

Start-up motives and network ties: The case of necessity and opportunity entrepreneurs

Principal Topic

This paper investigates if start-up motives influence how entrepreneurs form network ties. Entrepreneurs are described as people who recognize an opportunity (Allen, 2012), take calculated risk (Scarborough, 2011), satisfy customers and create value (Schumpeter, 1975). Entrepreneurs are characterised by the motives of their decision to start a business (Block and Sandner, 2009). Opportunity entrepreneurs identify an opportunity and develop it by starting their own business. The motivation to be self-employed and make a profit drives them (Reynolds, 2004). Necessity entrepreneurs turn to business because of a lack of or limited employment options (Hechavarria and Reynolds, 2009). As a result, they differ in how they manage their new ventures (Block and Sandner, 2009). For example, opportunity entrepreneurs are more likely to plan how they would start the business; including taking time to establish networking relationships (Burt, 2002).

Evidence has shown that networks are important to entrepreneurs (Ceci and Iubatti, 2012) and is seen as one of the key elements contributing to venture success (Allen, 2009). Networks represent a nexus of relationships in a complex mix of friends, family, government, educational and professional connections (Jones and Tilley, 2003) in an informal and formal situation (Koniordos, 2005). Lindsay (2005) emphasises the importance of networks in identifying opportunities, access to resources, information, emotional support and other advantages (Halinen and Törnroos, 2005).

While the relationship between networks and entrepreneurship has been established in the literature, less is known about differences in networking behaviours of opportunity and necessity entrepreneurs. Literature on opportunity and necessity entrepreneurs concentrate on issues such as the start-up motive (Davidson and Wiklund, 2001; Reynolds, Bygrave, Autio, Cox and Hay, 2002); levels of satisfaction (Kautonon and Palmroos, 2010) or perceived success (Block and Sandner, 2009). By understanding the needs of necessity and opportunity entrepreneurs in building networks, policy and training programs can cater more successfully to different needs or even provide clues to increase the success rate of start-ups and small firms. This is particularly important in the developing economy context of this study, which has high proportions of necessity entrepreneurship (Acs, 2006).

Three main hypotheses are presented. First, it is argued that both opportunity and necessity entrepreneurs will have high levels of perceived performance, even though profit levels for the former may be higher. Because opportunity entrepreneurs have a higher success orientation (Block and Sandner, 2009; Hechavarria and Reynolds, 2009), they may be not easily be satisfied. These expectations are often based on previous experience, training, and a dedication to innovative (Schumpeter, 1934). Second, drawing from literature by Krackhardt, (1992), De Man, (2004) and Petruszewicz, (2005) it hypothesizes that weak network ties will have a stronger relationship with the performance of necessity entrepreneurs than strong ties. Weak ties offer novel information (Granovetter, 1973) and efficiency as well as brokerage and flexibility (Burt, 1992). Necessity entrepreneurs may have more access to weak ties initially than to strong ties since strong ties are built over time and through previously shared experience. While stronger relationships offer more opportunity for business exchanges (Moberg and Speh, 2003), they are built on elements of trust (Kadushin, 2002), track record and reciprocity (Cross, Liedtka and Weiss, 2005) which allows for more complex resource exchanges. So while they may be more flexible (Hadjikhani and Thilenius, 2005:27), they

take time to develop. Third, the paper posits that opportunity entrepreneurs are likely to derive greater value from established, strong ties since they are more attuned to the benefits derived from these relationships than others. This is based on the argument that opportunity entrepreneurs are early market entrants who take active steps to identify network opportunities that may support their efforts (Hindle and Rushworth, 2003).

Method

These hypotheses were tested in an empirical study of 404 small South African firms with fewer than 50 employees. The questionnaire consisted of five sections including; characteristics of the entrepreneurs and questions from existing scales about entrepreneurial motivation (Mazzarol, 2010; Longenecker, Moore and Petty, 2003), business relationships (Krackhardt, 1992, 1999) and perceived firm performance (Morris and Sexton, 1996). Data were analysed using SPSS 19; conducting descriptive statistics, factor analysis and linear and logistic regression analysis.

Results and Implications

The analysis confirms the hypotheses set out earlier in that necessity and opportunity entrepreneurship as well as strong and weak ties was related to perceptions of performance. However, only a weak relationship between necessity entrepreneurship and performance was reported. Further, opportunity entrepreneurs were more likely to form both strong and weak ties than necessity entrepreneurs. Explanations for the findings are offered in the full paper. Theoretically this paper contributes a more nuanced understanding of how opportunity and necessity entrepreneurs differ in terms of their motivations and drive towards starting a business. This will provide valuable insights into the different cognitive processes of different entrepreneurs and how different levels of analysis might be needed to investigate networking behaviours for different forms of entrepreneurship. Practically, by understanding social networking behaviour, steps can be taken to enhance the social networking efforts for business owners/managers. Educational institutions, business support organisations and government might use this information by offering relevant training to necessity entrepreneurs on how to form ties and use these ties to their advantage. Networking offers business opportunities where wealth can be co-created, and knowledge and relational support can be communicated and exchanged to add value and link the different role players successfully (Breiger, Carley and Pattison, 2003).