HOW ENTREPRENEURS CAN USE NETWORKS AS A PART OF THEIR BUSINESS STRATEGY IN EMERGING ECONOMIES?

ABSTRACT

Entrepreneurship involves many risks, especially in its first years of activity. Entrepreneurs have a strong necessity to find strategic and valuable resources to achieve their survival, but these resources are not always easy to obtain. This search for resources not only depends on firm's capabilities, but on its ability to manage itself in turbulent business environments too, where these resources are mostly available in external surroundings of the firm and its networks arise as one way to acquire them. The focus of this paper is to explore how the use of networks can be involved in entrepreneurs' strategy in emerging economies. This document starts with an exploration over networks literature. Secondly, an explanation of the institutional environment in emerging economies is necessary and a review of how organizations manage their networks in their operations. Finally the literature review about networks and entrepreneurship will consider the different ways on how networks are present and can be useful to the entrepreneurs' business activities in emerging economies. The study's framework will be the institutional environment in emerging countries and the resource dependence theory.

KEY WORDS

Network, entrepreneurship, strategy, emerging economy.

INTRODUCTION

Emerging economies are places with several growth opportunities but also have many challenges to deal with because of their particular business environments (Vassolo, De Castro & Gómez-Mejía, 2011). That's why it's relevant to consider the characteristics of the environment as an important factor which facilitates business activities. Looking into the variables involved in an emerging economy environment we will be ready to explore how entrepreneurs can follow their own strategy and use their capabilities to obtain valuable resources through their network management in turbulent contexts or situations with a high level of uncertainty.

Focus of the research

The focus of this paper is to analyze how the presence and application of networks can be involved in entrepreneurs' business strategies in emerging economies.

Research question

How networks can be involved in entrepreneurship's strategy in emerging economies?

Relevance

It's important for entrepreneurs to obtain several valuable resources in the very beginning of their projects in order to do a proper manage of their operation first years under the turbulent environment of an emerging economy. For an entrepreneur it's difficult to have access to internal resources, because the structure is recently formed, but to obtain those resources from external sources they have to be related to other firms through collaborative relationships.

Positioning literature

In this study we will search for some variables of Social Networks Theory (Granovetter, 1973; Breiger, 1974; Burt, 1992) that are involved in the Entrepreneur's Strategy (Hitt, Ireland, Camp & Sexton, 2001). Finally we will explain a basic guide about how an entrepreneur can include the application of networks in his strategy, considering the necessity of valuable resources according to the Resource Dependence Theory (Barney, 1991; Pfeffer & Salancik, 2003) and the conditions of the Institutional environment (Peng, Li Sun, Pinkham & Chen, 2009) of an emerging economy.

Limitations

We will not precise a specific type of entrepreneurship. Our general idea is to review the presence and some applications of networks in the entrepreneur's strategy. Corporate entrepreneurship will not be consider in this study. Also, we will not focus in all the aspects of an emerging economy environment, because we will use only an institutional framework to analyze and set the context conditions in these countries.

THEORETICAL FRAMEWORK

Exploring networks

A network is represented as a group of relationships between entities. Graphically, a network could be presented as a web full of connections, where each entity is a point and the relationships are lines connecting these points (Granovetter, 1976). These relationships or ties, formed by the multiple interactions of the participants inside a determined environment (Salancik, 1995), can be created between two different types of entities, individuals or collectivities (Breiger, 1974), making possible the use of networks theory not just for people connections but for organizations relationships as well (Tichy, Tushman & Fombrun, 1979), in order to understand their behavior (Mitchell, 1974). Following Granovetter (1973), these connections are classified in strong ties and weak ties according to its resource attract conditions. Strong ties are connections with nearest or blood related individuals which are capable to facilitate resources like trust, support and confidence. By the other hand, weak ties are connections with not so close individuals and they have an enormous potential to bring valuable and no redundant resources like information, access to capital, advice or knowledge (Granovetter, 1973). Then, strong ties are capable to bring several new and valuable resources to any organization, and these resources are necessary to support and maintain business activities who are also critical in order to follow the organization's strategy. In addition to this, besides the strong and weak ties in a network there are also empty spaces with inexistence of connections between the individuals and these spaces were called Structural Holes (Burt, 1992). According to Burt (1992) these structural holes are capable to bring non-redundant resources to the individual or collectivity. According to Adler & Kwon (2002) and García-Valdecasas (2011) the entire package of strategic and unique resources that an organization managed to get by its network management is called Social Capital. Another definition of this social capital is related to the advantageous position of an individual or group inside their own relationships network (Burt, 2005).

Social capital represents the "goodwill" of individuals toward others, and according to Adler & Kwon (2002) to receive this "goodwill" means to have access to some specific resources such as information, influence and solidarity (Adler & Kwon, 2002; García-Valdecasas, 2011). So, social capital provides different sources for new skills, knowledge, control, power and trust (Adler & Kwon, 2002), all of which represent a group of strategic valuable and unique resources for an organization's strategy. In order to do a convenient use of this social capital, any organization must be capable of construct and maintain its networks, through the establishment of collaborative relationships with others firms, and also be capable of mobilize those resources to attend some particular situations or to deal with specific business challenges (Adler & Kwon, 2002). In figure 1 we can observe how networks can bring non redundant and valuable resources to the organization and in the stage 1 these resource are properly storage as the social capital of the firm. Later, at the stage 2 in the same figure 1, the firm is dealing with some particular situations or is involved in a specific context that obliges it to mobilize these resources and use them in its business activities, as a part of its whole strategy.

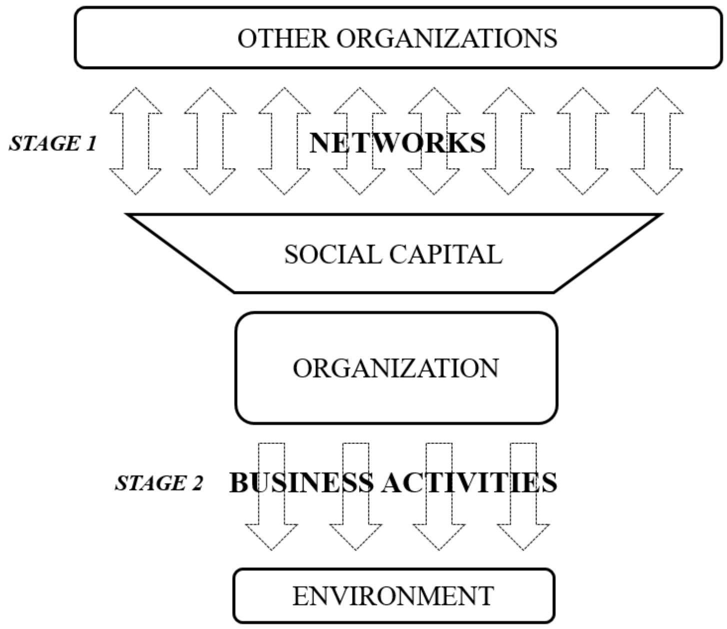

Figure 1. Building networks and mobilizing resources. Own elaboration.

Building networks has not to be so difficult for an organization, because every individual or collectivity is actually embedded in many social relationships (Granovetter, 1985) and through this exchange system of relationships, they can acquire several opportunities in their markets to ensure their long-term survival (Uzzi, 1996). Moreover, networks can be a cyclic reliable source of these inducements and opportunities (Zaheer & Soda, 2009) because they are able to constantly offer resources like experiences, knowledge, prominence and power. But, if the firm forgets of taking care about manage its networks the new resources flow from other organizations will be interrupted. In addition to this, if the firm isn't capable of an adequately mobilization of these resources, it won't be possible to make a proper use of this social capital according to the organization's requirements (Kwon & Adler, 2014) This means also that managing networks is not enough to ensure the use of new resources in organization's business activities, it is necessary to have the capacity to allocate these resources in the right place and time over firms' strategy.

Institutional environment in emerging economies

At the same time with the industry-based and resource-based views, the institution-based view is considered as an important part of any organization's strategy, been capable to set the strategy of the firm through the action of formal or informal institutions (Peng et al, 2009). The institutional context is involved in the overall business environment, redefining the way of how firms take decisions about resources (Oliver, 1997). The power of institutions, formal or informal, organized or disorganized, to changing the environment have to be understand as a primary issue for the establishment of firm's strategy (Ansari & Phillips, 2011).

According to Hillmann & Aven (2011) institutions have to be a supporting business activity platform for firms in order to enable and facilitate the infrastructure, the commitments of contracts and to secure and protect property rights. So, institutions play a significant role in emerging economies than advanced ones, but actually the institutional voids, the alteration of regulations, the effect of privatization and the existence of informal markets are overwhelming the institutional context (Vassolo et al, 2011) and creates a particular environment where firms strongly need monitoring and regulation from public institutions to be able to obtain good conditions for growth and to attain wealth. For instance, in countries like Mexico where, according to their study, institutions were weak (Musacchio & Read, 2007), organizations must seek for other alternative mechanisms to find new resources; but in Chile where institutions act like central connectors for organizations (Salvaj & Couyoumdjian, 2015) or Brazil, where formal institutions are strong (Musacchio & Read, 2007), organizations are able to find resources available in the business networks of the environment. Latin America, for instance, represents the second most important emerging economy region worldwide and it still has a vulnerable institutional context (Vassolo et al, 2011). Finally, emerging economies are characterized by the presence of weak institutions (Young, Tsai, Wang, Liu & Ahlstrom, 2014), and their ineffective action leads to a natural creation of informal markets and also facilitates the existence of corruption (Vassolo et al, 2011), both increasing the uncertainty of the environment.

How networks are used by organizations

Firms search for partners who have different or complementary skills, because the real value of creating a collaborative relationship is to generate synergies between both individuals, and to have access to different information and resources (Hitt, Ireland, Camp, & Sexton, 2001), then they can be used to deal with the uncertainty of the environment according to the resource mobilization capabilities of the firm (Martin, Gözöbüyük & Becerra, 2013). There are some intangible resources preferred by organizations rather than tangible ones, because of their necessity of a different competitive advantage in their markets. According to Hitt et al (2001) these intangible resources are: reputation, knowledge, learning capability and transfer of knowledge capability, which are important to follow firm's strategy. As Levitt & March (1988) said, take care of organizational networks is important to keep open a path of learning from other organizations. These networks of learning, formed by interorganizational relationships, are the basic platform for innovation, acting as a community of knowledge, rather than the individual efforts of firms (Powell, Koput & Smith-Doerr, 1996). Following Burt (2004), innovation and generation of new ideas are also strong related to the presence of structural holes (Burt, 1992) in the organization's network. Actually, firm's that manage properly their networks are able to learn faster and can achieve higher levels of creativity (Burt, 2005) meanwhile the larger the scale of network structure, the high innovative level will be present in the organization (Schilling & Phelps, 2007).

Emerging economies firms seek to cover the absence of formal and strong institutions by putting their trust on informal ones, but with well-performed reputation (Hillmann & Aven, 2011). So, this behavior generates reputation-based networks, which are mostly present in emerging countries. Reputation helps firms to reduce the uncertainty of a relationship with a new partner, making possible to know about its behavior record in the past and decide to trust on this firm, asking for advice or delivering responsibilities with greater confidence (Hillmann & Aven, 2011). This idea enforce the creation of trust-based supply chains that facilitates the establishment of different contracts or relationships between buyers and suppliers carrying several benefits from these connections (Vurro, Russo & Perrini, 2009). Following figure 2, the long line below the supply chain represents the natural flow of goods or services, but the small lines between the actors means the relationships created basically on trust (e.g., between the raw material supplier and the manufacturer), and with the opportunity to share valuable resources beyond their commercial agreement. In fact, the possible relationships between many actors in the environment is infinite, because each participant comes with his own social capital package. Parkhe, Wasserman & Ralston (2006) said that every structural difference on relationships is worthy of attention, as any of them are different, so every relationship will be unique in resources and capabilities.

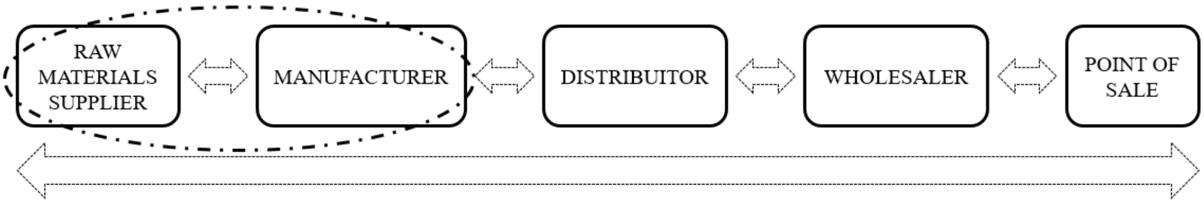

Figure 2. Creation of trust-based supply chains. Own elaboration.

Networks are the principal source of external resources for some companies who have limited access to internal resources, and their principal support to maintain a competitive strategy in their field (Dyer & Singh, 1998; Yao, Wen, & Ren, 2009). Furthermore, it is possible also that firms cannot obtain the resources they need from their internal sources because they don't have any yet or never being developed or discovered. Moreover, there are some companies that found their competitive advantages through trust relationships generated inside their networks. This idea could be a contradiction to the traditional thinking about how a firm builds its strategy, because despite the context and the competition forces in the industry (Porter, 1980), according to Hung (2002), a firm can model its strategy and achieve strategic differentiation based on the present resources available from its actual business network. In addition to this, networks on a corporate level, through shared directors on different boards, implies useful resources to the organization (Richardson, 1987; Mizruchi & Stearns, 1988; Boyd, 1990) flowing by a common sense of identity, similar cultures, obligation relations and mutual trust, as occurs in what Useem (1984) called the Inner Circle.

Furthermore, some firms who want to integrate their vision to their chain's value have used the network theory to help them generate a new concept of Global Production Network, that implies more than a simple linear relationship, but a multi directional network of relationships between organizations in a particular industry (Levy, 2008). These structure of multiple connections allow firms to obtain valuable resources and mobilize them according to the environment situations.

Entrepreneurship requirements for resources and its use of networks

In their risky path of a new business, entrepreneurs have to succeed in mobilizing their resources to be able to reach a sustainable growth next stage, creating finally stable new industries (Aldrich & Fiol, 1994). According to Aldrich & Fiol (1994) obtain legitimacy is the primary objective of an entrepreneurship who wants to survive and growth its initial years in its industry, and the most effective way to do this is to gain trust in its business environment.

According to Hitt et al (2001) any intent to enter into a foreign market is indeed an entrepreneurial strategy and this effort requires valuable resources and capabilities. Some of the resources that may be obtained by constructing and using networks can actually help to make a better performance in international new ventures (Coviello, 2006). These recently born organizations use relationships generated by the natural network evolution from the beginning of the entrepreneurship to adequate their strategy in these foreign markets. As Coviello (2006) said, this type of entrepreneurship have to consider network relationships that were formed before the internationalization process, during the pre-internationalization phase. The entrepreneurs' exposure to other organizations is a basic element of their strategy which allow them to obtain knowledge, relevant social ties, and the possibility of build self-confidence in their managerial activities (Sorenson & Audia, 2000). Moreover, entrepreneurial methods to find an opportunity for international exchange when they are exploring foreign markets rely on tie-based opportunities that emerge from relationships with others, and these kind of initiatives are called tie-based exchanges (Ellis, 2011). But these kind of exchange structure can only be produced by a sustained network system that allows the firm to obtain different and better opportunities to achieve a mutual benefit exchange or to establish trust and confidence with others in the same network through the enforcement and repetition of partner relationships in a less open network system. More, entrepreneurs can obtain several benefits from bridging the structural holes in their networks, in order to reach different resources from the other side of the hole (Burt, 2005). In addition to this, network management can provide to entrepreneurs with the necessary endorsements to improve their reputation among other organizations in the industry (Stuart, Hoang & Hybels, 1999), making possible to obtain some valuable resources for their survival in an environment with high levels of uncertainty.

Networks can also be helpful for entrepreneurial initiatives specifically in emerging economies, because the environment that surrounds the creation of businesses there has an original lack of information and resources, and networks can facilitate to solve both (Maas, Seferiadis, Bunders, & Zweekhorst, 2014). The decease rate for entrepreneurial activity can be high if the environment do not have the adequate conditions for those new firms to develop a proper establishment and sustainable operations over time. As Dew & Sarasvathy (2007) said, an entrepreneurial venture can be thought as a complex network of stakeholders, where each one of them are committed to a common purpose of innovation.

Inside a community with a high degree of social trust, which comes from social capital achievement, individuals are more likely to be entrepreneurs (Kwon, Heflin & Ruef, 2013). Entrepreneurs have to choose a particular strategy between cost leadership and differentiation to sustain their new businesses in the industry (Porter, 1980). But as an example, the entrepreneurship for necessity has to lead their way with limited resources and little information, so they are often most likely to choose principally a cost leadership strategy (Block, Kohn, Miller & Ullrich, 2015) According to Block et al (2015), entrepreneurship's behavior and the decision of a competitive strategy depends on the environment and the entrepreneur's reasons to begin the company. In emerging economies entrepreneurship is oriented to the necessity of helping people to leave poverty, but there are also limited resources and inefficient institutions that could support entrepreneurial initiatives (Maas et al., 2014). For instance, in a study about technological entrepreneurship in China, it was discovered that the factors for an integrated framework to support technological entrepreneurship indeed existed, as well as external networks of the firm's opportunities and the power and relevance of local institutions (Petti & Zhang, 2011). Furthermore, Mexican entrepreneurs have to use corporate networks by sharing directors, as a way to deal with the weakness of the local formal institutions, in order to obtain strategic resources from the environment; however, Brazilian entrepreneurs are able to support with strong institutions in the country, and they have not necessity to use this kind of directors' relationships (Musacchio & Read, 2007). So, networks are an important mechanism to facilitate resources and to enforce appropriate environment conditions to establish entrepreneurial initiatives.

A measure for the execution of the organization's strategy is business performance, and this is influenced by network resources and entrepreneurial orientation. According to Elfring & Hulsink (2003), new opportunities and legitimacy are important resources related to firm's performance, and both of them also can be affected by social ties. Entrepreneurs seeking for take advantage of new opportunities have to use strong ties, by the other hand, weak ties are useful to young ventures looking for drastic innovations (Elfring & Hulsink, 2003). Finally, networks can provide strategic resources to sustain and develop competitive advantages for the strategy and, on the other hand, entrepreneurial orientation provides the search activities for new opportunities and execution abilities (Yao et al, 2009). So, from this point of view, networks resources and entrepreneurship skills are complementary tools for the whole firm's strategy.

CONCLUSIONS

Environment conditions are indeed strong related to the firm's capacity to obtain resources for its continuity in the market. Emerging economies have turbulent business contexts basically because of their complicated institutional environment, and that's why organizations have less resource availability in these countries. They have to extent their relationships outside their boundaries, across their business networks, in order to ensure a continuous flow of valuable resources to the firm.

Summarizing, networks have demonstrated that they are a reliable and systematic source of important resources such as information, trust, knowledge, learning capacity and reputation that could be available for entrepreneurs in their first years of existence in order to allow them to survive, especially in environments with high levels of uncertainty as emerging countries, where the institutional context turns the obtaining of these resources to a complicated task. The availability of strategic resources will depend on firms' capabilities to do a proper management of their business networks.

DISCUSSION

Some specific resources could be available from informal markets that are created by the weakness of institutions and these resource may be useful for some group of firms. That will be that the presence of weak institutions in the environment is not always a negative issue. Then, there is an opportunity of research about finding which these resources are and if networks are also an important mechanism to obtain them.

Resources obtained from network management are different and some of them could be more important for entrepreneurs than others, because of the business stage they are in. Another challenge then for research is to identify what resources are specifically useful for entrepreneurship in every stage of it life cycle. According to this, entrepreneurs will be able to go after specific resources using their social relationships.

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