Chapter Seven

Conclusion:
Social Capital and its Role in Entrepreneurship

The current research began as an effort to answer a broad question: what is the background of the entrepreneurs who have managed to survive in the ICT industry, and what has helped only some entrepreneurs to survive in the ICT industry? Finding an answer to the first part of the question, which is descriptive in nature, is straightforward. The current research attempted to explore variations among entrepreneurs based on various aspects of their background. The second part of the question, which is explanatory in nature, requires one to establish the interrelationship between different variables. It is in this context that we decided to utilize social capital as an analytical tool. Exploration of existing literature in the area of entrepreneurship has showed that a close relationship exists between social capital and business venture. This literature has also established that this relationship varies depending on context. The ICT industry in India, the focus of the current research, is one such context. To draw conclusions from the current research, this chapter would seek to explore the nature of the relationship that exists between social capital and the ICT entrepreneurship in India.

7.1 Background of Entrepreneurs

The reason for deciding to explore the background of entrepreneurs is based on the assumption that background influences an individual’s experience. Therefore, in order to understand why the experiences of ICT entrepreneurs about business operation differ from one another, it is essential to know how, as individuals, they are distinct in terms of their background. It is presumed that the components which would influence an entrepreneur’s experience in business include entrepreneur’s geographical location, educational qualification, professional career, socio-cultural background, demographic details, and gender. At the same time, background of an

1 For details on the ICT industry in India, see Appendix Three
entrepreneur includes factors which have motivated her/him to become an entrepreneur.

7.1.1 Geographical Location

While conducting the current study, the researcher was guided by an idea that geographical variation resulting in change of local culture may bring in differences in style of business development. Such an idea is based on the well-known existence of a localized culture of innovation in the ICT industry in Silicon Valley, the USA (Saxenian, 2000). This shows that, despite functioning within a standardized framework at a global level, there is a possibility for existence of unique localized business culture. Keeping the importance of local in mind, geographical location of the entrepreneur was one criterion by which an attempt was made to bring diversity into the sample.

However, while looking into the process of business development, no local distinctiveness was observed among geographically dispersed enterprises. To a large extent, local uniqueness is dependent on the growth of local business networks. Whereas, given the dependence of ICT business on customers abroad, there is hardly any effort to develop strong local business connections. The dominating presence of transnational networks (Upadhya, 2004) is largely responsible for scarce existence of local uniqueness. Choosing to locate oneself in one of the many ICT hubs has more to do with the availability of necessary human resource there than with the local business culture.

7.1.2 Educational Qualification

Any industry depends on its own stock of knowledge. Being a high technology industry, ICT demands a high level of knowledge from the entrepreneurs as well as from the workforce. One channel through which people associated with this industry acquire necessary knowledge is formal education. This was visible from the pattern of educational qualifications of the entrepreneurs. Most of the entrepreneurs had some or other degree/diploma/certificate in the area of computer and allied fields. Till the time reputation of an enterprise has developed, educational qualification of an entrepreneur as well as reputation of their alma mater is used as a credential in convincing a potential client. Educational credentials alone may not always be sufficient to build reputation. For that, it may also be necessary to demonstrate skills to the prospective customers, if necessary, free of cost. According to many entrepreneurs, work experience is more useful than formal education for learning such skills. This
probably explains how this industry has entrepreneurs from non-technical educational background. In Sweden as well, it has been found that attending a course on business education and having previous experience of start-up as a team member is more useful in executing a business idea than having high formal education (Davidsson and Honig, 2003).

Other than forming reputation, *alma mater* may also facilitate the formation of social capital applicable for business. Having an educational degree from an institution/university located in the USA or some European country, where market for many ICT company is located, often helps an entrepreneur in building familiarity with markets abroad. Similar observations have come from other researchers (see Yoo, 2000; Schutjens and Stam, 2003; Upadhya, 2004; Upadhya and Vasavi, 2008). However, this does not imply that having an educational degree from overseas is essential for addressing foreign market. Majority of the entrepreneurs interviewed for this research had degrees from state-level as well as national-level institutions in India, but were quite active in addressing markets abroad.

### 7.1.3 Work Experience

The current study found that having a strong professional career as an employee may affect entrepreneurship in different ways. Some of the entrepreneurs felt that having a professional career before becoming an entrepreneur is often useful in understanding the mindset of the employees, learning business acumen, and developing social capital in the form of membership in professional networks. In support of previous researches (see Cooper, 2002), the current research also found that having a strong professional career is useful in developing technical knowledge which is quite crucial for an industry like ICT. However, it was found that having an employment with lucrative salary may as well dissuade individuals from taking the risk of becoming an entrepreneur.

Larger number of entrepreneurs had work experience of not more than 10 years. The single largest category here included individuals who had work experience between two and five years. This is quite different from observations in the USA, where a typical technical entrepreneur has 13 years of work experience (see, Roberts, 1991). The current study found that most entrepreneurs had not worked as employees in more than five organizations before becoming an entrepreneur. The single largest category here included entrepreneurs who had worked in one or two organizations as...
employees. However, the finding about years of experience and number of organizations an entrepreneur has worked in is not indicative of any trend.

Experience of having worked abroad as an employee of a large multinational company was quite useful in understanding the expectations of foreign clients. It was also advantageous in developing social capital in the form of membership in professional networks. For building such networks, many entrepreneurs found foreign exposure as an employee to be more useful than having the same as a student. However, entrepreneurs developed foreign exposure while working from India as well by going abroad for short durations or by working from India itself for foreign clients. This probably explains how many entrepreneurs were quite competent in developing and maintaining foreign business without having work experience abroad.

7.1.4 Family Background in Business

Considering the fact that ICT is still a nascent industry, it is quite natural that none of the entrepreneurs, whether from business family or not, had parents having any exposure in this industry. As a result, none of the entrepreneurs had any advantage of learning about this industry in their family. However, entrepreneurs coming from business family had the advantage of learning general business acumen, if nothing else, from their families. This is of course not to say that every entrepreneur, who had a family background in business, found support from her/his family. Many a time, there was insufficient support from family members due to their lack of awareness about the style of operation of the ICT industry. This was particularly the case for entrepreneurs whose family was involved in some traditional business like trading commodities, etc. Such family members hardly understood the revenue model of ICT business. It was visible from the data that coming from a business family was not essential to become an entrepreneur in the ICT industry. Out of the sample of 30 entrepreneurs, 17 did not have any family member involved in business. For two, the family members who were involved in business were from entrepreneur’s own generation, that is, brothers. These findings were quite different from that of E.B. Roberts (1991), who found that two-thirds of the high technology entrepreneurs in the USA had self-employed fathers.

7.1.5 Socio-cultural background

I was interested in knowing the caste background of entrepreneurs in order to explore whether any individuals from backward caste background are rising to the level of entrepreneurship. However, getting information about entrepreneur’s caste
background turned out to be a difficult endeavour. I found that often people would express displeasure when asked questions about these issues. Probably, the reason for that lies in the nature of the industry. The ICT industry, being based on advanced technology, has become a symbol of modernity for its proponents. Socio-cultural background, particularly caste background, is related to tradition and, probably, therefore, most of the entrepreneurs find it politically correct to distance themselves from anything to do with caste. However, it appeared that the tendency to avoid any discussion about one’s socio-cultural background was stronger among the first-generation entrepreneurs. Entrepreneurs coming from traditional business family background were much more comfortable in talking about their community backgrounds. Out of the seven entrepreneurs who mentioned the name of their caste, five were Brahmins. Of the other two, one was from a weaver community and the other was from a fisherman community. Considering the fact that knowledge required for this industry requires higher education, it is understandable that primarily advanced sections of society would manage to enter this industry.

Out of the 19 entrepreneurs from whom I could find information about religion, one was a Sunni Muslim, another was a Jain; rest all were Hindus. Traditional business communities which got represented in the sample were Marwaris and Gujaratis.

7.1.6 Gender

Even though researchers differ in their observation about the influence of gender on the style of business operation and/or ability to establish business and bring business growth (see Aldrich, Reese, and Dubini, 1989; Smeltzer and Fann, 1989; Cromie and Birley, 1992; Renzulli, Aldrich, and Moody, 2000; Greve and Salaff, 2003), there is hardly any difference of opinion about the near absence of women entrepreneurs. Reasons for this virtual invisibility are quite understandable and may be traced to the obstacles created by patriarchal social structure. One ambition of entrepreneurship which may be considered as particularly objectionable in a traditional society, where women are concerned, is independence. While searching for women entrepreneurs in the ICT industry, I was often told that it would have been easier for me to find women entrepreneurs had I been interested in studying industries based on creative skills and not technology. Women entrepreneurs are particularly less in number in industries based on technology (which is traditionally classified as a
male domain); whereas, women entrepreneurs are more in industries based on creative skill (which is traditionally accepted as a female domain).

The current study found that indirectly (and also unintentionally!) patriarchal social structure may facilitate women entrepreneurship to some extent. Under patriarchal social structure, earning of women is mostly considered as secondary income for family, whereas male member’s earning is given primacy. As a result, family’s concern about any loss experienced by a woman entrepreneur (in case, she is not the main earner) is much less when compared to the same experienced by the primary (mostly male) earner. This is because loss experienced by women entrepreneurs does not financially disrupt the family life. Such differential concern from family at times make it easier for women to leave a secure job and start a business venture which entails risk. However, entry of a woman in entrepreneurship is strongly contingent upon family’s concern about the possibility that entry into entrepreneurship would make a woman extremely busy and that would make it difficult for her to fulfill family responsibilities. Therefore, it is no surprise that both the married women entrepreneurs felt that without the support of their family members they could never become entrepreneurs. It is observable that in some families, husband feels more comfortable in taking the risk of leaving a secured job and starting a business venture if his wife’s earning is sufficient to financially support the family.

7.1.7 Age

It was found that most of the ICT entrepreneurs belonged to the age group of 30-40 and 40-50 years. Even though considering the size of the sample the population figure for the same may vary, logically there is a possibility that our sample data would represent the population data. This argument is based on the fact that ICT being an industry based on new stock of knowledge only younger generation would be comfortable with it. Data from current research show that most of the entrepreneurs established their business when they were between 25-35 years of age. At the same time, according to some entrepreneurs, at a young age before marriage it is easier to take a risky decision like starting a business, as there are less of family responsibilities. Age, in that way, influences an individual’s ability to establish and operate a business in the ICT industry. Even though ICT as an industry started growing in India since the 1970s, its profit potential came into limelight only in the late 1980s, when India gradually began to open up its economy. Out of the 30 sample
entrepreneurs, only one had established an organization in the ICT sector prior to 1985. Most of the entrepreneurs had started their business after 1990, particularly between 1995 and 2005.

**7.1.8 Motivation to become Entrepreneur**

For individuals from traditional business families, becoming an entrepreneur is considered as a normal route in professional life. However, people who are not from business families need to take a conscious decision to become an entrepreneur. A person who is working as a professional has to undergo financial loss, at least in the initial stage, in becoming an entrepreneur. This is because the money that a highly educated and skilled professional is capable of earning as salary in an established business is often much more than the revenue that a new business can generate. The same is applicable for an individual from business family who starts her/his own business away from her/his family. Factors which can motivate an individual to forego immediate material benefits has to involve some calculation about the possibility of securing material benefits in future and/or enjoying non-material benefits from the time of inception.

The interviews with the sample entrepreneurs revealed diverse motivating factors behind the emergence of entrepreneurship. They included the desire to be different, desire to be ‘someone’, tenacity for freedom, excitement of being part of a technology-based industry, prospects for high returns, identification of specific business opportunity, ability to develop and maintain professional contacts by going abroad, salary as a professional being non-lucrative, and difficulty of getting suitable jobs as a result of global ICT slowdown. In the USA as well, it has been observed that most individuals who became technical entrepreneurs were fulfilling a long felt ambition for starting their own business in order to become independent, become their own boss, and search for new and bolder challenge (Roberts, 1991). Even though variation was observed in the factors that motivated an individual in becoming an entrepreneur, there is no reason to conclude that such variation influenced an individual’s performance in business.

The discussion under this section does not indicate that each and every aspect of an entrepreneur’s background influences her/his experience in the ICT industry. For example, variation in local business culture did not make for much difference in the nature of business operation in the ICT industry in India. However, geographical location of an enterprise within India influenced a business venture because of the
variation in the quality of human resource. Work experience of the entrepreneurs was useful for business growth both in developing required knowledge as well as in building business networks. In comparison, educational qualification was of less utility in developing knowledge necessary for business. It may, however, have an important role to play in developing requisite networks. Having a family background in business was not necessarily useful for developing an ICT business, particularly if the family was involved in some traditional industry. Even though the influence of socio-cultural background on development of business was not clear, there were identifiable patterns in terms of socio-cultural background among the ICT entrepreneurs. Gender was found to be of strong influence on growth of entrepreneurship in general and the ICT entrepreneurship in particular. Age was also another observed variable which seemed to be influencing the nature of ICT entrepreneurship. Finally, variation in the background of entrepreneurs also brought in diversity in the nature of motivation of entrepreneurs.

Considering the fact that the background of an ICT entrepreneur is not sufficient to explain the difference in the experience of entrepreneurs in business, there is need to look into other aspects. While exploring the background of entrepreneurs it has been observed that such background, specifically those emerging out of educational qualification, work experience and family relations, is often utilized for building business networks as well as reputation. One interesting connection between these apparently disconnected resources is that relationship often plays an important role in their development. Keeping this in mind there is a need to explore the possibility of bringing all these resources under one umbrella term and investigate its importance for the ICT business establishment and growth. It is in this context that current research has decided to bring in social capital as an analytical construct.

7.2 Entrepreneurial Social Capital

While reviewing a wide variety of conceptualizations of social capital (see supra 1.4) it was observed that one commonality that cuts across the diverse interpretations of the concept is everyone’s concern about resource-potential of human relationships. An exploration of the many and different resources that are required for the growth of entrepreneurship clarifies that appropriate relationship can play an important role in supporting access to each of them. Therefore, in
conceptualizing entrepreneurial social capital, it would be a futile effort to list down resources which can be accessed by use of relationships. Instead, it would be interesting to identify the resources which emerge primarily out of relationships.

Reference is one resource which primarily emerges out of relationship. Reference, as a word, here would indicate the process through which an individual, who is familiar with the entrepreneur and/or her/his business offering, acts as referee in the decision-making process of economic actors significant for an entrepreneur’s business development, for example, a potential customer, a prospective financier, etc. The task of the referee is to vouch for the trustworthiness of the entrepreneur and/or her/his business offerings. Trust here involves reliability of entrepreneur as a person, worth of an organization, and effectiveness and efficiency of a business offering. Confidence to act as a referee develops primarily through relationships. This is not to say that such relationships need to be based on personal intimacy. In fact, a large number of such relationships are purely formal business transactions. A referee may be a person who has once been a customer of the entrepreneur. Even though, having a business relationship may help an individual develop familiarity about a product/service, having a personal relationship is essential for knowing the entrepreneur.

Broadly, it is possible to identify two types of references. In the first type of reference, which is more prevalent, an entrepreneur may mention about her/his association with the referee to others in order to develop confidence in their mind. Those ‘others’ may, in turn, seek reference by getting in touch with the referee, even though they may not be personally known to each other. In the second type of reference, which any entrepreneur values much more than the first type, people familiar with the entrepreneur and/or her/his business offering may vouch for them in their own circle. Reference becomes a resource in establishing reputation by acting as a bridge over a ‘structural hole’ between ‘non-redundant contacts’ (Burt, 1992).

The current study found that such ‘non-redundant contacts’ of entrepreneurs include ‘strong ties’, relationships which need to be maintained by spending considerable time and which are characterized by high emotional intensity and reciprocity. This would include relationships like family members and friends who provide an entrepreneur the access to their own resources and external resources through valuable references. This finding invalidates M. Granovetter’s (1973) argument that ‘strong ties’ can only be a source of support and not external resources.
At the same time, considering the intensity of relationships, it may be deduced from Granovetter (ibid.) that the level of trust would be higher in ‘strong ties’ as compared to ‘weak ties’. The current research found that provision of access to resources is strongly dependent on the level of trust among the partners. If so, it is impractical to think that ‘weak ties’ can give access to valuable resources. However, sharing of less important informational resources may be feasible even among ‘weak ties’. At the same time, the findings of current research endorse the existing idea that ‘strong ties’ are a source of support (see ibid.). Our findings support arguments advocated by researchers about the importance of strong ties for business development (see Luo, 1997; Brüderl and Preisendörfer, 1998; Davidsson and Honig, 2003).

Even though it is true that relationship is one primary channel through which reputation develops, it is not the only channel. Reputation of a product/service may also develop through the process of branding which is not contingent on relationship. Whatever way reputation develops, in order to refer, a referee needs to trust the referred, which means, trust precedes reference. Again, reference in turn, creates trust in the mind of others. Considering that reference is one form of social capital, in the sense that it is a resource which emerges from relationships, it may be concluded that the connection between trust and social capital is cyclical. Therefore, the debate about whether social capital precedes trust or trust precedes social capital (see Putnam, 1994; Fukuyama, 1996; Dasgupta, 2003) is rather pointless. It would be more appropriate to categorize the relationship between social capital and trust as supportive of each other.

Like reference, goodwill is another resource which emerges out of relationships. However, unlike reference, which may at times emerge even without relationships, goodwill can emerge only through relationships. Goodwill often develops through demonstration of what could be called ‘favour’. However, it was observed that, for many entrepreneurs, ‘favour’ was a politically incorrect word. Instead, some entrepreneurs preferred the term ‘demonstration of flexibility’. Goodwill in the form of flexibility was found to be particularly useful in retaining a customer in a service-based company. If the entrepreneur shows flexibility he/she can expect flexibility in return from the customer, and the customer is also obligated to reciprocate. However, such a relationship would develop only if norm of ‘reciprocity’ exists in the social structure. Considering the resource value of such reciprocity emerging out of ‘convertability of capital’ (Bourdieu, 1997), goodwill can be termed
as social capital. This also supports findings of existing research (see Fukuyama, 1996, 2000; Lin, 2003; Frazier and Niehm, 2004; Anderson, Park, and Jack, 2007).

Flexibility can take different meanings in different contexts. One strategy for such flexibility is termed as ‘going out of the way’. This may include helping a customer solve some problems even if the customer is not paying for it. Another related strategy is termed as ‘showing personal touch’. This would imply considering customer’s problem as one’s own. Entrepreneurs ‘go out of the way’ for ‘showing personal touch’. If an entrepreneur adopts such strategies, there is a chance that customers would show patience when the entrepreneur is going through internal troubles like employee attrition. However, not all entrepreneurs agreed that relationship takes care of all business problems. Goodwill, according to some entrepreneurs, has limited effect in the sense that it will take care of present disturbances, but if one does not rectify the problem and get back on track, goodwill will soon get exhausted. Relationship is a reserve which is to be considered as the last resort. It is tremendously precious, because once it has been used to cover up some mistake the entrepreneur is left with no protection.

Considering that social capital resources develop out of relationships, it is necessary to know what is the nature of such relationships. Considerable variation was observed in the nature of relationships maintained by entrepreneurs. A large number of these relationships emerged out of interpersonal familiarity. Commonly, these relationships are referred to as social network. This included actors who are family members of entrepreneurs and actors outside entrepreneurs’ family. Social network partners within entrepreneur’s family include wife, husband, parents, siblings, cousins, uncle, and in-laws. Whereas social network partners outside family include customers, customers of earlier employers, previous employer, employees of customers, co-members of business associations, business acquaintances, well-wishers, individual referred by trusted mediators, family friends, ex-colleagues, and ex-classmates. No relationship was observed between the type of social network and the resource potentiality of networks. However, it was observed that irrespective of their nature, social networks became resourceful only when certain intimacy developed in them.

It was not found necessary for the partners of social networks to have geographical proximity. However, it was observed that geographically distant network partners had either been in proximity at one point of time. That is when the
relationship developed. For partners who had never been in proximity, the partnership was at times developed through a trusted mediator enjoying geographical proximity with one of the partners. In any case, distant partners needed periodic proximity. This finding suggests a middle path between researchers who endorse the need for proximity in building entrepreneurial networks (see Keeble, et al. 1998; Saxenian, 2000; Cooper, 2002; Neff, 2005; Tötterman and Sten, 2005; Bönte, 2008) and the researchers who emphasize the need for global networks for promoting innovation (see Eraydin and Armatli-Köroğlu, 2005; Lorentzen, 2008). It was found that for many entrepreneurs in this industry, networks are transnational in nature, with network partners located in the USA and in Europe, where there are large markets. Importance of mediators in formation of trusted relationship among distant partners has also been highlighted by prior researchers (see Hara and Kanai, 1994). However, it was found that it was not sufficient to just build relationships. In order to gain out of it in terms of resources, one also needed to maintain them by ‘keeping in touch’.

Another form of entrepreneurial relationship evolves from actors’ embeddedness in various aspects of social structure (see Anderson and Jack, 2002). We did not find data in support of the existing argument that social embeddedness can reinforce social obligations and expectations that may limit the freedom of economic agents to recognize and exploit new opportunities (see Batjargal, 2003). Such embeddedness may develop from sharing a common diaspora (among people located abroad), family (particularly for business families), and alma mater. One component of social structure which is conspicuous by its absence from the list of criteria for embeddedness is community background of entrepreneurs, despite the fact that respondents for the current study includes entrepreneurs who are from traditional business communities like Marwaris. In comparison, embeddedness in family was found to of importance for all entrepreneurs, particularly for those from business families. Among immigrant ethnic entrepreneurs in the USA as well, it has been found that, for developing business, family was more important than community (see Caulkins and Peters, 2002). In the current research, a probable explanation behind this phenomenon may be that, when compared with traditional industries which has community characteristics, entrepreneurship in the ICT industry is yet to become a community profession.

It was observed that social capital emerging out of social network was more prevalent in entrepreneurial relationships when compared with those emerging out of
embeddedness. This finding questions the perception of social capital as a collectivity-owned capital, as advocated by various researchers (see Bourdieu, 1997; Cooke and Wills, 1999). However, the current research supports the argument that social capital lies in the structure of relations among actors (see Coleman, 1988; Burt, 2000). At the same time, the findings endorse existing viewpoints that social capital is produced as a by-product of other social activities (see Fukuyama, 2000; Anderson and Jack, 2002). However, we differ from F. Fukuyama in terms of nature of such social activities. Whereas, Fukuyama opined that such social activities would include religion, tradition, and shared historical experience, none of these is important for us. Rather social activities like work, education, family life, and expression of diasporic sentiments may become more important here.

One critical feature of social capital is its exclusivity. By its very nature, social capital is never available to everyone. The value of social capital primarily lies in its scarcity. It is this scarcity which facilitates social capital to become a tool for ‘control’ (Burt, 1992). Because of this scarcity value, entrepreneurs sought to keep the flow of social capital restricted. It was found that family-based social capital was primarily accessible to entrepreneurs who originated from business families. Coming from a business family was beneficial even if an entrepreneur had family members who were involved in an industry different from the one in which the entrepreneur wanted to venture into. Having family members lacking respective industry background could still be resourceful for the entrepreneur if the family members had connection with people from entrepreneur’s target industry as friends and/or professional colleagues. It was not necessary for such family friends or colleagues of family members to be entrepreneurs. A salaried professional could also possess considerable insider information about an industry.

Usually, in case of an entrepreneur coming from a business family, if the business was strongly supported by her/his family, the number of important family-based networks in business was more. However, this did not include all entrepreneurs who were from business families; it excluded entrepreneurs from business families involved in traditional businesses, which did not understand new technology businesses and, therefore, did not participate in them even if their family members started one. In such cases, family-based networks was not important at all. Thus, it was not the family background of the entrepreneur, rather the participation of the family members, which influenced the number of important family-based networks in
business. Such findings supports observation of earlier researchers that having self-appointed parents does not have any effect on the size of entrepreneurial networks (see Dodd, Jack and Anderson, 2002).

For quite natural reasons, having a social network with ex-classmates was useful mostly for entrepreneurs for whom there was a match between education and area of business pursuit. Similarly, having a social network with ex-colleagues was beneficial if there was parity between entrepreneur’s professional career and sphere of her/his business venture. Having a relevant professional career was found to be particularly useful for entrepreneurs lacking family business background. Social network with clients and employees of clients was possible only for individuals who already had entrepreneurial experience. Very little uniqueness was observed in the social network structure of women entrepreneurs except that for the married women entrepreneurs the founding partners were women and with reference to business they gave a lot of importance to their relationship with family members when compared with male entrepreneurs, both married and unmarried. In comparison with the married women entrepreneurs, the only unmarried women entrepreneur respondent did not consider her relationship with family members to be that important for business. My observations about the nature of social network of women entrepreneur differ from the findings of earlier researchers who found gender bringing critical difference in the nature of social network of entrepreneurs (see Aldrich, Reese, and Dubini, 1989; Renzulli, Aldrich and Moody, 2000; Greve and Salaff, 2003). Findings of the current study rather support the researches which found little difference in entrepreneurial network based on gender (see Smeltzer and Fann, 1989; Cromie and Birley, 1992). Many male entrepreneurs had their wives as founding partners.

Considering the difficulty experienced in collecting information about socio-cultural background of entrepreneurs, it was not possible to explore whether it influences the nature of entrepreneurial social network. On the basis of age and location of entrepreneurs no pattern of variation was observed in their social network. Entrepreneurial networks were mostly initiated by the entrepreneur. Except for one entrepreneur mentioning about the use of a contact built at the facilitation of a business association in the USA, none mentioned about any role played by any external agency. Even though some entrepreneurs mentioned about receiving ‘friendly referrals’ from the Software Technology Park of India (STPI) at Bangalore and Chennai, none had used such referrals so far.
On the basis of the preceding discussion, entrepreneurial social capital may be conceptualized as resources emerging from entrepreneurs’ social networks within and outside their family and from the embeddedness of entrepreneurs in various aspects of social structure like their diaspora, family, and alma mater. Relationships emerge out of trust and, at the same time, they generate trust. No resource flow takes place among actors without the presence of trust in relationships. Having such trusted relationship directly with individuals who possess resources that entrepreneurs require for developing business is useful as a source of support. However, relationship with others may also be useful for business if it gives rise to unique relationship-based resources like reference and goodwill, which are useful media for accessing resources from significant others. This implies that relationships by themselves are not social capital. They become social capital only when resources like support, reference, or goodwill emerge from them.

Prior researches have utilized different indicators for measuring social capital. These include number of external relationships, frequency of contact, longevity of social network, reciprocity, goal sharing, level of intimacy, trust, commitment (Zhao and Aram, 1995; Frazier and Niehm, 2004; Tötterman and Sten, 2005; Rindova, Petkova, and Kotha, 2007), ownership of business by family members, membership in business networks, experience as a member of a start-up team (Davidsson and Honig, 2003), frequency of church attendance, and marital status of the entrepreneur (Honig, 1998). Indicators for measuring social capital of immigrant ethnic entrepreneurs has included retention of ethnic identity, residence patterns, frequency of social events, retention of native language, dependence on group assistance, self-sacrifice for group success, role differentiation based on sex, class hierarchies, conflict resolution mechanism, unequal inheritance distribution, and presence of endogamous marriage (Caulkins and Peters, 2002).

However, a careful observation indicates that in measuring entrepreneurial social capital what researchers have actually measured is entrepreneur’s access to relationship that may have resource potential. Considering that potential is often not realized, it is not appropriate to measure resource potential of a relationship for measuring social capital. Even if such measurements may have some reliability, their validity is questionable. The reason for attempting to measure entrepreneurial social capital in such an indirect way by measuring the nature of social relationship may be found in the difficulty of identifying indicators for measuring entrepreneurial social
capital, given its fuzzy nature. On the basis of current research, we propose to solve this difficulty by advocating three forms of entrepreneurial social capital, namely, support, reference, and goodwill, whose quantitative measurement is quite practicable. Identification of these new forms will make it possible to assess entrepreneurial social capital by measuring the resource outcome of social relationships instead of computing resource potential of the same.

7.3 Importance of Social Capital

The word ‘capital’ in social capital finds relevance from its resource outcome. Whereas the function of social capital varies across segments like regional development, organizational studies, and entrepreneurship, within each of them as well, there is considerable variation. The current section would highlight the resource outcome of entrepreneurial social capital as observed in the ICT industry. At the same time, this section would attempt to assess how necessary social capital is for developing business by highlighting different aspects like identification of business opportunity, getting customers, retaining customers, getting finance, getting office accommodation, getting human resource, and building collaboration.

7.31 Identification of Business Opportunity

It was found that social relationships were useful in identification of business opportunities as many business ideas were developed through discussion among people sharing a relationship. This supports the observations of previous researchers (see Lipparini and Sobrero, 1994; Soh, 2003; Julien, Andriambeloson, and Ramangalahy, 2004; Arenius and Clercq, 2005; Eraydin and Armali-Köroğlu, 2005; Dyer and Hatch, 2006). People whom entrepreneurs found to be important for discussion included both family members and people outside the family. People outside the family included family friends, existing clients, colleagues at earlier workplace, as well as founding partners for their business ventures. Informal discussion with existing clients provided entrepreneur an opportunity to secure information about the business problems that were being faced by the clients. Listening to these problems helped some entrepreneurs in identifying business opportunities. Colleagues at work place were found to be important discussion group members for some entrepreneurs in developing business ideas. However, not always did such discussion help an entrepreneur in identification of business opportunity,
specifically if he/she was attempting to target a non-conventional market segment about whose revenue model others were not certain. For some entrepreneurs, personal social relationships helped in identifying business opportunities by providing access to publicly unavailable information. Similar observations have come from previous researches (see Burt, 2000; Tötterman and Sten, 2005). At times, entrepreneurs developed their business ideas while observing the challenges faced by their family members in their professional lives.

However, it was found that there were other channels for identification of business opportunity. Human capital was one such channel. Human capital is created by changes in persons that bring about skills and capabilities that make them able to act in new ways (Coleman, 1988). It was found that entrepreneur’s human capital was created by educational qualification and particularly by work experience leading to growth of industry expertise of the entrepreneur. Human capital of this form played a significant role in the identification of business opportunity. Prior researchers have made similar observations (see Cooper, 2002). Utilization of knowledge emerging out of one’s work experience was useful for many first generation entrepreneurs who did not have family background in business to bank upon. For entrepreneurs coming from business family background, such human capital was not essential for identification of business opportunity. All the entrepreneurs who did not mention about the indispensability of knowledge gained through education or work experience had some family background in business. Conversely, it was not possible to state that all entrepreneurs who had a family business background did not use work experience for conceptualizing their business idea.

In a similar way, rational calculations and serendipity played an important role in the identification of business opportunity. Rational calculation was often based on industry reports, opinions of industry specialists, and observation and analysis of market trends. However, entrepreneurs’ scope for application of rational calculation in choosing the right business opportunity mostly happened within the boundary set by domain knowledge of the entrepreneur and various other similar contingencies. These contingencies also played an important role in defining rationality. Rational decision-making is always subject to the availability of information with the decision-maker.

Considering the fact that, many a time such information was not available to the entrepreneur about emerging business areas, where there was higher possibility for identification of business opportunity, ‘hunch’ played a crucial role in business
Chapter Seven

Conclusion: Social Capital and its Role in Entrepreneurship

decision-making. However, it was possible to apply hunch extensively when the entrepreneur had sufficient financial resources to experiment with. Many a time, only entrepreneurs with family-business background or quite well-established entrepreneurs were at privilege with such supply of financial resources. In case of dependence on family-based resources, interpersonal relationship with family members played an important role. At the same time, hunch was always based on some authentic information received from trustworthy sources. Interpersonal relationship was one mechanism through which trust developed. Other mechanisms included knowledge about expertise of the source. Serendipity was also significant for identification of business opportunity. Many entrepreneurs identified a business opportunity once they got to serve a customer in that segment just by chance.

7.3.2 Getting Customers

It was found that getting initial customers was always challenging. This was because people required rationale for trusting a new organization. Rarely were people interested in becoming the first customer. For example, in the service sector, an offer of lower price alone was not sufficient to convince customers to change from their existing vendors to new ones. The customers needed to be convinced about the quality of service. For that, it was found, word of mouth reference based on interpersonal trust was used as an important tool by many customers. However, relationship was not the only way in which entrepreneurs got their initial customers. There were other alternatives as well. In fact, there were quite a few entrepreneurs who received their initial customers through ‘cold call’, that is, marketing without any reference. Entrepreneurs, no doubt, never depended completely on reference at the cost of ‘cold call’ or vice versa. Entrepreneurs kept attempting to get customers through different avenues. At times, it was difficult to distinguish between ‘cold call’-based and ‘reference’-based marketing.

Another resource on which any business depended was reputation. There were various ways of building reputation. Reference was one such way. It was also be formed by building an association with individuals having high net worth in industry, for example, having a well-known experienced person as financier. Apart from any financial help, the investor also brought in other value like business advice, business contacts, and greater visibility. Other researchers (see Neergaard, 2005) have also come up with similar observations.
It was found that, after getting initial customers, reference from them was vital in getting the later customers. In facing business crisis emerging out of scarcity of customers, relationships with people outside the organization were found to be valuable. Partners of such relationships could be located abroad or could be located in geographical proximity. This observation contradicts the findings of some past researchers that entrepreneurs depend less on building external ties when they perceive uncertainty in the market (see Sawyerr, McGee, and Peterson, 2003; Littunen, 2000). There were also entrepreneurs who attempted to diversify their business in order to face business crisis. At the same time, some entrepreneurs attempted to find customers during a crisis situation by use of ‘cold call’. However, ‘cold-call’ did not work as a strategy in all industry. For example, in an organized industry like stock-broking, first of all, it is possible to identify prospective customers to call up by looking into business directories, yellow pages, and membership list of relevant associations, and secondly ‘cold-call’ is accepted here as a practice. Whereas ‘cold call’ is not accepted in a traditional sector like diamond industry, which is entirely based on informal networks.

At the same time, there were business offerings for which even though a category of individuals was identified as prospective customers it was difficult to locate many such individuals physically so that they could be contacted through ‘cold call’ or reference. This was particularly true for business offerings for which per unit profit margin was low and, therefore, a business around it could be viable only if volume of sale was substantial. Most of the time, it was not possible for the entrepreneur to secure such a large number of customers through ‘cold call’ or reference. In such cases, entrepreneurs needed to depend a lot on various strategies of mass-marketing which would include displaying a product at tradeshows, maintaining company website, and advertising in the Internet and the print media. If the clientele was localized, poster- or banner-based marketing was also useful. Mass marketing also required an enterprise to set up offices in geographical locations of prospective market areas and build relationships with organizations that would function as marketing agency. One advantage of mass marketing was that, through this process entrepreneurs could even identify new categories of prospective customers.

Even though the use of social capital facilitated business development in different ways, such benefits came with associated constraints. For example, securing an organization as customer through the use of reference from individuals who were
employees there meant that the entrepreneur was obliged to take special care to satisfy the customer, as otherwise, it could affect the status of her/his referees in that organization. In comparison, business relationships developed through ‘cold call’ were much easier to maintain.

### 7.3.3 Retaining Customer

Although it is true that at the end of the day the possibility of retaining a customer was decided by an organization’s ability to cater to customer’s requirements, trust emerging out of relationships played an important role in the background. It came out from the discussion with entrepreneurs that people continued to do business only if they found each other trustworthy. Trust, for some entrepreneurs, emerged when one was able to deliver what he/she had promised. To remain trustworthy it was important to maintain transparency with customers, particularly in case things were going wrong. Business relationship, just like personal relationships, depended on the people who were involved in the relationship. It took time to build a relationship. Therefore, if people involved in a relationship kept changing, the relationship would not get the opportunity to become strong. And this could happen primarily when the level of attrition in an organization is high. Therefore, having low level of attrition helped in strengthening a relationship and this could ensure customer retention. Customer retention mostly implied an organization remaining as customer. However, many a time, customer relationships developed not with organizations but with individuals in organizations. Therefore, even when relevant individuals from client organization moved to another organization, the business relationship could continue if business developed with the new organization through the same individual. This was also considered as customer retention from the point of view of the entrepreneurs.

Social capital was often found to be less important for retaining a customer in comparison with its importance for getting customers. Ability of an entrepreneur to retain a customer depended to a large extent on the level of satisfaction of the customer, which was contingent on the quality of the business offering. Reputation about trustworthiness of an entrepreneur and/or her/his business offering was largely dependent on the level of this satisfaction. In case of a service-driven company, this, to a large extent, depended upon the quality of employees who worked for a client. For retaining a customer, it was extremely important to be customer-centric. Being
customer-centric was often understood as sharing customer’s problem as one’s own and, therefore, going out of the way to take prompt care of that problem.

7.3.4 Getting Finance

Social capital played an important role for accessing financial resources. On the one hand, relationships with people who possessed financial resources gave access to financial resources. On the other hand, relationship was beneficial in getting references to access financiers. An investor’s willingness to provide finance to an entrepreneur or to refer her/him to someone else depended on the trustworthiness of the entrepreneur which was often assessed through relationship. In that way, trust played an important role in getting finance. Trust was assessed in two ways, trust on capability of an individual and trust on the personality. Trust that was required for making an investment decision often developed out of interpersonal relationships among various kinds of actors, for example, colleagues in an organization, supplier-customer, family members, friend/friend’s family members, etc. Similar observations have also come from other researches (see Cooper, 2002). Development of trust played an important role in increasing the strength of the relationship and thereby facilitating the access to various resources including finance.

For some entrepreneurs, emerging from business families and having a close relationship with family members facilitated access to family’s financial resources. Family relations were also found to be useful in getting in touch with angel investors as well as venture capitalists. However, having a good relationship with family was not sufficient to secure family’s financial resources for investing in business. It was also necessary for family members to understand the nature of that business area. Often families involved in traditional businesses, particularly trading, found it difficult to understand the revenue models of ICT businesses. This was probably one reason for which the current research found some ICT entrepreneurs who came from business families, but whose business had developed without financial support from family. One more criterion for family funding was that family members needed to be ready to bear some risk by investing their family resources in business being initiated by their family members. It was primarily because of this reason that many well-to-do families lacking business background were not interested in investing family resources in business initiated by a family member. However, unlike some prior research (see Sanders and Nee, 1996; Smallbone et al., 2003) we did not find that
having a business community background was important in accessing finance outside the family.

It was found that, while making an investment decision, angels gave considerable value to the ability of the entrepreneur. Angel investment decisions were also dependent on the ability of the angels to trust an entrepreneur as a person. Relationship was one way through which the angel investors secured such information. Often such relationships were developed by entrepreneurs during their professional career. Many entrepreneurs were familiar with their angel investors as colleagues, customers, employees of customer organizations, acquaintances of customers, ex-employers as well as participants at business associations. Familiarity with angels as colleagues at previous work place was also observed by prior researchers (see Ramachandran and Ray, 2006). For many entrepreneurs, the angel investors were their senior colleagues in organizations where they worked as employees. However, familiarity with entrepreneur’s reputation was not sufficient to make an investment decision. It was also necessary for the angels to be familiar with the industry for which the entrepreneur was seeking investment.

Although a venture capitalist’s final decision to invest was found to be based on an assessment of worth of the business idea, it was supported by knowledge about the personality and aptitude of the entrepreneur, which essentially emerged out of relationships. Primacy given by Venture Capitalists (VCs) on the worth of business ideas for making investment decisions was also found by other researchers (see Fiet, 1995). Like other researchers (see Jenssen and Koenig, 2002; Shane and Cable, 2002) we found that it was not necessary for the entrepreneurs to have personal relationships with VCs. Rather, it was quite useful to have relationship with influential people who could refer the entrepreneurs and/or their business ventures to the VCs. If more than one VC was investing in one venture, the relationship among them was also found to be important. However, it was not necessary for such relationship to be based on familiarity. It rather had more to do with an ability to cooperate.

While new models for financial investments have developed with the rise of angel investors as well as VCs, a very large number of entrepreneurs depended on more traditional methods of rising finance, for example, bootstrapping, bank loan, or public offering. However, in these apparently formal methods of raising finance as well relationship played the role of facilitator. For example, while starting an ICT hardware supply business through bootstrapping, an entrepreneur found it useful to
have a close informal relationship with a client as that helped him in getting considerable monetary advance from that client for delivering the hardware he required. With banks agreeing to offer business loans against relatively less or no collateral, having relationship with bankers came to play an important role in getting bank loans. Here relationship was used in order to assess the trustworthiness and creditworthiness of the debtor. It was found that such relationship was also useful when entrepreneur was compelled to seek overdraft. However, frequently taking such privileges reduced the utility of such relationships, as reputation of the entrepreneur went down. B. Uzzi (1999) also found relationship with bankers to be useful. Importance of social capital in the absence of physical assets to be offered as surety has been mentioned by prior researchers (see Putnam, 1994). However, unlike some prior researches (see Uzzi, 1999; Becker-Blease and Sohl, 2007) we did not find any important way in which gender affected access to finance. At the same time, it was found that there were alternatives to such relationship driven investment. There were organizations which specialized in finding investors for an enterprise. Such organizations had relationships with investors, which was not personal in nature. Similarly, no clear importance of relationship was observed with reference to collecting financial resources through public offerings.

### 7.3.5 Getting Office Accommodation

Family relationships helped some entrepreneurs in getting office accommodation. It was found that quite a few entrepreneurs began their initial business operations from home or garage at home or office space owned by family members. Many entrepreneurs decided to move their office out of home only when their workforce had become too large to operate from home and when they had generated sufficient resources for affording an external office space.

However, not all entrepreneurs began their business at family owned spaces. There were entrepreneurs who were against mixing home and office. At the same time, there were entrepreneurs whose entry into the ICT industry was for diversifying from other businesses. Such entrepreneurs had the privilege of using their existing office accommodation itself for starting their ICT business. At times, investment, particularly at seed stage, also came in the form of provision of an office space. This was one way in which relationship outside family turned out to be useful for entrepreneurs in getting office accommodation. For some entrepreneurs, such external relationships also developed through family members. It also developed during one’s
career as an entrepreneur. Some entrepreneurs also used office spaces which were rented out to them at a concessional rate by their family members or clients.

7.3.6 Getting Human Resource

Like other researchers (see Neergaard, 2005), we also found that relationship played an important role in getting human resource for a business venture, particularly during the initial stage of business. In the initial stage of an enterprise, recruiting by an employer and joining by prospective employees depended a lot on interpersonal trust between the two and sharing a common passion. Initial key recruits were mostly handpicked on the basis of familiarity or on the basis of word-of-mouth reference by trusted informers. Handpicking was tremendously useful if one was looking for specific skill-sets. Such requirement was noteworthy in high growth oriented ICT product companies. Such prospective employees could include individuals who were known to the entrepreneur as employees of her/his customers, ex-colleagues, ex-colleague’s friends and references, and ex-classmates. They also included ex-colleagues of employees.

It appeared that ability to use relationship for recruitment was also dependent on the strength of the network of entrepreneurs and their network partners. Besides, it was also contingent on the number of people to be recruited. If the number was high, depending only on references could prove time-consuming. In such situations, relationships needed to be supported by other avenues like advertisements, campus recruitments, etc. However, certain differences existed between the situation in service companies and that in product companies. In service companies, initial recruitment took place once a work assignment arrived. Therefore, salary was rather assured. In a product company, continuation of employment was dependent on the successful execution of the product vision of the entrepreneur, which the prospective employee needed to trust. As a result, trust played more important role for an employee in joining a product company than joining a service company. From entrepreneurs’ side, for building such trust, it was necessary to keep future plans open and transparent.

Believing in the entrepreneur’s vision was important for prospective employees in the initial stage of any business when the enterprise does not have impressive infrastructure or attractive salary packages to offer. However, this did not include enterprises which started with strong venture capital support. In such enterprises as well, relationship played an important role in identifying the key
employees, for other positions recruitment often took place through advertisements. In such cases, besides salary and infrastructure, what attracted individuals to become employees were nature of technology space and the worth of the business idea. The entrepreneur’s efforts of at showing ‘personal touch’ by establishing ‘one-to-one contact’ with employees was found to be useful to some extent in retaining employees by keeping them attracted to the workplace. However, ‘personal touch’ by itself was not sufficient to retain employees. It had to be supported by various other aspects like salary, scope for career growth, and job profile including nature of project and nature of technology.

7.3.7 Building Collaboration

Finally, relationship was found to be valuable for building collaborations to found companies and to develop businesses. Family members were the most common collaborators for founding a company, primarily because of the difficulty of extending the circle of trust beyond the family, at least in the initial stage. Similar observations came from prior researchers (see Neergaard, 2005). For many male entrepreneurs, such collaborators included their wives. Other family members who collaborated the entrepreneurs for founding a company included brother, mother, parents in-laws, and brother-in-law. Collaborators other than family members included ex-classmates, ex-colleagues, own customers, customers of ex-employers, brother’s friends, and individuals referred by family friends, family members as well as by mentors. Reference from mentors often took into consideration the possibility of complimentarity of skills. It was found that, whereas relationships based on blood and/or marriage facilitated trust formation with family members, friendship formed primarily through education and work mostly facilitated trust formation with collaborators outside the family. When it came to non-family collaborators for founding a business, entrepreneurs were also concerned about complimentarity of skills other than trust. Emphasis on complimentarity of skills have been observed by prior researchers (see Neergaard, ibid.).

Collaboration that was needed for promoting business growth was different in nature from the collaboration needed for founding a company. Trust emerging out of interpersonal relationships did not play an important role in the development of such collaboration. It depended more on utility of association. For some smaller companies, formation of such collaboration was facilitated by people with whom both
parties shared certain trusted relationship. In many cases such collaboration developed out of business calls, and trust developed after collaboration continued for some time.

### 7.4 Changes in Utilization of Social Capital

Social capital is often perceived as static in terms of its function. However, it has been found that forms of social capital and their importance for business development is subject to constant modification. For example, it was found that as an organization scaled up, the role that could be played by personal social networks of entrepreneurs went down consistently. Instead, importance of institutionalized networks, organization and processes increased. This did not mean that personal social networks of entrepreneurs became unimportant; rather, the nature of relationship required for business developed out of business reputation rather than intimacy. There was no substitute for personal comfort level.

The way in which a relational capital was utilized changed over time. For example, during the initial phase of business, it was often the reputation of the entrepreneur’s ability that built trust in the mind of the prospective customers. With time, every growth-oriented company sought to reduce customer’s reliance on this personalized reputation and instead built reputation of the organization and its business offerings. At the same time, business networks increased from networks established by entrepreneurs to networks established by organization, which included those formed by the employees as well as by the entrepreneur. This was because personal relationship had its limitation in expanding the business beyond one level. Though personal relationship continued to play an important role, there was need to back it up with institutional effort. This observation was similar to the findings of previous researchers (see BarNir and Smith, 2002; Shaw, 2006).

It was found that the basis of a venture capitalist’s decision to invest varied depending on the maturity of an organization. Whereas during the initial phase of development of a company, investors were interested in knowing about the earlier professional performance of the founder, in the later phase of a company, they were interested in knowing about the performance of that company. Interestingly, relationship played an important role in identifying a prospective investor at any stage of business. In the early stage, investors also used relationships to assess the individual track record and trustworthiness of the entrepreneur. These relationships
were built up with entrepreneurs when they were working as employees. Investments at later stages were driven more by performance data. However, while approaching the investors, entrepreneurs were guided by their comfort level with the investors.

It was mentioned earlier that, during the initial stage of business, relationship played important role in identifying human resource. In fact, for most enterprises each and every initial key appointment was relationship-driven. However, as business started growing, other channels began getting prominence. These channels included advertisements, recruitment portals, recruitment agencies, and campus placements at academic institutions. This is not to say that relationship became unimportant; it became one of the many channels. In slow growth businesses, however, relationship continued to remain the sole channel of recruitment. In moderate growth companies as well there was a possibility for dependence on relationships for recruitment. These relationships included relationships of employees in addition to relationships of entrepreneurs. Involvement of entrepreneurs in the recruitment process also changed with time. Whereas during the incubation period entrepreneurs were involved in all recruitments, as enterprise started growing entrepreneurs participated mostly in key recruitments; rest was looked after by the recruitment team of the enterprise. Over a period of time, network with founding partners transformed from social to business relationship. During the same time, network with customers and financiers changed from business to social relationship. Similar observations were found by prior researchers (see Schutjens and Stam, 2003)

On the basis of the foregoing discussion it is not possible to conclude that it is only because of social capital that performance of entrepreneurs differed in the ICT industry. Although social capital is necessary for an entrepreneur to survive in the ICT business, it is not sufficient. It needs to be supported by various other factors which have little to do with relationships. At this juncture, the nature of conclusion that we are moving towards are partial and probable. All other essential components being present, without social capital, entrepreneurs can not survive in the ICT industry. This is the extent to which we can answer the research question by using social capital as an analytical tool. However, further exploration of certain related aspects which can help us develop a better understanding of this issue are inter-firm alliance and process of investment decision-making from the point of view of investor.