions and at what points the decision to interact is taken. Such investigations should also look at how entrepreneurs deal with the inherent uncertainty in their particular networks when looking to explore and exploit business opportunities.

We recognise that for many entrepreneurs, ties are a sensitive issue and researchers face difficulties in gaining real-life observations. 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) handle critically rich data, multiple sources of information and multiple rationalities 3) investigate the multilateral exchange among actors and 4) capture processual developments over time. 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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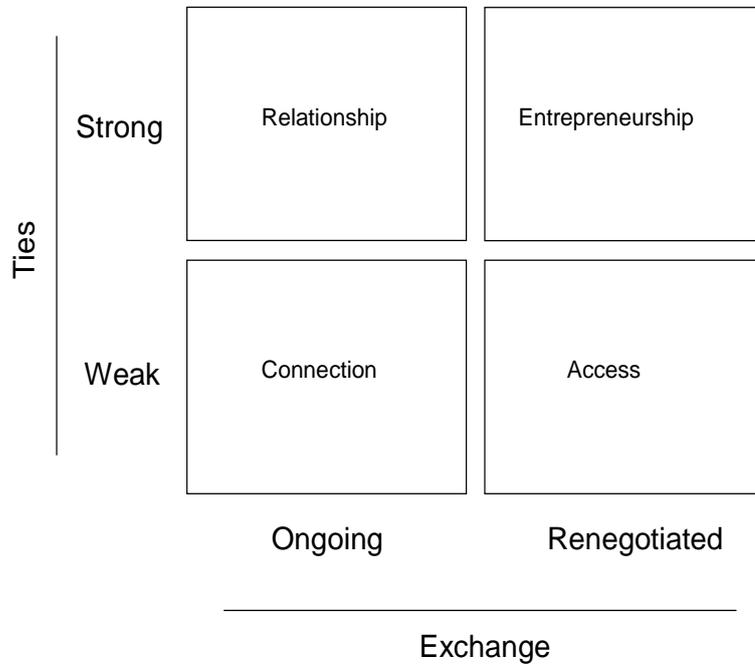
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**Figure 1: Ties, Exchange and Entrepreneurship**

**Table 1: Overview of Propositions and Implications**

<b>Propositions</b>	<b>Implications</b>
P1: <i>Ongoing exchange is more likely to occur and be sustained between actors that share strong ties.</i>	Relationship
P2: <i>Strong ties are a necessary condition for effective renegotiated exchanges</i>	Entrepreneurship
P3: <i>Weak ties are a necessary condition for opportunity discovery and opportunity exploitation</i>	Connection and Access
P4: <i>The more the actor renegotiates exchanges that utilize strong ties to activate other ties (e.g. weak ties and/or other forms of ties) the more the actor is able to link into the wider network structure.</i>	Entrepreneurship and Access
P5: <i>Renegotiated exchanges may reshape the existing network structure,</i>	Entrepreneurship