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## FOUNDATION EVIDENCE OF THE RELATIONSHIP BETWEEN ENTREPRENEURS, FINANCIAL ISSUES AND FINANCIAL ADVISERS

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# Agenda

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1. Entrepreneurship theory
2. Entrepreneurial network theory
3. Prior knowledge on relationship between entrepreneurs and financial advisors
4. Research questions
5. The empirical findings
6. Interpretation and implications

# Entrepreneurship theory

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- Studies on entrepreneurship has a long history
- Interest from academics and policy makers has increased dramatically since the mid 1970s
- Many inconsistent definitions
  - New venture entry / firm emergence / firm creation
  - High growth businesses
  - Discovery, evaluation and exploitation of opportunities
  - Leadership style
  - Exploiting opportunity regardless of resources
  - Etc. ...

# Trying to create some order ...

	... new means and ends relationship	... existing means and ends relationship
New organisations	(A) Change Oriented Venture Creation	(B) Non-change Oriented Venture Creation
Existing organizations	(C) Change Oriented Corporate Venturing	(D) Traditional Management

# Entrepreneurial network theory (1)

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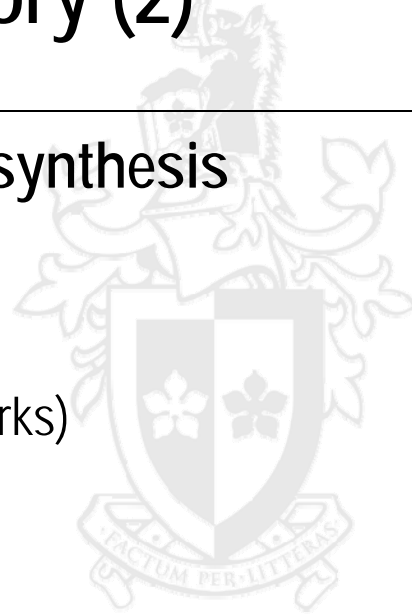
- Entrepreneurial network theory develops as a reaction to the former atomistic and undersocialized view of the entrepreneur often taken in the psychological perspective
- The field emerges in the mid 1980s
- Social networks influence entrepreneurs' behaviour in four different ways (Lin, 2001):
  - Entrepreneurs obtain information from their networks
  - Networks or persons in networks influence other people in the network
  - Networks create social legitimacy.
  - Networks create and enhance social identities
- Roughly said, the most frequent argument in entrepreneurial network literature is that *networks provide resources*

# Entrepreneurial network theory (2)

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## Two arguments and one synthesis

- Two arguments
  - Weak ties/structural holes (diverse networks)
  - Strong ties/small dense network (dense networks)
- Synthesis: Networks are dynamic
  - It is a matter of balance;
  - And the balance changes during different stages of the entrepreneurial process/business life cycle)



# Priori knowledge on relationship between entrepreneurs and financial advisors

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- Entrepreneurs have relationships with formal and informal investors
  - Venture capitalist, business angels, bankers, employees in innovation centres, accountants, advocates and management advisers
- From these relationship entrepreneurs receive resources
  - financial resources, knowledge, coaching, moral support, etc.
- Lots of different theoretical approaches have been used (agency theory, procedural justice theory, learning theory, etc.)
- The basic question is how partners can benefit from their involvement (One-partner perspective vs. two-partner perspective)
  - Previous studies emphasise the importance of financial advisors
  - Previous studies are mainly dyadic in nature, not considering the whole network

# Research Question

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- This study takes a social network perspective investigating the *relatively importance* of financial advisers compared to other people in the social network
- Research questions
  1. When do financial advisers participate in entrepreneurs' discussing networks?
  2. What is the nature of the relationship between entrepreneurs and their financial advisers
  3. How do entrepreneurs' characteristics influence involvement of financial advisers?

# Methodology

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- Survey (completed over the phone)
- Identification of representative sample of entrepreneurs in different stages of the entrepreneurial process
- Investigations of their social networks
- The Name-generator approach
  - Name five persons with whom you have discussed your (intention to start a business; business idea; business), and if you have discussed your (intention to start a business; business idea; business) with more than five persons, then the five persons who have influenced you most
- N= 264; Response rate 2002; 92 %, 2003: 73%

# The concept of financial adviser

	Financial	Organizing	Opportunity	Total
Family	7.9 %	5.4 %	17.8 %	31.2 %
Friend/edu	0.6 %	0.8 %	5.7 %	7.2 %
Friend/else	2.7 %	4.5 %	17.6 %	24.8 %
Business rel	3.2 %	5.0 %	16.8 %	25.0 %
Adviser	<b>5.7 %</b>	1.9 %	3.0 %	10.6 %
Anything else	0.3 %	0.1 %	0.7 %	1.1 %
Total	20.5 %	17.7 %	61.7 %	100 %

# When are financial advisers involved?

	The entrepreneurial process / business life cycle			
	Discovery	Start up	Young business	Operating
Financial adviser	3.1 %	3.2 %	7.0 %	10.3 %
Other	96.9 %	96.8 %	93.0 %	94.4 %

Source: GEM follow-up survey 2002/03

Chi-square = 0.0005 (two-tailed)

# The financial adviser relation

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- Linear regression analyses show that
  - Financial advisers are most often weakly connected to entrepreneurs in contrast to other people in the network
  - Financial advisers provide more often criticism than other people in the network

# Entrepreneurs' characteristics and involvement of financial advisers

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- Logistic regression analysis shows that
  - Age has a positive association with involvement with financial advisers ... Older entrepreneurs more often involve financial advisers
  - Gender does not influence the likelihood of involving financial advisers
  - Education level does not influence the likelihood of involving financial advisers

# Interpretation and implications

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- Financial advisor only play a minor role, especially in the early stages ... other people are more important to entrepreneurs in these stages
- Entrepreneurs and financial advisors might not benefit enough from their relationship due the weak ties
- Financial advisers need to consider how to strengthen their weak role in the early stages ... a lot of important decisions are made here
- Previous research indicates the importance of close relationships ... financial advisers need to consider how to become more closely related to entrepreneurs.

# Thank you for listening

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## Questions are welcome!

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