

The Formation of Entrepreneurial Social Capital: Case Study of Algerian Entrepreneurs' Creators of Micro Enterprises

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Abstract

This paper examines the evolution of entrepreneur's formation of capital share along the course of the entrepreneurial process; through the description of the network configuration of relationships mobilized to acquire external resources. A survey was conducted with 40 Algerian entrepreneurs who have established their businesses in the context of support schemes for the creation that is implemented by public authorities. The results showed that entrepreneurial social capital tends to be of the "Bonding Social Capital" at the beginning of the entrepreneurial process, so it tends to combine the two types "Bonding social Capital" and "Bridging social Capital" to phase the actual creation of the company.

Keywords

Social Capital, Entrepreneurial Process, External Resources, Personal Network

I. Introduction and Literature Review

Recent literature has changed the view of entrepreneurs as autonomous and rational decision-makers towards a new vision regarding them as actors integrated in social networks (Aldrich & Zimmer, 1986; Hoang & Antonic, 2003). In this sense, organizational theorists suggested that there is a third type of capital, which is important to explain the creation of new businesses; it is the capital social. Thus, recently, social capital's concept that is applied to a wide range of social phenomena has been expanded to the field of entrepreneurship (Liao & Welsh, 2003). In This context, researches in the field of entrepreneurship have emerged in the late 1980s based on a broader revitalization of economic sociology's field (Hoang & Antoine, 2003). And more precisely on the concept of social overtake following the publication of the famous article of Granovetter (1985), in which he stated that economic activities depend on social relations in which the actors are engaged. According to this paper, the actors are embedded in social networks that allow them to have access to useful external resources for their projects.

In the field of entrepreneurship, researchers have turned to examining the causes and consequences of this social installation. For instance, Andersson & Miller (2002) argued that entrepreneurship is based on the social life in two distinct ways. First, because entrepreneur are a product of their social environment, that environment will condition their actions. Second, each company is part of a social interaction in which economic transactions are conducted. From them, Aldrich & Zimmer (1986) showed how entrepreneurship is channelled and facilitated or hindered by the position of the entrepreneur in a social network. According to this vision, entrepreneur in its function -organizer and coordinator of resources- is guided by rational actions when creation of his company as well as its interaction with its social network (Johanisson & Monsted, 1997).

However, the majority of previous researches on the effect of social capital on the deed of undertaking have focused on of the

static description of the structure of entrepreneur's social network, while the dynamism of the capital social has been little studied (Batjargal, 2003 ; Hoang & Antonic, 2003).

Indeed, with the sequence of business creation process's steps of the new resource needs arise leading to the mobilization of existing personal relations or the creation of new links. Therefore, through this dynamic, it raises the question of how to shape the structural capital of the entrepreneur? Our goal is to explore the role of social capital along the entrepreneurial process; specially, in the Algerian context because this type of study is still lacking. Specifically, we address the structural social capital mobilized by the entrepreneur to acquire the resources necessary for achieving its entrepreneurial process.

II. Conceptual Framework

A. The Entrepreneurial Social Capital: a Reticular Resource

The design of the social capital - as reticular resources- experienced its developments in many sociologists' work that fit into the structural approach. In this regard, this study is interested in some researches such as the work of Mark Granovetter (1973; 2000), Nan Lin (1982; 1995; 2001) as well, of Ronald Burt (1992; 1995). Those authors have attempted empirically to verify the principle that the capital share of an actor depends on the resources of its social relations and structural characteristics of the network they form around him. This study led to the establishment of three famous theories of social networks (or social capital), namely:

1. The theory of the "strength of weak ties" of Mack Granovetter (1982),
2. The theory of "structural holes" of Ronald Burt (1992 ; 1995),
3. The theory "of social resources" of Nan Lin (1995, 1999).

Those concepts of social networks' analysis are increasingly used in particular sciences of management and entrepreneurship. In these study, social capital is generally regarded as an individual right. Indeed, in the study of entrepreneur's capital share, it is in the egocentric network approach of analyzing the relationship of a focal actor with other contacts (Lezga, 1998). The contacts are the actors (or dumbbells) with whom the focal actor (or ego) is directly related. These contacts can be individuals or organizations. While, contacts' classification depends on the chosen classification factor; where they can be grouped according to the nature of aid or resources they provide to the focal actor "entrepreneur" (Julien, 2000). For instance, Contacts those provide moral support, such as family members and close friends are providing moral support network. In this approach, configuration of the relational network is detected that whose characteristics have an impact on the flow of resources (Hong & Antonic, 2003).

B. Entrepreneur Personnel Network and Resource Acquisition

The resource acquisition is a crucial factor for the success of the creative process. The entrepreneur, who has been considered in the “Orthodox” thought as perfectly rational by selecting and bringing those resources to start a business, while the empirical observations showed that the selection of resources is primarily in the direct environmental entrepreneur, in general, their professional knowledge network or social environment (Aldrich, 1999), initiates this process. The economic act is an interesting field to study the embedding process introduced by Granovetter (1973). By adopting this vision, Aldrich & Zimmer (1986) considered entrepreneur as any individual suffering from bounded rationality, limited information and poor communication. Thus, they propose to think about entrepreneur in social networks to identify both access to resources and opportunities. Indeed, many researchers in entrepreneurship field showed that relational networks allow the creator access to resources throughout the entrepreneurial process (Aldrich & Zimmer, 1986; Grossetti & Barthe, 2008). Therefore, relationship networks are sources of all kinds of resources -tangible or intangible- (Ostgaard & Birly, 1994). In this sense, our study attempts to examine social relations mobilized by entrepreneur to acquire the necessary resources to achieve its entrepreneurial process. By entering into a self-centred approach, this study is interested in determining the entrepreneur’s personal network mobilized along the company’s creative process. To do this, this research rely on three theories of ARS, namely the theory of “the strength of weak ties” of Granovetter (1973), the theory of “social resources” of Lin (1999), and finally the theory of “structural holes” of Burt (1992, 1995). These theories are respectively associated with the three dimensions of social network: the nature of the relationship, the diversity of network links and network structure, as shown in Table 1.

Table 1: The Theories and the Three Dimensions of Social Network

Reference Theory	Dimension	Examples of variable
Theory of “the strength of weak ties” (Granovetter, 1973)	the nature of the relationship (strong ties, weak ties)	emotional closeness, interaction rate
Theory “of social resources” (Lin, 1999)	the diversity of network links (alters attributes)	hierarchical level alters, location, demographics, etc.
theory of “structural holes” of (Burt, 1992)	network structure	Size (number of contacts), density (number of structural holes)

Source: made by authors.

1. Nature of Links

This dimension refers to the strong ties that the individual maintains with its network members. Granovetter (1973) emphasized the strength of weak ties; he considered it as a source of fresh and unique information while in the strong links lot of redundant information. In the literature, they are characterized by strong ties, the contacts consist of relatives (family, friends, etc.), while the weak links that are irregular contacts which we have no very intimate relationships (former colleagues, neighbours, etc.).

According to the argument of Granovetter, the strength of weak ties is back to the fact that these links are easily bridges giving access to other networks as its only network of direct relationships tend to create closed areas and provide the same information. In the case of entrepreneurs, the argument of the strength of weak ties has not been a consensus. For Granovetter (2000), entrepreneurs generally rely on their strong ties when starting their businesses and their rather weak links when it comes to the development period. While Reynolds (1991) considered that “the argument of the strength of weak ties is mainly due to research ideas and useful information for decision-making undertaking, but much less risky for obtaining resources “. In contrast, the strong ties become important when it comes to ensuring the company’s business by allowing it to obtain financing, the possibilities of supplies and lettings. Similarly, some authors emphasized that family relationships play a key role in business success by providing access to information and facilitating access to finance and markets (Casson, 1991; Boutillier & Uzinidis 1999). For Brüderl & Preisendörfer (1998) strong links (especially members of the family) are more critical to the survival and revenue growth of the young companies that weak ties. While Davidsson & Honig (2003) argued that, the possession of many strong ties is important for decision-making and creates the beginning of the process, while weak ties become increasingly important throughout the process.

2. The Diversity of Links

Diversity refers to the heterogeneity of the members of the relationships’ network. For Lin, a personal network is useful when individuals who possess up the control over relevant resources for “ego”. In these early works, Lin (1982) hypothesized that this is having contacts with the same attribute (high status) allowing the ego to achieve its ends. While these latest research, Lin et al (2001), it is rather the heterogeneity of their attributes that is positive. He explained that it’s advantage of owning heterogeneous alters which is interesting in terms of access to social resources (Lin, 1999). Heterogeneity can be viewed through any criteria such as demographics, socio-professional status, geographic location alters, etc. In regarding our study, we retain diversity criteria as alters’ industry. /This criterion is based on the work of Hansen & Butter (1991) offering this form of diversity distinguishing entrepreneurs as their networks are more or less composed of persons belonging to various industries. The sectorial distance reflects the ego fact of alters that know another industry than his company. The diversity of personal network alters, especially from the perspective of the industry, allows the entrepreneur to have new light on some aspects of the project.

3. Network Structure

To study the structural dimension of social network, there are two variables generally used: network size and the number of structural holes presented in the network

(i). Network Size

Shows the number of contacts to which the actor is directly connected. Plociniczak (2001) showed that when social ties are many they allow entrepreneur to better sell their products and reduce some costs. Other authors agree on the positive impact of personal networks’ size on entrepreneurial success, as Aldrich et al (1987) who found that profitability for over three years companies is positively related to size staff network. HansenandButler (1991) highlighted the positive impact of personal networks’ size on the amount of information, which the entrepreneur has access.

(ii). The Number of Structural Holes

Is another variable that has a positive impact on various performance factors at the individual level. In 1992, Burt introduced the concept of structural holes; he said that maximizing these holes allows the individual to acquire a maximum of new information. The structural hole indicates no relationship between two individuals, which he described as non-redundant contacts. Both players can communicate with each other via a third player in the position of "bridge." Thus, Burt (1992) considers that the entrepreneur is liable to the intersection of non-redundant networks of relationships. The author argued that an entrepreneur obtains a competitive advantage by being in an intermediate position between more contacts or groups. The number of structural holes can be determined by various measures mainly the density and the structural constraint.

- Density is one of the easiest steps, it indicates the connection rate between staff network.
- The structural constraint is the most commonly used measure in research including those of Burt (1992; 1995). According to him, the constraint measures the concentration of direct or indirect relations with one touch. Contact concentrating relationships is a "node" in the network, which prevents to conduct independent negotiations with separate relationships.

After the previous theoretical considerations and by adopting the generic model of Bruyat (1993) (Fig. 2), this study registers a dynamic approach (process approach) placing the act of undertaking in the social context. The fundamental objective of our qualitative study is to explore the evolution of structural social capital's formation of the entrepreneurial process along entrepreneur.

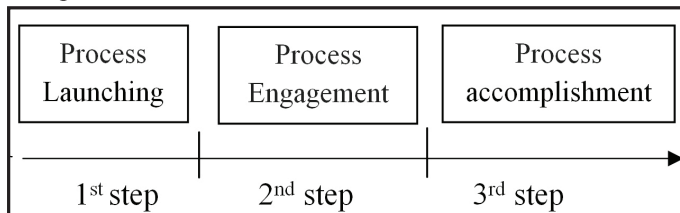


Fig. 1: A generic Form of Business Creation Process
Source: Adapted from Bruyat (1993).

III. Methods

A. Sample and Data Collection

This exploratory study was conducted with 40 Algerian entrepreneurs who created their micro enterprises within the framework of support schemes for the creation of activities under several institutions including ANSEJ, CNAC and ANGEM.

We targeted this category of entrepreneurs for two fundamental reasons: Firstly, the process of creating a microenterprise is relatively uncomplicated and less resource, which makes the investigation more or less easy for the investigator and for respondents. Secondly, the chosen entrepreneurs are those who have established their businesses less than four years. Therefore, we believe that the creative experience is still fresh in the memory of those entrepreneurs who were invited to recall several events characterizing each step of the creative process. This is therefore a creation stories in order to obtain a "controlled" narration, that is to say, not too small and not too extensive. This method was inspired by the work of Grossetti & Barthe (2008). This study's goal is to identify different resources acquired by entrepreneurs.

In addition to mobilize or not social relations; the number of links and the characteristics of these links.

B. Determination of the Acquired Resources

As the realization of each step of the entrepreneurial process requires many heterogeneous resources; and differ from one case to another, we chose to classify them into two categories: tangible resources and intangible resources. Financial and material resources (premises, instruments, etc.) are considered as tangible resources. Intangible resources mainly include information resources, ideas, advice and emotional support that the entrepreneur receives from his social ties. To collect data on this issue, we used a questionnaire that contains a sheet on every stage and in which lines are in the main decisions, and actions related to the step and column that are indicated resource types. The precise interviewed for each share, the type of resources has gained by mobilizing its social relations. This form can be considered a resource generator adapted to the context of this study.

1. Determination of the mode of access to resources

This study sought to determine the amount of resources acquired from personal relationships and those acquired through assistive devices. To this end, the questioned entrepreneur is invited to specify the access mode for each resource acquired.

2. The Configuration of Mobilized Relational Network

by entrepreneurs in our sample was identified through four variables: the size, the nature of links, the number of structural holes and diversity of links.

(i). The Size of Network

Based on the resource generator, the entrepreneur was asked to complete another record indicating for each type of resources acquired through personal relationships, the name or names of those who were the source. So we built a list of names for each entrepreneur and subsequently determined the size of the mobilized network of staff at each stage of the process.

The nature of links: in order to determine the nature of the relationship, in another form, the respondent was asked to indicate his relationship with each person in the name generator. This allowed us to classify them as either strong ties or as weak ties.

(ii). The Number of Structural Holes

This dimension can be expressed by many variables; including the most used which is the aggregate constraint. The mathematical formula for this variable data by Burt (1995) is as follows:

$$C = \sum_j C_{ij} \text{ With } C_{ij} = (P_{ij} + \sum_q P_{iq} P_{qj})^2, \text{ for } q \neq i, j.$$

Where C_{ij} is the stress that presents j to i ; P_{ij} is the weight of the connection from i to j in the network of i and the value of C is from zero to one.

For collecting data needed to calculate the stress of each network, the questionnaire included a matrix in which all the names of people quoted by the entrepreneur are stored in rows and columns. At the intersection of a line "i" and column "j", the interviewed people indicated whether "i" and "j" knew or not. The stress value of each network was calculated using the software UCINET VI (Borgatti et al, 2002).

(iii). Diversity of links

For measuring the degree of diversity of the relational network, each respondent indicates the sector of activity of each person

quoted. Then, the data were classified into three categories: areas of activity very close to that of the entrepreneur (S_1); sectors of little around activities (S_2) and sectors of activity not close (S_3). Then, on the basis of our own diversity criterion chosen “sectorial distance” diversity index created by Renzulli et al, is calculated using the following formula:

$$\text{Diversity} = (1 - \{(\text{Nbrelinks } S_1/\text{total})^2 + (\text{Nbrelinks } S_2/\text{total})^2 + (\text{Nbrelinks } S_3/\text{total})^2 + (\text{Nbrelinks } S_4/\text{total})^2\}).$$

IV. Results and Discussion

A. Description of the Acquired External Resources

At each step of the process, and for each decision or action, we calculated the number of acquisitions of each resource (the number of acquisitions is the sum of the acquisitions made by the interviewed entrepreneurs).

Table 2: Number of Acquired Resources Along the Creative Process

Resources	1st step	2nd step	3rd step	Total	%
Information	240	654	444	1338	27
advice	225	525	408	1158	23,4
emotional support	252	360	275	887	18
Funding	105	505	380	990	20
Equipment	/	303	270	573	11,6
Total	822	2347	1777	4946	100

In a first step, to identify and develop their business ideas, surveyed entrepreneurs needed information, advice and much emotional support. As for the decision to undertake, entrepreneurs have sought mainly information and advice. In all performed actions in the step of the commitment of the entrepreneurial process, the results showed that entrepreneurs have developed different types of information resources mainly, but also the advice and financing. The stage of completion of the entrepreneurial process is generally similar to the previous step in terms of type of acquired resources but with a decrease in terms of numbers. However, information is still the most sought after resource followed by advice and funding. These results show that the surveyed entrepreneurs have accumulated all kinds of resources but with different degrees of importance. The resource classification in their importance is as follows: 1st the information, 2nd advice, 3rd funding, 4th emotional support and 5th Equipment.

B. Description of How to Access Resources

We focused mainly on the importance of cumulative resources by entrepreneurs mobilizing their relationships compared to those acquired through the assistance devices entrepreneurship (ANSEJ, CNAC and ANGEM). To do this, we calculated the proportion of each mode of acquisition compared to the number of total acquisitions of each type of resources, for the entire entrepreneurial process. Table 3 summarizes the results showing that personal relationships are massively mobilized by the interviewed entrepreneurs to acquire different types of resources.

Nearly 74% of total resources were acquired through the use of personal relationships. While the proportions of the acquired resources through assistive devices are low (only 26.2% of the total resources acquired), including intangible resources that present only 17.9% of the total of such resources, while the most important acquisitions are those tangible resources primarily the financial resources which have more than 40%.

These results allow us to see that assistance devices of business creation are not yet able to offer adequate support to entrepreneurial project developers, and that their help are limited mainly to financial aid and administrative monitoring of the creation record, but in terms of information and advice, assistance remains insufficient.

Table 3: Proportions of Resource Access Modes

Type of acquired resources	Access mode		Total	
	Relation-ships	assistive devices	%	%1
Information	72,8 %	27,2 %	100 %	27 %
Advice	80,6 %	19,4 %	100 %	23,4 %
emotional support	92,8 %	07,2 %	100 %	18 %
Total intangible resources	82,1 %	17,9 %	100 %	68,4
Funding	59,7 %	40,3 %	100 %	20 %
Equipment	63,2 %	36,8 %	100 %	11,6 %
Total of tangible resources	61,5 %	38,5 %	100 %	31,6
Total of acquired resources	73,8 %	26,2 %	100 %	100 %

Our results confirm those of other researchers as Berrah and Boukrif (2013) who pointed out the lack of transparency or the lack of information in these organizations, which leaved unanswered various questions of the young promoters. Boutaleb (2006) also noted that at the institutional level, there is not strictly speaking adequate organization for the production of economic information and advice. In this situation of accompanying weakness, entrepreneurs mobilize their personal relationships that enable them to acquire 61.5% of tangible resources and 82.1% of intangible resources that are necessary for the projects realization. The results of this study also indicate that information and advice are the main reasons why the interviewed entrepreneurs use their social capital.

B. The Form of Entrepreneurial Capital

For a better understanding of the formation of entrepreneurial social capital, we present a summary of the results from the analysis of personal networks mobilized by the entrepreneurs at every stage of the process. We base this analysis on the description of the average value of each used variable to describe social capital.

Table 4: Average values¹ of the Indicators of Mobilized Social Capital

Variables	1 st step	2 nd step	3 rd step
Size	6.02	8.01	7.2
Strong Link	4.6	4.8	3.33
Weak Link	1.4	3.1	3.9
Diversity	0.53	0.74	0.69
Constraint	0.69	0.44	0.41

In the first step (process launching), the average size of mobilized network is six (6.01) contacts, results converge with those of other studies, such as that of Greve & Salaff (2003), which showed that first phase (during matures idea), the network is generally small (on average, 8 contacts). Among the mobilized contacts, strong link are the most used contacts against 4.6 on average 1.4 weak links. Thus, our results support the idea that strong links are more important early in the process (Aldrich & Carter, 2004; Davidsson & Honig, 2003). Enclosure means of network diversity is 0.53, which is indicating that the network is fairly diversified. While the average constraint is 0.69, which can be considered as high, therefore, there are few structural holes in mobilized networks by entrepreneurs in our sample. These results allow us to conclude as to identify and evaluate the business idea and make the decision to undertake the surveyed entrepreneurs that have used this social capital formed mainly by their existing personal network where most of the links are mobilized strong links that are composed of family members and close friends. While, the weak links (few close friends, acquaintances) are presented very low. It is much-diversified networks. Therefore, we consider that social capital mobilized by the entrepreneurs at the outbreak of the process is a “capital social bonding” which, according to Putnam (2000), refers to the self-centred networks between people of the same gender as the family and are characterized by strong social cohesion.

In the second step (engagement process), expanding the size of their networks to 8 contacts on average, entrepreneurs have mobilized more than strong links, but also more weak links that have become more important since the average number increased from 1.4 to 3.1 contact. This has been reported by previous studies (Aldrich & Carter, 2004; Birley, 1985; Davidsson & Honig, 2003). At this stage, entrepreneurs are more open networks, following the mobilization of weak links that resulted over structural holes (decrease in the average value of the stress to 0.44). In addition, more diverse (increase in the average value of the diversity index to 0.74). These results confirm the argument of Granovetter, that the strong links tend to create closed areas, while weak links are access bridges to other networks. Based on these findings, we believe that social capital is mobilized for the effective establishment of the company, it formed more strong links (family and close friends), but also more weak links. So it is a combination of “Bonding social capital” as well as” Bringing social capital “which refers to the relationship between dissimilar actors and Putnam (2000) who defines it as the networks open to the outside.

The third step (the completion of the entrepreneurial process) differs only slightly from the previous step. Regarding the average size that has decreased from 7.2 to eight contacts, while proposals strong links and weak links mobilized, are almost the same. Entrepreneurs mobilize enough diverse networks, but more open than the previous step. For this step, we also conclude that the mobilized capital is also trained to the combination of “Bonding Social Capital” and “Bringing Social Capital.”

The form of entrepreneurial capital has changed from one-step to another. By these results we joined Larson & Starr (1993) who developed an argument that the effective structure of a network around an entrepreneur depends on the activities and challenges that entrepreneur faces in the entrepreneurial process. We present in fig. 2, the diagram of the evolution of capital share’s form of the entrepreneur during the three steps.

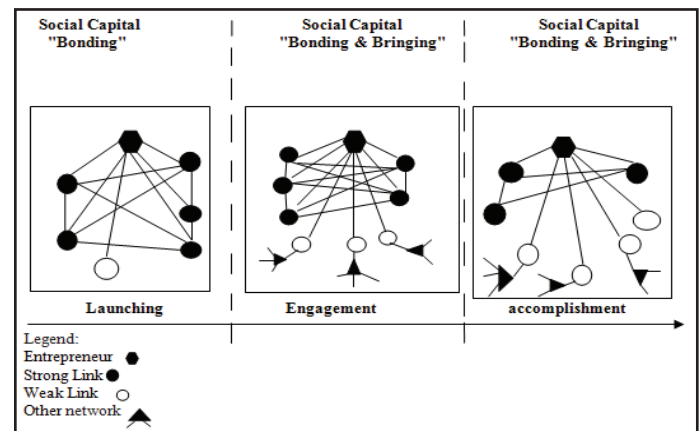


Fig. 2: The Formation of Entrepreneurial Social Capital

V. Conclusion

Unlike previous researches on social capital in entrepreneurship, which usually opt for a cross-perspective (Liao & Welsh, 2003), we have adopted a dynamic approach that takes into consideration the evolution of the entrepreneurship phenomenon and specific characterizing each step of the entrepreneurial process. On the other hand, adopting a self-centred approach, our research has to reconsider the relationship between social capital and the personal network of the entrepreneur and its impact on the development of the entrepreneurial process. This allowed us to identify some contributions that will be detailed below.

Firstly, our study challenges the argument of Reynolds (1991) that the weak links are used upstream of the entrepreneurial process and enable the acquisition of necessary information for undertaking decision and the strong links are used to ensure the activity of the enterprise and the acquisition of tangible resources. The questioning of this argument focuses on two aspects: the reason for use the links and the time for using it. The results that we obtained show that entrepreneurs use both types of links (strong and weak) for the acquisition of different types of resources; and in accordance with Chollet (2002), we believe it is difficult to arbitrage between the two types of links such as advanced by Reynolds (1991). About when to use links, our results show that strong relations are used in the initial phase of the creation process, when in actual enterprise creation phases, entrepreneurs use a combination of both links’ types, and here we support the idea of Uzzi (1999) who argued that entrepreneurs’ networks should have a balanced combination of strong links and weak links.

Secondly, the structural characteristics of the network staff of the mobilized entrepreneur at each step of the entrepreneurial process, allowed us -on the one hand- to know the evolution of the shape of the entrepreneur’s personal network. On the second, it allowed us to understand the formation of social capital along the entrepreneurial process of entrepreneur and to determine its type. Our study shows that entrepreneurs during the initiation phase, using embedded dense networks with many strong bonds resulting in a capital share of type “Bonding”. During the two phases that follow (process engagement and accomplishment), entrepreneurs tend to use more open networks by combining the

two types of links leading to social capital combining the two types “Bonding” and “Bridging”. This finding allows us to consider the steps of the entrepreneurial process and the nature of tasks, such as contingency factors in the formation of entrepreneurial capital. Therefore, in this study, we have only sought to rebuild the entrepreneur’s personal network that mobilized in the process of acquiring external resources. In addition, although the method used (the reconstruction of creation stories) is of a dynamic character; and the use of technology generators allowed us to obtain narratives responding largely to the objectives of our study; it remains that the longitudinal follow seems the most suitable method for studying a phenomenon described as procedural. This will push future studies to conduct longitudinal observations and explore how the entrepreneur could act on the configuration of its network of relationships.

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