

# Motivations and Benefits of Entrepreneurial Network Formation

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## Abstract

This paper studies entrepreneurial networks in a former socialist economy setting. The aim of the paper is to investigate motivations and benefits of specific entrepreneurial networks. The paper employs qualitative methodology with in depth interviews with 37 entrepreneurs. Our analysis reveals that entrepreneurs are not keen to develop strong business ties through any of the identified networking forms, even though conditions to form such ties do exist. Our findings suggest that besides entrepreneurial motivation to form business networks, the particular aspects of the transitional socio-economic environment have a significant effect on the formation of entrepreneurial networks. Theoretically, this paper demonstrates that formation of strong entrepreneurial business ties may not be automatic, even if the right conditions for tie formation are in place. More broadly, this study contributes to a more complete picture of the relationship between socio-economic context and entrepreneurial processes.

**Keywords:** entrepreneurial networks, transition economy, qualitative methodology

## 1. Introduction

In recent years there has been a dramatic increase in the number of studies investigating entrepreneurial networks (Hoang & Antoncic, 2003; Jack, 2010; Laschewski, Phillipson, & Gorton, 2002; Slotte-Kock & Coviello, 2010). Entrepreneurial networks can be defined 'as the sum of total relationships in which an entrepreneur participates, and which provides an important resource for his, or her, activities' (Drakopoulou Dodd & Patra, 2002, p. 117). Shaw (2006, p. 6) argues that 'the term "network" has been loosely applied to describe a variety of small firm interactions. These interactions can be articulated through the following forms: collaborative relationships with competitors; memberships in formal organisations; links with suppliers, distributors and customers; and social or interpersonal contacts, such as friends and family members (Drakopoulou Dodd & Patra, 2002; Shaw, 2006).

Entrepreneurship and small business scholars have given considerable attention to the effects of the social or interpersonal networks of entrepreneurs (Greve & Salaff, 2003). Specifically, studies have examined how interpersonal networks may affect new firm creation, growth and survival (Hung, 2006), resource acquisition (Premaratne, 2001), firm performance (Lee & Tsang, 2001), economic transactions (Chan, 2009) and finance (Shane and Cable, 2002). The majority of studies demonstrated a positive effect of social networks on the entrepreneurial process, as well as entrepreneurial reliance on such networks throughout all business stages (Dubini & Aldrich, 1991; Greve & Salaff, 2003; Shaw, 2006). However, Jack (2010) reveals that despite the growth of publications many questions remain unanswered, in particular the formation of entrepreneurial networks. Jack (2010), similar to Hoang and Antoncic (2003), argues that such questions have not been researched widely as a consequence of dominant quantitative approaches in network analysis, which attempt to measure network activities, such as frequency of contacts and cannot provide richer and more detailed explanations of 'what is going on within a network' (Jack, 2010, p. 123). In order to overcome this theoretical gap, scholars studying entrepreneurial networks argue that it is necessary to adopt more qualitative approaches and suggest that researchers should take account of entrepreneurial context to a greater extent (Johannisson, Ramirez-Pasillas, & Karlsson, 2002; Jack, 2010; Minguzzi & Passaro, 2001). From this perspective, the socio-economic context where entrepreneurs are embedded is seen as a key factor as it has an impact on 'the nature, pace of development, and extent of entrepreneurship as well as the way entrepreneurs behave' (Welter & Smallbone, 2011, p. 108).

In this paper we address this gap and analyse the formation of entrepreneurial networks in a former socialist economy, Croatia. This is a little explored yet critical aspect of entrepreneurial networking (Birley, Cromie, & Meyers, 1991; Jack, 2005; Jack, Drakopoulou Dodd, & Anderson, 2008; Lockett, Jack, & Larty, 2013), as in order for entrepreneurial networks to produce the outcomes that have been observed in the literature they need to form in the first place. We argue that it is important to study the conditions that give rise to entrepreneurial network formation in former socialist economies, as those economies present a novel research area which has the potential to challenge many assumptions existing within entrepreneurship and small business literature (Blackburn & Kovalainen, 2009). Therefore, such economies provide an important setting for researching the formation of entrepreneurial networks, as we can observe previously under-explored networking behaviour (Estrin, Meyer & Bytchkova, 2006; Welter & Smallbone, 2003).

Drawing on in-depth interviews with entrepreneurs in Croatia we examine the motivations and benefits of entrepreneurial network formation. In this paper we focus on business networks that entrepreneurs develop with different parties. We conceptualise business networks as relationships established to achieve business objectives.

### *1.1 Network Formation*

Economic sociology argues that a network should consist of both strong and weak ties (Granovetter, 1973). The value of weak ties lies in the possibility of connections to other social systems and actors while information and support gained through strong ties are described as cheap, trustworthy and reliable (Burt, 1992; Granovetter, 1985). However, strong ties are perceived as being less beneficial than weak ties as they are likely to provide redundant information since the network actors move in the similar social circles.

Literature on network formation postulates that in order for networks to form, parties have to build trust in each other (Gulati, 1995). Trust is seen as an essential ingredient that enables a network to emerge and persist over time (Larson, 1992). In network analysis a commonly held view is that longer duration of the relationships between economic actors or organisations (Poppo et al., 2008) implies familiarity. Greater familiarity, determined by the existence of repeated interactions (Granovetter, 1973), leads to trust, which in turn is a crucial element in network creation (Gulati, 1995). Trust can be defined as the 'willingness of a party to be vulnerable to the actions of another party based on the expectations that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party' (Mayer et al., 1995, p. 712). If ties are formed under conditions of high familiarity and, therefore, trust between the parties, it is considered that these ties will demonstrate a high degree of mutual commitment, goodwill, transfer of information and joint problem solving (Uzzi, 1997). Ties that exhibit such properties are referred to as strong ties (Uzzi, 1997).

Formation of strong ties may not be automatic, even when the conditions to form strong ties do exist. A pioneering study by Azoulay, Repping, and Zuckerman (2010, p. 474) conducted among small US pharmaceutical firms demonstrated that attempts to build strong ties may fail and in turn lead to 'nasty, brutish and short exchanges.' The authors argue that one of the reasons why the attempts to build strong ties failed is related to an inflexible regulatory environment for hiring procurement officers. The socio-economic environment may therefore constrain entrepreneurial network formation, even when micro-level conditions conducive to network formation are present. At the same time, Smallbone and Welter (2001) argue that the lack of institutional trust in transition economies may have significant effect on entrepreneurial networking strategies.

From a theoretical perspective, Jack (2005, p. 1237) argues that entrepreneurship is offered as 'an interesting phenomenon to examine from a network perspective'. She outlines a number of factors which support using entrepreneurship as a context in network analysis, such as the role of networks in: influencing the entrepreneurial process and outcomes; securing the resources; survival; and, success of the venture. For instance, entrepreneurial ties with family and friends are often found to constitute very important social networks of small business owners in both Western and transition economies (Anderson, Jack, & Drakopoulou-Dodd, 2005; Peng, 2004; Watson, 2012). Jack (2005, p. 1244) demonstrates that family ties are strong ties and as such are 'instrumental in providing respondents with the ability to recognise the potential for entrepreneurial opportunities, business development and continuity of the activity.' Uzzi's (1996) findings similarly demonstrate that strong ties are particularly valued by entrepreneurs who describe them as 'special relations' (p. 677). Entrepreneurs investigated by Uzzi (1996) also claimed that strong ties are of significant importance for their performance as they enabled entrepreneurs to 'work through problems on the fly and to innovate' (p. 679). It is worth noting that a separate stream of literature argues that weak ties are more beneficial for entrepreneurs as they are more likely correlated with rewarding opportunities, competitive advantages and non-redundant information (Burt, 1992). However, much of that argument is focused on informational benefits of weak ties during the idea generation process (Burt, 2004). As in this paper we focus on the overall entrepreneurial venture rather than on a specific business stage

such as idea generation, we adopt Uzzi's (1996; 1997) proposition on the positive relationship between strong ties and entrepreneurship.

In addition, a number of studies found that small firm owner-managers regard a relatively small number of small and medium sized enterprises (SMEs) as competitors, particularly in industries with low barriers to entry such as the tourism industry (Thomas, Shaw, & Page, 2011). Miller et al. (2007, p. 635) explains that 'the threat of competition is the primary motivation for cooperation.' Within the tourism industry, small firms are continuously challenged by large multinational chains, but not by other small firms (Ahmed & Krohn, 1994). In order to overcome this liability of smallness, small tourism entrepreneurs form business ties with other small tourism entrepreneurs, often from the same sector (Morrison, 1994; Tinsley & Lynch, 2001; Von Friedrichs Grängsjö & Gummesson, 2006).

## **2. Method**

### *2.1 The Study Context*

The study discussed in this paper was undertaken in Croatia, which was a part of the former Yugoslavia from 1945 until 1991. Yugoslavia used to be a federal and socialist republic consisting of six federal units and two provinces. The communist government made considerable effort to prohibit entrepreneurship by eliminating one of the major institutions of capitalism: private ownership and the right to establish private enterprises (Kovac, 1990). Besides these barriers to the development SMEs, it can be argued that anti-entrepreneurial norms and beliefs inhibited entrepreneurship even further (Chilosi, 2001). Entrepreneurship was viewed as a phenomenon coming from capitalist ideology and aiming to achieve material gains through the exploitation of others. Entrepreneurs were portrayed as incapable of securing a job in a public owned company, exploiters and deviant individuals (Kovac, 1990). An unfavourable economic position of Croatia in the former Yugoslavia, and a political state of flux led to an independence pronouncement in 1991, when Croatia broke away from the socialist tradition. The civil war with Serbia (1991-1995) slowed the transition process down considerably.

The core of post-socialist transition was the privatisation process, and it was assumed that the de-nationalisation of state assets will initiate the fast growth of SMEs (Kolodko, 2000). The new Croatian government established that Croatia needed to have 200 rich families/entrepreneurs to form the cornerstone of the Croatian economy (Sekulic & Sporer, 2000). With a privatisation policy, the government enabled those privileged individuals to buy existing enterprises far below their market price, with the obligation to invest money and increase employment. However, in reality the practice was to buy enterprises and strip out their assets. This privatisation policy, combined with the systematic deprivation of private enterprise, served to suffocate the entrepreneurial spirit significantly. Consequently, the image portrayed of the entrepreneur was even worse than during socialism. Franicevic (2003) argues that people perceived entrepreneurs as privileged criminals, as tycoons connected with corruption, whose wealth had been obtained through devious means. Currently, entrepreneurship is becoming associated with a philosophy of progress but Croatia is still experiencing difficulties in fostering entrepreneurial activity (Eurofound, 2015).

### *2.2 Research Approach*

In order to address the underexplored question of formation of entrepreneurial networks (Zhang, 2010), this research adopts a qualitative approach. A significant number of researchers (Hoang & Antoncic, 2003; Jack, Moul, Anderson, and Drakopoulou Dodd, 2010; Shaw, 2006) argue that qualitative methodology is of crucial importance for network analysis as it has potential to offer insights that purely structural approaches focused on density of the network or its size, cannot. Also, qualitative approaches appreciate the relevance of the social context and how people interact with and respond to different contextual factors (Warren, 2002). Finally, transitional economies represent a novel research area and as such call for primary and qualitative research across different settings which have potential to bring new theoretical perspectives (Blackburn & Kovalainen, 2009; Bruton, Ahlstrom, & Obloj, 2008).

### *2.3 Sampling, Data Collection and Data Analysis*

The sample for this study consists of the owners of small and medium sized (SMS) hotels in Splitsko-dalmatinska county in Croatia. It was decided that for the purposes of sampling a SMS hotel will be defined as one that does not have more than 40 letting rooms, as defined by The Croatian Ministry of Tourism. Out of a total population of 114 hotels in the analysed county, 64 SMS hotels are identified.

37 hotel entrepreneurs were interviewed. The research continued until theoretical saturation was reached (Eisenhardt, 1989). The average interview length was one and a half hour. All interviews with hotel entrepreneurs were conducted in the Croatian language, they were audio recorded and fully transcribed. In order

to ensure transcription quality and accuracy, the interview transcription was conducted in the Croatian language (Paz, 1992). Becoming completely familiar with the text, meanings and interpretations within it, it was possible to conduct data analysis. Interviews are referred to by the labels: H1 through H37. Data analysis is qualitative, based on framework analysis (Ritchie & Spencer, 1994). It consists of six key stages, identified by Ritchie and Spencer (1994) as: familiarization; identifying a thematic framework; indexing; charting; and mapping and interpretation. The codes are developed drawing upon *a priori* issues, emergent issues and analytical themes (Flick, 2009). In-depth analysis was achieved by examination of the data related to each sub-code within a specific master code. Where the analysis has revealed meaningful links, master codes are clustered into code families, or meta-codes (Miles & Huberman, 1994). Therefore, this method provides a comprehensive analysis without denying the necessary flexibility inherent in the use of qualitative data.

### 3. Results

#### 3.1 Profile of the Interviewed Entrepreneurs

A summary of the characteristics of the respondents is outlined in Table 1.

Table 1. Profile of the interviewed entrepreneurs

Respondent	Sex	Age	Type of entrepreneur	Owns/was owning business in	Length of time in hotel business
H1	M	40s	Portfolio	Finance and Accounting	2
	F				
H2	M	20s	Novice	/	1
H3	M	30s	Portfolio	Real estate	5
	F				
H4	M	40s	Portfolio	Finance and Accounting	3
				Restaurants	
H5	M	60s	Portfolio	Restaurants	40
H6	M	40s	Portfolio	Transport	4
				Solicitor	
H7	M	40s	Portfolio	Retail	4
				Bakery	
H8	M	50s	Serial	Restaurant	3
			(Returning migrant)		
H9	M	30s	Portfolio	Retail	7
				Restaurant	
H10	M	60s	Portfolio	Construction	7
				Real estate	
H11	M	40s	Portfolio	Energy	5
H12	M	40s	Serial	Travel agency	5
	F		(Returning migrant)		
H13	F	50s	Portfolio	Art studio	4
H14	M	60s	Serial	Construction	8
H15	M	60s	Serial	Restaurant	7
			(Returning migrant)		
H16	F	50s	Portfolio	Transport	4
				Leasing (beach equipment)	
H17	M	40s	Serial	Restaurant	4
			(Returning migrant)		
H18	M	40s	Portfolio	Finance	18
H19	M	50s	Serial	Restaurant	3
			(Returning migrant)		
H20	M	40s	Novice	/	3
H21	M	60s	Portfolio	Manufacturing	4
				Trade	
H22	M	40s	Portfolio	Trade	3
H23	M	50s	Portfolio	Restaurant	14

				B&B	
H24	M	60s	Serial	Restaurant	7
			(Returning migrant)		
H25	M	30s	Portfolio	Real estate	3
				Restaurant	
H26	M	50s	Portfolio	Trade	9
				Restaurants	
H27	M	40s	Serial	Construction	7
	F		(Returning migrant)		
H28	M	30s	Portfolio	Real estate	8
				Restaurant	
				Travel agency	
H29	M	50s	Serial	Construction	13
			(Returning migrant)		
H30	M	50s	Serial	Restaurant	5
				B&B	
H31	M	40s	Novice	/	4
H32	M	40s	Portfolio	Bakery	7
			(Returning migrant)		
H33	M	50s	Portfolio	Finance and accounting	6
H34	M	40s	Serial	Trade	8
			(Returning migrant)	Agriculture	
H35	M	40s	Novice	/	2
H36	M	30s	Novice	/	2
H37	M	50s	Portfolio	Real estate	5

Analysis revealed that the majority of participants are male between the ages of 40 and 49 years, holding a university degree. A wide diversity of university backgrounds is evident, with degrees including economics, law, chemistry and art. Thirty-three businesses are registered as a sole proprietorship and four as a joint partnership. In terms of gender, only two women are sole proprietors and run the business independently. Ten participants are returning migrants. The length of time entrepreneurs had owned their businesses varied from 40 years (one owner) to just one year (one owner). The majority had owned their businesses from two to nine years, where the average time in a hotel business is 7 years. A majority of participants (21) own another business besides a hotel, which classifies them as portfolio entrepreneurs. There are also 10 of the participants who are returning migrants, all except one being serial entrepreneurs, who had emigrated due to political or economic reasons and returned back when the communist system was abandoned in the 1990s.

### 3.2 Entrepreneurial Networks

Building on previous theory (Drakopoulou Dodd & Patra, 2002; Shaw, 2006), our findings address the following forms of entrepreneurial business networks: ties with other entrepreneurs; social or interpersonal contacts with family members; and membership in formal organisations. Our findings did not reveal any significant ties with suppliers, distributors and customers, and these networks therefore were not found to be important in our study.

*Entrepreneur to entrepreneur.* All interviewees stated that they do not perceive other SMS hotels as competition but the existence of other hotels is crucial for overall destination development. At the same time, the investigated respondents are not keen to form networks with other entrepreneurs. Our data show that 13 respondents have business ties with other small hotels. As the only aspect of cooperation is based on exchanging guests (overflow bookings), they network with hotels located in the same geographical area and within a similar price and quality range. Therefore, this kind of network tie is built up on a personal and geographical rather than a business basis. This was also evident from the respondents' reasons to develop such ties, where all of them stated that they are just helping tourists to find accommodation if they have a surplus of guests. Clear business benefits could not be identified by the interviewees. An initial assumption that interviewed entrepreneurs do not interact with other entrepreneurs had to be rejected as all respondents reported that they have repeated interactions with other entrepreneurs on a daily basis. Thus, there exists strong familiarity between them, which however does not translate into business-motivated networking:

*I talk with other entrepreneurs from the area all the time, we drink coffees, play cards, but we do not work*

*together, we only exchange guests when we are overbooked (H22).*

Among these 13 respondents, seven reported business ties with other SMEs, mostly with providers of excursion services. The breadth of activities tends to be narrow and in most cases periodic. Respondents did not identify any problems in this network type and there was no fear that each party would behave opportunistically. The respondents could not quantify the value to be gained and the level of resources to be committed to the network with other entrepreneurs. The respondents' main identified reason for networking is an expansion of a range of services which they cannot offer themselves due to their small size. Therefore, respondents form these networks in order to acquire new services and products for which the market will pay a premium:

*It is economically not profitable if I organise an island excursion. However, I need to provide something to the guests, I am too small to have a pool for instance. So we network with a firm who is providing tourist services. My service is more competitive in the market and it also attracts guest and brings me higher profit. (H7)*

All interviewed respondents regarded the networks with other entrepreneurs as important, with a common theme being the respondents' desire to form business networks with other entrepreneurs across different industries. They particularly emphasised the importance of networks in turbulent transitional settings. Probing further it was revealed that 21 respondents had experienced significant start-up barriers, ranging from administrative to financial, which have caused significant delays in starting their hotel business. For instance, one entrepreneur reported:

*When I bought a hotel, a state company which sold it to me signed a contract and committed that they will move out refugees immediately. That never happened. I bought the hotel 30.06.1996 and refugees left in 1999. I could do nothing about it. (H17)*

Those entrepreneurs further reported that they needed from four to 10 years to obtain a building permit. In such a business environment, respondents all consider business networks with other entrepreneurs 'as crucial for our success and survival on the market' (H4). However, formation of networks with other entrepreneurs was reported as problematic due to a number of obstacles identified by the respondents. Firstly, the respondents argued that there is no tradition of networking, as this is seen as a legacy of the former communist system. Further, the interviewed entrepreneurs reported that during the period of transition the population saw entrepreneurs as criminals, connected with corruption. This public image of entrepreneurs in Croatia is widespread among them even today and it causes strong mistrust between entrepreneurs. Therefore, the entrepreneurs do not trust one another because of the negative image of entrepreneurs in wider society:

*Of course I know them, our fathers were friends, we see each other almost every day, we all have very good relationship. But we do not work together, I trust him more when we play cards (laugh). (H5)*

Therefore, as a consequence of a high degree of mistrust in other entrepreneurs, respondents in our sample are reluctant to form business ties with other entrepreneurs, even the ones with whom they are very familiar.

*Entrepreneur to family.* Our data show that all entrepreneurs have high frequency of contact on a daily basis with their family members (at least once a day) and there exists mutual trust and family bond. However, the majority of respondents did not develop these interpersonal ties into business ties and this orientation did not vary according to the stage in the business lifecycle. After further questioning, the respondents revealed two key findings to explain this theoretical inconsistency. First, almost all (30 out of 37) interviewed entrepreneurs are portfolio entrepreneurs running businesses across different sectors. They all consider themselves as experienced and do not see their family as instrumental in providing the ability to recognise entrepreneurial potential or business development. More importantly, they could not locate financial resources within the family network. Second, all respondents reject the idea of employing family members, seeking to employ qualified and educated employees instead. The interviewed entrepreneurs believe that involvement of family members would deteriorate the quality of the service. However, as in the previous section, interpersonal familiarity and trust in the entrepreneur-family dyad did not transfer into business trust and consequential development of business ties.

*Entrepreneur to formal association.* A majority of the respondents (22) hold membership in a formal association, The Association of Family and Small Hotels of Croatia (OMH). The stage in the business lifecycle was not identified as an important factor in deciding to choose membership. Respondents at the beginning of the business lifecycle and those who have been running a hotel for some time share the key reason for joining OMH. They join the association to obtain the resources and benefits that it provides, such as hotel promotion and the channels of advertising, trade fair attendance and educational seminars. Respondents also considered that joining the association presents them as a brand, making them more competitive on the market. Therefore, resource-sharing is a dominant motive for entrepreneurs to join a formal business network while the social aspect of networking

was less emphasised.

When investigating benefits achieved, the interviewees did refer to reasons for joining the formal association, such as presence at important tourism trade fairs. However, the respondents value the membership in the network on the basis of direct financial benefits to individual businesses, not shared vision. Respondents could not identify how benefits achieved influenced their business performance and profitability:

*The association is a great idea and we do have some benefits but I cannot say that we have direct benefits... I cannot see a direct benefit for me. Our direct benefit would be if they send us guests and to cut the costs, such as VAT, but the association did not do anything about it. (H12)*

Indeed, a majority of the respondents is considering withdrawing their membership. They cannot identify the value of their membership and negative attitudes towards formal associations are emphasized:

*The association works as a private organisation of a certain number of people. And, of course you have to pay membership to finance someone's private interests. (H2)*

*I don't know what they can offer us that we did not achieve already. I do not see any reason to hold the membership. Let someone tell me what members have and I don't, we are present in all major fairs and catalogues. (H11)*

Therefore, although OMH aims to act as a broker by connecting the parties which would otherwise remain unconnected, and the entrepreneurs in our study do not shy away from developing formal business ties, legacies of the socialist and transition period (mistrust in formal associations) and mismatch in membership expectations have resulted in strong business ties not being formed between the association and entrepreneurs.

### 3.3 Summary of the Findings

The findings show that interviewed entrepreneurs are reluctant to form strong business ties with identified network parties, even when repeated interactions exist and trust is developed. This implies that formation of strong business ties may not be only a function of the frequency of contact and the quality and intensity of the relationship (Granovetter, 1973). A pioneering study by Jack (2005, p. 1254) demonstrates that 'when building and forming a relationship it is the function of a tie and how that tie can be utilised that is important rather than frequency of contact.' The findings of this study demonstrate a similar pattern. Table 2 summarises the key identified reasons for entrepreneurial network formation.

Table 2. Entrepreneurial motives and mechanisms of network formation

Entrepreneurial network	Why needed	Formation mechanism
Entrepreneur to entrepreneur	To create new products and services	
	To achieve better position in the market	Tie utilisation
Entrepreneur to family	To obtain financial resources	Tie utilisation
Entrepreneur to association	To obtain direct financial benefits to the business	
	To overcome the liability of smallness	Tie utilisation

For instance, when resources could not be located amongst family members, the majority of the interviewed entrepreneurs joined the hotel association to overcome the liability of smallness. However, the association could not provide direct benefits to individual businesses and none of the respondents expressed an intention to build long term relationships, nor are strong business ties formed.

This analysis of the formation of entrepreneurial networks among investigated entrepreneurs in Croatia demonstrates that an underdeveloped institutional environment and historical legacies inherited from socialism break the link between familiarity and trust often assumed in the literature on entrepreneurial networks. The negative image of the entrepreneur is a reflection of a socialist and transitional period and has prevented entrepreneurs from developing trust with other parties familiar to them. It can be argued that in the cases examined for this study, entrepreneurial networks are not formed on a basis of high frequency of contacts (Granovetter, 1973) but rather on a basis of tie utilisation (Jack, 2005).

## 4. Conclusions and Recommendations

This paper has analysed how the social context of a transitional economy influences the formation of

entrepreneurial networks. Our study makes two contributions. The first relates to the formation of strong ties. Although the network studies literature (eg., Burt, 1992) argues that strong ties may not be that useful as they provide redundant information since actors connected through strong ties tend to move in the same social circles, entrepreneurship literature has demonstrated that strong ties are of significant importance for entrepreneurs (Jack, 2005; Uzzi, 1996, 1997). Strong ties facilitate business activities and 'provide the link to the wider social context and act as a mechanism to invoke weak ties' (Jack, 2005, p. 1234). We found, however, that entrepreneurs in our study are reluctant to form strong business ties. For instance, the results demonstrate that even with high frequency of contacts and degree of familiarity with other entrepreneurs, investigated entrepreneurs do not develop business ties because trust within the entrepreneur-entrepreneur dyad does not develop. In contrast, although entrepreneurs do develop trusted behaviour with their family members, they do not develop strong business ties with them.

Theoretically, this implies that the link between familiarity and trust is not ever-present as presumed in the literature on networks (Granovetter, 1973; Uzzi, 1997) and entrepreneurial networks (Larson, 1992; Neergard and Ulhøi, 2006). The closeness of the relationship, which is usually measured with the frequency of contacts (Granovetter, 1973), does not appear as an indicator that the trust will develop and strong ties will be formed. Our findings show that entrepreneurial networking behaviour can be affected by the socio-economic conditions in a transitional economy, which break the link between familiarity and trust. Specifically, while negative public perception of entrepreneurs and negative attitude towards networking by entrepreneurs precluded the formation of business ties by the respondents with other entrepreneurs. Studies so far have either overlooked whether culture is supportive of networking behaviour (Lockett et al., 2013) or have not identified particular socio-economic mechanisms which influence entrepreneurial networking (Klyver et al., 2008; Zhang, 2010). In our study the historical legacies of socialism reflected in a negative public perception of entrepreneurs and negative attitude towards networks, have a significant effect on the type of entrepreneurial networks that do and do not form.

Secondly, underdeveloped institutional framework significantly shaped entrepreneurial motivation and expectations of each network. While a majority of the studies identified both economic and social motives of entrepreneurial networking (Jack, 2005; Lockett et al., 2013; Shaw, 2006), high administrative barriers and lack of resources forced entrepreneurs to form business networks with those parties with whom they can gain direct economic benefits. For instance, membership in the formal association was deemed as necessary by the investigated entrepreneurs to overcome the liability of smallness. However, entrepreneurs do not value their membership in a formal association on the basis of a shared vision (Miller, Besser, & Malshe, 2007). Rather, entrepreneurs require outcomes from networking that have a direct and positive impact on their businesses. At the same time, they are reluctant to develop strong business ties as socialist legacies have created negative attitudes and suspiciousness by entrepreneurs towards any formal association. Although reported behaviour in this study did not result in the dysfunctional relationships reported in Azoulay et al.'s (2010) study, it did create ties characterised by ill-will and mistrust. Respondents' tendency to form weak business ties even when micro-level conditions conducive to form strong ties do exist, further demonstrates that tie utilization (Jack, 2005) can be more important to entrepreneurs than the frequency of contacts (Granovetter's, 1973) or a tie strength (Uzzi, 1996, 1997). This implies that widely cited networking mechanisms such as trust and frequency of contacts which originate from micro-organisational level and labour market studies may need further modification when applied to the entrepreneurial context.

The reported contributions of the study have broader implications for entrepreneurship theory. They support recent calls by entrepreneurship scholars to contextualise entrepreneurship research (Welter, 2011; Zahra, 2007). Welter (2011, p. 175) argues that contextualised theories allow us to 'understand and analyse the effects multiple contexts have on entrepreneurship and the ways entrepreneurship influences context, from a dynamic perspective.' Our study has demonstrated that inclusion of transitional economies into the mainstream literature offers the potential to expand our theoretical understanding of entrepreneurial networks and shows how culturally bounded entrepreneurial behaviour is. Also, inclusion of transition economies illustrates that assumptions from Western economies, such as the link between familiarity and trust, need modification when examining former socialist economies and that unique characteristics of those economies have to be acknowledged (Puffer, McCarthy, & Boisot, 2010; Smallbone & Welter, 2001).

The findings of this study indicate three important areas for future research. First, almost all respondents in this study were portfolio entrepreneurs. Portfolio orientation is a rather unexpected finding, particularly in the tourism sector where entrepreneurship is largely associated with the notion of lifestyle motives (Ioannides & Petersen, 2003). However, Estrin et al. (2006, p. 716) argue that within transition economies portfolio

entrepreneurship 'is another way for businesses to hedge against the volatility of markets in transition.' This implies that portfolio orientation among small entrepreneurs in transitional settings is not uncommon, Although the reasons for its presence may be different. For instance, portfolio orientation may be adopted as one of the strategies to adopt or to evolve in rapidly changing institutional environments and thus calls for further investigation. A second related point is that future studies could investigate a more diversified sample of entrepreneurs than in the reported case, as business ownership experience may be associated with broader social and business networks (Westhead, Ucbasaran, & Wright, 2005). Thirdly, the nature of tourism destination development may have an impact on entrepreneurial networking (Tinsley & Lynch, 2001). Destination development obligates some form of cooperation as well as competition between firms, as destinations have to create a product in order to compete with one another (Murphy, Pritchard, and Smith, 2000). Therefore, it would be fruitful to investigate whether the stage in the destination lifecycle may impact on entrepreneurial networking.

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