



The Role of Social Capital in Venture Creation in Cambridge

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SPREADING THE SPIRIT OF ENTERPRISE



CAMBRIDGE
Judge Business School

Why?



- Learn how and why these people did what they did
- The teaching model at CfEL – from those with more experience to those with less – so what do they know and what should the next generation know?
- Connect the novice with the experienced – build local social capital

The Objectives



To investigate

- the human aspects of business formation and success in cluster development in Cambridge
- the prevalence of interlocking directorships as a measure of social network

Methodology



Segal Quince Wicksteed (1985)'s a complex "family tree" of start-ups and spinouts

- Showed how many firms could trace their origin back to Cambridge University.
- Identification of key individuals who influence multiple companies.
- Links of entrepreneurs with prior association.

Rosa and Scott (1999) to determine the prevalence of multiple directorship

- Provides a numerical measure of interconnectivity between companies
- Quantifying the degree of interconnectivity between individuals a measure of social infrastructure

Data Construction

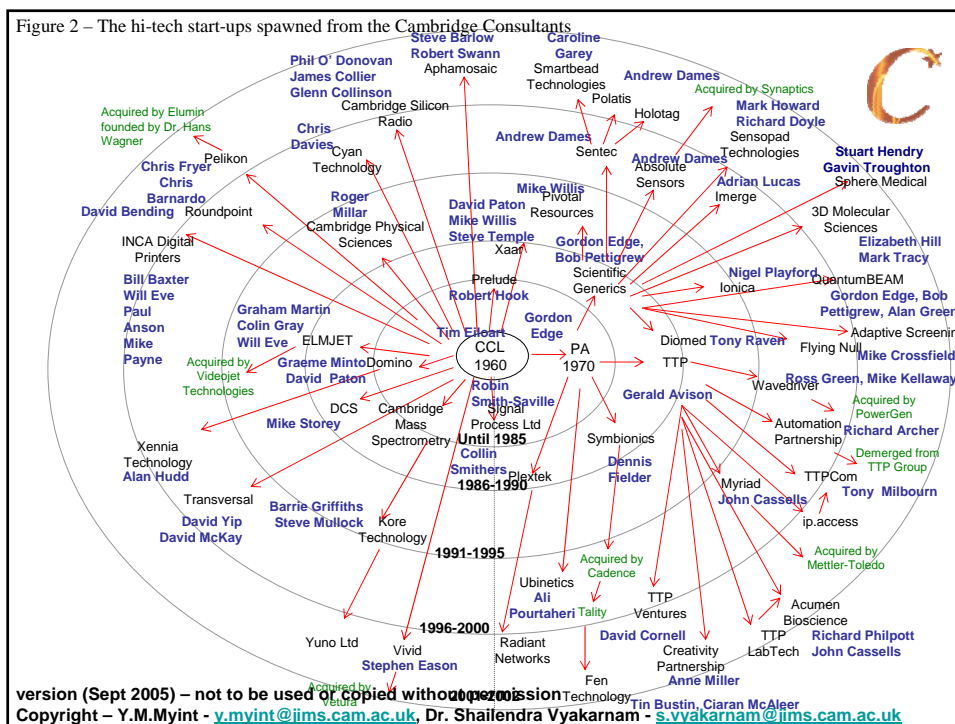
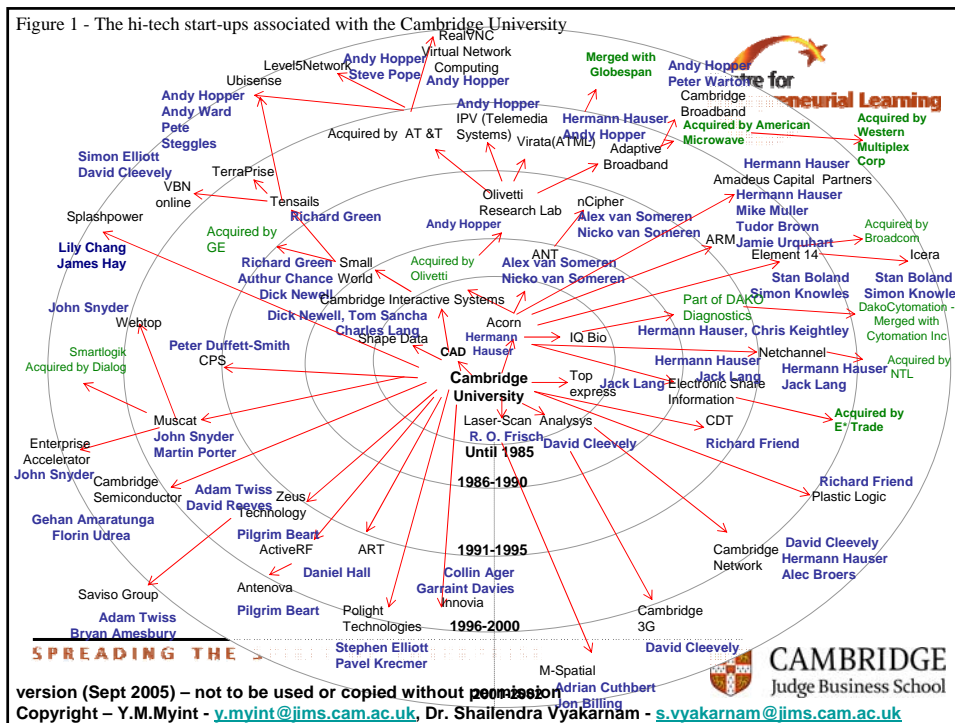


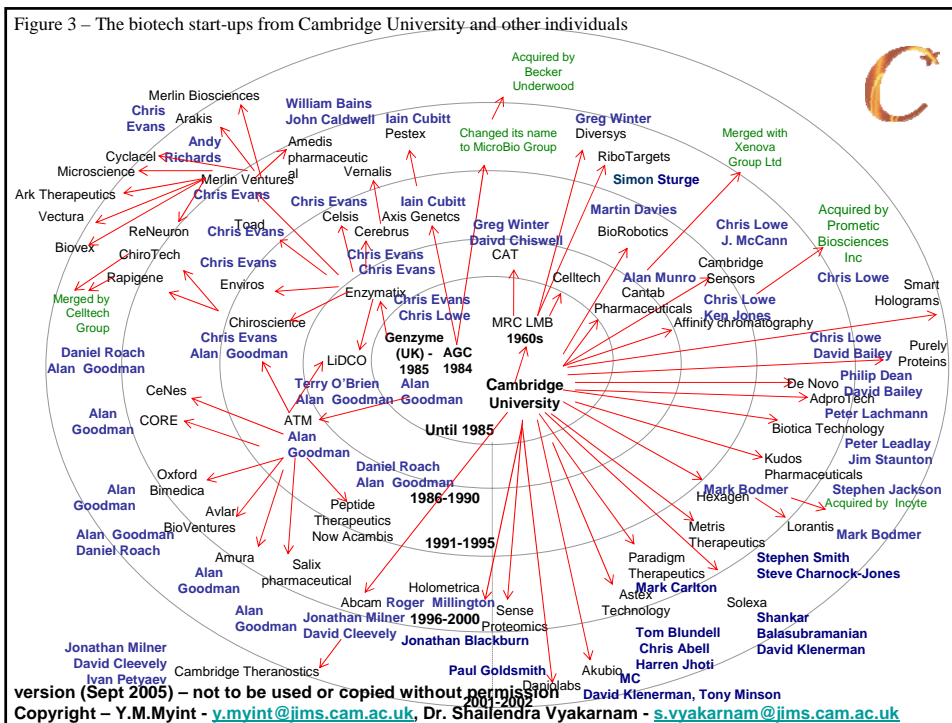
- Data collection
 - Publicly available sources – websites, press releases and published reports such as “Cambridge Phenomenon”
 - 180 Cambridge companies
 - The founders/ current directors
 - Key investors associated with VCs and business angels
 - Key individuals who have worked together for a common company
- 21 entrepreneurs selected for analysis, of whom, 9 entrepreneurs (open ended interview)
- Data validation through emails to 130 individuals from the sample – 25% responded

Entrepreneur Selection



Chris Abell	Hermann Hauser	Alex van Someren
Daniel Roach	Gerald Avison	Andy Hopper
Stephen Bunting	Alan Munro	Robin Saxby
John Snyder	Alan Goodman	Jack Lang
Andy Richards	Bob Pettigrew	Gordon Edge
		David Cleevely
Chris Evans	Richard Friend	Andrew Dames
	Mark Bodmer	Stan Boland
Alan Barrell	Matthew Bullock	Walter Herriot



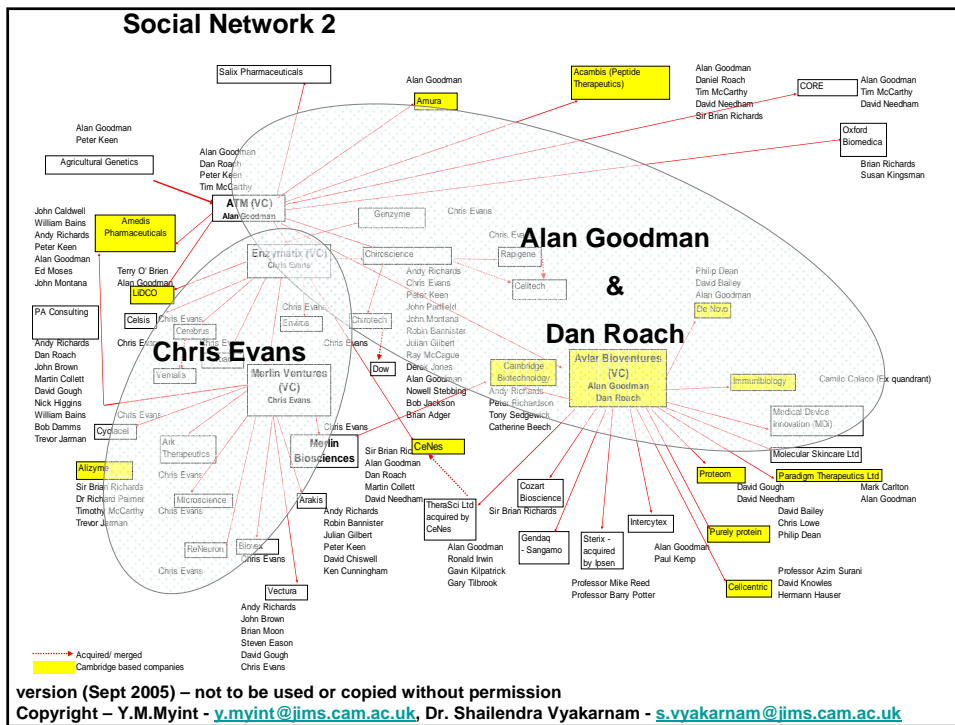
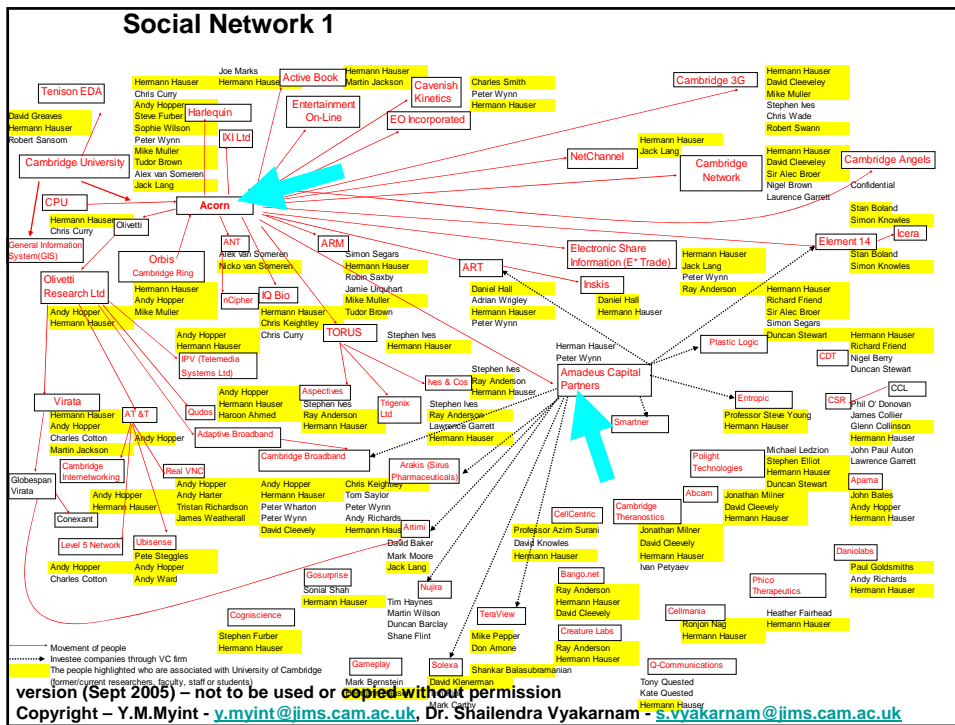


From the charts, we can summarise a significant feature of Cambridge cluster:

“The majority of high technology companies that have shaped the success of Cambridge cluster are connected to a handful of serial entrepreneurs, business angels and venture capitalists”

Stuart and Sorenson (2003): Successful high-tech firms

- provide a blueprint construction of organisations, systems and strategies appropriate to their field.
- transfer valuable tacit information, allow the formation of contacts and reputations necessary to attract investors.
- allow their employees in the best position to identify an unmet market need and new technical opportunities.



Summary



- People are main component of cluster growth – when looked at a time dimension of building trust and relationship
- A combination of experienced and novice entrepreneurs is very fertile in Cambridge.
- One can therefore expect to see a representative of investors on the board of directors.
- The hi-tech sector tends to be highly networked through relational aspects, creating a cluster associated with the entrepreneurs' social networks.
- The biotech sector is still young (only around 15 years old) and there is a relatively limited pool of qualified candidates. Such individuals will be in great demand to sit on multiple boards.

Directorship Analysis By Rosa and Scott (1999)



- Each individual with multiple directorships was used as the link between his/her portfolio companies.
 - It provides a quantitative measure of interconnectivity between companies.
 - It provides a means of mapping the structural social capital within a cluster by linking companies and/ or individuals through their formal association as directors or founders.
- Limitations:**
Ignores relational social capital between people
Only one view point of an industry cluster

Social capital By Nahapiet and Ghoshal (1998)

- Structural social capital: the impersonal configuration of linkages between people and units
- Relational social capital: the personal relationships that people have developed through a history of interaction

Application of structural and relational social capital into directorship analysis

- The Cambridge sample of companies- 63 individuals including the founders, directors, key employees and business angels are associated with two or more companies.
- A link occurs when two individuals are associated with the same company through being a director or founder or former or current colleagues.

Figure 5(a) – Structural and relational social capital in the hi-tech cluster

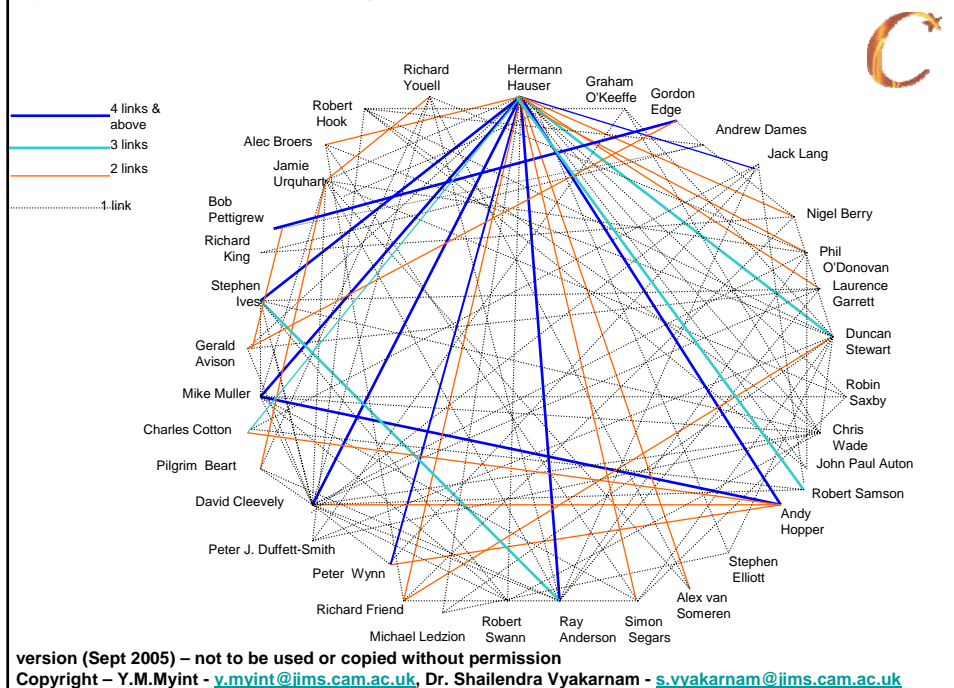
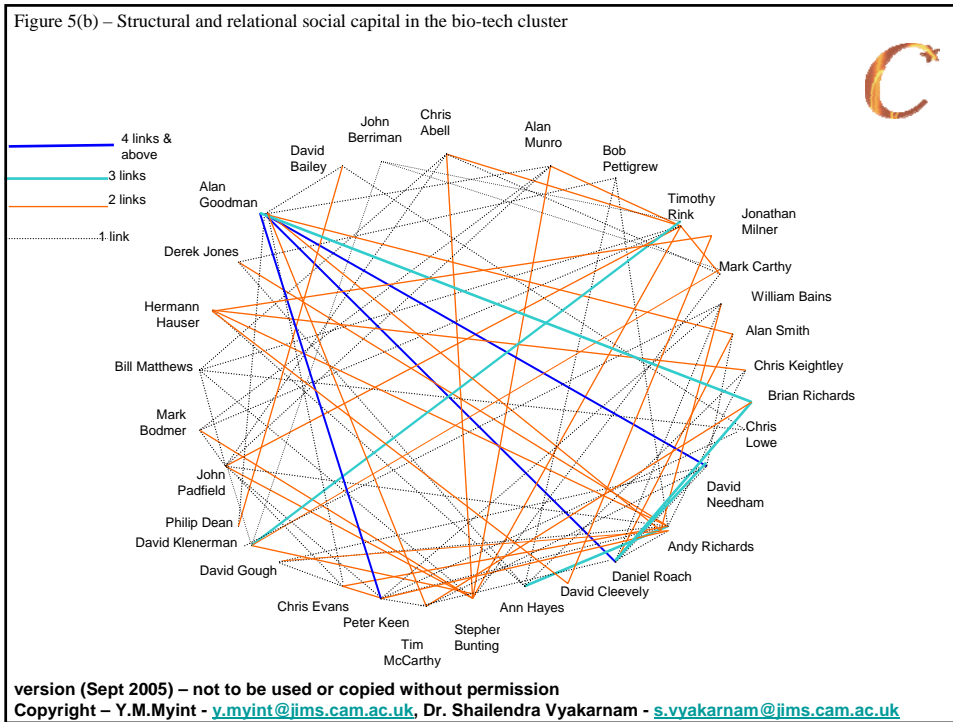


Figure 5(b) – Structural and relational social capital in the bio-tech cluster



Conclusion

- A high level of relational social capital in Cambridge arising from the association of individuals who have worked together in other companies.
- Structural social capital - the efficient functioning of the cluster: opportunities for strategic alliances, outsourcing activities, a channel for general information.
- Relational social capital - the formation of new ventures: connections between investors and entrepreneurs, and for staffing new enterprises with experienced management teams.

“A vibrant cluster needs a pool of individuals in close proximity to interact and to build, over time, both structural and relational social capital”.

The main message



- the human aspects of business formation and success in cluster development in Cambridge
- Better understanding of social capital, nutrient rich networks in the process of innovation and entrepreneurship
- Conduct a similar studies elsewhere – help to formulate theory and inform policy
- The importance of relational aspect of social capital
- The entire venturing and innovation cycle appears to rely on the quality of the connections (among serial/habitual entrepreneurs, university collaborators, their contacts in the legal and finance communities rather than on formal business plans and physical incubators)
- Social networks and connections as pathways to innovation and entrepreneurship.



Thank you!

Q&A

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