Founders’ social capital – the road to start-up survival

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AUTHORS: Hana Klofáčová & Jakub Zušalý
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Abstract

Background: Start-ups’ contributions to shaping the economic landscape of the modern world are multifold as they are for example a source of productivity and economic growth or they are the source of net job creation. Yet, up to half of them fail during the first 3 to 4 years of their lives. As such, their founders face notable uncertainties whether their start-ups will survive or not. Many different factors have an impact on the likelihood of start-up survival, particularly social capital appears to play an important role in it.

Purpose: The purpose of this thesis is to understand the role of founders’ social capital in the survival of tech start-ups. We approach the survival from the perspective of challenges start-ups face in the early start-up and business development stage, and we look into how social capital contributes to overcoming them.

Method: Our research was conducted from social constructionist view. We conducted a multiple case study with 16 start-up founders, who we interviewed in the Czech Republic.

Conclusion: We offer three conclusions - firstly, social capital plays an important role in the early start-up phase most significantly by helping founders form the right teams, which then help the founders better address the other challenges such as acquiring customers or managing financing. Secondly, social capital helps the founders establish legitimacy and it connects them with more experienced people who help them avoid fatal mistakes in the business development phase. Thirdly, founders’ openness to network and awareness of their own limits resulting in reaching out for help is also crucial for start-up survival.
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Hana Klofáčová and Jakub Zufalý
Jönköping University International Business School
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1. Introduction

In the first chapter we provide a background for the research topic about start-ups, start-up survival and social capital, identify a research gap and explain the purpose of this thesis. At the end, we make clear definitions of the terms 'start-up' and 'social capital' that we use throughout the thesis.

1.1 Background

It is without doubt that start-ups play an important part in the world as they shape the economic landscape. For instance, they are an important source of productivity growth and sustained economic prosperity in modern economies (Audretsch & Fritsch, 2003; Audretsch & Keilbach, 2004; Haltiwanger, Hathaway, & Miranda, 2014), they are the main force in net job creation and its growth (Haltiwanger et al., 2014; Kane, 2010; Stangler & Kedrosky, 2010), they increase regional competitiveness (Audretsch & Fritsch, 2003; Audretsch & Keilbach, 2004), and they can generate social impact (Moroni, Arruda, & Araujo, 2015).

There are roughly 582 million entrepreneurs in the process of starting or running their own business worldwide (Kelley, 2017). However, over 50% of all enterprises employ only their founder(s) (OECD, 2017) and according to Luger and Koo (2005) start-up is an enterprise which has at least one paid employee (besides the founder(s)). In addition, as there is no uniform definition for what a start-up is and because start-ups constantly emerge and die, it is, unfortunately, almost impossible to determine the total amount of start-ups.

What we know, though, is that starting a company is an appealing activity with potentially high financial and personal rewards for the founders. In fact, up to 75% of the founders start their own company because of a desire to build wealth or improve their financial situation, and over 60% of them are motivated by the prospects of having their own companies, being their own bosses, and capitalizing on their own business ideas (Renko, Kroeck, & Bullough, 2012; Wadhwa, Holly, Aggarwal, & Salkever, 2009). That is complemented by strong intrinsic motivations such as personal learning, personal growth, a need for achievement or helping the society, all brought
about by the entrepreneurial activity (Germak & Robinson, 2013; Renko et al., 2012; Taormina & Lao 2007).

And the recent development seems to be in their favor. The cost of company creation has significantly declined during last decades, by lowering the entry and growth barriers, especially for ambitious young people with limited or no access to financial capital (Stangler & Kedrosky, 2010). Furthermore, the widespread of professional, seed-centric acceleration programs enabled creation of larger amount of companies (Peña, 2002; Stangler & Kedrosky, 2010). Particularly, information technology (IT) fields blossomed in the past after decrease of distribution and infrastructure costs and widespread of open source (freely available software). What is more, despite the fact that IT start-ups represent a small fraction of all established companies, they have positive effects and even shape other industries (Haltiwanger et al., 2014; Stangler & Kedrosky, 2010).

Despite the fact that start-ups bring many benefits to economies, social welfare and their founders and stakeholders, and as much revolutionary they might be, prior data led us to believe that survival rate is quite low (Audretsch & Fritsch, 2003; Audretsch & Keilbach, 2004; Haltiwanger et al., 2014; Kane, 2010; Moroni et al., 2015; Stangler & Kedrosky, 2010). In fact, starting a new business is a high-risk activity and many start-ups fail over time (Peña, 2002; Shephard, Douglas, & Shanley, 2000). The start-up failure rate depends heavily on the geographical context, period in time as well as start-up intrinsic characteristics. Although the data statistics differ, most of the estimations oscillate around 25% to 40% failure rate in the first year of operations and between 33% to 50% for the periods between third and four year. (Diethelm, 2016; Moroni et al., 2015; Start-up Business Failure Rate by Industry, 2007; Timmons, 1990).

As such, most of the new firms face serious challenges in surviving their early stage period and in general, start-up founders encounter constant uncertainty of whether they will survive or not (Peña, 2002). Furthermore, Hyytinen, Pajarinen and Rouvinen (2015) suggest that survival rate for innovative ventures, which corresponds with our start-up definition (see chapter 1.4.1), is approximately 6–7 percentage points lower than that of non-innovators. Therefore, start-up survival is an intriguing phenomena which is still surrounded by many uncertainties.
1.2 Problem discussion

The reasons which determine whether new venture will survive or not have been researched by a number of scholars, yet that leaves us with many different explanations of what supports survival. Results of different studies show what different factors have an impact on the likelihood of new venture’s survival. For instance, the composition of, and resources possessed by the founding team (Aspelund, Berg-Utby, & Skjevdal, 2005), characteristics of the firm resources (Dollinger, 1999), early decisions and founding conditions (Boeker, 1989; Bamford, Dean, & McDougall, 2000), entrepreneurs’ ability to learn and deal with uncertainty (Gartner, Starr, & Bhat, 1999; Shepherd, 1999), legitimacy and overcoming of liability of newness (Zimmerman & Zeitz, 2002), human capital of the entrepreneur (such as education or business experience) and firm’s capacity to adapt to changes (Peña, 2002). But even though different scholars researched different factors of firm survival, it is important as well as interesting to notice that the majority of them can be achieved by the firm due to social capital (e.g. Adler & Kwon, 2002; Davidsson & Honig, 2003; Higgins & Gulati, 2003; Maurer & Ebers, 2006; Podolny & Page, 1998).

Social capital is ‘the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit’ (Nahapiet & Ghoshal, 1998, p. 243). As such, social capital has matured from a concept to the entire field of research during the last two decades (Kwon & Adler, 2014). It has been approached by researchers from different perspectives such as: bridging vs. bonding (e.g. Davidsson & Honig, 2003; Inkpen & Tsang, 2005; Pirolo & Presutti, 2010), internal vs. external social capital (e.g. Adler & Kwon, 2002), structural, relational vs. cognitive dimensions of social capital (e.g. Nahapiet and Ghoshal, 1998; Pearson, Carr, & Shaw, 2008; Tsai and Ghoshal, 1998), intracorporate networks, strategic alliances, vs. industrial districts (e.g. Inkpen and Tsang, 2005; Brown and Hendry, 1998), individual vs. organizational social capital (e.g. Kostova & Roth, 2003; Inkpen & Tsang, 2005), or social capital’s benefits vs. risks. As such, it is ‘applicable to numerous phenomena of interest to entrepreneurship scholars, and has been used to examine various entrepreneurship-related concepts, variables, and construct’, including its role in firm’s survival (Gedajlovic et al., 2013, p. 456; Maurer & Ebers, 2006).

In fact, Kwon and Adler (2014, p. 412) argue that ’there is no longer much need to refine and demonstrate the value of the concept of social capital’, but research can usefully continue to expand
on specific aspects of social capital. Specifically, Gedajlovic et al. (2013) call for the research exploring how social capital phenomena accounts for the effects of an unique organizational context. In this sense, research on the role of social capital in the start-up survival has been relatively scarce (Davidsson & Honig, 2003; Inkpen & Tsang, 2005; Maurer & Ebers 2006; Pirolo & Presutti, 2010). In line with the context of start-ups and new ventures, Davidsson & Honig (2003) emphasize the importance of actively maintaining, pursuing, and developing social relations for the success of nascent entrepreneurs. On the other hand, relatively little is known about ’how such relationships are developed and managed’ (Gedajlovic et al. 2013, p. 466). Gedajlovic et al. (2013, p. 459) call for research that will explore to develop and promote antecedents of social capital: ’the factors or processes that lead to the development of social relationships.’

As we presented all the positive impact that start-ups have on the economy, their survival is important for all of us. Through the previous elaboration we demonstrated that social capital might play a very important role in the start-up survival. Yet, there would be no start-up survival nor start-ups themselves without their founders. What is their specific role in start-up survival and what contributes to the survival of their business? For the founders’ success in keeping their company alive, Davidsson and Honig (2003) emphasize the importance of actively maintaining, pursuing, and developing social relations, which implies the role of social capital. But how specifically founders’ social capital contributes to the start-up survival? This is something we would like answer in this thesis. Hence, by this thesis we would like to raise awareness of the unique role of founders’ social capital, and draw conclusions upon that.

1.3 Purpose and research question

The purpose of our thesis is to understand the role of founders’ social capital in the survival in the context of tech start-ups. As such, we approach start-up survival from the perspective of challenges these new ventures have to overcome in order to survive. We want to understand how founders’ social capital helped to overcome these challenges. In addition, we want to discover what specific role social capital plays in distinct stages of start-up life. As suggested by Maurer and Ebers (2006), we divide the start-up life into early start-up stage and business development stage.

Our research question, which we intend to answer in our thesis, is therefore:

How does founders’ social capital contribute to the survival of tech start-ups?
1.4 Definitions and terms we use

To indicate what we mean by the terms used in the purpose and research question, we provide simplified definitions below.

1.4.1 Start-up

In the literature, there is not one uniform definition for what ‘start-up’ is. A similar ambiguity of the term occurs among the start-up founders in our research, too. Some of them do not even consider their companies as start-ups because of their own definitions and perceptions of that word or because they see it as a buzzword used for making new firms look more attractive and they do not approve of that.

For the purposes of this thesis we come up with our own definition based on the research of Luger and Koo (2005) and Staszkiewicz and Havlíková (2016). We see start-ups as business entities which meet the following four conditions: they 1) were not founded before six years ago, 2) have at least one paid employee, 3) are neither a subsidiary nor a branch of an existing firm, and 4) bring a new, disruptive or unique product or service to the market. Even though a few of the founders we interviewed claimed their companies are not start-ups, all of them fit into this definition and therefore we refer to them as start-ups, too.

In this thesis, we often use the words ‘new venture’ and ‘firm’ or ‘company’ as a referring to start-ups as well.

1.4.2 Tech start-up

By the term ‘tech start-up’ we label two categories together: technology start-ups and technology-enabled start-ups. These categories are often confused and taken as one (Huberman, 2016; Sarwar, 2018). Indeed, both technology and technology-enabled start-ups need to possess a vast technological skill set to create their core product or service and make the company survive. The difference between them is that technology start-ups build the technology such as hardware or software and sell it as core business, whereas technology-enabled start-ups only use these technologies (and not sell them) to enhance their core business (Huberman, 2016).
However, we assume that the difference between the two categories is negligible in terms of the role of founders’ social capital for their survival. Therefore, we use the term ‘tech start-ups’ for both of them throughout the thesis.

1.4.3 Start-up stages

We adopt two stages of start-up life as suggested by Maurer and Ebers (2006): early start-up stage and its subsequent business development stage. In line with their research, we focus on tech start-ups in relation with social capital, too. Yet the difference is that in their sample all start-ups were funded by an external investor, whereas we include start-ups financed through their own resources in our sample, too. Therefore, we make slight modification in what both stages encompass. For this thesis we use the following:

Early start-up stage extends from the first formulation of the new venture’s business plan through the legal creation of the firm until creating a viable product, gaining first paying customer(s) a thus generating first revenues.

Business development stage begins at the end of the first stage and extends until today. It encompasses start-ups' growth, setting up firm's processes, hiring new employees, acquiring more customers and retaining them, refining the product to address more customers and ideally scaling it up, and last but not least managing its finances and cash-flow.

1.4.4 Social capital

Founders' social capital are the actual or potential resources originating from the network of relationships possessed by the founder (Nahapiet & Ghoshal, 1998). Its effects lie in founders’ relations to other actors (bridging social capital) and in information, influence, and solidarity benefits stemming from founders' memberships in communities (bonding social capital) (Kwon & Adler, 2014).

The actors of bridging social capital we are referring to in our research are acquaintances, business partners, customers, mentors, investors, former colleagues or classmates, and such.
The actors of bonding social capital in our research are family relatives and friends, colleagues and all the above mentioned groups when the relationship between the actors becomes close.
2. Theoretical background

*In the second chapter we present the theoretical background based on existing literature. First, we discuss start-up survival and factors which increase its likelihood. Then, we elaborate on the role of social capital in start-up survival. And finally, most of this chapter is dedicated to social capital – its dimensions, differences between bridging and bonding, external and internal, and individual and organizational social capital, and we also present the literature on networks as well as the benefits and risks of social capital.*

2.1 Start-up survival

There are many definitions of the term ‘start-up’ that occur in the literature. For example, Luger and Koo (2005, p. 19) define the start-up as an entity ‘which did not exist before during a given time period (new), which starts hiring at least one paid employee during the given time period (active), and which is neither a subsidiary nor a branch of an existing firm (independent).’ Another definition says that start-up is ‘a company or a human institution that is built on different branches and that spontaneously arises the condition of extreme uncertainty, has at its core innovation to create products and services which they wish revolutionize the market’ (Ries, 2011). Yet, most of the definitions meet at the point that start-up is a new venture which brings something new and innovative to the market (Luger & Koo, 2005; Ries 2011; Staszkiewicz & Havlíková, 2016).

In general, the likelihood of the survival of new organizations is limited (Freeman, Carroll, & Hannah, 1983). In fact, many of the new ventures survive only few months or years (Reynolds & Curtin, 2008). Gartner et al. (1999) even claim that the ability of a new venture to survive at least four years is the main indicator of the venture’s success. Similarly, Aspelund et al. (2005) concluded in their study that the average age of survival for the researched new, technology-based firms was 3.8 years. Some entrepreneurs also decide to discontinue their involvement in entrepreneurial activity, in the Czech Republic did so 150,000 people in 2013 (Lukes et al., 2013).

Boeker (1989) and Bamford et al. (2000) suggest that early decisions and founding conditions have an impact on firm’s long-term performance. The internal resources managed by the entrepreneurs at the birth of the new, technology-based firms are important predictors of their survival (Aspelund et al., 2005). Especially important seem to be the resource management decisions as they
significantly impact the organization’s future (McDougall, Shane, & Oviatt, 1994) and can remarkably enhance firm’s performance and increase the probability of survival (Bamford et al., 2000; Shephard et al., 2000).

The characteristics of the resources acquired by the entrepreneurs significantly influence the new venture outcome (Dollinger, 1999). To be able to survive in the competing environment, firm’s resources must be valuable, rare, inimitable, and non-substitutable. Unless they have these characteristics, new ventures are very unlikely to survive, because of fierce competition of acquiring customers or market failure (Aspelund et al., 2005).

Aspelund et al. (2005) hypothesized that the more people in the founding team, the higher the likelihood of firm survival - as larger teams should possess more resources. However, the results of their study showed an opposite effect (due to the fact that larger teams have more affective conflicts). A different hypothesis was supported, saying that the probability of survival is higher with the greater degree of heterogeneity in the functional experience of the initial team (Aspelund et al., 2005).

2.1.1 The role of social capital in start-up survival

The difficulties to survive that so many new ventures encounter can be accounted to the concept of ‘liability of newness’ (Aspelund et al., 2005). This phenomenon explains that new organizations have ‘reduced capacity when competing with established players’ due to resource poverty, lack of legitimacy, and weak ties to external actors (Stinchcombe, 1965). In order to survive, new firms need time to establish themselves and develop specific knowledge and contacts with customers (Lukes & Zouhar, 2015).

Social capital enables entrepreneurs to access information and resources from their social network (Maurer & Ebers, 2006), it increases legitimacy (Higgins & Gulati, 2003), and ‘provides information and learning benefits’ (Powell, Koput, & Smith-Doerr, 1996). Therefore, it is very important for firm’s success and survival (Maurer & Ebers, 2006). Furthermore, on the entrepreneur’s personal level social capital is theorized to supplement the effects of education, experience, and financial capital (Coleman, 1990).
Entrepreneurs’ capability to deal with uncertainty and ‘change their behaviors to modify their circumstances into viable opportunities’ is another antecedent of start-ups’ survival (Gartner et al., 1999; Shepherd, 1999). The capability to ‘learn new knowledge and gain abilities during the start-up process’ increases the likelihood of start-up’s success (Gartner et al., 1999). However, the quantum of knowledge or ability (as a static figure) possessed by the entrepreneur has not been proven to have an impact on firm’s survival. The explanation for that might be that the always changing environment is an inherent part of entrepreneurship and therefore the knowledge of yesterday might be useless tomorrow (Gartner et al., 1999).

2.2 Social Capital

Social capital is a whole field of research that has during the last two decades matured from a concept covering various phenomena such as social networks, interfirm networks, social resources or social exchange and others (Adler & Kwon, 2002; Kwon & Adler, 2014). It is defined as ‘the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit’ (Nahapiet & Ghoshal, 1998, p. 243). Thus, social capital is viewed as a unique resource and Coleman (1990) framed social capital as a valuable asset that stems from access to resources made available through social relationships.

‘Stemming from the theory’s collective and shared character, social capital likely has a strong influence on the flow of information and collective action of groups’ (Pearson et al., 2008, p. 954). As such, Adler and Kwon (2002, p. 23) sum up: ‘Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor.’

2.2.1 Social capital dimensions

Nahapiet and Ghoshal (1998) and Tsai and Ghoshal (1998) identified structural, relational and cognitive dimensions of social capital all of which are crucial to access and leverage the resources inherent in social relationships (Villena Rvilla, & Choi, 2011). Although these dimensions are analytically separated, their features are in many cases interrelated (Nahapiet & Ghoshal, 1998).
The structural dimension can be translated into the pattern and extent to which members are interconnected. This dimension includes the network ties, network configuration and appropriable organization (Nahapiet & Ghoshal, 1998; Pearson et al., 2008). Relational dimension represents the quality of the connections of the structural dimension (Sanchez-Famoso et al., 2015). Thus, relational dimension is constituted by trust, norms, obligations, and identification (Nahapiet & Ghoshal, 1998). Last but not least, cognitive dimension represents the extent to which group members share a common perspective or understanding – mutually beneficial common goals, including the shared purpose, vision, and language and codes (Nahapiet & Ghoshal, 1998; Pearson et. al., 2008; Sanchez-Famoso et al., 2015).

All of these dimensions of social capital are important because their simultaneous presence and strength lead to organizational processes or capabilities that are advantageous for superior firm performance (Pearson et al., 2008).

2.2.2 Bridging and bonding = weak ties and strong ties

Social capital can be a useful resource both by enhancing internal organizational trust, reciprocity, norms, and identification as a member of the group through the bonding of actors, as well as by bridging external networks in order to provide resources (Adler & Kwon, 2002; Putnam, 2000; Sanchez-Famoso et al., 2015).

Bridging social capital or loose network relationships with other individuals predominantly functions as an interface for the exchange of otherwise unavailable or costly to locate information and scarce resources (Davidsson & Honig, 2003; Debrulle, Maes, & Sels, 2014). Examples of bridging social capital based on weak ties may include membership in organizations, contacts with community agencies, business networks, the development of friendships with other businesspersons or embeddedness in an industrial district (Davidsson & Honig, 2003; Inkpen & Tsang, 2005).

On the other hand, bonding social capital or associations with family and close friends (strong ties) is rooted in interpersonal trust and can equip an owner with consistent access to a limited amount of specific resources (Davidsson & Honig, 2003; Granovetter, 1983).
The importance of the configurations of weak and strong ties in relation with the start-up survival differs in different stages of the business (Davidsson & Honig, 2003; Maurer & Ebers, 2016; Pirolo & Presutti, 2010). Strong ties stemming from having parents and/or friends who run their own business and their encouragement are associated with the increased probability and speed of start-up creation (Davidsson & Honig, 2003). Whereas both strong and weak ties have mostly positive effects on start-up survival and economic performance, it seems that weak ties connecting to specific knowledge that the entrepreneur does not have become increasingly important as the start-up progresses (Davidsson & Honig, 2003; Pirolo & Presutti, 2010). Maurer and Ebers (2016) and Pirolo and Presutti (2010) even claim that cohesive social capital and the same strong ties that contribute to the start-up creation and emergence, can hinder performance and innovative capabilities needed for new venture adaptation and survival in subsequent business development phase.

2.2.3 External and internal social capital

Many researches divide social capital into its external and internal part (Adler & Kwon 2002; Barroso-Castro, Villegas-Periñan, & Casillas-Bueno, 2015). Indeed, social capital can be a useful resource both by enhancing internal organizational trust, reciprocity, norms, and identification as a member of the group through the bonding of actors (internal social capital), as well as by bridging external networks in order to provide resources (external social capital) (Adler & Kwon, 2002; Putnam, 2000; Sanchez-Famoso et al., 2015). What is more, there is an interplay between the internal and external part of social capital (Adler & Kwon, 2002). As such, Woolcock (1998) argues that if both parts do not reach certain balance, the organization might turn into its dysfunctional form. For example, a high presence of internal social capital with a low presence of external social capital might lead to isolation of the organization.

Internal social capital and linkages among individuals within the collective include features that contribute to cohesiveness and foster collective action and the pursuit of collective goals (Adler & Kwon, 2002; Pearson et al., 2008). On the other hand, external capital represents the relations that the actors maintain with other actors outside the organization and thus it has the features of networks (Adler & Kwon, 2002).
But yet, despite these research tendencies to differentiate between external and internal social capital (Barroso-Castro et al., 2015), Adler and Kwon (2002) call for overcoming these tendencies. As such, they acknowledge the existence of both internal and external components but at the same time they believe that social capital is a dynamic concept and it changes throughout company’s life. Weak ties might become strong ties at certain stage and vice versa, strong ties might turn into weak ties (Adler & Kwon, 2002).

2.2.4 Networks in relation with start-ups

‘Networks provide firms with access to knowledge, resources, markets, or technologies. (…) Through membership in a network and the resulting repeated and enduring exchange relationships, the potential for knowledge acquisition by the network members is created.’ (Inkpen & Tsang, 2005, p. 146). Particularly, in relation with new venture survival, Davidsson and Honig (2003) stress the importance ‘of actively maintaining, pursing, and developing social relations.’

Whereas Inkpen and Tsang (2005) distinguish three common network types: intracorporate networks, strategic alliances, and industrial district, we perceive the last one, the industrial district, as often occurring and the relevant one for influencing the start-up survival. As such, industrial district is ‘a network comprising independent firms operating in the same or related market segment and a shared geographic locality, benefiting from external economies of scale and scope from agglomeration’ (Brown & Hendry, 1998, p. 133). Being embedded in an industrial district brings various opportunities to tap into a larger knowledge resource base (MacKinnon, Cumbers, & Chapman, 2002). However, as Uzzi (1997) argues, the same embeddedness might lead to inhibition of knowledge flow into the network. Thus, companies participating in the network might overlook the strategies and capabilities of competitors outside the district, resulting in a blind spot situation (Pouder & St. John, 1996)

2.2.5 Individual vs. organizational social capital

‘Individual social capital originating from an individual’s network of relationships can be distinguished from organizational social capital derived from an organization’s network of relationships’ (Inkpen & Tsang, 2005, p. 151). As per organizational social capital, members of an organization can tap into the resources derived from the organization’s network of relationships
without necessarily having participated in the development of those relationships (Kostova & Roth, 2003; Inkpen & Tsang, 2005). However, as Debrulle et al. (2014) argue, it is mainly entrepreneurs’ network of weak ties that acts as the interface between their firm and its external environment. Consequently, it enables the entrepreneurs to gain external information and introduce it into the start-up, to gain the resources needed for the assimilation of external information, and to point out where the application of market knowledge might be most profitable.

2.2.6 Benefits of social capital

Social capital enables to access wider sources of information and ‘improves information quality, relevance, and timeliness’ (Adler & Kwon, 2002, p. 29). It also facilitates reciprocal exchange of information resulting in the entire network benefiting from it (Burt, 1997). For example, network ties help access information about innovations (Burt, 1987), help forecast customer preferences (Uzzi, 1997) and acquire novel skills and knowledge (Podolny & Page, 1998). As such, social capital is a source of competitive advantage (Paunescu & Badea, 2014). Furthermore, according to Adler and Kwon (2002), other direct benefits of social capital are influence, control, power, and solidarity.

Social capital (measured through its structural, relational, and cognitive dimensions) helps recognize new business opportunities (Ramos-Rodriguez et al., 2011) and thus leads to the long-term success of the new firm (Ozgen & Baron, 2007).

2.2.7 Risks of social capital (negative aspects of social capital)

The investment in social capital may not be cost efficient under certain circumstances as it requires considerable efforts in the establishment and maintenance of relationships (Adler & Kwon, 2002). Unbalanced investment in social capital may then turn into a constraint and a liability (Gargiulo & Bernassi, 1999).

Gained knowledge and abilities can also become a liability if the competitive dynamics change and the changes are not recognized by the actors (Starr & Bygrave, 1992). Furthermore, information benefits gained through contacts who have many other contacts can transform into liability as the dependency of the actor’s direct contacts on the actor decreases (Ahuja, 1998).
Going through the literature we have identified that social capital is indeed a resource contributing to start-up survival (e.g. Paunescu & Badea, 2014). Yet, it is unequally important in different stages of the business (Maurer & Ebers, 2006; Pirolo & Presutti, 2010). The founders are the most accountable for benefits of social capital because they are the interface between their firm and its external environment (Debrulle et al., 2014). This will help us address our research question which asks how founders’ social capital contributes to the survival of tech start-ups.
3 Methodology

In the third chapter we discuss our research approach and philosophy and explain the choices we made regarding research strategy (a multiple case study), data collection, and data analysis. We conclude this chapter with the description of steps we made in order to increase our thesis’ quality and trustworthiness and to ensure high ethical standards while conducting our research.

3.1 Research philosophy

In general, there are two opposite views on the conduct of social science research – social constructionism and positivism. Unlike positivism where it is believed that the social world exists externally and ‘can be measured through objective methods’, social constructionism does not see the reality as objective and exterior but believes that it ‘socially constructed and is given meaning by people in their daily interactions with others’ (Easterby-Smith, Thorpe, & Jackson, 2015, p. 52).

Our research was conducted from the social constructionist view as we tried to understand the different experiences that people have, meanings they place upon their experiences, and what they are thinking (Easterby-Smith et al., 2015). In our research we conducted face-to-face interviews with 16 founders of start-ups chosen according to our selection criteria and as such we collected their individual views and experiences.

The term ‘social constructionism’ is equivalent to many other terms, one of them is ‘interpretivism’ (Easterby-Smith et al., 2015). Since we adopted an interpretivist research philosophy in our thesis, we were aware of the need to ‘adopt an empathetic stance’ during the interviews and tried to understand the world from our interviewees’ points of view (Saunders, Lewis, & Thornhill, 2012, p. 116). As the purpose of our thesis is to understand the role of founders' social capital in the survival of tech start-ups and we are interested in what role social capital plays in overcoming start-ups’ challenges, there was a need for trying to understand the individuals’ (founders’) points of view, which influenced the way they overcame the challenges. Therefore, we have chosen to follow the philosophy described above.
3.2. Research approach

An exploratory approach is suitable for our thesis, as exploratory studies enable researchers to gain a deeper understanding about what is happening, seek new insights, and assess phenomena from a new perspective (Robson, 2002). There has been written a large number of articles about social capital, but we approach the phenomena of social capital from a new angle and uncover new insights. Additionally, exploratory studies are flexible and enable to change direction as new data appear (Saunders et al., 2012).

The other types of studies – descriptive and explanatory – would not be so appropriate for our thesis, as we do not try neither to ‘portray an accurate profile of persons, events or situations’ as in descriptive studies (Robson, 2002), nor ‘establish causal relationships between variables’ as in explanatory research (Saunders et al., 2012, p. 140).

In order to tap into our exploratory research purpose, we used qualitative data collection techniques that generate non-numerical data, and we omitted quantitative data collections techniques that generate or use numerical data (Saunders et al., 2012).

3.3 Research strategy and design

To answer our research question we needed to talk with the founders in-field and research their points of view because the role of social capital in start-up survival might be perceived differently by different founders (Saunders et al., 2012).

We chose a multiple case study as the most suitable research strategy for fulfilling the purpose of our thesis. Multiple case study looks in depth in a number of organizations or individuals (Easterby-Smith et al., 2015). ‘The rationale for using multiple cases focuses upon the need to establish whether the findings of the first case occur in other cases and, as a consequence, the need to generalize from these findings’ (Saunders et al., 2012, p. 146-147). We did interviews with the founders of 16 companies and explored differences and similarities between the founders, and consequently replicated our findings across the cases to find ultimate emergent patterns (Yin, 2013).

At first, we were deciding between conducting the interviews with all founders of each start-up, and between conducting the interviews with only one person from the founding team of each start-
up. We decided for the latter, because otherwise we could only make interviews with all founders of four to six companies due to the time constrain, and that might not be enough to cover the complexity of our research problem. Furthermore, although it might be interesting to compare the answers of the founders of one start-up, we have come to a conclusion that by interviewing more start-ups (that means only one founder per start-up) we will have much richer and more relevant data to answer our research question.

3.4 Data collection

3.4.1 Literature search and review

To provide a context for our thesis and to help refine our research problem, we conducted a literature review (Easterby-Smith et al., 2015). To grasp the complexity of our research problem, we resorted to the form of systematic literature review and strived to ‘comprehensively identify, appraise and synthesize all relevant studies on a given topic’ (Petticrew & Roberts, 2006, p. 19). As such, we searched for keywords: start-up, start-up survival, social capital, network, firm performance in different combinations such as ‘start-up AND social capital’, ‘start-up survival AND social capital’, ‘firm performance AND social capital’ in the document title and in certain instances in the topic, too. Based on the first result we also added a new keyword: new venture. We searched the main bibliographic databases: Web of Science, Google Scholar, ABI/Inform and Scopus, as well as Jönköping University library database.

Thanks to the possibility of applying a variety of filters and keyword combinations in Web of Science database, we decided to add all 91 results to the excel sheet for further reviews of the abstract, out of that were 70 articles, 14 conference proceedings and 7 books. Because of potential information value of other sources than peer-reviewed articles, we kept conference proceedings and books for later evaluation.

Through the searches in the other beforehand mentioned databases, we focused on identifying the additional streams of literature that might be omitted by the searches in Web of Science. This time, however, we searched only peer-reviewed articles with journal impact factor higher than 2.0 and we were also excluding articles that were not relevant for our research purpose. Excluded articles focused on the topics such as ‘social enterprises’ or ‘entrepreneurial intention’. As a result, we identified 36 additional peer-reviewed articles.
We both then reviewed all the abstracts and based on them 1) we identified topics that each article covers, and 2) we individually decided, whether the articles seem to be very relevant, somewhat relevant, or irrelevant for our research purpose. After that we discussed the relevance of articles where we had a different opinion to reach a conclusion. Having the topics as well as the relevance of each article identified, enabled us to quickly find the articles relevant for different parts of our literature review and to cover all important aspects.

As a result of this literature search and review, we believe we covered most relevant studies and findings in terms of the extent, however, we found out that in terms of the depth further literature review was needed. Therefore, we applied the method of snowballing in certain topics such as ‘the theory of social capital’, taking the results of the literature review as a starting point leading to the most influential academic work for these topics.

3.4.2 Empirical data collection

We decided to conduct interviews as the way to collect the empirical data. In reality, as Saunders et al. (2012) suggest, the research interview is the general term for different types of interviews, most often divided into structured, semi-structured and unstructured or in-depth interviews.

Structured interviews, also referred to as ‘quantitative research interviews’, use questionnaires based on a predetermined and standardized set of questions and as such using them to address our research purpose would be highly limiting (Saunders et al., 2012). Unstructured interviews use questions to stimulate a conversation rather than to guide responses (Easterby-Smith et al., 2015). As such, unstructured interviews have little use for our research purpose because they would not cover the complexity of the problem.

Semi-structured interviews, often referred to as ‘qualitative research interviews’, are based on a list of questions that can be addressed in a more flexible manner (Easterby-Smith et al., 2015). In our research we conducted semi-structured interviews. We found it the best way to answer our research question because they are particularly convenient for the interpretivist epistemology to understand the meanings that participants ascribe to the role of various phenomena such as start-up survival and the role of social capital in the start-up survival (Saunders et al., 2012).
3.4.2.1 Sampling

For the qualitative nature of our research, we had to choose non-probability sampling (Easterby-Smith et al., 2015). As such, Easterby-Smith et al. (2015) offer four non-probabilistic techniques. Convenience sampling, quota sampling, purposive sampling, and snowball sampling. We excluded convenience sampling because of its low quality of data collected, and quota sampling because there are no categories that would serve our research purpose. Instead, we adopted the purposive sampling because we believed we would be able to get enough cases to fit to our research purpose - and in the end we were able to get them. Therefore, we did not have to resort to snowballing sampling either (Saunders et al., 2012). In line with our research purpose, we clearly defined what sample units were needed and then we researched potential sample members to check whether they meet the eligibility criteria (Easterby-Smith et al., 2015).

All start-ups in our sample were from the Czech Republic, the country of origin of both researchers. As such, we believe in collecting data of higher quality achieved by an easier access to start-up founders and by usage of our native language.

We used the following criteria for the selection of the cases:

- New venture is based in the Czech Republic
- New venture is a tech company (the majority of Czech start-ups are tech start-ups and therefore we use this context to collect good, homogenous, and consistent data (Staszkiewicz & Havlíková, 2016)
- New venture is at least 2 years old and at most 6 years old
- New venture brings a new, disruptive or unique product or service to the market
- New venture is neither a subsidiary nor a branch of an existing firm
- New venture is surviving and thus does not face any insolvencies or liquidation
3.4.2.2 Method of access

To identify the start-ups, we used a variety of sources. Firstly, we wrote down all personal contacts on founders of tech start-ups in the Czech Republic. Secondly, we collected the names of start-ups located in the incubator xPort at the University of Economics in Prague, and companies which presented themselves there at a start-up festival. Lastly, we went through recent rankings of start-ups published in Forbes as the ‘start-ups of the year’ and another website focusing on successful start-ups - www.podnikatel.cz (‘podnikatel’ means ‘entrepreneur’ in Czech).

In the end, we had a list of 45 start-ups established between 2004 and 2017. As one of our criteria mentioned above states that the start-ups should be at least 2 years old and at most 6 years old, we have selected the start-ups founded between spring 2012 and spring 2016. That left us with 27 start-ups. We contacted them via email or LinkedIn in the middle of March. Six of them did not reply and five replied but did not have enough time for the interviews in the end. As a result, we agreed on a date for an interview with 16 start-ups for the first half of April.

3.4.2.3 Conducting the interviews

We started off by conducting a pilot interview with a company founder with whom one of the researchers have had a friendly relationship from the past. The interview was flowing in a trustful and positive manner and we collected 1:37 hours of the interview material. As a result, we reached our aim, which was to tap into the reality of start-ups in order to refine our research problem as well as to test our interview guide and change it accordingly afterwards.

The nature of the study is that we had to travel to the Czech Republic and interview respondents face-to-face. Therefore, at the beginning of April we went to Prague to conduct our empirical research. One of us travelled by plane from Stockholm, and another one took a direct bus from Jönköping for over 16 hours.

Between the 3rd and 14th of April we conducted 16 interviews (14 personal and two via Skype). We conducted them in Czech language as it is our as well as the interviewees’ native language and by that we ensured that the interviewees can express themselves fully, without any language barrier.
We both conducted the interviews separately in order to meet with as many start-ups as possible in the restricted time period. However, we both asked questions according to a semi-structured interview guide that we created together. In addition, after conducting several interviews, we refined the interview guide. We enhanced it with questions addressing the issue of to what relationships start-up founders attribute their survival most as well as questions asking the founders to think about what contributed to their survival most in general.

Before each interview, we sent the interviewees an email with an attached consent form, which we then brought printed to the interviews and asked the interviewees to fill it in and sign before the interview. The consent form translated into English can be found as an appendix in this thesis. In the form, we provided the interviewees with a short description of our research purpose, asked them if they agree with audio recording and later transcribing the interview, and offered them an option to stay anonymous. One interviewee expressed a wish to stay anonymous, 3 interviewees did not want to publish the information about their start-up’s annual turnover, and three interviewees asked us to send them all of their quotes for approval before publishing the thesis. We have complied with all these requests.

All founders agreed with audio recording the interviews. At the end, we collected 18.4 hours of material. The interviews took 65 minutes on average, the shortest one took 41 minutes, whereas the longest one 104 minutes. On top of that we conducted 4 follow-up interviews in the total length of 32 minutes.

All of the start-ups were tech companies, although their core businesses differ. Our sample encompasses 3 two-sided platforms connecting end-users with service providers, 1 technology-enabled B2C business, 11 B2B software-, IT services-, or online marketing providers and 1 high-end B2B security provider. In addition to that, one of the interviewed start-ups is a social enterprise.

Some of the start-ups are well-known to the public and are acclaimed as one of the best ones on the current Czech start-up scene, some are based only in their niche markets and some are still finding their way up to fulfill their potential. Yet, all of them would not be able to exist without technologies.
We always conducted the interview with the founder or one of the start-up’s co-founders, although in one case (start-up Creative Handles) we interviewed the CEO instead. We did so because, the CEO has been with the start-up since its inception and has been responsible for its business development. In addition, she is also in a close personal relationship with the founder since the start-up’s inception and knew all information relevant for our research.

We found the interviews to be done in a pleasant and often friendly atmosphere. Half of them took place in the start-up’s offices, the other half took place in a café or a restaurant. And even though sometimes the interviewed founders were busy or had a meeting right after the interview, they did not hurry and were open to answer all of our questions. Also, all of them agreed to be contacted for a follow-up interview, if needed. After each interview, we sent them an email to let the founders know how much we appreciated their time and effort and informed them about the next steps - possibly contacting them for a follow-up interview and sharing the published thesis with them in June.
Table 1  Overview of the interviewed start-up founders and their firms

<table>
<thead>
<tr>
<th>Company</th>
<th>Core business</th>
<th>Number of founders</th>
<th>Founded</th>
<th>Annual turnover in EUR (2017)</th>
<th>Number of employees*</th>
<th>Interviewee</th>
<th>Position of interviewee</th>
<th>Date</th>
<th>Duration (mins)</th>
<th>Type of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavio</td>
<td>Analytics and Software</td>
<td>5</td>
<td>2015, August</td>
<td>100,000-250,000</td>
<td>15-17</td>
<td>Lukáš Tóth</td>
<td>Co-founder</td>
<td>9.4.2018</td>
<td>94</td>
<td>personal</td>
</tr>
<tr>
<td>Company A</td>
<td>Online platform</td>
<td>6</td>
<td>2015, September</td>
<td>&gt;1,000,000</td>
<td>+20</td>
<td>anonymous</td>
<td>Co-founder and CEO</td>
<td>6.4.2018</td>
<td>51</td>
<td>personal</td>
</tr>
<tr>
<td>(Anonymized)</td>
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<tr>
<td>Coolpany</td>
<td>Software</td>
<td>3</td>
<td>2013, January</td>
<td>250,000-1,000,000</td>
<td>12-16</td>
<td>Martin Michek</td>
<td>Co-founder and CEO</td>
<td>6.4.2018</td>
<td>68</td>
<td>personal</td>
</tr>
<tr>
<td>Creative Handles</td>
<td>Online marketing and IT services</td>
<td>1</td>
<td>2015, December</td>
<td>&lt;100,000</td>
<td>9-14</td>
<td>Kristýna Langerová</td>
<td>CEO**</td>
<td>4.4.2018</td>
<td>90</td>
<td>personal</td>
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<tr>
<td>Cryptelo</td>
<td>Advanced security</td>
<td>3</td>
<td>2014, May</td>
<td>anonymous</td>
<td>+30</td>
<td>Martin Baroš</td>
<td>Co-founder and CEO</td>
<td>5.4.2018</td>
<td>95</td>
<td>personal</td>
</tr>
<tr>
<td>Czechitas</td>
<td>IT courses</td>
<td>3</td>
<td>2014, August</td>
<td>250,000-1,000,000</td>
<td>14</td>
<td>Monika Ptáčníková</td>
<td>Business Director</td>
<td>9.4.2018</td>
<td>60</td>
<td>Skype</td>
</tr>
<tr>
<td>Ecomail</td>
<td>Online marketing</td>
<td>2</td>
<td>2014, March</td>
<td>anonymous</td>
<td>10-15</td>
<td>Jan Tlapák</td>
<td>Co-founder and CEO, CTO</td>
<td>4.4.2018</td>
<td>47</td>
<td>personal</td>
</tr>
<tr>
<td>Inspirum</td>
<td>IT services</td>
<td>2</td>
<td>2015, August</td>
<td>100,000-250,000</td>
<td>15</td>
<td>Jiří Moos</td>
<td>Co-founder and CEO</td>
<td>12.3.2018</td>
<td>95 + 28</td>
<td>Skype</td>
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<tr>
<td>Liftago</td>
<td>Online platform</td>
<td>3</td>
<td>2012, August</td>
<td>&gt;1,000,000</td>
<td>30-35</td>
<td>Juraj Atlas</td>
<td>Co-founder, (was CEO</td>
<td>10.4.2018</td>
<td>66</td>
<td>personal</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td>for 5 years, and was also CFO)</td>
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</tr>
<tr>
<td>LS Interactive</td>
<td>Software</td>
<td>2</td>
<td>2014, July</td>
<td>anonymous</td>
<td>5</td>
<td>Marek Jindřich</td>
<td>Co-founder and CEO</td>
<td>3.4.2018</td>
<td>41</td>
<td>personal</td>
</tr>
<tr>
<td>Plantyst</td>
<td>Analytics and Software</td>
<td>5</td>
<td>2013, August</td>
<td>250,000-1,000,000</td>
<td>4-5</td>
<td>Michal Kutil</td>
<td>Co-founder and CEO</td>
<td>5.4.2018</td>
<td>104</td>
<td>personal</td>
</tr>
<tr>
<td>Company</td>
<td>Core business</td>
<td>Interviewee</td>
<td>Position of interviewee</td>
<td>Date</td>
<td>Duration (mins)</td>
<td>Type of interview</td>
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<tr>
<td>Czechitas</td>
<td>IT courses</td>
<td>Monika Ptáčníková</td>
<td>Co-founder and Business Director</td>
<td>15.5.2018</td>
<td>7</td>
<td>Phone</td>
<td></td>
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</tr>
<tr>
<td>Ecomail</td>
<td>Online marketing</td>
<td>Jan Tlapák</td>
<td>Co-founder, CTO and CEO</td>
<td>18.5.2018</td>
<td>5</td>
<td>Phone</td>
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<tr>
<td>Inspirum</td>
<td>IT services</td>
<td>Jiří Moos</td>
<td>Co-founder and CEO</td>
<td>13.5.2018</td>
<td>9</td>
<td>Skype</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>VIP Trust</td>
<td>IT services</td>
<td>Ladislav Balon</td>
<td>Founder, CEO and CTO</td>
<td>15.5.2018</td>
<td>11</td>
<td>Skype</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Later in May, we also conducted 4 follow-up interviews to clarify some information with the interviewees, ask additional questions, and to ensure that our data interpretations were correct. The following table gives an overview of the follow-up interviews.

*The number of people in companies is only indicative. In some companies the number changes quickly and some of the cooperations are external (such as a specialist or consultant) or part-time.
**The interview was conducted with CEO instead of the original founder.*
3.5 Data analysis

While still conducting the interviews, we started to analyze the data. As a first step we transcribed each interview word-by-word in Czech (the language in which they were conducted) as soon as possible after the interview.

After transcribing the first six interviews, we started with the analysis. In the beginning, both of us analyzed each of the first six transcribed interviews individually and gained an understanding of each case – we both wrote a summary of key points for each interview. Afterwards, we met and discussed whether we came to the same conclusions, and then we did the cross-case analysis (based on the summaries) individually. Then we met again and compared the categories that we developed.

After discussing the developed categories, we were able to see clearly the themes that often emerged in the interviews. As a result, we saw that there is a clear line between the early start-up phase and the business development phase of the start-ups because founders’ social capital attributed to start-up survival in different ways in these phases. Yet, start-ups faced similar challenges in both of these phases – with creating the team (finding co-founders and employees), acquiring new customers, looking for funding, and then with the product and accelerating (or kick-starting in the early start-up phase) the business. Networking itself was one category as well.

Based on the analysis we improved the interview guide and we continued with conducting, transcribing, and analyzing the interviews while paying attention to whether they also encompass the identified categories or whether any more categories emerge. In the end, we had 341 pages of transcriptions in total.

We did the analysis in Czech and then translated the relevant sections and quotes into English.

3.6 Research quality and ethics

During our research and while writing this thesis we followed certain steps to ensure high quality of our work. To make our research trustworthy and credible we aimed at conducting it in a transparent way. Our thesis contains a detailed documentation of the whole research process, the research question and purpose, our definitions for certain concepts (start-ups, social capital), we
described our criteria for selecting cases, and our research design. By providing the readers with all the information we enable them to evaluate our findings and the credibility of our research, and to ‘identify factors that are likely to determine the transferability of certain theories’ and to apply our research to other contexts (Easterby-Smith et al., 2015, p. 217).

As we conducted our research from the social constructionist view (we believe reality is not objective and exterior, but rather socially constructed), after the interviews we needed to make sure that our data interpretation was correct. In order to do so, we contacted all research participants again via an email to clarify some information and to confirm that we interpreted their quotes correctly and that they agree with their publication. In addition, we asked some of the participants for a Skype/phone follow-up interview. By that – and by the fact that we did the analysis of the interviews individually - we verified the truthfulness of our interpretations and increased the credibility of our findings.

Furthermore, in all steps of conducting our empirical research we took ethical issues into account and took measures to make sure we protect the interests of the research participants and cause no harm (Easterby-Smith et al., 2015). Already in our first communication with the potential research participants, we informed them about our research purpose and the topic of the study, what role they would play in the research, and that they may participate anonymously.

We then adhered the ethical principles by creating a document about an consent form, which we brought to the interviews and asked the participants to fill it in and sign. It was sent to them before the interview together with a list of topics of the questions to give them a choice to refuse giving the interview and to think about the consent form.

Besides a short description of our research, the consent form enabled the interviewees to choose whether they want to stay anonymous, and it explained that in that case the name of the interviewee as well as his/her company will not be used in our thesis and all the transcriptions and summaries will be given codes and stored separately from their any direct identification. It also asked the participants for an explicit consent with audio recording the interviews while assuring them that the recordings will be kept confidential and only us, the researchers, will have access to them and we will delete them after a successful defense of our thesis, in June 2018.
In the consent form the interviewees also confirmed their voluntary participation and knowing about their right to withdraw from the research without giving a reason at any time before publishing the thesis. We have respected all interviewees’ decisions in the consent form such as staying anonymous, not publishing certain information (e.g. about their annual turnover), or sending them parts of the transcriptions for approval.
4. Findings

In the fourth chapter we present the findings from our empirical research. We divide this chapter into three subchapters, we begin with showing how and in what ways founders’ contacts played an important role throughout the start-up’s life. Then, in subchapter 2 and 3, the former dedicated to the early start-up stage and the latter to the business development stage, we present different challenges start-ups have been facing and we show on the examples of different founders how social capital has been contributing to overcoming them.

4.1 The importance of contacts

Our research gives insights into how social capital helps start-ups in many different ways. In line with the theoretical background of this thesis, our findings show that founders’ contacts play an important role throughout the whole start-up’s life – from the early start-up phase until today. Knowing the right people or meeting people through networking helps start-up founders form the initial teams and hire reliable employees, find customers, raise funds, overcome problems, make better decisions, and accelerate their business. Founders’ contacts also form founders’ thinking and functioning. In this chapter, we present the findings from the empirical research and elaborate on what influence social capital of the interviewed start-up founders has on the survival of their start-ups.

‘Everything is about it [contacts]. If there had been no contacts, there would have been no team, no customers, no people who cooperate with us, no partners. All of this was gained via contacts. It wasn’t like that someone connected us accidentally, it was achieved by building [the contacts].’ (Zeerat)

‘Our contacts play a huge role in our success, also because they form us for years (...) they have formed our thinking and our functioning. Mostly, they are not contacts that we gained accidentally.’ (Behavio)

Contacts as a source of advice

One of the most frequently occurring roles of contacts is that the founders know people who they can ask for an advice and to learn something from them. It saves their time, because they do not
have to look for the answers in books or somewhere else, and it helps them move their business forward.

‘If I don’t know something or have to learn something, I ask [someone], I use my network of contacts and ask, rather than trying to look it up somewhere by myself. (...) I just pick up the phone right away and ask someone who I know or I think that he/she knows the answer.’ (LS Interactive)

‘Of course, I can read about it in a book, that I don’t have right now and I have to find out which one it is and I have to remember it. Or I have a person next to me, who knows the answer and gives it to me at the very moment when I need it, which is a huge value for us.’ (Cryptelo)

‘Networking was very important. (...) We rather asked [some business questions] other people, who had had experience with it, and it significantly helped us and moves us forward.’ (Inspirum)

Furthermore, founders’ contacts enable them to receive feedback. They listen to different opinions and even if they do not agree with them, seeing the idea or a problem from another perspective is useful for them.

‘Of course, the role of networking for start-ups is very important because … by that, many ideas get validated, when we talk with people, they tell us their opinions, sometimes the opinion may be unpleasant or we may not agree with them, but it is important to listen to it and think about it.’ (Liftago)

‘We get interesting advice and I feel that in the end we do it as we want to do it anyway, but they influence us. For us, it is more like a reflecting mirror of whether something, that we are trying to do, will work or not.’ (Behavio)

Lastly, it is useful for the founders to be surrounded by people with more experience or knowledge, talk to them and learn from them or get inspired.

‘He [the founder] surrounds himself with people from successful projects, and extracts knowledge from them and absorbs it, (...) he talks with them about what they do well and how they do it.’ (Creative Handles)
Contacts as a source of help

Another reason why the founders value their contacts is because they receive help from them when it is needed. It is important for them to have someone who they can call when they do not have enough customers, when a key employee quits, or when they need to ‘speed up things’.

‘[The benefit of our contacts is the ability] to call if you have an empty pipeline and you need to fill it up, you need to know who to call, and the person is able to send you some inquiry for your services. Or if your key developer quits all of a sudden, you either have extra capacities or you have to call someone. And that happened to us a few times already and it worked out.’ (Qest)

‘Yes, the contacts are important (...) in the way that I know [the person] and I can just pick up the phone and call the manager over there in that company. It helps speed up something, make something better, or get faster to the result.’ (Plantyst)

Contacts lead to first customers

Especially during the early start-up phase of the business, contacts may play an important role for many start-ups as a source or an intermediary leading to first customers.

‘What networking meant for us was that we asked people (...) and got information from them, whether they need our services.’ (Inspirum)

Furthermore, the co-founder of Coolpany stated that knowing the right people gave him more opportunities that would otherwise be more difficult to get. It was also much easier to communicate with his first potential customers, because they knew him from the industry and they knew they could rely on him.

‘In the beginning it opened some doors a bit, through which it would be more difficult to pass, if I didn’t know the people. (...) It was definitely much easier for me to establish communication with them [publishing company Economia, one of our bigger clients today], when after 20 years of being in the industry you know half of the people, who are in that company, so the people know about you, if you lie or if they can rely on you.’ (Coolpany)
Another example is LS Interactive. Before starting the business, the founder had been working in a few companies for 15 years and had contacts on the clients of these companies. He was reaching them and came to the first paying customer after being recommended by one of the clients. The founder said:

‘[Out of all contacts] the most important in the beginning was for us a potential clientele. (...) And that was the most important for me from all the contacts, everything else you can find somewhere else by yourself, how to do accounting, how to find the offices, how to do marketing (...), all of this [how to do it] you will find somehow by yourself, I don’t find this as important.’

( LS Interactive)

He also stated, that networking was the core of their success:

‘It [networking] was very important for us. Crucial, I would say. (...) I think that we have built our business success on networking.’ (LS Interactive)

**Contacts lead to fundraising**

Furthermore, founders’ contacts are especially important in fundraising, where it is important to build the relationships with investors.

‘We are going to do a next round of fundraising. And there, it is a lot about contacts and about building relationships with the investors.’ (Twisto)

Fundraising is particularly important for social enterprises such as Czechitas, which want the end customers to pay a lower or no price, and therefore they need another resource of funding.

‘Thanks to some key people, with whom we talk, we receive funds and grants (...). So networking is very strong and really important in our business, because we (...) offer a service, that we try to have paid by someone else than the end participants of our courses.’ (Czechitas)

**4.2 Challenges in the early start-up phase**

This subchapter shows the findings related to the challenges start-ups face in their early start-up phase. It is divided into five parts according to the challenges - kick-starting the business, forming
the founding team, establishing new contacts, acquiring first customers, and having enough funding in the beginning.

4.2.1 Kick-starting the business

We asked the start-up founders what helped them the most in the early start-up phase. Many of them said it was their participation in an incubator or accelerator program or use of coworking spaces, other said it was a help of certain individuals, and some said that the right composition of their founding team had the biggest effect.

**Incubators, accelerators, and coworking spaces**

Many start-up founders stated, that what helped them the most in the beginning was their participation in an incubator or accelerator program or use of a coworking space. However, it is important to note, that most of these start-ups were founded in 2014 when the offer of such programs was bigger than one or two years before. Therefore, the older start-ups did not have so many chances to participate in the programs.

The start-up founders who were in the incubator or accelerator with their newly established companies, appreciated especially mentorship programs, exposure to a wider network of valuable contacts, and cost reduction.

The co-founder and former CEO of Liftago, a start-up which was founded already in October 2012 and therefore did not take part in an incubator, explained well the biggest benefits of an incubator and why next time he would not hesitate to go there:

‘There are three main reasons, why I would go to an incubator or accelerator with a new start-up. Firstly, it is the advice, it is the mentorship, which definitely has its value, (...) every advice and opinion is valuable. Secondly, it is the exposure, it is the network, which means that through the mentors, through the investors (...) I can verify the viability of the idea, and thirdly, it is to some degree a proof that start-ups that are alumni of the accelerator program should hypothetically have a better probability of succeeding, which could be a bit more attractive for investors.’ (Liftago)
The interviewed start-ups participated in different incubators, accelerators and coworking spaces - in UP21, Node5, CzechAccelerator from CzechInvest, xPort at the University of Economics in Prague, Impact Hub Praha, and South Moravian Innovation Centre. Almost all of them received a mentor or were able to meet with more mentors and spent time with many experienced professionals. By that they received new experience and learnt important things about business, finances and such, which helped them especially in the early start-up phase. They also got connected to investors and had the chance to convince them that they are the right choice for an investment. For example, one of the start-up founders stated:

‘We applied for a program from Impact Hub, Social Impact Award, which is a competition for social enterprises (...) and there we received mentoring about how to run a business, how to deal with finances and regulations in order to establish the company, how to lead a team (...). In the beginning, the organization Impact Hub helped us so much, the Social Impact Award, that we won, and the founder of Impact Hub Zdeněk, who connected us with Konica Minolta Europe, our first partner, sponsor. (...) In Impact Hub we met mentors, lawyers and people from finances and business who were helping us.’ (Czechitas)

Another benefit of being in an incubator or accelerator was for the start-ups a financial benefit. Not only that they had the ability to meet with investors, most of them also, for example, received offices (or seats) to work in.

‘The first year and a half of the existence of our company we were in xPort and it was very nice, because xPort also took care of some of the costs, for example we needed offices, and xPort provided us with a place where we could sit and work.’ (LS Interactive)

Besides that, one start-up received a voucher for web hosting for around ten thousand euros which lasted them for a year, and another start-up’s strategic share was bought by the incubator itself. All of this enabled the start-ups to save some money in the beginning.

‘The only thing that really helped us a lot, was that we were in Impact Hub [coworking space]. Because, naturally, we didn’t have offices, so I was in Impact Hub when I left my job, so that I didn’t have to be at home. (...) In Impact Hub we got a voucher for Amazon web services, which saved us in the end ... around a quarter of a million Czech crowns. So, then we lived from it for a
year and didn’t have to pay anything for the services from Amazon. (…) Today we pay [for these services], of course, quite a lot, but it was great in the beginning.’ (Ecomail)

‘UP21 [incubator] is a company (…) that I don’t consider to be an investor. For me an investor is someone, who contributes to the growth of the company in the long run. UP21 bought our share, strategic one. So, it gave us money and it holds strategically some share. It is a firm, it is not an investor for me.’ (Qest)

Liftago, which did not take part in any incubator or accelerator program but was partly working in a conference room in the accelerator and coworking space Node5, stated, that the reason why they did not participate in any program was that they had sufficient funding from the beginning.

‘We were not full-time customers in Node5, but we were using a conference room there once or twice a week. This was until we had rented and established our own office premises. (…) One of the reasons why we didn’t go to an incubator was that one of our partners, Martin, put money into the start-up, so for us one of the values of an incubator [exposure to investors] was not that much relevant.’ (Liftago)

One start-up founder shared a different point of view on accelerator programs. He hasn’t participated in any of the programs, his start-up was founded in July 2013 when the accelerators in the Czech Republic were only starting to emerge, and he believes that there are often people in the accelerators who prefer talking about start-ups rather than executing their ideas. Therefore, he saw no value in the accelerator programs when founding his start-up.

‘When we were starting 5 years ago, there were no strong accelerators present in the Czech Republic. (…). It never appealed to me as a way to start a business – I perceive it more as a distraction than something that adds value if you know your execution path. Participants [of the accelerator programs] are usually people, who go there and talk about start-ups, but in reality, they often have little substance and prefer socializing and living the start-up lifestyle. I have never perceived it as something important.’ (Twisto)

Help of individual people

Many start-up founders also stated, that certain individuals helped them the most in the beginning and had a positive influence on the establishment of their start-ups. Seeing and talking to other
entrepreneurs or experienced professionals motivated them and they also received help from them with making strategic and other decisions. These people also introduced them to other people who were later important for the development of the start-up.

‘It motivated me a lot as I saw how his business functions. (...) And I saw that it works. I learnt from him how he works and that he is trying new things all the time. I saw a vision, that it is close, that it is not unrealistic to achieve it, I mean a functioning company.’ (VIP Trust)

The founder of VIP Trust also said, that he participated in a technological networking event for entrepreneurs and programmers and he found it motivating to see there how other entrepreneurs work and that someone is more, and someone is less successful.

‘There [at the event] was a lot of entrepreneurs and I saw there how others work. That someone is doing better and someone worse, but it was again a big motivation for me to work.’ (VIP Trust)

Similarly, what helped the co-founders of QuickJOBS and Zeerat kick-start their businesses were people. They received help with solving start-up and strategic questions and with project management. And what was very important, thanks to them they moved from only having an idea to establishing the start-up.

QuickJOBS received great help from the co-founder of another start-up, Liftago. He was invited as a guest for a lecture at the University of Economics and after the lecture Dalibor, the co-founder of QuickJOBS went to him to meet him. They stayed in touch and QuickJOBS had a source of advice related to solving start-up and strategic questions.

‘The very first contact that helped me the most was Martin from Liftago [Liftago’s co-founder], he was the only person, that I knew was making apps and I went to him and told him ‘Look, I have an idea, what is the next thing I should do?’ (...) Martin was very important [for me], I was in touch with him the most, he helped me solve things like what the steps in start-up life there are, making prototypes, what I should do next, what people I should look for (...). These things, and then things related to a vision, strategy.’ (QuickJOBS)
Zeerat also had a very important person - a mentor, who they found on the website of a university mentorship program and who then recommended them to become part of an accelerator. He also helped them apply for a program there.

‘One contact was especially important while founding the company and it was Pavel H., a mentor (...). Another co-founder [of Zeerat] found Pavel H. on the internet and contacted him if he can help us with what to do with our idea. And he recommended us CzechAccelerator [an accelerator] (...) and based on that we sent an application, based on that we founded a company, (...) and based on that everything started. (...) He helped us with the application, he helped us with how to do a presentation in front of the accelerator.’ (Zeerat)

The right team composition

The last group are start-ups for which the right composition of the founding team was the most important in the early start-up phase. Having co-founders with strong experience and knowledge in the industry or previous experience from other start-ups was the key for them.

‘Our co-founder Jarek is like our mentor and he is here since the inception of the firm. He guides us through the whole start-up life. (...) Because we three are not very experienced in it and Jarek is the one who adds the experience from other start-ups, his own events and business.’ (QuickJOBS)

In the case of Plantyst, what helped them the most except of the relevant experience was also that one of the co-founders had another company, in which they could test the product.

‘What helped us the most in the beginning was the composition of our firm, the co-founders, where on one side we had technical experience and on the other side one of the co-founders had his own manufacturing company, in which we could prototype the whole app and develop it. (...) It enabled us to have a quick feedback.’ (Plantyst)

4.2.2 The founding team

In this section, we present the findings related to founding the initial team - firstly we look closer at how the interviewees got to know the other co-founders, and then we present findings related to finding first employees.
Co-founders

Having an idea to start a business is one thing. Finding the right people to start the business with is another thing. The start-up founders that we interviewed have different stories of how their founding teams were established, but founders’ social capital played a role in all of them.

One group of start-ups are start-ups founded by friends and former classmates from high-school or university. However, some of them were established during the studies, and some after few years until 20 years of friendship.

‘As we were finishing high school with my classmates, there was five of us who were building several websites. And (...) we were looking for a tool like this, that actually didn’t exist here. So we … so we created it for ourselves.’ (Zeerat)

‘We all know each other from high school years, we were in one class together, we know each other for about 20 years. And we all had different backgrounds and wanted to do something together. And we were also tempted a lot by the team, because we felt, that we had something to give to each other. Not only like business, but also in terms of the personal contact, which then takes place on an everyday basis.’ (Behavio)

As another example, Martin, one of the founders of Cryptelo, started his company with an acquaintance, with whom they had the same friends and met at a barbecue party, and with a former high school classmate. The former was also the first investor of the company as he provided finances to start up the first phase of the business. The latter is also a key person in Cryptelo. Martin says about him:

‘We spent a lot of time together repairing computers and building computer networks while being at high school (...) he is a person, who plays an absolutely key role in Cryptelo thanks to his deep technology knowledge and an ability to analyze problems and find very quickly their solutions, because he is actually the brain which … gives a tempo and direction to the whole technological division of the company.’ (Cryptelo)

Another way of forming the founding team was by getting introduced by a common acquaintance. For example, the co-founder of Liftago, Juraj, met one of his future co-founders, Martin, thanks to
a recruiter, who worked with Juraj at his former job. The recruiter was finding a person for Martin to help him execute his idea for an ‘autonomous future of transportation’ and he introduced him to Juraj. Juraj was introduced to his another future co-founder as well, this time through a mutual friend who Juraj knew from his university studies.

Other start-ups were founded by people, who worked together at their former jobs. And the last group of founding teams was put together by a combination of the already mentioned ways and (in one case) also together with a job advertisement - the founder of Company A met one of the co-founders via a common acquaintance, other two were his former colleagues from work, and the last two came to the firm because of a job advertisement.

Interviewed founders also claimed, that the people who they have chosen to work in their start-up with are very important, for example, because they complement each other in their skills or knowledge.

‘Our CTO and the product manager have complemented me in the technical skills, which I really did not have. So, it has always been about surrounding myself with the right people. (…) that complement me and increase the company’s skill set and diversity of opinion on any given task.’ (Twisto)

‘The girls actually studied informatics [at the university], Dita [studied] data analytics and Mirka graphics, (…) and I studied economics, so all of us studied something a bit different, which together makes a great team.’ (Czechitas)

Three start-ups from our research, Twisto, VIP Trust, and Creative Handles, were founded by only one person.

**First employees**

The first employees of most of the start-ups were founders’ friends, former colleagues or acquaintances, or people recommended by them. Besides that, some start-ups found some of their first employees through job advertisements.

‘About half of the people that we hired in the beginning of Liftago’s development were either people who I met during my corporate career, or people who someone I knew from my corporate
past recommended me. (...) I would say that the initial development team that was here, of five or six people, was really formed through contacts, which I had brought into the start-up.’

(Liftago)

‘They [first employees] were usually former classmates or colleagues from previous job. It was probably 50:50.’ (Inspirum)

It can be an advantage to work with people the founder already knows, because he/she knows how they work. For example, the co-founder of Czechitas stated, that friends and acquaintances are usually the best employees:

‘The first people who started working with us were our friends and acquaintances and usually these are the best people in the team, because you know them, and you know how they have worked before. However, we always organize an interview process [even for the people we know].’ (Czechitas)

Nevertheless, friends and acquaintances of founders of tech start-ups usually work on non-technical positions, because they lack the technology expertise. For example, the co-founder of Ecomail stated:

‘They [our employees] are mostly friends, or friends or family relatives of our friends. Or it is people who we found through StartupJobs [online job advertisement platform]. Our friends mostly work on the non-technical positions, management or marketing or support and these things around, and StartupJobs ... because no one has friends or acquaintances who are programmers and such.’ (Ecomail)

4.2.3 Networking – establishing new contacts

Part of our interviews with the founders was focused on the way they were establishing business relationships (with potential customers, mentors, co-workers, and other), whether networking was important for them in their early start-up stage and whether they knew how to do it or had to learn it.
Interestingly, we found out that for some start-ups establishing new contacts was important in the beginning and for some not, and that some had to learn it and some did not – regardless whether it was important for them.

The start-ups, for which networking played a very important role in the early start-up stage phase, and whose founders did not have to learn how to do it were for example LS Interactive, Creative Handles, and QuickJOBS. They either knew how to network from their previous jobs or because they simply found it easy and natural to establish contacts with new people.

Networking was very important for LS Interactive in the beginning and they had an advantage because they knew how to do it from their previous occupations. The most important contacts for them was a potential clientele to which they were introducing their product.

‘It [networking] was very important for us. Crucial, I would say. (...) I think that we have built our business success on networking. (...) We didn’t have to learn it [how to establish new contacts]. We knew how to do it from our previous jobs.’ (LS Interactive)

The same reason why networking was so important – in order to find the first customers – had also the start-up Creative Handles. The founders did not have to learn how to network but not because they learnt it at their previous jobs, but because they found it natural to meet new people and establish the contacts.

‘Networking was really important in the beginning, because thanks to networking Ondřej [the founder] got the first client. (...) I find it very natural to talk to people. When I go somewhere I have no problem to come to 20 strangers and start talking to them individually.’ (Creative Handles)

The co-founder of QuickJOBS sees it the same – it is not difficult to meet new people.

‘I read some books about networking like ‘Never eat alone’, but I think that it is very easy in the end. It is not about meeting everybody, but meeting with a person, who makes sense, that we both share similar thoughts. So, it is not difficult to get to know someone with similar thoughts. Just talk about their work, what they do, what inspires you about it. So, I don’t think that it is extra difficult, when you know with whom to talk.’ (QuickJOBS)
We can say that it was thanks to this ability to start talking to strangers without any problems, that the co-founder of QuickJOBS established a relationship with the co-founder of Liftago, Martin, the co-founder of Kiwi.com, Oliver, and other people, who helped him greatly throughout the start-up process, mainly with strategic questions.

Another group of start-ups stated that networking was important for them in the early start-up phase, however, they had no experience with it and had to learn how to do it. And they learnt it only by that they started doing it.

Unlike the lastly mentioned start-up founders, Juraj, the co-founder of Liftago did not find it natural to talk to strangers and it was more difficult for him at first. However, he has improved in it on the way by trying.

‘I would say that I had to learn it by myself. Actually, it is about the character of the person. I consider myself a quieter person, who rather listens and analyzes and only talks when there is something to say that adds value to the conversation, so … for me it is often something that I have to persuade myself that I really need and want to do. (…) I don’t know if any methods for learning to network well exist, other than … to consciously know, that it has to be done, and just show up, mingle and meet new people.’ (Liftago)

In a similar way, the co-founders of Czechitas did not know how to network and had to learn it by themselves. One of them stated:

‘Networking was key for us. In the beginning, Impact Hub was extremely good in this, because it brings together a lot of people who can help each other, and it connects people with different expertise. And thanks to certain key people, who we talk to, we receive grants and funds, also from for example Google.org from America or the American embassy. (…) We didn’t know how to do it [networking], we didn’t have any training to learn networking. It was more natural, we naturally tried it and we got into it.’ (Czechitas)

Another group of start-ups are start-ups whose founders did not find networking very important for starting the company. However, they talked to other entrepreneurs at start-up events and received some advice or tips.
For example, the co-founder of Zeerat believes that establishing relationships with people without any previous contact is not beneficial and therefore networking was not key for them in the beginning. Yet, they were going to start-up events to see what other entrepreneurs work on and they met several people who helped them, for example by giving them technology-related advice.

‘I think that we spent more time on networking than we received from it. (...) I think it doesn’t work if there is no previous relationship with the person, if it is like blind speed-dating (...). It is not like we found a lot of people all at once, but we found a few people who we found really likeable and were for example able to help us technologically. (...) We were going to typical start-up events and we pitched and talked to people.’ (Zeerat)

Also, the co-founder of Behavio does not see networking as something that greatly helped them in the early phase of the start-up. However, they also met some people with more experience and received valuable advice from them.

‘Networking wasn’t very important for us in the beginning. (...) We just sat down and started working without going through the start-up environment. (...) [But] Jirka [another co-founder] was of course going to some events and asking for advice from more experienced businessmen. (...) There have been many interesting talks, but I don’t think it was central to our business.’

(Behavio)

Another group of start-up founders admitted they did not know how to network. While founding the company they were not able to do it, therefore they could not benefit from networking and it did not play a big role in their start-up’s establishment. However, later they found out that it is more or less important (depends on each company) and had to learn it.

For instance, the co-founder of Cryptelo stated:

‘In the beginning I didn’t know how to network, so if I had known how to do it, it would have definitely been important for Cryptelo and ... over time it has turned out that it is very important. (...) In the beginning networking was of no use to us, because I couldn’t do it.’ (Cryptelo)

However, he also said that they used the network of another co-founder, David, which consisted of successful people, who talked to them about Cryptelo’s ideas and gave them valuable feedback.
Another example is Plantyst, whose co-founder also said that he did not even know what networking was.

‘In the beginning I had no idea what networking was, that is simple. (...) In the beginning of Plantyst I worked as a programmer and I didn’t know at all that one day I will be a managing director (...) in the initial phase I wasn’t even meeting with potential customers.’ (Plantyst)

The co-founder of Plantyst said that he learnt it later – in the same way as the previously mentioned founders – by starting to communicate with people and trying to learn it on the way. However, in another part of the interview with him, he said that their company’s main office was based in the industrial zone of Kolín (Czech city) and opposite to the main office there is a canteen where they go for lunch. There they meet a lot of people from manufacturing companies (in general, Plantyst’s target customer group are manufacturing companies) and met there their first two or three customers and one of their first employees. As we can see, even though the co-founder of Plantyst did not know the word ‘networking’ in the early phase of his start-up, he was successfully establishing contacts with new people.

Two companies stated that networking played no role for them in the early start-up phase. They did not have to network because they had enough customers without it. For example, in the case of Ecomail, the reason why they had no problem with finding the first customers was that their product is for a large scale of customers, both individuals and all types of companies, therefore it was not too difficult to find them.

‘In the beginning we were doing it [leading the start-up] by ourselves, we didn’t care what someone else is doing, which of course doesn’t mean that this is the right way to do it, maybe it would have helped us and maybe someone would have wanted to buy us already back then, if we had networked more, but we were doing it by ourselves, because it worked on its own, so we didn’t need to go anywhere to network.’ (Ecomail)

4.2.4 Customer acquisition

Our findings show that social capital played a big part in the early phase of many start-ups as it helped the start-ups acquire the first customers. Most companies’ first customers were either their friends or acquaintances (old friends, people they knew from previous job, and other) or people
recommended by their friends and acquaintances. Moreover, two new ventures acquired their first customers at a networking event or a fair, and two start-ups by contacting firms (without any connection to them) directly – although one of these two start-ups also used its own acquaintances to test the product in the acquaintances’ companies, which helped develop it.

**Friends and acquaintances as first customers**

Some start-ups, which started with offering services such as developing and selling websites or offering courses on programming, web development and other, found their first customers among people they already knew.

> ‘The first participants of our courses were our friends and acquaintances.’ (Czechitas)

> ‘In the beginning, our first contracts were for our friends and acquaintances.’ (Inspirum)

Furthermore, three of the interviewed companies are two-sided platforms, which connect more actors on the market. As an example, two of them provide end users with transportation options. Although their core business is different, they both need car drivers (one side) as well as people who need to get to places with a car (the other side). In the very beginning, both of the start-ups decided to use their friends and acquaintances to represent one of the sides and they did the same by themselves together with other co-founders or first employees. Afterwards, new customers could be acquired. It is interesting, that one of the start-ups decided to represent the passenger side, whereas the other start-up represented the drivers. The other side was generated by online marketing.

> ‘The team that was working in Liftago, took a taxi [from Liftago] almost every morning to work and every evening back home in order to generate the initial inquiry (...) so that the taxi drivers would see that something was happening, and they wouldn’t uninstall us. And of course, it was all our friends and acquaintances, it wasn’t only us. We told them ‘hey, look, start riding’. Poor friends, as we did not have promo codes functionality ready at the beginning, they had to test the system for us and pay for it.’ (Liftago)
'We used online marketing to find the passengers. And talking about the supply [the other side of the platform], in the very beginning, when we did 30 rides in 2 months, our people [employees] and acquaintances represented it [as the drivers].' (Company A)

Another new venture’s, Qest’s, first customer was an owner of a company, where one of the co-founders had worked before he started his own business. They had a good relationship together, because the co-founder of Qest worked in the company since its inception, and after he became the development manager, the company overcame serious problems which it had been facing and it became successful afterwards.

‘I worked in his company since its inception and then later when there were serious problems (...) he replaced the development manager and gave it to me - quite unexperienced person. And in four, five months we built a new product (...) and the company operates until today and has millions in turnover. So, this is probably how our relationship was formed. And then I felt a desire, need to build my own firm, so I told him ‘I am going to set up a business, but I want to cooperate with you’. And it was possible thanks to the good relationship.’ (Qest)

References/recommendations lead to first customers

Another group of start-ups found their first customers after being recommended by their friends, family relatives, or former colleagues and acquaintances. For example, the sister-in-law of one of the co-founders was working in an advertising agency and after her recommendation, the advertising agency became the first customer of the start-up.

‘We established the platform and we were profitable since the first day we started running it. It was thanks to the fact, that Kuba [another co-founder] knew a girl [his sister-in-law] who was working in an advertising agency and she recommended us to them, so that they could try us out. And by that we got the first customer. Basically, quite a big one. (...) And they are still our customer.’ (Ecomail)

A few of the start-up founders mentioned that before founding their own company, they offered and tried to implement the idea within the firm where they had been employed at the time. However, the firms did not want it and that is why they left and started their own companies. In the beginning, while still being employed at the time, one of the interviewed founders was showing
the idea to the clients of the firm, where he was working, to see, if they found it interesting, or not. And later, his start-up got the first customers after being recommended by one of these clients.

‘I was meeting with the clients under the name of the corporation [where I was working at that time] and showing them the idea. So … I already had a feeling that they quite like it and I was more confident about that it won’t be a total failure and they won’t be rejecting me. (...) In the end someone else became our first client. (...) They said for example ‘What you offer is not completely suitable for our company, but I know someone who I can recommend you, for whom it will be more suitable’. So, our first clients were through their recommendations.’ (LS Interactive)

First customers of other two B2B start-ups were companies where people, who knew the start-up founders from their previous jobs, worked. However, as both interviewed founders stated, in these businesses it is not about being someone friends. Previous relationship helps a lot, because there is already trust between the parties and the start-up does not have to convince the potential customer about his credibility. However, what is also very important is the start-up’s ability to sell the product and convince the potential customer about its quality.

‘We might be a small firm, but our clients are big and private firms, so ‘being someone’s friend’ doesn’t work here (...). In a private business it is mostly about success, about making it work (...) it is about making people trust you and trust that they can do it with you and it won’t be a failure. As I am saying, of course if you don’t know anybody there, it is always much more difficult than if you have had some common past together and the people know that you are not a fraud.’ (Coolpany)

‘In the beginning, we used our contacts of course [which were from our previous occupations] (...). Nevertheless, it wasn’t like … ‘being someone’s friend’. (...) Our first clients were big firms, which have their own ... marketing or research department, and where people who we slightly knew worked. (...) In the beginning, I think the central thing for our growth was that some of the people which boys [other co-founders] knew and who worked in the firms and had good experience with us were willing to sell us and recommend us. That helped a lot. But I think it wasn’t only about the contact but also about us convincing them that we can do it right.’ (Behavio)
4.2.5 Financing

In the beginning of the start-up phase, only three of the interviewed start-ups were funded by external investors. Two of them got to know the investors thanks to their social capital – by being introduced by a common acquaintance (who they knew from a coworking space in one case and from previous job in the other case), the third start-up found the investor on an online investment platform.

‘The first firm which supported us financially was Konica Minolta Europe thanks to Impact Hub.’ (Czechitas)

‘There are people close to me in one fund, Enern, where I was working for some time and there ... they have an unbelievable network of people and start-ups around themselves and through them I got to the investors.’

‘[We met] the first investor through an investment platform which brings together projects and investors.’ (Zeerat)

All the other interviewed start-up founders funded the start-ups in their early start-up phase by themselves. Some of them also told us during the interviews that they believe start-ups should be able to earn the money by themselves – having enough customers – and should not be getting any money from the investors.

‘I really think that the money should flow to the firm from the customers, not from investors.’ (Plantyst)

‘Of course, it is easier to live when you have enough financial capital in the beginning (...). [However,] we approached it a bit more conservatively, since the first day it [the start-up] had to somehow earn [the money] by itself.’ (Coolpany)

Furthermore, the start-up founder of VIP Trust stated, that the reason why they do not have an investor is that they do not see any special benefits in it which they could not get from any mentor. On the contrary, they see a disadvantage in having an investor, as they would have to give up some shares.
'Even if we could have an investor, I have no idea what we would use him/her for (...). Maybe to speed up the business processes, that’s all. But we would lose shares and I don’t think it is too difficult to set up the process, if you will have a mentor, who will help you with that, tell you his/her opinions and you will learn it from that.’ (VIP Trust)

To sum it up, most of the interviewed start-ups funded their firms by themselves. Social capital helped some of those, who had an external investor (to find him/her), and it also helped some of the start-ups which did not have an investor – by having a mentor to receive advice from instead.

4.3 Challenges in the business development phase

As the start-ups gets over the early challenges, completely new challenges occur which the founders need to overcome so that their companies survive. Based on our empirical data, in this chapter we divide all major challenges companies encountered into categories - challenges connected to strategy and company stabilization, forming and growing well-functioning teams, development of the product, acquisition and retention of customers, and having enough funding. In each of the following subsections devoted to these challenges we first describe the severity of these problems, which differed case to case, and then we shed light on how founders’ social capital contributed to overcoming these challenges.

4.3.1 Strategy and company stabilization

Dealing with strategy, strategic decisions and strategic direction might be challenging for start-up founders, especially when they do not have previous start-up experience. What is more, new ventures often evolve in different directions than originally planned. For example, Dalibor, QuickJOBS’ founder, is currently dealing with the strategy how to improve their product to address the needs of customers even better. For that he has to consider many strategic aspects:

‘At the moment, what we are dealing with are the challenges built around strategic direction of our product. We know where we are heading but what we are dealing with is what particular services we should offer people to better (...) solve their own problems. This means altering our app.’ (QuickJOBS)
Start-up founders from our sample are almost unanimous in the opinion that growing the business from its inception into a viable organization is one of the biggest challenges every new company has to deal with. Practically, this means creating and structuring start-up processes, creating and motivating viable teams, creating HR procedures, creating sales procedures and managing all formalities such as accounting, taxes, and other. Jan, one of the co-founders of Ecomail, was once told by one of his customers that the biggest challenge is transforming a small company to a middle-sized one. Now, he agrees with that:

‘Once, the marketing director of Prima [one of the leading TV channels in the country] told us that the hardest thing it to transform a small company to a middle-sized one. Back then, we were two in the company. (...) So, indeed, [the biggest challenge] is probably stabilization to a middle-sized company. Since you come out of the ‘garage’ in two founders and you have to set up the functioning of 10 people in the office and orchestrate rentals and all of these silly things around that have never existed for you before….and then one finds out that there is so much of it.’ (Ecomail)

Similarly, Inspirum’s founder describes the firm’s transformation with never ending storm of problems to solve as their biggest challenge:

‘[The biggest challenge] is the transformational phase (...). There are things that you don’t really think about in the beginning, and they suddenly occur in the further stages. So, you basically solve these new problems, but at the same time when you solved them and moved further, it actually brought new kind of problems. And I think that until the company says that it is enough [the growth] and now we will keep the revenues at the current level for a moment (…) until then you will be constantly facing never ending shitstorm of problems.’ (Inspirum)

**Counteracting these challenges through social capital**

Our findings show that strategic direction, transformation and structuring of the company and generally handling and reaching a sustainable growth is very challenging. Admittedly, some founders do not perceive this as a problem and indeed might not face any problems in the area. On the other hand, the others explicitly disclosed that investors, mentors or befriended experts or even
family and friends helped them address these high-level problems. Michal, the founder of Twisto, one of the first successful fintech companies in the Czech Republic, claims that investors have helped him address high-level strategic issues:

‘And then in the further stage, the investors appeared, who are used to helping the start-up founders build the organization, build the structure and deal generally with the entire strategy.

And I have a very active relationship with all of them and we communicate practically on a weekly basis.’ (Twisto)

Similarly, Jiří believed that so many people had faced the same issues as he had. Therefore, he approached experienced business people to discuss his transformational challenges with them. Some of them became his mentors.

‘I was thinking that these things were probably solved by so many people before me. So, I was thinking I could educate myself somehow so that I would not be inventing the wheel again because it is difficult. So, I started dealing with mentoring. And this helped a lot... I mean people form the business scene who were able to advise me with more specific things.’ (Inspirum)

Lastly, an interesting way of addressing transformation issues and setting up processes as the company grows, is working in different organizations. VIP Trust’s founder learned how to implement processes and manage the growth from the experienced people he was working with in different companies while he was leading his own company.

‘But mainly I worked in some other companies. So, between those skilled people, I could learn how they proceed with things and how they lead the projects. This we could implement in our own company. (...) So, I basically learned from corporate people when I observed these processes, who leads what and how the hierarchy works there.’ (VIP Trust)

4.3.2 Forming and growing well-functioning teams

Once kick-started, start-ups need more people to bring in unique skills in the team, to handle increasing quantity and complexity of processes and to help founders to further grow their
businesses. Our interviewees have different experiences with human resources but still all of them agree that finding the right people and keeping well-functioning teams is one of the greatest challenges.

All companies confirmed that there is a lack of qualified workforce in the market, especially of people with technological skills and senior IT experts. One of the main reasons for that is probably a very low unemployment rate, according to Eurostat (2018) the Czech Republic is currently the country with the lowest unemployment rate in the EU. The founder of LS Interactive provides us with hand-on remarks describing the situation on the labor market and the hardship start-ups face while searching for qualified employees.

‘We encounter [problems with finding employees] on a daily basis. (…) Despite the fact that we need technically skilled people, we need analysts, we need sales and marketing people, it is simply very challenging for us to hire people. Firstly, because as a start-up we cannot afford high payroll costs. And secondly, this labor market, at least in the Czech Republic, is significantly saturated.’ (LS Interactive)

However, the severity of this problem differs case to case. For instance, in those cases, where the founders have access and credibility in technological communities, the problem is solved relatively easily. Similarly, in cases when the start-up is well-known on the market and has a good brand, hiring qualified people is easier. As an example, social enterprise Czechitas acknowledges that there is certainly a problem in finding the right people, but it is not a problem for them. Czechitas is a well-known brand, it has received a great and positive publicity in domestic as well as international media and it has a great vision that people want to contribute to.

‘No, I have to say that because we are a very open and trendy firm, we do not have any lack of applicants. When we post any advertisement for job vacancy or we announce that we are looking for someone, which is something that at the moment firms have huge problems with….we don’t have any problems with this.’ (Czechitas)
Many of the founders add up that, in the end, finding the candidates is not by far as challenging as finding good quality candidates. What happens is that sometimes, new hires turn out not to possess skills they claim to have, are hard to work with, or even leave the project without giving any notice.

‘We deployed IT developers on projects but we didn’t test them before and the work ended up wrong or they didn’t bother and left without giving us a notice, so then someone else had to finish it’ (VIP Trust)

Lastly, having good quality and skilled people in the company is not enough. Keeping the team together through all phases of start-up growth and keeping them motivated is one of the key challenges for start-ups to overcome. The co-founder of Company A perceives having the right team as the most crucial part of start-up survival. He further describes that the biggest challenge he has encountered so far is keeping the team together through all phases of the start-up life while keeping the productivity high.

‘The biggest challenge is keeping the team together through all the phases of our development. Firstly, at the beginnings [of the company] when it is necessary that everybody works from the morning until the evening so that a product comes out [of this effort] ... and at the same time nobody should have a feeling that another person is working less than himself/herself. Secondly, [it is] some kind of a transition to a certain routine, which simply comes with a time and if the people work 16 hours per day for too long... they partly burn out (...) and then also more of mutual misunderstandings emerge. So, the biggest challenge for me personally is to keep the team together and keep the productivity high at the same time.’ (Company A)

**Counteracting these challenges through social capital**

Having previous contacts speeds up the process of hiring people, might bring high-quality co-workers who would be otherwise unavailable, to the company, and last but not least might help create teams that fit together.

Entrepreneurs find it very effective to use their social capital to find skilled people to fit a particular position. What is more, the founders not only look for skills among the candidates, they also look
for a personality match. A potential employee who the founders can trust emerge from recommendations from people somehow close to the founders or from any exposure on mutual projects. As such, Michal, the co-founder of Plantyst, reveals his intention of finding a technician through his network. From his experience, this way works better than any job advertisement or posting.

‘At the moment, I am looking for a technician who would be able to visit the companies [customers]. For this, I am searching primarily through my own contacts. I am not even putting any efforts to post job advertisements or anything, but I am trying to ask, let’s say the technicians I know from variety of companies if they maybe have a capable brother or someone.’

(Plantyst)

Similarly, Martin from Cryptelo also explains that finding people through his own network or the network of the other co-founders works best. They are also cautious about skillful people around who might start to cooperate with them later on.

‘We are talking about [hiring] with our friends, who typically recommend us someone, or we are cautious, when someone is around us… (...) for example, we begin a short-term cooperation with someone and it shows up that it works great between us, so typically, we recruit our full-time employees from such cooperation.’ (Cryptelo)

Being an active member of communities might contribute to finally finding the right people as well. Generally, demonstrating founders’ expertise through organizing expert meetups, conferences or being a speaker at any professional event proved itself beneficial in hiring people who pay off in the future. Alternatively, founders participate in the networking events, where they might get to know people they could cooperate with. As we can learn from Qest’s co-founder, hiring can be a long-term process full of networking with people who might turn out to be suitable as future co-workers. In order to meet new people they organize different events for people from tech industry.
'The hiring is a long-term work: when I am talking to someone today, at the end he/she might be working with us in two years. Therefore, we are trying to approach people in different ways, one of them is networking. This is what we do and we try to organize different meetups and hackathons. [Admittedly], we are not good at it yet.' (Qest)

Every co-founder of Behavio is an expert on a different area. As experts they give lectures in different events and it turns out that giving lectures is an HR source for them as well.

‘Actually, every one of us [the 5 co-founders] gives lectures [on the topics we are experts on]. (...) And even these lectures are an HR source for us.’ (Behavio)

Looking at the internal part of social capital represented through organizational trust, reciprocity, norms, and identification as a member of the group, founders stress the importance of creating a positive and cohesive company culture and keeping teams together. As a result, knowing what culture the entrepreneurs want to create can help hire candidates who stick with the company, can lead to an active exchange of information and knowledge, and can promote long-term cooperation. In fact, it might turn out to be the decisive factor in the company survival. As a recipe for their existing survival, the co-founder of Coolpany describes how a well-functioning team works:

‘When the team is qualified, synchronized, in a certain way cohesive...meaning that people instead of doing a routine work they are used to helping each other in different ways and giving mutual advice, all through their areas of expertise [then the team functions truly well]. (...) I think this is what our existing success has been all about.’ (Coolpany)

To build a well-functioning team, the founder of Twisto describes that they are looking for a good fit between the candidates and the company culture. When it turned out that a new hire did not fit, mainly from a moral or team-work perspective, they rather dismissed him/her.

‘Employee turnover is very low [in our company] (...). We hired a few people who turned out to be a total fail but we dismissed them very quickly. (...) One thing is hiring based on the university background and skills but another thing is hiring based on the fit [of the candidate] to the
company culture. And maybe the culture fit prevailed in some cases over the skills alone. And about the educational background, we are not looking at it at all. (…) Basically, we want to work with people, who have the same moral values as us, are flexible, friendly... ethical, normal people.’ (Twisto)

Social capital provides the founders with many advantages in terms of hiring and keeping the right people. On the other hand, the founders who do not have these contacts are not doomed to failure. For them, it is still possible to find the right people and form well-functioning teams. It might just take more time and efforts. As Michael, Zeerat’s co-founder explains, he managed to find the right people without contributions of social capital. He devoted most of his time during several weeks to finding the right people and he succeeded.

‘We worked more, with a higher pace than before. The hiring was de facto all my responsibility. So, I had to devote a few weeks only to this. It was not really possible to deal with more things at the same time. (…) At the moment, we are satisfied. Now, we actually don’t even really hire, compared to the past when we really needed to. So, at the moment, I don’t perceive [human resources] as a problem.’ (Zeerat)

4.3.3 Product
Creating a product that meets customer demands is a fundamental prerequisite for start-up survival. As fundamental as it is, it is challenging as well. Founders are almost unanimous in their saying that during the business development phase, they have to deal with issues around the product regularly. Configuring a unique product which people want to buy requires time and efforts for both B2B and B2C segments. As such, B2B start-up Behavio was overcoming challenges in configuring a standardized product that has been gradually evolving based on the scope of services they were able to offer.

‘There were problems... mainly because we didn’t have any setup of the product for a long time. We were saying [to our customers] ‘you know, here is simply the scope of things that we are able
to do for you’. We didn’t have it productized, we didn’t have a good idea about what 10 things from this scope can be packaged to the one.’ (Behavio)

Many founders also stated that during the development phase of their business, they fix the operative problems of the product on a regular basis. It is a reiterating process of fixing the product problems and refining the product to run flawlessly in the future. As an example, Martin from Cryptelo describes this product problem loop with constantly solving the operative issues.

‘For example, we actually didn’t know how to do it correctly and that’s why we have made many mistakes on the way which we fixed and then new problems occurred, which we fixed again.’ (Cryptelo)

**Counteracting these challenges with social capital**

Social capital can add a significant value in creating the product that will find its place on the market, as well as in refining the product. Experts from different fields can help with addressing technical as well as business questions related to the product. Founders of Plantyst and Cryptelo both describe how their products have been formed and improved with contributions of people from their networks.

‘I know one very capable person who was a production and maintenance director in a few factories, so he helped me to make many smaller decisions regarding the product.’ (Plantyst)

‘[Some people helped us] with building the product from the technological perspective, this is a thing that we actually solved with our friends, technological friends, and also the people in our team spent a lot of time on it [building the product].’ (Cryptelo)

Some founders stated that social capital helped them to validate the need of the customers for the product. In fact, some founders are in such a close relationship with their customers that the customers help them define and improve the product. It is kind of an interactive process. From this interaction, new knowledge and improvements often emerge. Dalibor, QuickJOBS’s co-founder, explains what crucial role their customers have in validating and improving their product:
‘[The interaction with our customers helps us with the strategic] direction of our product [and modifying it to reach more customers] ... we actually do it a lot based on validating, so we [the co-founders] often meet the employers [one side of our two-sided business model] and based on that we know what we should actually do and what we shouldn’t do. So, everything oscillates around validating. (...) Validating from the reason, that many thoughts we have are not shared by our customers and therefore it is needed to validate them with them. We always release the prototype to the market and receive feedback.’ (QuickJOBS)

The operative problems related to the product can be solved thanks to interaction with the founders’ network, too. It is a case of a similar interaction with customers as mentioned in the previous paragraph but on a less strategic level. It refines the products’ features and details. Thanks to the interaction with customers, LS Interactive is able to improve minor errors and imperfections in their product:

‘We encounter problems of a technical character, when the product or the service have some mistakes or imperfections and these we are trying to solve with the producer [of their product]. We tell him what our clients discovered that doesn’t work, so they [the producer] fix that. (...) This is kind of a common routine which we deal with almost every day.’ (LS Interactive)

4.3.4 Customer acquisition and retention

Without customers start-ups cannot survive. The problems with customer acquisition and retention are different case to case. Whereas some firms do not perceive any problem with finding and retaining the customers, some describe it as their biggest challenge.

Given the unique B2C context and being relatively skilled in online marketing, Company A’s co-founder has never perceived customer acquisition and retention as a real challenge. The team of co-founders is only trying to make their acquisition strategy more efficient:

‘No, [acquiring customers has not been a problem] because from the beginning, we run B2C online marketing and we target it on a wide [scope of customers]. This is simply the object of some initial setup and subsequent optimization. Ideally, we would like to have 100x more
customers for the same price for the conversion, but it is growing and growing gradually. And vice versa, we are currently trying out B2B channels so this is what we are currently learning. ’(Company A)

Finding and acquiring customers was a problem some time ago for VIP Trust’s founder but by trying, his company found the way of approaching customers that works well. At the moment, it is not a problem for them at all but yet, they look for even more efficient ways.

‘It was a problem at the beginning [of the company] because I didn’t know so many places where the people [potential customers] gather and how to target and approach them and so on. Mainly, I didn’t know what they actually want. So, it used to be a problem but later on, simply by trying, we found out how to do it [finding and acquiring customers]. Well, and now I perceive it as a relatively easy thing to do. But on the other hand, it is not the final status. For sure, there are some even more effective ways and much better ones. But, I think that now we are able to find many contracts relatively fast. ’ (VIP Trust)

A completely different story is told by LS Interactive’s founder. In fact, finding and acquiring customers is his biggest challenge. There are periods of time when his life is harder when the company does not have enough customers. One of the main reasons could be a niche market he is addressing:

‘[What is most challenging for us is that] there are always problems related to the lack of customer contracts. (...) When there is a period of time when you have less of these contracts for any reason, then you don’t get so much finances and dealing with all your problems is worse. So, for me, where the issues start is from the lack of income flowing to the firm. (…) Nevertheless, given the fact that the product we do is somehow uncommon and special, it happens to us that our clients don’t actively search our product because they don’t even know it exists.’ (LS Interactive)
From the quotes from Company A and VIP Trust we see that despite they have many customers, they are still looking for ways how to make the sales more efficient. Thus, setting up a process for customer acquisition and retention is another challenge the founders are dealing with. Jiří, the co-founder of Inspirum, explains that their current challenge is to balance the sales process out. He is currently trying to make their sales sustainable to keep up with their growth as well as to secure customer retention:

‘So, in fact, the customers have to be kept in a certain constant supply. You must have cash-flow. You have to balance it out when you don’t have enough new customers, you have to be sort of as little dependent on the coincidence as possible because something might not work out or you have one big customer who leaves… So at the moment, we are trying to monetize our current customers in a more scalable way - if we help them make more money, they should pay us more.’

(Inspirum)

Lastly, founders claim it is challenging to communicate benefits of their products to their customers. The co-founder of Cryptelo and the founder of Twisto perceive their current biggest challenge in clearly communicating the real value added of their products to potential customers. While Cryptelo aims at B2B sector and Twisto at B2C, both have great products appreciated by experts as well as their customers but both struggle in communicating it to their customers - corporate clients in the case of Cryptelo and to the mass consumer market in the case of Twisto:

‘So, this is for example one of the bigger problems related to acquiring new customers, the ability to explain in what way we are better than the competition and what is the real value added of our product for the client. This is the thing we were learning for a long time and without a doubt we are still learning it and will be still learning it [in the future].’ (Cryptelo)

‘One of the problems we are facing now is that we have an amazing consumer finance product for daily transactions of customers which is not always easy to communicate, given the local market stigma of ‘debt’ [in the Czech Republic]. It sometimes evokes fear in customers - becoming too ‘indebted’ and not being able to control balances. Unfortunately, local banks and consumer finance companies have set a very bad precedent in creating non-transparent and
expensive financing products. So, this is something we are trying to change and build a clear and transparent communication about it.’ (Twisto)

**Counteracting these challenges**

Social capital can address customer related problems. Its role is multiple and encompasses both the internal part, through the trust of the actors, as well as the external part through bringing in more business opportunities.

People from founders’ network might become clients or can enable accessing otherwise unavailable customers. Qest’s co-founder finds it effective to approach potential customers by using his and other co-founders’ social network as well as the social networks of their contacts.

‘*When we are talking about business contacts [customers], there are several ways [of approaching], we are approaching our acquaintances and the acquaintances of our acquaintances.*’ (Qest)

The founder of LS Interactive claims it is probably even the best way for them to gain customers from their own networks.

‘*What works probably best for us is when we approach people from our range of contacts. This is probably the most efficient way of acquiring customers.*’ (LS Interactive)

To address the issues of customer retention, some founders say that developing a personal relationship with the key customers helps. For example, Zeerat’s co-founder Michael observes that with the clients who he can build closer relationships with and stay in touch personally, is the retention higher.

‘*We have always been relatively close to our customers… or more precisely mostly with the long-term ones. We are trying to create something more than an invoice between us. So therefore, I meet them personally (...). It is visible… when we don’t mutually build such relationship or with those [customers] who are located further from Prague, there the turnover*
is higher than here in Prague, where I am able to reach the customer for example in 10 minutes by walking from my home.’ (Zeerat)

Similarly, being able to deliver the product to the customers, being regarded as an expert in the field, and being active in communities helps acquiring new customers as well. All of these are the functions of trust. Once the company and/or its founders are known and trusted, customer relations are easier. What is more, recommendations from other customers or experts play a great role in it as well. As an example, Behavio’s co-founders are active in different expert communities and therefore potential customers from these communities know that Behavio exists and they then approach Behavio when they need anything special.

‘People who do research [behavior research or opinion polls] already know that we exist. And when they need anything special, they just look who does it and so on. So this is probably one channel [of customer acquisition].’ (Behavio)

Similarly, Coolpany’s co-founder has been active in the media community. Therefore, he knows many people in the field and it is easier for him to establish trust with them and approach potential customers because they know they can rely on him:

‘It was definitely much easier for me to establish communication with them [publishing company Economia, one of our bigger clients today]. Because after 20 years of being in the industry you know half of the people who are in that company. So these people know about you if you lie or if they can rely on you.’ (Coolpany)

Furthermore, knowing the right people might help entrepreneurs set up the sales process, make the customer acquisition and retention more effective and put some kind of systematic approach into place. Kristýna from Creative Handles said that external help resulted in improvements of the sales process:

‘I think [the sales process] is now more strategic because I have defined it. I have defined a pipeline, where I know what is needed to do in what particular phases. I was working with Salesdock [a firm who advised us with sales]. I was spending every day with them and the
following month we had a meeting once a week, which helped me a lot to define the sales process itself.’ (Creative Handles)

4.3.5 Financing

Money is needed in every start-up. A development of the product, hiring and paying people and paying for all costs are activities which require a decent financing. In our sample, there is a great variety of founders’ approaches to financing. Some of them believe that in order to be able to overcome financial challenges in the future, start-ups should run for a certain period of time without any external help. The others believe in external finances to support their ambitious growth. Whereas opinions differ, most of the start-ups do not see a big problem in their financing. For example, for Company A, money was never a big problem. In the beginning, they were able to finance their growth through their own savings and later on they received external investments.

‘[In the beginning], we had the luxury that we could finance our first year of operations on our own, because we were not dependent on the will of any investor and we didn’t lose any time looking for any. (...) The money is not a problem. There is so much of it lying everywhere and investors don’t know where to invest first.’ (Company A)

Only a few of start-up founders perceive money-related problems as their biggest challenge in survival. Coolpany has always been financed through its own resources. Given the fact that they operate on a niche market, Coolpany’s co-founder believes external investment would be of a little use. As such, he also perceives financing as a challenge.

‘Well, of course we would need more money and it is simply a problem. We would live much better if we could invoice more money (...), if we didn’t have money for salaries for this moment only, but, for example, for the next half a year or a year, too.’ (Coolpany)

Regardless of whether firms are financed through the resources of their founders or through external funding, balancing the cash-flow remains a challenge for both groups. Start-ups have to make sure that their cash income and outcome is balanced and they do not run out of cash as they grow. As an example, Kristýna from Creative Handles stated:
‘Given the fact that we grow and the projects are bigger, we have to pay the people [more money] and this all overlaps with invoicing... so this has been my personal struggle recently.’

(Creative Handles)

When start-up founders decide they would like to receive external financial help, there are challenges they need to overcome. In fact, the process leading to the investment can be demanding and might take a lot of time. What is more, founders stated that it is not important to only find the investor who can provide them with money but also to find someone who they can cooperate with well, with whom they can establish trust and share the vision. Lukáš, the co-founder of Behavio, describes struggles related to finding the investor. The co-founders were negotiating with a potential investor but then felt relieved when negotiating failed shortly before signing the deal.

‘We were approaching different venture capital funds for approximately half a year. At one point, [the investment] was almost imminent and actually one week before signing the deal something went wrong... actually based on the experience between us and this potential investor. (...) This process leading to it, which lasted for almost two months, was mentally very demanding for us. We were actually not sure if we would be still happy or not, if we did [this investment]. And when it failed, we felt very relieved.’ (Behavio)

Interesting to mention is the fact that shortly after this failed attempt to find the investor, the co-founders started a cooperation with a different investor who they found through their own network. In fact, this happened more or less by a coincidence and was not forced. And, now, it seems the cooperation will be very fruitful.

**Counteracting these challenges with social capital**

Social capital of the founders can help founders who resort to either type of financing, through own resources or an investor. Some of the interviewees remarked that they got external help regarding financing decisions or cash-flow and accounting from someone from their social connections - regardless of the form of financing. Jiří, the co-founder of Inspirum, was given advice from his network that helped him make a decision related financing.
‘Adam K. told us that an agency [which was our business form back then] has to always be able to sustain itself financially. Which is sort of a basic principle of course, but at that time we didn’t pay so much attention to it. (…) So, the idea that an agency has to always be able to sustain itself financially is simply a very clever thought, for sure, which we implemented and which certainly helped us.’ (Inspirum)

Similarly, Kristýna, Creative Handles’s CEO, does not hesitate to reach out for an advice or help from the network which she shares with Creative Handles’ founder. As a result, she makes sure her company is financially healthy.

‘We were talking about [financing] with people [around us because I am not really financially and analytically oriented person and I know that these things can be done better for sure. So, I tried to ask and I am still asking. I met my friend, acquaintance (…) whose domain are numbers. So, I know it from him and can be calm that the firm is relatively healthy. We only needed to deal with finances and think about it slightly differently.’ (Creative Handles)

Lastly, founders of start-ups that have been receiving support from the investors, usually receive most of the advice from them. What is more, some of these founders claim that being able to have someone experienced on board who is able to help them with many challenges, was one of the decisive reasons to seek the investor. For example, Companies’ A co-founder has received help related to finances when they needed it last-minute. As a result, investors helped him with tax return or with reaching accountants from the investors’ network.

‘It [the external help] came from the investors, when we were dealing last-minute with, for example, tax return, or when we needed to contact someone … either accountants or someone to help us process some financial matters. So our investors were able to help us again.’ (Company A)

In terms of finding the investor, many founders stated it is very much about the social capital, networking and contacts. Common contacts, recommendations or meeting in the same trusted communities all have a great influence on finding the correct person to finance the start-up and help it grow. The founder of Twisto is currently looking for investors internationally to fuel
Twisto’s international expansion. He explains that contacts, networking and relationship building are all prerequisites of finding international investors:

‘We are going to do a next round of fundraising. And there, it is a lot about contacts and about building relationships with investors. But it is not that I have to build the relationship with 100 people, but rather choose a couple of people and build it with them. (...) For the investment it is extremely important to have profound relationships, not superficial but to really build it because the investor, for our stage of business, invests into the ability of the team to execute, to the technology and to the vision to change the status quo. And this is to a great extend an investment to the trust with the person [the founder], so it is needed to be built gradually.’ (Twisto)

Juraj, Liftago’s co-founder, describes that to find further funding, they have used the networks of all co-founders and they have complemented each other in this activity:

‘Many of our investors who joined us, they were joining partly or mostly from the beginning through the personal contacts of Martin Hausenblas [the co-founder and investor]. Meaning that Martin is the person, who was gradually both fueling the money and bringing more investors from his own network. After some time, we jumped in with Ondřej [the third co-founder] and also used our networks for fundraising. From that new investments emerged and we have been further complementing each other in this way.’ (Liftago)

The following table contains additional quotes from the start-up founders.

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Additional quotes from start-up founders</th>
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<tbody>
<tr>
<td><strong>Importance of contacts</strong></td>
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<td>‘The contacts were very important [for founding the company], absolutely.’ (Czechitas)</td>
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<td>‘If I hadn’t known Jirka, we would have never founded Plantyst and it wouldn’t have existed at all.’ (Plantyst)</td>
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<td><strong>Strategy and company stabilization</strong></td>
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<td>‘These [mentors from the accelerator] are the contacts for me, that completely changed the ability of Cryptelo to accelerate and move forward. (...) Before we participated in the accelerator program, we were very proficient technologically, but we couldn’t do business development, sales, and marketing. And that is what the accelerator did for us. (...) And they [the mentors] helped us the most with the ability to execute and to think strategically.’ (Cryptelo)</td>
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’I think that now, when we will throw us into this scalable software business, then this wave will come again, that the contacts will play a key role in what we learn and in what they are able to advise us, so that we won’t do anything stupid fast. It might be Václav [the investor] or some other people [who will help the co-founders]. We are already gaining contacts and co-workers that are able to advise us in [the further expansion into scalable business].’ (Behavio)

The team

’[To learn how to lead a start-up and learn new things] you surround yourself with people that are smarter than you and you listen to them. You listen to them intensively and you try to understand it all and put it all together analytically. (...) When you manage to hire above-average people, then you distill the things around as well because they know how things are done in different companies.’ (Coolpany)

Networking

’If we had more contacts and connections, maybe we would have more and bigger clients and they would prefer us over other services. It has happened several times that it was the other way around, that someone turned us down saying that he/she found a different service. And later we found out, that it was through some connections, that they knew the people in some agency [our competition], that their friends were there, and they turned us down because they will rather do it with them, because they are friends.’ (Ecomail)

’We found the majority of our clients through network ... reference is also some kind of network, right. So I think that networking plays a big role for us even today.’ (Creative Handles)

’Networking wasn't important for us in the beginning at all, because we had the first customer who created us turnover from which we were living for a year, maybe a year and a half. So, we didn’t have the need [to network].’ (Qest)

Customer acquisition

’We have been recently attending some expos, too. (...) And this helps us a lot with [the retention of] our existing clients because they can see that we are visible and that we are doing well.’ (Inspirum)

’[Crucial for our growth in the development phase were] our acquaintances or friends who work for different companies and with whom we talked about what we do and what they do. So, they came up with the idea that what we do would be handy to someone either from their own clients or friends and such.’ (LS Interactive)

Financing

’Actually, there are five to ten key investors focusing on the tech-online scene in the Czech Republic. (...) Since this community is pretty small [compared to the West or Far East], it is enough to meet one of the investors and then you get introduced to the rest of them via his/her network.’ (Twisto)

Source: Own data collection
5. Discussion and Analysis

In the fifth chapter we present our analysis in the form of a discussion of theoretical as well as practical contributions of this thesis and we compare our empirical findings with the findings of other scholars mentioned in the chapter Theoretical background.

We analyzed the findings in the connection with our theoretical background and there are three main outcomes of the analysis. Firstly, we confirm the validity of certain theoretical concepts. Yet, secondly, we argue about details in these existing theories which we contradict to a certain extent. Finally, we identified new, additional topics we would recommend future researchers to attempt to shed more light on.

In this chapter, we first present the theoretical contributions of our thesis, and then we further describe contributions to particular groups of practitioners - nascent entrepreneurs, start-up founders and decision makers in accelerators, incubators, and coworking centers, and we draw general practical contributions at the end.

5.1 Theoretical contributions

Our findings confirm the conclusions reached by Maurer and Ebers (2006) who stated that in order to survive, start-ups need to adjust the configuration of their social capital (e.g. the amount and quality of weak and strong ties) to their changing resource needs. Therefore, we argue that social capital is in fact a dynamic resource whose configurations change over time. Indeed, most of the interviewed founders claimed that their social capital changed very much when comparing the early start-up phase and the business development phase.

For the early start-up phase, we observe that bonding capital (close people such as friends and family relatives) is crucial for the establishment of the start-ups. We further argue that the founders who had enough of bonding social capital in the beginning were not forced to turn to external actors (to people they did not know well or at all) to ask for help through initial steps of the start-up. However, during the business development phase, the role of founders’ social capital adapted as start-ups grew. In fact, even the founders who did not network in the early start-up stage, started networking in the latter stage. As a result, they enlarged their networks in terms of bridging social
capital, thus number of weak ties. This argumentation is in line with the findings of Maurer and Ebers (2006), too, who observe in their sample that the start-ups which developed more of weak ties were more likely to survive. However, to a certain degree, we contradict this statement with our findings because some of the founders in our sample stated that it was not important to have many contacts in the business development stage but rather to have a few close ones.

Therefore, we argue that social capital is a very dynamic resource and suggest that researchers should not differentiate strictly between strong and weak ties but understand them as ever-changing. Indeed, Adler and Kwon (2002) already suggested that it was difficult to differentiate between strong and weak ties because weak ties transform to strong ones and vice versa. And indeed, in our research we found out that people who might have been considered as a weak tie (such as technological or business experts) contributed through advice to start-up survival and some strong ties (such as friends operating in the field or even mentors) did not have such an impact in some cases. At the same time, we observed that some of founders’ contacts which played a significant role in the early start-up phase, were not as important in the business development phase as they turned into weak ties. And vice versa, some start-up founders turned a weak tie into a strong tie. An example (when weak ties turned into strong ties) from our research are founders who met technological or business experts in an accelerator or incubator program, who then started collaborating closely with the start-up and were contributing with advice on a regular basis.

We think that this little confusion caused by the transformation of weak ties and strong ties during the two stages is given by a unique context which every research has. We did not notice it until the empirical data were collected but the Czech Republic with its epicenter in Prague is an example of an industrial district, meaning that it is ‘a network comprising independent firms operating in the same or related market segment and a shared geographic locality benefiting from external economies of scale and scope from agglomeration’ (Brown & Hendry, 1998, p. 133). As such, we observed that many start-up founders in our sample were influenced by the same people despite the fact that the founders had not known each other. To further support the assumption about the industrial district, one of the co-founders of Czechitas, which is the only start-up from our sample not located in Prague or its proximity, moved to Prague from strategic reasons in the business development phase to be closer to the important people in the field.
What is more, the founders described that once they knew a few people, these contacts introduced them to other people who had a bigger impact on the start-up. Furthermore, as Inkpen and Tsang (2005) elaborate, the ties between members in an industrial district are often relationships developed from informal social gatherings and meetings. It is exactly in line with the findings from our research because most of the interviewed founders established important relationships during more less informal networking and other events, and the relationships were relatively friendly and open. Additionally, we discovered that the founders can reach out almost anyone in the technology community through common contacts. Therefore, we suggest that in the industrial network, once the founder has a certain legitimacy, the bridging social capital might show the features of bonding social capital (such as trust, influence, solidarity??), too. Indeed, founders confirmed that it was relatively easy to get an appointment with anyone influential in the community and the relationships were relatively informal from early on.

That brings us to the role of legitimacy in start-up survival. We acknowledge the meaning of legitimacy as a resource for new venture survival as already stated by Zimmerman and Zeitz (2002). However, thanks to our empirical data we argue that similarly as the dynamic features of social capital, the legitimacy is dynamic as well and unequally important in different stages of the start-up. Indeed, before founding the start-up, several founders were already active in certain communities, in which they were known and legitimate and because of that they acquired first customers or hired first employees. However, we argue that most of the founders were not active in these communities in the early start-up phase while they were establishing their start-ups. Therefore, we do not attribute the key role for survival to legitimacy in this phase. However, we suggest that the significance of legitimacy increases in the business development phase as founders seek to gain new resources and knowledge for which the initial configuration of social capital is not enough anymore, and in this phase it is very important. And indeed, all interviewed founders were devoting time to networking and were active in different communities, expos, conferences, and such, in order to extend their social capital.
5.2 Practical contributions

We believe to provide several groups of practitioners with useful insights on how founders‘ social capital contributes to start-up survival.

Firstly, we believe that if this thesis gets into hands of starting entrepreneurs, it raises their awareness of the topic of social capital. They can understand that social capital is a resource of a company similarly as financial or human resources. As such, it can provide them with knowledge of the importance and benefits of social capital in different stages of the start-up life and for different challenges, and how they can access it. By that, they can increase the chances of their start-up’s survival. All start-ups which we interviewed had relatively high stock of social capital before establishing their businesses or they built it during the early start-up stage to kick-start the company successfully. Particularly, the nascent entrepreneurs should pay attention to forming well functioning initial teams.

Secondly, the thesis can help current start-up owners look at their firm from a different perspective, consider what challenges they are facing and think if social capital can help them overcome them. They should also consider being open to inputs from their personal network. Yet, they should keep in mind that not all advice is good advice, as we learnt from the interviews.

Lastly, incubators, accelerators and coworking spaces can also benefit from our research. Our findings show that they played a significant role in the life of many start-ups – primarily in the early start-up phase. The interviewed start-ups appreciated especially mentorship programs, exposure to a wider network of valuable contacts - mainly investors, and reduction of costs, e.g. by having the ability to use the offices in the incubator/accelerator/coworking space for a lower or no price. Our findings give a deeper insight into the biggest benefits of these programs as perceived by the start-up founders, we show what helped them the most and why they decided to – or not to – participate in the programs. By gaining this information, the incubators, accelerators and coworking spaces can adjust their offer to fit better the start-ups’ needs and meet start-ups’ expectations, and can also better promote their advantages to receive more applications for their programs.

In general, we provide practitioners with better understanding of how their personal networks may contribute to the start-up survival. We also encourage them to pay increased attention to building
their social capital. On the other hand, they should balance the social capital out with working on their business. We believe that social capital is not the only answer to start-up survival. For example, we observed that some of the start-ups with a good product which has been addressing the customer demands from early on, have encountered only a few survival endangering challenges.
6. Conclusions, limitations and further research

In the sixth chapter we present three final conclusions of our research by which we sum up the findings and the analysis and answer to our research question. Furthermore, we admit our research’s limitations and make suggestions for further research.

By our research we fulfilled the purpose of this thesis which was to understand the role of founders' social capital in the survival in the context of tech start-ups. We approached the survival from the perspective of challenges start-ups have to overcome during their early start-up and business development phase.

To conclude, we sum up the answer for our research question ‘How does founders’ social capital contribute to the survival of tech start-ups?’ We offer three conclusions - firstly, social capital plays an important role in the early start-up phase most significantly by helping founders form the right teams, which then help the founders better address the other challenges such as acquiring customers or managing financing. Secondly, social capital helps the founders establish legitimacy and it connects them with more experienced people who help them avoid fatal mistakes in the business development phase. Thirdly, founders’ openness to network and awareness of their own limits resulting in reaching out for help is also crucial for start-up survival.

6.1 Conclusions

Conclusion 1: Founders’ social capital plays an important role in start-up survival, most significantly it helps form the right teams in the early start-up phase.

None of the interviewed founders started their business in isolation. Founders’ social capital played a crucial role in the early stage of all start-ups. In fact, start-up decisions emerged from interaction with founders’ personal networks. As such, some founders felt inspired by people around them or received help from more experienced people such as their mentors, founders of other start-ups, or other people in the industry. Other founders discovered that they saw the same niche on the market as the people they were talking to.
It is interesting to notice that out of 16 start-ups in our sample, only 3 were established by one founder. Yet, these single founders were able to find people to work with from the very beginning. It appears that in the technology fields, forming the right teams is a crucial prerequisite for a long-term survival. By the word ‘right’, we mean teams which are composed of people who complement each other in their skills, particularly technical skills, and by people who are able to and like to cooperate with each other. By this we can confirm some of the findings of Aspelund et al. (2005) who claim that the probability of survival is higher with the greater degree of heterogeneity in the functional experience of the initial team.

There are other predictors of start-up survival such as having sufficient financial capital and enough customers and both can be attributed to founders’ social capital. Indeed, 13 out of 16 start-ups gained their first customers through their initial network and in terms of financing less than half of the founders has received financial help through their social capital. But at the same time, finding customers and funding can be done without founders’ social capital, too. For example, most of the start-ups in our sample were able to sustain themselves financially through their own savings or they received support from an incubator, accelerator or coworking space in the form of free or discounted offices, and such. What is more, it appears that overcoming of all challenges in the early start-up stage such as developing the product, finding customers and managing financing is only achieved by work of the co-founders and their initial teams. Therefore, we attribute the role of founders’ social capital in forming the teams as crucial for the start-up survival in the early start-up phase.

We further support our argumentation by the fact that most of the start-up founders admitted that they needed to systematically enlarge their network so that new contacts would help them validate their ideas for the product, connect them to important actors in the field or help them accelerate their business. In several cases, these people even turned out to be so valuable for the start-up that they joined the founding team or became its strategic advisors. On the other hand, these founders who did not network in the beginning had all needed attributes already present in their founding team.

**Summary:** *Weighting the evidence, we suggest that founders’ social capital is crucial for tech start-up survival in the early start-up phase thanks to its ability to bring together the right people*
who are able to build a product that meets customer needs as well as who are able to stick together. We show that overcoming start-up’s challenges in order to survive, such as challenges connected to product development, acquiring customers, and managing financing, is only achieved by the work of the co-founders and their initial teams. Therefore, the role of founders’ social capital in forming the teams is crucial for the start-up survival in the early phase.

Conclusion 2: Founders’ social capital is crucial for start-up survival in the business development phase as it helps establish legitimacy and avoid fatal mistakes.

No founder in our sample has had a substantial start-up experience before establishing the start-up and yet, if the founders want their start-ups to survive, they need to learn fast and adopt to overcoming load of challenges and problems connected with growth. To address these new challenges, all of the interviewed founders used their social capital for receiving external help. The founders reached out to their personal networks to ask for help with finding potential customers as well as for skilled employees. Our findings confirm that this works well. But admittedly, this can be done without social capital, too, and indeed some start-ups did not use their social capital to acquire customers or to find skilled employees. Where we see the difference are the situations when founders seek external help in regards to the strategy and stabilization of the company. Setting up effective sales processes, team structures or keeping the start-up financially healthy, are all completely new challenges for the founders. For this, they admit, they need to use their social capital - they reach out to a person who has enough experience in the field and ideally start-up experience, too. 14 out of 16 founders have persons in their network who they ask for help or qualified advice on more or less regular basis, and 7 of them even have a mentor who helps them systematically address certain challenges, such as leading teams, managing transformation and growth, or improving technical skills. As a result, founders’ social capital contributes to start-up survival through helping avoid fatal mistakes and make the organization more effective.

Furthermore, our findings show that in a certain phase of the business, particularly in B2B field, founders need to build up certain legitimacy among customers as well as professional communities in order to grow. We came to this conclusion based on founders’ efforts to build up a brand that is trusted, and on founders’ activity on conferences, expos, or even organizing events where important people from their industry meet. We observed that even the founders who did not see
the benefits of networking for their business in the beginning of the operations admit they do network in the business development stage of the company. Firstly, to acquire new customers, in a few cases also employees, and build up the brand. Secondly, to keep up with trends in their fields and to gain access to highly regarded experts in the field as well as investors. And finding the investment is mostly about contacts who can connect founders to top investors as well as about trust and relationship building, all stemming from social capital. Yet, the role of networking and attending these events should not be overestimated. 7 out of 16 founders stress that even though their social capital is important, it has to be balanced out with the actual hard work.

**Summary:** Our findings suggest that in the business development phase, founders’ social capital is crucial for start-up survival especially because of its ability to connect the founders with more experienced people who advise them and help them avoid fatal mistakes, and because of its ability to establish legitimacy among customers as well as people from the industry. However, the role of founders’ social capital should not be overestimated as it has to be balanced out by actual hard work on the core of the business.

**Conclusion 3:** Founders’ openness to network and his/her awareness of own limits resulting in reaching out for help leads to start-up survival.

In the form of previous two conclusions, we demonstrated that all founders aim to develop trustful relationships as well as to enlarge their network in both stages of the start-up life. We further sum up that enlarging founders’ personal network is critical:

- firstly, during the early start-up phase when founders connect with people who enable them to fulfill some of their visions and contribute to start-up’s subsequent survival,
- and secondly, during stabilization of the firms’ operations and processes when founders connect with people who help them steer the firm strategically and also build the brand.

Above, we already remarked an interesting fact that some firms did not see any benefits of networking in the beginning but now admit they do network to increase their chances to survive as they grow bigger. To follow up on this thought, we argue that no need to network in the early phase of some start-ups is given by the fact that their social capital at that time was big enough to enable them to survive. But for further survival, the initial contacts were not enough and founders
had to enlarge their social capital to be able to address completely new challenges. Therefore, we suggest that openness to network and founders’ ability to admit that there are many things they do not know and have to learn from others is crucial for the survival as the business grows. And indeed, all 16 interviewed founders were open to the fact that they need people to help them through the business development phase as none of them is a know-it-all person. Therefore, we suggest, there is a connection between openness to networking and openness to receive help, and start-up survival.

What is more, we notice what the crucial role of founders in this networking process is. Most of the contacts are developed through founders’ network or from founders’ initiative. Indeed, some role can be attributed to employees who mostly bring their friends to work for the start-up, and exceptionally also bring new business opportunities. But yet, compared to the founders, their role is negligible. Therefore, our findings confirm that if there is a cumulated level of social capital of all people in the start-up, the founders’ part in it is key for start-up survival.

Summary: We conclude that in order to survive start-up’s growth, founders’ social capital should be enlarged in the business development phase. We suggest that founders’ openness to network as well as awareness of their own limits resulting in reaching out for help is the prerequisite of start-up survival. Lastly, we observe that most contributions of social capital to start-up survival lie on founders’ side.

6.2 Limitations and Further research

We are aware of the limitations of our research and therefore we discuss them in this section. Together with them we make suggestions for further research that might be conducted by other researchers.

We were limited by a constrained time period in our research and it influenced many of our decisions in terms of study design. For example, our study reflected on the interviewees’ memories and views in the presence and in the past. Therefore, the interviewees as well as us have might have been biased. Given the dynamic nature of the social capital (Adler and Kwon 2002), conducting a longitudinal study might have showed more details and more precise patterns. Therefore, we encourage future researchers to conduct similar research but on a longitudinal scale.
We think that such researchers could for example divide the start-up life into more stages than only the early start-up and business development stage which we adopted from Mauer and Ebers (2006). These other stages would differ in challenges founders face as well as social capital configurations contributing to start-up survival.

To further address this limitation, future research might conduct a longitudinal research of start-ups at similar stage of their lifecycle and compare them over years. In such study, researchers would discover which start-ups survived and which died or stagnated after several years and that would enable them to look into how the founders’ attitude to social capital differed (in case of the surviving vs. failed start-ups) and to draw conclusions from that.

Similarly, given the limited time frame of the thesis we were not able to identify the founders of failed start-ups to compare them with the founders of surviving start-ups and their approaches towards social capital. For example, we noticed from our findings that the start-ups in our sample were either not encountering severe product issues or they were at least able to improve their products to address customer demand. We think this might be caused by choosing only surviving start-ups in our study design and we further think that comparing our results with the data from start-ups which did not survive might show a different use of their social capital in overcoming the challenges. Therefore, we encourage future researchers to include failed start-ups in the future research.

Whereas we have chosen only tech start-ups for our research in order to increase the ability to compare between the findings and make conclusions related to all start-ups in the technology industry, we may not prove whether the findings can be applicable to start-ups in other industries as well. Tech start-ups are special, as they depend on deep technological knowledge of their founders or key employees, which makes establishing such start-ups possible to a smaller number of people. At the same time, our findings show that people in the technology start-up scene (mainly) in Prague are very supportive and open – more experienced start-up founders are free to give advice to those who ask for it. We can only speculate to what extend our results are applicable to other industries. Therefore, next research should be conducted in the same way as ours but with start-ups from a different industry to compare the results.
Moreover, we can only speculate to which degree our conclusions can be applicable to other countries and cities. We believe that it might be relatively well applied to smaller countries with one economic epicenter – similar to the Czech Republic and its capital city Prague – and especially to such countries in the Central and Eastern European region with similar cultural and historical background. Therefore, we believe similar conclusions might be reached for example in Bratislava, Budapest, Riga, Tallinn, or Vilnius, or even in Vienna or Ljubljana.

Last identified limitation of our research is that not all interviewed founders had the same extent of their previous business or start-up experience. Therefore, some of them could have had a bigger amount and quality of contacts and knowledge (decreasing the need for contacts) in the beginning than others. We often reflected on this in our interpretations of founders’ quotes (in the chapter about findings), but yet we did not have so many participants to be able to divide them into groups according to their previous experience and draw conclusions from that. We suggest other researchers to repeat our study by using a larger sample size to increase our study’s credibility and to possibly gain new insights, and at the same time to group the founders according to their previous experience.

Drawing on the analysis in our thesis, we believe academia would benefit in further researching dynamic features of social capital which importance changes over time, especially in regards with distinct stages of start-up life and unique environment of industrial districts. Furthermore, we recommend future researchers in the field to elaborate on the role of the openness of start-up founders to network within their external environment and its influence on start-up survival.
Reference list


Appendixes
Appendix 1: Interview Guide

INTRODUCTION

- Could you shortly introduce ... (name of the company) and your role in it?
- How many founders does (name of the company) have?
- When was (name of the company) established?
- How many employees do you have?
- Why did you decide you establish (name of the company)?
- Do you consider (name of the company) to be still a start-up? Why? (If not, did they ever considered (name of the company) a start-up and if yes, when did it change and why?)
- What is your definition of a start-up?

FIRST PART – networking, contacts
Under the term ‘contact’ we mean: family, friends and acquaintances, former classmates/colleagues, customers, mentors, investors, experts, …

BEGINNINGS

- When you were co-founding the firm, which contacts, that you or your co-founders had, were especially important for the birth of the firm? -> How have you first met with these people? Why were they important?
- Where do you know your co-founders from?
- Where were your first employees from?
- How important was networking for you in the beginnings of your company? Did you have to learn how to do networking?

BUSINESS DEVELOPMENT UNTIL TODAY

- When you look at the way how you acquired contacts before and how do you acquire them nowadays, has it changed? How has the network of your contacts developed (from the establishment of your company until today)?
- Do you acquire new contacts also during your leisure activities (sport, hobbies, …)? If yes, is it on purpose or as a side benefit?
- How difficult is it for you to keep important contacts? Are there certain costs (time, money, …) involved?
- Do you have a mentor? If yes, why? How did you meet him/her? Does anyone give you advice from a technological point of view?
- Have you had an investor?
Were you in an incubator/accelerator?

Are you part of any association or organization? Why? What are the benefits for you?

What has proven to you to be a good way in establishing contacts with important people?

What has proven to you to be a good way in building relationships with important people?

Do your employees bring valuable contacts (new customers, new employees, mentors, …) to your company as well, or is it only you and your co-workers who do that? If they do, how often does it happen?

IMPORTANCE OF NETWORK

What role do your contacts play in the success of your company?

What role do your contacts play in acquiring new skills and knowledge? What skills/knowledge?

In which situations do you ask someone outside of your company for an advice or help? (Who do you ask?)

SECOND PART – challenges and their overcoming

When you look at (name of the company) from the established until now, what challenges or barriers were most challenging to overcome for you. → How did you overcome them (or you are still overcoming)?

Probing questions: Did anyone else contribute to the solution? /Did any kind of knowledge help you in it or did you know anyone who helped you in it?

Could you state an example when someone outside the firm helped you to overcome certain problem or to make a decision? How did you get to know him/her?

Probing questions: How did he/she help you and how did it influence the firm?

HUMAN RESOURCES

Have you encountered any problems in the area of human resources?

Probing question such as: How did you solve it? Did anyone external or any particular knowledge help you in it?

CUSTOMER RELATIONS

How did you acquire your first customers?

Have you encountered any problems in customer searching and acquiring?

Probing question such as: How did you solve it? Did anyone external or any particular knowledge help you in it?

Do your current or former customers help you in searching and acquiring new customers (e.g. through recommendation)? Why yes, why not?
FINANCING

- Have you encountered any problems regarding financing?
- Do you have any investor? How did you get him/her?

PRODUCT

- Have you encountered any problems regarding your product/service?
  Probing question such as: How did you solve it? Did anyone external or any particular knowledge help you in it?

CONCLUSION

- What is your vision, where are you heading to?
- Could you disclose what turnover you have?
- We have finished answering all questions. Is there anything you would like to add?
Appendix 2: Consent form

Consent form

Title of research project (Master thesis): The role of social capital in start-up survival

Name and position of researchers: Hana Klofáčová and Jakub Zufalý, Master’s students of Strategic Entrepreneurship, Jönköping International Business School, Sweden.

Description of the project: The purpose of the thesis is to understand the role of external relationships (and benefits and disadvantages stemming from them) on the survival of technology or technology-enabled start-ups. We, Hana Klofáčová a Jakub Zufalý (as the researchers) conduct interviews with founders of start-ups based in the Czech Republic. If you (as the participant of the research) agree, we will transcribe the interview with you from a recording into an electronic form, which will serve as a basis for the analysis. Following the analysis, we will attempt to find patterns in the collected empirical material that will answer our research purpose.

The audio recordings from this interview will be kept confidential and only Hana Klofáčová and Jakub Zufalý will have access to them. We will delete them after successful defense of the Master thesis latest in June 2018. The access to the transcriptions can be also enabled to the thesis supervisor Naveed Akther.

If you wish, your data can be anonymized – your name and the name of your company will not be used in any reports or publications resulting from the study. In that case, all transcriptions and summaries will be given codes and will be stored separately from any names or other direct identification of you as a participant.

Hereby:

1. I confirm that I have read and understood the above mentioned information and have had the opportunity to ask questions.

2. I confirm that my participation is voluntary and that I am free to withdraw at any time before the publication of the research without giving a reason.

3. I agree to take part in the study.

4. I agree that the interview will be audio recorded and then transcribed in an electronic form.

5. I agree to the use of my quotes in the thesis.

6. I do not wish to stay anonymous - I agree that my name and the name of the company will be mentioned in the thesis.
Date:

Name of the company and participant:  

Hana Klofáčová or Jakub Zufalý.

Signature  

Signature