

Entrepreneurial networks as culturally embedded phenomena

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Abstract

Entrepreneurship research concerning networks has largely focused on network structure, content and governance. We believe that further research is required in order to gain a richer understanding of why specific network forms and types originated. The purpose of this paper is to explore the existence, importance, values and meanings of both the informal and formal networks and networking behaviours of small-scale hotel owner-managers embedded in the socio-economic context of Croatia. In order to gain richer and more detailed understanding of entrepreneurial networks and to understand the influence of socio-economic setting on entrepreneurial networking, we have employed qualitative, in-depth study with small hotel owners. Results suggest that entrepreneurs do not establish strong personal and firm-to-firm ties, but rather focus on formal associations. Reported findings identify socio-cultural factors apparently unique to the context of former socialist economy which have the potential to explain the reported networking behaviour. The adopted research approach brings another dimension to existing theoretical underpinnings, which can encourage researchers to extend or revise theories with new contextual variables.

1. Introduction

In recent years there has been a dramatic increase in the number of studies investigating entrepreneurial networks (Hoang and Antoncic, 2003; Jack, 2010; Laschewski *et al.*, 2002). However, Jack (2010) reveals that despite the growth of publications many questions remain unanswered. This particularly relates to the network development, the process within and between network ties and the content of relations. She considers that these issues are of significant importance to investigate, as they will help broaden our understanding of how 'networks evolve, change and develop over time as well as the extent to which networks support and/or constrain the ways in which entrepreneurs and their ventures function, operate and are managed' (p. 102). Jack (2010), similar to Hoang and Antoncic (2003), argues that such questions have not been researched widely as a consequence of dominant quantitative approaches in network analysis, which cannot provide richer and more detailed explanations of 'what is going on within a network' (Jack, 2010, p. 123). In order to overcome this theoretical gap, scholars studying entrepreneurial networks argue that it is necessary to adopt more qualitative approaches and suggest that researchers should take account of entrepreneurial context to a greater extent (Jack, 2010). From this perspective, the socio-economic context where entrepreneurs are embedded is seen as a key factor as it has an impact on 'the nature, pace of development, and extent of entrepreneurship as well as the way entrepreneurs behave' (Welter and Smallbone, 2011, p. 108).

In this paper we argue that more attention needs to be placed on the context in which networks and networking behaviour are embedded in order to understand the complex

characteristics, dynamics and relationships that lead to specific networks formations and types in different social and cultural settings. We examine what aspects of socio-economic environment may drive the diversity of entrepreneurial networking among small business owners in Splitsko-dalmatinska County, Croatia.

2. Literature review

2.1 Entrepreneurial networks

Scholars have recognised that entrepreneurs embed their actions in social structures and that economic behaviour of entrepreneurs can be better understood within its historical, temporal, institutional, spatial and social context (Welter, 2011). Research on entrepreneurial networks has emerged as an important area of inquiry, as studies have shown their important role in the entrepreneurial process and outcomes (Hoang and Antoncic, 2003). One aspect that the literature has increasingly paid attention to is how personal networks help overcome the problem of acquisition of resources, such as financial or human, in the early stages of the entrepreneurial process (Zhang *et al.* 2011). For instance, Zhang *et al.*'s (2011) study among 378 high-tech ventures in Beijing and Singapore reveals that 62% of Singaporean entrepreneurs and 71% of Chinese entrepreneurs use personal networks to acquire resources. Jack (2005) conducted a qualitative ethnographic study among 14 entrepreneurs in Scotland and found that entrepreneurial personal networks were instrumental for business activity. For instance, family links were utilised to provide the entrepreneurs the ability to recognise the potential for entrepreneurial opportunities, whilst resources and skills were located within personal networks with former colleagues, industry professionals and employees. The critical importance of personal networks in the early stages of entrepreneurial process is determined by the fact that entrepreneurs face considerable challenges as a result of uncertainty about the prospects of new venture (liability of newness) and due to information asymmetry problems, since entrepreneurs often possess more information about the prospect of their business than outside evaluators (Venkataraman, 1997).

Studies have found that many emerging entrepreneurial firms rely on close, personal relationships, such as friends and family members as a means of minimising costs and because they are convenient and already established (Greve and Salaff, 2003; Hite, 2005), whereas in the later stages of the business lifecycle entrepreneurs develop networks which are more formal and based upon traditional market exchanges (Hite and Hesterly, 2001; Zaheer and Venkataraman, 1995). Creation of entrepreneurial networks is seen as a desirable activity for entrepreneurs as networks help to access information, secure resources and to exploit business opportunity (Jack, 2010). However, Lockett *et al.*, (2012) argue that the literature has mainly focused on outcomes and benefits of networking rather than entrepreneurial motivation to engage in network arrangements. Their study reveals that entrepreneurs were motivated primarily by short-term opportunities, such as knowledge exchange, sales and collaboration. Laschewski *et al.*, (2002) similarly reported that entrepreneurs join business networks to make business contacts, share ideas, socialise and find information and help.

2.2. Networking practices among small tourism and hospitality firms

A number of studies found that small firm owner-managers regard a relatively small number of SMEs as competitors, particularly in industries with low barriers to entry such as the tourism and hospitality industry (Thomas *et al.*, 2011). Within the tourism industry, small firms are continuously challenged by large multinational chains, but not by other small firms (Ahmed and Krohn, 1994). In order to overcome this liability of smallness, small tourism entrepreneurs form business ties with other small tourism entrepreneurs, often from the same sector

(Morrison, 1994; Tinsley and Lynch, 2001; von Friedrichs Grängsjö and Gummesson, 2006). This behaviour is often reported among the small tourism and hospitality firms and is referred to in the literature as 'coopetition' where two competitors both compete and cooperate with each other (Kylänen and Rusko, 2011). However, Morrison (1994) and Litteljohn *et al.* (1996) identify that formal network activities seem to be avoided by owner-managers of SMEs in the tourism and hospitality sector. Jennings *et al.* (1994) and Morrison *et al.* (1999) assert that such entrepreneurs are motivated by a desire not to be controlled by external authoritarian structures and organizations. For example, this is evidenced in a study of inter-firm relations within small lifestyle tourism businesses in Ireland (Mottiar, 2007). This concurs with Curran and Storey's (1993, p. 91) argument that activities towards formal networking may be related to the 'mindset' of owner-managers, which could demonstrate 'a strong commitment to independence and a refusal to engage in activities which might be seen as threatening their autonomy or that of the business.' Tourism entrepreneurship literature describes this behaviour as 'lifestyle', where entrepreneurs prioritise a consciously selected lifestyle, over a focus on business growth and profit maximisation (Shaw and Williams, 2004). Tourism entrepreneurs are thus consequently described, as 'non-entrepreneurs' and 'constrained entrepreneurs' (Shaw and Williams, 1998). In addition, Drakopoulou Dodd (1997) adds that the use and conscious exploitation of more informal social networks as well as the established formal agencies indicate a more entrepreneurial nature of such individuals. This is supported by Morrison (1998, p. 175) who states that 'the development and maintenance of effective informal and formal networks is recognized as a central feature of successful entrepreneurial activity' and that this is particularly true for those of an informal nature. It represents a type of entrepreneurial strategy, as emphasised by Shaw (1998, p. 24), who notes that 'with effective management, social networks have the potential to improve and maintain the innovative nature of small firms, and consequently, their competitiveness.'

The foregoing, mainly Western informed perspective suggests the configuration, content and operation of entrepreneurial networks as: related to the mindset of the entrepreneur; socially constructed through personal contacts; embedded in, and moderated by, the cultural and/or community context; with a preference for informal and aversion of the formal types; consciously exploited as an entrepreneurial strategy; and containing co-operation, loyalty and trust characteristics.

3. Research methodology

The research was conducted in the Splitsko-dalmatinska county of Croatia. This region is suggested as the best representative for the research for the following reasons. Firstly, the region has a long-established tourist tradition, which dates back to the period around 1868 (Vukonic, 2005). Secondly, in recent years, entrepreneurial activity within the tourism and hospitality industry has grown rapidly in this area, enabling the researchers to find 'the best representative' (Ritchie and Spencer, 1994) population for the research objectives. The contributors for this current study are individual entrepreneurs: small hotel owners operating within the Splitsko-dalmatinska County. For the purposes of sampling, a SMS hotel is one that does not have more than 40 letting rooms, as defined by The Croatian Ministry of Tourism (MINT, 2005). Out of a population of 114 hotels in the analysed county, 64 SMS hotels were identified. For the purposes of sampling issues a small hotel will be the one which does not have more than 40 rooms. From the National Hotel Categorisation data 64 small hotels were identified out of 114 in the analysed county. Non-probability, purposive sampling was carried out, which requires the analyst to

sample on the basis of interviewing people who are relevant to the research questions (Denzin and Lincoln, 2000).

The researchers interviewed thirty seven small hotel participants in urban, island and inland areas, thus taking account of and forming an understanding of the whole research setting. The main data collection methods were semi-structured interviews. Most of them were conducted in the hotels. On average, the interviews lasted from one hour to three and a half hours. The interviews were tape recorded and conducted in the Dalmation dialect of the Croatian language. In order to ensure transcription quality and accuracy of the transcribed text, a decision was taken that the interviews would be transcribed using the Croatian language. Interviews are referred by the labels H 1 to H 37, where H stands for 'hotel'. Being completely familiar with the text, as well as the meanings and interpretations within it, the researchers were able to conduct effective data analysis. Framework analysis (Ritchie and Spencer, 1994) is adopted as a main analytical method. Nine meta codes emerged after rigorous analysis of the transcripts. In relation to this study, the meta code 'business links' will be analysed. In order to identify socio-cultural factors which have potential to explain reported network behaviour these findings will be viewed against the backdrop of the meta code 'environment for entrepreneurship and position of entrepreneurs'.

4. Findings

4.1. Informal networks

Although all interviewed participants stated that they do not perceive other small hotels as competition they do view their existence as crucial for overall destination development. However, the business links between small hotels are extremely weak. The data show that only thirteen participants have informal business links with other *small hotels*. As the only aspect of cooperation is based on exchanging guests (overflow bookings), they cooperate with hotels located in the same geographical area and within similar price and quality range. Therefore, this kind of informal network is often built up on a personal and geographical, rather than a business basis. This was also evident from the participants' reasons to establish this kind of cooperation, where all of them stated that they are simply helping a neighbouring hotel if they have a surplus of guests. Clear business benefits from this type of network could not be identified by the participants, besides exchanging ideas and income from shared guests. In contrast, one participant developed more specific and tight networks with other two small hotels. In this context, network influence on business performance is evident on a number of levels, for example:

It is much easier to organise transfers, excursions when we cooperate than we did it alone. We are also expanding our businesses, our revenues are higher, we do business on a much higher level.
(H2)

Among these thirteen participants, seven reported business links with *other small businesses*, mostly with providers of excursion services, like boat trips to the islands. Thus, the breadth of activities tends to be narrow and occasional. In addition, the network bond is not based on a contract, but on mutual trust. Participants did not identify any problems in this network type, as their activities were in most cases periodic and not bounded. The main identified reason for networking is an expansion of a range of services which participants cannot offer due to their size. Namely, entrepreneurs perceive hotel size as one of the main barriers in everyday business operations. The most dominant 'size barriers' include: problems with employees (restricted options for promotion); limited negotiation power with tour operators and suppliers; weak market power; restricted provision of service and incapability to accept group

tours. Therefore, these informal networks are viewed as a means to an end, that is, as overcoming identified barriers and to increase business success, as illustrated by the following quote:

It is economically not profitable if I organise an island excursion. On the other hand, I need to provide something to the guests, as I am too small to have a pool, for instance, and there is almost nothing to do in our destination. So we cooperate with a firm who is providing those services. My overall service is more competitive in the market, attracts guest and brings me higher profit. (H7)

The majority of participants who did not establish any informal links stated that they are willing to cooperate, but are restricted by: the general lack of interest and negative attitude towards cooperation; non-existence of similar hotels in the area; and overall passivity, as presented by the following participant:

I talked to my colleagues from Italy and they told me that we are lazy because we sleep during the winter instead of cooperating among ourselves, making plans, going to the fairs. They even advised to take a loan if necessary to do that because this will pay us off in the future. But no, we don't do that, we fight alone and do nothing for mutual benefits. (H24)

4.2. Formal Business Networks

Interviewed participants identified following types of formal business networks presented in Table 1.

ASSOCIATIONS	NUMBER OF PARTICIPANTS INVOLVED
Association of Family and Small Hotels of Croatia (OMH)	18
Croatian Association of Hoteliers and Restaurateurs (HUH)	3
Small Luxury Hotels	1
Charm and Relax, Italy	1
TOTAL	23

Table 1 Formal Business Networks

From Table 1 it can be seen that the majority of interviewed participants (twenty-three) hold membership in some formal association. As this is a formal network type, networks' bonds are expressed in terms of annual memberships. Interestingly, none of the participants referred to the general small business associations, such as the Association for Entrepreneurship and Small Enterprise. As the majority of the participants are members of the OMH, and all of them expressed views concerning the association, even when the membership was not held, the highest attention is given to this network. Participants reported two key *reasons for joining* the OMH. The first is concerned with the benefits that it provides, ranging from the hotels' promotion and the channels of advertising and educational seminars. These reasons arise because of the hotels' smallness which presents a constraint to involvement in some of these activities. Secondly, participants considered that joining the OMH presents them as a brand. Therefore, it helps in increasing their market strength, as presented by the following participant:

I am a member because I think we need an association, we do not have strength in the market as individuals, it makes our position stronger. We can sort out lots of questions, from educational seminars, suppliers, promotions, they send us some information as well, we cannot do that without the association. (H30)

Stage in the business lifecycle was not identified as an important factor in determining the choice of formal business network membership. Participants at the beginning of the business lifecycle and those who have been running a hotel for some time shared the same reasons for joining OMH. It was assumed that participants who recently started a hotel business and did not have any experience in the hospitality and tourism sector will be more reliant on the formal organisations, which was not the case:

'I did everything by myself in other firms, so I do not need any association in this job as well.'
(H32)

On the other hand, when identifying *accomplished benefits* participants were referring to the reasons for joining the OMH as presented in Table 2.

ACCOMPLISHED BENEFITS	RELEVANCE FOR THE BUSINESS
<i>Brand creation</i>	Better position in the market; brand as a guarantee for quality; international recognition.
<i>Presented at big tourism fairs; catalogue</i>	Hotel size and fair's costs as restrictions - an individual small hotel cannot afford attending big major travel fairs.
<i>Information provided</i>	It would be difficult for participants to follow all changes in the legislation.
<i>Educational seminars</i>	Participants do not have experience and knowledge to educate their employees. Also, no one else provides such specific hospitality seminars (such as a course for sommeliers or implementation of modern technologies in the small hotels).
<i>Knowledge sharing; learning from others; friendships</i>	Implementation of ideas that seemed to be doing well in other businesses.

Table 2 Accomplished benefits from formal networking

Table 2 indicates that participants' expectations from network membership are fulfilled to some degree. At the same time they were struggling to identify how accomplished benefits influenced their business performance. They acknowledged the reduction in costs relating to the travel fairs' attendance and improvement of overall service provided due to the experience and knowledge gained attending the seminars, but did not report that this had any effect on business profitability. The reason behind this was identified when asking participants as to their other expectations from the network. All of them, and even those participants who are not members, argued that the OMH needs to start working on bringing guests to the hotels and fight at the national level against the taxes and other impositions which hotel businesses have to pay. Participants perceive these as actions which would directly increase their revenues and reduce total costs, thus increasing hotels' profitability:

The association is a great idea and we do have benefits but I cannot say that we have direct benefits...they are trying but I cannot see a direct benefit for me. Our direct benefit would be if they send us guests, that is the most tangible to hoteliers, and to cut our costs, but the association did not do anything about it. (H12)

On the other hand, five participants were members of the other three associations, out of which one is national, the Croatian Association of Hoteliers and Restaurateurs (HUU) and the remaining two are international. Two participants were members of the HUU and the OMH. One participant states that he can benefit more from the OMH and considers to withdraw membership from the HUU. The other participant had an opposite attitude. Their responses were weighed against the participants' definition of hotel size and it appears that a participant with a smaller hotel perceives the OMH as a better solution and he also could not identify any

benefits from the HUH. This finding was not unexpected, as the HUH comprises all hotels at the national level and it is evident that their strategies are not specific and targeted, but too general and created for the purposes of big hotels. The third owner who was only a HUH member, did not perceive that his hotel can benefit from the OMH. Again, this owner had already expanded his business. The remaining two participants were members of the international associations. Both participants did not apply for a membership, but both Small Luxury Hotels (SLH) and Charm and Relax (CandR) approached them through word of mouth. The member of the SLH accepted the membership after a long-lasting negotiation process where they managed to decrease the annual membership, but they were not clear about the benefits:

They were so interested to have us. To be honest, me and my husband did not know anything about them; I only heard something from my friend in Shanghai. When they dropped the price, as we requested, we just needed to accept membership. I really do not know what is going to bring us. (H1)

On the other hand, the member of the CandR stressed that small hotels cannot work alone and considered that this association might bring her a better position in the international market, arguing that already she can see an increase in tourists from Italy, where this association is based. As the participant operates on an island and thus works from six to seven months in a year, the annual membership presents a financial burden which may lead to the termination of membership:

Membership costs 5000 EUR per year, so so much, I do not know whether I will do it next year, that is a huge amount. I am afraid that I cannot afford it. (H13)

4.3. Identified factors for lack of networking

It is evident from the data that participants regarded the concept of networking as highly important. However, this was problematic due to a number of obstacles which are summarised and illustrated in Table 3.

IDENTIFIED FACTORS	FEATURES OF THE IDENTIFIED FACTOR	ILLUSTRATIVE EXAMPLES
<i>No tradition</i>	Socialism preferred workers' collectivism over individualism; transition period placed an individual in the centre.	We have to emphasise all possible aspect of cooperation because we didn't and still don't have that. everyone in politics is talking about some clusters these days, but they do not know what it means, that word is simply modern. (H31)
<i>Administrative politics</i>	Croatia is divided into 21 counties where each is subdivided into municipalities consisting of numerous villages and cities. It is hard to cooperate due to administrative barriers and this separation of the territory further distances people.	People do not realise that the island cannot work alone. For instance, we have on such a small island eight municipalities. That means eight mayors, eight Tourist Boards, eight, eight. And no one works together, only if it is something politically. But we cannot move forward if there is no cooperation. (H13)
<i>Economic interest is not clear</i>	Entrepreneurs seek political interests behind any cooperation or association.	It is extremely problematic in Croatia, we do not have any tradition in cooperation. Everybody is asking what the aim of cooperation is, but in a sense what politics is behind it. (H28)
<i>Negative mind-set towards cooperation</i>	Jealousy; antagonism; mistrust.	Unfortunately, it is hard to find common interests which would encourage people to network. They do not trust anyone and the climate among us is simply not healthy. There is no force which would bring us together. (H23)

Table 3 Identified factors for lack of networking among entrepreneurs

From Table 3 it can be seen that the entrepreneurs prefer to cooperate with formal organisations, as the necessary requirement in any network creation that of trust, cannot be established easily between entrepreneurs. Identified factors are strongly related to the two recent political and socio-economic changes in Croatia: the end of socialism and period of transition. For instance, the participants reported that during the period of transition the population saw entrepreneurs as criminals, connected with corruption, whose wealth had been obtained through devious means. This perception is widespread among entrepreneurs even today and it causes strong mistrust between entrepreneurs. On the other hand, the participants revealed that a huge proportion of entrepreneurs in Croatia still consider that behind any economic association lies a political party, and so they refuse to join.

5. Discussion

The findings presented indicate that the participants are involved in informal business-based networks and formal associations. It has been identified that the minority of the participants establish *informal business networks* with other small hotels and other small businesses. Network ties are weak, activities are voluntary and occasional and not bounded, as the network bond is not based on a contract, but on mutual trust. The utilisation of networks did not differ in relation to the business lifecycle stage (Birley *et al.* 1991). Although the participants stated that they would be engaged with support agencies to a higher extent during the start-up stage, they did not as the overall business infrastructure is weak. The Western economies literature is divided on this issue, as one stream argues that SMEs in general develop strong 'entrepreneurial networks' and the other argues that culture moderates the importance of social networking and it will vary considerably. These findings support the former stream as besides that participants are not keen to develop informal networks, it is clear that entrepreneurial

networking present's culturally-dependent behaviour (Table 3). For instance, in former Yugoslav countries there is a strong degree of individualist reaction to cooperation between cooperating entrepreneurs, as this is seen as a legacy of the former planned economy (O'Rourke, 2009). Further, it has been illustrated that the majority of the participants are involved in *formal business organisations*, which are sector specific, thus none of the participants refer to general small business associations. The majority of participants are members of the OMH. The findings show that these networks are seen as a possibility to overcome identified barrier of 'smallness'. Two similarities between informal and formal networks are identified. Formal networks are also viewed as a means to an end, namely that of increasing business success; and the stage in the business lifecycle is not a significant factor when determining to choose membership. However, the reasons for joining and accomplished benefits are more specific and broader in their scope.

Finally, the participants' identification of the accomplished benefits and difficulty in recognising how they affect their business results has to be analysed in terms of identified reasons for a lack of cooperation and participants' profit orientation. Considering the former, the participants are struggling to recognise the economic aspects of cooperation, as society's perception is that these associations serve only to achieve specific political interests. On the other hand, the participants are aware of the importance of networking and the small hotel association such as the OMH is seen as the only mean to overcome their 'smallness'. In addition, the participants are lead by purely economic interests and can recognise economic benefits only if they are directly measurable in terms of rise in revenues and profit. Therefore, benefits achieved, which cannot be directly expressed in terms of money generated or costs reduced (for instance, brand creation), are not valued as such by the participants. This is not in congruence with the literature, as the majority of studies report that tourism and hospitality entrepreneurs avoid formal organisations. Also, the Western economies literature's view that formal associations can threaten participants' autonomy and business control (Curran and Storey, 1993) does not apply to this study.

6. Conclusion

The overall results of this research point away from previously accepted views and concepts of small business owners networking practices. However, this study does not oppose them but instead indicates that ready-made Western-developed theories and concepts cannot be simply borrowed and applied to small businesses in former socialist economies. While it has been established that entrepreneurship and entrepreneurial networks are firmly embedded in a specific socio-economic context, findings indicate a crucial distinction between former socialist countries, which cannot be researched as homogenised entities. For instance, although forms of personal networks can be identified in the majority of former socialist countries, from the presented evidence it is clear that they are deeply rooted in their own set of cultural practices and socio-political conditions. By focusing on the former socialist economy, this study has shown that the academic community can benefit, not only via a better understanding of those countries, but it is also evident that inclusion of transition economies into the mainstream theoretical reasoning offers the potential to expand and even modify our theoretical understanding of entrepreneurship. This can encourage researchers to extend or revise existing theories with new contextual variables.

Adopted case study methodology is not without limitations. It lacks generalisability, tends to have a bias towards verification, does not involve controls and produces subjective data (Campbell, 1975). In addition, resultant theory may be narrow and idiosyncratic (Eisenhardt, 1989). In order to overcome this issue, it is necessary to analyse how identified contextual

variables, such as perception of entrepreneurs and the importance of different networks, differ across the settings and to what degree they shape entrepreneurial goals, behaviour and their actions.

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