

Social Capital and the Role of LinkedIn to Form,
Develop and Maintain Irish Entrepreneurial
Business Networks

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By

Ted Vickey

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P U B L I S H I N G

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Irish Entrepreneurial Business Networks,
by Ted Vickey

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In memory of
Nancy O'Neill Vickey, 1943 – 2006
and Peter O'Neill, 1939- 2009

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TABLE OF CONTENTS

Abstract	xi
Chapter One.....	1
Introduction	
1.1 LinkedIn as a social networking service	
1.2 Research Issue	
1.3 Research objectives	
1.4 Research methodology	
1.5 Structure of thesis	
Chapter Two	5
Literature Review	
2.1 Introduction	
2.2 Defining entrepreneurship	
2.3 Networking in Ireland	
2.4 Defining social capital	
2.5 Understanding social networking in a business environment	
2.6 Motivations for creation of social network	
2.7 Reciprocity of social capital	
2.8 Entrepreneurial leverage of social capital	
2.9 Network tie strength	
2.10 Social networking as an entrepreneurial activity	
2.11 Benefits of social networking for an entrepreneur	
2.12 Technology Based Networking	
2.13 Conceptual framework	
2.14 Conclusion	
Chapter Three	39
Research Methodology	
3.1 Introduction	
3.2 Qualitative research as the chosen methodology	
3.3 Naturalism	
3.4 The semi-structured interview research method	
3.5 Criteria for analysis	
3.6 Collecting evidence	

- 3.7 Data Analysis
- 3.8 Research objective one: the perceived benefits of networking
- 3.9 Research objective two: The formation, maintenance and development of entrepreneurial networks
- 3.10 Research objective three: the use of technology to manage social capital
- 3.11 Conclusion

- Chapter Four 59
- Primary Research Findings
 - 4.1 Entrepreneur profile
 - 4.2 Analysis of Objective One: The perceived benefits of networking
 - 4.3 Analysis of Objective Two: The formation, maintenance and development of entrepreneurial networks
 - 4.4 Analysis of Objective Three: The use of technology to manage social capital
 - 4.5 Conclusion

- Chapter Five 93
- Discussion and Conclusion
 - 5.1 Introduction
 - 5.2 Conclusion for Research Objective One: The perceived benefits of networking.
 - 5.3 Conclusion for Research Objective Two: How the Irish entrepreneur forms, maintains and develops a network
 - 5.4 Conclusion for Research Objective Three: How the Irish entrepreneur uses technology to manage social capital
 - 5.5 Limitations
 - 5.6 Implications and Recommendations
 - 5.7 Future Research
 - 5.8 Conclusion

- References 107

- Appendix 1 115
- Interview Guide

- Appendix 2 123
- LinkedIn Features

Appendix 3	139
LinkedIn Statistics	
Appendix 4	141
Norway Research Study on LinkedIn	

ABSTRACT

The aim of this research is to investigate how Irish entrepreneurs use LinkedIn to form, develop and maintain a business network. The focus is to provide a descriptive account of social capital and entrepreneurship. Successful entrepreneurs understand the principles of business networking and how to improve wealth, health and happiness by creating rich social capital, tapping the hidden resources in their business, professional and personal networks.

This research starts with a review of the existing literature to create a foundation on social capital and entrepreneurship, then determines the perceived benefits of social networking. Finally, it concludes with an analysis of how Irish entrepreneurs use technology to increase their social capital.

This research will provide insight on three research questions:

- What are the perceived benefits of networking?
- How do Irish entrepreneurs form, maintain and develop an entrepreneurial network?
- What is the use of technology to manage social capital?

This research explores these questions through semi-structured interviews with ten Irish entrepreneurs. Results showed an unexpected lack of technology to form, develop and maintain a business network. They also provide insight of the diffusion of technology into Irish social capital. Ireland remains a nation based on the principle of face to face business interactions.

CHAPTER ONE

INTRODUCTION

This research presents a qualitative analysis of how Irish entrepreneurs use technology, such as LinkedIn, in the formation, development and maintenance of professional business networks and in so doing manage social capital. The research explores how entrepreneurs in Ireland perceive social networking services and how a select sample of Irish entrepreneurs employ LinkedIn as a professional networking tool. As such, the research explores how entrepreneurs manage their professional network through LinkedIn and examines the possible implications of such use.

Research has shown that interpersonal communication is one of the most important reasons why people use the Internet (Olsen, 2008). Since 2001 there has been a rapid expansion of what is described as social network services that focus on interaction between members (Boyd and Ellison, 2007). Professional networking and the subsequent use of social capital has become an important aspect of business for many entrepreneurs.

At the time of this research, several social networking services were available as a business tool to provide support to the formation, development and maintenance of professional networks. No longer is an entrepreneur limited by geographical location. Online social networking services have eliminated the four walls of brick and mortar found in traditional networking and now provide global access in real time to entrepreneurs regardless of industry.

1.1 LinkedIn as a social networking service

LinkedIn is an interconnected network of experienced professionals from around the world. Members of the network can find, be introduced to, and collaborate with, qualified professionals needed to accomplish both personal and professional goals (LinkedIn, 2009). LinkedIn's focus remains on networking, but extra features allow members to do so in a faster, more efficient and more productive manner. A member can add a profile, join groups of common interest, share advice with other entrepreneurs

and start discussions. Time spent on LinkedIn has grown by 70% as the number of features has increased (Enterprise Ireland, 2009).

Created in 2003, LinkedIn has grown to a social network of over 90 million as of January 2011, 40 million in the U.S. and 50 million internationally representing 170 industries in 200 countries. A new member joins LinkedIn approximately every second, with available languages currently in English, French, German, Italian, Portuguese and Spanish. LinkedIn now has over 1,000 full-time employees around the world (LinkedIn, 2011). In the company's 2011 Securities and Exchange Commission filing for an initial public offering, LinkedIn disclosed that it was able to double its 2009 revenues to \$161.4 million in the first nine months of 2010, with revenue from three products: hiring solutions (job listings), marketing solutions (advertising) and premium subscriptions.

LinkedIn reached profitability in March 2006 due to the LinkedIn premium service. According to Business Week, "LinkedIn's audience demographics are gold-plated. The average user is 41 and has a household income of \$109,000. A \$53 million dollar purchase of 5% of the company, by Venture Capital firms Bain Capital, Sequoia, Greylock Partners and Bessemer, gave LinkedIn a \$1 billion dollar valuation and it continues to grow" (Enterprise Ireland website, 2009).

LinkedIn usage by professionals in Ireland is still in its infancy with an estimated 118,000 Irish members currently a part of the site. However, Irish membership has increased by 15% since July 2009 (Enterprise Ireland, 2009).

1.2 Research Issue

When entrepreneurs search for important information such as career opportunities, new ventures or expertise requests, it has become commonplace to contact a professional network for assistance (Olsen, 2008). The concept of gaining access to resources through friends or acquaintances is far from new (Ancona and Caldwell, 1988) and has become a frequent element to many businesses.

Many professionals also build and maintain professional networks intentionally as a way of doing business (Nardi et al., 2002). Traditional networking has included the exchange of business cards at conferences or meetings with follow-up emails or telephone calls. For many years, tools such as Microsoft Outlook have tracked the demographic information of a network, but the effort to ensure that the previously collected information was current was time consuming and thus often ignored. Social networking services, such as LinkedIn, have been created to provide an all-in-one

application that makes the maintenance and development of a network as easy as sending an email. Because of the individual needs of an entrepreneur, LinkedIn may not replace an entire suite of applications, but it has been proven a strong complement with regard to professional networking.

In order to understand how LinkedIn is used by Irish entrepreneurs it is important to gain insight into what a social network is and how social networks are supported through the Internet. It is also beneficial to acquire knowledge about the elements that build social networks and how these building-blocks correlate to business success (Olsen, 2008). As such, this research will provide a general overview of social networks by describing how the networks are formed, developed and maintained using technology within a social space. This research on Irish entrepreneurs and the use of technology to form, maintain and develop social capital through business networking was based on a similar Norwegian research project (Olsen, 2008).

1.3 Research objectives

This research explores a number of issues in relation to Irish entrepreneurs and the use of technology on networking practices. The objectives of the research are as follows:

- Ascertain the perceived benefits of networking by Irish entrepreneurs;
- Explore how Irish entrepreneurs form, maintain and develop their network and
- Explore how Irish entrepreneurs use technology to manage social capital.

1.4 Research methodology

The research methodology for this study is qualitative and consists of semi-structured interviews with Irish entrepreneurs. Qualitative research was chosen for this study as qualitative methods are used to examine an individual's experience or behaviour, or to undertake a research issue which is exploratory and aims to discover information on a relatively new topic (Ghuri and Gronhaug, 2005).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter Two explores the foundational literature on areas pertinent to this research including entrepreneurship, business networking, social capital and social networking services. Following an extensive review of literature, a conceptual framework for this research is presented in this chapter. The literature review provides the foundation from which the conceptual model will be built.

2.2 Defining entrepreneurship

Before analysing literature on social networking, it is necessary to first review the research with regards to the definition of ‘entrepreneurship’. The word entrepreneurship derives from the French words ‘entre’, meaning between and ‘prendre’, meaning to take. The word was originally used to describe people who “take on the risk” between buyers and sellers or who take on a task such as starting a new venture (Barringer, 2008). A number of theorists have defined entrepreneurship in a variety of ways. Schumpeter (1947, 1949) believed that the function of the entrepreneur was to exploit an innovation. In contrast, Kirzner (1973) believed that an entrepreneur could identify an opportunity in order to make a profit rather than creating an opportunity. Carton et al. (1998, p. 1) definition of entrepreneurship combines definitions from theorists like Schumpeter (1947) into an all-inclusive and satisfactory concept:

“Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organization (or sub-organization) with the expectation of value creation to the participants. The entrepreneur is the individual (or team) that identifies the opportunity, gathers the necessary resources, creates and is ultimately responsible for the performance of the organization. Therefore, entrepreneurship is the means by which new organizations are formed with their resultant job and wealth creation.”

Entrepreneurs are generally described as innovative, creative individuals who are determined, have a self-belief and are calculated risk takers (O'Gorman, 1997). However, entrepreneurs are also the managers of their ventures and must exhibit management skills; routine management of a venture is not synonymous with entrepreneurship (Dana, 2001). According to the Global Entrepreneurship Monitor study in 2005, about 330 million or roughly 14% of adults in the nations surveyed are involved with forming new businesses (Barringer, 2008). The same study indicates that firms that grow to over 20 employees are responsible for 80% of all new jobs worldwide.

Entrepreneurship is critical for every economy as it generates wealth and reduces unemployment (Dana, 2001). Entrepreneurs improve the economic growth of a country and therefore governments dedicate a lot of time and money to policies and incentives that encourage it (Dana, 2001).

As entrepreneurs pursue opportunities without regard to resources of control, it is essential that the entrepreneur connects with different stakeholders such as suppliers, wholesalers, agents and financial institutions/investors (Olsen, 2008). By engaging with these different stakeholders, entrepreneurs can source valuable information that would otherwise be unavailable (Dana, 2001). It is through this connection with other entrepreneurs that an effective network is built that facilitates the running of business; this 'linking together' of business people is called 'networking' (Blundel, 2001).

2.2.1 Defining the concept of networking in business

In order to establish the importance of networking for entrepreneurial businesses, it is necessary to initially establish what is meant by the term 'network' and the process of engaging in 'networking'. The following statements are some of the definitions of the term 'business network' which have been advanced by research experts in this field:

Rosenfield, 1997, p. 3	“A group of firms with restricted membership and specific, and often contractual, business objectives likely to result in mutual financial gains. The members of a network choose each other, for a variety of reasons; they agree explicitly to co-operate in some way and to depend on each other to some extent.”
Blundel and Smith, 2001, p. 1	“A complex pattern of formal and informal linkages between individuals, businesses and other organizations such as government and voluntary agencies.”
Ffowcs-Williams et al., 2003, p. 13	“...group of firms using their combined talents and resources to co-operate on joint development projects. Through complementing each other and specializing in order to overcome common problems, participants are able to achieve collective efficiency and conquer markets beyond their individual reach.”
Bergman and Feser, 2000, p. 1	“...groupings of companies directly concerned with the conduct of some form of business activity.”

Table 2.1: Definitions of Business Network

Business networking may be inter-organizational and may also be facilitated by trade associations. Chambers of Commerce, professional bodies and public sector agencies (Bergman, 2000) are all examples of trade associations. Those organizations that vigorously facilitate networking generally do so within the context of a broader support service to companies and are typically membership-based organizations that are structured along local, regional, national or professional occupation lines (Bergman, 2000). Companies perceive networks as being a valuable asset (Hunt et al., 2006).

Lynch et al. (2009) suggests that ‘business networking’ is not an end in itself but rather a means to enhancing business performance and efficiency. Furthermore, the logic model they presented allows the

properties and dynamics of business networking to be understood as an important and necessary component of the economy (Lynch et al., 2009).

Networks may be formal “hard” networks involving firms joining together specifically to co-market, co-produce or co-operate in product or market development (Bergman and Feser, 2000). Networks can also be informal “soft” networks involving firms joining together in an effort to solve common problems, share information, acquire new skills or jointly provide training (Bergman, 2000).

Networking can also be defined as the process of establishing and preserving interpersonal relationships, which are directed by principles of expectations and obligations (Coleman, 1990). This view is shared by Williams (2000) who sees networking as a long-term process which is based on genuine trust and reciprocity of relationships. By forming these relationships and being part of a network one has access to information, resources, support and guidance (Knouse and Webb, 2001).

Hunt et al. (2006, p. 4) describe why networks are important to businesses:

“Networks help firms to achieve critical mass and economies of scale and compete in larger, more diverse and more competitive markets than they could if they were to continue to act alone. By concentrating on core competencies and creating a network of specialized suppliers and partners, firms can develop their unique assets, stay flexible and adaptable and at the same time be able to respond to the demands of the global market.”

Nardi et al. (2002) suggest a three-phase approach that networkers need to achieve to create a successful professional network, which include: building a network, maintaining the network and activating selected contacts. In addition, Olsen (2008) stresses that networkers need to continue to add new contacts to their network in order to access as many resources as possible, and to maintain their network through staying in touch with their contacts (Olsen, 2008).

2.2.2 Access to networks and level of networking

Ffowcs-Williams (2003) found that it is easier for large businesses to form a network than for entrepreneurial firms, and that networks take much longer to form than is often expected. This research also found that it is often difficult for government agencies to encourage entrepreneurs to participate in their networking programs and that information which is given to owner/managers at meetings has a greater impact than written information (Ffowcs-Williams, 2003). Researchers have debated the level

of networking in which a small entrepreneurial firm engages. According to Birley (1991) it is highly possible that small business owners have a larger network than those in employment, while Curren (1993) suggests that networking is virtually impossible for the small business owner due to time constraints and due to the fact that entrepreneurs are independent by nature. O'Donnell's (2004) study supported this and believes that owner/managers see the involvement in networking as "antithetical" to entrepreneurial culture. This is supported by Devin (1989) and Burns and Dewhurst (1996) who believe that entrepreneurs tend not to participate in networking due to their psychological characteristics. However, Dollinger (1985) suggests that the stereotype of the entrepreneur as a 'lone ranger' is a flawed image. Crommie (1994) supports this view and found networking to be important in small firms, whereby the owner/manager of the firm depends significantly on the support of a lot of people.

Despite the myth of individualism, social capital is an essential part of achieving personal success, business success, and even a happy and satisfying life.

"The source of success is natural talent, intelligence, education, or effort. It might even be sheer luck. Success is an individual matter. Every person succeeds or fails on the basis of his or her own individual efforts and abilities." (Baker, 2000, p. 3)

To suggest that fate depends on relationships often runs counter to the belief system of entrepreneurs: individualism. Individualism is a key trait to the entrepreneurial culture that teaches and celebrates independence, self-reliance, self-sufficiency, self-interest and self-determination. Baker (2000, p.4) suggests this:

"Individualism is a myth. The myth is that society consists of independent individuals, who act to achieve goals that are independently arrived at. This fiction gets in the way of understanding how the world actually works. The myth lowers our chances of success, depresses our pay, limits our promotions, decreases the value we create, reduces our ability to get things done, and even jeopardizes our health, happiness, welfare and most importantly closes off all the great possibilities of life. By understanding the role of relationships, however, we can tap hidden resources that will enable us to be much more successful in all areas of our lives—work, family and community."

Baker (2000) is not alone in an evaluation of entrepreneurial individualism. Other authors suggest the following:

Fraser and Dutta (2008)	<p>“Humans are social creatures who are restless in their pursuit of the satisfactions, reassurances and benefits procured by competitive advantages, conferred status and material gain. For most of us, these goals can only be achieved socially through personal connections with other people. In short, through linkages we create contacts, connections, complicity, collaboration and conspiracies – which we are constantly creating, expanding and maintaining with those around us.”</p>
Huggins (2000)	<p>“Individuals who are ‘well connected’, that is who have a large number of social and professional relationships, will experience more success in starting new ventures due to the existence of the large rich network.”</p>
DeCarolus et al. (2009)	<p>“We further postulate that the information and resources embedded in these networks are valuable to the formation and progression of new ventures. Networks facilitate access to critical resources, such as suppliers (e.g., manufacturers, marketers, venture capitalists, universities and attorneys), employees and customers.”</p>

Table 2.2: Evaluation of entrepreneurial individualism

It is often suggested that entrepreneurs must network in order to survive (Huggins, 2000). Ferrazzi (2005) goes so far as to state that “the dynamics are the same whether you are working at a corporation or attending a society event – ‘invisibility’ is a fate worse than failure.” Both points suggest the growing importance of successful networking for an

entrepreneur and that failure to do so can at times create negative consequences for those that either can't or won't network.

2.2.3 Proactive versus reactive networking

Researchers have also researched whether or not small business networking is proactive or reactive; with Curran et al. (1993) stating that small business networking has many limitations and is generally a proactive process, and that small business owners do not consciously plan their networking activity (McGowan and Rocks, 1995). Other research contrasts this view by suggesting that networking can be both planned and subconscious. Aldrich and Zimmer (1986) found that social relations are to varying degrees purposeful, as some may arise accidentally or may occur through a chance encounter with an individual, while others may occur due to deliberate planned interactions in order to obtain specific information. Shaw (1997) found evidence that subjects of the study noted the advantages for their business as being part of specific networks and that the subjects often deliberately set out 'to network'.

2.2.3.1 Small firm networking

One reason why there is confusion as to whether or not small to medium enterprises (SME) engage in networking activities is that much of the research conducted thus far on networking in SMEs has been quantitative in nature and has not been able to establish how owner/managers of SMEs actually interact with other members of the network (O'Donnell and Cummins, 1999). O'Donnell and Cummins (1999) found that owner/managers network in order to obtain two things: information on their competitors and on developments in their industry as a whole.

Research suggests that networking was most productive at social events and that there was a high degree of co-operation amongst competitors (O'Donnell and Cummins, 1999). Another important reason identified by the research for networking was to maintain a good relationship with customers (O'Donnell and Cummins, 1999). Networking was also recognized as a necessary activity when a firm entered into a new market (O'Donnell and Cummins, 1999). Networking was seen as a deliberate action by the networker, yet the most productive networking seemed to occur when it was unplanned and opportunistic by nature (O'Donnell and Cummins, 1999). Although the practice of networking was seen as 'a means to an end' that had to result in a tangible outcome, it was an activity in which the networkers saw as beneficial and something

which the networker aimed to develop and improve upon (O'Donnell and Cummins, 1999).

2.2.4 Networking analysis

Lynch et al. (2009) provides a brief history of networking analysis by describing Marshall's (1895) appreciation of the advantages of firm cooperation and Coase's (1937) observation that no single firm possesses the capabilities to complete every business activity necessary for growth. Each business network is unique, varying in the scope and structure of the network, whether the network is formal or informal, and whether the network is designed for social networking or for inter-firm networking (Lynch et al., 2009).

Positive reinforcement from early success in a network contributes to the likelihood of long-term success of the network. Thus, business owners should set attainable goals at the onset and continue to inform other members of the network of any subsequent success (Hunt et al., 2006). In addition, regular interaction among network members in the beginning of the network is crucial to network success and that "only those companies that have a winning formula of costs, quality, capability, innovativeness and price will be able to compete successfully" (Hunt et al., 2006).

Networking give firms the advantage of sharing costs and risks that would otherwise be too high to take on alone. In addition, networking also contains less obvious advantages. Research suggests that contact between different firms (e.g., managers and staff members) increases the amount of knowledge contained within a given firm (Hunt et al., 2006). This increased knowledge is known as 'networked learning' and is quickly becoming valuable in the professional world (Hunt et al., 2006).

Although networks can be particularly advantageous to businesses, there are also specific disadvantages and risks associated with networking. Lynch et al. (2009) suggests that many business owners are concerned with the risk of sharing information with another business. Business owners may be hesitant to network with another business for fear of becoming "locked into" an unproductive business relationship, or for fear of an unbalanced relationship (e.g., one partner may contribute more than the other partner, resulting in a "free rider" situation). Thus, maintaining network relationships largely depends on cultivating a strong sense of trust within a network.

However, networking also fosters competitiveness, thereby motivating innovation and enhancing growth. Hunt et al. (2006) points out that businesses that are best able to incorporate new research and technologies

are the most productive and successful. Thus, networking enables companies to learn more quickly and to adapt faster.

In summation, business networking is a three phase process which includes building a network, maintaining the network and activating selected contacts (Nardi et al., 2002). While there remains a divide in the research regarding the importance of networking for entrepreneurs, their business success depends significantly on the support of a lot of people (Cromie, 1994).

Figure 2.1 illustrates business networking as the first of four concepts for the conceptual model.

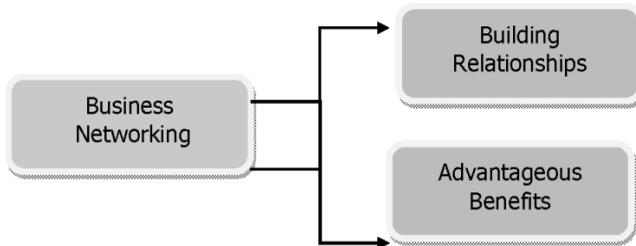


Figure 2.1: Business networking as first foundation in conceptual model

2.3 Networking in Ireland

Formal networking between firms has gained popularity in Ireland over the past few years. The actual number of individual networks between Irish entrepreneurs is difficult to calculate. However, Hunt et al. (2006) estimated that there are approximately 110 formalised networks and clusters in Ireland with the formation of networks to be a current phenomenon, as most of the networks identified had been established within the five years prior to the study.

Lynch et al. (2009) points out that numerous resources have been allocated to Irish networking policies. For example, the Irish government devoted €20 million per annum for five years to support the creation of enterprise-led networks (Lynch et al., 2009). One of Ireland's most recent networking strategies, the Pilot Initiative for Collaborative Projects, was presented by Ireland's Enterprise Strategy Group (Lynch et al., 2009). The initiative was intended to "establish the potential of industry-led networks to act as a catalyst in attaining enterprise and economic success in Ireland" (Lynch et al., 2009, p. 167).

As both globalization and networking have begun to play an increasingly important role across Ireland, researchers have spent increased effort understanding the exact nature of this role. “However, little is known about the extent of business networks across the island.” (Hunt et al., 2006 p. 3) Although there has long been recognition of networking policy interventions in countries such as Ireland, Spain and the UK, little research has sought to examine these interventions (Lynch et al., 2009).

Ironically, with the increase of globalization, companies have come to depend on collaboration. With market expansion and complexity, companies less able to retain the skills and expertise in-house that are required for competitive success must look elsewhere for the needed expertise. As a result, collaboration is a critical component of economic success. In fact, “economists and economic geographers have long highlighted the importance of dense collaborative networks of businesses to the economic success of regions” (Hunt et al., 2006, p. 3).

Hunt et al. (2006) made the recommendation of raising the awareness of the benefits that can be reaped from networks as a method to increase the number of networks present in Ireland. Historically, networks have played an important role in development throughout Ireland. Even though networks continue to play an important role, their presence has gone unrecorded (Hunt et al., 2006).

2.4 Defining social capital

The term social capital has been reinvented at least six times throughout the twentieth century, each time to call attention to the ways in which our lives are made more productive by social ties (Anderson, 2002). The nature of social capital can be seen as a bi-polar puzzle in that it is said to be both glue, which forms the structure of networks, and simultaneously a lubricant that facilitates the operation of networks (Anderson, 2002). Analysis of social capital continued through the end of the century with a greater importance of social relationships in business activity (Anderson, 2002) and a focus on interaction between members (Boyd, 2007).

Social capital refers to the many resources available in both personal and business networks (Baker, 2000). These resources include information, ideas, leads, business opportunities, financial capital, power, emotional support, goodwill, trust and cooperation (Baker, 2000). Even natural talent, intelligence, education, effort and luck are not individual attributes at all; these skills are developed, shaped, and expressed by and through relationships with others, thus important aspects to social capital (Baker,

2000). The difficulties of defining social capital stem from the confusion in the literature and demonstrate the problems of defining social capital as an asset (Cope, 2007). Researchers view social capital as a condition or a quality that revolves around the experience of interdependence. It is 'a social thing' linked to the social interactions within a network. (Cope, 2007).

Others define social capital as the goodwill created through social relations that can be mobilized to facilitate the attainment of needed resources, influence and sponsorship (Adler and Kwon, 2002). Social capital is embedded in relationships that facilitate collaboration and cooperation to achieve mutual benefits that include feelings of gratitude, reciprocity, respect and friendship (De Carolis, 2009). The role of social capital in entrepreneurship research has demonstrated the impact of social interaction on information flow and innovation in the hi-tech sector while showing that entrepreneurship is inseparable from social interaction (Cope, 2007).

Although research has provided useful descriptions of the importance of social capital, there remain a number of different definitions for the term. For example, Anderson and Jack (2002, p. 207) suggested that social capital is not a 'thing' but a process:

"It is the process of creating a condition for the effective exchange of information and resources. It can only exist between people; accordingly it is a relational artefact which we can only observe as one or other of its dimensional manifestations. From this perspective, social capital can be envisioned as a bridge building process linking individuals, so that networks are a series of bridges that links a number of individuals."

Other definitions are as follows:

Social Capital...	
... is the goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action.	(Adler, 2002, p. 2)
... includes many aspects of the social context, such as social interaction, social ties, trusting relationships and value systems that facilitate the actions of individuals located in a particular social context.	(Nahapiet, 1997, p. 17; Tsai, 1998, p. 18)
... is said to be both the origin and the expression of successful network interactions.	(Cooke, 1999, p. 19)
... is increasingly recognized that interpersonal relationships have a crucial role to play in the success of individuals.	(Coleman, 1988; Putnam et al., 1993)
... might be described as the operation of a social process, where non co-operative action would lead to a reduction in information and resources flows. In contrast an interaction within a rich endowment of social capital is likely to enhance information and resource flows. Furthermore, the possession of social capital may reduce transaction costs.	(Putnam et al., 1993)
... reduces transaction costs because of untraded interdependencies.	(Dosi, 1988)
Though we spend the vast majority of our lives developing our technical capabilities to make us attractive in the job market, few of us put specific focus on developing our people skills. But it is the people skills – also known as social capital – that determines our overall success.	(Dittmer, 2008, p. 25)

Table 2.3: Definitions of social capital

In summation, social capital is the origin and the expression of successful network interactions (Cooke, 1999). Although not a recent area of business, new research into social capital shows the importance of not only understanding what social capital is, but also how entrepreneurs can use their social capital to grow their business. Figure 2.2 illustrates Social Capital as the second of four foundations for the conceptual model.

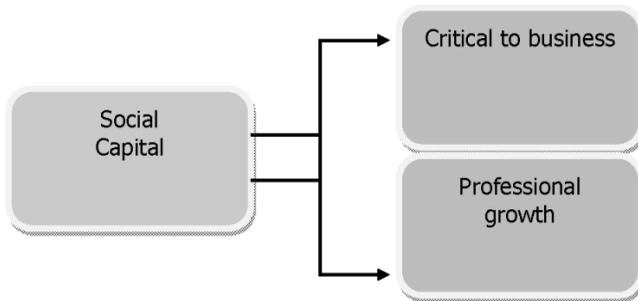


Figure 2.2: Social Capital as second foundation of conceptual model

2.5 Understanding social networking in a business environment

A social network is built on the same principles as any other network. To better understand the concept of a social capital network, the social capital network can be compared to a computer network - whereas a computer network has computers and wires, a personal network has actors and relations (Garton, 1997). In relation to a social network, the actors represent individuals while the ties represent the relations between them. If an actor has a set of ties, he/she has a social network (Garton, 1997). A social network is often described as a dynamic system that varies according to time and circumstances, something which makes it flexible according to size, strength and situation (Haythornthwaite, 2000). A person may, for example, decrease or increase communications within existing ties and/or lose or gain contact with actors. A social network is also a group of people that have a certain pattern of contact or interaction. The pattern, or tie, may be that of friendship between individuals, business relationships between companies, geographical proximity or a professional acquaintance.

2.6 Motivations for creation of social network

Individuals are motivated to join social networking sites for a variety of complex reasons. Fraser and Dutta (2008) organise these motivations into two categories: rational motivation and nonrational motivation. Rational motivation defines individuals who join social networking sites for a specific intent and calculations. For example, professionals who join sites related to career development, such as LinkedIn, do so as a result of

rational calculations. In comparison, young adults who join sites such as Facebook and MySpace in order to connect to friends do so as a result of their instinct to forge social bonds, and thus possess nonrational motivations.

Networks have been identified as important to firm growth, mitigating the liability of newness, providing legitimacy and preventing failure. Networks connect the entrepreneur with opportunities critical to a firm's success, facilitate innovation, spread risks and provide support, credibility and contact for entrepreneurs (DeCarolis et al., 2009).

Because of the many elements that build a person's social network, it will usually be quite complex (Haythornthwaite, 2000). The social network will probably consist of both weak and strong ties that are intertwined in a number of ways and, in addition, each tie may consist of several multiplex connections of their own. In other words, the connections within a social network might vary from weak acquaintances to strong friendships depending on the tie and the actors' desire to connect with each other (Haythornthwaite, 2000).

With regard to business and entrepreneurship, social capital becomes the keystone of success for relationships available in and through personal and business networks. If human capital is what is known (knowledge, skills and experience), then access to social capital depends on who is known (size, quality and diversity of your network) and who isn't known but directly connected to via a network (Baker, 2000).

Baker (2000, p. 1) defines the importance of social capital within the scope of business practice:

“These resources include information, ideas, leads, business opportunities, financial capital, power and influence, emotional support, even goodwill, trust and cooperation. The “social” in social capital emphasizes that these resources are not personal assets; no single person owns them.”

Baker (2000) also provides additional insight into social capital by comparing social capital to human capital or financial capital, where the capital is productive, enabling users to create value, get things done, achieve goals, fulfil missions in life and make contributions to the world. Baker also suggests that the importance in the productive nature of social capital can often be understated:

“No one can be successful — or even survive — without it. But many people believe they should be able to get along without social capital; they mistake “going it alone” as the prescription for success. Others pretend to thrive without social capital, using it secretly as if it were improper or even unethical. These beliefs and attitudes are rooted in the myth of