

STATUS DIFFERENCES AS AN IMPEDIMENT TO BUILDING ENTREPRENEURIAL RELATIONAL CAPITAL

Jamie D. Collins*, Klaus Uhlenbruck**, Christopher R. Reutzel***

Abstract

We explore a potentially significant impediment facing entrepreneurial firms as they attempt to augment and utilize their relationships with other firms. Social capital has often been argued to be an alternative to contracts for governing inter-firm relationships. We extend existing research by arguing that significant differences in the quality of social capital can exist for entrepreneurial firms with similar sets of capabilities and initial structural connections to potential exchange partners. We specifically explore the influence of status differences between firms' representatives. We further discuss factors that moderate this influence. Entrepreneurial firms attempting to convert existing weak ties into strong ties with better established firms are most likely to encounter problems due to social status differences between the firms' representatives. Thus, their ability to rely on the positive aspects of social capital in governing inter-firm relationships is hampered.

Keywords: social capital, firms, contracts

* Assistant Professor, Department of Management & Entrepreneurship, Hankamer School of Business
Baylor University, Waco, TX 76798
(254) 710-6610,
jamie_collins@baylor.edu

** Associate Professor of Management, Director of Small Business Institute, Dept. of Management & Marketing
University of Montana, Missoula, MT 59808
(406) 243-6523, Klaus.uhlenbruck@business.umt.edu

*** Assistant Professor, Department of Management, Utah State University, Logan, UT 84321
christopher.reutzel@usu.edu

We are thankful to Bert Cannella, Mike Hitt, Elizabeth Umphress and Chris Tuggle for their feedback on earlier versions of this paper.

Introduction

Gaining access to limited resources which enable the pursuit of their endeavors is a fundamental challenge facing entrepreneurial firms (Freeman et al. 1983; Stinchcombe 1965). Entrepreneurship represents a process whereby individuals and collections of individuals creatively combine and leverage resources to develop new processes, goods or services, or entire businesses. The most successful entrepreneurs tend to be those who have an ability to leverage the limited resources their firms possess as well as procure those necessary to create a competitive advantage (Starr and Macmillan 1990). An important means enabling new ventures to conserve their own resources are inter-organizational relationships that allow access to resources of their partners (Lu and Beamish 2006). Consequently, the ability to establish and develop relationships with existing firms and potential partners can be crucial for competitive success of new ventures (Alvarez et al. 2006; Busenitz, et al. 2005). This suggests that factors which influence the breadth of opportunities for forming new inter-firm relationships

are of particular importance to new firms. Moreover, factors that may limit the value of social capital as a inter-firm governance mechanism between entrepreneurial firms warrant additional theoretical explanation.

Recent research confirms that the relationships held by entrepreneurs and top managers of new ventures represent a form of social capital, which can be highly valuable due to their idiosyncratic, difficult-to-imitate nature (BarNir and Smith 2002; Bruton, et al. 2005). The notion that individual-level relationships provide access to economic opportunities is intuitively appealing and has received significant research efforts (Baron and Markman 2003).

Social capital researchers agree that relational capital (the relational dimension of social capital) is fundamental to accessing the potential benefits of firm-to-firm connections (Adler and Kwon 2002; Collins and Hitt 2006; Podolny and Baron 1997). Integral to the development of relationships between organizations is the development of a relationship between firms' boundary-spanning representatives

(Bartel 2001; Tushman 1977). Especially when firms have not previously engaged in transactions with each other, relationship development between individuals is essential.

Our emphasis is on the influence of social differences between firm representatives in the early developmental stages of firm-to-firm relationships. This focus allows us to complement prior research, which suggests that similar configurations of structural ties differ in the utility they provide (Emirbayer and Goodwin 1994; Larson 1992; Nahapiet and Ghoshal 1998; Rangan 2000). We build upon and extend prior research by Baron and Markman (2003) which identifies social competence as a contingency to the development of entrepreneurial relational capital. In a similar vein we contribute to the extant literature by identifying and elucidating the influence of status differences on the value entrepreneurial firms derive from their social ties.

A number of entrepreneurship researchers have demonstrated the positive influence of social factors on multiple desirable outcomes in the new venture context, including partnership formation, access to capital and improved long-term survival prospects (Alvarez et al., 2006; BarNir and Smith 2002; Bruton, et al. 2005; Jensen 2003). Our work focuses on the negative impact social factors can have on the development of the relational capital by entrepreneurial firms. We focus on small businesses and new ventures because the negative effect of status differences is expected to be most evident in the formation of new exchange relationships when a new firm still needs to establish its trustworthiness and demonstrate its capabilities to potential partners.

The extent to which entrepreneurs and new venture top managers are successful is frequently dependent on their ability to garner and leverage their social capital resources (Bouty 2000; Bruton, et al. 2005; Busenitz, et al. 2005; Dubini and Aldrich 1991). New ventures capable of effectively leveraging social capital are more capable of integrating complementary resources to achieve a sustained competitive advantage (Collins and Hitt 2006; Hitt, et al. 2006; Lechner, Dowling and Welp 2006). Relationships between entrepreneurs frequently develop as a result of shared experiences and through interpersonal exchanges. When entrepreneurs possess high levels of social capital with other entrepreneurs and important institutional actors outside the organization, there will also tend to be high levels of trust between these actors. This trust increases the ease of communication and cooperation between parties to an exchange. It also makes governance of the inter-firm relationships less costly. Social capital enables entrepreneurs to share information (Greve and Salaff 2003) which, in turn, accelerates knowledge transfer (Adler and Kwon 2002; Brass et al. 2004). Further, social capital is vital for the firm as it provides influence with stakeholders, is a key source of connections to the environment and essential for

acquiring resources from external sources (Certo 2003; Stuart et al. 1999). Additionally, social capital is associated with higher levels of innovation within firms (Ahuja 2000; Stuart 2000; Tsai and Ghoshal 1998).

In numerous competitive contexts, entrepreneurial firms may have strong ties to a central firm, but only weak ties to most other firms. Under these circumstances, entrepreneurial firms often have not yet developed strong relationships with other potential exchange partners and have yet to establish their trustworthiness and demonstrate their capabilities to potential partners. This provides a challenge to the entrepreneurial firm for reasons unrelated to its fitness (Barabasi 2002) or legitimacy (Meyer and Rowan 1977; Pfeffer and Salancik 1978), i.e., unrelated to the firm having objectively met the general standards of acceptability.

Accordingly, our work attempts to emphasize the role of individual attributes—and the social dynamics they engender—into the realm of the development of relational capital by entrepreneurial firms. This effort is consistent with social capital's original formulations, which emphasized the importance of inter-personal relationships (Bourdieu 1985; Coleman 1988). It is also compatible with the relatively recent surge of interest in factors influencing social capital's relational dimension (Joshi 2006; Kostova and Roth 2003; Labianca and Brass 2006).

Dimensions of Social Capital

The structural dimension of firm social capital basically refers to the structure of a firm's social ties as well as its position within a social structure. The relational dimension refers to the nature of the dyadic relationships between organizations derived from personal relationships between firm representatives developed through a history of interactions (Hitt, et al. 2006; Nahapiet and Ghoshal 1998). New ventures that establish strong ties to a central firm in a network typically generate numerous weak ties, yet relational qualities of these ties still need to be developed.

Social network theorists almost universally recognize that social structure creates economic opportunities. The benefits of social capital originating from social network structure (Burt 1997; Shaw, et al. 2005; Zaheer and Bell 2005) have been demonstrated in numerous organizational settings including: new alliance formation and subsequent inter-firm relationships (Gulati 1995a, b), network formation and industry growth (Walker, Kogut and Shan 1997), knowledge transfer, innovation and firm performance (Ahuja 2000; Burt 1997; Haunschild and Beckman 2002; Reagans and McEvily 2003; Stuart 2000; Tsai 2001).

Yet there seems to be agreement that even though firms may be identical in terms of the structural dimension of their social capital, the value they derive from their ties may vary substantially. Some researchers argue that although two actors may

occupy equivalent positions in similar configurations of connections, they may engage in significantly different actions and utilize connections quite differently (Emirbayer and Goodwin 1994; Nahapiet and Ghoshal 1998). In support of this view research by Baron and Markman (2003) demonstrates that social competence represents a contingency to the value entrepreneurs receive from their social ties. Specifically, the results of their study suggest that entrepreneurs' accuracy in perceiving others, as well as social adaptability increase the value derived from the social ties entrepreneur possess. We extend the work of Baron and Markman in this paper by identifying status differences among social actors as an additional contingency to the value social actors derive from their existing social ties.

Larson's (1992) research, in particular, underscores the effect of social forces such as behavioral expectations and personal relationships on the development of dyadic firm-level exchange relationships. She argues that while economic rationales for exchange are obviously important in the development of exchange relationships, social factors are also integral to this process. In fact, a number of entrepreneurship researchers have demonstrated the positive influence of social factors on multiple desirable outcomes in the new venture context, including partnership formation, access to capital and improved long-term survival prospects (Alvarez et al. 2006; BarNir and Smith 2002; Bruton, et al. 2005; Jensen 2003).

The Human Condition

The tendency to make comparisons and draw distinctions between one's self and others is nearly universal in societies, organizations and networks (Chattopadhyay et al. 2004; Konrad and Gutek 1987). Individuals tend to classify themselves and others into social categories (Tajfel 1978; Tajfel and Turner 1986; Turner 1987). People perceive themselves and similar others as a positively valued in-group, while they perceive dissimilar others as a less valued out-group (Chattopadhyay et al. 2004). Similarity among firms' representatives is likely to produce trust between these representatives; lack of similarity is likely to cause, at least initially, a lack of trust between them (Brewer 1981; Burt 1992). Likewise, out-groups or dissimilar people are more likely to be the target of negative behavioral expectations than in-group members (Hamilton et al. 1990). In-group versus out-group status distinctions can be drawn in any number of ways, such as social class, race, age, gender, education, religion, occupation, geographic origins and other personal characteristics.

The notion that people tend to like people who are similar to them has been demonstrated in a wide range of organizational settings (Williams and O'Reilly 1998), including organizational attraction-selection-attrition (Chatman 1991; Schneider 1987), relational demography (Tsui and O'Reilly 1989), in-

group homophily (Mollica et al. 2003) and in economic exchanges between ethnic groups (Portes and Sensenbrenner 1993; Waldinger 1995). Social differences often serve as barriers to the development of any substantive interaction and relationships among people and determine whether or not those people engage in economic exchange and the development of social capital.

Effects on Entrepreneurial Relational Capital

Assuming that a given grouping of firms has developed as a natural result of competitive decisions and market conditions, firms have a significant amount of discretion regarding which other firms they choose to actually exchange resources. These exchanges require interaction between individuals serving as representatives for each organization. Bartel, (2001) and Friedman and Podolny (1992) demonstrate that these representatives in boundary-spanning roles are unlikely to be completely systematic and rational in their evaluation of potential exchange partners. Because the actions of organizations are often the direct result of individuals' actions, we place emphasis on the role of individual-level status differences in influencing the firm-level decision by an established firm of whether or not to engage in economic exchanges with an entrepreneurial firm. Any transaction that involves personal interaction will be influenced, at least partially, by individual-level social factors. That is, economic relations are embedded in social contexts (Granovetter 1985; Uzzi 1996).

The biases deeply rooted in society influence individuals' information processing, attitudes and behaviors toward other people, especially during the period in which impressions are being formed (Bargh and Chen 1996; Fazio and Jackson 1995). Individuals in boundary-spanning roles acquire information from outside their respective organizations, interpret and distribute the information and influence firm-level decisions that incorporate such information (Au and Fukuda 2002; Tushman 1977; Tushman and Scanlan 1981). Especially when these representatives are empowered with a great deal of role autonomy, such as is the case for venture founders or members of a firm's top management team, individual preferences are likely to influence firm level decisions (Bouty 2000; Perrone et al. 2003). Because these representatives play a crucial role in identifying exchange opportunities (Eisenhardt and Schoonhoven 1996), individuals in these boundary spanning positions exert a critical influence on the likelihood of established firms engaging in economic exchanges with entrepreneurial firms. As boundary-spanning representatives form impressions of other firms—in an unconscious attempt to reduce uncertainty—based to a large extent on their perceptions of the other firms' representatives, a potential barrier to exchange emerges (Certo 2003; Shrum 1990). Thus, the

preferences/biases of the representative(s) involved in the decision whether to engage in an exchange influence these firm-level decisions.

Both inter-firm and inter-personal dynamics govern the development of exchange relationships between firms (Larson 1992). Inter-firm relationships typically begin with individual relationships between the firms' representatives (boundary spanners). Although the preferences and biases are held at the individual level of boundary spanning representatives, this phenomenon directly influences firm-level actions and opportunities. Decisions regarding whether to engage in transactions with entrepreneurial firms ultimately become firm-level decisions (Larson 1992). This is because relationships between organizations cannot be developed and sustained without significant influence from individuals representing their respective firms. The relationships between individual representatives can make or break partnerships or trust between firms (Marchington and Vincent 2004: 1031). This is consistent with research findings that lower levels of trust at the individual level lead to lower levels of organizational-level trust (Currall and Inkpen 2002) and that exchange partners tend to be similar (Portes and Sensenbrenner 1993; Uzzi 1996).

We do not suggest that boundary spanners are incapable of choosing to set aside their preferences and biases, only that they will often be either unaware or unconcerned that these preferences and biases exist. In fact, it is a broadly accepted view in social cognition psychology that "social behavior often operates in an implicit or unconscious fashion" (Greenwald and Banaji 1995: 4). We argue that some of the executives of established firms will make attributions regarding entrepreneurial firms based on their evaluation of those firms' representatives. Moreover, whenever a significant difference in these representatives' status exists, the executives from established firms will be unwilling to even explore whether or not they share norms with their counterpart at the entrepreneurial firm (Greenwald and Banaji 1995). While it could be manifested in explicit behavior, this unwillingness will not necessarily be blatant or outwardly obvious to the organization represented or to potential exchange partners. These issues are likely to have the greatest influence on entrepreneurial firms when the firm is new and/or small, a period in which most entrepreneurial firms tend to occupy a relatively lower status position than more well-established firms. This effect is expected to be less problematic over time as inter-firm relationships become broadly established between numerous members of the transacting organizations.

Several studies lead to the conclusion that newcomer firms have difficulty establishing exchange relationships with established firms (Batjargal and Liu 2004; Hitt et al. 2006; Ravlin and Thomas 2005; Shane and Stuart 2002). In particular, firms making their initial entry into markets as well as young firms and smaller firms are likely to be most vulnerable to

challenges to establishing strong ties with larger firms and older firms. Social dynamics between individuals representing their respective firms can also serve as obstacles to the process of developing weak ties into stronger, denser and more valuable ties. Such weak ties often characterize the networks of entrepreneurial firms during their start-up phase. For example, Batjargal and Liu (2004) found that personal relationships between individual entrepreneurs and venture capitalists have a significant direct effect on the success of their firms in acquiring financial backing. The firms in this study attracting less funding from venture capital firms were those whose founders failed to develop strong ties with venture capitalists. In addition, Shane and Stuart (2002) found that new ventures with founders having established relationships with venture investors were most likely to receive venture funding and are less likely to fail. Further, Hitt and colleagues (2006) found that the internationalization of large U.S.-based professional service firms built only indirectly on the firms' relational capital with their corporate clients. Rather, establishing foreign offices depended on the ability of individual partners to exploit firm-level social capital. Thus, the ability to successfully establish new operations in an international market was influenced by the degree to which firm-level relationships were institutionalized and the ability of key individual firm representatives to leverage positive relationships with client representatives.

Research clearly indicates that social biases lead people to assign lower status to some individuals (Ravlin and Thomas 2005). We argue that these biases affect the status established firms assign the entrepreneurial organization represented by these individuals, although there may be intervening circumstances as discussed below. In turn, the status assigned to entrepreneurial firms affects the likelihood and quality of exchange with the established firms. The explicit preferential status given in US federal government contracting to organizations owned and managed by minorities and women clearly indicates a concern that social biases hinder the development of resources and economic exchange opportunities at firms represented by members of these social groups.

Proposition 1: The greater the status differences between the boundary-spanning representatives of an entrepreneurial firm and those of its existing and potential exchange partners, the more difficulty the firm will have developing relational capital with other firms.

The extent to which entrepreneurs and new venture top managers are successful is frequently dependent on their ability to garner and leverage their relational capital resources (Bouty 2000; Busenitz, et al. 2005; Dubini and Aldrich 1991). New ventures capable of effectively leveraging relational capital are more capable of integrating complementary resources to achieve a sustained competitive advantage (Hitt, et al. 2006; Lechner et al. 2006). When entrepreneurs possess high levels of relational capital with other

entrepreneurs and important institutional actors outside the organization, there will also tend to be high levels of trust between these actors. This trust increases the ease of communication and cooperation between parties to an exchange. Relational capital enables entrepreneurs to share information (Greve and Salaff 2003) which, in turn, accelerates knowledge transfer (Adler and Kwon 2002; Brass et al. 2004). Further, relational capital is vital for the firm as it provides influence with stakeholders, is a key source of connections to the environment and essential for acquiring resources from external sources (Certo 2003; Stuart et al. 1999). Unfortunately, entrepreneurial firms' ability to effectively develop relational capital can be muted by status differences between the individuals representing the focal firm and potential exchange partners. We now turn to explaining some factors that potentially moderate this influence.

Status-Related Contingencies

The effect of social individual boundary spanners' biases affecting the likelihood and quality of exchange between organizations is contingent on a variety of conditions. Specifically, we focus on those conditions identified by previous research as salient to firm-level decisions regarding inter-firm exchange. Three moderating factors that we believe to be important to the influence of status differences are the level of uncertainty associated with potential transactions, firm representative role autonomy (e.g. boundary spanners) of the prospective and existing partner firms and the reputation developed (if any) by the entrepreneurial firm. We discuss each of these separately below.

Uncertainty Surrounding the Transaction

According to Beckman, Haunschild and Phillips (2004), the level of uncertainty faced by a firm significantly influences exchange partner choice. At the same time, uncertainty reduction is a primary motivating force for social categorization (Chattopadhyay et al. 2004a and 2004b). Because many entrepreneurial firm representatives are likely unknown to their counterparts at more well-known firms, boundary-spanning representatives of established firms will attempt to deal with this uncertainty by categorizing the potential exchange partner's representatives. Further, under conditions of uncertainty, expectations of the established firms will be derived from those built for the potential exchange partners' representatives (Certo 2003; Shrum 1990). Thus, uncertainty regarding a potential transaction—for instance, regarding the quality of products and services of the entrepreneurial firm—is reduced by using information regarding the exchange partner's representatives. Likewise, as Kollock (1994) and Podolny (1994) have shown, trust between potential partners is an especially important predictor of

whether or not an exchange occurs when uncertainty is high. Since trust between entrepreneurial firms and established firms is not yet developed, trust between individuals becomes crucial for firm-level decisions regarding potential transactions (Currall and Inkpen 2002; Larson 1992). Yet this trust is negatively affected by status differences between the boundary-spanners of the firm, as argued above.

Proposition 2: The effect of status differentials on entrepreneurial firms' ability to develop relational capital is contingent on the uncertainty surrounding new venture inter-organizational exchanges, such that the greater the uncertainty, the greater the influence of boundary spanners' status differences.

Role Autonomy of Boundary Spanners

Perrone et al., (2003) present a view of trust in boundary spanners as explained by the extent of their role autonomy. Autonomy reflects the discretion that boundary spanners have in interpreting and enacting their roles. Firm representatives will be trusted to a greater extent by potential exchange partners when they are free from constraints that limit their ability to interpret their boundary-spanning roles. Role autonomy permits boundary spanners to engage in discretionary behaviors that allow their counterparts to learn about their underlying motives and intentions and thus may limit the effect of social biases. Representatives of entrepreneurial firms who have significant latitude to interpret and implement their role as boundary spanners are expected to be more responsive to potential problems in developing trust with their counterparts (Bouty 2000). Examples of role autonomy in this setting would include the ability of the firm's representative to provide additional information about the firm and its capabilities, or the ability to modify the approach taken to build market awareness of the firm. When firm representatives utilize role autonomy to demonstrate trustworthiness, their efforts tend to be successful at eliciting trust (Perrone, et al. 2003). Therefore, the effect of individual status differences is weakened by increased role autonomy on behalf of the entrepreneurial firm representative(s).

On the other hand, the degree of role autonomy among representatives of larger and older firms in their roles as boundary spanners may strengthen the effect of individual status differences. Reduced role autonomy delimits the decision making latitude of individuals (Griffin and McMahan 1994; Perrone et al 2003) and thus the influence of individual preferences and biases on firm decisions. Increased role autonomy instead reduces the effect of organizational norms, which may have limited the influence of individual biases, on the representative's behavior.

Proposition 3: The lower the role autonomy held by boundary spanners of entrepreneurial firms, the lower the likelihood entrepreneurial firms will be able to develop relational capital with established firms.

Proposition 4: The greater the role autonomy held by boundary spanners of established firms, the lower the likelihood entrepreneurial firms will be able to develop relational capital with established firms.

Reputation Effects

The interaction between a firm's reputation and firm-level status is especially useful in considering the influence of boundary spanners' status differences. Podolny (1999) argued that firm reputation and status are complementary concepts with a positive relationship existing between firm reputation and firm status. More recently, Washington and Zajac (2005) have drawn a helpful distinction between reputation and status which provides useful insight. They argue that status is "fundamentally a sociological concept that captures differences in social rank that generate privilege or discrimination (not performance-based awards), while reputation is fundamentally an economic concept that captures differences in perceived or actual quality or merit" (Washington and Zajac 2005: 283). Whereas status-related differences between individual boundary spanners influence the development of firm-level relational capital, we expect that firm-level reputation will moderate this influence.

The status of an organization is determined by the patterns of affiliations and previous exchanges and argued to be a very strong predictor of which firms engage in exchange with each other. Overall, the firm's status and the status of its exchange partners strongly influence the perception developed by potential exchange partners of the firm's capabilities and product/service quality (Benjamin and Podolny 1999; Podolny 2001). Because newcomer firms have engaged in less previous exchanges with any partner, their status is uncertain, further limiting the development of exchange relationships. If the reputation of the entrepreneurial firm is uncertain, established firms' representatives likely assign a status to the entrepreneurial firm based on their perception of the firm's representatives, as discussed earlier.

Prior inter-firm relationships, if any, reduce uncertainty and increase the likelihood of exchange between firms. Whereas Granovetter (1985) argued that ongoing experience of exchange relationships is likely to be a key source of trust, ongoing interaction is a necessary but insufficient factor in the development of trust when firms are faced with uncertainty. A degree of risk is always present in interorganizational relationships (Kollock 1994), because both parties are potentially exposed to risks. However, firms considering exchanges with new ventures are especially exposed due to their lack of knowledge about the potential new exchange partner's capabilities and behavior. Firms with higher reputations and thus, whose product and service quality have been deemed superior, are generally expected to be reliable partners in regard to

obligations, predictability of behavior and fairness in actions (Zaheer, et al. 1998; Zaheer and Venkatraman 1995). To the extent that prior inter-firm interactions help establish a perception of the quality of a firm's goods and services and thus contributes to the firm's reputation (Washington and Zajac 1995), status differentials between boundary spanners likely will be less important to new firms' ability to establish strong connections with established firms.

Since firm reputations can alternatively either enhance or reduce the possibility for economic exchange, reputation effects are particularly important for small and/or young firms (Larson 1992). Firms with better reputations tend to be favorable exchange partners (Dollinger et al. 1997; Blois 1999) because firms with positive reputations desire to protect those reputations (Houston and Johnson 2000). A common sociological perspective is that potential exchange partners reduce uncertainty in market-related behavior by predicting others' potential future behavior, based on their prior behavior (Podolny 1994; Stuart 1998). In circumstances where a given firm's reputation is not well established and potential partners may rely on their evaluation of the social status of the entrepreneurial firm to evaluate its trustworthiness, social biases may be especially important in determining how the firm is perceived by other firms.

Proposition 5: The lower the reputation of the entrepreneurial firm, the higher the likelihood the entrepreneurial firm's efforts to develop relational capital will be hindered by boundary-spanners' status differences.

Conclusion

Our paper contributes to the entrepreneurship literature by emphasizing the detrimental effect of status differences between firm representatives on the formation and development of inter-firm relationships with new ventures. Whereas Uzzi (1996) argues that trust is a required antecedent to fine-grained information sharing and joint-problem solving arrangements between partners, we emphasize that neither trust nor quality of relationships are uniform across dyadic relationships. We argue that all equally qualified entrepreneurial firms are not equally likely to develop strong ties to well-established firms. The effect of status differences between firms' representatives is manifested when the social biases of the representatives of established firms influence the decision within their organization of how much energy and how many resources should be committed to developing strong ties with a young, smaller firm.

One promising area for future research includes evaluating the influence of inter-firm homogeneity on the influence of status differences on the development of firm-level relational capital. Whenever a network is homogeneous in terms of member characteristics, in-group identification is most prevalent (Chattopadhyay et al. 2004b; Mollica et al. 2003; Tsui and O'Reilly 1989). This identification among actors

who are similar has an effect on individual (Riordan and Shore 1997) and group-level outcomes (Baugh and Graen 1997; Chatman et al. 1998). Status differences are likely to be most salient when a group of firms is homogeneous in nature. Homogeneity can be in terms of any number of socio-cultural characteristics. Examples of such networks include ethnic minority business communities in major U.S. metropolitan regions and industries with very little diversity among participants including: diamond dealers in New York's Diamond District, Asian business associations and Wall Street investment firms and exclusive management consulting firms. Even though these groupings may be open to new member firms, new members are likely to be especially vulnerable to the pernicious effects of status considerations in this kind of homogeneous network. Thus, efforts to further explicate the process by which firms overcome initial barriers to the development of relational capital are warranted.

A further extension might consider biases of established firms' representatives on the firm level. In this paper we have focused on status differences between the representatives of two organizations at the individual level. However, boundary-spanning representatives may also have biases against newcomers at the firm level. For instance, boundary spanners may be biased against foreign firms or new industry entrants and avoid exchange although no social biases exist towards the representatives of the newcomers. Furthermore, some firms' representatives who possess pre-existing stereotypes about certain types of firms may exert an undue influence on the selection of newcomers as exchange partners.

The more relationships the new firm forms with a potential exchange partner, the less effect a specific boundary-spanning representative is likely to have on the perception formed by his/her firm about the entrepreneurial firm. By forming relationships with multiple other boundary spanners, the new firm can create an alternative perception of itself than the one espoused by a specific boundary spanner. The level of investment in cultivating relationships is reflected in the amount of money, time and effort spent to develop and nurture such multiple points of contact between individuals representing these firms. Examples of such investments include: hiring employees from well-respected firms who are similar to boundary spanners at other organizations, seeking out firms with boundary spanners most similar to the focal firm's and, most importantly, intentionally cultivating relationships with numerous employees and executives from multiple reputable firms. The greater the amount of time, effort and resources the new firm invests in enhancing these relationships, the more likely the firm will be chosen as an exchange partner by established firms. This is consistent with Haunschild and Beckman's (2002) argument that firms which have multi-faceted relationships with partners tend to have stronger relationships with those partners. They argue that multiple points of contact

between firms are likely to strengthen firm-to-firm relationships. Our argument is that firms that specifically focus on cultivating relationships across multiple levels and with multiple executives within a given counter-party firm are likely to be able to strengthen the firm-level relationship. In conclusion, recent research identifies the value of relational capital in the entrepreneurial context (De Carolis and Saporito 2006; Lechner et al. 2006). However, this argument is often driven by an economic perspective, treating relational capital as an objective resource (Adler and Kwon 2002). We identify status-related social biases of individuals as a hindrance to the development and leveraging of relational capital by entrepreneurial firms.

References

1. Adler, P. S. and Kwon, S. K. 2002 'Social capital: Prospects for a new concept'. *Academy of Management Review* 27/1: 17-40.
2. Ahuja, G. 2000 'Collaboration networks, structural holes and innovation: A longitudinal study'. *Administrative Science Quarterly* 45: 425-455.
3. Allport, G. W. 1954. *The nature of prejudice*. Reading, MA: Addison-Wesley.
4. Alvarez, S. A., Ireland, R. D. and Reuer, J. J. 2006 'Entrepreneurship and strategic alliances'. *Journal of Business Venturing* 21/4:401-404.
5. Au, K. Y. and Fukuda, J. 2002 'Boundary spanning behaviors of expatriates'. *Journal of World Business*, 37: 285-296.
6. Baker, W. 1990 'Market networks and corporate behavior'. *American Journal of Sociology*, 96: 589-625.
7. Barabasi, A. L. 2002 *Linked: The new science of networks*. Cambridge, MA: Perseus.
8. Bargh, J. A. and Chen, M. 1996 'Automaticity of social behavior: Direct effect of trait construct and stereotype activation on action'. *Journal of Personality and Social Psychology*, 71: 230-244.
9. BarNar, A. and Smith, K. A. 2002 'Interfirm alliances in the small business: The role of social networks'. *Journal of Small Business Management*, 40/3: 219-232.
10. Baron, R. A., and Markman, G. D. 2003 'Beyond social capital: the role of entrepreneurs' social competence in their financial success'. *Journal of Business Venturing* 18: 41-60.
11. Bartel, C. A. 2001 'Social comparisons in boundary spanning work: Effects of community outreach on members' organizational identity and identification'. *Administrative Science Quarterly* 46: 379-413.
12. Batjargal, B and Liu, M. 2004 'Entrepreneurs' access to private equity in China: The role of social capital'. *Organization Science* 15: 159-163.
13. Baugh, S. G., and Graen, G. B. 1997 'Effects of team gender and racial composition on perceptions of team performance in cross-functional teams'. *Group and Organization Management* 22: 366-383.
14. Beckman, C. M., Haunschild, P. R. and Phillips, D. J. 2004 'Friends or strangers? Firm-specific uncertainty, market uncertainty and network partner selection'. *Organization Science* 15: 259-276.

15. Benjamin, B. A. and Podolny, J. M. 1999 'Status, quality and social order in the California wine industry'. *Administrative Science Quarterly* 44: 563-589.
16. Blois, K. J. 1999 'Trust in business to business relationships: An evaluation of its status'. *Journal of Management Studies* 36: 197-213.
17. Bouty, I. 2000 'Interpersonal and interaction influences on informal resource exchanges between R&D researchers across organizational boundaries'. *Academy of Management Journal* 43: 50-65.
18. Brass, D. J., Butterfield, K. D. and Skaggs, B. C. 1998 'Relationships and unethical behavior: A social network perspective'. *Academy of Management Review* 23/1: 14-31.
19. Brewer, M. B. 1981 'Ethnocentrism and its role in interpersonal trust'. In M. B. Brewer, B. E. Collins and D. T. Campbell (eds.), *Scientific inquiry and the social sciences* 345-360. San Francisco: Jossey-Bass.
20. Brewer, M. B. and Brown, R. J. 1998 'Intergroup relations'. In D. T. Gilbert, S. T. Fiske and G. Lindzey (Eds.), *The handbook of social psychology*, Vol. II (4th ed.): 554-594. Boston, MA: McGraw-Hill.
21. Bruton, G. D., Fried, V. H. and Manigart, S. 2005 'Institutional influences on the worldwide expansion of venture capital'. *Entrepreneurship Theory and Practice* 29/6: 737-760.
22. Burt, R. S. 1992 *Structural holes: The social structure of competition*. Cambridge, MA: Harvard University Press.
23. Burt, R. S. 1997 'The contingent value of social capital'. *Administrative Science Quarterly* 42: 339-365.
24. Busenitz, L. W., Fiet, J. O. and Moesel, D. D. 2005 'Signaling in venture capitalist—new venture-team funding decisions: Does it indicate long-term venture outcomes?'. *Entrepreneurship Theory and Practice* 20/1: 1-12.
25. Certo, S. T. 2003 'Influencing initial public offering investors with prestige: Signaling with board structures'. *Academy of Management Review* 28/3: 432-446.
26. Chatman, J. A. 1991 'Matching people and organizations: Selection and socialization in public accounting firms'. *Administrative Science Quarterly* 36: 459-484.
27. Chatman, J. A., Polzer, J. T., Barsade, S. G., and Neale, M. A. 1998 'Being different yet feeling similar: The influence of demographic composition and organizational culture on work processes and outcomes'. *Administrative Science Quarterly* 43: 749-780.
28. Chattopadhyay, P., Tluchowska, M. and George, E. 2004a 'Identifying the ingroup: A closer look at the influence of demographic dissimilarity on employee social identity'. *Academy of Management Review* 29/2: 180-202.
29. Chattopadhyay, P., George, E., and Lawrence, S. 2004b 'Why does dissimilarity matter? Exploring self-categorization, self-enhancement and uncertainty reductions'. *Journal of Applied Psychology* 89/5: 892-900.
30. Coleman, J. S. 1988 'Social capital in the creation of human capital'. *American Journal of Sociology* 94: 95-120.
31. Collins, J. D. and Hitt, M. A. 2006 'Leveraging tacit knowledge in alliances: The importance of using relational capabilities to build and leverage relational capital'. *Journal of Engineering and Technology Management*, 23/3: 147-167.
32. Currall, S. C. and Inkpen, A. C. 2002 'A multilevel approach to trust in joint ventures'. *Journal of International Business Studies*, 33: 479-496.
33. De Carolis, D. M., and Saporito, P. 2006 'Social capital, cognition and entrepreneurial opportunities: A theoretical framework'. *Entrepreneurship Theory and Practice*, 30: 41-56.
34. Dollinger, M. J., Golden, P. A. and Saxton, T. 1997 'The effect of reputation on the decision to joint venture'. *Strategic Management Journal* 18/2: 127-140.
35. Dubini, P., and Aldrich, H. 1991 'Personal and extended networks are central to the entrepreneurial process'. *Journal of Business Venturing*, 6: 305-313.
36. Eisenhardt, K. M., and Schoonhoven, C. B. 1996 'Resource-based view of strategic alliance formation: Strategic and social effects in entrepreneurial firms'. *Organization Science* 7: 136-150.
37. Emirbayer, M. and Goodwin, J. 1994 'Network analysis, culture and the problem of agency'. *American Journal of Sociology*, 99: 1411-1454.
38. Fazio, R. H. and Jackson, J. R. 1995 'Variability in automatic activation as an unobtrusive measure of racial attitudes: A bona fide pipeline?' *Journal of Personality and Social Psychology*, 69: 1013-1027.
39. Freeman, J., Carroll, T. N., and Hannan, M. 1983 'The liability of newness'. *American Sociological Review*, 48: 692 - 710.
40. Friedman, R. A. and Podolny, J. 1992 'Differentiation of boundary spanning roles: Labor negotiations and implications for role conflict'. *Administrative Science Quarterly*, 37: 28-47.
41. Granovetter, M. S. 1973 'The strength of weak ties'. *American Journal of Sociology*, 78: 1360-1380.
42. Granovetter, M. S. 1985 'Economic action and social structure: The problem of embeddedness'. *American Journal of Sociology*, 78: 1360-1380.
43. Greenwald, A. G. and Banaji, M. R. 1995 'Implicit social cognition: Attitudes, self-esteem and stereotypes'. *Psychological Review* 102: 4-27.
44. Greve, A., and Salaff, J. W. 2003 'Social networks and entrepreneurship'. *Entrepreneurship Theory and Practice* 28: 1-22.
45. Griffin, R. W. and McMahan, G. C. 1994 'Motivation through job design'. In J. Greenberg (Ed.), *Organizational behavior. The state of the science: 23-43*. Hillsdale, NJ: Lawrence Erlbaum Assoc.
46. Gulati, R. 1995a 'Social structure and alliance formation patterns: A longitudinal analysis'. *Administrative Science Quarterly*, 40: 619-652.
47. Gulati, R. 1995b 'Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances'. *Academy of Management Journal*, 38: 85-112.
48. Hamilton, D. L., Sherman, S. J., and Ruvolo, C. M. 1990 'Stereotype-based expectancies: Effects on information processing and social behavior'. *Journal of Social Issues* 46/2: 35-60.
49. Haunschild, P. R. and Beckman C. M. 2002 'Network learning: The effects of partners' heterogeneity of experience on corporate acquisitions'. *Administrative Science Quarterly* 47: 92-124.
50. Hitt, M.A., Bierman, L., Uhlenbruck, K., Shimizu, K.
51. 2006 'The importance of resources in the internationalization of professional service firms: the

- good, the bad and the ugly'. *Academy of Management Journal* 49/6: 1137-1157.
52. Houston, M. B. and Johnson, S. A. 2000 'Buyer-supplier contracts versus joint ventures: Determinants and consequences of transaction structure'. *Journal of Marketing Research* 17/Feb.: 1-15.
 53. Jensen, M. 2003 'The role of network resources in market entry: Commercial banks' entry into investment banking 1991-1997'. *Administrative Science Quarterly* 48: 466-497.
 54. Joshi, A. 2006 'The influence of organizational demography on the external networking behavior of teams'. *Academy of Management Review* 31/3: 583-595.
 55. Knoke, D. 1999 'Organizational networks and corporate social capital'. In R. Leenders and S. Gabbay (Eds.), *Corporate social capital and liability*. Norwell, MA: Kluwer Academic Publishers.
 56. Kollock, P. 1994 'The emergence of exchange structures: An experimental study of uncertainty, commitment and trust'. *American Journal of Sociology* 100: 313-345.
 57. Konrad, A. and Gutek, B. 1987 'Theory and research on group composition: Applications to the status of women and ethnic minorities'. In S. Oskamp and S. Spacapan, (Eds.), *Interpersonal processes*: 85-121. London: Sage.
 58. Kostova T. and Roth K. 2003 'Social capital in multinational corporations and a micro-macro model of its formation'. *Academy of Management Review* 28(2): 297-317.
 59. Labianca, G. and Brass, D. J. 2006 'Exploring the social ledger: Negative relationships and negative asymmetry in social networks in organizations'. *Academy of Management Review* 31/3: 596-614.
 60. Larson, A. 1992 'Network dyads in entrepreneurial settings: A study of the governance of exchange relationships'. *Administrative Science Quarterly* 37: 76-104.
 61. Lechner, C., Dowling, M., and Welpe, I. 2006 'Firm networks and firm development: The role of the relational mix'. *Journal of Business Venturing* 21: 514-540.
 62. Levinthal, D. and Fichman, M. 1988 'Dynamics of interorganizational attachments: auditor-client relationships'. *Administrative Science Quarterly* 33: 345-369
 63. Lu, J. W., and Beamish, P. W. 2006 'Partnering strategies and performance of SMEs' international joint ventures'. *Journal of Business Venturing* 21: 461-486.
 64. Major, B., Quinton, W. J., McCoy, S. K. and Schmader, T. 2000 'Reducing prejudice: The target's perspective'. In S. Oskamp (Ed.), *Reducing prejudice and discrimination* 211-238. Mahwah, NJ: Lawrence Erlbaum.
 65. Marchington, M. and Vincent, S. 2004 'Analyzing the influence of institutional, organizational and interpersonal forces in shaping inter-organizational relations'. *Journal of Management Studies* 41: 1029-1056.
 66. McEvily, B. Perrone, V. and Zaheer, A. 2003 'Trust as an organizing principle'. *Organization Science* 14: 91-103.
 67. Meyer, J. W. and Rowan, B. 1977 'Institutionalized organizations: Formal structure as myth and ceremony'. *American Journal of Sociology* 83(2): 340-363.
 68. Mizruchi, M.
 69. 1996 'What do interlocks do? An analysis, critique and assessment of research on interlocking directorates'. In J. Hagan and K. Cook (Eds.), *Annual Review of Sociology* 22: 271-298. Palo Alto, CA: Annual Reviews
 70. Mollica, K. A., Gray, B. and Trevino, L. K. 2003 'Racial homophily and its persistence in "newcomers" social networks'. *Organization Science* 14(2): 123-136.
 71. Nahapiet, J. and Ghoshal, S. 1998 'Social capital, intellectual capital and the organizational advantage'. *Academy of Management Review* 23: 242-266.
 72. Palmer, D. and B.M. Barber. 2001 'Challengers, elites and owning families: A social class theory of corporate acquisitions in the 1960s'. *Administrative Science Quarterly* 46: 87-120.
 73. Parkhe, A. 1998 'Understanding trust in international alliances'. *Journal of World Business* 33: 219-240.
 74. Perrone, V., McEvily, B. and Zaheer, A. 2003 'Free to be trusted? Organizational constraints on trust in boundary spanners'. *Organization Science* 14: 422-439.
 75. Pfeffer, J. and Salancik, G. R. 1978 *The external control of organizations*. New York: Harper and Row.
 76. Podolny, J. M. 2001 'Networks as the pipes and prisms of the market'. *American Journal of Sociology* 107: 33-60.
 77. Podolny, J. M. 1994 'Market uncertainty and the social character of economic exchange'. *Administrative Science Quarterly* 39: 458-483.
 78. Podolny, J. M. and Baron, J. N. 1997 'Resources and relationships: Social networks and mobility in the workplace'. *American Sociological Review* 62: 673-693.
 79. Portes, A. 1998 'Social capital: its origins and applications in modern sociology'. *Annual Review of Sociology* 24: 1-24.
 80. Portes, A. and Sensenbrenner, J. 1993 'Embeddedness and immigration: Notes on the social determinants of economic action'. *American Journal of Sociology*, 98: 1320-1350.
 81. Rangan, S. 2000 'The problem of search and deliberation in economic action: When social networks really matter'. *Academy of Management Review*. 25/4: 813-828.
 82. Ravlin, E. C., and Thomas, D. C. 2005 'Status and stratification processes in organizational life'. *Journal of Management*, 31: 9666-9987.
 83. Reagans, R. and McEvily, B. 2003 'Network structure and knowledge transfer: The effects of cohesion and range'. *Administrative Science Quarterly*, 48: 240-267.
 84. Riordan, C., and Shore, L. M. 1997 'Demographic diversity and employee attitudes: An empirical examination of relational demography among work units'. *Journal of Applied Psychology*, 82: 342-358.
 85. Schneider, B. 1987 'The people make the place'. *Personnel Psychology* 40: 437-453.
 86. Seabright, M., Levinthal, D. and Fichman, M. 1992 'Role of individual attachments in the dissolution of interorganizational relationships'. *Academy of Management Journal* 35: 122-160.
 87. Shane, S., T. Stuart. 2002 'Organizational endowments and the performance of university start-ups'. *Management Science* 48(1): 154-170.
 88. Shaw, J. D., Duffy, M. K., Johnson, J. L. and Lockhart, D. E. 2005 'Turnover, social capital losses and performance'. *Academy of Management Journal* 48/4: 594-606.
 89. Shrum, W.

90. 1990 'Status incongruence among boundary spanners: Structure, exchange and conflict'. *American Sociological Review* 55/4: 496-511.
91. Starr, J. A., and Macmillan, I. C. 1990 'Resource cooptation via social contracting - Resource acquisition strategies for new ventures'. *Strategic Management Journal* 11: 79-92.
92. Stinchcombe, A. L. 1965 'Social structure and organizations'. In J. G. March (Ed.), *Handbook of Organizations*: 153-193. Chicago, IL: Rand McNally.
93. Stuart, B. C. 2000 'Interorganizational alliances and the performance of firms: A study of growth and innovation rates in a high technology industry'. *Strategic Management Journal* 21: 791-811.
94. Stuart, T. E., Hoang, H., and Hybels, R. C. 1999 'Interorganizational endorsements and the performance of entrepreneurial ventures'. *Administrative Science Quarterly* 44: 315-349.
95. Tajfel, H. 1978 *Differentiation between social groups*. London: Academic Press.
96. Tajfel, H., and Turner, J. C. 1986 'The social identity theory of intergroup behavior'. In S. Worchel and W. G. Austing (Eds.), *Psychology of intergroup relations*. Chicago: Nelson Hall.
97. Tsai, W. 2001 'Knowledge transfer in intraorganizational networks: Effects of network position and absorptive capacity on business unit innovation and performance'. *Academy of Management Journal*, 44/5: 996-1004.
98. Tsai, W. and Ghoshal, S. 1998 'Social capital and value creation: The role of intrafirm networks'. *Academy of Management Journal* 41/4: 464-476.
99. Tsui, A. S. and O'Reilly, C. A., III. 1989 'Beyond simple demographic effects: The importance of relational demography in superior subordinate dyads'. *Academy of Management Journal* 32: 402-423.
100. Turner, J. C. 1987 'A self-categorization theory'. In M. Hogg, P. Oakes, S. Reicher, and M. S. Wetherell (Eds.), *Rediscovering the social groups: A self-categorization theory*: 17-32. London: Harvester Wheatsheaf.
101. Tushman, M. L. 1977 'Special boundary roles in the innovation process'. *Administrative Science Quarterly* 22: 587-605.
102. Tushman, M. L. and Scanlan, T. J. 1981 'Characteristics and external orientations of boundary spanning individuals'. *Academy of Management Journal* 24/1: 83-99.
103. Uzzi, B. 1996 'Embeddedness and economic performance: The network effect'. *American Sociological Review* 61: 674-698.
104. Waldinger, R. 1995 'The "other side" of embeddedness: A case study of the interplay between economy and ethnicity'. *Ethnic and Racial Studies* 18/3: 555-573.
105. Walker, G., Kogut, B. and Shan, W. 1997 'Social capital, structural holes and the formation of an industry network'. *Organization Science*, 8/2: 109-125.
106. Washington, M. and Zajac, E. J. 2005 'Status evolution and competition: Theory and evidence'. *Academy of Management Journal*, 48/2: 282-296.
107. Williams, K. Y. and O'Reilly, C. A., III. 1998 'Demography and diversity in organizations: A review of 40 years of research'. *Research in Organizational Behavior* 20: 77-140.
108. Zaheer, A. and Venkatraman, N. 1995 'Relational governance as an interorganizational strategy: An empirical test of the role of trust in economic exchange'. *Strategic Management Journal* 16: 373-392.
109. Zaheer, A. and Bell, G. G. 2005 'Benefiting from network position: Firm capabilities, structural holes and performance'. *Strategic Management Journal* 26/9: 809-825.
110. Zaheer, A., McEvily, B. and Perrone, V. 1998 'Does trust matter? Exploring the effects of inter-organizational trust and inter-personal trust on performance'. *Organization Science* 9/2: 141-159.

Figure 1

