The effect of necessity and opportunity driven entrepreneurship on business growth

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ABSTRACT: This paper investigates the effect of necessity and opportunity driven entrepreneurship on business growth and business growth expectation in 53 countries corresponding to three contrasting economies (factor, efficiency and innovation-driven economies). The results have shown the relationship between necessity-driven entrepreneurship and both business growth and business growth expectations are negative while the relationship between opportunity-driven entrepreneurship and both business growth and business growth expectation are positive.

Keywords: necessity-driven entrepreneurship; opportunity-driven entrepreneurship; business growth; business growth expectation.

INTRODUCTION

The idea that entrepreneur is at the centre of the economic growth process was described by Schumpeter (1934). Since then, there has been a vast and growing literature on various aspects of entrepreneurship and its link to economic growth (Dejardin, 2000; Langowitz and Minniti, 2007; Heertje, 2006; Audretsch et al., 2006).

Early researchers focused on certain personality characteristics or individual traits to explain entrepreneurial behavior. These can be described as internal factors. In the mid-1960s, McClelland (1961) proposed the “need to achieve” as a key factor. Others proposed a related concept called the ‘locus of control’ (Chen, Green and Crick, 1998; Mueller and Thomas, 2000).

Entrepreneurs are also seen as risk-takers, problem-solvers and innovators. An additional approach that is adopted to explain entrepreneurial behavior is the relationship between an individual and the social environment. Some of these external factors which have been considered are: work experience, role models, education, culture and environment. Entrepreneurship is said to be the result of the interaction between the internal and external factors (Smith-Hunter, Kapp and Yonkers, 2003).

Not all those who become entrepreneurs respond to their environment in a uniform way. Some respond to a perceived market opportunity. Others are forced into starting a business due to unfavorable circumstances. These forces have been categorized as the ‘pull’ and ‘push’ factors (Buttner and Moore, 1997; Harding et al., 2006; McClelland and Swail, 2005; Stevenson, 1986). The ‘pull’ perspective associates venture initiation with the notion of seizing an opportunity and making a deliberate choice to become self-employed. Conversely, others may be ‘pushed’ into becoming entrepreneurs by such external factors as losing a job, hitting a glass ceiling or having to juggle work with family responsibilities. Since the works of Reynolds et al. (2002), these motivations have given rise to the concepts of necessity entrepreneurship and opportunity entrepreneurship. Necessity entrepreneurs are driven by push motivations and opportunity entrepreneurs by pull motivations (Bhola et al., 2006).

Since one of the main goals of any business is primarily survival and then growth, studying business growth and identifying the reasons for its success to achieve growth can have a great benefit for small and medium businesses and help them significantly to achieve their vision in a faster and safer way. The benefits of business growth are wide-ranging. Growing businesses generate employment, expand resource bases, improve competitive positioning, and increase the capabilities and self-esteem of owner-managers (Cardozo et al., 1996). Thus in this paper we examine the effect of necessity and opportunity-driven entrepreneurship on business growth.
The paper is organized as follows: The next section deals with the necessity and opportunity driven entrepreneurship literature review. Section 3 provides the literature review of determinants of business growth. In section 4 the methodology for this research is outlined, including the questionnaire design, data collection and analysis, respondent profile, and data analysis. Section 5 presents the results of the analysis. Section 6 ends up with conclusion.

Theoretical background

Necessity and Opportunity driven Entrepreneurship

Since the work of Reynolds et al. (2002), the distinction between push and pull motivations does not appear explicitly in the studies dealing with new venture creation decision-making factors anymore. This distinction has been replaced by the concepts of necessity (push) and opportunity (pull) entrepreneurs.

Reynolds et al. (2001) observed that age patterns are different for opportunity and necessity entrepreneurs. Giacomin et al. (2007) find that age positively affects the start-up of a business because of “exit from unemployment”, which could be related to the fact that older people have a lower employability. The same authors find that age is negatively related to the “search of the profit” and “social development” opportunity motivations. Block and Sandner (2009) and Wagner (2005) find that opportunity entrepreneurs are older than necessity entrepreneurs. Bergmann and Sternberg (2007) do not find a significant effect of age on necessity nascent entrepreneurship, while age has an inverse U-shaped relationship with opportunity nascent activity. In Wagner (2005), the relationships are exactly reversed, i.e., no effect of age on opportunity nascent activity, and inversely U-shaped in case of necessity nascent entrepreneurial engagement.

Block and Wagner (2007) find that education and general labor market experience positively affect the earnings of opportunity entrepreneurs but not those of necessity entrepreneurs. On the other hand, specific vocational training boosts the earnings of necessity entrepreneurs but not those of opportunity entrepreneurs.

In terms of the role of gender, several studies have focused on distinguishing between motivations of male and female entrepreneurs. While men are more likely to strive for monetary rewards (Manolova, Brush and Edelman, 2008; Brush and DeMartino and Barbato, 2003; Kent et al., 1982; Lee, 1997; Marlow, 1997; Stevenson and Gumpert, 1985), women have a tendency to balance social and economic goals (Cadieux et al., 2002; Holmquist and Sundin, 1988; Kaplan, 1988). Some of the more recent studies also note that women tend to put more emphasis on intrinsic goals (Manolova, Brush and Edelman, 2008; Cornet, Constantinidis and Asendei, 2003; Kirkwood, 2003; McGregor and Tweed, 2000). That is, women seek non-financial goals such as independence and work-family balance (Borgas, Filion and Simard, 2008; DeMartino and Barbato, 2003; Birley, 1989; Brush, 1990; Ducheneault and Orhan, 2000; Holmquist and Sundin, 1990). Others have noted that female entrepreneurs tend to pursue self-oriented goals. That is, women pursue goals such as personal growth, control over their destinies and so on. This, in turn, helps to explain why businesses owned by women tend to be small and less geared towards growth than those owned by males (Orser, Riding and Manley, 2006; Anna et al., 2000; Du Rietz and Henrekson, 2000; Minniti, 2004; Orser, Hogarth-Scott and Wright, 1997; Rooney et al., 2003).

In a recent study, Kirkwood and Campbell-Hunt (2006) report that ‘push’ factors were sometimes the only one driver for women, whereas men tended to be influenced by both ‘pull’ and ‘push’ factors. In their review of women entrepreneurship in Canada, Jennings and Cash (2006) note that some of the motivating factors among men and women entrepreneurs were similar. Both groups reported control over their own destinies as well as desire for challenging work and a positive work environment as important motivations.

It is often argued that entrepreneurs motivated by push factors tend to possess lower endowments of relevant human capital which they need to manage a successful high-growth business. Because opportunity entrepreneurs start voluntarily (often in an area of their expertise), they may be better prepared for their entry into self-employment and have higher chances of survival. On the other hand, opportunity entrepreneurs tend to be more motivated by non-monetary rewards than necessity entrepreneurs. If then, after start-up, opportunity entrepreneurs are disappointed with the intrinsic benefits, they probably decide more rapidly to close down their businesses and look for new opportunities than necessity entrepreneurs (Block and Sandner, 2009). Opportunity entrepreneurs tend to have higher opportunity costs than necessity entrepreneurs.

At the macro level, several studies point at a performance disadvantage of necessity entrepreneurship. Acs and Varga (2005) show that whereas opportunity entrepreneurship has a positive impact on technological change, necessity entrepreneurship does not have an effect. In another study, Acs (2006) shows that there is a positive relationship between income level and the share of opportunity versus necessity entrepreneurs in a country. Wong et al. (2005) find the expected signs of the relationships between opportunity and necessity entrepreneurship and economic performance, but their findings are not significant.
At the micro level, Amit and Muller (1995) find that pull entrepreneurs are more successful, both in terms of venture success (sales per employee) and personal income. This result is similar when controlled for other relevant factors that may influence income. Block and Wagner (2007) find that the opportunities exploited by opportunity entrepreneurs on average are more profitable than those exploited by necessity entrepreneurs, i.e., the earnings of opportunity entrepreneurs are 15 percent higher than those of necessity entrepreneurs. The lower earnings of necessity entrepreneurs are confirmed by Block and Sandner (2009). Vivarelli (2004) finds that performance of the firms started up by individuals based on a convinced choice (i.e., positive entrepreneurial calculation) is higher than for the start-ups driven by a defensive reason (e.g., escape from unemployment).

Previous empirical research has shown that necessity and opportunity entrepreneurs differ both in terms of their socio-economic characteristics and of their entrepreneurial behavior (e.g., Verheul et al., 2010; Block & Sandner, 2009; Caliendo & Kritikos, 2009; Hechavarria & Reynolds, 2009; McMullen et al. 2008, Hessels et al. 2008; Morris et al.2006; Hughes, 2006). As a result, necessity and opportunity entrepreneurs have distinct impacts on the post-creation characteristics of the firm they create.

**Business growth**

“The term ‘growth’ is used in ordinary discourse with two different connotations. It sometimes denotes merely increase in amount; for example, when one speaks of ‘growth’ in output, export, and sales. At other times, however, it is used in its primary meaning implying an increase in size or improvement in quality as a result of a process of development, akin to natural biological processes in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object” (Penrose, 1959: 1).

Firm growth is difficult to grasp phenomenon. McKelvie and Wiklund (2010) suggest a classification of prior research into the following three broad streams: growth as an outcome; the outcome of growth; and the growth process. In a recent review, they describe a myriad of problems associated with growth research and conclude that they have failed to develop a cumulative body of knowledge. Coad goes further to say that the findings of empirical work indicate “that growth is largely a random process,” and that “theoretical predictions have been of limited use in understanding growth of firms, if not downright misleading.” This problem of inconsistent results alerts us to the need for more focused and circumscribed research approaches that attempt to shed light on specific facets of growth, rather than on the multifaceted phenomenon of growth as a whole. Gilbert et al. conclude that the focus on why growth rates vary has been done “to the exclusion of how and where [within the organization] that growth is occurring.”

Indeed a number of authors such as, Littunen and Tohmö (2003), Yasuda (2005), and Yang and Huang (2005) have looked at the determinants of business growth. The literature review shows that lack of financing, lack of management skills, market challenges, and regulatory issues, adversely affect the small business growth. (Gill, A & Biger, N, 2012) Also entrepreneurial competencies are seen as important to business growth and success, according to Brinckmann (2008). Bishop, K, et al., 2009, suggested that the main factors which influence firm growth can useful be divided as follows:

- **Individual characteristics associated with the founders and owner-managers of new firms**
- **Firm-level attributes reflecting past decisions taken within firms with regard to the acquisition of resources and the development of capabilities.**
- **Business environment factors which help shape those firm-level decisions, eg, market structure (levels of competition) and relevant government policies and national institutions.**

Much of the literature on business start-ups suggests that decisions to create a new business are positively related to the education and relevant experience of the individuals concerned, in part because these attributes assist in gaining access to financial capital (Bates, 1990; Robinson et al, 2006). At the same time, the probability of starting a new business tends to decline with the age of individuals, perhaps because of greater risk-aversion among the middle-aged (Georgellis and Wall, 2005).

Individual characteristics also affect the likelihood of new businesses succeeding, for example, van Praag (2001) found that new business failure was associated with lack of relevant industry expertise and also with the individuals concerned seeking to start up in self-employment as a means of escaping unemployment. Several studies have examined the impact of gender on the management of small businesses and while certain factors have been identified as influential management issues that have a distinctive gender dimension (e.g., access to support, finance, premises and childcare were thus identified by Fielden et al., 2003), most empirical studies that have examined this subject (e.g. Morris et al., 2006; Robinson and Finley, 2007) have
tended to conclude that by itself, the business owner's gender is not a significant factor in explaining a small firm's growth behavior.

In order to distinguish between small firm founders whose firms stand a real chance of achieving high growth and those which are unlikely to grow, the Global Entrepreneurship Monitor carries out surveys of the adult population in different countries to identify the incidence of 'high-expectation entrepreneurship' (defined as involvement with nascent or new ventures that expect to have 20 or more employees in five years' time). Across all 34 participating countries, only a very small proportion of new entrepreneurs (averaging 6.5% in 2000-06) display such expectations which are positively associated with both education and household income (Autio, 2007).

The founding conditions (Carroll and Hannan 1989, Stinchcombe 1965) and environmental characteristics have been realized to play important roles in business growth. For example, Carlsson (2002) or Davidsson and Henreksson (2002) find that institutional factors, such as regulations, taxation, scientific resources or capital availability, may affect the growth of businesses. In a broader context, Shane and Kolvereid (1995) suggest that variations in national environments account for almost all performance changes. The conjuncture and the general tendencies of the environment cannot be ignored by those attempting to explain the growth process (Davidsson et al. 2002)

**Research model**

![Figure 1. Conceptual Model](image-url)

**Necessity and Opportunity driven Entrepreneurship and business growth**

The motivations that underlie the new venture formation are complex and have long been of interest to entrepreneurship researchers (Krueger and Brazeal, 1994; Reynolds and Miller, 1992).
A number of authors argue that an owner’s motivation for starting and running a business affect the growth of their firm. A business which has been set up to exploit an opportunity in the market is expected to have a higher propensity to grow than a business for which the main drivers are push factors such as unemployment, dissatisfaction with present employment or personal lifestyle reasons (Hamilton and Lawrence, 2001; Smallbone et al., 1995; Smallbone and Wyer, 2000). While empirical evidence has supported this idea, it is necessary to realise that owner motivation itself does not necessarily convert into actual growth. It is also important to bear in mind that an entrepreneur’s motivation to grow will be tempered by personal tradeoffs between the prospect of improved financial results and concerns for the well-being of employees (Wiklund et al., 2003). Reynolds et al.(2003) find that those involved in “opportunity entrepreneurship” expect to create more jobs in five years than those involved in “necessity entrepreneurship”, thus inferring higher growth potential. We therefore formulate our hypothesis as follows:

H1: Opportunity driven entrepreneurship positively affects business growth.
H3: Necessity driven entrepreneurship positively affects business growth.
H4: Necessity driven entrepreneurship positively affects business growth expectation.

METHODS

RESEARCH METHODOLOGY

We use the data collected in Global Entrepreneurship Monitor, GEM (www.gemconsortium.org). GEM data collection is based on the Adult Population Survey, APS, as the primary research tool. To ensure consistency and cross-country comparability, each country conducts the same survey. In 2010, at least 2000 adults were questioned in each of the 60 countries. The individual surveys are harmonized into one master dataset. The GEM Annual Report is based on the results of the adult population survey each year. The results in this article are mainly based on the data of the APS survey. The sample size in this paper includes 17,913 (nascent and baby business owner-manager) entrepreneurs.

Research variables

Independent variable

The following item was used to measure entrepreneurial motivation:
“Were you involved in starting up a business to seize a business opportunity or because you had no other choice for finding work?” (nominal variable)

Dependent variables

There are two items used measuring business growth and business growth expectations as follows:
“Not counting the owners, how many people are currently working for this business?” (scale variable)
“Not counting the owners, how many people will be working for this business five years from now?” (scale variable)

Control variables

In order to avoid the unwanted effects of some variables on the independent variables and thus the outcome of the research, it is necessary to hold them constant. Hence, these variables were defined as control variables in the regression equation. Four variables were defined as control variables in this study including: owner’s age, education, gender, national development level.

The analysis and statistical tests include frequencies and linear regression analyses.

RESULTS

Table 1,2 shows the results of the regression analysis. We find support for Hypothesis 1,2 asserting that opportunity-driven entrepreneurship has positive effects on business growth and business growth expectation. Four variables such as owner’s age and education, gender and national development level have been entered as control variables in the regression equation, in order to control their unwanted effects. Moreover, the significant level for control variables is not considered important in the analyses.
Table 1. Multiple regression coefficients

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td>0.525</td>
<td>0.045</td>
<td>11.699</td>
<td>0.00</td>
</tr>
<tr>
<td>Involved in Opportunity early-stage Entrepreneurial Activity</td>
<td>0.089</td>
<td>0.020</td>
<td>0.059</td>
<td>4.455</td>
<td>0.000</td>
</tr>
<tr>
<td>COUNTRY GROUP GCR REPORT 2009-2010 - 3 CAT</td>
<td>0.022</td>
<td>0.010</td>
<td>0.029</td>
<td>2.272</td>
<td>0.023</td>
</tr>
<tr>
<td>DEMA. What is your gender?</td>
<td>-0.124</td>
<td>0.016</td>
<td>-0.098</td>
<td>-7.618</td>
<td>0.000</td>
</tr>
<tr>
<td>DEMB. What is your current age (in years)?</td>
<td>-0.005</td>
<td>0.001</td>
<td>-0.106</td>
<td>-8.043</td>
<td>0.000</td>
</tr>
<tr>
<td>GEMEDUC. GEM harmonized educational attainment</td>
<td>0.000</td>
<td>0.000</td>
<td>0.140</td>
<td>10.838</td>
<td>0.000</td>
</tr>
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</table>

a. Dependent Variable: LOG.OMYSJOB1

Table 2. Multiple regression coefficients

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td>0.260</td>
<td>0.038</td>
<td>6.755</td>
<td>0.000</td>
</tr>
<tr>
<td>Involved in Necessity early-stage Entrepreneurial Activity</td>
<td>-0.172</td>
<td>0.026</td>
<td>-0.078</td>
<td>-6.522</td>
<td>0.000</td>
</tr>
<tr>
<td>COUNTRY GROUP GCR REPORT 2009-2010 - 3 CAT</td>
<td>-0.016</td>
<td>0.008</td>
<td>-0.022</td>
<td>-1.890</td>
<td>0.059</td>
</tr>
<tr>
<td>DEMA. What is your gender?</td>
<td>-0.091</td>
<td>0.014</td>
<td>-0.077</td>
<td>-6.524</td>
<td>0.000</td>
</tr>
<tr>
<td>DEMB. What is your current age (in years)?</td>
<td>0.000</td>
<td>0.001</td>
<td>0.004</td>
<td>-0.368</td>
<td>0.713</td>
</tr>
<tr>
<td>GEMEDUC. GEM harmonized educational attainment</td>
<td>0.000</td>
<td>0.000</td>
<td>0.165</td>
<td>13.862</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LOG.OMNOWJOB11

Table 3, 4 shows the results of the regression analysis. Hypothesis 3, 4 are rejected, asserting that necessity-driven entrepreneurship has negative effects on business growth and business growth expectation. Four variables such as owner’s age and education, gender and national development level have been entered as control variables in the regression equation, in order to control their unwanted effects. Moreover, the significant level for control variables is not considered important in the analyses.
Table 4. Multiple regression coefficients

<table>
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<tr>
<th>Coefficients”</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
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<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.573</td>
<td>.045</td>
<td></td>
</tr>
<tr>
<td>Involved in Necessity early-stage</td>
<td>-.104</td>
<td>.031</td>
<td>-.043</td>
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<tr>
<td>Entrepreneurial Activity</td>
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<td>.010</td>
<td>.038</td>
</tr>
<tr>
<td>COUNTRY GROUP GCR REPORT 2009-2010 - 3 CAT</td>
<td>DEMA. What is your gender?</td>
<td>-.121</td>
<td>.016</td>
</tr>
<tr>
<td></td>
<td>DEMB. What is your current age (in years)?</td>
<td>-.006</td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>GEMEDUC. GEM harmonized educational attainment</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LOG.OMY5JOB1

CONCLUSION

This paper Uses data from GEM 2010 surveys to examine the effects of necessity and opportunity-driven entrepreneurship on business growth and business growth expectations in 53 countries corresponding to three contrasting economies (factor, efficiency and innovation-driven economies). This study includes 59.9% men and 40.1% women that majority of them have graduate experience and most of them are 25-34 years old. Furthermore in our sample, countries with factor-driven economies have more necessity-driven entrepreneurs than other economies and opportunity driven entrepreneur in innovation driven economies are prevail. In much of the recent literature on entrepreneurs’ motives, there has been a tendency to differentiate between necessity and opportunity entrepreneurs (Harding et al., 2006; Maritz, 2004; Minniti et al., 2006; Perunovic’, 2005). Thus, this paper contributes to this field by indicating different effects of necessity and opportunity driven entrepreneurship on business growth and business growth expectations. Several studies have explored that an owners’ motivation for starting and running a business affect the growth of their firms. A business which has been set up to exploit an opportunity in the market is expected to have a higher propensity to grow than a business for which the main drivers are push factors such as unemployment, dissatisfaction with present employment or personal lifestyle reasons (Hamilton and Lawrence, 2001; Smallbone et al., 1995; Smallbone and Wyer, 2000). But our findings indicate relationships between necessity-driven entrepreneurship and both business growth and business growth expectations are negative, while the relationship between opportunity-driven entrepreneurship and both business growth and business growth expectation are positive.

Limitations and Future research

Recognizing the limitations of this study can contribute to deeper studies in terms of quality in future. First, the data used in this study are for the year 2010, consequently the nature of data are not longitudinal and we suggest that the effects of business growth can be examined for several years. Second, as mentioned in data section, data collection differs among different countries. Third, future research may collect data from different data sources other than GEM data to investigate the role and effects of necessity and opportunity driven entrepreneurship on business growth by examining other mediating factors in this relationship (e.g. national culture). Despite its limitations, this study still offer a research source for further studies on the business growth as opportunity driven motivation booster in firms across different industries.

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