

SOCIAL CAPITAL AS NETWORKS OF NETWORKS: THE CASE OF A CHINESE ENTREPRENEUR

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Introduction

The social embeddedness of entrepreneurs has been a theme in contemporary debates on entrepreneurship for some time (Waldinger e.a. 1990, Portes & Sensenbrenner 1993, Granovetter 1995, Rath & Kloosterman 2000, Kloosterman & Rath 2001, Lin 2001). Due to the rapidly increasing influence of China on the global economy, understanding the embeddedness of the emerging class of Chinese entrepreneurs has become more than a merely academic endeavor (Batjargal & Liu 2004, Yang 2007, Xiao & Tsui 2007).

In most of these debates, the notion of embeddedness is linked to social networks. Entrepreneurs are seen as people who combine various resources (capital, knowledge, people, etc.) to create surplus value. These resources can be accessed through the different social networks of which the entrepreneur is a member (Kloosterman & Rath 2001: 192).

The sum of the potential access to resources an entrepreneur accumulates in social networks is often referred to as social capital. Bourdieu distinguishes between economic capital, cultural capital and social capital. The capital of each individual is a specific mix of these three (Bourdieu 1986: 114). Lin (2001: 119) uses a definition that is more focused on the financial meaning of the word capital, when he states that the premise behind the notion of social capital is rather simple

and straightforward: investment in social relations with expected returns to the market place. Lin follows Burt (1992) here in linking social capital to social networks. Network locations are seen to 'represent and create competitive advantages' (Lin 2001: 22; also see: Batjargal & Liu 2004).

However, the majority of the discussions use the term social network, but do not engage in social network analysis. The minority that do (e.g. Granovetter 1995, Lin 2001) use mainstream social network analysis that describes social relationships in terms of nodes and ties, where the nodes are the individual actors, and ties the relationships that exist between the actors (Brass et al. 1992, Scott 2000: 89, Kilduff et al. 2003: 13-16).

Social network analysis is a useful tool to study how individuals form alliances on the micro level. However, when trying to apply it to higher level problems, this method of analysis seems to deviate from the way people form relationships in social practice. People tend to form relationships on the basis of inclusion in social groups. For example, an interior decorator who has worked as an employee of a firm specializing in decorating private homes for a number of years, may decide to start his own consulting company in the same business. Another option would be to start a similar company in another market segment, like corporate offices. In both cases, this person would be using the same skills, typically acquired through education, but in the first case, he would also use the experience accumulated during his employment whereas, in the second option, he would have to make an additional effort to get into the world of corporate interior decoration. Our entrepreneur could also leave the decorating business and decide to venture into a completely different field requiring an even heavier investment in accessing and combining resources. This explains why people who exchange a salaried job for a private business would be more likely to take the first option: doing what you are used to doing, but as your own boss.

Burt has attempted to address the problem of links between groups of people by introducing the concept of structural hole, a gap between tighter networks (Burt 2000, 2005). In this view, society is imagined as consisting of networks of tightly related individuals, which can be linked by brokers, people who have ties within different networks. While we believe this is a major step forward, the problem of this model is that, because it still takes individuals as nodes, it puts the broker in the relatively isolated position of linking groups, while apparently not belonging to any of them. Xiao & Tsui (2007) also highlight this problem (p. 20). A more natural solution would be to conceive the role of brokers as people who are members of multiple networks. This paper attempts to use

concepts from Social Integration theory (Peverelli 2000; Peverelli & Verduyn 2010) to add such a model to existing social network analysis.

Combining Kloosterman & Rath's view of the entrepreneur as someone who combines resources with Lin's model of social capital, we would like to redefine entrepreneurs as people with a strong capability to create value from their social capital by linking their social networks in various ways. To support this definition, our problem is to find a way to enrich existing social network models with a module that takes into account the multiple social inclusions of the same person. In this study, we will turn to Social Integration theory to find such a module, and test the enriched model on the building of social capital by a Chinese entrepreneur.

Social Integration Theory

This study uses Social Integration (SI) theory to bridge that gap and enrich social network theory with a module that links networks on the basis of multiple inclusions of actors in several social-cognitive groups (networks).

SI theory has been developed on the basis of Weick's organization theory (Weick, 1979, 1995), enriched with concepts from postmodern philosophy and psycholinguistics (Peverelli 2000, Peverelli & Verduyn 2010). In this theory, organizing is defined as 'the reduction of equivocality in ongoing social interaction between actors to couple their behavior to perform a certain task more efficiently' (Peverelli & Verduyn 2010: 5). One consequence of this process is the emergence of groups of actors who frequently interact around a specific theme and therefore make sense of that topic in a more or less similar way. Those actors are said to be 'included' in such groups. Each actor is involved in a large number of such groups, which is referred to as 'multiple inclusion'. Two or more groups are connected by actors with inclusions in each of the groups.

SI theory includes a graphic convention. As soon as two or more actors start interacting about a certain theme, they will create a configuration consisting of the actors and the cognitive matter they share (typical language, symbols, ways to do things, etc.).

Figure 1 represents a situation in which two configurations are linked by the fact that actor A is included in both.

[figure 1 around here]

Mainstream social network analysis would not be able to handle this situation, as you need at least two actors to draw a basic network.

In SI research, one observes who interacts with whom and the nature of that interaction. While observing, the researcher gradually becomes aware of the social-cognitive groups, the key actors and each actor's multiple inclusions. SI researchers build up their insight in the social construction of the object of their research by laying down the observed data into graphs such as Fig. 1, which can be regarded as a representation of the social embeddedness of actors.

As such, the SI model is a tool to map and link the social capital of each key actor involved in the case under investigation and simultaneously see how the social capital of all these actors is organically integrated.

Research method

The research method used in this study is Naturalistic Inquiry (Lincoln & Guba 1985). To maximize our exposure to actors involved in the case, extensive use has been made of unstructured observations and in-depth conversations documented by detailed field notes. These stories are the containers for the shared perception of reality, the symbols, etc., of each group. They define the role of each actor and describe the relationships between the actors (Van Eeten et al. 1996; Czarniawska 1998; Boje 2001). In the SI framework, each social-cognitive group is regarded as having its own story of the case. Such stories only pertain to one particular group and are linked to one particular moment in time (Gergen 1992: 220). The groups are then integrated by the multiple inclusions of the actors involved.

As the study of social capital building by Chinese private entrepreneurs is still in its initial stage, we are coping with a relatively high number of variables of potential interest and a large number of sources of data. In such a context, the case study is the most appropriate approach (Yin 2004). The

combination of a case study and naturalistic inquiry will generate a framework that can be applied to a larger number of cases in the future and this will gradually lead to the construction of a model of social capital in relation to Chinese private entrepreneurs.

The company used in this case, Yihai Garden, is a privately managed condominium in Beijing that has established a series of schools on its premises to create additional value for its clients. The condominium is located in the Fengtai District of Beijing and, according to current Chinese regulations, the schools should be supervised by the Education Bureau of that district. However, in practice the Fengtai Education Bureau has a very low profile in the operation of the schools, whereas another district's Education Bureau takes a much more active role in Yihai's schools. We will use our model to show that this situation is a consequence of the way the entrepreneur, in this case, has gradually built up social capital by enabling key people to link their various networks.

Yihai Garden

Fengtai District had been looking for a party interested in investing in the development a piece of wasteland for some time without success, before it finally attracted Wang's attention.

One impediment which prevented people from buying apartments in Yihai was the lack of proper education in the vicinity. Wang decided to develop a complete set of schools within Yihai, as a way to relieve the Yihai residents of this mental and physical burden, so they could focus on their jobs to earn a living for their families.

Establishing and operating schools involves a lengthy bureaucratic procedure. Government approval is needed, and one needs to comply with the relevant rules. In line with Chinese practice, Wang proposed her idea to the appropriate administrative level, Fengtai District. She was mainly met with opposition, with the exception of one official, Mr Li Yingwei. The authorities claimed that they did not have the funds to build new schools. Wang, in her own words, then decided to 'help the government' and finance the schools herself, as long as she was granted permission to do so.

To access educational knowledge, Wang sought relationships for her primary and secondary schools with existing schools. As a result of Mr Li Yingwei's connections, Beijing Nr2

Experimental Primary School (Beijing2) and Beijing Nr8 Middle School (Beijing8) were thus contracted. The Yihai schools were established as subsidiaries of these schools. In the remainder of this paper, Yihai2 will refer to Yihai's primary school and Beijing2 to its parent organization. During the initial stage, in particular, a significant number of teachers, including current principals, were assigned to Yihai from the partner schools.

This created a peculiar situation with regard to the administrative affiliation of the Yihai schools. According to administrative practice, the Fengtai Education Bureau would be the expected supervising agency of the Yihai schools. Our research revealed, however, that this was not the case. The West City District Education Bureau, on the other hand, had visited Yihai once with an official delegation of school principals to learn from Yihai's experience. During that visit, a representative of the West City Education Bureau mentioned the links with the West District as the motivation for the visit.

The following section will describe the process of ongoing social interaction that constructed the West City identity of the Yihai education system.

The social construction of Yihai Education

In terms of SI theory, the educational activities of Yihai constitute a separate cognitive space, which will be referred to here as Yihai Education. This space started as an idea by Wang, and was gradually expanded through her interaction with various people. All these people added to the cognitive matter of that space through their multiple inclusions.

People do not develop ideas from scratch. They emerge on the basis of existing inclusions. As the CEO of Yihai, Wang needed to attract buyers for her apartments and realized that political practice required her to contact the Fengtai government. She talked to a number of Fengtai officials, but only one, Li Yingwei, supported her. Li Yingwei has been the Governor of Fengtai District, and has always been a supporter of developing education, which made him more open to Wang's initiative than his colleagues. Together, they conceived Yihai Education. Wang is included in Yihai and the newly created Yihai Education space, Li in Fengtai Government and Yihai Education. The resulting situation is graphically represented in Figure 2.

[Figure 2 around here]

Of core importance to the realization of her educational ambition was the establishment of a primary and a secondary school. Wang wanted to establish cooperation with existing schools to utilize their experience. As Wang had already established a strong bond with Li, she once more turned to him for advice. Li had inclusions in Beijing2 and Beijing8. He is an alumnus of Beijing8, and his son had been educated at Beijing2. It was then natural for Li to introduce these schools as potential partners to Yihai.

As part of the cooperation, Beijing2 and Beijing8 sent a number of teachers to Yihai, including the current Principals, Shi and Yin respectively. Overall, Shi is included in Yihai2 and Beijing2. The same holds for Yin in Yihai8 and Beijing8, resulting in Figure 3. We have added a traditional social network analysis of the same for comparison (see below for an analysis of the comparison).

[Figure 3 around here]

The original Wang – Li configuration in the Yihai Education space gradually institutionalized into a Steering Group. This is an important milestone in a process of emergence. Once regular social interaction has been institutionalized, it will have the propensity to constantly reconstruct itself by following the institutionalized procedures. The establishment of the Steering Group marks the consolidation of Yihai Education.

Both Beijing2 and Beijing8 are located in the West City District. As such, they fall under the supervision of the West District Education Bureau, indicated by the interrupted line in Figure 3. This link with the West District was not intended, but is a consequence of the gradual social construction of Yihai Education.

SI versus social networks

When we look at the two graphs in Figure 3, both say something about the relationships between the five actors. However, the strength of the left-hand graph is that it not only demonstrates that all of these actors are linked to all others, but also indicates the nature of the linkages. An SI graph is not a network of individuals, but of social groups. Although the SI graph only includes 5 actors, the graph actually represents a much larger group of people. For example, Fengtai represents a large number of people, although in this case only Li is relevant. The linkages between the groups are people who are included in at least two of the groups. We can determine what each pair of actors share and what sets them apart.

In SI theory, inclusion refers to cognitive inclusion. A person like Yin, who is no longer officially employed by Beijing8, can still be regarded as being included in Beijing8. This is exactly the reason why Li could introduce Beijing2 and Beijing8 to Wang, although he was no longer a student of Beijing8 and his son was already an adult.

The strong point of this methodology is that it accounts for actors acting from different identities. Wang can have different points of view concerning the same issue, depending on whether she is regarding it as the CEO of Yihai Garden, the driving force of Yihai Education or as a board member of Yihai8, etc. Moreover, in all situations, she occupies all roles simultaneously. What varies is that in one situation or one inclusion will be more prominently invoked than the other inclusions. Wang is like a spider in the middle of her web with the most (in terms of quantity) and most intense relations. This reflects her position as the driving force, and also corroborates that her interpersonal skill of forging strong bonds has been a key factor behind her success. This has a stronger explanatory power than the mathematical notion of centrality in social network analysis.

We are not arguing that standard social network analysis should be replaced by the SI model, but rather attempting to increase the explanatory power of both by combining them. The social groups indicated in SI graphs by circles usually represent networks. The social-cognitive group Yihai Education consists of Wang and Li, and actors such as the principals of Yihai2 and Yihai8. The members of Yihai Education form a social network that can be described as using standard social network analysis, as we have in the right-hand graph of Figure 3. In fact, the right-hand graph can be regarded as a description of the situation inside the Yihai Education space in the left-hand graph.

Results and discussion

We recognize the use of social network analysis to determine the social capital of entrepreneurs. However, we noted that the current social network models, taking individuals as nodes, does not properly reflect the way people form networks in social practice. We sought a solution by applying the concept of multiple inclusion from SI theory regarding actors included in two or more networks, as the links between those networks.

We tested the new model on a peculiar aspect of the educational activities at Yihai Garden. The core problem in the Yihai Education case is that the government organization, that would be expected to control the schools, was in fact hardly involved in their operation, whilst another one, although not officially empowered with such jurisdiction, showed certain aspects of the behavior of a supervising organization.

We understand this situation as a consequence of the concatenation of interactions related to the establishment of Yihai Garden in a particular institutional environment. Wang's decision to help Fengtai District develop a piece of wasteland without using any government funding formed the basis on which Yihai Garden could emerge as an enterprise operating with only marginal interference from the local government.

Through her configuration with Li in Yihai Education, Wang could access Li's other inclusions, in particular the ones in Beijing2 and Beijing8 as partners for Yihai2 and Yihai8, respectively. As both schools were located in the West District, the inclusions of the staff that were assigned from Beijing2 and Beijing8 to Yihai, in particular the two principals, formed many channels to access the cognitive matter of the West District.

As a result, the West District Education Bureau gradually perceived the Yihai schools as 'like' their own and felt a natural urge to exercise some form of control. However, they could not do so directly as Yihai was under Fengtai jurisdiction. Instead, the West District Education Bureau organized the study visit of West District school principals to Yihai.

It seems that the entrepreneurship of Wang lies in her ability to sense the commercial possibilities created by linking her multiple inclusions (sources of resources) in various ways, and picking the set of inclusions that can produce the desired results in the quickest way.

Our findings seem to support those by Xiao & Tsui (2007), who found that the notion of broker as proposed by Burt (2005) did not fit with social practice in China. In Western individualist societies, brokers typically try to retain that position, which they regard as a vital asset. In more collectivist societies like China, such people would be better regarded as *integrators* who work in their own interest as well as the interests of the groups they link (Xiao & Tsui 2007: 20). However, Xiao & Tsui still fail to escape the bonds of the notion that social networks are based on individuals. Their 'integrators', regardless of their altruistic intentions, are still perceived as lingering between networks. Social Integration theory regards all people as integrators, links between their various social inclusions.

Shortcomings, future research and relevance

This is only a preliminary study. The new methodology has only been applied to one single case. However, the results of the analysis of the Yihai Education case can serve as a model to analyze a much larger number of different cases of the social capital of Chinese private entrepreneurs. Variety must be sought in the type of business, size of company, geographic location, etc.

Another aspect that we have not yet taken up is that our analysis of social capital may also reveal opportunities missed by the entrepreneur. In Wang's case, her low profile relationship with the Fengtai Government may have caused her to miss interesting opportunities. This has to be addressed in future research.

The results of this study are highly relevant for the advancement of social network analysis and academic realms that use social network analysis, in particular the study of social capital. Instead of studying the various social identities of actors and the way they are involved in networks separately, the model developed in this study combines these two into an organic whole. This method seems to fit more 'naturally' to the way in which human actors behave. This has to be corroborated by future research. A large scale follow up project has already started.

The results also contribute to the growing body of literature on Chinese entrepreneurship.

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Figures and tables

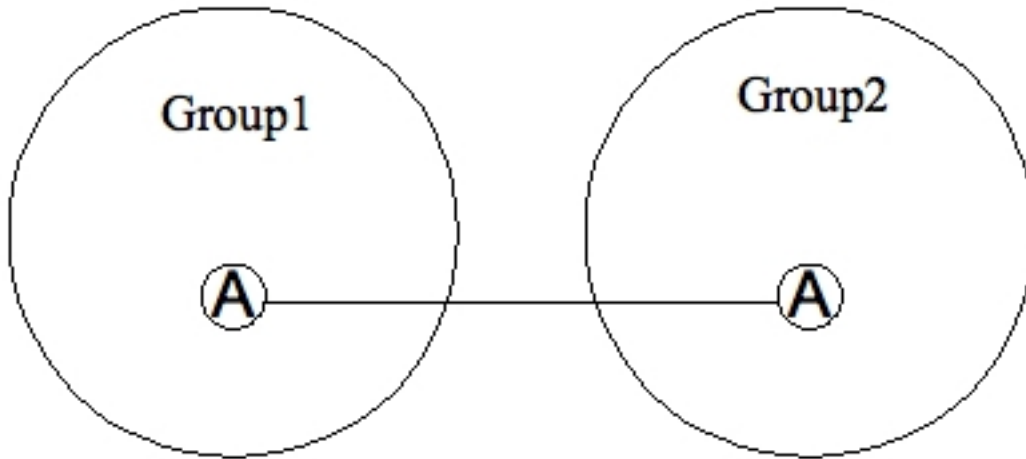


Fig. 1: a simple SI network indicating that actor A is included in two groups.

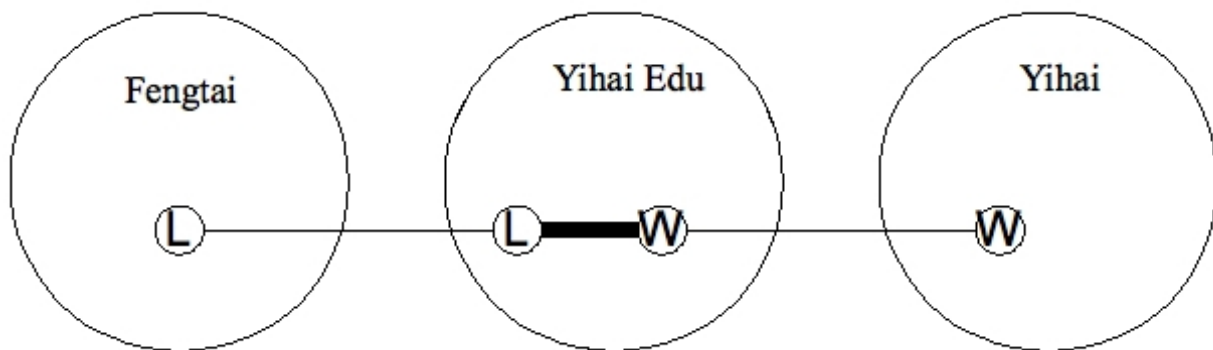


Fig. 2 Basic situation during the initiation of Yihai Education. Wang and Li form a new Yihai Education space from their inclusions in the Fengtai Government and Yihai Garden respectively. Other inclusions of both have been left out for the sake of simplicity. Yihai Education is placed in central position, as it is the focus of this case study.

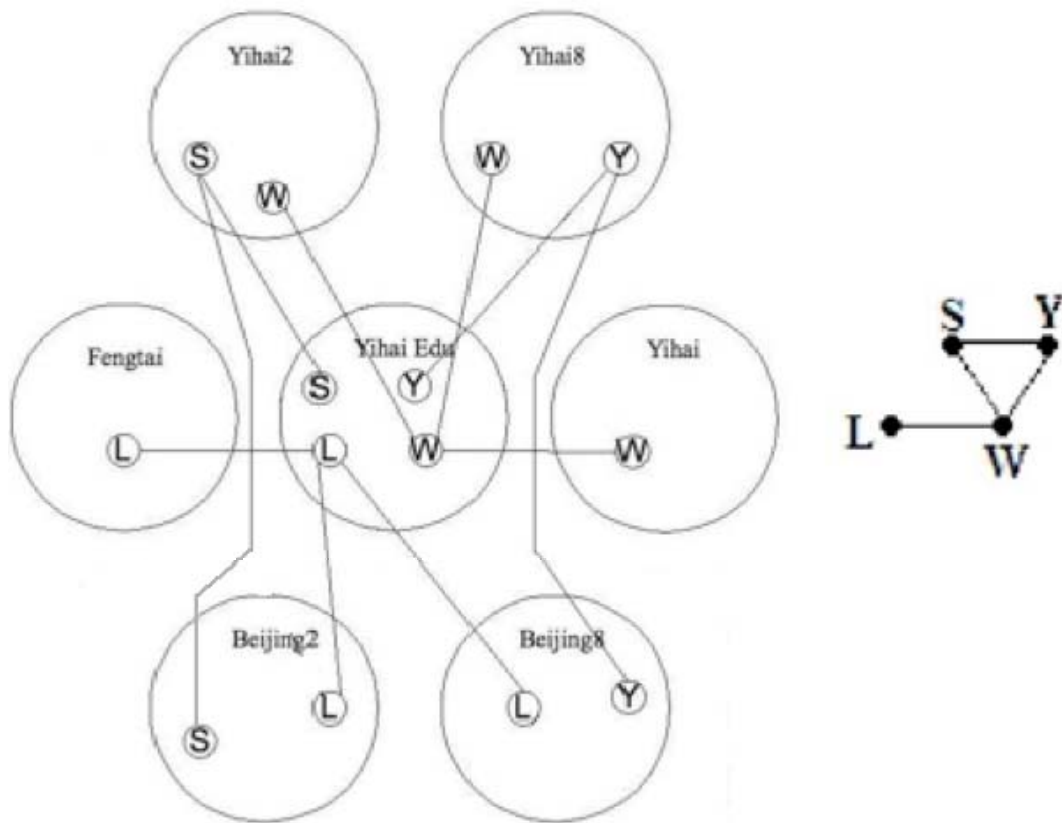


Fig. 3: All actors involved in Yihai Education attract the attention of the West District Education Bureau.
On the right, a traditional social network graph of the same actors.