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Creating Formula for Successful Entrepreneurial Venture

Tiivistelmä

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Tämän opinnäytetyön tarkoitus on tutkia kasvuyrittäjyyttä ja kasvuyrittäjyyteen liittyviä prosesseja, sekä minkä tyyppistä yhteistyötä kasvuyritykset tekevät erilaisten yksityisten, julkisten ja akateemisten toimijoiden kanssa. Tarkoituksena on keskittyä siihen, kuinka eri verkostoitumismuodot esimerkiksi strategiset allianssit, yrityshautomot ja yhteisyritykset vaikuttavat kasvuyritysten menestymiseen. Opinnäytetyö on tehty osana Networked Entrepreneurship tutkimushanketta, joka toteutettiin osana Tekes Liito -ohjelmaa.

Tutkimuksen tavoitteena oli 1) tutkia prosesseja kasvuyrittäjyyden takana, 2) tunnistaa erilaisia verkostoitumismuotoja kasvuyritysten ja eri julkisten ja yksityisten organisaatioiden välillä sekä 3) tunnistaa kuinka yhteistyö rakennetaan kasvuyritysten näkökulmasta.

Tutkimus toteutettiin laadullisena tutkimuksena, johon aineistoa kerättiin akateemisista lähteistä sekä haastatteluiden avulla. Tutkimuksen teoriaosuus keskittyy aihealueisiin: kasvuyrittäjyys, verkostot ja verkostojen rakentaminen. Tutkimukseen sisältyy kahdeksan haastattelua yrittäjien kanssa. Tulokset ja johtopäätökset ovat muodostettu teoriaosuuden ja haastattelujen pohjalta.

Tutkimuksen tuloksena muodostui prosessikuvaus menestyvästä kasvuyrittäjyydestä, johon liittyy neljä osa-aluetta: tiimi, mahdollisuus, sosiaaliset suhteet ja verkostojen rakentaminen. Kasvuyritys tarvitsee loistavan tiimin taakseen, joka on motivoitunut ja sitoutunut yritykseen. Tiimin kyky havaita mahdollisuuksia ja pystyä saavuttamaan niitä on tärkeä kriteeri yrityksen menestymisen kannalta. Tiimin kyky luoda sosiaalisia verkostoja eri ihmisten välillä eri yrityksissä, organisaatioissa ja toimialoilla on kriittinen tekijä yrityksen menestymisen kannalta. Verkostojen rakentaminen alkaa sosiaalisesta kanssakäynnistä ja tekemällä operatiivista työtä eri yhteistyökumppanien kanssa, jota kautta yhteistyö voi kehittyä lopulta viralliseksi yhteistyöksi. Sosiaaliset suhteet ja yritysten väliset verkostot mahdollistavat yrityksen pääsyn uusille markkinoille sekä käsiksi informaatioon, resursseihin ja uusiin teknologioihin, joita olisi hankala saavuttaa ilman liiketoimintaverkostoja.

Avainsanat	kasvuyrittäjyys, sosiaaliset ja liiketoimintaverkostot

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The purpose of this Bachelor's thesis is to explore the creation of entrepreneurial ventures and what types of relationships and collaboration, formal or informal, exist between firms and other organizational actors such as other firms, public sector, universities etc. The focus is on how networks such as strategic alliances, incubator networks and joint ventures further advance the possibility for the entrepreneurial venture to achieve goals and boost odds for success. This study is part of the Networked Entrepreneurship (NetEntre) research project. NetEntre project is part of Tekes Liito programme.

The objectives are to describe the entrepreneurial venture creation process, to identify social and interorganizational networks and to determine how networks are built. The main goal of this thesis is to create a model for entrepreneurial venture creation.

The research method is qualitative research. For its theoretical basis, the study draws from current literature and earlier empirical findings on entrepreneurial ventures and social and interorganizational networks. The empirical part of this thesis is based on eight interviews with entrepreneurs operating within the information technology industries. The purpose of the interviews was to test the theoretical knowledge against the empirical findings.

This study shows that the success of entrepreneurial ventures is related to four issues: team, opportunity, social network and building networks. An entrepreneurial venture needs a great team with high motivation and devotion towards the firm. The team's ability to recognize and pursue opportunities is important for the success of the firm. Finding potential opportunities and being able to create innovations is crucial for the success of an entrepreneurial venture. The teams' ability to form relationships with different individuals in industry and organizations can provide access to various assets. Social and interorganizational networks grans access to information, markets, resources and technology which can enhance the success of an entrepreneurial venture. These assets would be hard to reach without social and interorganzational networks. Social interaction and engaging in operative work were identified as the two main dimensions for building the firm's network.

Keywords	entrepreneurial ventures, social and interorganizational networks

Table of Content

1 Introduction

This Bachelors thesis explores the creation of entrepreneurial ventures and what type of relationships and collaboration, formal or informal, exists between firms and other organizational actors (such as other firms, public sector, universities etc.). The focus is on how networks (social relationships, strategic alliances, joint ventures) further advance the possibility for entrepreneurial venture to achieving goals and boost probability for success. The conceptual frame of this thesis aims to 1) explore best practices for how to create entrepreneurial ventures, 2) gain insight to different types of networks and 3) explore how networks are formed. The objective of this thesis is to create a model for entrepreneurial venture creation.

Firms aim to be part of formal or informal networks to advance their competitive edge and competitiveness. For small and medium sized firms doing collaboration and cooperation between different organizational actors (such as other firms, public sector, universities etc.) has become a way to survive and achieve growth in competitive global markets. It has become crucial for firms to be part of a network because competition is by large in global scale and in many industries there exist wide market uncertainty (Castels 2000). By using these networks firms aim to achieve a variety of different goals such as advance innovativeness, survive in uncertain markets, seek information, new customers and support or knowledge of technology. (Brass et. al 2004)

The evolution of ICT (for example the development of the Internet) in the last quarter of the twentieth century has enabled that business is done by large on a global scale. Today's economy can be characterized as informational, networked and global. Today the competitiveness and success of a firm is on the firm's capacity to efficiently generate, process and apply knowledge-based information. Firms' core activities such as production and marketing are often organized on a global scale. Organizing business activities take place either directly or through a network of linkage between different organizational actors such as firms, public sector or universities. Economic activities are also played out in global network of interaction between multiple interorganizational networks. Even though cooperation between firms and other organizational actors is in no way new, during the past two decades it has been recognized as a vital business operation. (Castels 2000)

Trust and long-term relations have always been important for firms but they are more emphasized than ever in today's global economy. (Castels 2000) The cooperation between firms cannot be purely characterized as market based but there are numerous factors effecting decisions such as personal relationships, motivations or culture (Castels 2000) (Todeva 2005) Using networks effectively and being part of partnerships needs closer long-term relationships than merely market based relationships (Brass et. al 2004).

The role of entrepreneur in economic development has been the source for numerous scientific researches and entrepreneurship has been regarded as the critical success factor for economic performance. (Nijkamp 2000) Entrepreneur is a person who establishes a new business while bringing together different elements of the organization such as people, property, productivity and resources and gives them legal identity. Entrepreneurs have been seen as a person who is creative, constantly looking for and pursuing opportunities and trying to look for possibilities for change of more preferable environment. Entrepreneur is a person who identifies new opportunities and attempts to make something of it. Entrepreneurial ventures are relatively new businesses that have a solid business strategy and aim for exponential growth. The business is based on substantial innovations. These innovations give the venture the competitive advantage that results in wealth creation. The innovation may be a product, service or a business process used to deliver it. (Wickham 2004) This thesis focuses on entrepreneurial ventures and the process behind creating successful entrepreneurial ventures.

In this thesis networks are discussed as formal or informal social relationships between two or more individuals and formal or informal relationships between firms and other organizational actors. Relationships between individuals are referred to as *social networks* and collaborations between firms and other organizational actors are referred to as *interorganizational networks*. *Entrepreneurial venture* (aka Startup Company) is used to describe a new small firm that is based on innovation, solid business strategy and aims for growth.

1.1 Background

The Bachelor's thesis is part of the Networked Entrepreneurship (NetEntre) research project. NetEntre project, in turn, is part of the Tekes Liito program. NetEntre project is carried out in collaboration with Metropolia University of Applied Sciences and Bradley University in the USA. The NetEntre project goal is to research and understand the role of public, private, and academic networks in generating an entrepreneurial and innovative environment, and new businesses. The main objective of the research is to increase Finnish global competitiveness. NetEntre research project addresses two research avenues: 1) what is the role of public, private, and academic networks in generating new businesses and 2) how do entrepreneurs effectively use these networks? The project was carried out 2008 - 2010. The thesis follows the research context that is presented in NetEntre project.

1.2 The Research Objectives

The purpose of this thesis is to understand and explore the creation of entrepreneurial ventures in today's networked economy.

The main research issues are:

- to explore entrepreneurial venture creation process
- to identify social and interorganizational networks
- to identify how networks are built

The objective of this thesis is to create a model for entrepreneurial venture creation.

1.3   Methods and Structure of Thesis

The research method is qualitative research. Qualitative research seeks answers through the analysis of unstructured information such as interviews, open ended survey responses, emails and notes. It can be considered somewhat opposite to quantitative research which relies on statistics or numbers. The thesis fits in the realm of qualitative research, since it aims to gain insight into business processes which are highly affected by personal attitudes, behaviours, motivations and culture. (Flick 2002) The research includes eight interviews with entrepreneurs.

The thesis research process is presented in Figure 1. The research process follows guidelines of qualitative research process (Flick 2002).

Figure 1: Research process

Formulation of main research issues

Formulation of research questions

Selection of research with which to study the questions

Selection of appropiate designs and methods

Collection of data
- Literature & Interviews

Analysis of Data

Formulation of the findings
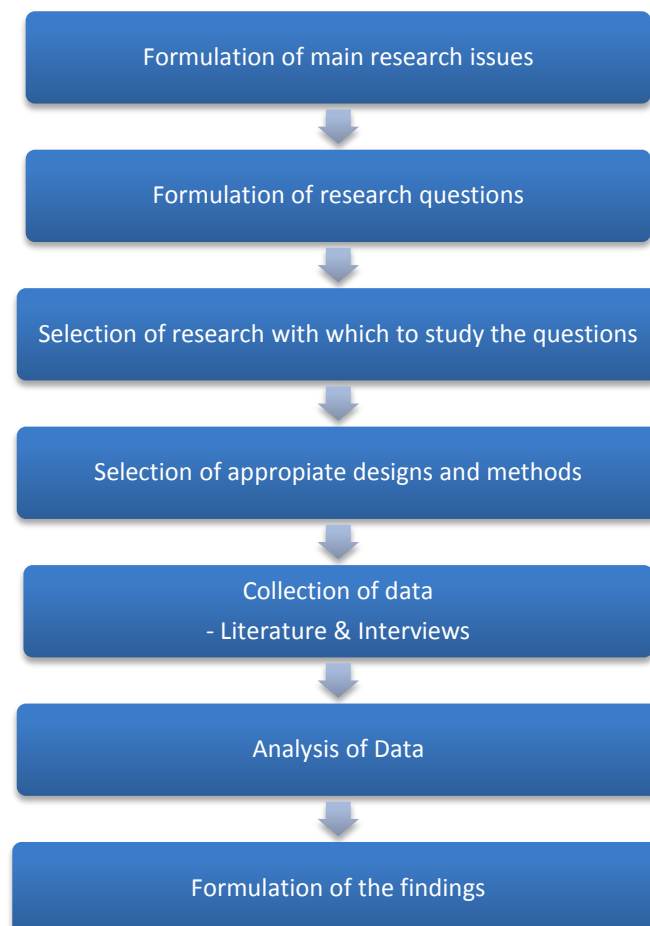
Qualitative research starts with formulating the main research issues and research questions. The conceptual framework is constructed on theoretical knowledge deriving from current literature and earlier empirical findings. The theoretical part focuses on earlier literature on entrepreneurship, entrepreneurial venture creation and, social and interorganizational network research. A conceptual frame is used to formulate the interview question. The purpose of the interviews is to test the theoretical knowledge against empirical conditions. Interviews with the entrepreneurs are analysed. The findings are formulated through interview analysis and theoretical knowledge (literature and earlier empirical findings). (Flick 2002)

To ensure reliability in qualitative research, examination of trustworthiness is crucial in this thesis. The quality of recording and documenting is central to assure reliability. Structured interviews with preformed interview questions are used to ensure the reliability of the interviews. (Flick 2002)

Structure of the thesis

The structure of the thesis is presented in Figure 2. There are four main chapters in the thesis: introduction, conceptual framework, analysis and findings and conclusions and discussions.

Figure 2: Structure of the thesis

1 • Introduction

2 • Conceptual Framework

3 • Analysis and Findings

4 • Conclusions and Discussions
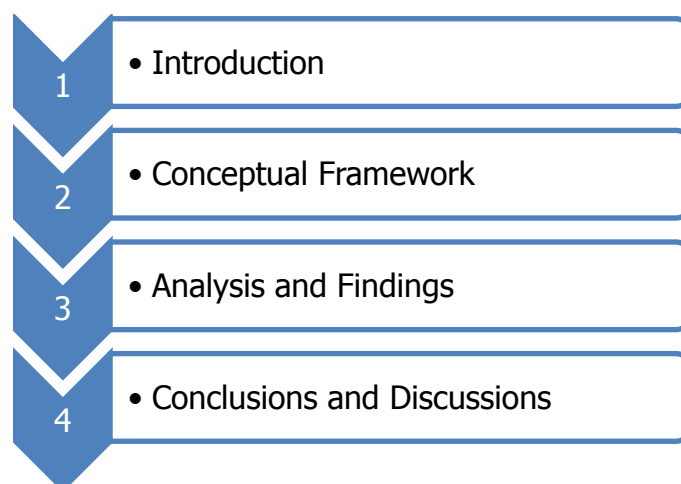
2   Conceptual Framework

This chapter discussed the concepts of entrepreneurial ventures and, social and interorganizational networks. It is also presents the creation process of successful entrepreneurial ventures and issues concerning the building of social and interorganizational networks.

2.1   Entrepreneurial ventures

"Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced" (Timmons 2000). Entrepreneurship is a multifaceted phenomenon. The term 'entrepreneurship' is widely used as a technical term in management and economics. An entrepreneur is someone who perceives an opportunity and creates an organization to pursue it (Bygrave 2003). Entrepreneurs are associated with risk, innovation and leadership. An entrepreneur owns, launches, manages, and assumes the risks of an economic venture. The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them. Entrepreneurship results in new value creation for owners, participants and stakeholders (Timmons 2000). Entrepreneurship has been regarded as the critical success factor of economic performance. (Wickham 2004)

Wickham (2004) sees entrepreneur in three different dimensions firstly as a manager undertaking activity, secondly as an agent of economic exchange and thirdly as an individual with a particular personality. Entrepreneurs undertake a whole variety of activities such as funding and owning a new organization, bringing innovations to market and identifying market opportunities. An entrepreneur establishes a new business which means that the entrepreneur brings together different elements of organization such as people, property and resources and gives them legal identity. An entrepreneur takes ownership of his or her organization therefore an entrepreneur is an investor and manager at the same time. Also an entrepreneurial venture can have external investors in which case the entrepreneur acts only as the manager of the venture. Ownership of an entrepreneurial venture is realized through share option schemes. An entrepreneur contributes leadership to their entrepreneurial ventures. Leadership is an important part of managerial success which contributes to the success

of the venture. An entrepreneurial venture is unable to operate without the help of internal parties (managerial team, employees) or external parties (suppliers, investors and customers). (Wickham 2004)

Entrepreneurs have a significant effect on economy in ways of creating new value. There are three primary economic factors, i.e. raw materials (minerals, oil etc.), physical and mental labour (people) and capital (money). All products and services that are sold in the economy are a mix of these factors. Value is created by combining raw material, labour and capital in such a way that the result satisfies human needs, in other words has demand. An entrepreneurial process creates new innovations which either add value to an existing product or service (incremental innovation) or creates entirely new value (radical innovation). Innovation can also be a business process used to deliver products or services. In another terms innovation is a new combination of the three basic economic factors (raw material, labour and capital). An entrepreneurial process needs individuals and an organization to accomplish goals. The three economic factors do not combine by themselves but need the help of individuals working together and in cooperation in an organization. (Wickham 2004)

Entrepreneurial Ventures

Firms are categorised by many different standards for example by size, line of business, growth potential etc. An entrepreneurial venture is in organizational terms quite a young small business with special characteristics. The characteristics of entrepreneurial ventures are 1) the firm is based on substantial innovation, 2) the firms' strategy aims for exponential growth and 3) the management team is willing to take risks to achieve goals. (Wickham 2004) The team behind the entrepreneurial venture is actively looking for opportunities from new areas which others may find unconventional. Also it is quite likely that the entrepreneurial venture's stakeholders are brought together by a strong leader. An entrepreneurial venture should have a sense of vision towards a great future. (Wickham 1997) Entrepreneurial ventures are also referred to more commonly as start-up companies and in entrepreneurship literature start-ups are seen as a classical example of entrepreneurship. (Timmons 1999)

A whole variety of different kind of entrepreneurs and their firms can be seen as entrepreneurial ventures (Gartner 1985). Firms can operate in different industries (electronics, information technology industries, medical industries, biotech etc.), different business environments (regions, countries, market areas) and be managed by a team or lead entrepreneur. The firms' products and services can be from high-tech to low-tech. Gartner (1985) sees that when comparing differences among entrepreneurs and their ventures the differences are as great as the variation between entrepreneurs and non-entrepreneurs and between new firms and established firms. The search for successful entrepreneurial venture creation process should therefore start with describing the context and environment where entrepreneurial ventures operate. Entrepreneurial venture cannot operate without individuals who have expertise and devotion towards the firm. Entrepreneurial venture is an organizational entity which evolves over time and operates as part of the environment. The environment is a set of conditions where firms have to look for resources and markets. Figure 3 below presents a framework which describes the contexts of an entrepreneurial venture. Four different perspectives of the entrepreneurial process are presented in the framework: individual, organization, environment and process. Individuals are the team involved in starting the new firm. Organization represents the kind of firm that is started. Environment combines the surroundings and influences that are affecting the new firm. Process is the actions undertaken by the team to start the process of new entrepreneurial venture creation. (Gartner 1985)

Figure 3: Framework for new venture creation (Gartner 1985)
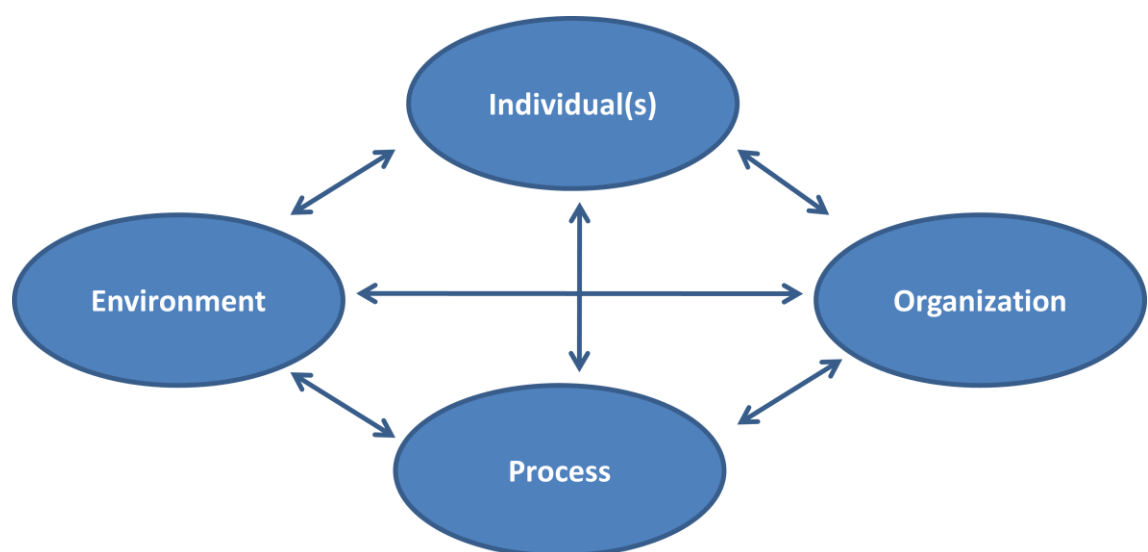
2.1.1   Entrepreneurial Process to Perceive Opportunities

The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organizations to pursue them. (Bygrave 2003) The entrepreneurial process aims to create new value or add value to existing products or services. (Wickham 2004) Innovation can be seen as exploitation of opportunities. Opportunities have been identified through creative individuals in the organization. (Lowe et. al 2006) The Timmons (1999) model describes the new venture creation process (Figure 4). The driving force of the Timmons model is opportunity and the ability to recognize and screen potential opportunities. Resources can be seen as financial resources, assets, people and business plan. The team behind the firm is an important asset for the venture.

Figure 4: Timmons model of the entrepreneurial process (Timmons 1999)

Communication

Opportunity

Resources

Creativity

Team / Entrepreneur

Leadership
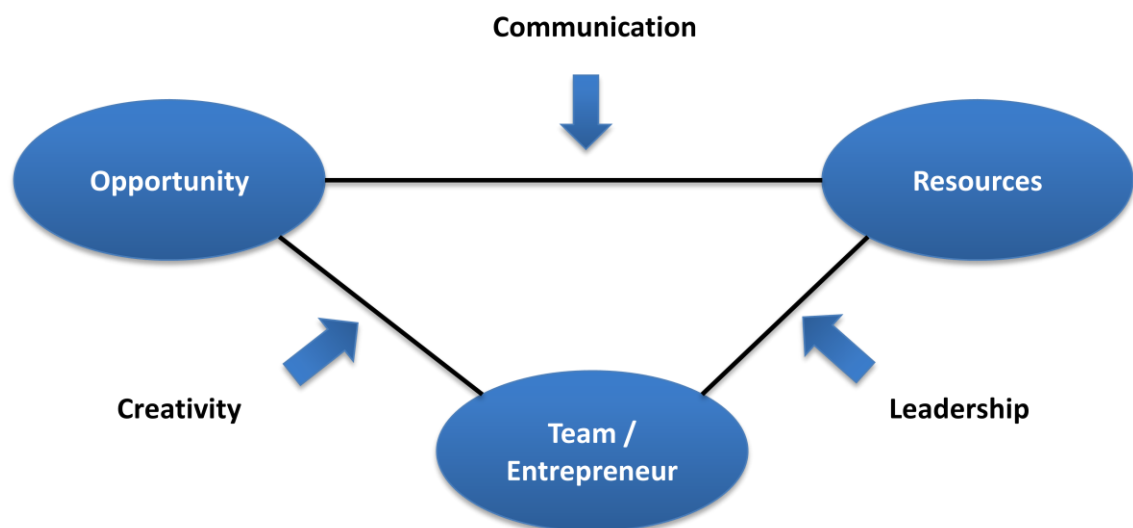
From Idea to Potential Opportunity

The journey from idea to high-potential opportunity is hard to pin down and may lead to great success and rewards but contains always a certain level of risk. Opportunity starts with building an idea. An idea is only a tool, even if it is considered excellent, for the entrepreneur. To have the best technology or employees with great ideas does not, by itself, guarantee success for the firm. The importance of ideas is often overrated and leads to forgetting the key facts of doing business. There are rarely quick fixes to successful ideas. Commonly, creating a good idea needs series of

shaping and trial-and-error iterations, before the idea is transformed into innovation. This innovation is a real product or service and fits the category that customers would be willing to pay for it. When generating ideas the focus should be on the needs and desires of the customers and the marketplace. (Timmons 1999)

An opportunity is about creating or adding value for the customer (buyer or end-user). An idea is transformed to opportunity when the idea is attractive, timely and durable. The time aspect of the opportunity is referred to as "window of opportunity". It basically means the short period of time during which an opportunity must be acted on or it is missed. (Timmons 1999)

Opportunity recognition is an important skill for entrepreneurs, teams and investors. For example the ability to evaluate and make a decision on the amount of resources allocated on a given idea. The characteristics of a good opportunity relate to multiple issues such as industry and market conditions, along with economics and internal capabilities of the firm (management team, achieving competitive advantages). For example, if the market where the firm is trying to operate is large and growing, it can be considered a good opportunity. Also if the market is fragmented and emerging, it can contain vacuums where the business can possibly flourish. For instance, there might be demands which other suppliers cannot meet. An attractive opportunity for an entrepreneurial venture typically has low production, market and distribution costs, as well. (Timmons 2009)

Resource Requirement for Entrepreneurial Venture

Resources are built on people (management team, the board of directors, consultants), capital (financial resources, investments) and other assets (premises, manufacturing plants and equipment). Also, a business plan can be seen as part of resources. An entrepreneur requires and manages resources and makes decisions on what resources are needed and how to acquire these resources in ways that are strategically smart for the business. It would be strategically smart for entrepreneur to find a way to control the resources rather than owning them. Similarly, it would be strategically smart to look for ways to use the minimum possible amount of resources when pursuing opportunities. For an entrepreneur to have control of the resources and to use the minimal possible amount of these resources is strategically smart because it can

minimize financial risks. The firm is thus able to be more flexible in decision making and also cope in uncertain market conditions. (Timmons 1999)

Timmons (1999) states that in the start-up phase or early growth state it is important for an entrepreneurial venture to use other people's resources (OPR). OPR can include for example capital (money invested or loaned by relatives, friends, business associates), people (help from fellow students, friends, consulting), premises, equipment or other material loaned, free or inexpensively required from friend, business associates, relatives etc. An entrepreneur taps into these resources by using his or her own personal network or building up relationships and forming a network with other people and organizations (such as firms, former business contacts, universities and other public organizations). (Timmons 1999)

2.1.2   Team behind the Entrepreneurial Venture

An Entrepreneur is someone who perceives an opportunity and creates an organization to pursue it (Bygrave 1991). The entrepreneur's motivations and capabilities affect the success of a new entrepreneurial venture but the importance of the management team behind the entrepreneurial venture should not be forgotten. The odds for success increase significantly if there is a great team behind the entrepreneurial venture compared to if the venture relies only on the lead entrepreneur. (Timmons 1999)

<u>Lead Entrepreneur</u>

Entrepreneurs are a group of people with differences in motivation, age, religion, nationalities and background (Gartner 1985). Gartner (1985) lists certain characteristics that a successful entrepreneur should have: need for achievement, locus of control and risk taking. This pushes the entrepreneurial venture forward. Locus of control means the degree to which an entrepreneur considers to be able to influence the outcomes of business activities, internal or external. An entrepreneur is a person who is able to take and handle risk. A risk is not only a financial risk but there are socio-economical, personal and managerial aspects to risk. An entrepreneur is willing to take risks to achieve success (Gartner 1985)

Wickham (2004) summarizes entrepreneurship as a style of management which has three unique characteristics: a focus on change, a focus on opportunity and organization-wide management. Entrepreneurs are agents for change and they want to make an impact on the surrounding environment. For successful entrepreneurs it is important what difference he or she makes to the environment. Entrepreneurs seek new opportunities to do something differently and better. This leads to innovation and new value creation. An entrepreneur manages whole organizations. For an employee the focus is often one aspect of the organization such as finance, production or marketing. A successful entrepreneur sees different functions of the firm as part of the overall organization in a bigger picture. (Wickham 2004)

Management Team

An entrepreneurial venture's management team can make a substantial difference the venture's success. Timmons (1999) points out that there is a strong connection between the growth potential of the venture and the quality of its management team. The management team should be committed to the firm's operations and success. The management team members are commonly partners of the firm or either internal or outside investors. This means sharing responsibly and the control of the firm among the team. If the entrepreneur wants to keep complete control of the firm, then the entrepreneur builds up the organizations through traditional employment. (Timmons 1999)

The lead entrepreneur is responsible for building the management team. The key issue of team building is how successfully the entrepreneur can communicate his or her vision of the future and then to lead, inspire, persuade persons to sign up and deliver the vision. The vision is about what the entrepreneur is trying to accomplish and also how the team will work together, succeed and make mistakes. The team members are committed to working as a team and the success of an individual adds to the success of the firm. An important mindset is that the team members consider themselves equal; no one can win unless everyone wins and the other way around, if one person loses, everyone loses.

The characteristics of a successful entrepreneurial venture management team are:

- Important that team works as a team rather than individuals.
- Management team is willing to make hard choices and trade-offs for the good of the firm, customers and value creation.
- Team is committed for the long haul and doesn't expect quick and easy profits in the short run
- Reasonable distribution of responsibilities and tasks
- Rewards for key employees and stock ownership are based on contribution, performance and result over time (Timmons 1999)

The team is committed to persistent value creation; adding value to customers, enabling suppliers and other business partners to win if the firm succeeds and making profit for stakeholders. (Timmons 1999)

2.1.3   Influence of Surrounding Environment

Entrepreneurs and their ventures are part of the surrounding environment. The environment is a set of conditions to which the organization must adapt and find financial resources, premises, business partners and new customers and markets for its products and services. (Gartner 1985)

Principles of Entrepreneurial Finance

Finding and obtaining financial resources is critical for the success of an entrepreneurial venture. "Happiness for venture is a positive cash flow" (Timmons 1999). Timmons (1999) explains the three core principles of entrepreneurial finance in the following way: 1) more capital (money) is preferred to less capital; 2) obtaining capital at the right time is preferable than obtaining it later and 3) the less risk the capital has the better. These are simple common sense principles but according to Timmons (1999) are often forgotten or ignored by management teams. Financial decisions should always be part of the overall business strategy. The interrelationships between finance, strategy and management are complex issues. The entrepreneur's or management team's weakness in financial knowledge is bad for business and may lead to a financial crisis in the firm. It is important to understand entrepreneurial finance. (Timmons 1999)

Value must be created or added for stakeholders (shareholders, customers and employees) to achieve positive cash flow and develop positive returns. Financial risks are central to entrepreneurial finance, especially minimizing and covering risks.

2.2 Interorganizational Networks and Models of Collaboration

Firms have business and nonbusiness, formal and informal relationships with different organizational actors (other firms, public sector, universities and non-profit organizations etc.). (Ritter 1999) This chapter is about exploring relationships and collaboration between firms and other organizational actors and how these relationships form a network of organizations and individuals. Brass et al. (2004) takes a multilevel view to networks and divides networks into three different levels of social networks, interunit networks and interorganizational networks. Social networks refer to social relationships and interaction between individuals. Interunit networks refer to formal or informal collaboration between different units inside an organization. Interorganizational networks refer to formal or informal collaboration between different organizational actors. (Brass et al. 2004) The network concepts are discussed as social interaction (social network) between different people and formal relationships (interorganizational networks) between different organizations. This thesis focuses on entrepreneurial ventures where organization hierarchy is low and firm size is small. Therefore interunit networks are not discussed in this thesis.

2.2.1   Concepts of Social and Interorganizational Networks

Social network refers to a group of individuals who have social relationships and interaction with each other. These individuals can be in different firms, professions and locations but are still connected to each other in some way. Social relationships are often founded on some similarities between the individuals. In everyday life as well as in business life, similar people tend to interact with each other. The similarities are defined as age, sex, education, prestige, social class and profession. These similarities are seen to ease communication, build trust, increase the predictability of behavior and increase interaction between people. The similarities may also enable easy access to a network of people. For example individuals who work in a specific profession are often connected with each other. Proximity of the individuals has been recognised to advance social relationships and is especially important when forming new relationships. Relationship building cannot be done simply through an information

communication technology solution (phone, e-mail, social networking sites etc.) but needs personal eye to eye contact with individuals. (Brass et al. 2004) Social relationships are the base of forming formal collaboration and relationship between different organizations. (Larson 1993)

Interorganizational networks can be seen as almost any type of relationships between two or more firms while aiming to some sort of common goal. (Todeva et al. 2004) Typically interorganizational networks refer to formal limited to long-term cooperative relationship between firms and suppliers, customers, competitors, and other organizational actors in which organizations maintain the control on their own resources but jointly decide on their use. Examples of interorganizational relationships are strategic alliances, joint ventures, business groups, consortia and some forms of outsourcing. (Brass et al. 2004) Firms are motivated by opportunities to access new information, resources, markets and technologies through interorganizational networks (Gulati et al. 2000).

Interorganizational relationships manifest themselves in many different forms. Strategic alliances and joint ventures are the best known and a strong part of the global economy. Strategic alliances have changed how business is done in a way that firms aim to increase the number of relationships that are based on partnerships rather than ownership. Strategic alliances are partnerships between two or more firms that work together to achieve strategically important objectives (such as R&D, marketing, distribution, production) which are mutually beneficial. Strategic alliances should not be thought of only as collaboration between two firms as multi-firm alliances are common. (Elmuti 2001) Gulati et al. (2000) sees that the most strategically significant collaboration forms are strategic alliances, long-term buyer-supplier partnerships and joint ventures. The classification below presents and explains most basic types of interorganizational relations: (Todeva et al. 2004)

1. <u>Joint ventures</u>: a special form of strategic alliances where two or more firms create a jointly owned legal organization that serves a limited purpose for the firms, such as production, R&D or marketing which promotes their mutual interests. The firms control the joint venture and share revenues, expenses and assets. (Griffin 2003) (Todeva et al. 2004)

2. <u>Licensing</u>: a legal agreement whereby a firm grants the right to use its licensed intellectual property such as patented technologies, production processes or trademarks in return for royalties and fees. (Griffin 2003) (Todeva et al. 2004)

3. <u>R&D consortium</u>: an agreement between organizations for research and development collaboration typically formed in fast-changing technological fields. Griffin 2003) (Todeva et al. 2004)

4. <u>Subcontractor networks</u> (Long-term buyer-supplier partnerships): a subcontractor negotiates with suppliers long-term prices, production runs, and delivery schedules. (Todeva et al. 2004)

5. <u>Industry standards groups</u>: Committees that seek the member organizations' agreements on the adoption of technical standards for manufacturing and trade such as ISO (International Organization for Standardization). (Todeva et al. 2004)

6. <u>Cooperatives</u>: a coalition of small firms that combine, coordinate and manage their collective resources (Todeva et al. 2004)

7. <u>Strategic cooperative agreements</u>: contractual business networks based on joint multi-party strategic control, with the partners collaborating over key strategic decisions and sharing responsibilities for performance outcomes. (Todeva et al. 2004)

8. <u>Franchising</u>: a special form of licensing where firm authorizes another firm to copy its successful business model. A franchiser grants a franchisee the use of brand identity within a geographic area in return for royalty payment. (Griffin 2003) (Todeva et al. 2004)

Strategic alliances can also be categorized by their functions and purposes (Elmuti 2001):

1. Marketing and sales alliances such as joint marketing agreements
2. Product and manufacturing alliances such as joint manufacturing
3. Technology and know-how alliances such as technology development, university/industry joint research

Strategic alliances and other types of collaboration are governed by a combination of legal and social mechanisms. (Todeva et al. 2004)

Motives, Intents and Choices for Collaboration

Successful collaboration between firms and other organizational actors can enable successful execution of a whole variety of functions in the network such as technology development, R&D and new product development projects, opening market access and outsourcing possibilities etc. Interorganizational relationships can contribute significantly to a company's performance. For example in technology development the firm can achieve the desired results through external partners (universities, research institutions or partner firms) which participate in the development. The external partners contribute to the company's innovation success. Firms start building interorganizational relationships with potential partners from a single social relationship to a network of formal relationships between firms. (Ritter 1999) Trust is one of the key aspects in building interorganizational relationships and networks. (Elmuti 2001)

Entering new market areas is often challenging for firms and therefore has become one of the top reasons for forming strategic alliances. Firms are also challenged by the fast-paced world economy (global competition, fast-phased technology development). Entering different market areas one by one drains the firm's resources and takes time. To do cooperation with another firm, such as form strategic alliances with firms that operate in a specific market area or international markets, can ease entering to markets and save resources. Strategic alliances and other types of interorganizational relationships are also used to guarantee access to information and technologies. The firm can team up with another firm that has resources to provide the information or technology or firm that is willing to share resources to acquire together information or technologies. Interorganizational networks are not only for requiring resources but firms can also let go of inefficient and not crucial business operations through outsourcing marketing, accounting, production, sales or some other function. Sharing the cost of R&D and new product development is among the top reasons to form strategic alliances. New products or production methods can present too big a risk for one firm to taken on by itself so again it is beneficial to share the risk with another firm. (Elmuti et al. 2001)

According to Brass et al. (2004) motives to form interorganizational cooperation may also have to do with the firm's desire to enhance legitimacy, attain collective goals and reduce uncertainties in their internal structure and external environment. (Brass et al.

2004) (Todeva 2005) The firm's motives vary depending on the firm, environment and the industry where it operates. The motives may include specific motives such as market seeking, acquiring means of distribution, learning, collective and embedded skills, developing technical standards, following industry trends or overcoming legal barriers. (Todeva 2005) The firm may also seek more multifaceted cooperation such as long-lasting partnerships rather than just normal business to business dealings. (Elmuti 2001) A firm may choose a specific alliance form in order to achieve greater control and increase operational flexibility and realization of market potential. (Todeva 2005)

2.2.2 Finding, Formatting and Building a Network of Relationships

Building relationships from one dimensional exchange (such as purchasing, credit) to multilevel reciprocal partnerships has both social and economic aspects. Creating an interorganizational network starts with forming social relationships. Larson et al. (1993) have developed a network model of organization formation for entrepreneurial ventures (Figure 6). The model consists of three stages that explore how an entrepreneurial venture starts building relationships from the beginning to formal interorganizational collaboration. This model recognizes both social and economic aspects that affect forming exchange relationships. (Larson 1993)

Figure 6: Network model of organization formation for Entrepreneurial venture (Larson 1993)

```
┌─────────────────────────────────┐
│            Stage I:             │
│        Start/Trial Phase        │
│   ➤ Acquiring critical resources│
│   ➤ Building relationships      │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│            Stage II:            │
│  Multilevel socioeconomic exchange│
│   ➤ Creating trust and norms of │
│     reciprocity in exchange     │
│     relationship                │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│            Stage III:           │
│  Organizations are highly integrated│
│   ➤ Entering into formal        │
│     interorganizational         │
│     collaboration               │
└─────────────────────────────────┘
```
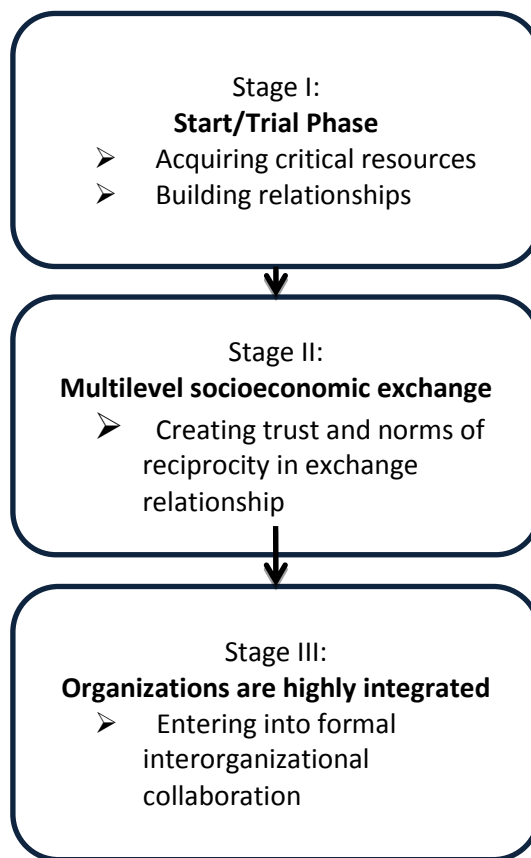
The first stage is about setting up the new business. Transforming an idea to business requires all sorts of resources such as information, physical and capital resources, sales opportunities and personal social support. The search for resources triggers the need to develop exchange relationships that form a new organization. Every starting entrepreneur has his or her own personal social network that consists of prior business contacts or colleagues, family and friends. The entrepreneur starts requiring critical resources from his or her own personal network. The personal network may provide access to more critical resources for the firm. By expanding and selecting suitable relationships the entrepreneur identifies a pool of important relationships that are important for the firm's future. At the end critical resources are defined and the entrepreneur has found a set of contacts which enable him/her to acquire the critical resources. The second stage sets up a multilevel socioeconomic exchange which expands the exchange relationships from one-dimensional to two-dimensional. The new economic relationship between the parties takes on a personal and social

dimension and the mutual business interest becomes clearer. The two sides learn about each other's organizations and how to work together. This exploration and engagement process builds trust between the two parties, identifies shared goals and starts to shape the norms and rules of reciprocity. (Larson 1993)

The third stage builds upon the success of the last two stages where the relationship transforms to a more official interorganizational relationship. In the third stage new business functions such as technical knowledge, support services or more capital are added to exchange relationships. The economic exchange between the parties becomes more diverse and the parties are integrated with each other. The norms and expectations that structure the process of exchange between the two parties become the accepted way of doing business. The exchange relationship transfers to partnership where the firms start doing formal interorganizational collaboration with each other and form a network. (Larson 1993)

Identifying Suitable Partners

There are challenges in building new networks in areas such as identifying relevant new partners and learning how to work with them. Birkshaw et el. (2007) suggest a three-stage process of building networks which includes finding, forming and performing. Finding refers to the scale of search for partners and possible relationships that are conducted for example to identify organizations or individuals with which it would be beneficial for the company to interact. Finding partners is affected by the traditional way of thinking in the specific industry and it could complicate forming relationships with unconventional partners from for example another industry. There are geographical, technological and institutional barriers that affect decisions and relationships. (Birkinshaw 2007)

Forming relationships is affected by the attitude of firms, individuals and society towards your firm. For example expectations (good or bad) affect the forming of the relationships and how keen the prospective partners likely to be working with you are. Forming is affected by the firm's position in the industry and the firm's attitude towards sharing information. There are demographical, ideological and ethnic barriers that affect decisions and relationships. Also there might be concerns about the protection of

intellectual property rights. Figure 7 illustrates a framework for the aspects of finding and forming. (Birkinshaw 2007)

Figure 7: Identifying Suitable Partners (Birkinshaw 2007)

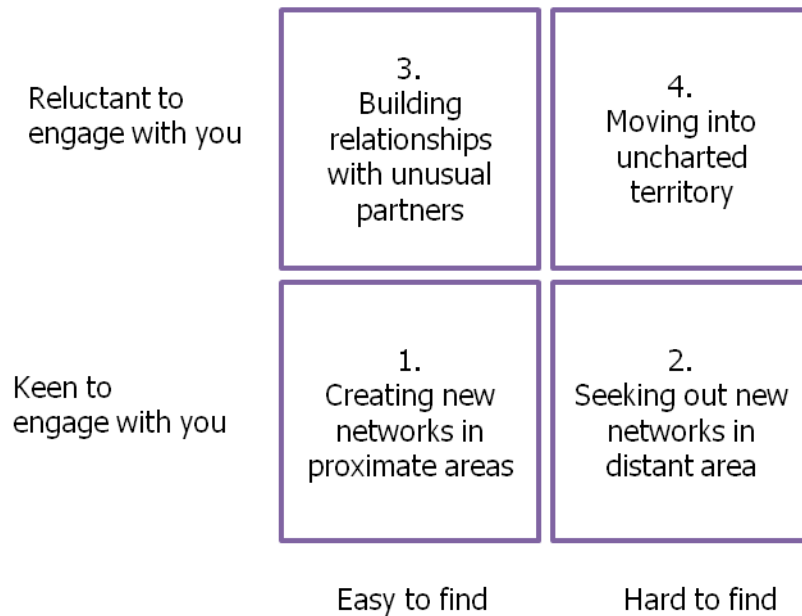|	Easy to find	Hard to find
Reluctant to engage with you	3. Building relationships with unusual partners	4. Moving into uncharted territory
Keen to engage with you	1. Creating new networks in proximate areas	2. Seeking out new networks in distant area

Figure 7 identifies the types of suitable partners and how hard or easy it is to form cooperation with these partners. The first scenario illustrates creating a network with potential partners that are both easy to find and keen on doing business with the company. This scenario network typically consists of traditional business relationships. Traditional business relationships start with negotiating the terms for a commercial relationship such as subcontracting or manufacturing and go on managing the relationship on an on-going basis. In this case potential new partners should be approached directly. The institutional or demographic differences between the partners are the main cause of problems. It is important to build personal relationships with the partners on an on-going basis. Creating new networks in proximate areas is a relatively straightforward process, but it requires a significant investment on the part of the firm to ensure that the knowledge and insights of the partners are internalized. (Birkinshaw 2007)

In the second scenario the emphasis is on finding a new network partner in distant areas where the actors easily engage with you but are hard to find. The challenge is to find suitable partners from many prospective partners.   (Birkinshaw 2007)

The third scenario is where potential partners are easy to find but potentially unwilling to work with you. There might be some ideological, demographic or institutional differences which complicate forming a relationship. One way to overcome the differences is to create a specific project or activity that they find attractive which is then situated around shared goals. (Birkinshaw 2007)

The fourth scenario emphasizes moving into uncharted territory where are either not easily identifiable or not likely to be keen to engage with you. This is the hardest scenario to navigate and might not be even worth trying. For example some traditional industries that are in a crisis, such as traditional media companies, have been constrained to engage with the culture of the Internet and new media environment. In this scenario, outside specialist network builders can be used, either as a middle man or somebody who works for the company. There should be a good reason to get the potential partners to work with you. (Birkinshaw 2007)

2.2.3   Risks and Environmental Factors Effecting Relationships

For a firm to be part of an alliance or other type of collaboration is no shortcut to easy success or happiness. Conflicts, failures and problems occur commonly when two or more different organizations work together. Problems are often due to lack of trust and clear goals or objectives and due to ineffective coordination between management teams. This makes the relationships unproductive. Differences in culture or differences in corporate culture between different organizations can cause problems. (Elmuti et al. 2001) Also established relationships can block the firm from partnering with other viable firms. The firm's relationships are interconnected with each other and single relationships cannot be isolated out of the context of a company's network. When making decisions regarding the cooperation with firms outside the interorganizational network the relations and effects on the relationships inside the network should be considered. (Ritter 1999) The firm's networks can be a source of both opportunities and constraints. (Gulati et al. 2000)

One of the most important aspects of working together is to share equally the resources and risks in partnerships. A sense of commitment should be generated through the partnership. Otherwise, for example, if the partnership doesn't reach its objectives it is easy to blame the other party. This simply leads to a negative cycle where the alliance is completely ruined. Building trust starts with individuals and

therefore alliances should be formed to enhance the trust between individuals. Trust is formed from three different aspects including responsibility, equality and reliability. (Elmuti 2001) When building and implementing a new alliance a trial phase is required where stable and predictable structures to manage the alliance are constructed with the partners. The trail phase process includes institutionalizing rules and processes and evaluating expectations that the partners have for the alliance. The trail phase can take time and results should not be expected until 6 to 18 months. After a successful trail phase the organizations are more integrated and mutually controlled through strategic, operational and social mechanisms. (Todeva 2005)
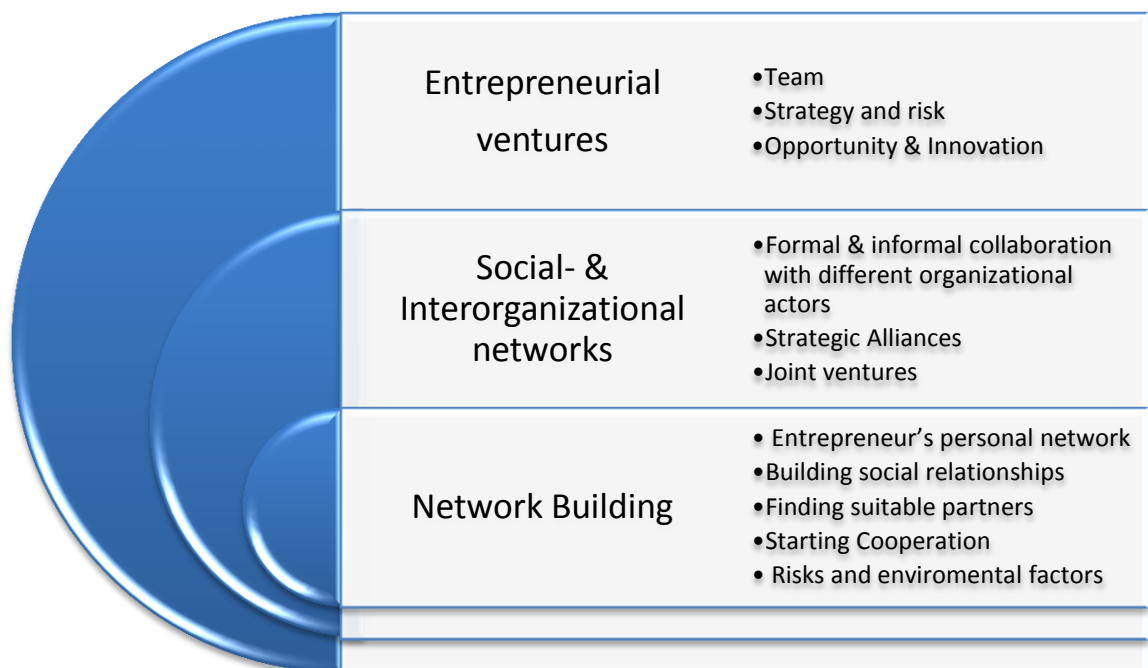
Many firms operate in a global economy and that has an effect on alliances. Alliances are challenged by cultural differences and specific national economic conditions. A culture clash is usually due to language barriers, egos, time difference, and different attitudes towards business. (Elmuti 2001) Alliances are affected by national economic conditions and institutional frameworks such as economic policies, price control, financial capital markets and distribution channels. (Todeva 2005) When operating in an international alliance putting effort on solving language barriers and cultural differences is a key element for the success of the alliance.

A firm should have the right reasons, clear goals and objectives, when entering a new alliance. Entering an alliance for the wrong reasons, for example to fix internal problems of the firm, can put the firm in an unfavourable limelight. The alliance can be seen as further evidence that problems occur in the firm. However, the right reasons don't assure success either. Alliances fail due to lack of cooperation and are usually caused by the management team failing to put enough effort into following the necessary steps for assuring basic principles of cooperation. (Elmuti 2001)

2.3   Summary

This Bachelor's thesis discusses issues concerning entrepreneurial ventures, social and interorganizational networks as well as network formatting and building with different organizational actors. Figure 8 below presents the main issues discussed in this conceptual frame.

Figure 8: Conceptual frame

Entrepreneurial ventures	•Team •Strategy and risk •Opportunity & Innovation
Social- & Interorganizational networks	•Formal & informal collaboration with different organizational actors •Strategic Alliances •Joint ventures
Network Building	• Entrepreneur's personal network •Building social relationships •Finding suitable partners •Starting Cooperation • Risks and enviromental factors

An entrepreneurial venture (aka Startup Company) is in organizational terms quite a young and small firm with special characteristics:

- Firm is based on substantial innovations (Wickham 2004).
- Firm's strategy is positioned for exponential growth (Wickham 2004).
- Management team is willing to take risks to achieve goals (Wickham 2004)

A whole variety of entrepreneurs and their firms can be seen as entrepreneurial venture and the firms are not limited to specific industry sectors but can operate from high-tech (information technology and biotech industries) to low-tech (service industries) industries. Gartner (1985) presents a framework describing four components comprising and affecting entrepreneurial ventures, namely individuals, organization, environment and process. These components provide the means to look

for a successful entrepreneurial venture creation process and compare the differences among entrepreneurs and their firms.

Individuals (entrepreneur, management team and employees) behind the firm contribute significantly to possibilities of success. Entrepreneurial characteristics such as need for achievement (strategies and goals), ability to influence outcomes of business activities and ability to take and handle risks are connected to the success of the firm. Success is also strongly connected to the quality of the management team. Entrepreneurs and the management team should be committed and devoted to the firm. (Timmons 1999) *Organization* describes what kind of firm is started and how the entrepreneur and management team plan to grow the organization (Gartner 1985)

Environment is a set of conditions where the firms have to look for relationships, resources and markets. How a firm is able to adapt and find financial resources, premises, business partners and new customers and markets for their products and services contributes greatly to the success of the firm. Resources are a mix of people (management team, the board of directors, consultants), capital (financial resources, investments) and other assets (premises, manufacturing plants and equipment). Firms should seek the control of resources rather than owning them. Firms should pursue to take ownership of a minimum possible amount of resources to minimize the risks for example when pursuing opportunities. Entrepreneurs look for resources by building up relationships and networks (firms, friends, former business contacts, universities and public sector). (Timmons 1999)

Process describes the actions taken by the entrepreneur or management team for perceiving opportunities and creating an organization to pursue them (Gartner 1985) An opportunity starts with an idea. An idea is only a tool and needs series of shaping and trial and error iterations before it can be considered a good opportunity and transformed into new innovation. The entrepreneur's and management team's ability to recognize and screen opportunities is vital to entrepreneurial ventures. This is also true for the ability to decide on the resources given to the idea.

Firms build relationships with different organizational actors (firms, universities, public sector etc.) to get access to new markets, information, technologies and resources. (Brass et. al 2004) Social relationships are the base for forming collaboration and

relationships between different organizational actors. (Larson 1993) Interorganizational networks refer to long-term cooperative relationships between firms and suppliers, customers, competitors, and other organizational actors in which organizations maintain the control over their own resources but jointly decide on their use. Strategic alliances are partnerships between two or more firms that work together to achieve strategically important objectives (such as R&D, marketing, distribution, production) that are mutually beneficial (Elmuti 2001).

Successful collaboration between firms and other organizational actors can enable successful execution of a whole variety of functions in the network such as technology development, opening market access and outsourcing possibilities etc. Interorganizational relationships can contribute significantly to the company's performance and innovation success. (Ritter 1999)(Elmuti et al. 2001)

Transforming an idea to viable business sets the entrepreneur to look for resources (capital, sales opportunities, premises etc.). The search for resources triggers the need to develop exchange relationships and build social relationships. As a first step, an entrepreneur starts acquiring critical resources from his or her own personal network (family, former business contacts and friends). By expanding and selecting suitable relationships the entrepreneur identifies a pool of important relationships that are important for the firm's future. The second stage is to set up a more multilevel economic exchange which expands the exchange relationships (learn about each other's organizations; build trust and how to work together). The third stage builds upon the success of the last two stages where the relationship transforms to a more official interorganizational relationship. (Larson 1993)

The firm's network can be a source of new opportunities but it can also cause problems and be unproductive. The problems are often due to lack of trust and clear goals or objectives and due to ineffective coordination between management teams. (Elmuti 2001) Moreover, differences in culture or differences in corporate culture between different organizations can cause problems. A trial phase is required where stable and predictable structures to manage the relationship are constructed with the participants. (Todeva 2004 et al.)

3 Analysis and Findings

In this chapter the interviews with the entrepreneurs are analysed. The interview questions were based on the topics discussed in the conceptual framework. The main topics were entrepreneurship, entrepreneurial process, start-up phase and social and interorganizational network. Altogether eight firms were interviewed. The firms operate in the Information technology industries.

3.1 Data Collection, Sample and Interview Structure

In this thesis qualitative methodology is used. The interview questions are formulated based on the theoretical knowledge discussed in the conceptual frame. The purpose of the interviews is to test the theoretical knowledge against the empirical conditions. The interviews with the entrepreneurs are analysed. (Flick 2002) The findings are formulated through interview analysis and theoretical knowledge.

The interviews were conducted during fall 2010. Thirty firms operating in the field of information technology were contacted first by e-mail and then by phone. The firms were contacted through the network of contacts of Forum Virium and Metropolia University of Applied Sciences. Forum Virium is a Finnish agency which develops new digital services in collaboration with companies, the City of Helsinki and other public sector organizations. Metropolia University of Applied Sciences does collaboration with many small and medium size firms in Finland. Small and new firms were selected through the contacts of these two organizations. Altogether eight firms in the information technology industry were interviewed. The interviews lasted from 45 minutes to one hour.

The field of Information Technology was chosen, because it is an industry of great strategic importance for Finland. This field employs circa 51,500 people in Finland and it had a combined turnover of 7 billion Euros in 2010. The products and services provided by the industry are used for various purposes such as to improve productivity, performance and quality of processes, products and services. Many of the significant social changes currently underway, such as the ageing of the population or communication through social media are addressed through innovations in information technology. (Teknologia teollisuus 2011)

Information technology firms provide information technology related products and services such as software, web development, database services and content production and consultation. An increasingly large number of firms produce services digitally over information networks such as social media services. The evolution of information technology industry has opened up entirely new opportunities and has made the market place global. (Teknologia teollisuus 2011)

Interview Structure

The interview questions are categorized in three groups: background information, entrepreneurship and social and interorganizational network. The interviews started with basic questions about the entrepreneur's background and education and information about the firms. The main topics were:

- Entrepreneur's background and education
- Firm's business idea, location and premises

Other questions included entrepreneur's opinions on how s/he sees entrepreneurship compared to traditional employment and why he or she chose to be entrepreneur. The main topics were:

- Motivation to start own business
- How does being entrepreneur differ from regular employment
- Firm's competitive advantages

How the firm establishes operations and requires resources were important topics from the point of view of the research. Another important topic was to find out whether the firm considers doing collaboration between other organizational actors important and how they build collaboration? The main topics were:

- Start-up phase, acquiring resources
- Personal network
- First contacts with other firms and customers
- Building networks and cooperation with different organizational actors

A total of eight interviews were conducted. The same structure was used in all of the interviews.

3.2   Interview Analysis

The interviews with the entrepreneurs are analysed in nine different categories. There are subcategories to the main categories to further analyse the different perspectives of these issues.   Entrepreneurship is discussed in the categories of entrepreneurs' background and the firms, entrepreneurship, entrepreneurial process, opportunity recognition, team and key issues for success.   Social and interorganizational networks are discussed in the categories of firm's social and interorganizational network, start-up phase and building network. The entrepreneurs' opinions and experiences are analysed and explained in these categories.

3.2.1   Entrepreneurs' Background and the Firm

All of the entrepreneurs had a background in higher education with a degree from either a university or university of applied sciences. One person had not completed their studies yet. Three of the entrepreneurs had started their firm during or right after their studies or graduation and five had worked in the industry before starting their own firm.

The firms operated within information technology industry. The firms were from one to four years old. The main products and services were related to web development, content production and consultation.

3.2.2   Entrepreneurship

What it means to be an entrepreneur was discussed during the interviews. One of the questions was "How would you describe entrepreneurship from your own perspective?" In this chapter different perspectives of entrepreneurship which came up during interviews are presented. Entrepreneurship was seen as a constant learning experience where a person can create new and is able to take responsibility of solutions. Also entrepreneurs described "entrepreneurial spirit" as a specific state of mind that entrepreneurs should have. Also being able to affect decisions and business outcomes was seen an important part of entrepreneurship.

Entrepreneurial Spirit

The entrepreneurs talked about the state of mind that a person must have when becoming an entrepreneur. This state of mind is about being engaged and devoted to your work. Also believing in yourself and what you are doing was felt to be very important.

> "You have to believe in what you are doing and that your product is better than competitors." (W188)

> "You have to have strong believes, competence and will to be successful entrepreneur." (W185)

> "Lot of energy and small amount of knowledge gets you further than small amount energy and lot of knowledge." (W194)

Entrepreneurial spirit is also about constantly looking for new opportunities in the environment you operate in.

> "You are kind of never not working. When-ever you are doing anything, buying something from shop, coffee or partying, you are always looking for how to connect what's going on around you to what you are doing." (W194)

Constant Learning Experience

Entrepreneurship was seen as a constant learning experience for the entrepreneurs. Entrepreneurs face multiple challenges in the areas of developing new products or services, managing business and employees as well as finding capital and new customers for business.

> "Being able to multitask and face challenges is all about what entrepreneurship is. You have to be CEO, web developer and do companies marketing all at the same time." (W188)

> "The experiences that I have had during these three years, I couldn't have got them anywhere else." (W185)

> "I would say right now, I'm learning about economics and business administration more than I ever did when I was an employee." (W192)

> "As an entrepreneur you learn about multiple issues having to do about business and technology not just about the specific technological issue that you have studied for." (W188)

The entrepreneurs were also highly devoted to learning about new technologies and business. The firms operated in information technology where technological development is vast. The entrepreneurs have had to update their knowledge about technology constantly.

> "We started to develop an application for a learning experience, which became the firm's product overtime" (W194)

> "When we started the business we were just learning about social media, now we are a social media expert" (W194)

However, this was seen as a positive side of the information technology industry. An entrepreneur has constantly new challenges developing new business concepts and updating knowledge about technology.

Entrepreneur is Able to Create new and Take Responsibility

Being able to make decisions and affect business outcomes was considered important for entrepreneurs. Another positive was that an entrepreneur is able to decide who he or she works with.

> "Freedom to make decisions about business and to build my own team" (W188)

> "The possibilities of create something new in small start-up are much more higher compared to possibilities in large company. This was one of the reasons to become entrepreneur." (W185)

> "If I succeed I can claim responsibility but on the other hand I can't blame anyone else for my mistakes" (W188)

> "Motivation to become an entrepreneur was about passion to create something new where I can use my own knowledge". (W185)

3.2.3 Entrepreneurial process

The entrepreneurial process involves all actions undertaken by the entrepreneur to start the business and pursue opportunities. The entrepreneurial process is divided in three categories including recognising opportunities, resources and team. Entrepreneurs were asked during the interviews to explain the firm's business idea (innovation that firm is based on) and how the innovation was created. Creating a business idea was seen as an evolving process. The idea needs a great deal of development and trial before it is transformed into an innovation whether it has to do with a product, service or business process. The team was seen as the most important asset for the firm.

3.2.4 Opportunity Recognition

Developing an idea started from simple curiosity to learn about technology and overtime the entrepreneurs saw an opportunity to create a product or service. The entrepreneurs used time and resources actively to find new opportunities.

> "We started to develop for a learning experience social media application and through that saw an opportunity to establish business evolving Facebook. We

saw an opportunity for example in customer engagement in social media application" (W194)

<u>Screening Ideas</u>

Getting an outside view from a friend or colleague was seen as an important part of screening ideas. It was seen important that the entrepreneur is able to present and get other people excited about the idea. It also helped to recognize the idea as a good opportunity. Moreover, it was described a good opportunity if the entrepreneur is able to get other people to contribute to the idea.

> "You need someone to check your ideas. If you can convince even one human being to commit to your idea your idea might be worth trying" (W194)

> "You need someone to check your idea" (W188)

Looking constantly for new opportunities was seen as a way to survive in uncertain markets. The firm that operated around social media and web applications development saw that the environment is constantly changing and the firm should adapt to this environment. The importance of updating and changing business concepts was underlined in the interviews.

> "We might do something completely different after five years and we are constantly looking for new ways to do business. Our firm operates in internet business so things might dramatically change in the next five years" (W188)

> "You have to be able to take risks to succeed and if you see an opportunity get on board. Otherwise you miss the opportunity." (W192)

3.2.5   Team

To have business partners and a great team was seen as the most important asset and resource for the firm. Most of the firms had multiple owners right from the beginning or a small team of individuals behind the firm. The entrepreneurs saw that they are part of a team and they are not making decisions alone. The team contributes to the success of the firm.

> "If I had to start my business alone, I would have never done it" (W188)

> "One of the most important assets of our firm is the employees." (W185)

Being entrepreneur is not about working alone but with a great team of people.

> "I asked my former colleague to get on board, because it would be nice to have someone with whom to share responsibility." (W192)

Team building was mentioned to be one of the most important parts of the entrepreneurial process. The entrepreneurs saw that the firm is built on individuals. The team's ability to work with each other affects the business outcomes.

> "Don't always assume that if somebody happens to be brilliant at something that they are best in everything. In the early days of start-up they might not be the best person to balance start-up team. Flexibility, team working, devotion are important features of a good team member. "(W194)

> "Team building is really important and entrepreneurs have to really think hard about who are they going to accept to work with them. " (W194)

3.2.6 Key Issues for Success

This category presents the factors that the entrepreneurs considered crucial for building a successful business. "What are the competitive advantages of your firm?" was one of the main questions regarding this topic.

<u>Understanding Customer Needs</u>

Good relations and understanding customer needs was seen as one of the key factors to success.

> "Understanding customer needs and constantly developing the service to meet these needs" (W185)

> "We understand that we have to make easy to use solution for masses. Not some specific solutions that you can only use with an expensive phone" (W192)

> "We want to understand the needs of our main clients and how we can offer them the best solution that they need. Also we have to think about our end-user." (W192)

Understanding Basics of Economics and How to Run a Business

A successful entrepreneur should be able to understand the basics of entrepreneurial economics such as contracts, increases in expenses, hiring employees, outsourcing and other factors affecting revenue, profits and expenses.

> "You have to be able to account and understand how increases in expenses or revenue or hiring new team member affect your business. There should be a plus sign under the line." (W188)

Planning your operations in advance and creating a business plan.

> "We have a creative and bold business plan and extremely competent team. Also we rely on our value chain and network" (W185)

3.2.7 Firms Social and Interorganizational Networks

The concept of networks was thought to be the primary form of social interaction between people in different organizations. The entrepreneurs talked about the importance of building relationships with different organizational actors. The firms were mainly cooperating with other firms, universities and universities of applied sciences, start-up centres and public sector funding agencies. Doing cooperation with different organizational actors was considered crucial for the success of the firm.

> "Building a network is about building relationships" (W188)

> "You cannot do staff by yourself. It is almost impossible to be successful alone" (W194)

> "To put it simply, building networks is a good concept to operate for small firm." (W185)

For small firms it was seen more beneficial to engage in collaboration with other small firms in the industry than simply remain in a competitor state.

> "I don't see our competitors as competitors but more like possible new firms to do cooperation with. There is enough work for all of us" (W188)

3.2.8   Start Up Phase

In the early start-up phase the entrepreneurs used personal networks to require critical resources and to gather a team and customers. Start-up centres, universities, students, teachers, former business partners and colleagues were mentioned as forming the entrepreneurs personal network.

<u>Requiring Resources in Start-up Phase</u>

The main challenge for the firms was to have capital support for product or service development. One entrepreneur called this capital "stay-alive money" which meant that the entrepreneur had to have enough capital to support his or her living and to pay the salaries to the employees. The entrepreneurs mentioned that within information technology the firms often don't need large capital investments in the beginning. The reasons were that often firms within information technology do not need large assembly lines or manufacturing or to build worldwide supply chain networks. The use of open source software was also mentioned as one reason.

> "Starting an IT-business start-up you don't need a big capital investment. Entrepreneur needs to be able to do stuff and have money to support him or herself. "(W194)

> "Open source software is a great resource" (W188)

The entrepreneurs used some forms of public funding. Access to these public resources was seen important especially in the starting phase. Public money should be used to support development of product or services.

> "Public funding should be used for practical things not for example consulting." (W194)

Entrepreneurial ventures have often limited resources available. The resources should be used as effectively as possibly. Entrepreneurs should get the maximum amount of benefits from the limited resources the firm has.

> "Dreaming about great things but you are able to execute the plans with a minimal amount of resources." (W185)

<u>Laptop, Meeting Room, Tables and Clipboard</u>

Having a place to work and where the team can meet privately was mentioned about the premises. Other important resources included mobile phones, laptops and software, which were also the main tools that the entrepreneurs used in their work.

Premises offered by universities were felt to be highly beneficial for the firm in the starting phase. This made it easy for the entrepreneurs to use the resources provided by the universities.

> "School provided premises, equipment, meeting room, a place to work, were really important for the business. Meeting room, chairs, tables and clipboard, and a private place to meet" (W194)

<u>Using Personal Networks to Find Customers</u>

The entrepreneur's personal network included friends, students, former business partners, former colleagues and other contacts in the industry. Personal networks were used to acquire the first customers for the business.

> "We found out first customers through our mentor in start-up centre and through the interaction that started in star-up centres networking events." (W185)

> "Customers found us through advice from fellow student. I know these guys, they are doing Facebook apps" (W194)

> "Social contacts were important in the beginning; we sold our services to friends' friends and also to former business contacts" (W188)

> "My former contacts in the industry have enabled finding specialists and contributed to firm possibilities to get involved with different interorganizational networks." (W185)

3.2.9 Building networks

Firms are pushed into forming relationships and doing cooperation with other firms for a variety of reasons such as the firm needs new customers, market areas and help to engage in product and service development. The entrepreneur's personal network can

offer a limited number of connections and entrepreneurs thus have to start building new relationships.

> "Your friends run out quickly so you are kind of forced to start building a network of potential business partners, customers and subcontractors." (W188)

Social relationships were the key in building formal collaboration between different organizational actors. Establishing and maintaining social relationships was seen as the key factor when building networks.

> "It's important to first establish a personal relationship with the partner company and then you can stay in contact by email" (W194)"

Building networks was not only seen as building relationships but as doing operative work for the partners in the network. The firm has something concrete to offer such as knowledge about technology, some specific skills or connections to other organizations.

> "Networking is also about doing operative work and you have to be able build the relationship through that." (W191)

> "Building relationships and collaboration between other firms doesn't happen without communication and then you have to have action to back it up" (W192)

> "We saw a possibility with collaborating with this one firm that uses the same technology but for different purposes. Now we are establishing a joint venture." (W192)

> "It's important to be active in the network. Making noise of the firm. Thought leader and sharer of information is important. People like to get first-hand knowledge. (W194)"

Through operative work firms are able to test the partnership, build norms and processes for the cooperation to work effectively.

Building Trust

The importance of trust was mentioned during the interviews. In order to do effective collaboration with other firms the different parties should be able to trust each other. Trust is built through discussions, interaction and successful operative collaboration.

> "Building relationships is about that you convince the other side that you are a good guy and that takes lots of discussions and interaction" (W192)

Location

The location of the firm whether it was in a start-up centre, institution of higher education or certain part of the city affected relationship building.

> "It's important to be nearby firms, student or other contacts. To get help for developing." (W194)

> "Our location is crucial to our firm because we are surrounded by firms that might need our services or we might to do something together" (W188)

Location was seen to affect the chances to meet people and interact with people. It also affected how easy it is to meet people with whom you want to collaborate.

Challenges Faced When Building up Relationship

Different parties working in cooperation can have different objectives and expectations about the outcomes and strategies. The interviews revealed two challenges when the firm builds relationships and collaboration with different firms and other organizational actors.

> "Our strategy and perspective didn't match the perspective of the other firm. We realized at some point we couldn't continue the cooperation. Our strategies didn't match" (W192)

> "It is really hard to find strong enough relationships that will last difficulties and differences of opinions. " (W191)
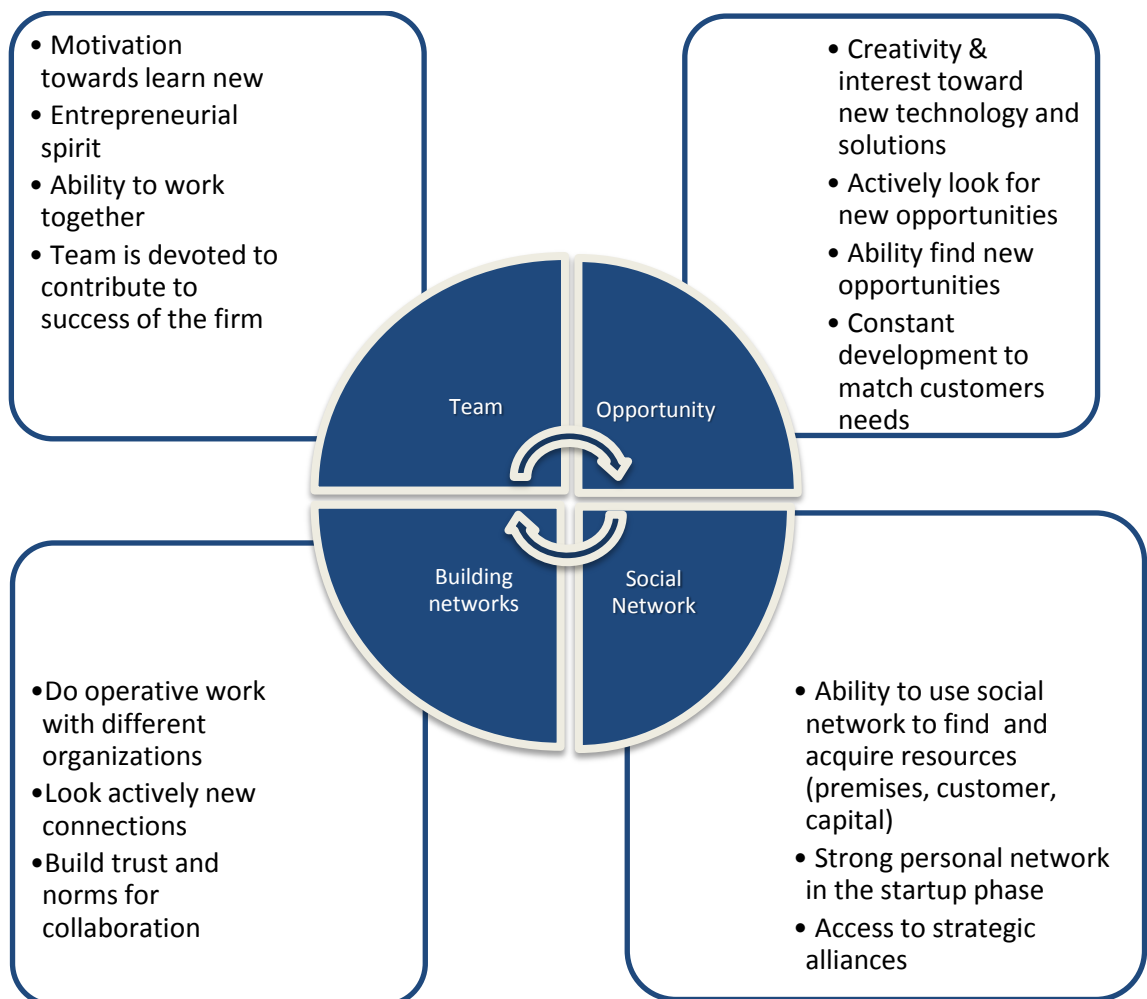
"Cultural differences are one issue that affects the collaboration. It is much easier to do collaboration with Finnish firms because you know how to operate in a Finnish environment. You know the culture" (W192)

Establishing a relationship with different firms inside a network can be difficult and take a great deal of time. Also the motives of different parties can differ greatly and undermine cooperation in the network.

3.3   Findings

The main objective of this thesis was to identify how to create a successful entrepreneurial venture. It seems that four main categories affect highly on the possibilities of an entrepreneurial venture to be successful. These four are team, opportunity, social networks and network building. The main findings are presented in Figure 9 below. The model starts with team. The team's motivation, abilities as well as entrepreneurial spirit contributes highly to the success of the firm. The team's ability to pursue opportunities is the next step in the model. Opportunity generation is a continuous process. The next step in the model is social networks and how well the team can use social networks to acquire resources and entrepreneur's personal network.

Figure 9: Building Blocks of Successful Entrepreneurial Venture

- Motivation towards learn new
- Entrepreneurial spirit
- Ability to work together
- Team is devoted to contribute to success of the firm

- Creativity & interest toward new technology and solutions
- Actively look for new opportunities
- Ability find new opportunities
- Constant development to match customers needs

Team

Opportunity

Building networks

Social Network

- Do operative work with different organizations
- Look actively new connections
- Build trust and norms for collaboration

- Ability to use social network to find and acquire resources (premises, customer, capital)
- Strong personal network in the startup phase
- Access to strategic alliances

Team Is the Most Important Asset for Entrepreneurial Venture.

With regard to team, it was found that the entrepreneurial ventures were built on a competent team and that the team was considered one of the most important assets for the firm. The firm wouldn't have been able to operate without the team and a competent team contributed to the entrepreneurial venture's innovation capabilities. For the entrepreneur to work and make decisions alone was simply not an option. This viewpoint was supported by both the interviews and the conceptual frame. A competent team was built on the ability to work together along with expertise, creativity and knowledge. Also the team's interests towards learning about technology and business were considered important. The team had an entrepreneurial spirit. Furthermore, the team was devoted towards promoting the success of the firm and

believed in what they were doing. Entrepreneurial spirit was also about continuously looking for new opportunities.

<u>Opportunity Recognition Process</u>

Finding potential opportunities and being able to create innovations was crucial for the success of an entrepreneurial venture. Creating new ideas and developing them into innovations required a lot of resources from the entrepreneurial ventures such as time, operational work and capital. In both the conceptual frame and during the interviews, opportunity recognition was pointed out as one of the most important features of both the entrepreneurs and teams. An entrepreneurial venture should therefore put a strong effort, along with resources, into finding opportunities and pursuing them. The team should also be constantly learning about new technology and business. Also, it was felt that the firm's business idea needs continuous shaping, constant development and keeping it up-to-date for the firm to be successful.

<u>Social Networks</u>

The entrepreneur's and team's ability to build relationships with different individuals in the industry and organizations contributed strongly to the firms' success. Social networks give the firm access to markets, information, technology and resources. The entrepreneur's personal network in the early start-up phase can give him/her a head start in ways of finding customers, business partners, resources and access into strategic alliances.

The interviews show that the entrepreneurial ventures often had limited resources to start operations. Social networks, on the other hand, were seen as means that can provide access to various resources and capital. It was felt that social networks offered possibilities to progress overtime from informal interactions to formal cooperation with different organizational actors. Being part of a strategic alliance and other type of formal cooperation with different organizational actors turned out to provide opportunities for the entrepreneurial ventures to get access to various assets controlled by other participants in the network. These assets were resources (such as premises, equipment, and capital), knowledge, information and skills related to technology and business. These assets would have been hard to reach without social relationships and doing cooperation with different organizational actors.

Building Relationships Starts with Interaction and Discussions

The interviews revealed social interaction and doing operative work as the two main dimensions for building the firm's network. The firms started building networks on the basis of basic social interaction with each other. In the second stage of relationship building the firms started to do more operative cooperation such as project, development and other type of cooperation together. The interviews reveal that doing operative work is the key for forming high performing partnership. It also became clear that building high performing partnerships takes time and resources. The benefits for entrepreneurial venture of being part of high performing partnerships are great. The interviewees claimed that being part of interorganizational networks grants access to information, markets, resources and technology.

4 Conclusions and Discussions

This chapter covers the conclusions and discussion regarding the research issues. Also the research project is reviewed and the issues concerning the reliability and validity of the research are discussed.

4.1 Project Summary

This Bachelor's thesis is part of the Networked Entrepreneurship research project. The research objectives were chosen from Networked Entrepreneurship contexts. Entrepreneurial ventures were chosen to be the main research issue because it was felt to be the most interesting research issue from the point of view of a university student studying information technology and service industries. Naturally, the firms interviewed for this study operated in this field. The main work for this thesis started in October 2010 and finished in March 2011.

The central aim of this thesis was to describe 1) the entrepreneurial venture creation process, 2) to identify social and interorganizational networks and 3) to identify how networks are built.

This study is based on current theories and earlier findings regarding entrepreneurial ventures as well as social and interorganizational networks. In addition, the study draws on eight interviews carried out with entrepreneurs in the information technology industries. The purpose of the interviews was to test the theories against the empirical findings. The findings of this study are thus based on a comparison of the theory and an analysis of the interviews.

4.1.1 Achievement of Research Objectives

The research objectives covered a large area of different research issue and concepts such as entrepreneurship, entrepreneurial ventures, social and interorganizational networks and network building. These objectives were not without risks. One concern was that the thesis would become too disperse and the focus of the research unclear and therefore research objectives would not be met successfully. Another concern was that the research would unnecessarily underline the corporate side even though the focus was aimed at entrepreneurial venture.

The first objective was to describe the entrepreneurial venture creation process. The thesis covers the first research objective using different models and implications from theoretical research and empirical findings. The thesis draws a multidimensional picture of how to create an entrepreneurial venture successfully. A model showing the building blocks of entrepreneurial ventures can be found in the findings. The first objective was successfully met from the research point of view.

The second objective was to identify different forms and models of social and interorganizational networks. The basic issues related to social and interorganizational networks were discussed in the thesis. Also the benefits, motivations and constraints behind social and interorganizational networks were evaluated. There are no clear implications which networks are the most significant ones for entrepreneurial ventures but only that networks generally contribute to the success of the firm. This research objective was met relatively well.

The third aim was to find out how networks are built. It was challenging to build a picture from the viewpoint of entrepreneurial venture. The process of network building was discussed in the startup phase of entrepreneurial ventures. A more in-depth discussion of the objective regarding how to build a formal collaboration with companies was excluded.

On a general level, the thesis met the research objectives quite well but a more in-depth discussion and analysis of the issues was not possible. This was mainly due to the fact that the research objectives covered rather large areas of theoretical knowledge. However the focus of the research was generally well maintained.

4.1.2   Validation and Reliability

The questions of validity in qualitative research can be observed through three main errors which occur regularly in qualitative research. The first type of error is to see relations and principles where they are not correct. The second error is to reject them where they are correct and the third error is to ask the wrong questions. (Flick 2002)

In this thesis the issue with validity occurs most in the interviews conducted among the entrepreneurs. The interview structure was not the most effective one for testing the conceptual frame in an empirical environment. It turned out that the structured

questions formulated for the interviews did not always succeed in obtaining the desired in-depth answers.

Altogether eight interviews were conducted during the research process. This affects the reliability of the research as the sample size is small and a reliable result is hard to draw from this sample size. The original idea was to interview more entrepreneurs but busy time schedules and the amount of interviews cancelled limited the number of interviews originally planned. On the whole, the reliability of the research is relatively good. The reliability of this thesis draws from the analysis of the interviews and comparing the results critically to theoretical knowledge obtained from current literature.

4.2   Conclusions and Discussions

During this research process it became clear that creating a successful entrepreneurial venture is more easily said than done. Timmons (1999) reports that nine out of ten entrepreneurial ventures fail in their operations and are not able to become truly high growth firms. There are multiple variables that affect the success of the firms and these are not easily measured or analyzed. These variables include personalities, team's capabilities, window of opportunity, customer behavior, changes in technology and structural changes in markets and industries. The models and frames presented in this thesis serve as tools for estimating the possibilities for success but do not provide the ultimate solution for entrepreneurial venture creation. Sometimes good business sense is all that is needed and that cannot be measured by any standard. It relies on the person's abilities to understand environment and opportunities. Even though there are multidimensional variables in entrepreneurial venture creation it does not mean that entrepreneurial venture creation should not be supported. On the contrary, entrepreneurial ventures have good opportunities for achieving success.

The research focused on firms in information technology industries which can be considered a unique world. Every industry sector has its own possibilities, challenges, constraints and opportunities. For example, how would entrepreneurial ventures in biotech, medical or in the forest industry operate, look for opportunities and find customers for their products and services. It can be quite different compared to the information technology industries. Entrepreneurial venture creation should be

considered and compared through the context where the firm operates such as environment (industry and markets). The focus should be on what type of organization needs to be built and how the product and services would be produced and distributed.

Clearly, creating potential opportunities is one of the most important requirements of an entrepreneurial venture. The same applies to modifying and developing the product and service further along with how the product and service meet the customer's needs. Even if the team is great, the business plan carefully crafted and strategies made, but the product or service does not match the customer's needs, the business is doomed to fail.

A series of trial and error are needed to create successful firms. Failure should not be thought of as a personal defeat but as a learning experience.

Institutions of Higher Education to Encourage Students for Entrepreneurship

The institutions of higher education such as universities and universities of applied sciences could be favourable environments to encourage students to start their own firms and possibly to create a successful entrepreneurial venture. There have been great examples of these kinds of start-up and entrepreneurship centres in Finnish institutions of higher education such as Aalto Venture Garage and start-up centre. Therefore, starting a firm when the person is still a student seems beneficial from many points of view. Finnish students get financial benefits through governmental subsidies and the basic standard of living is somewhat protected. The school can provide extensive access to multiple resources needed to develop the product and services and also provide a great place to get access to knowledge and information. In addition, the school can provide basic resources such as premises (place to work, meeting rooms) and tools (computers and software). Being an entrepreneur or planning to start a firm during one's studies can also be a really beneficial learning experience for individuals for example students who can get more out of their studies in institutions of higher education.

Institutions of higher education could be a place to bring people together from different faculties and disciplines. Students from different faculties and degree programs should be included in the process when establishing an entrepreneurial centre or start-up centre in an institution of higher education. There could be great

possibilities for finding interdisciplinary solutions for example in the fields of healthcare and information technology.

One great possibility is that the school can provide access to different interorganizational networks and possibilities to get mentoring from professionals. The institute of higher education could be the place where to brainstorm, create and develop the new product and services. It could be a place where a student can develop a business plan with the help of professionals such as teachers and professionals from the industry. This could be integrated into degree programme courses in the form of projects and thesis work. It could provide a really in-depth learning experience and extra motivation to the students. There could be a real sense of accomplishment when a person creates something beneficial by starting their own business.

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