The Influence of Social Networks on Firm’s Success, Survival and Growth

A Social Network Analysis investigation of SMEs in the Bahrain Construction Industry

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• **Question 1:** What is the optimal mix of network relationships needed at the different stages of an entrepreneurial firm’s development?

• **Question 2:** Is there a relationship between an Entrepreneur's social network structure, type of resources accessed, and firm’s success/failure?
Motivation

- Bahrain construction sector (7.2% of GDP).
- Characterised by:
  - Fragmentation,
  - Prevalence of competitive tendering, and
  - Adversarial relationships.

Potential points of conflict in a construction project
Why SMEs?

Sources: BEDB, 2008; MOIC, 2012; Hertog, 2010; Proudly Arabian, 2013; Tamkeen, 2008
• Bahrain’s culture is classified as high in collectivism with emphasis on the importance of family and extended informal relationships.

• Intertwining social and business activities (1).
The concept of Embeddedness

- Economic action, including entrepreneurial behaviour, is embedded in interpersonal social networks\(^1\).
- The Entrepreneur’s personal network as a resource/competence\(^2\).

Source: (1) Granovetter, 1985; Abou-Moghli and Al Mualla, 2012; Hoang and Antoncic, 2003; Siu and Bao, 2008; Pryke et al., 2011, (2) e.g. Watson, 2007; Zhao and Aram, 1995; Greve, 1995; Chell and Baines, 2000.
Strong vs. weak ties

Weak ties
Weak ties can provide access to novel, diverse perspectives and information

Strong ties
Strong ties can add in-depth knowledge, provide moral and emotional support, and achieve more robust resources

Source: e.g. Granovetter, 1973; Burt, 1992; Krackhardt, 1992; Uzzi, 1997; Rowley et al., 2000; Lechner and Dowling, 2003
• Redundant/ non-redundant ties and structural holes\(^{(1)}\).

• Network diversity: the optimal mix of weak/strong ties “the best of both worlds!”\(^{(2)}\).

• Network intensity: The frequency with which the Entrepreneur access those networks\(^{(3)}\).

**Network Intensity vs. Diversity**

Source: (1) e.g., Burt, 1992; Chell Baines, 2000; Dublin and Aldrich, 1991; Aldrich and Zimmer, 1986; Cooper et al., 1995; Granovetter, 1973, (2) Zhao and Aram, 1995; Watson, 2007; Dublin and Aldrich, 1991; Shaw, 2006; (3) Hite and Hesterly, 2001; Lechner and Dowling, 2003; Klyver and Hindle, 2007.
• Success of an Entrepreneurial firm is a function of the optimal balance of the intensity and diversity of its critical resource provision networks at the different stages of the firm’s development.
• Multiple case study approach.
• Two firms at start-up and two firms at growth stages.
• Face-to-face interviews with business owner.
• Critical resource-specific networks:
  o Information
  o Advice/Help
  o Contacts/Brokerage
  o Funding

<table>
<thead>
<tr>
<th>Stage</th>
<th>Category</th>
<th>Alias of Firm/Respondent</th>
<th>Qualification</th>
<th>Years of Operation</th>
<th>Number of employees</th>
<th>Type of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up</td>
<td>Successful</td>
<td>Firm A: Ali</td>
<td>Civil Engineer</td>
<td>2 years</td>
<td>5</td>
<td>Engineering consultancies that are engaged in architectural and civil engineering design and supervision for small scale private projects.</td>
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<tr>
<td></td>
<td>Failing</td>
<td>Firm B: Mariam</td>
<td>Architect</td>
<td>2 years and 7 months</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>Successful</td>
<td>Firm C: Mohammed</td>
<td>Architect</td>
<td>12 years</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Failing</td>
<td>Firm D: Adam</td>
<td>Civil Engineer</td>
<td>14 years</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

Basic Characteristics of Respondents/Firms

Source: Wassermann and Faust, 1994; Covin and Slevin, 1990; Ostgaard and Birley, 1994; Fredland and Morris, 1976; Brüderl and Preisendörfer, 1998
Research findings: Start-ups

Successful

Failing

Mariam’s Resource Provision Network

Mariam’s Provision Network According to Resource Accessed
Research findings: Growth stage
• The evolving nature of social networks over time in order to meet the business owner’s critical resource requirements in the face of increasing uncertainty.

• Time and effort dedicated to building and maintaining social networks are associated with the success of the firm.
Thank you!