

Social Network and the Success of Business Start-Up

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Abstract

The purpose of the study is to examine the potential impact of social network usage in the success of business start-up. The population of the study consisted of (248) companies working at the field of plastics and rubber manufacturing in Jordan. The study utilized a random stratified sample to withdraw a representative sample. Fifty percent of the total population was withdrawn. In other words, (124) questionnaires were distributed and (105) out of which were acceptable for statistical analysis, the study utilized Statistical Package for the Social Sciences (SPSS) to analyze the primary data collected. Reliability analysis, descriptive statistics, and regression analysis were performed. The study revealed a number of findings most importantly: There is a statistical significant impact of social network in the success of business start-up.

Keywords: social network, success of business start-up, plastics and rubber manufacturing, Jordan

1. Introduction

Entrepreneurship has been of great interest to many academic researchers, business practitioners, governments, and policy makers; witnessed by the bulk body of related studies chronicled in the literature (Jack et al., 2010). One main reason for the interest is that entrepreneurship is viewed beneficial to a nation's economic growth and development since it creates both employment and wealth for the country. Approaches to the study of entrepreneurship vary based on topics to be examined. In addition to the personality traits and socio-cultural approaches, Aldrich and Zimmer (1986) suggested a new approach which they termed "Networks Approach to Entrepreneurship", in order to illustrate the reason why certain entrepreneurs are more successful than others in starting up their businesses, building their suggestion on resource dependence theory. The networks approach to entrepreneurship is basically based on premise that entrepreneurs build relations with the external environment, and need a speedy yet economical means for the access of different information, in order to define potential business opportunities, and obtain required resources to start-up their businesses successfully.

According to the networks approach to entrepreneurship, entrepreneurs may possess some ideas and skills. But, for the purpose of starting up a business, entrepreneurs further need to obtain most resources from outside or his/her external environment through the entrepreneur's social networks. Accordingly, entrepreneurial process involves gathering of scarce resources from external environment. Entrepreneurs usually obtain these resources through their networks (Dodd, et al., 2002). Existing literature suggests that networks of entrepreneurs are really an opportunity set, which helps entrepreneurs to access both tangible and intangible resources. Building on the above researchers exhibited an increasing appreciation of the usefulness, application, and significance of networks. An established stream of research emerges from studies that have investigated many aspects of networks. Essentially, studies reveal an agreement that networks are important because they provide entrepreneurs with a plenty of diverse information and access to many resources, business opportunities, and markets (Jack et al, 2010).

Particularly, a board consensus has emerged among both strategy and entrepreneurship researchers that social network plays a significant role in reinforcing the start up's success (Aldrich & Zimmer, 1986; Hill, McGowan, & Drummond, 1999; Kim & Aldrich, 2005; Singh, Hills, Hybels, & Lumpkin, 1999). Witt (2002) argue that social network allow entrepreneurs to find resources less expensive than they could be obtained on markets and secure resources that would not be available on market at all e.g. reputation, customers' contacts, etc. Indeed

some authors have claimed that the availability of social network may explain why some individuals start businesses and others do not (Aldrich & Zimmer 1986; Johannisson 1987). This seems to suggest that social network is key to the success of business start up's.

Despite the extent of work that has looked at social networks, still there is paucity in studies at the present times dealing with the impacts of social network usage in the success of business start-up in Jordan. Therefore, research concerning the impact of the social network and the success of business start-up is deemed among the most important justifications of the current study. The following section provides a brief review of the nature and importance of networks to businesses. The methodology of this study, as well as the results and analysis are then provided.

2. Literature Review

2.1 Social Network

Interest in the study of social networks emerged from studies in sociology that examined the exchange relationships between actors or individuals (Blau, 1977; Cook et al., 1983). Such studies were, mostly concerned with recognizing the character and resultant consequences of relationships exchange. As studies in the area of networks were developed, researchers started to expand their studies to include more complex social structures called "exchange networks" (Cook & Whitmeyer, 1992: 113). As a result, theoretical and empirical studies have started examining specific thoughts of exchange and power as they relate to various types of network structures. "In particular, these works started studying the relationship between types of exchange connections and the distribution of power and dependence among actors or individuals in various networks structures" (Cook & Whitmeyer, 1992: 113). These researchers considered structural changes in network relationships as a consequence of social processes, happening due to power imbalance between network relations (Cook & Whitmeyer, 1992). Out of the studies on networks in sociology, emerged an interest for studying the nature of network relationships as they pertain to organizations, and have been termed as: study of "organizational networks", "inter-organizational networks" and "intra-organizational networks" (Raider & Krackhardt, 2002).

Regardless of the terminology used, the focus of the studies on networks within organizational context has been on answering issues related to how networks help obtain resources, and increase business's power within their external environment (Bluedorn et al., 1994). The development of social capital is one consequence of networking which in essence consists of the "resources individuals obtain from knowing others, being part of a network with them, or merely being known to them and having a good reputation" (Nahapiet & Ghoshal, 1998, p. 107). The end result is that networks are associated to business survival (Bruderl & Preisendorfer, 1998).

Granovetter (1973) categorized network ties as being either weak or strong. Tie strength involves the relative intensity of the interactions between actors within a network. The intensity of ties is usually indicated by the closeness of the relationship between partners (Granovetter, 1973). Weak ties are characterized by relatively low intensity interactions (Granovetter, 1985). Although results of empirical work examining weak ties are somewhat mixed, they are generally believed to facilitate the acquisition of new information and support that is especially relevant in highly dynamic industries and for identifying opportunities. Strong ties are characterized by relatively high intensity interactions; and are seen as useful in stable environments, and when firms are concerned with exploitation activities (March, 1991). Moreover, strong ties are presumed to be characterized by trust and the distribution of detailed, potentially private information to the partners of the strong tie relationship (Gulati et al., 2002). Researchers tend to utilize classifying the type of network partner for measuring the strength of ties. For example, strong ties are considered to include partners such as kin and close friends (sometimes called personal ties); whereas weak ties are considered to be composed of partners such as non-kin, and those with whom the focus of the relationship is economic transactions (sometimes called business ties) (cf., Greve & Salaff, 2003; Hite & Hesterly, 2001; Leung, 2003).

Researchers have investigated the relative impact of strong versus weak ties on the attainment of business outcomes. Singh et al. (1999), for instance, concluded that weak ties were associated with the frequency with which entrepreneurs/business owners developed opportunities. The interpretation of their finding is consistent with Granovetter's (1973) strength of weak ties theory, whereby weak ties are associated with the acquisition of information and support that can lead to the identification of opportunities. Elfring and Hulsink (2002) argue that both the strong and weak ties are evenly important for different purposes during business development. They concluded that entrepreneurs make use of strong ties to attain vital resources, and weak ones for achieving legitimacy and discovering opportunities. Davidsson and Honig (2003) concluded that entrepreneurs are more likely to have strong ties with other entrepreneurs (e.g., entrepreneur parents) than non-entrepreneurs, and that the presence of weak ties in entrepreneurs' networks was positively related to subsequent success indicators and

business development activities. The result of the work examining the strength of network ties proposes that weak ties ease the attainment of informational resources, which are helpful in highly dynamic industries and identifying opportunities. Strong ties are considered useful in stable environments and when businesses are concerned with exploitation activities and gaining access to certain, often more sensitive, resources (Granovetter, 1973; March, 1991).

2.2 Underpinning Theory

The initial studies on networks in organizational context were based on theoretical perspectives of resource dependence theory. Resource dependence theory (Pfeiffer & Salancik, 1978) proposes that businesses purposely act in response to demands posed by important resource providers. Resource dependence theory also suggests that businesses are competent to attempt managing their dependencies on resource providers through strategies that adapt with the control of the resource providers that have over the businesses. Two methods are possible for managing these dependencies: 1) businesses can acquire control over critical resources, as a result lessening their dependencies upon others, and 2) businesses can acquire control over critical resources that other need, thus increasing others' dependence upon the focal business. The "others" upon whom a business can be resource-dependent include any individual or business they depend on for the required resources. "The resource providers may be: creditors, suppliers, competitors, or any other entity in a business's external environment" (Bluedorn, et al., 1994: 227). The argument of resource dependence, for why and how networks are capable of helping businesses manage their resource dependencies, is basically that businesses establish network relationships with businesses that control critical resources, and/or other dependent businesses. These actions are taken in hopes of lessening the relative power of the businesses upon which the focal business is dependent (Bluedorn et al., 1994). As discussed earlier, the study of networks within organizational context developed primarily of premises derived from resource dependence theory. Therefore, it is quite relevant to state that the study utilized a resource dependence theory for the aim of developing its hypothesis.

3. Research Hypothesis

The study seeks to test the following hypothesis:

There is no statistical significant impact of social network at the level ($\alpha \leq 0.05$) in the success of business start-up.

4. Methodology

The study used a quantitative approach to determine whether or not social network (the independent variable), can impact the success of business start-up (the dependent variable), of plastic and rubber manufacturing companies in Jordan. The population of the study consisted of (N=248) manufacturing companies operating in the field of plastics and rubber as indicated in the most recent available data provided by Amman Chamber of Industry Statistical Report in (2010). The study population was divided into two stratum, the first stratum is the manufacturing companies working in the plastics (N=199), and the second stratum is the manufacturing companies working in the rubber industry (N=49). Fifty percent of each stratum was withdrawn. In other words, (100) plastic manufacturing companies and (24) rubber manufacturing companies were selected. Hence, the study utilized a random stratified sample to withdraw a representative sample. And since the researched population consists of the companies working in the field of plastics and rubber industries (N=248), a (50%) of the total population was withdrawn. In other words, the total sample size is (n=124) manufacturing companies. In survey studies, the sample size of (5-20%) is considered acceptable for research (Zikmund, 2000: 387). Accordingly, the sample size of the current study which is (50%) of the study population is a representative and acceptable one for the purposes of the statistical analysis.

A close ended questionnaire was developed for primary data collection, based on the related literature, and the available former studies (i.e. Butler & Hansen 1991; Dodd et al., 2002). The questionnaire contained the following parts: First part was a covering letter which aimed to encourage respondents to participate in answering the questions with an explanation of the response method and reassurance to them that the provided information is utilized only for the scientific research purposes. The second part included questions regarding the personal characteristics; the questions in this part were primarily of a classification nature and aimed at providing a proper background of the respondents. The third part raised questions about the social network, regarding network size, network strength of ties, and network importance. Lastly, the fourth part included questions about the success of business start-up. The study utilized Lickert five-point scale, as it is one of the best and most frequently used scales to measure opinions, due to its ease and balance (Zikmund, 2000: 291).

5. Profiles of Respondents

The study sample who completed the questionnaires were (105) respondents, who were either the company owner or its executive director. For the purpose of identifying some facts and data concerning the study sample, a number of personal and occupational variables were chosen. The variables included: gender, age, educational degree, years of experience at the current company, and the current job position. Frequencies and percentages of the demographic characteristics of the sample were analyzed, and results are presented in table (1).

Table 1. Characteristics of study sample (n=105)

Variable	Category	Frequency	Percent
Gender	Male	105	100
	Female	0	0
Age	Less than 30 years	5	4.8
	30-39 years	10	9.5
	40 – 49 years	59	56.2
	More than 49 Years	31	29.5
Educational Level	High School or Less	15	14.3
	Diploma	20	19.0
	Bachelor	60	57.1
Years of Experience	Graduate Studies	10	9.5
	1-5 Years	11	10.5
	6- 10 Years	19	18.1
Present Job Position	11-15 Years	59	56.2
	More than 15 Years	16	15.2
	Company Owner	58	55.2
Present Job Position	Executive Director	15	14.3
	Both	32	30.5
Total		105	100%

Results exemplified that owners or executive directors of the plastic and rubber manufacturing companies in Jordan are in general of the males category (n=105 or 100%), within the (40-49) years of age group (n=59 or 56.2%), holding bachelor degree (n=60 or 75.1%) and having experience in their current jobs for more than (10) years (n=75 or 71.4%).

6. Construct Reliability

Reliability is an indication of stability and internal consistency with which the instrument measures the concept and helps assess the goodness of a measure (Zikmund, 2000: 280). Reliability was assessed through examining the Cronbach Alpha coefficient of the questionnaire items (Hair et al., 2006). While the Cronbach's Alpha coefficients should range from zero to one, table (2) shows that reliability coefficients for all items were above the cut-off point of 70% used in the current study. The reliability coefficients for all the items ranged from 0.755 to 0.859. Hence, the current study's questionnaire items were all of reasonable satisfactory reliability.

Table 2. Cronbach's alpha reliability coefficient of the study variables

Variables	Number of Items	Reliability Coefficient
Social Network	9	0.892
Success of Business Start-up	8	0.886

It is evident through the Cronbach's Alpha values that the reliability coefficients of all the study variables are high and suitable for the current study objectives.

7. Descriptive Statistics

Table (3) represents the mean and standard deviation of the study variables. It can be inferred that, in Jordan, respondents visualize social network relationships as a speedy and cost-economic way to access a diversity of information for the purpose of identifying the potential business opportunities, and access to the necessary support and resources needed for business start-up.

Table 3. Mean scores and standard deviation of research variables (n = 105)

Variables	Mean	Std. Deviation
Social Network	3.65	.863
Success of Business Start-up	3.84	.707

8. Hypothesis Results and Discussion

The hypothesis was tested as per the rule of thumb that provides to accept the hypothesis if its calculated value was higher than its tabulated value. Results of analysis for testing the hypothesis are shown in table (4).

Table 4. Multiple regression results

Variable	R2	F		Sig.
		Calculated	Tabulated	
Success of Business Start-up	0.816	149.575	2.76	0.000

The results of the multiple regression analysis that regress social networks on the success of business start-up are shown on table (4). It indicated that social network explained 81.6% of the variance, and the value of calculated F (149.575) which is higher than tabulated F value (2.76) at the confidence level ($\alpha \leq 0.05$), and the value of statistical significance level is (0.000) which is less than the value of the confidence level ($\alpha \leq 0.05$). Thus, rejected the null hypothesis and accepted the alternative hypothesis; in an indication that there is statistical significant impact of social network usage in the success level of business start-up. This result is in part in agreement with many studies, for example Martinez & Aldrich (2011) study which reported that networks have an influence in entrepreneurial consequences like survival and profitability. In addition, the study of Littunen and Niittykangas (2010) showed that the use of networks has a positive effect on firms' high growth in the metal industry. Likewise, Chattopadhyay (2008) study which explored the pattern of social networking in relation with entrepreneurial success and the study concluded that entrepreneurial social networking is the powerful determinant of entrepreneurial success.

9. Conclusion, Limitations, and Recommendations

9.1 Conclusions

Based on the study results the following conclusions could be pointed:

First: Social networks provide better access to outside resources and support. Businesses obtain resources and support through their networks. Second: Businesses receive support and resources from various relationships and contacts, which provides support for the idea that entrepreneurs' social relationships are important, and they do not operate in isolation but within a social context. Third: Building relationships are fundamental factors in determining the success of the business. Businesses face a number of difficulties such as lack of capital, market opportunities, and resources. As a result, these businesses have tendency to link with others locally, sometimes, inter-regionally or globally. Fourth: Having outside resources and support are not enough for business start-up success. In addition to entrepreneurs network relationships with other individuals or organizations; new products offering and pro growth strategy foster success of business.

9.2 Limitations of the Study

The study tested its hypothesis based on data provided by the respondents. Subsequently, the hypothesis test relied on their personal views and actual experiences. As a result, these results heavily depended on the accuracy of the respondents in answering the questionnaire items. Also the study results could be generalized in terms of the industrial sector in Jordan operating in the plastic and rubber sector namely.

9.3 Recommendations for Future Research

The previous section described conclusions from the findings regarding social network and their impact in the success of business start-up. The following section includes recommendations for future research avenues: First: examining if equal usage of social network could be replicated in other business sectors such as the service

sector. Second: Regarding gender, if social network is frequently used in helping a business, it would be interested to study if there is a difference between women who use social network and men to aid their businesses. This could be further explored to determine how each gender uses their networks. Given women's tendency toward social networking, it may be that men do not use social network at the same level which women use them. Female entrepreneurs and business owners could possibly be using social network in place of business ones. And third: understanding entrepreneurs' networking behavior, and the factors that impact networking. Entrepreneurs and business owners do not operate their businesses in isolation

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