

## Chapter 70

# The Influence of Social Business Networks of Top Managers on the Financial Performance of UK Biopharmaceutical SMEs

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### ABSTRACT

*The influence of business social networks on the financial performance of entrepreneurial ventures was extensively studied in the literature. However, a need for a more dynamic perspective, centered on firms' evolution, was identified by academics and professionals. This chapter attempts to address this knowledge gap, investigating a sample of UK biopharmaceutical SMEs, from various stages of the corporate lifecycle. This approach permits a comparison between the structure of formal and informal networks of the manager/entrepreneur, in various corporate phases of evolution, and an analysis of the statistical relation between the size of networks and specific financial performance indicators.*

### INTRODUCTION

The importance of social networks for the survival and development of modern organizations was repeatedly emphasized in the literature (Chang, 2010). A social network can be defined as a set of agents connected to each other by relationships

related to some specific activities or goals (Jackson, 2008). In a social business network, the agents are individuals that are involved in, or represent, independent firms, or other organizational systems involved in business transactions, while the links and their motivations can be of various nature, like contracts, ownership, community, ethnicity, family, personal or political connections (Scalera & Zazzaro, 2009). The value of these social business

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networks for modern organizations was expressed through the concept of social capital (Baron & Markman, 2000; Boverly & Easton, 2007).

The small size and the limited resources of SMEs create specific challenges regarding access to capital, human resources, information and markets. These challenges are significant for the biopharmaceutical SMEs, which are confronted with a business environment characterized by high level of competition, dynamism and market risk. In these conditions, the size and the intensity of the social business network of the manager/entrepreneur can provide a competitive advantage for the business organization.

The research objectives of this paper are twofold:

1. To evaluate the size and the relevance of the social business network of the entrepreneur/manager of UK biopharmaceutical SMEs, as well as the specific professional competencies accessed through this network;
2. To investigate the impact of the size of social business networks on the financial performance of the investigated UK Biopharmaceutical SMEs. Two aspects of the financial performance have been considered, in relation to the specific stage of the firm lifecycle: for the biopharmaceutical firms involved in the process of product R&D, the capacity to access external funding was considered as the primary performance indicator; while for the firms that already commercialize products or services, the ROI was considered the most significant financial indicator.

In order to answer these research objectives primary data was collected through 69 phone interviews with the top manager/CEO of 69 UK Biopharmaceutical SMEs, and then analyzed using the SPSS 17 software.

After a brief discussion of the concept of social business network and social capital in entrepre-

neurial ventures, the paper describes the specific characteristics of the UK biopharmaceutical market, and the profile of the biopharmaceutical SMEs. The research objectives and the methodology used to collect secondary and primary data are then presented. The analysis and discussion of data is realized in direct relation to the formulated research objectives. The paper concludes with a summary of the main findings and with propositions for future research.

## **SOCIAL NETWORKS AND FIRM PERFORMANCE**

The importance of social networks for entrepreneurial ventures is presently acknowledged by many studies (Elfring & Hulsink, 2007; Pirolo & Presutti, 2010; Shane & Venkataraman, 2000). A specific responsibility of the entrepreneur/manager, and, by extension, of the board of directors, is the External Resource Building Role (Pfeffer, 1972; Pfeffer & Salancik, 1978). Using their network of formal (e.g. external accountants) and informal (e.g. relatives and friends) relationships (Littunen, 2000), the entrepreneur/manager and/or the board of directors build the social capital of the firm, which can be defined as resources embedded in a social structure of relationships which are accessed and/or mobilized in purposive actions (Lin, Cook, & Burt, 2001).

The necessary resources are varied, and their specificity depends on the characteristics of the industrial sector and on the specific stage of the corporate lifecycle. Knowledge intensive firms require both extensive funding and access to external sources of knowledge and technology (Oliver & Liebeskind, 1998), while the more traditional production-oriented companies need good relationships with their suppliers and clients.

Capital markets are also embedded in social relations that influence access to credit among borrowers (Green, Kwong, & Tigges, 1995). Several studies suggest that networking between

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