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## Examining the Role of Social Network on Opportunity Recognition: A Propose Framework

Norria Zakaria<sup>a</sup>, Mohamad Zaki Ahmad<sup>b</sup> Sahadah Abdullah<sup>c</sup> and Farrah Merlinda<sup>d</sup>

<sup>a</sup> School of Business Management, Universiti Utara Malaysia, Malaysia, E-mail: [norria@uum.edu.my](mailto:norria@uum.edu.my)

<sup>b</sup> School of Tourism, Hospitality and Event Management, Universiti Utara Malaysia

E-mail: [zaki.abmad@uum.edu.my](mailto:zaki.abmad@uum.edu.my)

<sup>c</sup> School of Business Management, Universiti Utara Malaysia, Malaysia, E-mail: [sahadah@uum.edu.my](mailto:sahadah@uum.edu.my)

<sup>d</sup> Faculty of Management, Universiti Teknologi Malaysia

**Abstract:** The fundamental activity of entrepreneurship is new venture creation. Therefore, one of the major components of any entrepreneurial venture is the recognition of the opportunity by the entrepreneur. Identifying and selecting the right opportunities for new venture are among the most significant abilities of successful entrepreneur. Hence, explaining the discovery and development of opportunities per se is a key part of entrepreneurship research. This paper builds on the existing theoretical background of opportunity recognition and aimed at investigating the role of entrepreneur's prior social network towards bridging to information sources that would help entrepreneurs recognizing opportunity.

**Keywords:** Opportunity recognition, social network

### INTRODUCTION

The questions pertaining how individuals recognize opportunities has become a distinct aspect of entrepreneurship research (Shane and Venkataraman, 2000). This is absolutely because existing research on entrepreneurship has focused on the role of the individual or individual level-attributes (Kwon and Arenius, 2010), for instance the important role of prior knowledge (Shane, 2000) and subsequently alertness to entrepreneurial opportunities (Tang, Kacmar and Busenitz, 2012). How about external factors such as social capital accumulated by the entrepreneurs resulted from ties with external parties? In this paper, the researcher has move to focus on the relative significance of network perspective to the literature of entrepreneurial opportunity recognition. Previously witnessed many research on networks and entrepreneurship especially the relationship between networks and performance (Li *et al.*, 2008; Sheng *et al.*, 2011), and little evidences is provided to explain the relationship between networks and opportunity

recognition. This study is intended to fill this gap in the literature by examining how or to what extent networks influence individuals' recognition of opportunities.

## PROBLEM STATEMENT

In Malaysia, the issue relating to *Bumiputera* Entrepreneurship is not a new occurrence. The awareness that the *Bumiputeras* are being left far behind in achieving success in the economic development (Che Omar & Mohd Noor Azmi, 2015) has been long felt. This view is supported by Suhaila and Mohd Rosli (2011) whom stated that even the number of *Bumiputera* entrepreneurs in business increases over the years, their business achievement is far below the target. This has been quoted by Rahmah & Noorasiah (2007) who claimed that it has been more than 30 years since the implementation of New Economic Policy (NEP), but we have yet to see satisfactory achievement by the majority of Malay (*Bumiputera*) entrepreneurs. Could it be a problem in the structuring in policy analysis, or implementation, or perhaps the *Bumiputera* community itself?

Among the causes that contribute to the failure of *Bumiputera* businesses is fail to recognize opportunity. *Bumiputera* SMEs need to realize their full potential and seize any opportunities to upgrade themselves in order to improve their performance and become more competitive (Rahim, Mohtar, and Ramli, 2015). This is in agreement with Mohd Hassan (2007) who categorized opportunity recognition as one of the most critical success factors (CSF) in managing a business. This fact is further corroborated by Norasmah *et al.* (2006); Salmah *et al.* (2007) and Azimi *et al.* (2009) who found that university students and graduates have low inclination towards pursuing a career in entrepreneurship. They are not able to identify, seize and exploit business opportunities and entrepreneurship that have been offered by the government. Similar to what has been stated in Utusan Malaysia, titled "*Melayu perlu bijak rebut peluang perniagaan*", dated November 3, 2008, *Bumiputera* entrepreneurs must know how to seek opportunities in order to change their mentality towards developing the economic standard of the Malay community which has not yet achieve the objective of the government. Following the above matter, opportunity recognition has become the focus of this study.

Considering the growth and role of entrepreneurship today, it is becoming increasingly important to understand how new entrepreneurial opportunities are recognized. Discussions of the emergences of new entrepreneurial opportunities often include "eureka" moments, but our understanding of how new opportunities get brought forward is limited. (Tang, J., *et al.* 2010). Indeed, Chandler, DeTienne and Lyon (2003) also mentioned that research on opportunity recognition is still in its infancy. Even though it is seen as one of the main activities involved in entrepreneurship (Gaglio and Katz, 2001), empirical studies is still needed to develop the knowledge of the phenomenon (see Davidsson, 2003). Shane and Ventakaraman (2000) also argued that how individuals recognize opportunities is one of the most neglected questions in entrepreneurial research. Even though Gilad *et al.* 1988; Christensen, 1989; Gaglio and Taub, 1992; Shane, 2000; and Singh (2000) claimed that there was a survey of the literature revealed that prior studies have investigated opportunity recognition, research on what stimuli enhance recognition of opportunities is still limited (Ozgen, 2003).

Given the fact that discovery of entrepreneurial opportunity has become a key aspect of research in entrepreneurship field (DeTienne & Chandler, 2007), it appears vitally important for researchers to provide a thorough understanding of precisely why and how it is that entrepreneurial opportunities are recognized.

Limited research exists in explaining why some people, but not others, recognize new opportunities (Orwa, 2003). This can be explained by the fact that opportunity recognition is an infrequent and early event in the entrepreneurial process, therefore, the empirical foundations of knowledge about these events are scarce and insufficient (Davidsson & Honig, 2003). Since it has been noted that opportunity identification in most cases occurs throughout the life of an entrepreneur (Orwa, 2003), many empirical studies have and began to focus on identification of factors influencing the opportunity recognition process as researchers try to answer the question of why some people recognize entrepreneurial opportunities and others do not. Therefore, this research is trying to fill the gaps by examining to what extent the role of social network in helping addressing the entrepreneurial opportunity recognition among the entrepreneurs.

## **LITERATURE REVIEW**

### **Research on Entrepreneurial Opportunity Recognition (EOR)**

An early work in this area for instance, centers on developing a comprehensive description regarding the nature of the process such as whether entrepreneurial opportunities are the result of serendipity or active search (Alsos and Kaikkonen, 2004; Gaglio & Katz, 2001; Chandler, Dahlquist & Davidsson, 2002). Another central argument which has become the interest among the scholar is to whether entrepreneurial opportunities are objectively discovered or subjectively created (e.g. Gartner *et al.*, 2003). This is being supported by Ardichvili *et al.* (2003) that elements of opportunities may be recognized, even if most of the process is about creation. However, there is also the other side of research in opportunity recognition in which they questioned the way opportunity comes into existence or emerge. The question as to whether opportunities appear full-blown, or emerge over time (Hills, 1995; Long & McMullan, 1984)? The model proposed by Long and McMullan (1984) on the other hand tried to explain the conceptualization of opportunity recognition process through series of stages before venture launch. According to the researcher, it is not the intention here to provide a detailed review of the opportunity recognition view of entrepreneurship. What is intended, however, is to highlight that these review collectively offer a range of nature that characterize the opportunity recognition process.

### **Research on Social Network**

A social network is defined as “a set of nodes (e.g., persons, organizations) linked by a set of social relationships of a specified type (Laumann *et al.*, 1978). Numerous studies have attempted to explain that most people have contact, whether frequent or sporadic, with a great many other people (Burt, 1986; Pool & Kochen, 1978; Boissevain, 1974), and an individual’s personal or egocentric social network consist of all of the people (nodes) that the individual knows both well and not so well (Barnes, 1972; Mitchell, 1969).

Entrepreneurs are surrounded in networks of social relationships, whether build purposively or coincidently. Perhaps social relations elaborated by Aldrich, Elam, & Reese (1997), to varying extents, emerge as planned interactions purposely to obtain access to specific information or may arise because of accidental or unplanned encounters with individuals, or created via organizational memberships alike. These types of relation, some of which are personal, such as ties to family, friends and neighbors, and others which are business related, such as ties to customers, vendors and creditors. In that sense, all

entrepreneurs per se used to establish networks of social relations in the process of obtaining resources for their firms (Aldrich *et al.*, 1997).

This study builds on the premise that stresses the importance of individuals' embeddedness in networks of relationships with others and apparently focuses on the fact that different people will have different personal contact they created (Arenius & De Clercq, 2005). This has been true when the scholars pointed out that of all the current entrepreneurship study, the social network has become a great interest with the aim to encourage performance of small and medium enterprise (Atif, Noor Fareen & Syed Muzaffar, 2017). In fact, in an emerging economy, an incomplete market system and formal institutional resources alike may not provide enough support to new ventures (Sheng, Zhou, & Li, 2011).

With regard to Bumiputera entrepreneur, the individuals and organizations with which entrepreneurs are connected to and interact with will have a propensity to increase the availability of resources that can help endure their business (Atif, Noor Fareen & Syed Muzaffar, 2017; Hansen, 1995) and indeed useful in helping Bumiputera entrepreneur's in acquiring financial aid, business information, moral support, material aid and service, market access, business knowledge and skills, advice, as well as formation of new social contacts (Abu Bakar Hamed, 1995). In addition, social ties can help firms to access scarce resources (Li, Poppo, & Zhou, 2008), manage environmental uncertainties (Li & Zhou, 2010), and generally improve firm performance (Adler & Kwon, 2002).

There are also an effort to categorize the role of network in accordance to business stages or business life cycle, for instance during the initial stages of venture creation (Aldrich & Zimmer, 1986; Birley, 1985), at start-up stage (Aldrich, Reese & Dubin, 1989; Aldrich, Rosen & Woodward, 1987; Johannisson, 1996) and during business growth (Aldrich & Zimmer, 1986; Dubini & Aldrich, 1991; Ostgaard & Birley, 1994). The above mentioned studies recognized the importance of networks in accessing ideas, resources and information needed by an entrepreneur (Ostgaard & Birley, 1994). Other than that, researchers on pre-venture activities also begin to acknowledge the importance of social networks on opportunity identification (Hills, Lumpkin & Singh, 1997; Johannisson, 1990). This is because, it is believed humans have its limitation in storing and process information due to insufficient of perfect information (Simon, 1976). Therefore, being part of social networking enables entrepreneurs to access knowledge and information which will then exposed them to ideas variation and more opportunity identification. Following to this matter, the next section will elaborates the importance of social network on opportunity recognition.

### **Social networks and Opportunity Recognition**

This study advances a model suggesting that entrepreneurial opportunity recognition behaviour shown by an individual is a result of interplay between variety, quality and dense of social network that the individuals' have. Networks have been associated with the number of new opportunities perceived by entrepreneurs (Singh *et al.*, 1999). The rationale is that the new knowledge gained through social network which may not currently possessed, could lead to the potential for opportunity recognition (Arenius & De Clercq, 2005). Following Social Network Theory, individual's social ties can stimulate the ability to recognize entrepreneurial opportunities and entrepreneurial pursuits (Ozgen & Minsky, 2007). This view is supported by Birley and Westhead (1994) arguing that social ties of a person can provide the required resources and information about the suitability of recognized opportunities such as the sources of business opportunities, the

information about the feasibility of different opportunities, production and marketing locations, reliable investors and suppliers and so forth.

The increased probability of social network in entrepreneurial opportunity recognition also has been addressed by Hills *et al.* (1997). Hills *et al.* (1997) proclaimed “that entrepreneurs who have extended networks identify significantly more opportunities” than those who recognized opportunities individually. This is unquestionably, since social network creates a wide range of individual’s database, leading them to gather and evaluate a pool of new ideas.

Since networks are regarded as patterned of relationships among individuals, groups and organization (Dubini & Aldrich, 1991), by nature, networking can be centered on a collection of people (extended network) or focused on individual (personal network) (Orwa, 2003). In fact, network ties can vary from simple to complex relationships. It somehow relies on the strength of the ties which most likely depend on the level, frequency and reciprocity of relations between persons (Reese & Aldrich, 1995). This is consistent with the argument by Arenius & Clercq (2005) that one reason why some people are more friendly exposed to new information and therefore perceive entrepreneurial opportunities results from different structure of network they are embedded in. Even the term used to describe the types of social networking established, varies according to different researchers.

In contrast with the study done by Arenius & Clercq (2005) , the researcher used the term cohesiveness to represents the individuals’ networks, i.e., the extent to which one’s network is mainly characterized by weak ties and structural holes (i.e., low cohesive networks) versus strong ties (i.e., high cohesive networks).

Burt’s (1992) on the other hand proposed the potential benefits and importance of holes within a network. Burt’s study follows the same rationale argument applicable to weak ties. According to him, it is not the strength of the relationship between network ties that really matters but rather than the “spaces” between network relationships are the one that determine access to unique information which will then lead to opportunity recognition.

Besides that, the importance of social network on opportunity recognition also has been highlighted from the sociocognitive point of view which apparently shows that entrepreneurs evolve opportunities by pursuing three cognitive activities (information gathering, thinking through talking, and resource assessing) through active discussion with an extensive networking member (De Koning, 1999). Specifically, this network characterizes the entrepreneur’s inner circle (the group of people that had established long-term, stable relationships with entrepreneur, though are not partners in the venture), “action set” (people hired by the entrepreneur to provide necessary resources for the opportunity), partnerships (start-up team members), and a network of weak ties; a network used to gather general information that could lead to identifying an opportunity.

There are numbers of relevant empirical studies that supports the relatedness of social network on entrepreneurial opportunity recognition (Wang, Ellinger & Jim Wu, 2013; St Jean, 2011; Kontinen & Ojala, 2011; Kinghorn, 2008; Ozgen and Baron, 2007). Upon this claimed social network and opportunity recognition warrant for further study.

H1: Social network is significantly related to opportunity recognition



## CONCLUSION AND DISCUSSION

Even though there are many and different categories, types, structure, elements or perhaps characteristics of social network has been defined, there all still fall into the same name social networking. It is suggested that the impact of each of this types of social networking to be studied more rigorously in the future. For the purpose of this study, the researcher propose to examine both the opportunity recognition and social networking as unidimensional concepts and goes deeper into studying empirically to what extent the influence of social networking on entrepreneurial opportunity recognition.

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