THE ROLE OF SOCIAL NETWORK FOR ENTREPRENEURSHIP SUCCESS: A PROPOSED MODEL

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Abstract – A thorough understanding of the entrepreneurial process and attributes of followers in a social network is very important for entrepreneurship success. Many scholars increasingly acknowledged that entrepreneurial activity is embedded in network relationships that direct resource flows to entrepreneurs who are somehow connected. Many literatures indicate that the resources which entrepreneurs may access through their personal networks, allows them to identify opportunities, mobilize resources, and build legitimacy for their firms. Thus, the present study aims to propose a model for entrepreneurship that aligns with the role of social networks, knowledge management and innovation. The model proposed will integrates both process issues and level issues in explaining differential effectiveness in launching, managing, and exiting a new firm. The present study is significant in contributing to the new body of knowledge in the area of entrepreneurship, social network and competency theory. Furthermore the new model proposed will practically assist a new start-up business to strategize.

Keyword: Entrepreneurship, Social Networks, Entrepreneurial Competencies, Entrepreneurship Success, Business Starts-up.

1. Introduction

Entrepreneurship issues have been widely discussed by many scholars in various fields such as economics, sociology, history, psychology, social anthropology, religion, and geography (Ummi Salwa, 2012). Small businesses are indeed closely related to entrepreneurship. Recently, the importance of the manager, the owner of a business, is widely recognized. In addition, Smallbone and Wyer (2000) has identified that, the contribution of small business and entrepreneurship to employment has been widely studied in scientific journals. One of measurement for entrepreneurship is business growth. Davidsson and Delmar (2007) had identified business growth as equated with high performance and offer the opportunity for financial profit, return on investment (ROI) and which is can increase the chances of survival and development (Taylor and Cosenza 1997). While much has been written about the measurement of success for small businesses, Gibb and Davies (1990) asserts that there is no single theory that can explain adequately the measurement of success for small business due to the diversity factors. In addition, many studies have yielded mostly the same argument since most of the study on entrepreneurship focused on developed countries like United Kingdom, the United States and Australia (McMahon 1999; Ummi Salwa, 2012). Hence, there is a demand for more research on entrepreneurship in other areas, particularly in developing countries, including Malaysia.

According to Nowiński, and Rialp (2015), social network are seen as dynamic and evolving from the moment entrepreneurs conceive a business idea, then form a new venture, and develop it
from the moment of establishment (e.g.: Bosma, Hessels, Schutjens, Van Praag, and Verheul, 2012; De Jong, 2013). Since the mid 1980s, there has been a shift in the literature from viewing entrepreneurs as ‘independent’ toward viewing them as ‘interdependent’ and embedded in social networks (Klyver, Grant, and Hindle, 2007). This shift has been accompanied by mounting recognition of the importance of social networking activity for new venture creation. For instance, research has shown that social networks affect opportunity recognition (Singh, 2000), entrepreneurial orientation (Ripolles and Blesa, 2005), entrepreneurial intent (Hmieleski and Corbett, 2006), the decision to become an entrepreneur (De Clercq and Arenius, 2006) and also business sustainability (Zhang and Swanson, 2014). Klyver, Grant, and Hindle (2007) pointed out that a major limitation of past research on social networks and entrepreneurship is its neglect of a process-oriented approach. Meanwhile, entrepreneurs require different resources at different phases of the entrepreneurship process (Klyver, 2007). Previous research has typically treated entrepreneurs’ social networks as static, examining the effect of social networks at a single phase of the entrepreneurship process (e.g., business start-up).

1.1 Motivation of the Study

Entrepreneurship is the key to economic growth and wealth creation. But not all entrepreneurs are equally successful. How come that some companies do better than others? How come that certain regions or nations develop more thriving economies than others? Just having a good idea or an innovative product is not enough to become successful. Entrepreneurs rarely possess all of the resources and capabilities they need to create and grow their ventures (Toft-Kehler, Wennberg, and Kim, 2013). Therefore, a thorough understanding of the entrepreneurial process is important, because this will lead to the development of new tools; tools for companies to improve their innovation and growth processes and tools for governments to develop new policies to support and direct economic growth. According to Casson and Della Giusta (2007), entrepreneurs often rely on personal social networks to facilitate their activities, and also to gain access to such resources as financing, information, and motivation. At the same time, network can also impart legitimacy on new ventures (Nowiński, and Rialp, 2015)

In Malaysia, youths who have been identified as entrepreneurs have decided on entrepreneurship at the expense of other career options and are able to survive in this current economic crisis. Financial, institutional and cultural challenges and problems in the process of business start-ups and progression do not appear to daunt the youths. This indicates that interest in entrepreneurship is strong among the youths. Shukor (2006) argues that the values and attitudes, entrepreneurial skills, managerial skills and entrepreneurial characteristics are required and important for entrepreneurial success. However, previous studied had found that the Malay participation in the economic sector is still lagging behind when compared to non-Malays. This is due to some cultural aspects and attitudes of the Malays that obstruct their business growth (Umni Salwa, 2012). Malay culture has certain deficits that impede business growth, resulting in a poor rate of Malays’ business successes. Many authors have proposed suggestions and recommendations to assist and encourage the Malay entrepreneurship to sustain their business growth. It is because; there may be other hidden obstacles and barriers that would slow down their business journey (Umni Salwa, 2012). According to Stam, Arzlanian and Elfring, (2014), there is a need to consider the attributes of followers in such a social network process. Many scholars increasingly acknowledge that entrepreneurial activity is embedded in network
relationships that direct resource flows to entrepreneurs who are somehow better connected (Stam, et. al, 2014). The literature clearly indicates that the resources that entrepreneurs may access through their personal networks, allows entrepreneurs to identify opportunities (Bhagavatula, Elfring, van Tilburg, and van de Bunt, 2010), mobilize resources, and build legitimacy for their firms (Elfring and Hulsink, 2003).

Therefore, the continued treatment of entrepreneurship as a separate area of study that is distinct from other broader domains (e.g., social network, knowledge management) has been questioned. Reviews of related research of entrepreneurship on personality, demographics, fit, and cognitive framing/bias reveal mixed findings and a lack of sufficient evidence to warrant a distinctly different view of entrepreneurship. Furthermore, empirical research does not find strong evidence supporting this approach. On the other hand, similar approaches in the leadership field have not made significant progress identifying a generic entrepreneurial competency, thus the present study aim to propose a model for entrepreneurship to align with the role of social networks, knowledge management and innovation. The model proposed will integrates both process issues and level issues in explaining differential effectiveness in launching, managing, and exiting a new firm.

2. Literature Review

An entrepreneur is commonly defined as one who owns launches, manages, and assumes the risks of an economic venture. Definition of entrepreneurs also includes people who willing to take over an existing business (Hessels, Brixy, Naudé, and Gries, 2014). Entrepreneurs have ideas to test, and some knowledge and competence to run the business, but they also need complementary resources to produce and deliver their goods or services (Teece, 1987). They get support, knowledge, and access to distribution channels through their social networks. At the same time, they are also linked to people and organizations that interact among themselves and these contacts can widen the availability of resources that sustain a new firm (Oke, 2013).

2.1 Social Networks Entrepreneurship

According to Zhang and Swanson (2014), social networks entrepreneurship is a process involving the innovative use and combination of resources to pursue opportunities to implement social change and address social needs. A review of the recent literature in social entrepreneurship clearly indicates that the conceptualization has expanded over the years and become more inclusive. Many organizations now occupy a certain spot in the social entrepreneurship zone (Swanson and Zhang 2010) because they have, to some degree, incorporated both social and business elements into their missions. Zhang and Swanson (2014) have admits that the primary objective of social entrepreneurship is to create social value, and social entrepreneurs employ business concepts to sustain their operations as they pursue this objective. While, others scholars like Wolk (2008) believes social entrepreneurial organizations as sustainable ventures that embody a passion for social impact. As a growing field, social entrepreneurship research provides rich research opportunities that are both challenging and intriguing (Nicholls 2010).
Previous studied by Shane and Venkataraman (2000) has shown that access to relevant information plays a crucial role in opportunity recognition and many other researchers note that specific persons discover opportunities. It is because, they gather and process information differently—perhaps more effectively—than other persons. Then, Wang, Ellinger, and Wu (2013) in their studied found that “recognizing the importance of social networks by forming relationships with others who can share information and stimulate creative thinking about potential opportunities becomes a critical endeavour.” Social networks might create access of diverse information; encourage better cooperation and developing competency within the industry (Wang et. al., 2013). Finding from Wang et al., (2013) also had proved that there are positive effects of social networks on entrepreneurial opportunity recognition, either weak-tie or strong-tie networks. The role of social networks including facilitate information exchange, benefits learning and circulate information processes to further discover opportunities. Therefore, the creation of an organization is impossible without opportunities (Ramos-Rodriguez, Medina-Garrido, Lorenzo-Gomez, and Ruiz-Navarro, 2010).

2.2 Entrepreneurial Competencies

The issue of competency had been proposed by McClelland in early 1970s (Hsieh, Lin and Lee (2012). Davis, Naughton, and Rothwell (2004) defined competency as clusters of skills, knowledge, abilities, and behaviour required for people to succeed. Furthermore, competencies can also be described as behaviours demonstrated by individuals and something that a person should and is able to achieve (Mitchelmore and Rowley, 2010). As can be seen, the definition and meaning of "competence" has been described by various authors in whom some of them are trying to determine competency refers to the argument of their own and are also using a variety of different justifications. Moreover, the study of Mitchelmore and Rowley (2010) further presents competencies as someone’s knowledge, skills and characteristics; and lists the identified three competencies categories which is based on Bartlett and Ghoshal (1997) previous studied. Current review by Penchev and Salopaju (2011) has classified the term competency to two major parties (1) competency refers to the managerial, and (2) competency refers to the entrepreneurial. Similarly, Bird (1995) argues that, “We need a good theory of entrepreneurial competencies. We can ‘borrow’ the concept and related theory of competency from the management and education literatures and we can extend the competencies to be more representative of what successful entrepreneurs do”.

According to Onstenk (2003), there are three-layered concept of entrepreneurial competencies, and noted that proper entrepreneurial competencies are helpful when undertaking to start an enterprise and to help it survive or grow. Moreover, entrepreneurial competency is the integrated ability to perform entrepreneurial activities effectively. These comprise mainly: the ability to recognize and analyze market opportunities; the ability to communicate, identify mentally, persuade and discuss with all stakeholders in the business environment; and the ability to establish networks linking with business persons and stakeholders for mutual learning and collaborative undertaking. Also, previous studied by Man (2001) had recommended components for measuring entrepreneurial competencies, namely; strategy, commitment, opportunity, relationship, learning and personal competency whereas Ahmad, Ramayah and Kummerow (2010) used the measurement of entrepreneurial competencies covering: strategic, conceptual, opportunity, relationship, learning, personal, ethical and familism. However, to study the impact
of entrepreneurial competencies, Fisher, Graham, and Compeau (2008) suggested the three elements of the entrepreneurial competencies framework which based on knowledge, skills, and attitudes. These three elements will be used in present study.

2.3 The Link between Entrepreneurial Competencies, Social Networks, and Entrepreneurship Success

Entrepreneurial competencies influence significantly business success (Man, Lau and Chan, 2002); Moreover, studied by Ahmad et al. (2010) argued that entrepreneurial competencies as a predictor of business success SMEs in Malaysia, even its influence more strongly for stable environmental conditions as well as dynamically. The capabilities and characteristics of the personality of those who manage companies universally regarded as one of the most powerful factors have a positive or negative impact on performance (De Zoysa and Kanthi Herath, 2007). However, Sarwoko, Surachman and Hadiwidjojo, (2013) reported that entrepreneurial competencies can also influence the ability to form a network thus have a significant influence on business performance and entrepreneurial success. Hence, the present study hypothesized that:

H1: Entrepreneurial Competencies has significant influence on Social Network

Networking is generally accepted in wider literature as a key attribute in business activity. Klyver, and Foley (2012) mentions that there is a solid knowledge base in relationship of social networks and entrepreneurship success, (e.g.: Cummins and Carson, 2001; Hoang and Antoncic 2003; Jack 2010; O’Donnell, Gilmore). Here it is generally accepted that social networks have a strong influence on entrepreneurial activity (e.g. Batjargal 2010; Zhao, Frese, and Giardini 2010). Ozgen and Baron (2007) found that mentors, informal industry networks, and participation in professional forums exerted direct, positive effects on opportunity recognition. Results obtained from the study by Fernández-Pérez, Alonso-Galicia, Rodríguez-Ariza, and del Mar Fuentes-Fuentes (2015) also highlighted the positive roles played by the perceived support of social networks. Therefore in line with Fernández-Pérez et al. (2015) this study introduces four main social networks namely mentors, professional forums, business and personal networks as important sources of opportunity relevant information. Mentors refer to more formal relations maintained from business sector–potential customers, suppliers, competitors or investors. On the other hand, the term “professional forums” is from the information sharing through the attendance at forums, conferences and seminars, mostly relevant to business. Meanwhile, “business networks” means, the close interaction with business partners. It has been suggested that employees who form business networks have access to business-related information and positive recommendations. The last ties, “personal networks” is in the sense of relationship with those in immediate environment, such as relatives, friends and colleagues which formed a more friendly relationship (Fernández-Pérez et al. 2015).

The social network approach argues that entrepreneurs are embedded into social contexts that influence the decisions which they take, and this influences the chances of successfully completing their plans (Davidsson and Honig 2003). These social contexts are constituted by their social networks. Entrepreneurs’ social networks consist of a variety of relationships that can be made up of formal as well as social relationships, which include acquaintances, friends and
family (Evald, Klyver, and Svendsen 2006). It is known that entrepreneurs obtain resources from the social networks – resources that are important and supplement what they already have in their possession (Witt 2010). These resources take on different forms, ranging from financial capital, industry information and advice, to emotional support and other pertinent general knowledge. It is the composition of their social networks that to a certain degree determines which resources entrepreneurs can obtain from it. Different social networks provide different resources to entrepreneurs (Jenssen and Koenig 2002; Witt 2010). Therefore, this study hypothesizes that:

**H2: Social Networks has positive relationship with Entrepreneurship Success**

At the same time, business success will be influenced by the knowledge, skills and attitudes (competence) of the owner/manager (Fisher, et al., 2008). Understanding the role of entrepreneur gives a better insight about what competencies needed by entrepreneurs to ensure the survival of the business as well as business success. The role of decision makers is focusing on the development of entrepreneurial competencies (Ahmad, Halim, and Zainal, 2010). Kiggundu (2002) conceptualizes entrepreneurial competencies as the total sum of entrepreneurs attributes such as attitudes, beliefs, knowledge, skills, abilities, personality, expertise and behavioural tendencies needed for success and sustaining entrepreneurship. An in-depth analysis of entrepreneurial competencies saw competencies of entrepreneurs as having dual origins: first, components that are more deeply rooted in the entrepreneur’s background (i.e. traits, personality, attitudes, self image, and social roles) and second, components that could be acquired at work or through theoretical or practical learning (i.e. skills, knowledge, and experience) (Oyeku, Oduyoye, Elemo, Akindoju, and Karimu, 2014).

**H3: Social network will mediate the relationship between Entrepreneurial Competencies and Entrepreneurship Success**

3. **Proposed Model of Entrepreneurship in Social Network**

In recent years, a challenging question has re-emerged: Does the study of entrepreneurship constitute a separate and distinct field of inquiry within the social sciences. In the present study, the above questions will be investigated and explored, along with the further issue of integrating entrepreneurship research and theory into the more established traditions of leadership and management. Finally, a model is delineated that joins process dynamics with micro- (psychological) and macro- (contextual) influences. It is difficult to determine the processes that led to the emergence of entrepreneurship as a relatively distinct field within the organizational sciences. Beyond personal psychological factors that influence the decision to withdraw as the owner/manager, financial exigencies may dictate a founder’s departure (e.g., impending bankruptcy, legal distress, foreclosure, or an attractive buy-out opportunity). Again, the interplay of economic and psychological factors (e.g., what types of entrepreneurs are more likely to be enticed by a buy-out offer?) has not received serious attention in the social science journals. Moreover, the dynamic process aspects of entrepreneurial activity (from pre-launch through exit) should be integrated with individual and contextual factors when attempting to explain entrepreneurial activity and success.
Generally, the topics pertaining to interpersonal relations can be largely borrowed from available social science evidence relating to techniques in social persuasion, power and politics, social skill training, and established models of leadership. Given that followers who work for an entrepreneur/founder are likely to have more opportunities for greater interpersonal contact with the leader/founder, it is also worth considering what this increased contact may mean to each follower. The theoretical framework in Figure 1 below depicts the relationship between social network, entrepreneurial competencies and entrepreneurship success (Fernández-Pérez et al., 2015). It indicates that competency factors, namely knowledge, skills and attitudes are antecedences for entrepreneurial competencies (Fisher, et al., 2008). On the other hand, social networks factors which comprises of mentors, professional forums, business and personal networks are important as mediating factors for social network which are the contributing factors for entrepreneurship success. While, business performance will be the factors for measuring the entrepreneurial success (especially for youth business starts-up success).

![Diagram](image)

Traditional approaches to entrepreneurship research based on Granovetter's (1983) theory of embeddedness define nature of social behavior as the way action is constrained or facilitated due to its social context. The deficiencies of traditional approaches in dealing with the embedded nature of social behavior are highlighted. A particular focus is placed on critiquing personality-based theories - which suggest that people's special personality traits make them prone to behave and succeed as entrepreneurs; economic, rational actor theories - which view entrepreneurs as rational, isolated decision-makers; and deterministic, over-socialized models of entrepreneurship (i.e., socio-cultural) - which base an individual's propensity for entrepreneurship on national origin, culture, or religion. An alternate model of entrepreneurship is proposed that identifies entrepreneurship as: (1) embedded in networks of continuing social relations; (2) facilitated or constrained by linkages between aspiring entrepreneurs, resources, and opportunities; and (3) influenced by the interaction of chance, necessity, and purpose in all social action (i.e., the population perspective on organizational formation and persistence). Based on this study, four applications of social network concepts are applied for entrepreneurship success. First, that increasing the salience of group boundaries and identity leads individuals within the group to form new social ties and action-sets which increase the likelihood of entrepreneurial attempts by persons within that group and raise the probability of success. Second, that increasing connectedness between individuals through information brokers facilitates the spread of
information and resources within social networks. Third, that increasing an individual’s social network diversity will broaden the scope of opportunities open to him or her. Finally, that increasing ties to those contacts with the most social resources - that is, contacts as high in the social hierarchy as possible - will provide the most access to social resources and more entrepreneurial opportunities (SFL). The present study is significant in contributing to the new body of knowledge in the area of entrepreneurship, social network and competency theory. Furthermore the new model proposed will practically assist a new start-up business to strategize.

5. Conclusion

A number of writers (e.g.: Jenssen and Koenig, 2002; Witt, 2010) have suggested that firm start-ups move through specific sequential stages. These stages often include identifying an opportunity, amassing resources, delivery of services or products, responding to internal and external forces, etc. Stevenson, Roberts, and Grousback’s (1985) five-stage model provides a useful foundation for the present discussion. Specifically, they proposed that start-ups involve the following stages: evaluating the opportunity, developing the firm’s concept, assessing required resources, acquiring needed resources, and managing/harvesting the business. With some modification, these stages can be incorporated into a model as portrayed present extension of their model includes a recognition that founders also serve as leader/managers during the entire process, and are engaged continuously in the creation of the firm’s culture (Schein, 1983; Smith and Vecchio, 1993).

Further, a discussion of the life cycle of a firm should recognize that the role of founder also necessarily involves an exit event (planned or otherwise). Beyond merely laying out or describing these stages, the model proposes that certain psychological factors may be more critical at some stages than others. Further, certain economic factors may be of greater importance at specific stages as well. Prior efforts to relate psychological factors to entrepreneurship have failed to consider that factors may vary in importance according to the stage of a firm’s existence. In addition to ignoring process issues, prior psychological research has ignored the role of broader contextual or economic factors. Therefore, a more comprehensive model that incorporates both process and context in attempting to explain entrepreneurial behavior will be proposed in the present study. Following examination of the available literature, it seems reasonable to conclude that; (a) many of the constructs used in the area of entrepreneurship are also found within the mainstream of social network theory; (b) the findings are not beyond being incorporated within available scholarship on leadership and interpersonal influence (i.e., entrepreneurship is leadership within a narrow, specific context); (c) the findings in entrepreneurship have not yet identified nonlinear associations or disjointed patterns of results that are clearly context-specific; and (d) there is a lack of (as well as a critical need for) study of so-called entrepreneurial types when they are employed in traditional work settings that would establish whether they are in any way distinguishable from other employees (post hoc, or retrospective recall, reports suggest they may be relatively dissatisfied when employed in such settings, but empirical evidence of their in-place sentiments and the opinions of their supervisors and peers have not been reported).
References


