

**Examining the Entrepreneurial Process:  
Social Networks and Business Startups**

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## **Abstract**

The topic of entrepreneurship has been the subject of a considerable amount of academic interest over the last twenty years. Despite a vast amount of published work there have been very few attempts to study the entrepreneurial process. In other words, we know little of the what happens as an entrepreneur moves from idea to the objective reality of a fully functioning business. A more recent phenomenon has been the shift from a focus on entrepreneurial traits to the study of entrepreneurial networks. This is recognition that even the most individualistic of entrepreneurs rely heavily on their social relationships during the creation of a new business. These two factors, networks and the entrepreneurial process, are brought together in this paper which utilises a first-hand account of activities associated with business startups. The paper also examines the way in which MBA education provides useful skills to even the most experienced entrepreneur.

## **Examining the Entrepreneurial Process: Social Networks and Business Startups**

### **Introduction: What Is Entrepreneurship?**

In general, explanations of entrepreneurial activity either concentrate on individual psychological attributes (McClelland, 1961; Chell *et al*, 1991) or economic approaches based on the interaction of supply and demand (Casson, 1995). Increasingly, it is accepted that networks add an original dimension to the study of entrepreneurship and innovation (Freeman, 1991; DeBresson and Amesse, 1991; Chell and Baines, 2000). Steward and Conway (1998) suggest that the network approach provides a framework for exploring the pluralistic patterns of communication and collaboration necessary for successful innovation (see Conway, 1997). Networks can be visualised as a series of dyadic relationships established for the exchange of ideas, information, goods, power and friendship (Tichy *et al*, 1979). The personal networks created by entrepreneurs fulfil a number of roles including the provision of social support, extending strategic competences by identifying threats and opportunities and supplementing internal resources to resolve particular problems (Johannisson, 1988; Birley *et al*, 1990; Shaw and Conway, 2000).

Existing theories can be located on an environment-to-individual continuum indicating influences on entrepreneurship (Manimala, 1999; Koh, 1996; Timmons, 1989). Economic theories (Kirzner, 1973; Casson, 1982; 1995) represent the environmental perspective in which entrepreneurial activity results from disequilibrium in supply and demand. Population ecology theory (Aldrich, 1979; Hannan and Freeman, 1977) focuses on the birth and death rates of entrepreneurial ventures resulting from selection mechanisms which include government policies, political events and cultural norms (Van de Ven, 1996). At the other extreme, psychological theories concentrate on individual traits such as risk-taking, achievement, autonomy, optimism and self-efficacy (McClelland, 1961; Schumpeter, 1934). Although the most widely quoted psychological approach McClelland's 'need for achievement' trait now 'stands disowned even by its author' (Manimala, 1999:67). Manimala (1999:73) develops his own theoretical model in which he introduces 'managerial heuristics, policies and strategies' as the intervening variables between 'the entrepreneur in *his* environment and venture performance'. This approach is based on the PI (pioneering-innovator) motive identified by Khandwalla (1985) which is similar to Maslow's (1954) concept of self-actualisation. Cultural and sociological theories occupy the middle-ground between 'strategic choice' and 'environmental determinism'. Cultural theories (Weber, 1930) concentrate on ideologies such as the Protestant ethic while sociological theorists (Hagen, 1962) argue that entrepreneurs emerge in communities that have been displaced or have experienced 'status withdrawal'. Quaker entrepreneurs in the UK founded their own businesses because they were excluded from the professions (Prior and Kirby, 1998). Continuing links between religion and entrepreneurship are confirmed in a recent study where it is concluded that proponents of 'Thatcherite

enterprise culture' sought to 'validate and legitimate their work by reference to traditional (Protestant) religion' (Anderson *et al*, 2000:17). Furthermore, Tony Blair's strongly espoused 'Christian' position and his government's stance on the benefits of entrepreneurship suggests Thatcher's 'enterprise theology' has substantially influenced New Labour.

Popular perceptions of entrepreneurs are associated with their roles as risk takers, founders of organisations and innovators. Some research suggests that effective entrepreneurs are moderate risk takers (Caird, 1990) while Drucker (1997:128) argues that those who are successful 'try to define the risks they have to take and to minimise them as much as possible'. Entrepreneurs tend to focus on opportunities and often do not initially consider resources, structure or strategy (Stevenson and Gumpert,1992). Effective entrepreneurs are described as quick learners because they use both negative and positive feedback to improve their businesses (Starbuck, 1965). Enterprising individuals develop new ideas, spot market opportunities, combine existing ideas and resources in different ways to create additional value but such outcomes are unlikely to be achieved by 'adherence to prescribed detailed procedures' (Biemans, 1992: 226). Others argue that entrepreneurs are distinguished by a strong locus of control and consider setbacks and successes as outcomes of their own their own actions (Brockhaus, 1982; Rotter, 1966). Research concentrating on individual traits is increasingly challenged by those who see entrepreneurship as a phenomena which is strongly socially embedded (Granovetter, 1985). Entrepreneurship, rather than relying on particular psychological attributes or traits is a set of managerial skills which can be 'presented as a discipline, capable of being learned, capable of being practised' (Drucker, 1997:17). In particular, Drucker focuses on the importance of entrepreneurs recognising that innovation is the 'tool' by which they exploit business opportunities by creating new products or services.

The paper is based on the personal account of a practising entrepreneur who has been responsible for five business startups over a period of twenty six years (Brereton, 2001). There are many practical difficulties associated with observing the entrepreneurial process of developing and institutionalising a new business idea (see Aldrich, 2000). As McMullan and Vesper (2000:33) point out: 'there is little accumulated in-depth knowledge about the personal transition process through which an individual proceeds in becoming more entrepreneurial'. Therefore, it is suggested that utilising 'first-hand' accounts of entrepreneurial activity is a valuable device for better understanding the way in which individuals create new ventures. In this paper, the focus is on differences between the *ad hoc* approach associated with a first business venture and the more structured approach in which the knowledge acquired during an MBA was utilised to inform the 'entrepreneurial process'. This joint paper is written in the first-person because the empirical data are based on the practical experiences of the first author (Brereton, 2001).

## **Entrepreneurial Networks**

It is argued that individual entrepreneurs take primary responsibility for creating and maintaining networks and this is necessary until the SME has been established in the market place (Jones *et al*, 1997). According to Leonard-Barton (1984) owner-managers acknowledge the significance of networks: 'entrepreneurship is both constrained and facilitated by linkages between the resources and opportunities that are created *via* the social network of the entrepreneur'. Entrepreneurs build successful business by maximising the opportunities and social networks are crucial for business owners (Birley *et al* 1990; Lawton-Smith *et al*, 1991; Rothwell and Dodgson, 1991). Networks can be defined 'as the composite of the relationships in which small firms are embedded, which serve to link or connect small firms to the environments in which they exist and conduct their businesses' (Shaw and Conway, 2000:369). An 'actor-centred' definition is provided by Johannisson (2000: 370):

'Networks are interconnected, dyadic relationships in which various ties can be analysed in terms of content. Information ties provide business information, secondly, exchange ties extend access to resources, thirdly, influence ties legitimate the entrepreneur's activities and create barriers to entry'.

Networks are based on social relationships, family, friends, neighbours, as well as customers, vendors and creditors. Birley *et al* (1990:59) note: 'entrepreneurs, at an early stage of enterprise development, rely heavily on informal network of friends, family members and social contacts from the local neighbourhood to gather relevant data'. Gradually, entrepreneurs extend their networks to include bankers, accountants, lawyers, suppliers, government agencies, customers and consultants. Research on the growth of small firms (McGhee *et al*, 1995) confirms the importance of entrepreneurial teams which 'expand the organization's network of contacts and provide the balance of expertise required to profit from certain types of cooperative activity' (Birley and Stockley, 2000: 289). Entrepreneurs with good cultural and social networks can attract more capital and are more likely to be successful than those with limited networks (Shaw, 1998). Some linkages are planned, some are accidental and others are with organised groups, such as Chambers of Commerce, that help enhance entrepreneurial scope. There are differences between market-mediated transactions related to one-off purchases and those based on regular interaction between buyers and sellers. The latter are referred to as 'contacts' and such encounters may be based on social relationships such as lunch, a meal or drinks. Such activity can be described as the forming and building of network ties. 'Ties' rather than 'contracts' are the basis of networking and any individual's set of relationships can be classified (Figure 1) as strong, weak and those which apparently are inconsequential, for example, meeting complete strangers (Aldrich *et al*, 1997; Boissevain, 1974).

Strong ties with family and close friends are trust-based relationships which are generally of mutual benefit to both parties (Granovetter, 1973; 1985). These ties are important for business owners: 'as they provide a means of avoiding the opportunism and uncertainty inherent in typical market-

mediated transactions' (Aldrich and Elam, 2000:177). Weak ties are more superficial and involve much less emotional investment for both parties and are often at arms-length. Such ties include customers, clients, suppliers and casual contacts made during a business career (Birley,1989). Weak ties involve little emotional investment and consequently are subject to high levels of 'uncertainty, opportunism and exit'. The outer circle represents those contacts undertaken primarily for instrumental reasons. Such links with 'strangers' are usually of short duration and involve little in the way of emotional attachment. As Aldrich *et al* (1997:4) go on to say: 'we have only limited understanding of the value and importance of these pragmatic links with strangers'. In addition, the authors point out that most academic research into entrepreneurial behaviour addresses strong ties with little emphasis on either weak ties or contacts with strangers. Although, it is noted by Chell and Baines (2000) that some authors (Blackburn *et al*, 1991; Curran *et al*, 1993) report that small business owners have little time for networking and emphasis independence *via* a 'fortress enterprise mentality'. In explaining the contradictory evidence, Chell and Baines (2000:205) found networking was positively related to business growth being significantly higher in 'expanding or rejuvenating' businesses than those 'plateauing or declining'.

Conway (1997:241) outlines a 'detailed and systematic method for revealing and mapping the set of actors, relationships and flows drawn on for the development of a discrete innovation'. As a means of mapping those relationships Conway suggests what he describes as an 'actor positioning template' that illustrates both internal and external relationships associated with a particular firm or entrepreneur (Figure 2). The central ellipse represents an individual firm or entrepreneur and the rectangle represents the external environment. The lower section of the template describes relationships associated with value chain activities such as suppliers, competitors and customers. The upper segment illustrates broader relationships with knowledge creators and the socio-political environment (Conway and Steward, 1998:238). Social relationships are the basis of any entrepreneurial start-up and the template is a useful device for identifying and categorising those relationships. Others have used the template for analysing more established firms in the process of acquiring new knowledge (Jones and Beckinsale, 2001; Beckinsale, 2001).

### **Research Methodology**

McMullan and Vesper (2000) differentiate between three approaches for generating evidence on links between education and entrepreneurship. First, sociological surveys provide a 'wide angle lens' by which it is possible to compare programmes in terms of their design and inputs. Secondly, single institutional studies which are similar to a 'normal lens' help understand the way specific programmes utilise their own knowledge and resources. Thirdly, single person studies are like a 'fish-eye lens' which give a detailed 'but subjectively distorted close-up' of entrepreneurial activity (McMullan and

Vesper, 2000: 34). Here, the single case methodology is extended by utilising the entrepreneur's own account of interactions between education and the exploitation of business opportunities. Data for the paper are based on recollections of the first author's experience as an entrepreneur. Conway's (1997) model is used to analyse the way in which networks contributed to the setting-up of two business ventures. I have taken this 'action-set' approach and applied it to my first venture established in partnership with my sister when I was 19 years-old and my most recent venture set-up early in 2001. Since 1976 I have established five new ventures four of which I still control. I have drawn on my own experience as a serial entrepreneur in setting up these businesses and collated data from historical sources established during twenty-six years of my entrepreneurial activities. In the paper I present two case studies related to the process of setting-up businesses from the initial idea, evaluating opportunities, acquiring resources, gathering knowledge and establishing the organisations. In particular, I compare different entrepreneurial networks, examine the success and personal knowledge gained from the experiences. The research methodology is essentially autobiographical in an approach described by Jones (1983) as 'life history'. As pointed out in the editorial of a special issue of *Sociology* (1993:2) on the use of biography and autobiography it is important to acknowledge the 'resocialisation of the individual' in a way that avoids both structural and psychological determinism. Therefore, it is argued that using biographical accounts is a legitimate research approach to improve understanding of the entrepreneurial process. At the same time, network theory defined by Oliver and Ebers (1999:575) as a focus on how the position of actors within their network of relationships affect opportunities for action (see Burt, 1992; Powell, 1990) is utilised as a means of providing an analysis of those activities associated with establishing new businesses.

### **The Entrepreneurial Process**

As pointed out by Birley and Muzyka (2000:xi) starting a business 'does not usually happen overnight'. There are a number of activities associated with identifying and exploiting opportunities which can be described as 'the entrepreneurial process' (Stevenson and Sahlman, 1989). I still own four of the five companies I have set up qualifying as a serial entrepreneur (Wright *et al*, 1997) and in this section I analyse the setting-up of two of those companies. The *Vogue Clothing Agency*, established in 1976 to retail second hand clothing and *American E-Z Self-Storage*, established early in 2000, based on the weekly rental of storage space. At the outset I was unaware of being entrepreneurial and was influenced by my family background in process described by Hofstede (1994) as 'mental programming'. I started my first business when nineteen years-old having recently left school without qualifications and no business experience. In contrast, Aldrich *et al* (1997) claim that the majority of US entrepreneurs are generally educated to degree level. My sister and I were each given £10000 by our parents on the understanding it was a 'one-off' gift. My mother suggested investing in a shop as she regarded property as 'the bread-and-butter of business'. We decided to do

something in which we were interested and chose to concentrate on clothing. Eventually we identified a property in a Lincolnshire town which was on sale for £18000 and put in a 'silly offer' of £12000 because the divorcing couple that owned it were desperate to sell. Our offer was accepted and the shop, which included two flats, five garages and a car park, had an excellent main street location. We still own the shop which was recently valued at more than £400,000.

Following mother's advice we used a dress agency that provided stock on consignment. We also saved money by decorating the shop ourselves, borrowing furniture from friends, buying curtains from 'jumble sales' and shop-fittings from bankruptcy sales. In the early stages there was no marketing plan because we simply we relied on passing trade. Later, our 'advertising' included many hours spent attaching 'flyers' to vehicles in local car parks and small, inexpensive 'adverts' placed in local papers. To minimise costs we used my mother's network of friends to find cheap, second-hand clothes as well as buying 'end of line' stock. To our surprise, despite lacking previous business experience, the shop began to make money immediately. Most decisions were made intuitively, for example, when looking at rows of clothing I worked out quickly in my mind that if I paid  $x$  and charged  $y$  we would make a profit. Judgement about stock was made on the spot and there was no plan related to the number of skirts, tops and jackets nor any system of stock rotation. In the early stages we did not even know that the most popular sizes were 16/18 as we were size 10/12 and modelled the stock. In addition, we rented the car park, garages and the flat which paid the overheads and contributed to profit. We had excellent cash flow, very high margins and low overheads which helped make the business a success.

My most recent business startup, *American E-Z Self-Storage*, was established after 26 years experience and an MBA obtained from XYZ Business School. I had seen the concept when living in the US some years earlier and thought it was a good business idea. Self-storage offers warehouse space from as little as four square metres on weekly, monthly and annual contracts. The concept is aimed at both commercial and domestic markets which in the latter case gives flexibility when people are moving home. While considering the opportunity I met my ex-bank manager at a business lunch who mentioned that he was involved with a similar project and offered to show me around. It is noted by Hornaday (1982) that entrepreneurs have the ability to make decisions quickly and following the visit I decided I would invest in the business. I made 'offers' for a number of suitable properties in my local area and one vendor immediately agreed to a substantial reduction on 'asking price' as he and his family were moving to the US. After surveying the building, which was divided into four units, I decided it was ideal because there was spacious parking and the perimeter securely fenced. I was advised by my accountant that new venture could be financed through my pension scheme and a new company, *American E-Z Self-Storage*, was established to manage the business. Working capital was



provided by cash from my other business ventures which meant that setting-up the new company was entirely self-financed.

I chose the name because it began with an 'A' and consequently would be placed in the first section of *Yellow Pages*. *American E-Z Self-Storage* also gave the impression that it was a large operation which I hoped would deter potential competitors. Rather than relying on my own skills, as with the first venture, this company was set-up with a manager and small team of part-time employees. I wanted to give the manager's position to someone that I trusted and eventually offered it to a fellow MBA student. Ideas for promoting the new business were suggested by staff at another of my companies and rewards given for the best ideas. We advertised in local papers, on the radio and got publicity by, for example, sponsoring Christmas decorations in the town centre. I obtained permission to promote the company in the local shopping precinct owned by a major supermarket chain. Subsequently, the senior manager said my proposal was only accepted because he thought he was dealing with a large, highly professional company. In a typical 'American' fashion I also purchased a 'blimp' so the whole town knew about the company. Setting-up *American E-Z Self-Storage* demanded significantly more capital than any of my earlier ventures and had to be carefully planned from the outset. Marketing was done on a professional basis and my decision to invest in the business was informed through the calculation of net present value. Within three months of opening trading exceeded the first year's projections and I began to feel confident about the company's future. Had it not been for the MBA I would not have had the skills, knowledge or the confidence to take on a project that required so much planning and so much capital.

### **Contrasting Entrepreneurial Networks**

There are similarities and differences between my first and most recent business startups as illustrated by Figures 3 and 4. Drawing on Conway's (1997) network mapping model I illustrate the different processes in establishing both companies. My mother was central to the setting-up *Vogue Clothing Agency* as a result of her business knowledge, contacts and finance. She was the only source of business information at the time and her willingness to pass on her experience was invaluable. In setting-up *American E-Z Self-Storage* my MBA studies added to the practical experience gained over more than twenty years by giving me a clearer understanding of the intuitive actions I had previously taken. The MBA also gave me confidence to draw on a much wider spectrum of professional expertise to help with business decisions (see Birley *et al*, 1990). I used a range of advisors to help with decisions related to tax, finance and discussed the business idea with auditors during the planning stage. Each of the model's six elements are now utilised to compare and contrast the two startup processes.

In establishing *Vogue* two segments of the model, regulatory and competitors, did not influence our business decisions. At the time we were completely unaware of such issues as Health and Safety at Work or regulations related to trade union membership and wage councils. Similarly, we simply decided to buy the shop without considering competitors within the town or those in the region. We gained an impressionistic view by walking around and engaging in casual conversations with local residents. One broader political factor which did influence our decision to buy a shop was the high levels of taxation on 'unearned income' which meant it was unattractive to simply invest our inheritance. In making contact with suppliers initially we were heavily reliant on my mother's network which helped provide stock as well as equipment in the early stages of *Vogue*. Hence, my mother was the main 'provider' of knowledge as she passed on her business experience and commercial contacts including potential suppliers and other useful contacts from her wide circle of friends and acquaintances. We were very unsystematic in developing our customer base as we relied very heavily on 'passing trade' although as time went by we began to adopt a more professional approach to advertising and marketing.

My approach to establishing *American E-Z Self-Storage* was far more professional than any of my previous ventures (Figure 4). Network linkages with all segments of the model were a feature of this particular start-up. Government policy on pensions certainly strongly influenced my decision to go ahead with the project because I was able to finance it personally rather than seek external funding. Secondly, close personal ties with employees of the local council helped me understand the appropriate procedures associated with planning approved on business premises. In addition, while in final negotiations for the property a local government officer informed me that a competitor was attempting to purchase land only three miles away. I spoke to the entrepreneur involved and, with the help of a 'compensation' payment, persuaded him that close competition would be bad for both our businesses. A senior partner from my chartered accountants advised me about the possibility of taking a loan from my pension scheme to finance the setting-up of *American E-Z*. An independent firm of auditors, *Robert Graham Associates*, were appointed as trustees to ensure that operation met requirement of government regulations related to pension schemes (OPRA, 2001).

A more straight-forward knowledge link was provided by my ex-bank manager who has provided invaluable advice over the years. As discussed above, his involvement with a similar operation helped convince me that the *American E-Z* concept offered a worthwhile business opportunity. A turnkey company, *Active, Supply and Design*, was identified as a result of systematic research and supplied facilities as well as consultancy planning. *Yellow Box* operate a similar company in southern England and I checked their business before setting-up *American E-Z*. The owner of a local competitor *Rent A Space Ltd* also agreed to show me his business premises and provided a considerable amount of

industry-related information. This direct interaction with competitors was very different than the *ad hoc* approach to setting-up *Vogue*. The biggest difference between the two businesses has been linkages associated with XYZ Business School established during two and half years of MBA study. The MBA itself provided a wide range of new knowledge associated with courses such as finance, accounting, strategy and HRM which all provided useful insight into a more professional approach to business management.

### **Discussion: The Entrepreneurial Process**

Traditional views of entrepreneurship which suggest that individuals possess certain traits and characteristics which make them entrepreneurial (McClelland, 1961; Schumpeter, 1934) are increasingly criticised (Chell, 2001; 1985; Gartner, 1989). The argument put forward here is that understanding the 'entrepreneurial process' requires more focus on ways in which entrepreneurs mobilise their social networks as a means of accessing business resources. At the same time, entrepreneurs may differ in terms of the willingness to balance risk and opportunity (Caird, 1990; Drucker, 1997) and in terms of broader characteristics such as their motivation, goal-setting abilities, resilience, confidence, assertiveness and comfort with power (Wickham, 2001). Instead of attempting to discuss personality or individual motivation the focus of this paper has been the way in which education and experience changes an entrepreneur's capacity to network. At a basic level the two companies illustrate the way in which strong ties associated with *Vogue Clothing Agency* were replaced by a much broader range of weaker ties by the time I setup *American E-Z Self-Storage* (Aldrich *et al*, 1997). The respective network maps (Conway, 1997) provide a graphic illustration of the way in which my external linkages became much more diverse. No doubt this ability to network more widely is partly explained by business experience gained over a period of more than twenty-six years. At the same time, undertaking an MBA provided two direct benefits, first it improved my confidence to deal with other managers and entrepreneurs as equals. Secondly, the various skills described above improved my analytical abilities enabling me to be more rigorous in searching out information related to new business opportunities.

Entrepreneurs inform themselves by networking (Aldrich and Zimmer, 1986) and this process helps with the identification, articulation and evaluation of business opportunities. Such opportunities are not 'out there' waiting to be recognised by the entrepreneur but are social constructions which become part of the mental space between the entrepreneur and their perception of reality (Chell, 2000). Neither of the businesses discussed in this paper were based on particularly innovative ideas but both have successfully exploited opportunities in existing markets (Schumpeter, 1934). The first business was started simply because my interest in clothes was an effective way of using a gift of £10000 and provided an alternative to working for someone else. *American E-Z Self-Storage* was established after

a much more rigorous evaluation of the potential offered by such a business. In other words, I was able to identify and exploit opportunities for profitable businesses where others did not.

### **Conclusions**

There are similarities associated with setting-up the two companies even though they were separated by 26 years. There was added value in the purchase of buildings which enabled me to use these assets as security if needed. In both cases, I wanted to retain financial control and was therefore unwilling to accept external finance. In setting-up *Vogue Clothing Agency* with my sister we used money given by our parents to purchase the property and then obtained credit by taking stock on loan from suppliers. Funds for establishing *American E-Z Self-Storage* were borrowed from my own pension scheme which reduced the cost of borrowing and helped minimise risk. None of my five business ventures, including the two discussed in this paper, were based on innovative concepts but all have been successful in terms of my own personal rewards, the creation of jobs for 150 people in an area of high unemployment and their contribution to broader economic activity.

Differences between the two businesses are particularly evident in the degree of formalisation related to the business plan. Marketing was also very different and knowledge was accessed from a much broader range of contacts. My own knowledge developed through a process of continual learning with feedback from successes and failures. Risk-taking is a factor in any entrepreneurial venture and I believe that I have been effective in balancing risk and opportunities in both ventures. Fear of failure (Kets de Vries, 1977) has certainly been a driving force in my own desire to succeed in all my entrepreneurial ventures. While certain skills associated with entrepreneurship can be taught and appropriate attributes and behaviours encouraged successful entrepreneurship still demands a certain type of individual to engage in the risk of starting their own business. The ability to identify and seize new opportunities is central to the entrepreneurial process. Using casual meeting with strangers on planes, trains and in business meetings as possible future useful contacts is also an important element in the activities of most successful entrepreneurs (Jones and Conway, 2000). In conclusion, this personal account helps illustrate the value of MBA education in contributing to the skills, knowledge and networking ability of an experienced entrepreneur. Furthermore, 'despite the limitations imposed by subjectivity, there is room for case studies to contribute to the accumulation of knowledge about entrepreneurship education' (McMullan and Vesper, 2000:43).

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## Appendices

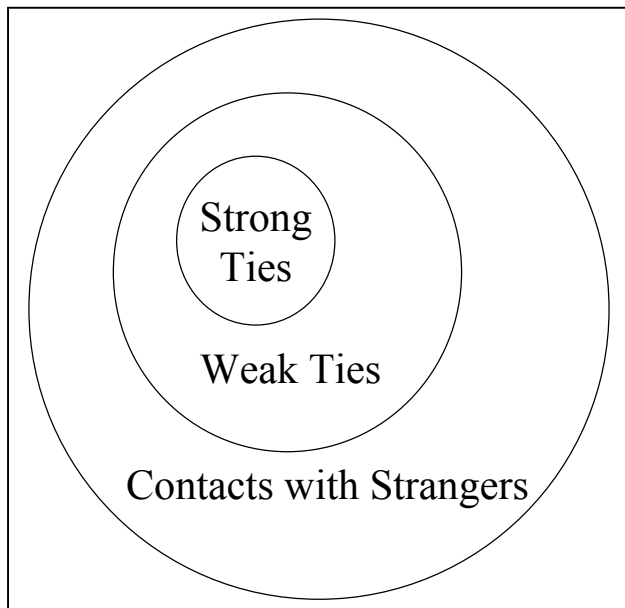


Figure 1

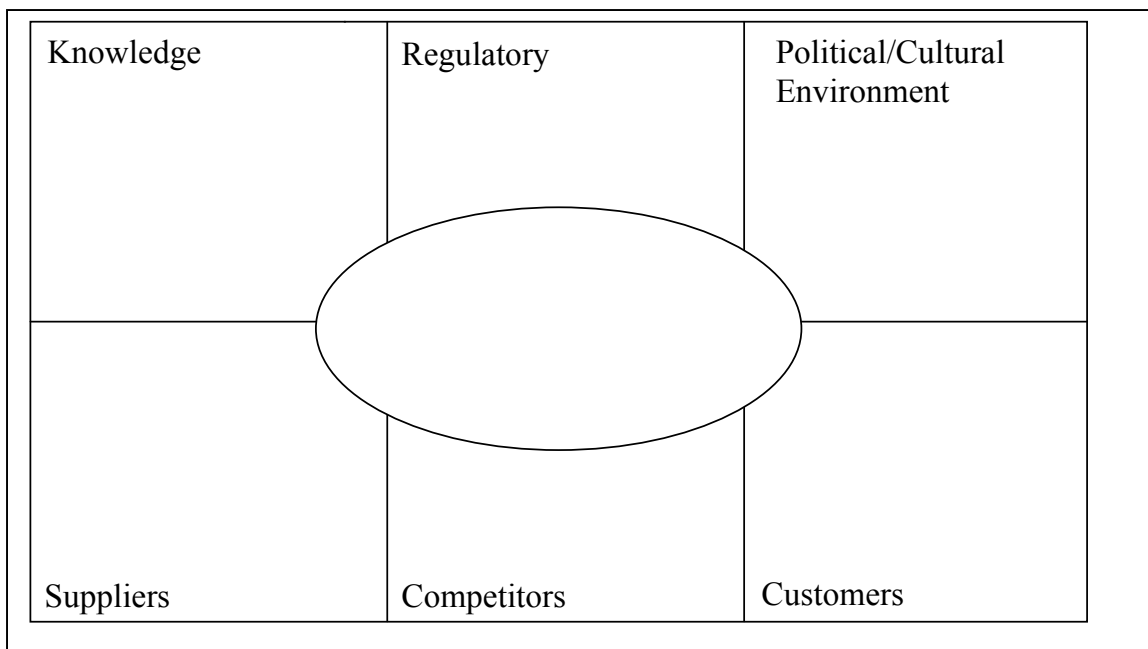


Figure 2

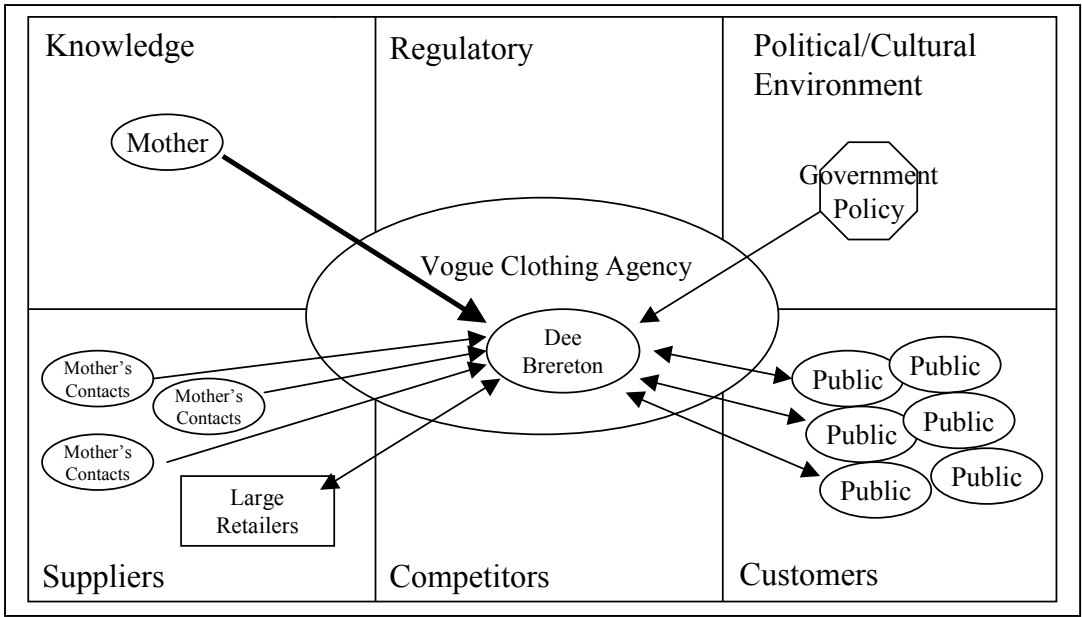


Figure 3

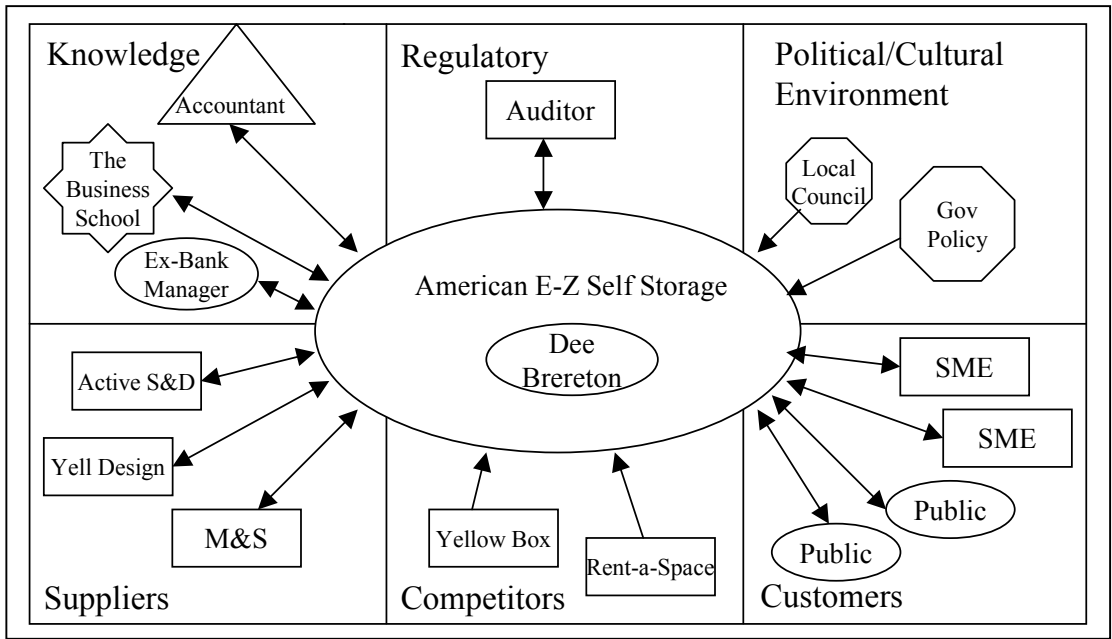


Figure 4