

What Triggers Entrepreneurship? The Necessity/Opportunity dichotomy: a retrospection

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Abstract

Purpose – This study is inspired by one of the current debates in the field of entrepreneurship, which is also highlighted by the research themes of the 6th Executive Idea Exchange Forum of the Department of Management, Addis Ababa University: “*is entrepreneurship an issue of self employment or innovation?*” and as a retrospection, this theoretical research reviews entrepreneurship literature to uncover what is known, discussed and argued with respect to this particular theme by focusing on the necessity and opportunity driven entrepreneurship.

Design/methodology/approach– The study draws upon earlier research undertaken by various authors on the subject of entrepreneurship, mainly on necessity vs. opportunity entrepreneurship. The manuscript is an attempt to provide a better understanding on the differences between necessity entrepreneurship and opportunity entrepreneurship based on literature review.

Finding- Literature indicates that there has been a semantic shift towards the terms necessity entrepreneurship and opportunity entrepreneurship in recent studies that focus on decisional factors of entrepreneurship. The necessity vs opportunity entrepreneurship classification is made mainly based on distinguishing between entrepreneurs motivated by economic needs and those driven by a desire for self-realization respectively. The necessity-driven entrepreneurs are pushed into entrepreneurship because all other options for work are absent or unsatisfactory. Whereas, opportunity driven entrepreneurs are attracted to the world of entrepreneurship mostly out of choice to exploit some business opportunity

Research limitations/implications- The study is limited to the author's ability to review literatures in the field of entrepreneurship, mainly on topics that look at necessity vs. opportunity dichotomy as the motivation to entrepreneurship as well as relevant ideas that relate to this dichotomy such as entrepreneurial framework conditions are also incorporated

Practical implications- The paper would possibly provide insights about the motivation for entrepreneurship and provide concerned parties with necessary information to better understand the motivation for entrepreneurship and the conditions that affect the motivation. This paper would shed light for further context specific studies on entrepreneurship that are particularly related to the triggers of entrepreneurship such as in the Ethiopian context from the view point of necessity driven and opportunity driven entrepreneurship.

Introduction

This study is inspired by one of the current debates in the field of entrepreneurship, which is also highlighted by the research themes of the 6th Executive Idea Exchange Forum of the Department of Management, Addis Ababa University : “*is entrepreneurship an issue of self employment or innovation?*” and as a retrospection, this theoretical work reviews entrepreneurship literature to uncover what is known, discussed and argued with respect to this particular theme.

Methodologically, this desk research endeavors to provide a review about what motivates individuals to become entrepreneurs by focusing on the famous necessity and opportunity dichotomy as the two main drivers for business start up, (Reynolds et al., 2002, Giacomini et al., 2011). Thus, in addition to the motivation to entrepreneurship, the manuscript presents entrepreneurial framework conditions (GEM Conceptual model, 2004) which affect entrepreneurial decisions and the motivation as well. In fact, a review on the meaning of entrepreneurship is also provided in the outset of the next section, as a point of starting, followed by the conditions, and the triggers to entrepreneurship. Later in the paper, there is also a highlight regarding the imperatives to distinguish between necessity and opportunity motives.

In terms of practical implications, the paper would possibly provide insights about the motivation for entrepreneurship and provide concerned parties with necessary information to better understand the motivation for entrepreneurship and the conditions that affect the motivation. This paper would shed light for further context specific studies on entrepreneurship that are particularly related to the triggers of entrepreneurship such as in the Ethiopian context from the view point of necessity driven and opportunity driven entrepreneurship.

Overview of Entrepreneurship

Defining the term entrepreneur or entrepreneurship is confused and to a certain point even controversial, Hansmark (1998). Explaining the root word for entrepreneur, Kurtako and Hodgetts, (2004) forwarded that the word “entrepreneur” is derived from the French *entreprendre*, meaning “to undertake”. However, the term

“Entrepreneur” has been defined in different ways by diverse people and yet no consent has been reached on one commonly received meaning; its elusive, difficult to define (Kao, 1989). Nevertheless, most entrepreneurship literature describes entrepreneurship as a vital tool in achieving economic prosperity. It is considered as a desirable quality that is capable of abolishing all the vices related to economic augmentation, social disparities and employment and many countries of the world are actively seeking ways and means to promote entrepreneurship (Saeed et al 2014).

One widely accepted definition of entrepreneurship is the one by Schumpeter: “The entrepreneur is seen as an innovator breaking an existing state of equilibrium and doing so to create progress. Innovation means to create new products or new quality, to create new methods of production, to open up a new market, to create a new source of supply, or to create a new organization or structure in Business. Successful innovation demands an act of will, that is, it demands a leader and it has to be carried through” (Schumpeter, 1934). Similarly, Sarri and Trihopoulou (2004) considers entrepreneurship as a decisive factor in order for today’s economy of knowledge to attain its competitive and dynamic character. It is the driving force for the achievement of economic development and job creation, contributing at the same time to personal development and effectively dealing with numerous pathogenic social phenomena.” It is the main mechanism for the creation of jobs and ensuring economic prosperity. For Kurtako and Hodgetts, (2004) an entrepreneur is one who makes decisions and hence undertakes to organize, manage, and assume the risks of a business (Kurtako and Hodgetts, 2004).

Thus, fruition of entrepreneurship partly depends on individual’s decision making, motivation and entrepreneurial conditions. An individual’s decision to take up the entrepreneurial journey, in turn, depends on entrepreneurial framework conditions (see the GEM¹ Conceptual model on GEM Executive Report 2004) , and the motivation or start up motives, Reynolds et al. (2002), among others. In view of this, to understand entrepreneurs’ motivations, it has become increasingly common to distinguish between those driven by necessity (or pushed) and those driven by opportunity (or pulled) into entrepreneurship, Williams et.al; (2009).

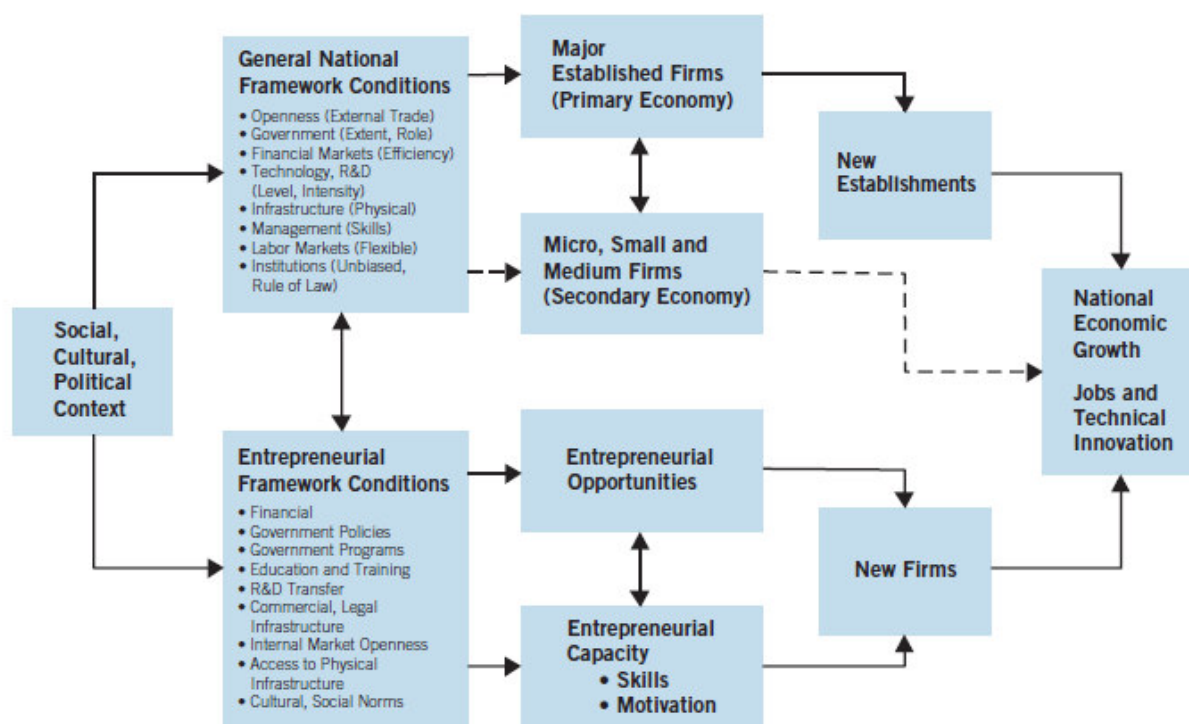
This desk research endeavors to provide a better understanding about necessity vs. opportunity entrepreneurship as the two main drivers for business start up. The paper tries to present the ideals about necessity entrepreneurship and opportunity entrepreneurship with due focus on their convergence and divergence. This paper is an attempt to provide a better understanding on the similarities and differences between necessity entrepreneurship and opportunity entrepreneurship based on literature review. In due course, entrepreneurial framework conditions are also explored and presented as they have impact on start up. In other words, the study draws upon earlier research undertaken by various authors on the subject of entrepreneurship. The study is limited to the author's ability to review literatures in the field of entrepreneurship, mainly on topics that refer to necessity vs. opportunity entrepreneurship.

Entrepreneurial Framework Conditions

For potential entrepreneurs, the decision whether to start a business is influenced by additional characteristics within the existing business environment. These are referred to as Entrepreneurial Framework Conditions (see Figure 1). These conditions determine a country’s capacity to encourage start-ups and, combined with the skills and motivations of those who wish to go into business for themselves, influence the entrepreneurial process. When successfully combined, these conditions will lead to offshoot businesses, which in turn will increase innovation and competition within the marketplace. The end result is a positive influence on national economic growth. These dynamics, described in the lower part of Figure 1, are at the heart of the GEM project , (GEM 2004)

¹ The Global Entrepreneurship Monitor (GEM) project is an annual assessment of the entrepreneurial activity, aspirations and attitudes of individuals across a wide range of countries. It is initiated in 1999 as a partnership between London Business School and Babson College

Figure 1: GEM Conceptual Model



Source GEM, Executive Report 2004

The GEM 2005 report that kept on explaining the conceptual model had come up with what implication the GEM model could have to low income nations. In fact, this forward is made based on observation [the report disclosed that unfortunately, there were no low-income countries– those that are neither innovating at home nor adopting foreign technologies–participated in this year’s study] and it proposes that from observation in past years, however, GEM data suggest that in those countries it is necessary to focus more on general national framework conditions and less on the entrepreneurial framework conditions as shown in the GEM conceptual model (see Figure 1). In other words, as stated in the first part of this section, governments in these countries need to focus primarily on ensuring fundamental institutional conditions, encouraging the development of active markets. In particular, low-income nations need to strengthen their small and medium-sized sectors before focusing on the entrepreneurial framework conditions, since this is the first step toward economic growth. Thus, specific programs should be focused on existing firms rather than on individual entrepreneurs. Areas of importance include transparency, monetary stability, market openness, management assistance, and the reduction of regulatory burdens. Part of the goal should be to reduce the number of necessity entrepreneurs and to strengthen the existing small- and medium-sized businesses.

In low-income countries, a strong commitment to education and training is necessary, both at the elementary and secondary level. Those without formal education in low-income countries will end up in necessity entrepreneurship. Without education, it is difficult to secure a better-paying job. Therefore, the goal in these countries should be to reduce the existing dependence on necessity entrepreneurship for individual and family incomes to grow.

Low-income countries might also need to strengthen the conditions allowing major established firms to develop, including the rule of law, labor market flexibility, infrastructure, financial market efficiency, and management skills. Most of these conditions are necessary to attract major investments that will provide employment, technology transfers, exports, and tax revenues.

Motivation to entrepreneurship: Necessity and opportunity driven entrepreneurship

An individual’s motivation to become an entrepreneur is often complex and multifaceted, (Marlow and Strange, 1994; Shane et al., 1991 cited in Jodyanne and Walton, (2010). Gelderen and Jansen (2006) identified two sources of motivation to entrepreneurship from the view point of autonomy. They called it autonomy motives involving: a proximal motive which is associated with task characteristics of being self-employed (decisional freedom), and distal motives for which autonomy is instrumental (to avoid a boss or restrictions; to act in a self-endorsed and self-congruent manner; and to be in charge). Morrison, (2000) sees the key to initiating the process

of entrepreneurship lies within the individual members of society, and the degree to which a spirit of enterprise exists, or can be initiated. The author argued that the cultural context in which persons are rooted and socially developed plays an influencing role in shaping and making entrepreneurs, and the degree to which they consider entrepreneurial behavior to be desirable.

Recent literature on Entrepreneurship that study the motivation to entrepreneurship emphasize on categorization of the motives for entrepreneurship into two parts, namely necessity entrepreneurship and opportunity entrepreneurship. The distinction between these two dynamics appears in the studies dealing with the decisional factors of new venture creation and there has been a semantic shift towards the terms necessity entrepreneurship (push) and opportunity entrepreneurship (pull), Giacomini et. al (2011).

The necessity vs opportunity entrepreneurship classification of Reynolds et al. (2002) is made mainly based on distinguishing between entrepreneurs motivated by economic needs and those driven by a desire for self-realization respectively. The necessity-driven entrepreneurs are pushed into entrepreneurship because all other options for work are absent or unsatisfactory. Whereas, opportunity driven entrepreneurs are attracted to the world of entrepreneurship mostly out of choice to exploit some business opportunity, Williams and Round, (2009).

According to Verheul et al.; (2010), opportunity entrepreneurship reflects start-up efforts "to take advantage of a business opportunity", whereas necessity entrepreneurship exists when there are "no better choices for work". Whereas opportunity entrepreneurs pursue a business opportunity for personal interest, often when they are still wage-employed, for individuals who start out of necessity motivations, entrepreneurship is often the best, but not necessarily the preferred, occupation.

This necessity/opportunity dualism that reads the rationales for entrepreneurship primarily in terms of a structure/agency binary, viewing some entrepreneurs as pushed due to structural factors and others as pulled into entrepreneurship out of choice, has moved center-stage in much of the recent literature. Williams C. (2007)

The classification of entrepreneurial behavior in terms of opportunity and necessity implicitly results from the push-pull concepts, Giacomini et. al (2011), and it seems that the concepts of opportunity and necessity entrepreneurship have unanimous support from researchers in entrepreneurship because of their capacity to bring together in a simple and coherent way the two general profiles of entrepreneurs (ibid.)

Conventionally, informal entrepreneurs in the Third (majority) World have been widely depicted as necessity entrepreneurs working in this sphere as a last resort, Gurtoo and Williams (2009). Informal entrepreneurs are hidden entrepreneurs operating wholly or partially off-the-books. For several decades, it has been widely recognized that many economies have a large number of informal entrepreneurs (Williams C.,2009). Such informal entrepreneurs have been portrayed either as marginalized populations conducting such work out of necessity or as voluntary entrants doing so out of choice (ibid)

Why is it crucial to distinguish between opportunity and necessity entrepreneurship?

Referring to extant empirical research, Verheul et al. ;(2010), identified four major reasons why distinguishing between opportunity and necessity entrepreneurship is crucial. The following are the writers' viewpoints with this regards:

First, necessity and opportunity entrepreneurs appear to differ in terms of their socio-economic characteristics, such as the level of education, relevant experience and age.

Second, the start-up motivation may have consequences for the way in which a business is managed and for business performance. The writers gave an illustration for this that entrepreneurs who start a business because they want to earn more money than in wage-employment, can be expected to behave differently than individuals who create a new venture to be better able to combine work and household responsibilities. They also added that necessity-driven entrepreneurs seem to be less satisfied than opportunity driven entrepreneurs. At the macro level, opportunity and necessity entrepreneurs have a differential impact on economic growth and job creation. Also, at the micro level outcomes point in the direction of an inferior performance of necessity entrepreneurs.

Third, the writer found (particularly referring to the study of Koellinger and Thurik , 2009) looking at the interplay between the businesses cycle and the entrepreneurship cycle, when a discrimination is made between the start-up motives, opportunity entrepreneurship leads the cycle by two years, while necessity entrepreneurship leads the cycle by only one year. Citing Etzioni, 1987, Koellinger and Thurik , 2009 stated that the lagging behind of necessity entrepreneurship has to do with the 'legitimation' or 'moral approval' of entrepreneurship within a culture. They argued that, if there is a higher level of 'legitimation' of entrepreneurship, then it will manifest itself widely, resulting in more attention to entrepreneurship within the educational system, higher social status for entrepreneurs, and more tax incentives to encourage business start-ups. Obviously, this results in a higher supply of entrepreneurs. Verheul et al (2010) added that while Koellinger and Thurik's explanation is based upon 'legitimation' or 'moral approval' is somewhat speculative, there may be important policy implications given that start-up motives seem to interact differently with the cycle.

A fourth argument resides in the observation that determinants of (nascent) opportunity and necessity

entrepreneurship differ. This has important consequences for policy making as measures to stimulate necessity entrepreneurship do not necessarily benefit opportunity-driven entrepreneurs, and vice-versa. For example, stimulating the unemployed to start a business will benefit necessity and not opportunity entrepreneurs.

Survival rates of necessity vs. opportunity entrepreneurship

Block et al., (2009) indicated that the necessity and opportunity motive for entrepreneurship has an impact on business survival, Opportunity entrepreneurs might stay longer in self employment than necessity entrepreneurs is rooted in human capital theory. They argued that opportunity entrepreneurs who start their venture voluntarily have more knowledge and/or knowledge of a higher quality than necessity entrepreneurs. Opportunity entrepreneurs are likely to have prepared more systematically for their entry into self-employment, and are likely to have invested more in the specific human capital necessary to succeed as a business owner; and more importantly, education contributes positively for the success of necessity entrepreneurs.

Opposing view to Reynolds’s necessity /opportunity dichotomy

Henrekson (2004) opposed Reynolds necessity/opportunity dichotomy and the critics goes Reynold has somewhat misleadingly used the term entrepreneurship rather than self-employment. Entrepreneurship has a more specific connotation. The writer considered Wennekers and Thurik’s (1999) definition of entrepreneurship as useful: entrepreneurship is the ability and willingness of individuals, both on their own and within organizations to: (i) perceive and create new economic opportunities;(ii) introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions; and (iii) compete with others for a share of that market.

Henrekson argued that in order for an activity to be defined as entrepreneurial it needs to be novel at least in some sense, but whether it is novel because it applies new knowledge or uses existing knowledge in new ways does not matter. But there must also be an ambition to grow. As a result, the critique argues, one cannot define entrepreneurship as self-employment or firm formation per se. A person may be entrepreneurial both in his/her role as business owner/self-employed or as an employee (entrepreneur). The writer suggests to observe the following table.

Table 1 Entrepreneurs, intrapreneurs and managers.

	Business owner	Employee
Entrepreneurial	Innovator, risk taker	Intrapreneur
Managerial	Lacks ambition to grow and/or change	Manager

Source: Adapted from Wennekers and Thurik (1999).

Henrekson’s remark was that, hence, there are several reasons for self-employment in the literature, and it is driven by necessity, by entrepreneurial ambition or by a strive for personal independence.

Summary

This section summarizes the main points of the review:

To begin with, this theoretical review found that no consensus is reached thus far on providing distinct definition(s) for the terms entrepreneurship, entrepreneur, self employed, and self employment. These terminologies are still evasive. Moreover, it’s indicated that entrepreneurship is affected by the social, cultural and political contexts.

Given this, however, there is a shift towards emphasizing on the necessity and opportunity dichotomy in the study of entrepreneurial motivation. This approach is believed to be instrumental in bringing together in a simple and coherent way the two general profiles of entrepreneurs.

While necessity entrepreneurship is considered as inevitably taken out of lack of other options such as decent employment, opportunity entrepreneurship is taken in pursuit of a dream, or a perceived opportunity for the interest of self -realization.

In connection, this review has also found that in countries where there is extensive necessity entrepreneurship endeavors taking place in the form of micro, small and other forms of business undertaking, improving the competence of the business owners will contribute positively to the survival rate of these necessity driven businesses. These informal entrepreneurs in the Third (majority) World have been widely depicted as necessity entrepreneurs working in this sphere as a last resort; thus in order to contribute to the success of these necessity entrepreneurs, education is the way forward.

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