

The Currency of Contacts:

The Importance of Social Capital and Entrepreneurial Networking
for Chilean Innovative Entrepreneurship

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Abstract

The Chilean entrepreneurial scene has been growing considerably over the last few years, much as a result of governmental incentives aiming to encourage entrepreneurship. The Chilean culture is characterized by collectivistic influences in which entrepreneurs' reliance on family and friends is high for starting up their ventures. In order to encourage innovative entrepreneurship participation from all social groups, the Chilean government has funded external assistance programs that aim to support entrepreneurs who lack sufficient initial social capital. The purpose of this thesis has been to distinguish to what extent Chilean innovative entrepreneurs rely on their initial network of contacts for support in the entrepreneurial process and in what way they benefit from the social network expansion enabled by entrepreneurial organizations.

Through a case study method, 15 semi-structured interviews have been conducted with entrepreneurs involved in the organizations ASECH and Start-Up Chile. The results have been matched with theory on social capital in order to understand the cultural distinctions of the context of Chile. The results indicate that the cultural factor of collectivism is highly influential, as Chilean entrepreneurs rely heavily on support from family and other close contacts, but that successful entrepreneurship in the region also requires a diverse network of weak ties. Furthermore, trust was an influential factor for all entrepreneurial endeavors, and was most commonly created through sharing a mutual network connection. Moreover, involvement within the entrepreneurial organizations could not compensate for a lack of support from strong ties, but rather fulfilled the purpose of weak ties. The study also found indications of a dense and collaborative entrepreneurial ecosystem. The main benefit of involvement within the entrepreneurial organizations was their ability to serve as a platform that enabled inclusion in this collaborative and closed network of entrepreneurs.

Keywords: social capital, entrepreneurial networking, innovative entrepreneurship, entrepreneurial organizations, Chile

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"Chile is the land of contacts, it's who you know more than what you know that matters." - a2

1. Introduction

1.1 Background

1.1.1 Entrepreneurship as a force of economic growth

Entrepreneurship is a key fuel for growth and progress in developing countries. The ripple effect generated by the knowledge spill overs from entrepreneurship creates entrepreneurial opportunities for new ventures (Laborda *et al.*, 2011). Therefore, business creators play an important role in the transition of low GDP per capita countries, characterized by a high prevalence of entrepreneurship due to necessity and self-employment, towards more dynamic entrepreneurial ecosystems that allow for economic growth and further promotion of innovation in the country (Quatraro & Vivarelli, 2015).

The Chilean economy has experienced astonishing growth during the last 20 years and is leading in Latin America in terms of income per capita, competitiveness, economic freedom and stability (World Bank, 2017). The country is transitioning from an efficiency-driven to an innovation-driven economy (Global Entrepreneurship Monitor, 2016). Yet, for all its economic success, Chile is experiencing a high level of income inequality potentially resulting in differing preconditions for entrepreneurship depending on social background (World Economic Forum, 2016).

Consequently, there are several inhibitions for entrepreneurship growth in Latin America, such as low visibility of entrepreneurial success stories and the tendency of entrepreneurs to have networks limited to their inner circles of friends and family. Additionally, a lack of business knowledge, skills and unawareness of the possibilities offered by entrepreneurial support networks can hinder entrepreneurship participation (ASELA, 2016).

Furthermore, the Chilean culture is influenced by a high level of uncertainty avoidance and low level of individualism (Hofstede, 2017), characteristics unfavorable for entrepreneurship (Hancioğlu et al., 2014). A demonstration of the reigning risk aversion in Chile is the lack of

venture capital available for new firms, both from local as well as international investors (Rathi, 2012). Moreover, the level of trust is low in the country and only a small percentage of the Chileans believe, generally speaking, that people can be trusted (World Values Survey, 2014). These cultural characteristics can be expected to impact how Chilean entrepreneurs utilize and expand their network of contacts for business development purposes.

Altogether, the liabilities of Chile point towards the importance of supporting the development of an entrepreneurial ecosystem. In particular, external assistance programs facilitate for entrepreneurs who cannot rely on their initial network for support, in terms of resources and business development (Yusuf, 2012). These organizations support entrepreneurs in the initiation and development of their venture and are run by public and private actors such as governmental agencies, entrepreneurial associations and incubators. As a result, the programs open up for nationwide future entrepreneurial development.

1.1.2 Incentivizing entrepreneurship in Chile

In order to incentivize entrepreneurship, the Chilean government has been promoting the country as a new innovative entrepreneurial hub, “*Chilecon Valley*” (The Economist, 2012) and has launched seed capital programs through the governmental agency Corfo, offering co-funding for entrepreneurs (Goldberg *et al.*, 2008). The government is also funding a plethora of other initiatives that will hereinafter jointly be referred to as entrepreneurial organizations, such as the entrepreneurial association ASECH, Asociación de Emprendedores de Chile, and the startup incubator Start-up Chile (Chandra & Silva, 2012). ASECH organizes seminars on topics relevant for entrepreneurs as well as networking events and participates in public policy debate (ASECH, 2017). Start-Up Chile is a public seed accelerator that offers equity-free funding. As a part of the program, integration among participants is encouraged through seminars and events. The program has attracted Chilean as well as foreign startups, putting Chile on the entrepreneurial world map (Start-Up Chile, 2017).

Still, even the most encompassing attempts to stimulate individuals to pursue entrepreneurship needs to meet its ends. A vital aspect of successful innovative entrepreneurship is the importance of having a broad social network as an entrepreneur

(Aldrich & Martinez, 2011). Entrepreneurial organizations want to present themselves as networking platforms that allow for an expansion of the entrepreneur's social network, reducing uncertainty and providing other entrepreneurial contacts that can possibly facilitate in business creation and development for nascent entrepreneurs in a wide sense. If this is successful, these initiatives can play a major role in the development of a strong entrepreneurial ecosystem, which in turn supports and benefits economic growth in a constantly advancing economy like the Chilean.

Yet, in a cultural context where the level of individualism is low and thus that of collectivism is high, the interaction between venturing entrepreneurs and their networks is relevant to explore, since the individuals can be expected to rely on their personal contacts for support. The guiding question is therefore to what extent entrepreneurs rely on their initial network for support and how they can benefit from expanding their network through an entrepreneurial organization.

1.2 Previous research

Entrepreneurial networking and the usage of social capital is a well-established topic in previous research, and ever since the mid-1980s, the focus has shifted from viewing entrepreneurs as isolated rational individuals towards being embedded in their social network (Hoang & Antoncic, 2003). Consequently, previous research has been divided into two opposing views on the cultural implications for entrepreneurial networking (Klyver *et al.*, 2008).

On the one hand, previous studies have concluded that entrepreneurial networking is mono-dimensional and universal, exhibiting a similar practice between various cultures. Greve and Salaff (2003) concluded in a comparison between European and American countries that the practice and value of networking shared generic characteristics throughout the different cultural contexts.

On the other hand, comparative studies between entrepreneurial ecosystems have indicated that the extent to which entrepreneurs rely on their social network is dependent on the

industry and the cultural preconditions (Dodd *et al.*, 2002). The Chilean culture is influenced by high levels of both risk aversion and collectivism (Hofstede, 2017). Consequently, this study can help with understanding whether these cultural influences impact the importance of expanding and utilizing the entrepreneur's social capital.

Furthermore, a study concerning entrepreneurial assistance programs in the United States (Yusuf, 2012) indicates that these mainly attract participants who have a highly valued social capital initially, through education and previous entrepreneurial experiences. Instead of functioning as a compensation for initial network deficiencies, the networks created through these programs mainly include those who initially have a well-established network. Resultantly, the entrepreneurial organizations fail in assisting those whose social background may be an inhibiting factor for entrepreneurial participation (Yusuf, 2012). This study will contribute by examining the benefits that Chilean business creators derive from entrepreneurial networks enabled by these organizations, in relation to the value of their initial social capital.

1.3 Purpose and Research question

The purpose of the thesis is to investigate the importance of an initial social network for Chilean innovative entrepreneurship and how the entrepreneurs benefit from expanding their network through entrepreneurial organizations. The level of analysis will focus on the individual level, looking at the entrepreneurs' interaction with those within their initial social network as well as with entrepreneurs encountered through entrepreneurial organizations. The thesis will shed light on which characteristics of social capital are considered most critical for value creation in the business development process. This will be achieved through understanding to what extent the entrepreneurs rely on their initial personal network in the startup phase of the business. Moreover, the thesis aims to examine what benefits, in terms of business development, that the participating entrepreneurs derive from networks enabled by entrepreneurial organizations. Consequently, the thesis seeks to answer the following questions:

-
1. *How does the value of Chilean innovative entrepreneurs' initial social capital relate to how they utilize and expand their social network in the startup process?*

and with regards to question 1

2. *How do the entrepreneurs benefit from expanding their initial network through an entrepreneurial organization and utilizing the new contacts?*
-

The concepts of *expansion*, *utilization* and *value of social capital* will be defined and further explored in the theoretical framework.

1.4 Delimitations

The study is delimited to focus on the Chilean entrepreneurial ecosystem, and more precisely on entrepreneurship in Santiago. Due to the centralization of innovative businesses in the capital, Santiago is an isolated network hub, making it a natural delimitation (The Guardian, 2016). Further, the study focuses only on the startup process of the venture and includes participants from the organizations ASECH and Start-Up Chile as these are the two major entrepreneurial platforms in the country. The study pinpoints the networks and connections with other entrepreneurs that have been created through entrepreneurial organizations and not the direct assistance received from these organizations.

2. Theoretical framework

The following section presents the theoretical framework, which aims to elaborate on fundamental concepts relevant for the research questions. Firstly, social capital and its influence on innovative entrepreneurship will be explored. Secondly, the concepts of utilization and expansion will be explained. Subsequently, theory on measuring the value of social capital in terms of structures and features will be examined. Lastly, a conceptual framework is presented based on the theoretical findings.

2.1 Defining social capital

In order to answer the research questions a definition of the fundamental concept of social capital needs to be established. Social capital comprises the productive benefits that can be derived from one's network of contacts (Bourdieu, 1986). It is a vital asset for entrepreneurs since it provides the opportunity to gain access to resources that would otherwise be difficult to acquire (Burt, 2000; Coleman, 1990; Bourdieu, 1986). According to Kim and Aldrich (2006), social capital can provide an unlimited amount of resources, limited only by the entrepreneur's ability to realize the potential within the network. The concept of social capital has been subject to several definitions, some focusing on the internal bonding within networks and some on the external bridging between them (Adler, 2002; Woolcock, 1998). Since the focus of the study lies on the benefits derived from one's social capital, we will use the definition of social capital by Nahapiet and Ghoshal (2008, p. 243);

“the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network”

2.2 Social capital for innovative entrepreneurship

Since the focus of the study lies on innovative entrepreneurs it is of importance to distinguish that this group has a high ability to leverage on their social capital in comparison to traditional firms (Aldrich & Martinez, 2011). Innovative organizations are defined as those with new routines and competencies in which there are no truths about how the market functions or what goals to pursue (Meyer & Rowan, 1977). Previous research has concluded that the ability to leverage on one's social capital is particularly high for innovative technology-based firms, due to a greater need for industry-specific knowledge which cannot be found among one's closest network contacts. (Yli-Renko *et al.*, 2001). In contrast, Dyer *et al.* (1994) claim that nascent innovative entrepreneurs rely on their immediate family and close friends as their primary source of knowledge. In the collective culture of Chile (Hofstede, 2017) one would expect a high reliance on family and trusted sources in order to provide knowledge.

2.3 Social capital utilization

As the research questions aim to explore and map out the utilization of social capital, there is a need to understand the concept hereby referred to as network utilization. Bhavé (1994) has developed a model that illustrates social capital utilization in three stages of the business development process, illustrated in table 1.

Opportunity Stage	Concerns the aspects that incentivize entrepreneurship and promotes opportunity detection (Bhavé, 1994). <i>Will not be included as it lies outside the scope of this thesis.</i>
Technology & Organizational creation stage	Concerns the organization of the venture once the business idea has been established. Aldrich and Martinez (2005) defines the stage as consisting of the following primary activities: <i>Capital accumulation, Team formation and Employee recruitment/selection.</i>
Exchange Stage	Concerns the need for the entrepreneur to expand the network to include clients as well as supplier contacts (Renzulli et al., 2000). Aldrich and Martinez (2005) defines two main activities for this stage: <i>finding suppliers and customers.</i>

Table 1: Bhavé's (1994) three-stage process

Aldrich and Martinez (2011) aim to distinguish the benefits and patterns for entrepreneurs through each stage, in relying on either strong and cohesive tie connections or weak contacts that provide a diversified network. Entrepreneurs tend to have only 3 to 10 close contacts within their network, whereas the number of weak contacts can be limitless. It is therefore a trade-off between whether entrepreneurs should develop their close or distant connections (Aldrich *et al.*, 1989).

2.3.1 Technology and organizations creation stage

Capital accumulation concerns the process of finding initial funding for the venture.

According to Aldrich and Martinez (2011), it is unlikely in Western countries that the closest contacts, such as immediate family, provide these financial resources. The main benefit of family is rather their ability to provide indirect contacts to other potential investors. Similarly, having a wide and diverse network of contacts can subsequently provide indirect links to investors (Aldrich & Martinez, 2011). Still, indirect links may not always be enough as previous research has proven that venture capital firms and angel investors prefer to invest in entrepreneurs who they have a previous direct connection to. (Steier & Greenwood, 2000).

Team formation & recruitment can be difficult for a small and newly established venture.

Therefore many entrepreneurs hire family members due to pricing and commitment advantages (Aldrich & Langton, 1997). However, this can cause difficulties when specific knowledge is required. Having a diverse network can provide indirect contacts to people with complementary skills, yet these may also demand more from their employer (Jones, 2005). Colombo *et al.* (2004) emphasize the benefit for technology-based firms of turning to weak connections for creating a diversified team. Due to the collectivistic cultural influences in Chile, one can expect strong ties, such as family, to be important for recruitment as well as financial purposes.

2.3.2 Exchange stage

Client and supplier relationships are, to a great extent, transaction-based (Chi, 1994), meaning that the exchange requires trust between the two parties. By accessing suppliers and clients through one's strong ties, a trusting bond has already been established (Schoorman *et al.*, 2007). Even though relying on strong ties makes it easier to get an initial client, strong ties may demand preferential treatment in comparison to other clients (DiMaggio & Louch, 1998). Initially having, or continuously developing, a wide and diversified network of contacts is therefore crucial for gaining access to opportunities leading to customers and suppliers (Turner, 2007).

2.4 Expanding one's social capital

Since the research questions aim to understand the expansion of social capital, it is necessary to examine the concept hereby referred to as *network expansion*. For the purpose of this thesis the concept is defined as the practice of networking and developing one's network to include more contacts. Social capital has been discussed by Hirschman (1984) as a moral asset, meaning that its value increases the more it is being used. Hence, social capital needs to be constantly cultivated and maintained through the practice of networking. Previous research has indicated that there is a positive correlation between the networking activity of the entrepreneur and the success of the business (Witt, 2004; Brüderl & Preisendörfer, 1998). Nonetheless, networking constitutes an alternative cost for entrepreneurs by having to give up time that could have been used to develop the business (Nahapiet & Ghoshal, 1998). It has also been stated that entrepreneurs are drawn to networking with those who they identify themselves with (Nielsen *et al.*, 2012). In a risk averse community such as the Chilean, this could potentially be a common behavior in entrepreneurial networking practice.

2.5 Exploring the value of social capital

In order to grasp how the initial network and the entrepreneurial network affect the value of the entrepreneur's social capital, we first need to determine how social capital is valued. Following De Wever *et al.* (2005), the value of social capital will be defined through two dimensions; the structural and relational dimension. The following model illustrates how these dimensions have initially been defined by Nahapiet and Ghoshal (1998):

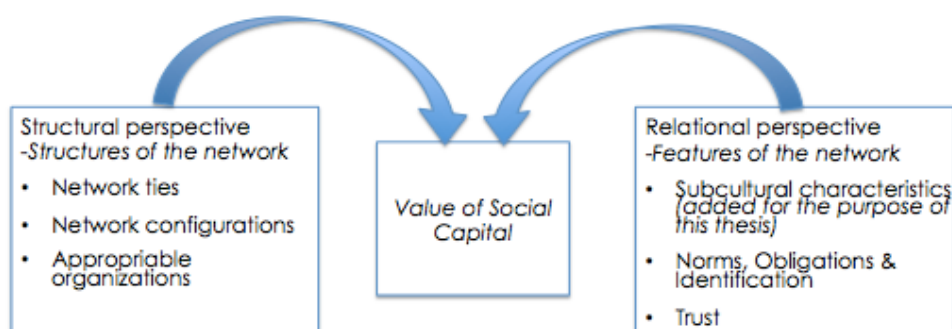


Figure 1: Value of Social Capital

There is a difference between the amount of potential resources found within the network, and the amount of resources being exchanged. The structural dimension defines the potential value of one's social capital, and the relational perspective determines whether the parties are willing to exchange these resources (De Wever *et al.*, 2005).

2.5.1 Structural dimension

A network constitutes of connections between nodes and ties, where nodes are the individual actors and ties their interconnecting relationship. The social network is thus a definition of the structures and relationships between the nodes and will affect the flow of information between them (Downes, 2005). Nahapiet and Ghoshal (1998) break down the structural dimension into the following aspects.

2.5.1.1 Network ties

The network ties constitute the channels of information and resources within the network (Nahapiet & Ghoshal, 1998). Granovetter (1973) introduced the concept of tie strength in which ties can be distinguished as either strong or weak. The strength of ties is related to the concept of structural equivalence, meaning that the nodes in a strong tie share similar characteristics (Lorrain *et al.*, 2010), which limits the flow of new information. Strong tie connections are characterized by a high level of group cohesion that facilitates for resource exchange and collaboration (Aldrich & Martinez, 2011). However, weak ties are rather influenced by a higher level of diversity, meaning that they can act as a source of novel information and opportunities (Burt, 2000). Marouf (2007) argues that the strength of ties can be measured through two dimensions; *frequency of interaction*, how often the parties contact each other, and *closeness of the relationship*, the level of emotional intensity (Marsden & Campbell, 1984).

2.5.1.2 Network configurations

Table 2 defines aspects relevant when assessing network configurations.

Network size	The number of direct contacts in one's network. Network size will affect the amount of indirect contacts that can be reached through the network (Jensen & Greve, 2002)
Structural holes	The hole of separation between nodes in different networks. However, an individual with ties to several different networks can bridge the connections between them.(Burt,1992)
Network density	The degree to which the nodes in the network are interconnected. Is measured by comparing the number of connections within a network in relation to the potential number of ties if all nodes were interconnected (Aldrich & Zimmer, 1986).

Table 2: Network configurations

Having a large network of both strong and weak ties can be expected to relate to the amount of potential resources and knowledge found within the network (Jensen & Greve, 2002). Furthermore, having nodes that bridge structural holes can increase the flow of information between several different networks (Burt, 1992; Granovetter, 1973). In relation to entrepreneurship, bridging structural holes is important in order to fill the initial knowledge gaps by receiving information from differing networks (De Carolis & Saporito, 2006; Burt, 2000). The density of the network will facilitate the flow of information and potential for resource exchange, since a dense network is commonly characterized by a high level of inclusion, trust and cooperation (Coleman, 1994).

2.5.1.3 Appropriable organizations

Social capital developed in one context can under the right circumstances be transferred to a different setting, such as personal relationships evolving into business ties (Coleman, 1990). Participation in organizations that are created for one purpose may therefore bring valuable

resources for other purposes and contexts as well (Nahapiet & Ghoshal, 1998). Appropriable organizations often take on the structural configuration of a network hub, a structure in which one node is able to connect otherwise separated individuals (Casson & Della Giusta, 2007). This type of network configuration allows for the creation of multiple weak ties. A network hub has also been defined as a social context, which allows for the creation of weak ties and a transfer of social capital from one social setting to another. (Casson & Della Giusta, 2007; Nahapiet & Ghoshal, 1998). This concept is of relevance as one can expect entrepreneurial organizations to take the form of appropriable organizations.

2.5.2 Relational perspective

The structure of one's network is decisive for the size and number of opportunities within one's social network. Still, for these opportunities to be realized in practice, the features of the network are determinant (De Wever *et al.*, 2005).

2.5.2.1 Subcultural characteristics

As mentioned, Chile is experiencing a high level of income inequality, which can result in differing preconditions for entrepreneurship depending on social background. (World Economic Forum, 2015). Subcultural characteristics therefore become relevant for valuing social capital. Kristiansen (2004) claims that the level of education can leverage the value of social capital due to the network connections gained. He further mentions that one's socioeconomic background can be a determining factor for the usefulness of one's network (Kristiansen, 2004). This has previously been acknowledged by Davon (1997) who claimed that having high-status and wealthy individuals in one's network will impact the amount of resources found within it. These ideas are related to the finding that the *quality* of one's network is determined by the potential amount of resources found within it (Nahapiet & Ghoshal, 1998). Klyver (2008) has further emphasized that personally knowing an entrepreneur will facilitate the startup process. In general, diversity in one's network, in terms of social position, opens up the possibility of gaining access to a variety of resources and novel information (Aldrich & Martinez, 2011; Varamäki, 1996; Burt 1992).

2.5.2.2 Norms, obligations & identification

When studying a collectivistic culture like the Chilean, group dynamics become a relevant aspect to explore. Group norms are defined by Coleman (1994) as “*when the socially defined right to control an action is held not by the actor but by others*”. Norms are about creating consensus in the group about how to cooperate. A group with a norm that expects the group members to help each other thus increases the value of each individual's social capital. Obligations are, just like norms, the duty to perform a certain action in the future, yet Coleman (1990) claims that obligations rather than norms are developed in personal relationships rather than within groups and are therefore a result of an action rather than an expectation. Identification, on the other hand, is the process where one regards oneself as included in the group. The perception of inclusion may either come from a membership within the group or perceiving the group as a reference group, “*in which the individual takes the values or standards of other individuals or groups as a comparative frame of reference*” (Merton, 1968). A high level of group identification has been proven to enhance opportunities for resource exchanges and frequency of cooperation (Lewicki & Bunker, 1996).

2.5.2.3 Trust

As previously stated, the level of trust within the Chilean culture is generally low. Since transactions within a network are created on a voluntary basis (Blau, 1964), in order for a transaction to occur, both parties need to trust that the other one will deliver what is promised (Sherer, 2003; Mayer *et al.*, 1995). Due to the risk averting cultural influences, trust becomes a crucial precondition when studying transaction exchange and the value of social capital.

According to Casson and Della Giusta (2006), trust can be defined as “*the confident and warranted belief that the other party will honor their obligations*”. For entrepreneurship, trust between two parties is vital for resource acquisition since it reduces the cost of mobilizing resources (Liao & Welsh, 1993). Trust is a multidimensional concept that depends both on the characteristics of the relationship and the nature of the expected transaction. De Wever *et al.* (2005) have developed a framework for assessing different forms of trust with regards to two dimensions.

Resilience	This dimension of trust is closely related to benevolence and is non-calculative. As opposed to fragile trust, resilience means that one party accepts that they might not be sufficiently compensated for the transaction in one single exchange but that the rewards will come from a long-lasting relationship. A high level of resilience is most commonly found between family members.
Specificity	Regards the level of direct contact between the two parties. Low specificity means that trust exists despite a lack of information or previous interactions between the two parties. This is commonly referred to as <i>generalized trust</i> , based less on direct knowledge and more on associations and reputation.

Table 3: Two dimensions of trust

Combining these dimensions into a framework can explain four different types of trust, illustrated in figure 3.0 (De Wever *et al.*, 2005).

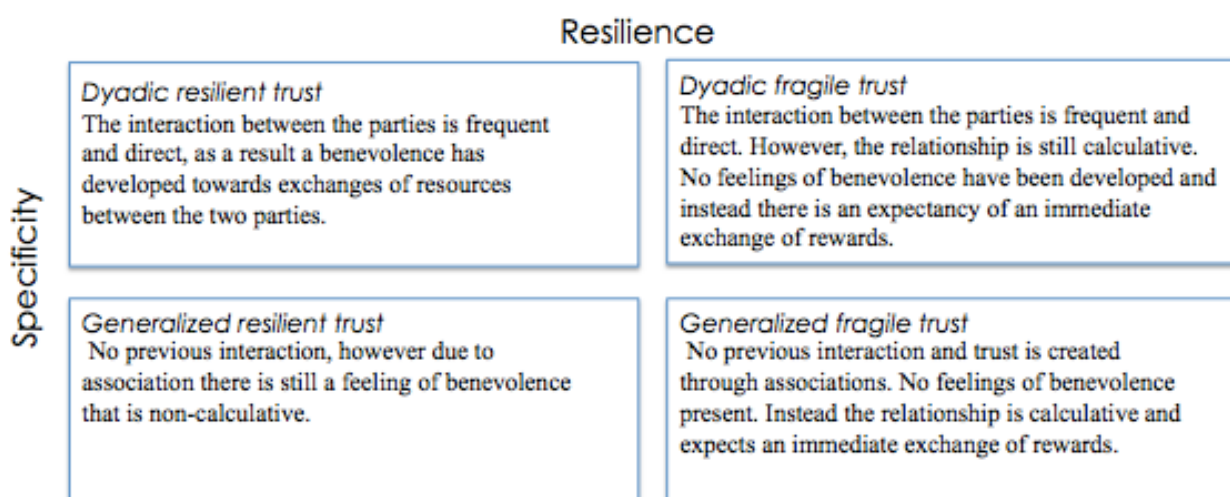


Figure 2: Four types of trust

The model explains that through generalized fragile and resilient trust, the concept of trust does not have to be related to the structural context of one's network. Instead, generalized trust is generated through the entrepreneur's ability to create credibility and legitimacy for their business (De Wever *et al.*, 2005). Trust is different from trustworthiness in the sense that it describes the characteristics of a relationship and not of an individual (Casson & Della Giusta, 2006). Obtaining trustworthiness is fundamental in creating a trusting bond, and the following sections will discuss the creation of trustworthiness through legitimacy and credibility.

2.5.2.4 Credibility for creating trustworthiness

In order to establish trustworthiness, an entrepreneur first needs to demonstrate credibility. Gaining credibility is crucial in the early entrepreneurial stage for creating trustworthiness and securing collaboration partners (Aldrich & Fiol, 1994). Birley (1985) has developed the framework *credibility carousel*, in which five sources of credibility are identified: people, customers, money, suppliers and premises. Each source can open up the possibility for receiving resources from the next step in the carousel. For newly established businesses it can be difficult to join the carousel if they have no control of any of the five sources of credibility (Birley, 1985).

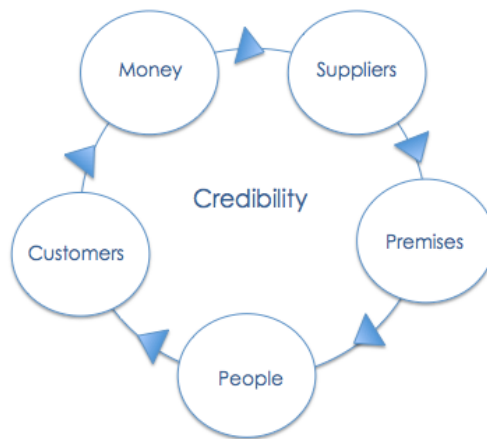


Figure 3: The Credibility Carousel

2.5.2.5 Legitimacy for creating trustworthiness

A second way of establishing trustworthiness is through social legitimacy. The concept has been defined as a perception of something or someone being “*desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*” (Suchman, 1995). Social legitimacy has been mentioned by Klyver *et al.* (2008) as one of the main resources that can be derived from a social network. For a new venture to receive further resources from external actors a perception of legitimacy is required (Aldrich & Fiol, 1994). Aldrich and Fiol (1994) have defined socio-political legitimacy as a way of creating trustworthiness for an entrepreneur and a new venture. The concept refers to the level of support from influential industry actors. Yet, there is a requirement that the influential actor, the connecting node, shares a trusting bond with both parties (Stuart *et al.*,

2000). Legitimacy is purely subjective and its perceived level can therefore vary between different audiences, depending on the relationship to the influential actor (Aldrich & Fiol, 1994).

2.6 Conceptual framework

Based on the theoretical framework, we have developed a conceptual framework that will form the foundation for the presentation of our empirical findings and analysis. The conceptual framework illustrates how the value of social capital (defined in figure 1), for the initial and entrepreneurial networks, is dependent on the structures and features of each network. These will determine the preconditions for utilizing and expanding the networks. In order to answer the research questions, we will use a bottom-up approach, examining empirical findings concerning expansion and utilization of each network, and subsequently analyze them through the perspectives of structures and features.

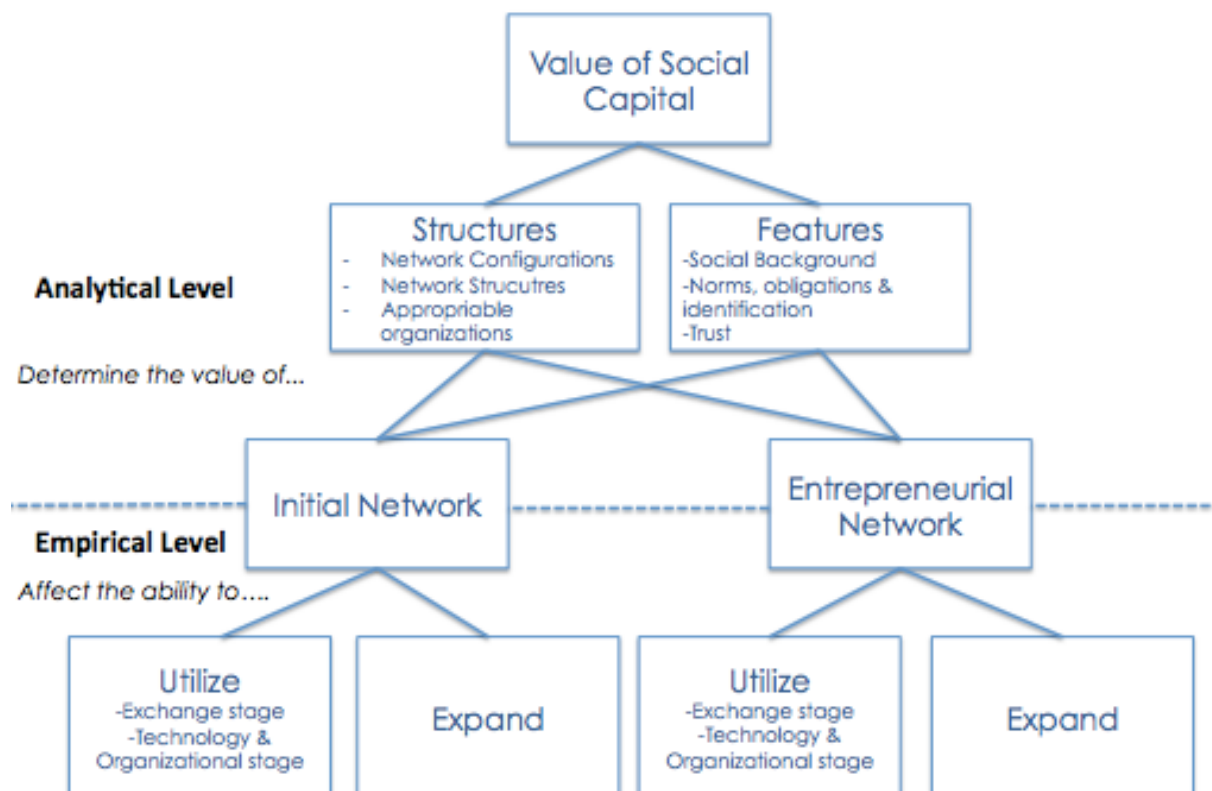


Figure 4: The Conceptual Framework

3. Methodology

The following section describes the methodological choices made for the design of the study, in order enhance its trustworthiness and authenticity.

3.1 Methodological fit

The thesis aims to answer the research questions by interviewing innovative entrepreneurs in Santiago through a qualitative method. Since the concept of social capital is a result of the perception of the interviewee and therefore highly subjective, to understand the subject one needs to ask complex and abstract questions. For this reason, Alvesson and Sköldbberg (1994) claim that a qualitative method is the most appropriate.

The analysis was based on an abductive approach, based both on previous theory, deductively, and through general intuition and comprehension, inductively (Alvesson & Sköldbberg, 1994). First a theoretical framework was developed based on concepts relevant for our research question. Resultantly, the framework is a merge of different theories in order to create an overall understanding of the relevant concepts. In a second step, we analyzed the utilization and expansion of social capital based on a deductive approach, trying to match existing theory with empirical findings (Alvesson & Sköldbberg, 1994). Subsequently, an inductive approach was used when subcategories emerged from the data that could not be matched with existing theory. Likewise, we had to exclude certain aspects of theoretical models from the analysis as the findings deemed them irrelevant for further discussion. As a result, we were able to distinguish patterns for which the answers to our research questions appeared to deviate or confirm existing generic theory on social capital.

3.2 Research design

Since the study focuses on only innovative entrepreneurs involved in ASECH or Start-Up Chile, the empirical data has been collected through a case study method. This method allows one to understand the dynamics and underlying complexity in a specific situation, and is therefore frequently used within management research (Eisenhard, 1989). For conducting a case study three criteria have to be met (Yin, 2003); *The research question is of a how or what nature, the study focuses on contemporary events and the researchers cannot control behavioral events.* Since the study fulfills these three criteria, a case study appeared as the

most relevant method. According to Yin (2003), an exploratory case study is most suitable as this method aims to explore problems that have not been clearly defined.

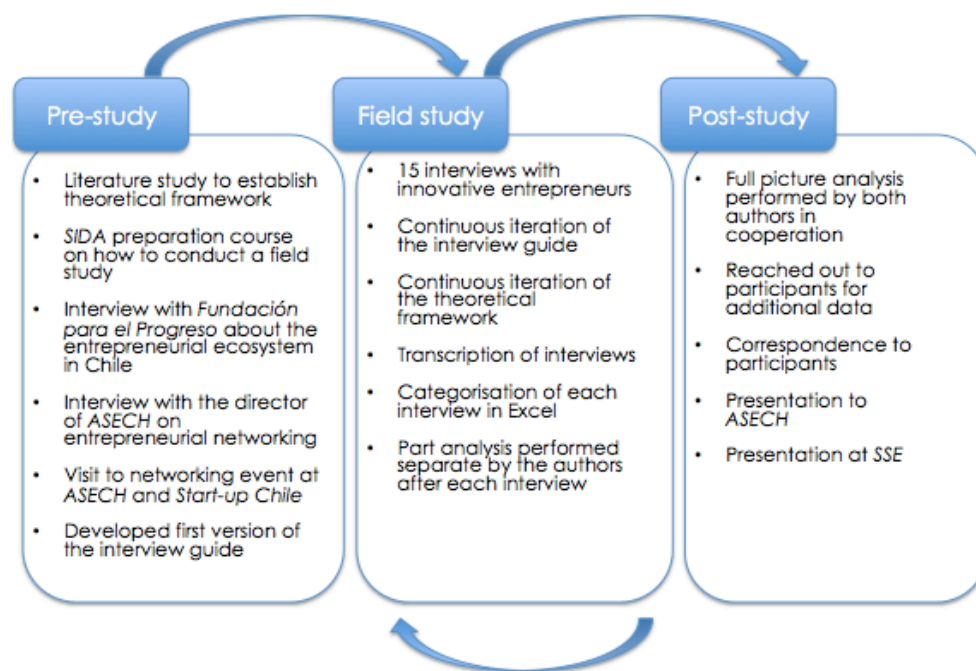


Figure 5 Research Design

The study has been divided into three different stages. The pre-study was made in order to establish an initial understanding of the theoretical framework with regards to social capital. The field study included conducting the 15 interviews and during this stage the theoretical framework and the interview guide were constantly iterated. In the final stage the empirical findings from each interview were incorporated into a general analysis in order to answer the research questions.

3.3 Selection of participants

The first participants were found through the member base of ASECH and Start-Up Chile. The entrepreneurs had participated in their activities and other platforms to varying extent but the common denominator was the participation in ASECH or Start-Up Chile on a regular or more sporadic basis. Snowball sampling, i.e. getting interviewees through recommendations, was avoided as we wanted to interview entrepreneurs who were not interconnected in the same initial social network. In order to be able to generalize the result of a case study, Eisenhardt (1989) suggests that one should have a strategically selected group of participants.

6 Key Criteria
o Innovative business idea
o Located in Metropolitan region of Santiago
o 1 < years since establishment < 6
o Founder or co-founder of the business
o Participated in events organized by ASECH or Start-up Chile
o Indication of success, for example by number of employees, international expansion or public recognition.

Table 4: Key selection criteria

Innovative businesses are interesting to study in terms of entrepreneurship practices as there is a greater need for knowledge sharing through network connections since there is no established way of running the business (Hartman *et al.*, 2008; Meyer & Rowan, 1977). The businesses involved should be no more than 6 years old, the argued cut-off age for new firms (Zahra *et al.*, 2000), but still older than one year in order for the entrepreneur to critically reflect on this period in retrospective. Involvement in entrepreneurial organizations and some indication of success are critical preconditions for answering the research question.

3.3.3 Participants

In order to facilitate causal inferences, it was important for us to reach entrepreneurs from different backgrounds, but who still fulfilled our key criteria. For this reason there is a variation in the background, industry and founding year between our interview subjects. Including the pre-study, 16 interviews were conducted until empirical saturation could be reached.

#	Symbol	Year of founding	Interview date	Industry
1	$\alpha 1$	2011	07-Feb	Technology
2	$\beta 1$	2014	06-Feb	Food
3	$\alpha 2$	2014	10-Feb	Technology
4	$\alpha 3$	2016	09-Feb	Technology
5	$\alpha 4$	2015	17-Feb	Technology
6	$\beta 2$	2013	15-Feb	Food
7	γ	2015	22-Feb	Transportation
8	$\alpha 5$	2015	21-Feb	Technology
9	δ	2014	15-Feb	Fashion
10	$\alpha 6$	2014	28-Feb	Technology
11	$\beta 3$	2011	23-Feb	Food
12	$\alpha 7$	2015	20-Feb	Technology
13	ϵ	2013	02-Mar	Energy
14	$\alpha 8$	2014	01-Mar	Technology
15	$\alpha 9$	2013	24-Mar	Technology

Table 5: Interview participants

3.4 Interviews

The interviews were conducted in a semi-structured disposition in which an interview guide, developed by the authors with pre-decided topics, was used. This interview method enabled the participant to deviate from the topic, which allowed us to understand what they deemed most important and relevant (Bryman & Bell, 2013). The interviews were conducted in Spanish, as it is preferable to use the participants' mother tongue (Piekkari & Welch, 2004). Additionally, each interview was held at the entrepreneur's office in order to establish a general understanding of the venture.

3.5 Processing the empirical data

After each interview the recording was transcribed and simultaneously translated into English. Subsequently, the data was categorized into 8 different subject areas based on our interview guide and sorted into a file in Microsoft Excel. This system facilitated the analytical process since the answers from each interview could easily be observed and compared based on each topic. The main methods of analyzing qualitative data are through a part and full-picture analysis (Holme & Solvang, 1997). After each interview a full-picture analysis was made for each interview. When the data collection was finished, we were able to do a comparative part-analysis based on the categorization of the interview guide.

3.6 Empirical saturation and causal inferences

Due to the qualitative approach the aim was not to create statistically significant results, but rather causal inferences and empirical saturation. Causal inference is a common method when studying sociology related topics and the concerns the ability to draw conclusions about a cause based on studying the occurrence of the effect (Gangl, 2010). Empirical saturation is defined as the state in which topics and answers recur in the interviews and no new insights are introduced (Persson, 2006). The collection of empirical data can be regarded as having reached empirical saturation by the 13th interview. After that the interviews provided few new dimensions and a general understanding about the subject areas could be established. Nevertheless, since all interviewees had their own story and the entrepreneurial process being

highly individual, it is possible that additional interviews could have provided us with new and more elaborate results. However, due to the sense of empirical saturation, the decision was made that the empirical purpose on a bachelor level was fulfilled.

3.7 Quality of research

When assessing the quality of research one should regard its reliability and validity based on the trustworthiness and authenticity of the research method (Bryman & Bell, 2004). Guba and Lincon (1994) have further divided these concepts into the following subcategories.

3.7.1 Trustworthiness

3.7.1.1 *Transferability*

Transferability refers to the ability of the study to be applied in a different context (Bryman & Bell, 2014). This is difficult to achieve through a case study and instead one should aim to create profound results (Guba & Lincon, 2014). Since our study is based on the individual stories of the interviewees, it is difficult to generalize such a qualitative study. However, by choosing participants from various backgrounds, different industries and varying levels of participation in entrepreneurial organizations, we have found patterns that we believe can be generalized on all innovative entrepreneurs in Santiago.

3.7.1.2 *Credibility*

Credibility assesses the level to which the results can be regarded as an accurate reflection of reality (Bryman & Bell, 2014). The interviewees were informed of their anonymity, which can further strengthen the credibility of their responses. It was of importance to avoid the experimental expectancy effect. This situation occurs when the participants construct and rationalize their answers in order to fulfil the expectations of the interviewer. To avoid this fallacy, we did not clearly state the research subject and tried to formulate open-ended questions in which the purpose of the thesis could not be clearly distinguished. Moreover, we avoided cognitive bias by organizing the recordings in Excel by subject. This method facilitated in ensuring that the analysis was not biased but rather based on exact quotes. Regarding the credibility of the literature study, we aimed to almost exclusively use renowned sources that had been cited over 100 times, in order to ensure reliability.

3.7.1.3 Dependability

Dependability measures the ability to replicate the study in the same context (Bryman & Bell, 2014). Since the topic is highly subjective, the case study might be difficult to replicate. However, this issue has been addressed through reaching internal consistency in the empirical results. Resultantly, we were able to reach a general picture of the topic that we believe would show the same result in a replicated study.

3.7.1.4 Confirmability

Confirmability is about not allowing personal biases affect the findings and instead reaching neutral results (Bryman & Bell, 2014). Both authors attended all interviews to gain two different perspectives. The analysis was made separately and then merged in order to avoid groupthink. There were no previously established relationships to the interview subjects that could cause a personal bias.

3.7.2 Authenticity

3.7.2.1 Fair picture

A *Fair picture* should be created in order to provide an accurate description of the opinions and perspectives that belong to the focus group (Guba & Lincoln, 1994). As the study examines both the practical utilization and the perception of networking, the former is more difficult to discuss objectively. As this is a highly subjective matter, the results might differ depending on the interviewees. Nonetheless, we can study the practical usage of social capital and thus create a fair picture based on a generalization of the empirical findings.

3.7.2.2 Ontological perspective

Ontological perspective regards the participants' awareness of how they influence the study (Bryman & Bell, 2014). This was made through informing them that their answers would be analyzed in order to understand the general patterns of entrepreneurship in Santiago.

3.7.2.3 Pedagogical, catalytic and tactical authenticity

The study has been able to provide an insight into the importance of utilizing and expanding one's social capital for all entrepreneurial endeavors. However, it has not improved the tactical opportunities for entrepreneurs to achieve this in practice.

3.7.3 Alternative research methods

Potentially we could have used a quantitative method by sending out a survey to the members of ASECH and Start-Up Chile. However, we believed that this method would cause an issue with the credibility of the study and the depth and complexity of the answers. Moreover, using focus groups was not appropriate due to the social sensitivity of some questions, and could possibly have resulted in groupthink. Interviewing entrepreneurial organizations and governmental agencies could have provided additional background information, but as we focus on the individual level, this was not deemed suitable.

4. Empirical findings

The following section will present the empirical findings of the study. Findings will be presented in line with the conceptual framework, where the utilization and expansion of the two network categories will be distinguished.

The following table presents findings regarding the background of the entrepreneurs. The categories have been defined by the theoretical framework as facilitating for the entrepreneurial process. All participants were of the same gender except for one.

Symbol	Relevant university education	Previous entrepreneurial experience	Entrepreneurs among friends/family	Industry work experience
$\alpha 1$	x	x	x	
$\beta 1$	x	x	x	
$\alpha 2$	x		x	
$\alpha 3$	x		x	
$\alpha 4$	x	x	x	
$\beta 2$	x		x	
γ		x		
$\alpha 5$	x	x	x	x
δ	x		x	
$\alpha 6$	x			
$\beta 3$		x	x	
$\alpha 7$	x			
ε	x		x	x
$\alpha 8$	x	x	x	x
$\alpha 9$	x			

Table 6: Background of participants

4.1 Utilizing the initial network

4.1.1 General perspective on the importance of contacts

A pattern could be distinguished where two opinions were accentuated throughout all interviews. Firstly, the general importance of contacts for entrepreneurial success; *”Chile is the land of contacts, it’s who you know more than what you know that matters. The country thrives on people knowing people, and people knowing the right kind of people in order to provide connections.”* -α2

Secondly, the fact that innovative entrepreneurship in Chile would belong to a specific socioeconomic group was clearly emphasized. Having contacts from a certain socioeconomic group could provide both funding and referrals to other valuable contacts. *“Without the social context it’s impossible to move the idea forward. It’s not just your education, it already starts earlier. (...) In Chile it’s very hard to do a class trip. Coming from a lower socioeconomic group is a huge handicap.”* -α8

4.1.2 Importance of family and friends for capital accumulation

The majority mentioned that family was crucial in the early stages of the business development process, particularly for capital accumulation. 12 out of 15 interviewees had received funding from Corfo, a public governmental fund that co-funds businesses, meaning that a part of the funding had to come from personal sources. In these cases, all except one had received support from their immediate family. Especially those who had family members who were former entrepreneurs themselves, were particularly supportive of the venture. However, for the majority the support rarely came unconditionally. Even if they rarely demanded interest, the family expected the entrepreneur to initially prove that the idea was a good investment. Consequently, the feasibility of the venture was either demonstrated through personal characteristics of the entrepreneur, such as a good educational background or previous industry or entrepreneurial experience. Another way was by securing clients or other cooperating partners even before the venture was initially launched. In these cases, personal connections to clients or previous media attention had been the cause for ensuring the initial collaborating partners.

The closest friends and colleagues of the entrepreneur were also mentioned to have been a source of financial support. The close relationship between friends made them believe in the entrepreneur's judgment. Colleagues were also repetitively mentioned as a source of funding. Since they saw each other at work every day, their constant interaction was a way of ensuring that the funding would be invested wisely. *"I arranged a meeting with my colleagues at the clinic where I presented my idea (...) in the end the majority agreed to support it."* - α6

All entrepreneurs agreed that it was nearly impossible to receive financing from angel investors or venture capital firms. *"Venture capital is a myth and doesn't exist, the firms have another perception of risk as they invest in startups that have huge sales and require a minimum viable product and a proven business model. That's just investments."*- β2 Only one firm received venture capital, due to having gone to university with one of the investors.

4.1.3 Importance of family and friends for advice and knowledge

In the startup phase of the venture, many entrepreneurs found it necessary to share their thoughts and receive feedback on how they could pivot their initial idea. Several mentioned their fear of the idea being stolen and consequently only wanted to share it with a limited group of people. Many of the entrepreneurs in the technology industry had relied on engineering friends from university for advice about the venture. Others turned to former colleagues within a similar field. Common for these contacts was that they still kept in touch and were close friends. Those who had entrepreneurs within one's family benefited from receiving quality advice and insights about business administration that were general for all industries.

Knowledge differs from advice in the sense that it is more specific and rather based on facts than personal opinions (Garvin & Margolis, 2015). Acquaintances were common sources of knowledge that the entrepreneurs lacked, both industry know-how and knowledge concerning managerial issues. Despite the fact that a majority of the entrepreneurs faced a knowledge gap when entering an industry that was professionally new for them, few actively reached out to people with whom they shared no mutual contacts, such as industry experts. In contrast to searching for advice, knowledge was found by reaching out to more distant contacts such as acquaintances and friends of friends.

4.1.4 Finding talent through one's network

In order to bridge knowledge gaps and acquire complementary skills to the team, entrepreneurs would initially hire consultants for smaller assignments and later employees. The first recruitments within the companies were made exclusively through personal contacts. Moreover, a majority of the entrepreneurs found their associates among friends or family members when forming their team. Knowing someone personally, or having a mutual friend who could approve, was considered highly important since recruitment is a high-risk investment. However, the personal contact and a general “good feeling” of the person were repeatedly mentioned as the most important aspects when deciding who to collaborate with. *“I found our first programmer by first running into him in a bar, we started talking (...) After an offer competition I ended up hiring this programmer anyway due to the good feeling.”* - $\alpha 2$

4.1.5 Contacts as a preferred means of finding clients

Connecting with customers is an entrepreneurial core activity. As a primary method, the majority of the interviewees agreed that a preferred way of market access was through already existing personal or professional connections within the industry. Of those entrepreneurs who had started their business in an industry in which they already had experience and initial connections, all agreed that these had been facilitating for their initial success. *“In an oligopoly market like Chile, where intermediates have so much power, it's crucial to have contacts within the industry to start a new business, you at least need a partner with the relevant contacts.”* - $\alpha 5$

Most of the participants did not have any initial contacts within the industry and hence had to reach out to indirect contacts found through family or acquaintances. A distinction could be made between those who had found their initial contacts through their family, and those who had reached out to indirect connections through acquaintances. The clients found through family members were mentioned as a way of testing the beta version of the product as these contacts appeared to demand less initially from the entrepreneur in terms of delivery, product quality etc.

By reaching out to friends and acquaintances within their initial network and asking for an introduction, the entrepreneurs could access relevant contacts. Nevertheless, some entrepreneurs mentioned that they were careful about who to help and introduce to a network contact. *”If I’m going to introduce somebody to someone I know then I want to make sure it’s a reliable person first (...) otherwise I’ll gamble with my own reputation” -ε*

Being connected, if only indirectly, could also generate clients without the entrepreneur actively reaching out to the contacts. An indirect connection was often mentioned as a prerequisite for collaboration. *“A director at Jumbo (major supermarket chain) had seen me and my product in media due to my participation in an entrepreneurial competition. (...) He asked his daughter, who I went to university with, about me and ended up becoming my first big client.” - β2*

4.1.6 Expanding the initial network

The entrepreneurs were divided in their opinion about the importance of actively networking towards expanding one’s network, as this took time from the business development process. A majority stated that vertical networking, creating new connections with potential clients and suppliers, was a crucial part of the entrepreneurial process. On the other hand, they saw little value in horizontal networking, i.e. expanding their network by connecting with entrepreneurs in the same business development stage (Casson & Della Giusta, 2007).

As previously stated, the majority went initially through their indirect contacts in order to find vertical collaborations. For the entrepreneurs who were new to the industry and lacked initial contacts, cold-calls, i.e. contacting a potential customer without previous contact or connection, were the primary option for establishing a client base. All of those who went through cold-calls agreed that it would have been easier to find clients if they had industry contacts, even though they did not prove to be indispensable, and that some business deals were not made due to a lack of connection. *“I managed to get clients early on through cold-calling. I suppose it would’ve taken less time and effort to get the first clients through contacts. (...) But perseverance is needed if you want to be a successful entrepreneur here.” - β3.* Sales skills and a product that clearly fulfilled a client need were explained as success factors for cold-calls.

A second source of vertical network expansion was through industry fairs, a platform that was considered highly useful. *“It’s a lot easier to get clients at an industry fair (...) when you meet someone face-to-face you can connect with them on a level that isn’t possible through e-mail or over the phone” -γ*

After establishing an initial client base, it was mentioned to have been easier to find new clients. A majority of the participants mentioned that it was important to maintain the connections with the first customers, since they often lead to new business opportunities and referrals. *“It was important that the first clients liked the product, we made an extra effort to satisfy their needs. It’s like a snowball, the clients start referring you to new customers if they’re happy with the product.” -α7*

Conclusively, we could see that the expansion of one’s initial network was highly dependent on utilizing the initial contacts in order to get connected to other industry actors. Additionally, vertical networking without a mutual contact was considered difficult, but something that those who lacked the initial contacts were forced to undertake.

4.2 Networks enabled by entrepreneurial organizations

4.2.1 The entrepreneurial ecosystem

The existence of a small and interconnected entrepreneurial ecosystem in Santiago was repetitively mentioned throughout the interviews. Since the start-up scene of innovative entrepreneurs in Santiago is relatively small, everyone knew everyone and the word spread fast within this circle. This small circle of entrepreneurs facilitated the process of connecting with new people. Many emphasized that the interconnected network results in a collaborative environment where the entrepreneurs in general are eager to help and share their experience. *“We’re all in this together, which creates a sense of belongingness and eagerness to contribute to the entrepreneurial community in different ways” - δ*

Furthermore, business failure was repeatedly mentioned to have severe social consequences due to the small entrepreneurial circles. *“In Chile, if you fall, you fall hard. If something goes badly, everybody will know and failure leads to social stigmatization. This makes it harder to*

take risks (...) so people would go for the safer option. (...) The society sanctions them who don't do well.”- $\alpha 4$ In contrast, when a business was perceived as a success story in the Chilean start-up scene, it attracted more collaboration requests. Many of the interviewees also emphasized the importance of good reputation, which can be achieved by helping other entrepreneurs. *“A good reputation is important for being successful here, if people know that you're helpful it'll come back to you. A bad reputation can't be fixed.”* - $\alpha 5$

Several entrepreneurs mention the lack of a public social support system as a stumbling block for the development of entrepreneurship in Chile as it increases the risk involved in entrepreneurship participation. *“Being an entrepreneur in Chile is like doing trapeze without a social support net, you and your family can't fall back on anything. (...) It's very different if the social structure gives you something to fall back on.”*- $\alpha 6$ Consequently, the entrepreneurs were very careful about who to cooperate with as a failed collaboration could cause severe consequences, both in economic and social terms.

4.2.2 Expansion through entrepreneurial organizations

Entrepreneurial organizations offer the possibility for entrepreneurs to expand their network through horizontal networking. Yet, all interviewees said to have got involved in an entrepreneurial organization in order to receive assistance with practical issues related to their business development, not for specifically networking with other entrepreneurs. A majority of the entrepreneurs said that they networked for a specific purpose and did not think about whether a contact could potentially be beneficial in the future. About half of the entrepreneurs had a negative outlook on entrepreneurial networking. The opinion that networking with other entrepreneurs could not provide synergies for their business and that it was a distraction from core activities was repetitively highlighted throughout the interviews. *“Entrepreneurs at these events are usually from unrelated industries with few connection points. (...) It makes more sense to put effort into networking with clients than other entrepreneurs.”* - $\alpha 3$

After the first encounter, the entrepreneurs rarely reached out and maintained the relationship with others they met through the organization, since they did not see any practical value in it. The relationships that were maintained were those that could be transformed into personal friendships and where they felt the potential for an emotional connection. *“My networking is based on good feeling, I wouldn’t do business without it. If there’s feeling, the help is flowing.”* -β2

Moreover, some entrepreneurs mention that networking over socioeconomic borders can be difficult since the entrepreneurial circles are homogenous. *“Somebody who’s excluded from the formal system, in terms of education and background, couldn’t do anything to enter. (...) To network you need to be from a specific class.”* -β 3

ASECH was repetitively described as a homogeneous network both in terms of gender and socioeconomic background and preconditions. Resultantly, some entrepreneurs felt alienated from the others and did not see how they could benefit from the network. *“We didn’t have anything in common, neither on a personal level nor in terms of motivations for starting a business. It felt like most other entrepreneurs there were just out to make money”*- β1

4.2.3 Utilizing entrepreneurial contacts

As mentioned, about half of the entrepreneurs claimed to not see the value in horizontal networking, whereas the rest realized that new entrepreneurial contacts led to even more potential connections. The latter group had been able to receive support and further contacts from their entrepreneurial network connections.

In general, one of the main resource benefits derived from meeting other entrepreneurs through activities arranged by entrepreneurial organizations was the opportunity to gain knowledge general for all industries. This could concern topics like accounting or management. Also, the entrepreneurs often got information about new market opportunities through casual discussions with other entrepreneurs. Furthermore, these contacts created through the organizations had for many resulted in being connected to suppliers, clients or for recruitment purposes.

A few entrepreneurs had created organized partnerships through the contacts created within the organizations based on synergies. *“We’ve initiated collaborations with other businesses in the industry, not competitors though, which can lead to win-win synergies like cross-selling and cross-recommending.” - α7*

Also friendships were made through entrepreneurial organizations. The entrepreneurs who developed a strong connection naturally recommended each other in different contexts, for instance towards clients. *“I’ve made friends through ASECH, me and X grab a beer every week. We discuss business but also other things. (...) I try to recommend him to others and I guess he does that for me as well.” - α5*

A few entrepreneurs mentioned that either they or an acquaintance had found team members through an entrepreneurial organization. *“I got to know my associate through Start-Up Chile, we were both working on similar projects with great synergy potential. (...) He was crucial in integrating me to the community.” -α9*

4.3 Topics for further exploration

From the empirical findings we can distinguish the following topics as relevant for further exploration in the analysis:

- The importance of the family’s background for funding and advice and the finding that support is rarely unconditional.
- The importance of the entrepreneur’s acquaintance’s background for providing knowledge, referrals and introductions. Still, reputation within the entrepreneurial circles appears to be crucial and therefore people are careful when making introductions.
- Two opposing views of the usefulness and purpose of network expansion through horizontal networking.
- The importance of a ”good feeling” for network expansion in order to further explore the relationship.
- The existence of a homogenous and collaborative ecosystem of innovative entrepreneurs, in which inclusion appeared to be facilitating for the entrepreneurial process.

5. Analysis of findings

The following section the empirical findings will be analyzed in light of the theoretical framework in order to answer both research questions. Based on the conceptual framework (figure 4), the initial network will be analyzed in order to distinguish the structures and features crucial for the value of social capital. Secondly, networks enabled by entrepreneurial organizations will be analyzed through the structural and relational dimension.

5.1 Initial network

5.1.1 Structural dimension of the initial network

5.1.1.1 Utilization of strong ties

The empirical findings indicate that the entrepreneurs' closest contacts, family and friends, were critical for their ability to launch the venture. Their strong ties had been crucial for capital accumulation as their family provided support when co-funding was needed. This differs from the findings of Aldrich and Martinez (2011), which underline that entrepreneurs in Western countries rarely rely on their immediate family for funding. However, since venture capital is rare in the country, the importance of family and friends is strengthened. Consequently, one can assume this pattern of utilization to illustrate the cultural dimension of collectivism. Additionally, the data supports the idea that the strength of ties, rather than the size of the network, is determinant in securing funding and receiving valuable advice. Having friends and family with an entrepreneurial background can provide valuable advice or financial resources which increases the quality of the network. The quality of the network was therefore a valuable characteristic for strong tie connections.

5.1.1.2 Utilization and development of weak ties

Contrarily, the entrepreneurs stretched to weak ties and indirect contacts for finding new clients in the exchange stage, as well as knowledge. Rarely did they reach out to industry experts disconnected from their own network for knowledge acquisition. Instead, the initial knowledge gaps were often bridged by recruiting talent with the required skills and knowledge through one's network. In line with Colombo *et al.* (2005), network diversity was especially important for entrepreneurs with technology-based firms as these needed to recruit

talent with specific knowledge and skills. For sales and knowledge acquisition purposes, it was more crucial to have a large network of contacts with an abundance of bridges to structural holes. This is in line with the theories of Burt (1992), that weak ties and structural holes act as sources of novel information. Diversity rather than quality was a crucial characteristic for weak ties.

5.1.2 Relational dimension of the initial network

5.1.2.1 Background of the entrepreneurs

The perception that innovative entrepreneurship would belong primarily to individuals with better socioeconomic preconditions and thus higher valued social capital was expressed throughout the empirical findings. The data regarding the background of the entrepreneurs confirms that the group is relatively homogeneous. Almost all have a university degree that relates to their current industry, which supports Kristensen's (2004) claim that the level of education can facilitate entrepreneurship in terms of the quality of an entrepreneur's social network. Additionally, the tendency of having entrepreneurs within one's initial network has been confirmed by Klyver *et al.* (2008) to increase the incentive for entrepreneurial participation. These background factors indicate that the value of their initial social capital can facilitate their business development process.

5.1.2.2 Creating trust towards strong ties

The entrepreneurs emphasize that the strength of ties to family members and friends was not sufficient for ensuring their unconditional support. For accessing financial resources, the business idea still needs to demonstrate credibility and viability before the close contacts agree to support it. Generally, theory has described the trust between family members as dyadic resilient, where their direct relationship has created a sense of benevolence between the two parties (De Weever *et al.*, 2005). Yet, in the capital accumulation process, the dyadic trust shares characteristics of both resilience and fragility. Even though there is benevolence in the transaction, as the family rarely expected a financial return on the investment, they still demanded external validation for the credibility of the venture. This can be interpreted as an indication of the cultural risk aversion.

Creating the initial credibility was highly related to Birley's model, *the credibility carousel* (1985). Initial client connections and media attention were mentioned as ways of creating credibility towards the family, however, these were derived from initially having ensured the people component. Gaining socio-political legitimacy from an influential actor is a way of creating trustworthiness (Aldrich & Fiol, 1994), and the necessity of assurance from a third party for most entrepreneurial endeavors might be an indication of the cultural risk aversion.

5.1.2.3 Creating trust towards weak ties

For network utilization purposes the background of the contacts in the entrepreneur's network appeared critical, especially for accessing knowledge and finding clients. Contacts in relevant industries or one's educational background could facilitate the process of finding clients in the exchange phase.

Nonetheless, having a wide and diversified network of contacts was not enough for reaching indirect contacts in the process of expanding one's network. The entrepreneur's reputation within the entrepreneurial ecosystem appeared crucial for success, and resultantly entrepreneurs were careful about who they introduced to another contact. An entrepreneur therefore had to earn access to the indirect contacts within the network by having established dyadic trust with those already included in their network.

Furthermore, a mutual contact could serve as a validation of the entrepreneur's credibility, and through that create generalized trust by association. Client relationships are transaction-based (Chi, 1994) and thus the trust was most commonly fragile. However, the stronger the tie was to the mutual contact between the client and the entrepreneur, the more resilient was the client relationship between them. This is an indication towards the importance of trust and legitimacy in earning collaborating partners, and an illustration of the low level of trust within the culture.

5.1.2.4 The importance of identification for network expansion

Furthermore, relationships where a “good feeling” between the two parties appeared were repetitively mentioned as crucial when expanding one’s network and deciding who to collaborate with. The concept of “good feeling” can be related to Merton’s (1968) ideas on identification towards a reference group. When one perceives similarities among standards and values with another person or group, a sense of inclusion is created. Consequently, this creates a generalized trusting relationship that is not based on previous interactions but rather on the perception of similarities. A “good feeling” was repetitively mentioned as important for finding employees, business partners and clients through networking. Resultantly, cold-calls were difficult for finding clients. For reaching out to contacts outside of one’s network, industry fairs were a preferred option as this method allows for a face-to-face interaction. Hence, this is an illustration of the importance of trust between collaborating partners due to a cultural risk aversion.

5.2 Entrepreneurial networks

5.2.1 Structural characteristics of entrepreneurial networks

The ecosystem of innovative entrepreneurship in Santiago has repetitively been described as a closed network, in which all nodes are somehow interconnected, hence a network with a high level of density. According to Coleman (1990), a close and dense network facilitates for the creation of trust, cooperation and the flow of information, a perception about the ecosystem shared by a majority of the interviewed entrepreneurs.

An entrepreneurial organization can be described as a network hub in which many weak ties can be interconnected at one location. From Nahapiet and Ghoshal’s (1998) description of appropriable organizations, in which the creation of ties can be transferred to other social contexts, we can draw a parallel to our case of entrepreneurial organizations. Nevertheless, it was only the connections that exhibited a level of emotional closeness, and thus a potential for a strong tie connection, that were continued away from the networking platform context.

The entrepreneurs who had other entrepreneurs in their initial network could leverage on these in order to gain further contacts within the ecosystem. But if these do not exist, the entrepreneurial network platforms can provide contacts that act as structural holes to the Chilean entrepreneurial ecosystem.

Yet, few entrepreneurs realized the synergies from networking with those from unrelated industries, since the process took time from their business operations, an idea in line with Nahapiet & Ghoshal (1998). The few that realized the potential in gaining general knowledge and indirect contacts through this network had also received the most benefits from networking. This discrepancy confirms the ideas of Kim and Aldrich (2006), that social capital can provide almost an unlimited amount of resources, limited only by the entrepreneur's ability to realize the potential within the network.

5.2.2 Features characterizing the entrepreneurial networks

5.2.2.1 Network expansion towards inclusion in the ecosystem

The Chilean entrepreneurial ecosystem can be described as a dense network with a high sense of inclusion and group identification, in which collaboration is a group norm. Consequently, inclusion within the network can facilitate the entrepreneurial process, since the frequency of resource exchange is enhanced within a group with high levels of identification (Lewicki & Bunker, 1996). Within the ecosystem there appears to be a norm rather than an obligation to help each other out. The findings indicate that this was driven by a willingness to maintain a good reputation, which is strengthened by being collaborative. Nevertheless, the high level of information sharing could also cause stigmatization within the network if an entrepreneur was to experience failure.

The homogeneity of the ecosystem indicates a high level of identification between the members and supposedly there is a similarity and perception of shared standards and values (Merton, 1968). Those unable to identify themselves with the group will resultantly be excluded from the ecosystem, resulting in a limited ability for resource exchange and information sharing (Child & Rodrigues, 1996). In the case of the Chilean entrepreneurial ecosystem, coming from a different region, having a lower educational background or another social background can be expected to cause exclusion.

Our findings indicate that entrepreneurial organizations are able to open up for inclusion within the network on a purely structural level, by creating bridges to structural holes through the networking events. Thus we see that the principal benefit of entrepreneurial organizations is not providing resources on spot, but to serve as a networking platform where the

entrepreneurs can create personal connections and through those be included in the ecosystem and through that access resources and further contacts. However, even though inclusion is possible through the events, it is for some entrepreneurs inhibited on a relational level. The findings indicated that it is only in those first encounters where a certain level of emotional closeness, or "good feeling" occurs, that are further maintained outside the context of the networking platform. Mutual identification appears when the parties perceive to share similar values and standards (Merton, 1968) and results in generalized trust. If these similarities do not emerge during the first encounter then the relationship will not be continued.

The study can distinguish two possible ways for entrepreneurs to develop their network towards inclusion within the ecosystem. Firstly, through having a background in which values and standards resemble those of the norms within a homogenous ecosystem. By attending entrepreneurial networking events one can therefore create valuable connections that can lead to further entrepreneurial contacts.

Secondly, by already having influential entrepreneurs within one's network these can act as a source of socio-political legitimacy. Generalized trust is therefore automatically established which facilitates for getting to know more entrepreneurs within one's indirect network. Thus, the positive impact of involvement in an entrepreneurial organization for social capital is greater for entrepreneurs who lack other entrepreneurs as contacts in their initial network, as they get introduced to the ecosystem.

5.2.2.2 Utilizing the entrepreneurial networks

Several entrepreneurs indicated that they did not see the synergies of networking with entrepreneurs from unrelated industries as they were goal-oriented in their networking to a high extent. The perception of this group goes against our assumption from generic theory which states that entrepreneurial success correlates with the level of networking activity (Witt, 2004; Brüderl & Preisendörfer, 1998). Also, some entrepreneurs did not identify themselves with the other entrepreneurs and felt alienated from them on a personal level. As they did not connect with many entrepreneurs in the network, they did not even want to be included, which led to them not benefiting from it.

However, those with opposing opinions praised horizontal networking and claimed to have been extracting various benefits from being included in the entrepreneurial ecosystem. The

help received was on one hand from general knowledge and advice about business development topics general for all industries. Furthermore, they benefited from the indirect, collaborative network that these contacts opened up. Through other entrepreneurs they could receive contacts to clients, possible employees and suppliers. Being connected in the network made it easier for other entrepreneurs to trust the entrepreneur enough to provide introductions that would otherwise jeopardize the reputation of the helping individual. Nevertheless, for funding and finding investors a higher level of trust and tie strength was required, and therefore funding was not a resource that could be extracted from the entrepreneurial network.

In conclusion, the primary benefit that entrepreneurial organizations are able to provide is network expansion opportunities towards inclusion in the entrepreneurial ecosystem. This community is able to provide resources that the study has deemed typical for weak tie connections, such as knowledge and client contacts. Furthermore, the entrepreneurial organizations can provide socio-political legitimization through creating a first encounter that can lead to inclusion within the ecosystem. The socio-political legitimacy has been deemed critical throughout the study and can be interpreted as an indication towards cultural influences concerning the importance of trust.

6. Conclusion

Research question 1: How does the value of Chilean innovative entrepreneurs' initial social capital relate to how they utilize and expand their social network in the startup process?

By applying the conceptual framework (figure 4), the study has mapped out the essential value, in terms of structures and features, of the initial social capital for innovative entrepreneurial success in Chile. Connecting to the first research question, having strong ties with one's immediate family and close friends appears significant in terms of utilization purposes for capital accumulation, but also for advice. For strong tie connections it is the quality of the ties, in terms of financial resources and knowledge found within the network, that is most determinant for the ability to utilize the network and extract resources from it. Contrarily, a large and diversified network with an abundance of weak ties appears beneficial in terms of gathering knowledge and expanding one's network to find collaborating partners. These are findings that correlate with previous research. However, the weight of family support for funding appears specific for the Chilean context.

Fundamentally, the collectivistic approach to entrepreneurship appears to be based on a demand for trust in all entrepreneurial endeavors. Even the strong family ties, that are in theory characterized by benevolence, appeared to demand a level of credibility for the project before supporting the entrepreneur financially. For expansion and utilization of the network, the trustworthiness of the entrepreneur appeared to be an essential feature. Rarely was it successful to reach out to those disconnected from one's network and cold-calls were seen as a last resort. Instead, expanding the network through one's indirect contacts was the primary way of network expansion, since socio-political legitimacy was ensured by the mutual contact. The emphasis on the importance of contacts for credibility creation could be interpreted as an indication of the general risk aversion in the Chilean culture.

Research question 2: How do the entrepreneurs benefit from expanding their initial network through an entrepreneurial organization and utilizing the new contacts?

In the light of our second research question, the extent to which entrepreneurs will benefit from the networks enabled by entrepreneurial organizations depends on their perception on the usefulness of horizontal networking. Those who did benefit from entrepreneurial

networking had managed to become included in the dense and collaborative innovative entrepreneurial ecosystem of Santiago. This network appears to be quite homogenous in terms of gender, educational and social background. Within the network a collaborative norm has been developed, which benefits those included in the group. The study concluded two ways of reaching inclusion; by having entrepreneurial contacts within one's initial network or by creating new connections through entrepreneurial platforms. Conclusively, the main benefit derived from networks enabled by entrepreneurial organizations was the opportunity to become included in the entrepreneurial ecosystem. The benefits found within this network were those that could otherwise be provided by weak ties in the initial network, such as knowledge and further network connections. The entrepreneurial networks were rarely able to compensate a lack of strong ties, particularly in terms of funding.

Nevertheless, a precondition for a relationship to be established, subsequent to participation in entrepreneurial networking events, was a level of perceived mutual identification. If entrepreneurs could not identify themselves with the other entrepreneurs due to a different background, then the contact would not be further explored. This case highlights a relevant issue with entrepreneurial platforms; those from deviating backgrounds will have a difficulty in feeling included and resultantly do not benefit to the same extent from the entrepreneurial networking events.

In conclusion, the study has found practical indications towards a general risk aversion, particularly in terms of choosing collaborating partners. We can expect these to be culturally specific results and not necessarily applicable in all contexts. In general, we can conclude that highly valued initial social capital, both in terms of structures and features, is a golden ticket for startup success. Nevertheless, it is determinant that entrepreneurs see the opportunities in utilizing their social capital. Having highly valued social capital in terms of contacts that can function as sources of socio-political legitimacy which will facilitate the process of network utilization and expansion. This illustrates how the cultural characteristic of a high demand for trust influences most entrepreneurial endeavors in Chile. Furthermore, the main benefit from entrepreneurial organizations is their ability to enable inclusion within the startup community of Santiago, which can compensate for an entrepreneur's initial deficiency of weak ties.

7. Discussion

7.1 Were the research questions answered?

We believe that the research questions have been answered. However, due to the wide scope of the questions it is possible that further research could provide additional findings and further depth.

7.2 Evaluation of the results in relation to the method

In order to answer the research questions the method used was appropriate as we reached a depth in the answers that would not have been possible through another method. However, a quantitative method could have provided statistically significant results concerning the background of the entrepreneurs.

7.3 Critical assessment

Since several topics of discussion were based on subjective perceptions and perceived value of the usefulness of the entrepreneurs' network, these are non-static answers that can vary depending on the context. In retrospect, the entrepreneurs may reconstruct their perception of the truth in order to justify their past actions. In our sample, the majority came from the technology industry which might have skewed the results. Lastly, the fact that the field study was conducted in another culture may have affected our ability to reflect on cultural implications and assess the trustworthiness of the answers.

8. Contributions

8.1 Contribution to theory and future research

Previous research has been divided on the extent to which culture influences networking practice (Klyver *et al.*, 2008). This study has provided generalized insight into how Chilean entrepreneurs utilize and rely on their initial social network in the early entrepreneurial process. Moreover, the study has highlighted the limited way in which Chilean entrepreneurs expand their networks through entrepreneurial organizations, a topic uninvestigated in previous research. In general, many of the findings regarding social capital utilization are related to what has been concluded by Aldrich and Martinez (2011). The structural dimension has been concluded to resemble culturally generic social capital theory in many ways. However, the results indicate that the relational dimension, characterized by trust, inclusion and social background appears to be of remarkably high importance for entrepreneurial success in the Chilean cultural context.

Relating to Yusuf's (2012) investigation of external assistance programs in the US, the findings from this study correlate with the idea that it is mainly those from a similar social background who are attracted to the organizations. Despite the random selection of entrepreneurs, the group was still homogenous in terms of gender, education and number of entrepreneurs within their initial network. Consequently, it would be of further interest to investigate whether this group is a general representation of innovative entrepreneurs in Santiago, and the reasons behind their homogeneity.

The study can conclude that the primary purpose of networks enabled by entrepreneurial organizations is their ability of creating socio-political legitimacy. However, a further topic of research would be to examine whether the brand name of an entrepreneurial organization alone can act as a source of legitimacy creation.

Lastly, the findings indicate the existence of a collaborative entrepreneurial ecosystem in Santiago. It would be of further interest to investigate the dynamics within this community and what specific characteristics of the members that cause the perception of homogeneity that has been highlighted in this study.

8.2 Contribution to practice

Social capital is of relevance to study when forming external assistance programs and for the government when deciding which entrepreneurial incentive systems to support. The lack of a public social support system and the cultural risk aversion strengthen the importance of initial social capital in the Chilean entrepreneurial ecosystem. The negative impact of this socio-political challenge can to some extent be alleviated through the operations of entrepreneurial organizations, especially among nascent entrepreneurs with scarce initial social capital.

Consequently, these organizations need to be constructed to welcome entrepreneurs possessing a lower level of initial social capital, i.e. those from other regions or social backgrounds. Horizontal networking can be of great benefit for the business development process. However, it is only once the entrepreneurs realize the potential resources that can be found through network expansion that they will be able to benefit and utilize the network. Changing the perception of networking is therefore a substantial challenge for the entrepreneurial organizations. The entrepreneurial ecosystem of Santiago is today a very homogenous climate in terms of gender and level of education. The entrepreneurial organizations' primary aim should be to create favorable preconditions for inclusion for those who do not fit into this pattern.

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10. Appendix

10.1 Pre-Study Activities

Activity	Date
Meeting with ASECH	03-Feb
Interview at Fundación Para el Progreso (FPP)	08-Feb
Participation in ASECH networking event	10-Feb
Visit to Start-Up Chile's cowork space	15-Feb

10.2 Field study Interviews

#	Symbol	Year of founding	Interview date	Industry
1	$\alpha 1$	2011	07-Feb	Technology
2	$\beta 1$	2014	06-Feb	Food
3	$\alpha 2$	2014	10-Feb	Technology
4	$\alpha 3$	2016	09-Feb	Technology
5	$\alpha 4$	2015	17-Feb	Technology
6	$\beta 2$	2013	15-Feb	Food
7	γ	2015	22-Feb	Transportation
8	$\alpha 5$	2015	21-Feb	Technology
9	δ	2014	15-Feb	Fashion
10	$\alpha 6$	2014	28-Feb	Technology
11	$\beta 3$	2011	23-Feb	Food
12	$\alpha 7$	2015	20-Feb	Technology
13	ϵ	2013	02-Mar	Energy
14	$\alpha 8$	2014	01-Mar	Technology
15	$\alpha 9$	2013	24-Mar	Technology

10.3 Interview guide

Introduction

A brief introduction of the interviewers and a brief description of the thesis
Information about anonymity and recording permission

Background of the entrepreneur and the business

Educational and entrepreneurial background

Family background

Previous professional experience

Reasons for starting up the business

Business development

The sources of help and support for:

- Funding
- Advice
- Knowledge
- Clients
- Suppliers
- Further contacts

Naming the 3 people who have been most important in the business development process

Networking

Perception on networking

View on helping other entrepreneurs

Entrepreneurial organizations

Which organizations?

Frequency of participation

Reasons for participation

Perceived value of networking with other entrepreneurs met through an organization