

## THE USE OF SOCIAL NETWORK THEORY ON ENTREPRENEUR'S LINKAGES DEVELOPMENT

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### Abstract

To embark on any housing project, a developer needs to have support from various parties. The housing and construction industries are interrelated; they are in a relationship where construction plays a major part in the development process. Housing developers need to have strong support from the contractor, consultant, and suppliers (CCS) in completing their project. Studying the CCS selection methods can enhance the knowledge on the application of the social network theory (SNT) in the housing industry. Questionnaires were posted to 600 private housing developers (PHDs) and 54 were returned. Findings conclude that social factors were given mediate priority in consultant and contractor selection but non-social factors were more dominant in material supplier's selection. Before start-up, PHDs get more advice from their strong ties (family/relatives/close friends) in selecting the most suitable CCS; while at the start-up and later stage, PHDs get more advice from weak ties (individual/s from the same industry and their acquaintances). PHDs place their personal trust more on the strong ties providing information related to CCS.

**Keywords:** Social Network Theory (SNT); housing developers; consultant; contractor; and supplier

### 1. Introduction

Private housing developers (PHDs) are defined as entrepreneurs who construct houses for profit (Endan, 1988). The provision of houses (either medium or high-cost) in Malaysia is largely dependent on PHDs according to Goh (1997). Every housing development involves the purchase of land, financing, preparation of various plans (subdivision, earthwork, layout, building, engineering, and landscape), land use conversion and subdivision, approval of various plans, clearing land for tenants, obtaining advertising and marketing permits, construction, and issuance of certificate of fitness. These activities force PHDs to appoint various parties to get involved in the project, from professional consultants such as planner, architect, quantity surveyor, and lawyer to suppliers such as labor and material supplier. Due to these strong linkages, every demand placed on the industry can have a multiplying impact to the growth of other industries as well. Chan (1997) argued that the housing industry has a link to more than

100 related upstream and downstream industries; while according to others, the link is larger. For example, according to Usilappan (2005), the link can consist of up to 142 other related industries; Karnad (2004) indicates 269 industries, and Bestani and Klein (2001) state 600 industries. It shows that PHDs not only have to gather support and resources, but also need to keep developing and maintaining their linkages and relationships with other actors in their environment in order to be able to choose the right parties to coordinate with. In fact, as been argued by many researchers, this relationship might look as an informal form of personal networking because the relationships do not have formal and written agreements (Aldrich et al., 1986; Birley et al., 1988; Birley and Cromie, 1991 and Greve, 1995).

Before Malaysia's independence in 1957, the British colonial administration had encouraged a marked division of economic roles following ethnic lines in the country. This policy encouraged the Chinese (non-Bumiputera) to become entrepreneurs; Malays or Bumiputera were peasants and were involved in public administration; and Indians as an ethnic minority were offered jobs in plantations. As a result, the Chinese ethnic group has been dominating the industry since and has already excelled as contactor, sub-contractor, or material supplier, a position they inherit from one generation to the next. As for the Malays, they only had chances to become involved in the industry after the implementation of the New Economic Policy in the 1970s. Prior to this, building suppliers were dominated by a certain ethnic group, though the involvement of Malays as consultants and contractors are quite satisfactory nowadays. Given this change, it is interesting to explore the selection mechanism used by PHDs in selecting the right CCS. The successful outcome of each project depends significantly on the coordination of these three parties (i.e., consultants, contractors, and material suppliers) throughout each project development phase. Furthermore, the task of performing the selection is not governed by any specific standards or guidelines, and PHDs are free to build a relationship with other actors based on either social factors (such as ethnicity, past relationship, and religion) or non-social factors (quotation, track record, and capabilities).

In this study, attention has been paid into the application of the social network theory (SNT) used by small and medium PHDs for their CCS selection. The definition of small and medium housing developer is based on the small and medium enterprises (SME) definition for the services sector BNM (2005). SME can be defined either based on the number of people a business employs or the total sales of revenue generated by a business in a year. Number of employees has been used as the criteria to define SME in housing development.

The number of employees for a small company is between 5 and 19; while for a medium company it is between 20 and 50 employees.

## 2. Theoretical background

Social Network Theory is a social science concept that discusses the connection and relationship in a social structure (Kadushin, 2004). The theory that emerged in the late 19<sup>th</sup> century attempts to find something that might connect people in their group or communities. According to Brass (1992), a social network is a generic way a set of nodes or actors are connected by a set of social relationships, ties, or a specified type of ties. The term "network" is generally used for the structure of ties among the actors in a social system (Nohria and Eccles, 1992). These actors could be roles, individual persons, organizations, industries, or even nation states. Their ties may be based on conversation, affection, friendship, kinship, authority, economic exchange, information exchange, or anything else that forms the basis of a relationship. In a network, flows between objects and actors and exchanges, which might contain an advice, information, friendship, career or emotional support, motivation, and cooperation, can lead to very important ties (Kadushin, 2004).

In all environments, entrepreneurs must build reputation-enhancing relationships with outside resource providers who are willing to share valuable information, technology, and finance. The use of SNT in entrepreneurship started in the 1980s (Birley, 1985). This study concludes that entrepreneurs used their own informal business and personal networks to establish new firms. For example, social network contacts are the most needed by new and small businesses to overcome their difficulties in getting suppliers and customers at the early stage of business formation. Network relationship refers to a strategy that focuses on creating and maintaining a lasting relationship between entrepreneurs and their network (Premaratne, 2002).

Strong ties can be defined as the relationship between an individual and his kinship, close friends, and family (Granovetter, 1982). Interaction with strong ties gives the person a stronger relation to the others (White and Houseman, 2002). The linkage is strong and they always get connected with each other. Granovetter (1982) mentioned that strong ties show some key characteristics between the parties of the relationship, such as frequent interaction, extended history, intimacy and sharing, reciprocity in exchanges that allow for mutual confiding, and trust-based interactions. Strong ties facilitate the flow of richer, detailed, and redundant information and knowledge resources between individuals and their respective groups.

In contrast, the weak ties theory offers a satisfying approach to the study of integration in networks of face-to-face interaction consisting of multiple subgroups (Noah, 1980). In many cases, weak ties have a special role in a person's opportunity for mobility; there is a structural tendency for those to whom one is only weakly tied to have better access to job information one does not already have (Granovetter,

1982). He also said that weak ties refer to acquaintances and friends who, as compared to close friends, are more likely to move in different circles than one himself. Granovetter (1982) argues that weak ties are crucial whenever information is diffused through social interaction because these ties provide bridges between densely knit clusters of social structure.

Apart from that, it is now virtually undisputed in the entrepreneurship literature that culture bears a profound impact on all facets of entrepreneurship in societies (George and Zahra, 2002). Defined in subjective terms, culture refers to a set of shared values and beliefs (Hofstede, 1980, 2001). Particularly relevant in this regard are cultural values that emphasize change or certain time-preferences. It is therefore possible for Chinese and other entrepreneurs coming from Confucian-influenced societies to succeed in a highly collectivist environment while drawing legitimacy for their conduct from a cultural emphasis on active change (Licht and Siegel, 2006). As in Greif's (1993) description of the Maghribi traders, entrepreneurs often seek outside resource providers who share a common cultural bond. These cultural bonds are a major step towards building shared systems of fealty and honest business conduct.

Ethnic entrepreneurs need to develop socially meaningful relationships with the ethnic community in order to start a business (Salaff, et al., 2003). To start a business, ethnic entrepreneurs draw on co-ethnics to help them and to activate their networks for them to access social capital and shared cultural indicators including language and religion. Entrepreneurs from the same ethnic group will get easier access to business networks in the enclave than will outsiders. They will be in an advantageous position to exploit ethnic networks. Those that are established in ethnic networks can do best (Salaff, et al., 2003).

Trust can be defined as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustee and irrespective of the ability of the trustee to monitor or control that other party (Mayer, et al., 1995). Thus, trust becomes important because the transaction is embedded in a personal relation and structure that generates trust and discourages malfeasance. Social relations are therefore mainly responsible for the production of trust in economic life (Granovetter, 1985). The trust develops dependability in a network of personal relationship because of the transaction that occurs (Welter and Kautonen, 2005). The actor will be more confident as best as they can from the existing relationship that has been built. At this time, whenever the actor wants to do business again, he does not need to read the legalistic contract clauses again. To maintain the trust, the actor needs to develop it by long-term interdependent role relationship and sacrifice new occupants for these roles. Granovetter (1985) says that trust arises in a social interaction, and social norms give meaning and dependability to exchanges. Process-based trust is

rooted in reciprocity of social ties, characteristic-based trust is built on social similarity, and institutional-based trust comes from the individual's confidence in the institutional environment (Creed and Miles, 1996).

### **3. Methodology**

#### **3.1 Questionnaire Design**

The questionnaire design was divided into three sections. The first section focused on the respondents' profile and background, the second on the entrepreneur's business formation, and the third section contained questions aimed towards obtaining answers on CCS selection. A pilot survey to pre-test the questionnaire was conducted with four executives in the industry.

#### **3.2 Population and Sampling**

Population of this study comprised of small and medium PHDs in Peninsular Malaysia. The sample population of this study was served from the Ministry of Housing and Local Government (MHLG) in December 2006 through IDAMANweb (MHLG, 2006).

The list from IDAMANweb had been compared with the sample population from the Real Estate and Housing Developers' Association (REHDA) via their REHDA Directory 2004/2005. A total of 600 postal surveys were sent throughout Peninsular Malaysia. Fifty-four (54) questionnaires were sent back, giving a total response rate of 9%.

Rao (2000) noted that low response rates are frequently observed in postal surveys. Such a low response rate had been anticipated from the beginning as previous studies also experienced the same thing (Ho, 2006; Jaafar et al., 2007 and Baharain, 2004). A major disadvantage of the questionnaire survey method was its high rate of non-response (Judd et al., 1991 and Tan, 2001).

### **4. Analysis and findings**

#### **4.1 Demographic Profile of Housing Developers**

As can be seen from Table 1, 28 or 51.9% of the respondents were Malay and 26 or 48.1% were Chinese. Majority of them (41 or 75.9%) were from top management level, such as chief executive officer and director, while the other 13 or 24.1% of the respondents were from middle management level, such as development manager and operation manager.

In terms of academic background, 38 or 70.4% of the respondents received formal education up to the tertiary level (i.e., college, institute, or university), while 15 or 25.9% of the respondents completed their secondary education. Only 20 or 37% specialized in the area related to housing development, while 34 or 63% of the respondents specialized in different areas such as manufacturing and banking.

TABLE 1. DEMOGRAPHIC PROFILE OF HOUSING DEVELOPERS

Variables	Frequency	Percentage
<b>Race</b>		
Malay	28	51.9
Chinese	26	48.1
<b>Respondents' position</b>		
Top management level	41	75.9
Middle management level	13	24.1
<b>Highest level of education</b>		
Tertiary	38	70.4
Secondary	15	25.9
Primary	1	3.7
<b>Area of specialization</b>		
Related to housing	20	37.0
Not related to housing	34	63.0
<b>Working experience</b>		
Related to housing	41	75.9
Not related to housing	13	24.1
<b>Firms' setup</b>		
Own initiative	34	63.0
Hired or prompted by company	11	20.4
Inherited	5	9.3
Purchased business (not from family)	3	5.6
Others	2	3.7
<b>Reason</b>		
Interest	34	63.0
Wanted to make more money	20	37.0
Family tradition	6	11.1
Family owned land	2	3.7
Dissatisfied with former job	1	1.9
Loss of job	1	1.9
Unemployed	1	3.7
<b>Age</b>		
Early career (20-30)	26	48.1
Mid-career (31-40)	24	44.4
Late career (41 and above)	4	7.5
<b>Courses taken</b>		
Before	29	53.7
After	29	53.7
<b>Membership</b>		
Trade association	22	40.7
Chamber of Commerce	16	29.6
Professional association	12	22.2
Others	4	7.5

In contrast, 75.9% or 41 respondents had gained working experience in housing development firms while only 24.1% or 13 respondents had prior experience in non-housing development. It is interesting to note the reasons which drove them to become entrepreneurs. It can be seen that 63% or 34 respondents initiated the firms on their own, 20.4% or 11 respondents were hired or prompted by their company, 9.3% or 5 respondents inherited the firm from their family, and only 5.6% or 3 respondents purchased the business from other entrepreneurs.

When the respondents were asked about the reason for initiating the business, the most popular reason (63% or 34 respondents) cited was because of their interest. A total of 37% or 20 of the respondents indicated the reason as to make more money, 11.1% or 6 respondents cited family tradition, and 3.7% or 2 respondents wanted to develop their family land.

In terms of age, majority of the respondents (48.1% or 26 respondents) started their career during their early-career ages (i.e., between 20 to 30 years old); while 44.4% or 24 respondents started their business during their mid-career ages (i.e., 31 to 40 years old). Twenty-nine or 53.7% of the respondents attended courses before starting the firm. These respondents also confirmed to attending courses after starting the firm. A total of 22 respondents or 40.7% were members of trade associations such as Entrepreneurs Club and REHDA, 16 or 29.6% respondents belonged to the Chamber of Commerce, 12 or 22.2% respondents were affiliated with various professional associations such as the Board of Quantity Surveyors Malaysia (BQSM), Malaysian Institute of Architects (PAM), Institution of Engineers, Malaysia (IEM), and Malaysian Institute of Planners (MIP).

#### **4.2. Company Background**

Table 2 indicates that 28 or 51.9% firms had Bumiputera status while 26 or 48.1% firms were non-Bumiputera. Eighteen firms or 33.3% had paid-up capital of RM800,001 (roughly equivalent to US 200,000) and above, 17 or 31.5% had paid-up capital of RM200,001 to RM400,000, while 15 or 27.8% had paid-up capital of RM400,001 to RM600,000. Only 3 firms or 5.6% had a paid-up capital of RM200,000 and below. In terms of the firm's nature, majority of the company or 96.3% claimed to be a private limited company.

Most of the firms (41 or 75.9%) stated their core business activity as related to housing, such as property developer and contractor for housing development.

Meanwhile, 13 or 24.1% of the respondents stated their core business activities were not related to housing, such as commercial development, consultancy services, and material supplier.

In terms of number of permanent workers, 21 respondents or 38.9% stated that their workers numbered 5 people and below, while 19 of the surveyed firms or 35.2% employed between 6 to 10 workers, and 6 firms or 11.1% had 11 to 15 workers. Only 2 or 3.7% firms engaged up to 16 to 20 permanent workers while 6 or 11.1% firms engaged more than 21 workers.

TABLE 2. RESPONDENT'S FIRM PROFILE

Variables	Frequency	Percentage
<b>Firm status</b>		
Bumiputera	28	51.9
Non-Bumiputera	26	48.1
<b>Business paid-up capital</b>		
RM 200,000 and below	3	5.6
RM 200,001 to RM 400,000	17	31.5
RM 400,001 to RM 600,000	15	27.8
RM 600,001 to RM 800,000	1	1.9
RM 800,001 and above	18	33.3
<b>Nature of the firm</b>		
Private limited	52	96.3
Partnership	2	3.7
<b>Core business activities</b>		
Related to housing	41	75.9
Not related to housing	13	24.1
<b>Duration of firms' operation</b>		
5 years and below	35	64.8
6 years and above	19	35.2
<b>Number of permanent workers</b>		
5 persons and below	21	38.9
6 to 10 persons	19	35.2
11 to 15 persons	6	11.1
16 to 20 persons	2	3.7
21 persons and above	6	11.1
<b>Department in the respondent's firm</b>		
Marketing/purchasing manager	45	83.3
Project manager	41	75.9
Accountancy/finance manager	41	75.9
Administration	32	59.3
Property manager	25	46.3
Technical department	18	33.3
<b>Firms' strategic alliances</b>		
Contractors	35	64.8
Consultant	23	42.6
Material supplier	15	27.8
Others	8	14.8

The marketing or purchasing department seemed to be the most popular department in the developers' companies followed by project management and accountancy.

A total of 83.3% of the respondents had a marketing or purchasing department to conduct sales and promotions, while a project management and account or finance department exist in 75.9% of the firms.

Majority of the companies (35 or 64.8%) were performing strategic alliances with a contractor, followed by a consultant (23 or 42.6% firms), and a material supplier (15 or 27.8%).

TABLE 3. THE RESPONDENT'S FAMILY/RELATIVES/CLOSE FRIENDS OR ACQUAINTANCES JOB

Job	Family/relatives/close friends Strong ties)		Acquaintances (Weak ties)	
	Frequency	Percentage	Frequency	Percentage
Contractor	26	48.1	26	48.1
Material supplier	9	16.7	41	75.9
Consultant	17	31.5	39	72.2
Same industry	17	31.5	31	57.4
Local authorities	8	14.8	36	66.7
Banks	7	13	38	70.4
Competitor	10	18.5	36	66.7

Table 3 shows where the entrepreneurs' family/relatives/close friends or acquaintances work. Majority of PHDs have families, relatives, and close friends working with contractors (48.1%), followed by consultants and firms in the same industry (the percentage for both were 31.5), and competitors (18.5%). This table also indicates that PHDs have many acquaintances that currently work in sectors related to the housing industry, such as material suppliers (75.9%), consultant (72.2%), banks (70.4%), and local authorities (66.7%).

#### 4.3 Consultant, Contractor, and Material Supplier Selection

Figure 1 shows the factors considered by PHDs when selecting CCS. Among the variables assessed were ethnicity, past relationship, and religious background, which were categorized under social factors; while non-social factors were their registration with a professional body, confidential information sharing, willingness to customize, quotation, track record and reputation, financial, managerial and technical capabilities, and firm size.

As for the consultant's selection, even non-social factors had been given the highest rank, but the selections were mediate dominant for social factors. The first non-social factor that appeared was their registration with professional bodies. This is followed by two important social factors: ethnicity (61.1%) and past relationship (55.6%). For the contractor's selection, the use of non-social factors was more dominant. For example, track record and reputation (79.6%), followed by financial, managerial and technical capabilities (61.1%), and quotation (59.3%); while the most important social factors were ethnicity and past relationship (68.5%). For the material supplier's selection, it was also indicated that non-social factors were more important, such as quotation (68.5%), willingness to customize (59.3), and

financial and managerial and technical capabilities (48.1%); while social factors were past relationship (55.6%) and ethnicity (48.1%).

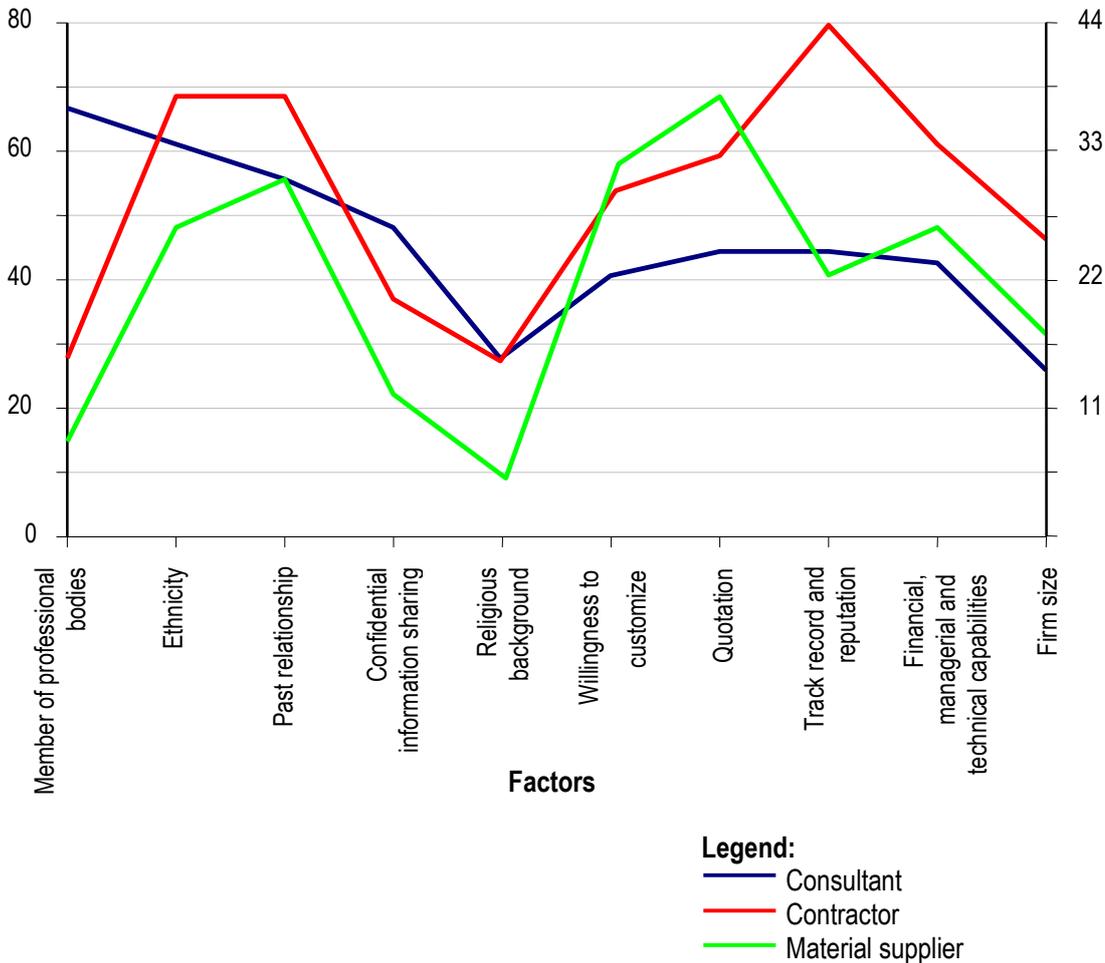


FIGURE. 1 FACTORS IN CONSIDERATION WHEN SELECTING CCS

Table 4 shows the PHDs' contacts for advice before selecting the most suitable CCS during business start up, within five years, and current operation. The table indicates that 50% of the entrepreneurs got advice from families, relatives, and close friends before business start up. The second most important people are their acquaintances (37%), followed by individuals from the same industry (29.6%). A total of 20.4% had government agency officers and bank or financial institution officers as their contacts for advice.

For the period within five years, individuals from the same industry (40.7%) become a very important resource to them, followed by acquaintances (38.9%), family, relatives, and close friends (33.3%), government officers (31.5%), and advice from professional bodies and trade association officers (27.8%).

As for the on-going business, acquaintances and individuals from the same industry were maintained as the persons who provide the most important advice for respondents. It was followed by officers from professional bodies or trade associations (40.7%) and officers from the Chamber of Commerce or other society's officers (35.2%). A total of 31.5% of the respondents stated that they also contact banks or financial institution officers to get advice before selecting the right CCS.

TABLE 4. CONTACT FOR ADVICE BEFORE SELECTING THE MOST SUITABLE CCS

Before start up	Frequency	Percentage	Mean	Std. deviation
Family/relatives/close friends	27	50	1.50	.505
Acquaintances	20	37	1.63	.487
Individual from same-industry firm	16	29.6	1.70	.461
Government agencies officers	11	20.4	1.80	.407
Banks/financial institutions officers	11	20.4	1.80	.407
Chamber of Commerce/other societies' officers	8	14.8	1.85	.359
Professional bodies/trade association officers	10	18.5	1.81	.392
Officers of others	1	1.9	1.98	.136
<b>Within 5 years</b>				
Individual from same-industry firm	22	40.7	1.59	.496
Acquaintances	21	38.9	1.61	.492
Family/relatives/close friends	18	33.3	1.67	.476
Government agencies officers	17	31.5	1.69	.469
Professional bodies/trade association officers	15	27.8	1.72	.452
Banks/financial institutions officers	12	22.2	1.78	.420
Chamber of Commerce/other societies officers	12	22.2	1.78	.420
Officers of others	3	5.6	1.94	.231
<b>Currently</b>				
Individual from same-industry firm	23	42.6	1.57	.499
Acquaintances	23	42.6	1.57	.499
Professional bodies/trade association officers	22	40.7	1.59	.496
Chamber of Commerce/other societies officers	19	35.2	1.65	.482
Banks/financial institutions officers	17	31.5	1.69	.469
Family/relatives/close friends	16	29.6	1.70	.461
Government agencies officers	16	29.6	1.70	.461
Officers of others	4	7.4	1.93	.264

With regard to the usefulness of the advice received from their network, Table 5 shows that there was not much difference between new and mature firms. Both groups still treated the advice as useful for their operation.

TABLE 5. THE USEFULNESS OF THE ADVICES

Duration of the company Firm operation	The useful of the advice	
	Mean	Std. Deviation
5 years and below	3.60	.695
6 years and above	3.58	.507

Table 6 shows that family, relative, and close friend of the respondents had been given the highest rank (mean=3.63) in providing the right information about CCS. Acquaintances scored the second important source (mean=3.59), followed by newspapers and trade journals (mean=3.15). The lowest mean was obtained for advertisements (mean=3.11).

TABLE 6. LEVEL OF TRUST WITH THE SOURCES IN PROVIDING THE RIGHT INFORMATION ABOUT CCS

Sources	Mean	Std. deviation
Family/relatives/close friends	3.63	.708
Acquaintances	3.59	.962
Newspaper and trade journal	3.15	.940
Advertisement	3.11	.904

## 5. Discussion

More than half of the respondents were from top management level with degrees in areas not related to housing. Following that, they gained their experience by working in housing development. The majority started their own firm on their own initiative. The most important reason for them to start a business was interest and to earn more money. Other reasons were hired or prompted by the company. Their working experience in the industry could have provided them a basic and interesting knowledge to support their interest. Brüderl and Preisendörfer (1998) view this exposure as a useful basis for them to expand their business in the industry and have a better chance for survival. However, the family business plays a small role in the housing development industry in that only a small number of respondents inherits and runs their family business.

It was found that most of respondents started their business in their early and mid- career age (i.e., 21 to 30 and 31 to 40 years old, respectively). Nearly half of the respondents attended courses before and after starting the firm. Aside from attending a seminar to gain knowledge, they also used this opportunity to expand their network and to meet other developers and resource people. Cromie et al. (1994) mentioned that the first meeting with business people normally takes place at seminars or exhibitions. In addition, having membership in various associations is one way for entrepreneurs to expand their network (Dodd, 1997; Jansson et al., 1995 and Ozcan, 1995). Premaratne (2002) indicated that membership in these target groups affords PHDs a higher chance of developing a relationship and affords them the likelihood of being in the growth group.

Although it is a fact that the non-Bumiputera PHDs are the dominant players in the housing industry, the data collected shows an equal number for both ethnic groups. This could be true for small and medium sized developers where Bumiputera developers could dominate in certain states where majority of the

population is Bumiputera; while the non-Bumiputera will normally be a domain player in more popular and high-growth states.

Most of the respondent's firms (33.3%) have a paid-up capital of RM800,001 and above. According to MHLG [31], an individual or organization who wants to start in housing development must have at least RM200,000 as their paid-up capital. This money will be used as payment to MHLG for getting their developer's licence. The data shows that 75.9% of the respondent's core activity was on housing development. Apart for this, there were few companies having more than one core activity; the closest example is construction. In terms of operation, 64.8% of the respondents have been in operation for 5 years and below, with 74% of them having 10 workers and less.

Most of the respondent's firms (83.3%) had their own departments for marketing, project management, and accountancy. The least important department was technical. By having strategic alliance with contractors and consultants, it was not advisable for PHDs to have their own technical department. Furthermore, it was beneficial for PHDs not to hire any professional workers to minimize their operational cost. In most cases, small firms normally, due to their limited funds and tight budget, do not have adequate managerial and technical skill to run their business efficiently and effectively (Joyce et al., 1995; Staber, 1996 and Ernste, 1992). One of the common strategies for PHDs to survive is to have their in-house construction wing; in certain conditions they may also have a strategic alliance with consulting firms to support them with necessary advice on project development. It is further supported by the data shown that most of the PHDs' families, relatives, and close friends worked with contractors and consultants, and are involved in the same industry.

For weak ties it has been noted that most of the respondent's acquaintances worked with material suppliers, consultants, banks, competitors, and local authorities. The network that emerged from weak ties is useful in providing information related to material, plan approval, finance, competition, and so on. MacMillan (1993) suggests that building contacts and a network are fundamental for an entrepreneurs aiming to gather information, customers, and suppliers and to obtain the other resources that they need. Moreover, according to White and Houseman [19], the interactions give the person a stronger relation to the others.

Social factors were among the important selection criteria used by PHDs to select contractors and consultants, but were only mediate important for material suppliers (based on percentage given). Social factors such as ethnicity and past relation had been used by many respondents before selecting the appropriate contractors and consultants. It could be said that the emergence of many Bumiputera firms in the industry gave the industry players the opportunity to consider their selection based on social

factors. Furthermore, these two sectors can be considered as service providers and their service can only be evaluated after the provision of the services. In fact, it is easier for them to discuss business matters with people sharing the same race, language, and behavior. Moreover, being in a similar social group and community makes the entrepreneur feels safe and convenient, thus making this group important for the organizational linkages (Dodd, 1997; Jansson et al., 1995 and Ozcan, 1995). Holt et al. (1995) noted that a past relationship provides some degree of confidence to the client in selecting a good firm to complete the project.

For material supplier's selection, past relationship and ethnicity were ranked as minimal factors compared to other non-social factors. In many cases, PHDs preferred to select the same supplier as long as they were satisfied with the supplier's performance (i.e., in terms of negotiable credit terms, material price, just-in-time supply, and quality of materials). A social network helps give power and flexibility to entrepreneurs, enabling them to gain the needed resources at the lowest price possible (Johannison, 1988). However, the lesser importance of the ethnicity factor showed the domination of one ethnic supplier in this industry truly exists. Before the start-up phase, PHDs got more advice from their strong ties before selecting CCS. Having had many strong ties attached to the contractor and the consultant's firms, they were the most appropriate persons to give advice to PHDs. It can be said that PHDs treat their strong ties as the people closest to them and their most valuable asset (Peterson, 1989). Chu (1996) also found that SME businesses owners are mostly dependent upon their strong ties as a supplement to their own resources.

However, for the later business stage, most PHDs tended to get advice from their acquaintances and individuals from the same industry. This supports White and Houseman (2002), who suggest that PHDs' network with strong ties had led to building more ties in later business phases. By working closely with the industry, their acquaintances' experience and knowledge are the most important in giving specific guidance related to their own fields with regard to banks, local authorities, and competitors. Entrepreneurs tended to link up with an individual from the same industry as they provided the most required information (Foss, 1994). Regardless their firm's age, these two groups still treated advice from their network as important. In many cases, PHDs will develop their contact and try to maintain it.

This had been reported as one way for entrepreneurs to ensure the resource channel (Falemo, 1989) and also to secure information about the market relationship (Brown and Butler, 1995). This study revealed that the highest level of trust in providing the right information about CCS was from their strong ties. This supports the findings from Welter and Kautonen (2005) who found that personal trust through

family, relatives, and close friends plays the most important role during the early stage of enterprise development.

## 6. Conclusions

It has been acknowledged by many researchers that small and medium businesses normally face difficulties in terms of getting initial capital, resources, and knowledge about market opportunities. In order to overcome this barrier, new PHD entrants depend heavily on their strong ties, while at the later stage they become more dependent on weak ties in obtaining information related to CCS. Having many strong ties working within the industry's environment helps PHDs in acquiring useful information. Meanwhile, at the later stage, PHDs widen their network with weak ties in order to obtain various related information. The result shows PHDs give priority to non-social factors in selecting CCS, but social factors such as past relationship and ethnicity are also taken into consideration in choosing the right consultants and contractors. Aside from non-social factors (lowest quotation and willingness to customize), PHDs most commonly judge material suppliers based on their past relationship. Regardless of the firm's age, PHDs acknowledge the importance of having a good network in providing important information about CCS selection. This study also revealed that PHDs had the highest level of trust on their strong ties in providing the right information in selecting the right CCS compared to other resources.

The result of this study could be a useful contribution to explain the business linkages formed by PHDs and their CCS. For the new players, this study's findings could provide them a useful guide for developing their networks; while for the experienced industry players, they can use the findings to maintain and develop more contacts within the present operating environment. In the social network approach, numerous studies had been focusing on weak ties and how these kinds of ties can help entrepreneurs gain access to information mostly from acquaintances and individuals from the same industry. Furthermore, in providing strong support for the importance of strong ties in start-up phases and weak ties in a later stage, this study contributes by adding to the list of industry studies that had advanced the application of social network as a valid conceptual approach. This study also helps further enrich the understanding of some important factors of networking in the industry.

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