

THEY HELP, YET THEY HINDER: THE DUALITY OF SOCIAL NETWORKS AND OPPORTUNITIES FOR GHANAIAN SELF-EMPLOYED

PATRICK SHULIST
Ivey Business School
Western University
London, Ontario, Canada, N6G 0N1

ABSTRACT

In this paper, I explore self-employment in the developing world as an ongoing and life long, process. I find that access to knowledge templates drives venture selection and growth, with social networks enabling access, yet constraining the breadth of options.

INTRODUCTION

Frank (a pseudonym) is a 33-year-old self-employed resident of Koforidua, Ghana with a high school education. Like many of his compatriots, self-employment was not his first choice, but he could not procure a government or private wage position. He thus had to become self-employed, and is currently on his fourth venture. Frank's first venture was selling cassettes, which he chose as he had a "senior brother" in the business who was willing to teach him. This learning was critical, as Frank's only previous employment was helping his mom sell produce when he was a child. After a few years, harassment from the property owner where he sold forced Frank's exit. He then moved to Kumasi, where he learned from the "only friend I know who lives in Kumasi." That friend happened to make and sell fried rice, so Frank took this up, eventually returning to Koforidua. After several years, he gave his "junior brother" the business. For his third venture, Frank chose cell phone selling because he had a friend in the business. In deciding, he did not "have any business in mind other than the cell phone." Gradually, he started to repair phones, due to customer requests. After some time though, Frank "decided to quit because the police people does disturb the phone sellers." Next, he chose shoe selling as he saw them as "a moving item...people are buying shoes more than cell phones." Now on his fourth venture, Frank knew he had to find a supplier in Accra, and did just that on his own. Over time, he expanded to include trousers and then shirts, as customers kept asking for them. Now, Frank's main goal is to upgrade his business from a simple roadside location to a concrete shop, something he hopes will allow him to hold more goods and attract additional customers.

Frank's case exemplifies common aspects of self-employment in the developing world. First, wage employment is rare, thus necessitating self-employment (Fox, Haines, Munoz, & Thomas, 2013; ILO, 2012); 55% of the working age *population* is self-employed in Ghana and Uganda, 42% in Indonesia, and 40% in Thailand (GERA, 2014: 2010-2013 averages), versus the developed world's 5-12% of the *workforce* (Parker, 2009). Second, self-employment is a continuous process with up to 30% of all self-employed changing their business within a given year (Mead & Liedholm, 1998). To this end, Khavul, Bruton, and West (2009: 1232) "suggest that economic informality allows for rapid cycling through business opportunities that can allow entrepreneurs to move to higher value-creating ventures." Third, none of Frank's ventures were innovative. Instead, they replicated easily observable businesses (Alvarez & Barney, 2014).

Fourth, significant growth is uncommon. Indeed only 3% of ventures in the developing world grow to more than three employees (Nichter & Goldmark, 2009).

This nature of business presents a challenge to extant theory. For instance, much theory views entrepreneurship as an end-point, ignoring what comes next. Even when self-employment is studied as part of a career, it is interwoven with wage-employment (Burton, Sørensen, & Dobrev, 2016). In this way, self-employment is pitted as an alternative to wage-employment (Kolvereid, 1996; Lévesque, Shepherd, & Douglas, 2002). However, in the developing world, well-paying formal wage jobs are rare, and informal ones pay poorly and have low status, thus generally making the only choice *which* business to start.

The notion of opportunity is also challenged. Literature focuses on “high-growth, high-wealth-creation businesses in either established or new start-ups” which is not the developing world’s norm (Bruton, Ketchen, & Ireland, 2013: 684). So while the concept of discovery, creation, and recognition opportunities (Sarasvathy, Dew, Velamuri, & Venkataraman, 2010) is generative for studying innovation and wealth creation, this categorization has little applicability in Frank’s world. Indeed, even though it is the globally dominant form of self-employment, Frank’s type is given but a fourth category – that of replication opportunity (Alvarez & Barney, 2014). This belies the considerable diversity therein.

Also challenged are notions of growth. In the developed world, successful growth may involve employing several dozen or hundreds of new employees. However, in some developing countries, only 12% of ventures experience *any* employee growth, and larger firms are in fact more likely to contract than expand (Fajnzylber, Maloney, & Rojas, 2006). Yet, it is not as if the self-employed in the developing world start a venture and change nothing until they exit and start another. Frank’s case exemplifies this, as do Khavul, Bruton, and Wood’s (2009) qualitative cases. So, how *should* we consider growth in this context?

With this in mind, we ask two related research questions. First, *how do the careers of the developing-world’s self-employed unfold over time?* In asking this, we view venture selection, growth, and exit decisions as temporally interconnected. Second, *how are career decisions guided?* We expect limited human and financial capital, as well as underdeveloped formal institutions to play a significant constraining role. Further, given the general nature of mutual-dependence in resource scarce environments, we expect social capital to be heavily involved, due to there being nothing else to draw on (Narayan & Petesch, 2002).

METHODS

Three criteria guided theoretical sampling: I selected informants who had started different numbers of businesses; I ensured variance in ages and education levels; and I sampled skill-based and commerce-based businesses, e.g. tailoring vs. running a provision shop.

Across five waves of data collection in Nov-Dec 2013, Apr-May 2014, Nov-Dec 2014, and Jun-Aug 2015, and Jan-Mar 2016, I collected detailed histories of 31 informants. In total, I conducted 175 interviews with these individuals, supplemented by 86 hours observing their business, and a further 146 hours of general observation. In interviews, I captured data on overall careers, including family business experience, wage employment, apprenticeships, ventures started, growth in these ventures, and exit. I also inquired on the reasons underlying this choice. Finally, I developed network diagrams of everyone involved in the business of 19 informants.

The first analytical step was to organize timelines of informants’ employment histories, including information on underlying rationale, financing, the role of social connections, and

reasons for exit. I then used the research question to focus analysis, and open-coded a diverse selection of data to isolate preliminary categories regarding what drove decisions. I then iterated through the data set to draw out these categories, and group them into higher order themes, and later into aggregate dimensions. I settled on five aggregate dimensions: templated exploitation of opportunity, social networks as constraining, social networks as enabling, current business as constraining, and current business as enabling. I then Undertook an axial coding exercise to see how the themes and dimensions worked together to create the generalized outcomes in the data.

SELF-EMPLOYMENT AND CAREER

Our 31 informants were generally representative of the self-employed in Koforidua; e.g., we did not seek to build a sample of the most entrepreneurially active. Their mean age was 37 years, and on average, they were running their third venture. However, the most active, Fiddausi, has started nine, though this was not of her own accord as she consistently encountered hardship. Eighteen had previously worked for a family member, while 11 had had a non-family wage job, though only two were well paying government jobs. Furthermore, the majority of them had had at least some element of growth in one of their ventures, and they all currently had some form of growth aspiration. Seven of them were currently running multiple ventures. In total, across the 41 ventures these 31 informants ran, they had 18 full-time employees and 14 casual ones.

Starting a Business

Most pressing to my informants was the need to acquire knowledge to start a business. Though money was a constraint, it was constraining in that it limited the *size* of the start-up, and not what business could be pursued. My informants focused on the manifest elements of the business, e.g. those that are easily communicable and understandable. This is opposed to approaching business from a “principled” manner of understanding the fundamentals. In line with this, some informants initially mimicked the businesses their parents had run, though none were still running such a business. When starting an unfamiliar business, they sought to learn the standard prices, products, and suppliers for a given business, and sometimes the “normal” location for a business. Mansur explains how, after choosing to run a clothing business, he learned the proper products: “I started going to get some goods with my main friend and he also told me the kind of material or the kind of clothes I should have that people want.” He also learned from a friend who the appropriate suppliers were, “the first time I went to Accra to get some clothes I saw Izu...I asked him of where I can get the best clothes with a good price. He showed me the place that I got very nice clothes with a very good price.” Without such knowledge, my informants consistently and repeatedly said they could not start that business.

Modes of growth

Organically Expanding Product/Service Offering. Most commonly, my informants added products and services to their current offerings. These were generally – though not always – related to the current offerings. For instance, Bobo added water sales at his Barber Shop, while Abba wants to add prepaid electricity credit to his cell phone airtime business.

Upgrading Business Type. There is a natural hierarchy in the way a business is developed. The same template – products, prices, suppliers – that can be exploited by selling from a roadside stand can be upgraded to a wood-framed semi-permanent stall, a modified shipping container, or even into a permanent concrete shop. For instance, Sahadatu started selling for her current business “by just buy one tin of milk, only one, and sell, if I sell and then I have it with some money that I have and get back to market and get to a different tin to sell it.”

Pursuing an Additional Template. Perhaps the most common aspiration amongst my informants is to add another business, even to the extent that Salim who sells clothing, want to go into chicken farming as well. Samaila wants to either buy a taxi-car or start selling rice.

Additional Location. Several informants – Kwakú, Peter, Kwasi, and Kontar – have copied their business to another location. The overall ability to do this is constrained by the trouble of finding a trustworthy employee, which is often very difficult.

Pursuing Scale. Only a handful of my informants truly scaled their business to improve efficiency. Jojo employs eight people at her bakery; Osei and his six employees efficiently repurpose old computers bought from overseas; Adjo has eight employees at her bicycle repair shop, who tend to specialize in certain functions; and Mănu continues to add employees to his tailoring business in order to start going into “mass production” through specialization. Outside of these informants, few express any interest in pursuing scale.

Entering Wholesale. This builds on current knowledge of customer preferences, and the thought that wholesale is more profitable. However, such growth is generally aspirational, as many informants mentioned it, but few actually did it.

Reasons for Exit

Issues with Business Location. Many informants had to exit otherwise prosperous businesses when they lost access to land or a building. This was actually the most commonly cited reason. For instance, Fiddausi exited two consecutive businesses when the property owner kicked her out.

Financial Challenges and Lack of Profitability. Informants commonly expressed they were simply not making enough money, or could not muster the capital to continue operations. For instance, Yusuf exited the radiator sales business as he said it was tying up too much of his capital and he was not making enough money. He went on to sell automobile spare parts.

Life Circumstances. Especially common amongst female self-employed, our informants had to exit a business due to life events such as a move associated with marriage. Umma in particular had to exit her initial provision shop business when she was married and moved to Togo. She then started importing goods from Togo to Ghana, but had to exit this business when she was divorced and moved back to Ghana, where she again took up running a provision shop.

Competition and Downturns in Demand. Only two informants expressed leaving a business because of competition. For instance, Umma left the electrical supply business when too many others entered and drove down prices. Somewhat more common, general demand decreases also forced exits, such as Yaw from the cassette business.

Overall Patterning

Importantly, after first becoming self-employed, none of my informants went back into wage employment unless they managed to procure a government job, highlighting the

aspirational nature of self-employment. Often though, the ventures they chose to run were *provisional*. As Samaila explained, one may have no strong interest in a clothing boutique, but given that one has a friend “who knows that business very well,” starting it becomes natural due to information access. This lies in contrast with an *intentional* approach where informants sought out apprenticeships to enter a skilled trade, or cycled between different provisional businesses in order to build up the capital and skills needed for their intended choice.

While running the venture, informants consistently tried to grow their businesses, as they saw this as the best way to provide for their families. However, financial challenges were a consistent obstacle, many of which had nothing to do with the venture. Illness, the expense of getting married, and having to pay an additional child’s school fees all took money away from the venture, even if it was being run effectively. This ultimately moderated the type of growth they could pursue and forced them to take an incremental approach.

When forced to exit a venture, informants quickly had to find a new business to run. Lacking any type of social security net, they had to do this to provide for their families and to subsist. This essentially put them right back at the start of the process.

Overall then, informants cycled between venture selection, growth, and exit, with exit leading back to selection. Importantly though, some informants were able to produce long-term stable ventures, especially those involving skilled trades.

SOCIAL INFLUENCES ON CAREER DECISIONS

Social Influences on Venture Selection

Given a lack of education and work experience, informants turned to social networks for knowledge, and were therefore *enabled* by these networks. They actually relied on acquiring complete knowledge templates, rather than getting information from diverse sources and assimilating it. Thus, knowledge for the opportunity they ultimately settled on often came from one person, with whom they had to have a close relationship. In the absence of a close relationship, payment was expected, and even then, the quality of information would be dubious. This resulted in informants being fundamentally *constrained* in the breadth of potential opportunities they could pursue. They could only choose a template that a member of their close circle of connections knew of. Such a circle was generally 4-6 people.

Social Influences on Growth

The originally selected business *enables* additional knowledge acquisition, and social network expansion. The acquisition of more in depth knowledge enables related business growth, such as by opening an additional location or adding a related product line. Similarly, social networks expand to include stakeholders as well as others in the same business. These connections in turn *enabled* the pursuit of other related businesses, through again providing knowledge. Similar to start-up though, these enabling elements also *constrained*. For instance, though the original business enabled the building of social networks around the venture’s activities, it simultaneously inhibited the inclusion of “outsiders” pursuing unrelated businesses. These outsiders could have served as sources of *novel knowledge* unrelated to the minutia of the current business. This type of knowledge crossover is useful in locating novel/innovative business ideas. Finally, the social network – built now to largely include those directly related to

the opportunity –again constrained. Members of the social network naturally focused informants’ attention away from even the consideration of more novel opportunities, and instead towards incremental opportunities, such as entering wholesale, or adding a new product line.

DISCUSSION

Closed, Path Dependent System

That ventures are selected based on pre-existing social ties forces the self-employed to operate within relatively closed systems. This prevent them from undertaking innovate and potentially value-creating opportunities, and constrains the breadth of even simple businesses they can replicate. Amplifying this is the notion that growth paths are set by the initially selected opportunity. There are relatively few “standard” ways to expand a particular business, and my informants followed these because they had social access to the requisite information.

The Nature of Opportunities

Some advocate for NGOs to abandon helping people to exploit replication opportunities (Alvarez & Barney, 2014). However, my study points out that the process of exploiting these replicative opportunities fundamentally differs from that of more innovative opportunities. Namely, replication involves copying a template, rather than acting on a foundational set of entrepreneurial knowledge to locate market imperfections. A complete shift in underlying schema would therefore be necessary, which is highly difficult. Moreover, in the absence of wage employment, replicative businesses are the only means of developing business knowledge.

More fundamentally, the notion of opportunity is simply different from the developed world’s. That opportunities form a foundation of research motivates the need to bring the developing-world’s reality “into the fold.” I agree with Davidsson’s (2015) argument of taking a multi-dimensional approach to the concept of opportunity. He argues that external enabler, new venture idea, and opportunity confidence are the underlying constructs. However, I believe the developing context needs a different set of constructs. While a full exposition needs a whole paper, a preliminary starting point is *social enablers, potentially exploitable templates, and confidence in ability and resource level*. I further argue that the *degree of intended innovation* provides a guideline for understanding which underlying group of constructs applies.

The Inhibitory Role of Social Networks

A growing body of literature points to the potential downsides of social networks to the self-employed (Arregle et al., 2013). To this literature, we add the notion of network duality. The self-employed could not create ventures without their network contacts, and yet these contacts ultimately constrain them from pursuing opportunities that are more valuable.

REFERENCES AVAILABLE FROM THE AUTHOR