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The Role of Networking and Social Capital in the Initiation of Relationships in Passion Based Service Networks.

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Abstract

When embarking on setting up a new business venture entrepreneurs need to be able to establish business relationships with suppliers, buyers and other stakeholders and develop their network. This network of business relationships can be achieved either through the use of the entrepreneur's social capital and/or through the process of networking. The aim of networking is to contact people who will be of some use to the business. This paper investigates how social capital and networking are used to build a passion based business network i.e. a business which has evolved from a personal interest and has an associated lifestyle. Two cases are investigated one within the adventure sports sector and one within the performing arts. It was found that social capital is important in the preplanning and initial set up phase of the business but that a variety of methods of networking became more important as the business expanded. The use of social capital may be affected by the degree of overlap between the entrepreneurs' pre-business activities and the nature of the business being set up.

Keywords: passion network, social capital, networking, relationship initiation

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Introduction

This paper examines the role of networking and social capital in the development of entrepreneurs' business networks - specifically focusing on "passion based networks" i.e. networks where the people are immersed in the industry and perceive their involvement as a way of life. This paper focuses specifically on two entrepreneurs, one in adventure sports and one in performing arts.

Entrepreneurs are vital for creating jobs and economic growth within developed economies, especially during recessions. In the UK despite current economic problems, 361 new firms opened in the first half of 2010 (British Chamber of Commerce, 2010). However 40% of new companies face problems (Huang and Brown, 1999) which includes gaining access to information, capital, skills and labour (Greve and Salaff, 2003). In the initial stages of setting up a business social capital has been found to be important in overcoming these problems and enabling access to various resources (Adler and Kwon, 2002; Baron and Markman, 2003; Batt, 2008). It is also useful for initiating further business relationships and establishing the company's network position. Where there is a lack of social capital, networking can be utilised to initiate potentially useful contacts (Witt, 2004) which may be developed further into relationships (Edvardsson et. al., 2008; Leek and Canning, 2011). **Networking and social capital are therefore highly interrelated; networking can lead to the initiation of relationships and the subsequent development of social capital which in turn can be used to initiate further relationships and social capital (Leek and Canning, 2011).** The aim of this paper is to examine how, within passion based networks, social capital and networking are utilised to initiate and develop a network of relationships to support the entrepreneurs' businesses. The two cases examined are from different service contexts, adventure sports and the performing arts. The similarities and differences in the use of networking and social capital for network entry are examined at various stages of the business set up.

Literature Review

Passion Based Network

Whilst there is not as yet a precise definition of a passion based network it does have certain characteristics which distinguish it from a traditional business network. A passion based network is one which develops from the pursuit of a personal interest which was not necessarily initially pursued for business. In these circumstances the entrepreneur may have pursued the interest initially for pure enjoyment. A certain life style slightly different to the norm may be associated with participating in these activities. The pursuit of these activities as a business may not be restricted to a more traditional working pattern.

Networks, relationships and social capital

Within business to business marketing there is an understanding that the realisation of an organisation's goals is partially dependent on its network of connections with other parties. A considerable body of research examines at the macro level how networks of organisations access resources and create value for each other e.g. Matthyssens et al., 2009. Whilst it is important to understand how organisations function at a macro level in a network it is also necessary to understand how at the micro level the underlying interpersonal relationships are shaping the links between organisations. At the core of business relationships people are interacting and it is useful to examine the nature of the connections and the relationships

between individuals, their shared norms and culture, to understand how through networking and social capital they initiate, develop and maintain relationships in order to access resources and develop their organisation's network position. The importance of interpersonal relationships within dyadic relationships has long been acknowledged (Håkansson 1982; Granovetter 1985; Cunningham and Turnbull 1982) and this continues today as evidenced by the increasing amount of research into social capital.

One of the most popular definitions of social capital is that of Nahapiet and Ghoshal (1998; 243) who define it as being "*the sum of the actual and potential resources embedded within, available through and derived from the network the network of relationships possessed by an individual or social unit*". Definitions of social capital tend to generally consist of three components the relationship between the actors, the access to resources and the benefit to the actors (Leek and Canning, submitted 2011). With regard to the relationship between the actors it has been described as consisting of three dimensions structural, relational and cognitive (Nahapiet and Ghoshal, 1998). The structural dimension concerns the nature of the ties between the actors whether they are strong or weak (Granovetter, 1973), the composition of ties in the network (Granovetter, 1985; Uzzi, 1997), the position of an actor in the network (Davidsson and Honig, 2003; De Carolis and Saporito, 2006; Stam and Elfring, 2008) and structural holes (Burt, 1992; DeCarolis and Saporito, 2006; Hite and Hesterly, 2001; Walker et. al., 1997). The relational dimension refers to the nature of the relationship between the actors and includes a wide variety of elements including trust (Burt, 1992; Granovetter, 1985; Inkpen and Tsang, 2005; Nahapiet and Ghoshal, 1998; Ulhoi, 2005; Westerlund and Svahn, 2008) and cooperation (Liao and Welsch, 2005; Putnam, 1995; Wu and Leung, 2005), reciprocity (Coleman, 1990; Spence et. al., 2003; Wu, 2008). Other elements that have been highlighted include credibility, obligations, goodwill and norms (Leek and Canning submitted). The cognitive dimension - includes the parties' common language, shared codes, culture (organisational and geographical) (DeCarolis and Saporito, 2006; Inkpen and Tsang, 2008; Westerlund and Svahn, 2008).

Social capital is generally perceived as enabling access to resources (Nahapiet and Ghoshal, 1998). The resources may be tangible e.g. a customised product or intangible e.g. market information (Davidsson and Honig, 2003; Gabbay and Leenders, 1999). The resources may be accessed either directly or indirectly (Ruokolainen, 2005). The final component is the benefits which may be obtained which again may be tangible e.g. financial assistance, reduction in costs, production innovation (Baron and Markman, 2003; Batt, 2008) or intangible e.g. enhanced information access (Adler and Kwon, 2002; DeCarolis and Saporito, 2006).

Research has found that social capital can assist new business ventures' entrance to a target market/network and help them gain access to potential stakeholders such as customers (Florin et. al. 2005) in various industries e.g. integrated circuit design companies (Hsieh and Tsai, 2007), garment manufacturers (Uzzi, 1997), software SME's (Westerlund and Svahn, 2008). The use of social capital has not been examined within a passion network context.

Networking and the initiation of relationships

All entrepreneurs' have social capital which has been found to be extremely useful in the early stages of developing a new business and establishing its position in the network. However, if an entrepreneur has only a little or no social capital then he/she will have to network to initiate and develop contacts which may progress into business relationships. Witt (2004, p.395) describes networking as "the activities that an individual entrepreneur

undertakes to build, sustain or extend her personal network". Whilst Witt (2004) provides useful measures of networking activity e.g. the frequency of communication with potential and actual partners he does not clarify how entrepreneurs initially make contact with potential or actual business partners. Holmen et al. (2005) however provide guidance as to how contact may be made with potential business partners either directly e.g. cold calling or indirectly through a third party. Read and Sarasvathy (2005) suggest initial contacts may be a combination of causal and effectual processes. Causal processes entail the entrepreneur deliberately seeking out contacts which can help attain the set goals he/she wishes to achieve. An effectual process entails letting actions emerge, such a process would see the entrepreneur networking without a specific purpose in mind. Contacts may be made through market and non-market related events and meetings and directly, face to face or indirectly through a third party (Leek and Canning, 2011). Whilst these studies provide details as to how contact is made Edvardsson et al. (2008) constructed a model determining how relationships develop. They identify four stages in the relationship development process,

1. Unrecognised – the parties are unknown to each other at this stage.
2. Recognised – the parties are aware of each other and the business possibilities.
3. Considered – the parties engage in discussion to determine the possible nature of the exchange.
4. Relationship – a business agreement has been reached.

Edvardsson et al., (2008) suggest two categories of variables, convertors and inhibitors which will encourage or prevent the progression of the relationship from one stage to the next. Factors which encourage development include the service offering (underpinned by competencies and capabilities), time and trust, whilst factors that inhibit the development of the relationship include bonds, risk and image.

Entrepreneurs with little or no social capital are faced with the task of using various networking methods to build relationships with buyers and suppliers and construct their network. Whilst network development has been investigated in previous research (e.g. Larson and Star, 1993) the process of networking by entrepreneurs to achieve this has only just begun to be examined (Leek and Canning, 2011). Social capital is developed through networking and the initiation of relationships and it is subsequently used to further develop the network and additional social capital. An examination of how entrepreneurs use their social capital and networking to establish their position in a passion network has not previously been conducted.

Methodology

The aim of this research is to further explore the entrepreneurs' use of social capital and their process of networking and relationship initiation in passion-based networks. A case study approach was used to enable the phenomenon of interest to be investigated within a real life context (Yin 1994). The two cases used feature new business ventures, in the adventure sports market and performing arts respectively. Face to face in-depth interviews are used to gain a detailed understanding of the respondents' perceptions of the start up process and their experiences. An interview schedule was used primarily to guide the discussion of the relevant topics and also to ensure all of the pertinent areas were covered. Secondary data on the two cases were gathered from relevant websites and communications with the respondents and used to develop the questions. Within the interviews the aim was to determine whether in the process of setting up the business social capital was utilised, what it was used to access in terms of tangible and intangible resources. The interviews were also used to uncover how networking was used to establish contacts where there was no social capital. With regard to

networking the respondents were asked about whether the contacts utilised were market or non-market related, approached directly or indirectly and whether they were planned (causal) or serendipitous (unplanned). The credibility of the respondents in assisting the networking process was also discussed. The interviews were recorded and transcribed verbatim. Content analysis was performed. Raw data from the interviews were organised by the phase of development of the business and subsequently coded into various themes which under which further sub-codes were developed (Wolcott, 1994).

Findings

The research findings track the history of the two ventures prior to business start-up, as well as during launch and their subsequent development. In doing so we present an account of the networking and relationship initiation activities enacted by individuals and their continued use of social capital resulting from these activities. The observations drawn lead to consideration of the characteristics of behaviour in passion-based networks.

Table 1: A Description of the Two Cases

	Warren Smith Ski Academy	Harmonic Festival
Founder(s)	Warren Smith	Chris Mapp - interviewee Percy Pursglove
Qualifications and Experience	Internationally qualified performance ski coach Competitive free skier	Graduate of Birmingham Conservatoire
Initial proposition	Coaching of recreational skiers in Verbier, Switzerland	Staging a cutting edge, contemporary jazz festival
Current activities	<i>Coaching recreational skiers</i> - in Verbier (Switzerland), Saas Fee (Switzerland), various indoor snow venues in the UK, Japan <i>Heli-skiing</i> – Verbier Switzerland, Wanaka, New Zealand <i>Professional Training</i> – BASI, ISIA <i>Competitive events</i> – Verbier Ride (Switzerland) London Ride <i>Media</i> – Production and sale of instructional books and dvds	<i>Staging Harmonic, a cutting edge, contemporary jazz festival</i> <i>Staging events under the Harmonic name outside the main festival</i>
Other jobs	None	Administrator for Birmingham Jazz Musician

A brief outline of the networking and relationship initiation processes used by the two cases at various developmental stages is presented below.

Networking and relationship initiation before the business set up.

Warren

As anticipated, social capital was used in initially setting up the business but in a limited way. Warren worked as a ski instructor at indoor ski slopes in the UK through which he had

repeated contact with an accommodation provider in Verbier. This contact was developed effectually as Warren had no commercial business opportunity in mind. However, when he was setting up his business, his decision to locate in Verbier was influenced by the presence of this strong tie and the service offering and resort knowledge she could provide including access to key stakeholders in the resort.

Chris

Chris studied music at the Birmingham Conservatoire where through an effectual process he met Percy Pursglove who was also studying music. In his final year of studies Chris took a module entitled Jazz in Context run by Tony Dudley. This contact was again made through an effectual process. In addition to being a lecturer Tony Dudley also runs Birmingham Jazz, a development agency which promotes jazz events in Birmingham on a year round basis (http://www.birminghamjazz.co.uk/?page_id=2 2011). This contact lead Chris to being invited onto the Board of Birmingham Jazz by Tony who wanted to increase the diversity of board members beyond that of middle aged, white men. Tony was also aware of Chris's capabilities and competencies through interacting with him on the module he taught. When a job became available at Birmingham Jazz Chris stepped down from the Board to interview for the job which he obtained. Subsequently through Tony, Chris was nominated to take part in a professional development scheme called Take Five run by an organisation called Serious. Serious are based in London and run the London Jazz Festival and other jazz events throughout the year. The Take Five scheme is aimed at jazz musicians at the beginning of their career with the aim of equipping them with knowledge of the business related side of music. This scheme was "*the catalyst for doing Harmonic.*"

For both Warren and Chris as expected social capital has played a key role in the planning stage of the business set up.

Networking and relationship initiation in the start up period

Warren

In the start up period predominantly causal, direct, market related networking was used to initiate relationships with essential suppliers who had to be involved for the company to succeed e.g. the Swiss ski authorities, local tourist board, ski stores, and instructors. In the initiation process Warren had to carefully evaluate these stakeholders, particularly the instructors as they would be delivering his service. As well as Warren evaluating his stakeholders, it was fundamental to reassure them of his reputation and credibility to ensure their cooperation. Warren's reputation is clearly evident through him being a free skier that competed internationally, his holding professional training qualifications and his experience working as a ski coach both in France and the UK which suggests he has the experience and knowledge required to establish his business. There was some effectual networking in this stage with non-essential stakeholders. Warren had chance meetings with representatives of the Ski Club of Great Britain at an equipment testing event and people from a national UK daily newspaper at a social event. The development of these ties enabled the endorsement and promotion of the company to UK clients.

Chris

On completion of the Take Five course Chris approached Percy not with a specific idea for a festival but with the idea of raising their profile. Chris had established social capital with Percy at the conservatoire and together they developed the idea of a contemporary jazz festival. Chris chose to work with Percy because he's "*always willing to do the extra things necessary to get things done, a bit like me, so there's a nice kind of synergy, plus he's really*

quite cynical about things sometimes, where I'm too overoptimistic". He is also aware of Percy's reputation and credibility; he knows Percy's ability as a musician and feels he deserves greater recognition. In organising the festival Percy, who teaches at the conservatoire, used his social capital to obtain free rehearsal space. Also through Percy's links an international artist who was doing workshops with conservatoire students was secured to play at the first Harmonic festival. The artist was paid by the conservatoire for the workshops and the performance was effectively free. Chris's social capital developed through organising Birmingham Jazz events enabled him to access the CBSO centre as a festival venue. The manager of the CBSO centre as well as knowing Chris also knew Percy as she had previously worked at the conservatoire. After leaving the conservatoire Percy, Chris and a number of other musicians formed the Cobweb Collective a group of people who have similar ideas who come together to create a stronger identity. There are no formal members *"but there's a clear idea who's in it"*. The social capital in this informal network enabled the recruitment of various artists to participate in the festival. It also enabled the festival to use its regular Thursday night at the venue, the Yardbird. Ollie, the manager of the Yardbird, is aware of the reputation of Chris and Percy through the Cobweb Collective which ensures he is willing to transfer the night to the Harmonic festival.

Whilst Warren is using a greater variety of approaches and relying less on social capital to initiate the contacts required to establish his business, Chris is predominantly relying on the social capital he has developed through the conservatoire, his job in Birmingham Jazz and through being a musician.

Networking and relationship initiation in the expansion phase

Warren

The product offering of the company has been expanded from tuition in Verbier, Switzerland to include tuition in multiple locations including Saas Fee in Switzerland, New Zealand and Japan. In addition to teaching recreational skiers he has developed courses for obtaining professional qualifications, established free skiing competitions and produced films and instructional DVDs. These developments utilised a greater mix of market and non market and causal and effectual approaches. For example in developing the free ride competitions Warren engaged in direct market related networking, approaching specific free riders he had not previously met and inviting them to take part in the events. His reputation and credibility as a competitive free skier enabled him to successfully directly approach individuals and facilitated the initiation of the relationships with the competitors. In contrast effectual processes have also been used e.g. an introduction to an individual who worked for Eurosports lead to free broadcast time on the channel for the Verbier Ride free skiing event.

Chris

The Harmonic festival is to run again and although it is not being expanded the activities associated with Harmonic are going to increase. Chris had previously utilised the Index Innovation Vouchers scheme for another project and used it again to obtain academic input into developing a marketing strategy which recommended running Harmonic events between festivals. The next Harmonic festival is to be held solely in one venue, the MAC (Midlands Arts Centre). Chris had no link to the MAC but identified the contact from the internet and directly approached her. He suggested that they do have a *"bit of a reputation and stuff now so people do sometimes listen when we say things"*. Chris and Percy's reputation and credibility has lead to them successfully using a causal, direct, marketing approach in their networking to obtain a venue for their 2011 festival. In terms of generating publicity for the 2011 festival Chris has a contact at the radio programme Jazz on Three whom he is trying to

persuade to come and record some of the festival acts. Unfortunately she has taken maternity leave so Chris is going to have to use that social capital when he identifies the relevant contact. He has also met the editor of a national magazine called Jazzwise on the Take Five course so there is a small degree social capital between them. Chris has contacted the editor a few times in order to get some publicity for Harmonic. This contact on occasion has lead to some promotion. Chris thinks that the relationship would be developed through buying some advertising space in the magazine.

Warren has expanded to a greater degree than Chris. However both of them are using a greater variety of networking methods to further develop their business.

Discussion

Based on the findings the discussion focuses on how the entrepreneurs use social capital and networking throughout the stages of developing the business.

With regard to social capital both entrepreneurs used it in the planning stages and pre-business stages. The overlap of the business idea with what the entrepreneurs were doing prior to the start up affects the usefulness of the social capital. Warren was both a competitive free skier and a coach in France and the UK. The social capital developed with these activities will be with fellow competitors, sponsors, customers, skiing bodies in France and the UK and indoor ski slopes in the UK. These contacts are tangentially related to the initial business of recreational coaching in Switzerland. There is little or no social capital which will enable him to access the media to promote his venture or Swiss skiing authorities which will enable him to operate in the country. Whilst coaching was the initial focus of the business his initial social capital to support these activities lay in France and in the UK. *His reputation and credibility as a free skier and as a coach is transferable geographically across skiing locations, from France and the UK to Switzerland.* Chris works as a musician and composer with a number of other musicians and he also works for Birmingham Jazz which regularly organises jazz events throughout the year. The activities involved in both of these roles directly overlap with the activities involved in setting up the festival. The social capital developed in both of the aforementioned roles provides a direct pool of contacts which can be used to set up the festival. Chris's network of contacts has been established in a specifically defined area of the creative arts in a relatively small geographical location, directly related to his business idea which enables his social capital to be used to a greater degree. Warren's network is largely developed in a tangential area with some direct overlap across a broader geographical location which has affected his degree of immediately useful social capital.

Warren located his ski academy in Verbier a location different to where he had previously been coaching. The reputation and credibility of Warren is not tied to a specific location it is transferable i.e. people in the skiing industry will be aware of it regardless of their location which is useful at the start up phase when he has little social capital to draw upon. Warren uses multiple methods of networking to initiate contacts and develop relationships firstly within Verbier to develop the infrastructure required and secondly with the media in the UK to endorse and promote his venture. Chris has built up his social capital through the conservatoire, Birmingham Jazz and being a musician. The period of time prior to set up has enabled him to build his reputation and credibility both as a performer and as an organisational figure within the Birmingham jazz scene. When Chris decides to set up the

Harmonic festival the social capital he has established makes it a relatively smooth undertaking as he has contacts in place. The fact that Chris is organising the festival with Percy Pursglove who can draw upon the social capital of a slightly different but complementary network is a positive factor which eases the setting up of the festival e.g. Percy's involvement at the conservatoire enable them to access rehearsal space for free. Warren being the sole person setting up the business does not have access to the additional social capital of a co-founder.

The nature of the business determines to some extent how it can be expanded. Warren's business of ski coaching is readily expandable to different locations. Customers will travel to different locations to experience the location and to obtain his expertise. Having established it in the initial location with very little social capital Warren can repeat the process but with the addition credibility of success in the first location. A variety of networking methods were utilised in the expansion process both causal and effectual, direct and indirect e.g. Warren made contact effectually with a holiday operator who worked in Japan. Warren has also gone back to his initial area of expertise, free skiing and decided to run free skiing competitions. This enables him to directly capitalise on his reputation and credibility i.e. having competed he knows how they should be run. In order to make the competitions successful he was able to utilise his social capital and use his reputation to invite fellow free skiers to participate and act as judges. With regard to the Harmonic festival it is being run again in 2011. This undertaking has seen an expansion in the methods of initiating contacts. Chris wanted to base the festival in one location as the previous year it was held in a variety of venues. Causal, direct, market related networking was utilised to approach the manager of the venue required. Chris is rather restricted as to how the Harmonic festival can be expanded. A festival is not a service which can be repeated often however Harmonic events outside of the actual festival are going to take place to develop the awareness of the actual festival. These additional Harmonic events will also build Chris and Percy's reputation and credibility as artists and organisational figures.

Interestingly in both cases some of the exchanges do not entail a traditional financial exchange but there is mutual product/service exchange e.g. Warren's client whom he was coaching in the UK offered accommodation to Warren so he has a ready accommodation supply and she has a guaranteed amount of business for the season. Similarly Chris through the Cobweb Collective, Birmingham Jazz and his musical accommodation provider has access to performers for the festival and the performers have their profile raised through the festival. The "in kind" exchange operates successfully within passion networks possibly because people choose to work within such sectors for the lifestyle rather than for financial reward therefore exchanging service/products is a feasible way of achieving mutual objectives without the greater expense that would possibly be incurred through a traditional financial/product exchange.

Within the process of networking the reputation and credibility of the entrepreneur is crucial as it is likely to reassure the individuals involved the entrepreneur will deliver the service/product they require e.g. the magazine using Warren as a contributor want content which reflects his level of expertise, the Yardbird want acts selected by Chris for the festival to generate a profitable income from the bar.

Whilst the current research has begun to identify the use of social capital and the various methods of networking at various stages of setting up a business there is still a considerable amount of research that needs to be examined in this area. The role of networking in the

initiation of relationships and its importance in developing and expanding the entrepreneurs' network is apparent. It is clear also from the two cases that a variety of methods are utilised. Edvardsson et al.'s (2008) model of relationship initiation goes through the process from unrecognised to recognised to considered to relationship with various converters and inhibitors. Within the cases discussed the stages at which the parties are at varies e.g. Chris wanted one venue for the 2011 festival and knew which one he wanted, so he was at the considered stage whilst the venue were at the unrecognised stage. The contact through networking is partially a process of aligning the parties in the stage of relationship initiation.

Linked in to the initiation process is the development of social capital. At some point a contact initiated through networking leads to the development of social capital. In the stages of relationship initiation the methods of networking used are concerned with making the first contact. Research needs to determine when social capital develops i.e. is it after one interaction or after numerous interactions. Research also needs to identify what factors affect people's perception as to whether social capital exists e.g. the individual's human capital, the number of interactions, the frequency of interactions. Related to this is identifying when a relationship is established. In a formal business relationship it can be said to start with the first transaction however there may not be such a defined starting point with "in kind" exchange relationships.

Conclusion

This paper has investigated networking, relationship initiation and development of social capital (areas of considerable interest in business to business marketing) but in a context which previously has not attracted attention amongst academics, namely passion based networks. In doing so our intention is to both extend the applicability of existing understanding to, and derive new knowledge from alternative contexts. The investigation of new business start-up and development in the adventure sports and performing arts sectors confirm that social capital is important in the preplanning and initial set up phase of the business but that a variety of methods of networking became more important as the business expanded. The use of social capital may be affected by the degree of overlap between the entrepreneurs' pre-business activities and the nature of the business being set up

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