

## EFFECTS OF NETWORK STRUCTURE ON PERFORMANCE OF MINOR EVENT MANAGEMENT VENTURES IN KENYA

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### ABSTRACT

**T**he purpose of this research was to establish the relationship between network structure and performance of event management ventures (EMVs). Explanatory design was adopted. 271 entrepreneurs from three selected counties participated in the study. Data was collected using questionnaires and nominal group technique (NGT) schedules from all the entrepreneurs. However, 22 ventures that had been in existence for over ten years were interviewed using the NGT schedule. Data was analyzed using Analysis of Moment Structures (AMOS 18) software. Confirmation of the factor structure was done using Confirmatory Factor Analysis (CFA). The fit indices of the structural model indicated that the model was acceptable (GFI=0.979; AGFI=0.944; NFI=0.918; CFI=0.952; RMSEA=0.067). Therefore, the hypothesis that network structure affects venture performance was not supported ( $\beta=0.026$ ,  $p<0.05$ ). Based on the findings, the study concluded that network structure does not affect venture performance.

**Keywords:** Event Management, Kenya, Minor Events, Network Structure, Performance, Ventures

## **Introduction**

A network structure consists of multiple actors where one actor is connected to other. Network structure is herein defined as the pattern of relationships that are created from network contacts and where differential network positions have a crucial effect on the resource flow affecting entrepreneurial endeavors (Hoang and Antoncic 2003). Thus, if a venture engages in networking it would be in a better position in achieving access to important strategic information critical to the success of its commercialization (Mazzarol and Reboud 2006). Network structures as patterns of relationships that are created from network contacts and as observed by Hoang and Antoncic (2003) have a crucial effect on the resource flow within entrepreneurial endeavors.

Shafer (1991) argue that small entrepreneurial businesses tend to use informal and personal sources of information more frequently than larger organizations. Additionally, smaller companies use more informal methods to collect more immediate market information such as customer, supplier, and competitor information (Brush 1992). It appears that entrepreneurial managers perceive value in engaging in social networking activities because they tend to spend a considerable amount of time establishing and maintaining such networks (Birley, Cromie, and Myer 1990). Dubini and Aldrich (1991), for example argue that successful entrepreneurial managers are more likely than others to consciously spend time and energy developing and nurturing their personal and extended networks.

Given that ventures typically lack structure, are small in size and have poor access to resources such as capital, information, and personal networking is particularly important for the requisite growth infrastructure. Often, ventures are faced with resource constraints, which hamper their competitiveness, and ultimately, their performance. To overcome these constraints, Watson (2007) and Cooper (2002) suggest that ventures should engage in networks and alliances. It is by engaging in networks that ventures get hold of essential complementing or scarce information, competencies and resources to improve their competitiveness, which in turn enhance their performance in terms of increased market share and profitability. However, in Kenya, entrepreneurs of EMVs perceive ventures of competitors negatively and engage in wars by employing unethical marketing strategies in order to beat competitors. Entrepreneurs do not operate in an environment of trust and integrity but that of suspicion, exploitation and fear of sharing information which they view as giving out vital information to benefit a competitor to their detriment. Consequently, these reduce profitability and chances of attaining return on investment and enhanced performance.

## **Literature Review**

### *2.1 Concept of Network Structure*

Network Structure refers to the pattern of relationships that are created from network contacts and where differential network positions have a crucial effect on the resource flow affecting entrepreneurial endeavors (Hoang and Antoncic 2003). It is all of a venture's relationships and the content of those ties (the strength and trust within each tie). A network organizational structure is more complicated and complex than any other structure because it consists of multiple organizations that work together to produce goods or provide services (Granovetter 1995). A network structure should reflect the appropriate culture the company is trying to instill in their workplace; this is crucial in a network structure because organizations are accountable for the business ethics of all partners in their supply chain (Smelser and Baltes 2001). The primary function of a network structure is to complement and support the business strategy used to accomplish the objectives and goals of the organization. Network organizational structures are flexible and highly efficient because of the selection and use of the best partners available that provide specific needs.

The importance of network structure in gaining entrepreneurial competitive advantages has attracted attention majorly from two streams of research. One stream, based on research by Granovetter (1995), argues that the social structure is an interconnected embedded network consisting of either weak or strong ties, where weak ties, among other things, are means to make the venture competitive. The other stream, based on research by Burt (1992) says that it is a matter of optimizing structural holes where the holes are keys to information benefits and thus more favorable in gaining competitive advantages. Networking with the right people is a crucial aspect in any network structure. Koch (1998) stated that a firms' success mainly derives from professional relationships. Koch (1998) argues that a person cannot succeed alone thus there is a trade-off between quality and quantity in business relationships and argues that the highest value is found in a small percentage of people in the personal network. The right people are not only those who possess expertise rather business associates also have to match the personality of the entrepreneur. The right business relationships are those where a good mutual understanding arise (Edwards *et al.* 2007). Ford *et al.* (1998) and Koch (1998) argue that it is important to identify the right business partners to build and maintain good relationships. These relationships, the right business contacts, are most valuable and should be target with the highest attention to maintain (Koch 1998). Networking should be done with those people who can provide service for the company and where the entrepreneur can give something back (Edwards *et al.*, 2007). Key allies help because of the strong relationship (Koch 1998) that consists of mutual enjoyment of each others' company, respect, shared experience, reciprocity, and trust. Strong relationships have to be based on all of these attributes.

A network of important contacts can provide help and resources to the company (Wallace 2006). Networking, collaborations, partnerships, or alliances will provide the entrepreneur with access to other people's contacts (Edwards, Edwards and Benzel 2007). This will lead to an expanded web of contacts which will eventually result in recognition of new opportunities and a larger network of clients and customers. Entrepreneurship is a dynamic process and requires links and relationships to both individuals and institutions (Smilor and Gill 1986). In fact, an entrepreneur with a strong, complex and diverse network of relationships is more likely to have access to more opportunities, the chance of solving problems faster is greater, and the chance of success is greater (Smilor and Gill 1986). Ventures should establish the number of non-redundant contacts in the network, in order to maximize connections with different people beyond the network that gives higher benefits because of more and preferably diverse contacts. As a result more diverse sources of information, resources and competences necessary for the venture to be efficient are ensured. In addition, ventures should recognize connections as ports of access to more diverse and separate clusters of people that are beneficial for a venture. Here the actor or the venture maintains the primary contacts who in turn reach other people (secondary contacts) in other clusters so that an extension to include new clusters of the ventures own network can be made. The venture is then free to focus on primary contacts and thus has more time for effectiveness that is, to do the right things. As Burt (1992) puts it that information screen provided by multiple clusters of contacts is broader, providing better assurance of the players being informed of opportunities and impending disasters.

## 2.2 Strength of Ties

Granovetter (1995) argues that institutions or organizations can be analyzed by their ongoing social relations where the networks can be argued to be of significant importance in accessing information. Granovetter (1973) talked about the strength of weak ties; meaning that bridges to knowledge, information and resources are crucial to the ventures' opportunities and to their integration into societies consists of loose interpersonal ties. Additionally, strength of a tie is defined as a combination of the amount of time, emotional intensity, intimacy and mutual services between the parts in a network. Consequently, a network consisting of weak ties has bridges to clusters of information, whereas the connections within a cluster merely consist of strong ties. The bridges that provide information benefits, namely connections with non redundant ties beyond a

cluster are (as Burt argue), more likely to be weak than strong. This means that information, knowledge and resources obtained through weak ties can reach a large number of people over great social distance (Granovetter 1973).

The influence of a venture's network structure in terms of the type of partners, resources possessed by the partners, the strength of the ties, and the amount of trust between the firm and the partner should have a great influence on the venture's performance in a market. The more diversity that exists within a network, the more benefits should result for a venture's entrepreneurial opportunities and performance. However, collaborations are not always easy to accomplish. It could be difficult for a firm to find suitable partners to cooperate with, and the interactions could be difficult to manage due to the shared decision-making, need for control, conflicting objectives, and a partner's possible opportunistic behavior (Teng 2007).

According to Hamill and Gilbert (2009), there is a cost associated with the number of connections one actor has. Hamill and Gilbert (2009) argue that an individual cannot have too many people in their personal network because of the cost associated with maintaining the network. Newman *et al.* (2006) point out that some individuals have much larger networks than others. These individuals are often connected to one another because their degree of connectivity is higher. Ties are described as both strong and weak in theory (Granovetter 1973; Smelser and Baltes 2001; Varey 2002; Krebs and Holley 2008). The strength of a tie is defined differently among social network researchers. Granovetter (1973) defines it as a mix of the amount of time, emotional intensity, the intimacy and the characteristics of reciprocal services. Johannisson (1986) in his definition of strong ties, put emphasis on the degree of trust and experiences of previous interaction, how often the relationship is active, and the level of maturity. Strong ties are very valuable for the individual, not because they can lead to a high level of goal fulfillment but because of the person it involves (Granovetter 1973). Strong ties can be relationships between close friends and family. They create a sense of belonging to a group whose group needs are more important than the individual itself and sharing depends on these needs. Weak ties are different compared to personal relationships (Varey 2002).

Weak ties are less clustered and better described as long term relationships, where the relationship is more instrumental than personal (Smelser and Baltes 2001). The weak ties are more focused on goal fulfillment for both parties. Strong ties were once weak and the weak ties are therefore also important connections. Day-to-day interactions between an individual and the company, which the individual makes business with, are typically a part of the individual's network of weak ties (Varey 2002). Granovetter (2004) further shows the importance of weak ties between relationships since the tie to another clique, even though it may be weak, can enable opportunities which a clique of closer relationships might not. Krebs and Holley (2008) share this view by describing how dense and cohesive networks miss out on ideas and innovation due to lack of information entering the network. According to Burt (1992), the most suitable network structure for an organization trying to find creative solutions, consists of loose relationships which are none overlapping with the relationships of others in the network.

The type of favorable resource, capability or information that a venture obtains access to through its capabilities will however depend also on the strength of the relationships (Granovetter 1973). New information is more likely to derive from weak ties where the network relationship is not well known and contact between them is infrequent. Strong ties, on the other hand, are more frequent contacts based on trust (Krackhardt 1992), facilitating the partners to share crucial and confidential information (Nicolau and Birley 2003b), which is critical for a venture to be established. Kim and Aldrich (2005), however, argue that employing only the latter network mode severely limits a venture's networking prospects. Besides developing and using weak ties, ventures could obtain competitive advantage by achieving access to a wider network through the frequent relationships they already have. Rather than being limited to a small set of strong ties, a venture can gain new, and sometimes indirect, contacts through their frequent partners' networks, which is a central reason for entrepreneurship researchers' great interest in the concept of social networks (Kim and Aldrich 2005).

Entrepreneurs from the same ethnic group get easier access to business networks in the enclave than with outsiders. They are in an advantageous position to exploit ethnic networks. Those that are established in ethnic networks can do best (Salaff *et al.* 2003). This study sought to establish the effects of ethnic affiliation as a dynamic indicator of network dynamics. Ethnic affiliation especially in Kenya has become a factor that can enhance or prevent relationships.

### 2.3 Venture Performance

Even though literature on performance is very extensive, Johannessen, Olaisen, and Olsen, (1999) note that there is still a lack in consensus about the meaning of the term hence the concise definition of performance has remained difficult. A wide variety of definitions of firm performance have been proposed in existing literature (Barney 2002). Nonetheless, some clear definitions of firm performance in the market definition context could be put forward. In some cases, performance measures such as percentage of sales resulting from new products, profitability, capital employed and return on assets (Selvarajan *et al.* 2007; Hsu *et al.* 2007) are used. Besides, return on investment, earnings per share and net income after tax can also be used as measures of venture performance (Grossman 2000).

According to Murphy, Trailer, and Hill (1996), the use of the term “performance” includes 71 different measures of performance. However, in the recent past, a majority of studies have used financial and non-financial indicators to measure performance (Johannessen *et al.* 1999; Murphy *et al.* 1996). Examples of financial measures are return on investment, return on assets, and earnings per share (Sapienza, Smith, and Gannon 1988). The use of financial measures is more common, even to some extent in certain organization, financial reports have been produced on a daily basis (Gummeson 1998). The reason is that financial performance is usually found at the core of organizational effectiveness and it is also the most easily quantifiable parameters (Johannessen *et al.* 1999). However, after extensive reviews on financial measures, Johannessen *et al.* (1999) highlighted several limitations to financial measures. Firstly accounts in general are difficult to interpret. Secondly, absolute scores on financial performance are affected by industry-related factors and directly comparing these data would be misleading. However, this study used both financial and non-financial measures of performance.

### 2.4 Research Hypothesis

H<sub>01</sub>: There is no significant effect of Network Structures on performance of event management ventures

## Methodology

The study was undertaken in three counties in Kenya namely; Kisumu, Nairobi and Uasin Gishu counties. The target population was 313 entrepreneurs of event management ventures who provide services such as outside catering, decorating, event planning, banqueting and conferencing, confectionary and ventures that hire grounds, equipment, furniture, tents and public address systems. The entrepreneurs engage in events such as weddings, funerals, corporate functions, parties, business events, conferences among other events. A census of all the 313 entrepreneurs formed the sample size. However, 271 questionnaires were returned which yielded 86% response rate. Nominal group technique (NGT) schedules were used to interview 22 entrepreneurs of ventures that had been in existence for over ten years. Data was analyzed using Structural Equation Modeling (SEM) to assess the hypothesized relationship between network structure and venture performance.

## Results and Discussion

### 4.1 Confirmatory Factor Analysis

Figure 5.2 displays the standardized regression weights of the common factor of network structure and the corresponding segregated indicators of Strong Ties (STP), Weak Partners (WEP), Resource-based Partners (RBP) and Ethnic Partners (ETP). From the above figure, it is clear that the three factors of weak partners,



resource-based partners and ethnic partners with factor loadings of 0.81, 0.66 and 0.60 and  $R^2$  Values of 0.66, 0.43 and 0.36 respectively are the best indicators of network structure. Consequently, network structure explains 66% of the variance in weak partners, 43% of the variance in resource-based partners and 36% of the variance in ethnic partners. Strong Partners ( $\beta=0.17$ ,  $R^2 =0.03$ ) is a poor indicator of network structure.

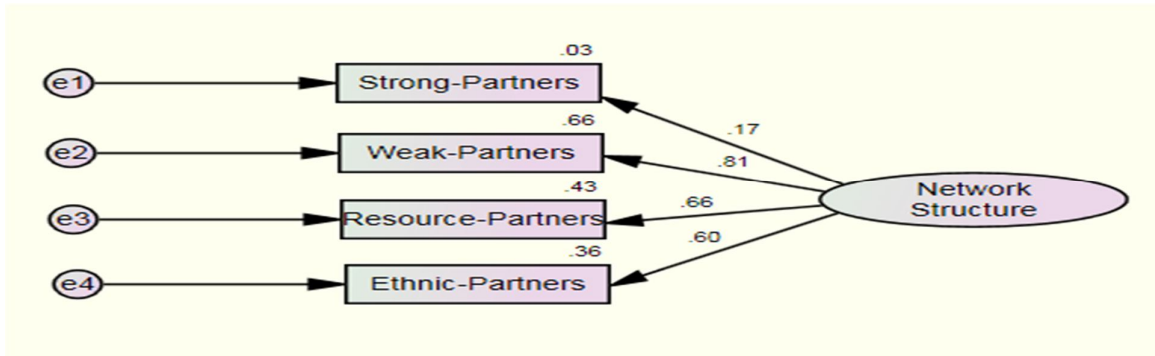


Figure 1: Confirmatory Factor Analysis - Network Structure  
Source: Survey Data (2011)

#### 4.2 Structural Model

The initial measurement model of network structure and venture performance indicated that the model did not fit the data well. Although the chi square value of 17.839 with 8 degrees of freedom was statistically significant at  $p < 0.05$ , indicating inappropriate fit, the other fit statistics indicated that the model was acceptable ( $\chi^2 / df = 2.230$ ; GFI = 0.979; AGFI = 0.944; NFI = 0.918; CFI = 0.952; RMSEA = 0.067). However two observed variables (STP and NOF) had very poor reliabilities as their squared factor loadings were less than 0.20. However, no post – hoc modifications were indicated in the analysis thus, the model was fit.

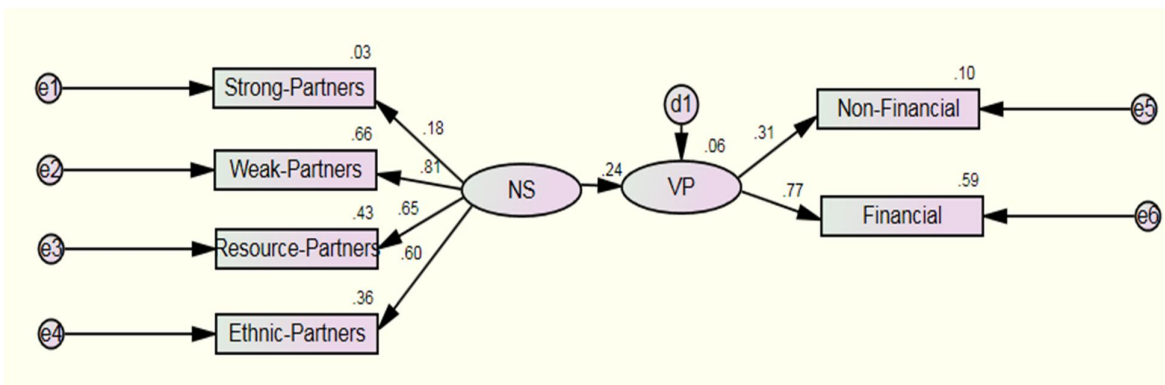


Figure 2: Structural model for network structure and venture performance

Source: Data Analysis

#### 4.3 Covariance

Further examination of the standardized residual covariance indicates that none of them exceeded the cut-point. With the highest being 1.981 it confirms that the modified model does fit the data well. The covariance between network structure and venture performance ( $r = 0.36$ ,  $p = 0.096$ ) was not significant at  $p < 0.05$ . Therefore the hypothesis that there is a significant covariance between Network structure and venture performance was not supported. The residual covariance is shown in table 1.

Table 1: Standardized Residual Covariance's - Venture Performance and Network Structure

	FIN	NOF	ETP	RBP	WEP	STP
FIN	.068					
NOF	.079	-.049				
ETP	-1.184	-.228	.000			
RBP	.037	-.323	.086	.000		
WEP	.332	.085	.030	.005	.000	
STP	.384	1.981	-.076	.403	-.524	.000

Source: Data Analysis

#### 4.4 Hypothesis

The study posited that there was no significant effect of network structures on performance of EMVs. The results indicated that this postulation was supported. On the basis of these results, it means that network structure may have no significant influence on performance of EMVs. The standardize path coefficient of 0.026 was not significant as shown on table 2. Indeed, there was a very minimal positive relationship between network structure and venture performance ( $\beta=0.026$ ). This finding is surprising considering that it is contrary to the findings by Granovetter (1995) and Mazzarol and Rebound (2006). According to Mazzarol and Rebound (2006), if a venture engages in networking, it would be in a better position for achieving access to important strategic information critical to the success of its commercialization. Granovetter (1995) had earlier argued that social structure is an interconnected embedded network consisting of either weak or strong ties, where weak ties, among other things, are means to make the venture competitive.

Table 2: Hypothesis Tested and Hypothesized Path

Hypothesized Path	Estimate ( $\beta$ )	Standard Error	Critical Ratio	P value
Network Structure and Venture Performance	.026	.020	1.289	.197

Source: Data Analysis

#### Discussion of Findings

The finding that network structure has no significant influence on performance of event management ventures is however consistent with findings of Teng (2007) that it could be difficult for a firm to find suitable partners to cooperate with and the interactions could be difficult to manage due to shared decision making, need for control and conflicting objectives thereby affecting performance. The views advanced by Teng (2007) are further supported by Hammill and Gilbert (2009), when contending that there is a cost associated with the number of connections one actor has. These authors argue that an individual cannot have too many people in their personal work because of the cost associated with maintaining the network.

Analyses of the effects that tie strength and trust between relationships have on ventures' performance resulted in an additional explanation of improved performance. Krackhardt, (1992) argue that frequency in contact and level of trust between ventures and its partners were significant for the ventures' performance. The stronger the ties were, and the more trust the relationships contained, the better competitive advantages the venture obtained from the contacts. Moreover, achieving improved venture performance through strong ties was also shown to increase the ventures' performance. On the other hand, strong ties often provide comfort and reliability in uncertain settings, facilitating the share of crucial and confidential information as well as trustworthy cooperation based on solidarity and mutual influence (c.f Krackhardt, 1992; Aldrich, 1999; Adler and Kwon, 2002; Nicolaou and Birley, 2003b).

People have both friends and acquaintances. Friends are often a part of a close-knit group who largely know one another while acquaintances are far less likely to know one another. In terms of connection with general society and staying in touch with what is going on in the wider world, the weak ties with acquaintances are paradoxically much more important than the inwardly-focused conversations with closer friends. Indeed, the information discussed with friends often comes from wider sources. These results are in contrast to prior network-based research, where Granovetter (1973) and Oviatt and McDougall (2005) amongst others argue that it is the sporadic contacts with weak ties that result in more competitive advantages due to the new and dissimilar information they possess. This study supports the findings of Granovetter (1973) and Oviatt and McDougall (2005) which showed that weak partners were the most important in achieving social capital and enhanced venture performance. Also, Granovetter (2004) argues on the importance of weak ties between relationships since the tie to another clique, even though it may be weak, can enable opportunities which a clique of closer relationships might not.

Similar to Birley (1985); Oviatt and McDougall (2005) network ties, especially strong ties from friends, was in this study important for venture performance, and thus increased venture performance. The importance of friends may be natural for the ventures under study since they were privately owned ventures but there were significant views that relatives were not very important. However, the importance of weak ties in obtaining improved performance was noted by the respondents. Prior research emphasized weak ties to be the relations providing new ideas and information strongly affecting superior performance (cf. Granovetter, 1973; Gulati *et al.*, 2000).

Strong ties are, on the other hand, considered to reduce the flow of new ideas (Adler and Kwon, 2002). This study supports this view as respondents viewed relatives as not being very beneficial sources of business and also they had little contact with them. This may be due to the fact that relatives are frequently around entrepreneurs and have a lot of information about their plans and progress, thus do not provide any new creative ideas to entrepreneurs. In addition, conclusions from nominal group technique discussions revealed that relatives may work against the progress of ventures out of jealousy or inability to help due to lack of ideas and lack of exposure resulting from shared experiences. Evident from the NGT discussions was the fact that ventures are more receptive to working with new ventures than existing ones due to poor communication between old ventures resulting over time from frequent conflicts. Additionally, ventures indicated that they viewed old ventures with suspicion and perceived them as threats hence would prefer to know what new ideas the new ventures have in order to either copy them or undercut them.

Nevertheless, strong ties provide trust and strong economic motivations to collaborate in uncertain settings (Granovetter, 1995; Krackhardt, 1992), critical for a venture's product development and performance. Although weak ties were important in this study, strong ties are still effective means for ventures attaining improved venture performance. With little expense ventures can get hold of new and vital information increasing their competitiveness, particularly, as the results from this study show. However, the link between increased venture performance and weak ties was significant when the trust between the venture and its contacts also were high, implying trustworthiness and reliability (Aldrich, 1999; Adler and Kwon, 2002) to



be important not only within strong ties but among weak ties too. Hence, it can be argued that network ties in general enhance ventures' performance.

Other conditions also affected ventures' access to competitive advantages through network relationships. Resource-based partners and ethnic partners are crucial elements in networking. Entrepreneurs easily network with those ventures endowed with resources either more or equal to their own. Discussions using NGT revealed that most entrepreneurs pegged resources to financial resources and failed to consider other resources that would otherwise be beneficial to the venture. This means that ventures appreciate those ventures that have a solid financial base and hence have little or no value for other forms of resources which could have otherwise been beneficial to them such as human capital.

Those that are established in ethnic networks can do best (Salaff *et al.*, 2003). Entrepreneurs from the same ethnic group get easier access to business networks in the enclave than with outsiders. They are in an advantageous position to exploit ethnic networks. Ethnic affiliation especially in Kenya is fast becoming a factor that can enhance or prevent relationships. The finding from this study failed to support this view as ethnicity seemed not to affect network relationships. Based on the findings, entrepreneurs networked with members irrespective of their ethnic affiliations. However, benefits from ethnicity in networking can be double-edged sword depending on the circumstance.

### **Conclusion**

The finding that network structure does not influence performance of EMVs in this study should be viewed skeptically. EMV entrepreneurs should find ways in which to alleviate cost implications involved in creating network structures. This is because other prior research has shown that partnerships have influence on growth of both financial and non-financial benefits. This finding may therefore be as a result of limitations arising from this particular study. However, from the findings, weak partners, resource-based partners and ethnic partners in EMVs are important in enhancing venture performance while strong partners were not crucial determinants of venture performance.

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