Effects of social network on opportunity Identification. The innovative capacity of Informal economy and their competitive advantage.

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Abstract
We extent entrepreneurship and institutional theory to explain entrepreneurial opportunity identification in the informal entrepreneurship. We study the negative influence of corruption, insecure property rights on entrepreneurs’ aspirations to identify opportunities in the informal economy in order to increase employment. We further explore whether individual’s social network compensate for challenges experienced by the entrepreneurs. We find that entrepreneurs benefit simultaneously from strong government (in the sense of property rights enforcement but are constrained by corruption. Social networks mediate some but not all institutional deficiencies.

1. Executive summary

In developing economies, workers employed in the untaxed, unregulated, sector tend to be younger, have less education, and earn less than their counterparts in the formal sector this is often interpreted as evidence that labor markets are segmented in these nations barriers to entry, it is conjectured, prevent certain groups of workers from competing for higher paying formal jobs. While this view has become prevalent in the development literature, direct empirical tests of the premise that informal workers would expect higher wages in the formal sector yield mixed results, at best. Entrepreneurial opportunities is defined as: situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends or end means relationship. In addition, unlike optimizing or satisficing decisions, in which the ends that the decision maker is trying to achieve and the means that the decision maker will employ are given, entrepreneurial decisions are creative decisions. That is the entrepreneur constructs the means, the ends or both. Innovation, market information, information about resources, information asymmetries, informational sources such as price, and information diffusion are also linked to this definition by these authors. An investigation of opportunity revolves around the information individuals possess and how they process it. Shane and Venkataraman (2000: 222) state that the reasons some people will discover opportunities while others will not is contingent on two issues: (1) the possession of prior information necessary to identify an opportunity and (2) the cognitive properties necessary to value it. Sector is often the most important employment opportunity in developing countries, the evolution of the informal sector in the course of economic development became an extensively researched topic (Livingstone, 1971; Hart, 1973; Fields, 1975).

2. Introduction

The role of opportunities as well as their recognition (identification), creation, and exploitation has become an essential theme in strategic entrepreneurship. However, the entrepreneurship literature mostly takes a similar view of opportunities, paying little attention to distinguishing between their different features. Despite the recent interest in and increase in studies on entrepreneurial opportunities, many scholars have pointed out that more research is needed as the literature on the
opportunity recognition process “is still largely undeveloped” (Park, 2005). Therefore, from these previous studies, the evaluation of the relation between theories and entrepreneurship in the informal economic growth is not addressed, including establishing the impact of either variable to the other. The importance of opportunity recognition as a crucial aspect of entrepreneurial behavior is widely established in the entrepreneurship literature. In particular, the cognitive processes underlying opportunity recognition have received considerable attention in the past years. Furthering our understanding of individual differences in opportunity recognition, we focus on the role of social network in the early stage of opportunity recognition. The role of opportunities as well as their recognition (identification), creation, and exploitation has become an essential theme. Identifying and selecting the right opportunities for new businesses are among the most important abilities of a successful entrepreneur. Consequently, explaining the discovery and development of opportunities is a key part of entrepreneurship research. This paper builds on existing theoretical and empirical studies in the area of entrepreneurial opportunity identification and development, and utilizes framework to propose a theory of the opportunity identification process. The phenomenon of opportunity identification is highly complex, and existing studies in the area cut across broad swathe of disciplines including management, organization theory, marketing, and entrepreneurship. In proposing our theory therefore we draw from this rich and cross disciplinary theoretical base. (Granovetter, M., 1985., Wacker, 1998). Henrekson, M., 2007., North (1990) proposed that many of the incentives underlying value-adding behavior depend on the quality of institutions. They distinguishes between formal institutions, the laws and rules that define the economic incentives guiding individual and organizational choices, and informal institutions, the social arrangements and norms that influence how formal institutions operate in practice. We expand upon this theory’s (institutional theory) to focus on identification of opportunity to examine allocation of tangible resources. Opportunities begin as simple concepts that become more elaborate as entrepreneurs develop them. This process involves proactive efforts much like that of new product development, but the developmental process here gives rise to an entire business, not just a product. Our position here departs from earlier literature that considers opportunity recognition largely a process of discovering something already formed. We regard opportunity development as a continuous, proactive process essential to the formation of a business.

3. **Elements of a theory of opportunity identification**

4. Identifying and selecting right opportunities for new businesses are among the most important abilities of a successful entrepreneur. Entrepreneurs identify business opportunities to create and deliver value for stakeholders in prospective ventures. While elements of opportunities may be recognized, opportunities are made, not found. Careful investigation of and sensitivity to market needs and as well as an ability to spot suboptimal deployment of resources may help an entrepreneur begin to develop an opportunity (which may or may not result in the formation of a business). But opportunity development also involves entrepreneurs’ creative work. Therefore, “opportunity development” rather than “opportunity recognition,” should be our focus. The need or resource “recognized” or “perceived” cannot become a viable business without this “development. The creation of successful businesses follows a successful opportunity development process. This includes recognition of an opportunity, its evaluation, and development perse. The development process is cyclical and iterative: an entrepreneur is likely to conduct evaluations several times at different stages of development; evaluation could also lead to recognition of additional opportunities or adjustments to the initial vision. A large body of academic research supports that entrepreneurial activity is affected by the institutional environment: entrepreneurs’ strategies reflect the opportunities and limitations defined by institutions (Aidis et al., 2012; Autio and Acs,
2010; Baumol 1990, 1993; Boettke and Coyne, 2009; Bowen and DeClercq, 2008). However, to date a growing body of scholars have largely focused on studying the effect of institutions on entrepreneurial entry in general, but there has been little systematic analysis of how various types of institutions affect different forms of entrepreneurial activity, and in particular the engagement of entrepreneurs in the formation of new ventures with the potential to generate a significant economic impact (Davidsson, P., Henrekson, M., 2002., Delmar, F., Desai, S., Acs, Z., 2007., Wiklund, J., 2008.). Major factors that influence this core process of opportunity recognition and development leading to business formation include: entrepreneurial alertness; information asymmetry and prior knowledge; social networks; personality traits, including optimism and self-efficacy, and creativity; and type of opportunity itself. The objective of our study is to fill this gap in the literature by developing and testing a conceptual framework which analyses how a variety of different institutional environment impact the high-growth aspirations of new ventures in the informal entrepreneurship. Social network processing by entrepreneurs has been investigated. Our conceptual framework extends upon Williamson's (2000) concept of institution hierarchy (formal and informal institutions). Based on this, we identify the three fundamental aspects, namely (1) the effects of social network and (2) the strength of opportunity identification. These correspond to the performance of entrepreneurship after being identified. We hypothesize the ways in which these might affect the growth aspirations of entrepreneurs to identify opportunities in the informal entrepreneurship. Entrepreneurship scholars are seeking to understand ‘why’ and ‘how’ some individuals, and not others, identify more opportunities and opportunities with superior wealth-creating benefits. Improving understanding of opportunity identification can assist in ensuring that new knowledge is translated into tangible business innovations and practical solutions that contribute to economic and social development. There is growing recognition of considerable heterogeneity among entrepreneurs with respect to how they identify opportunities, the frequency of opportunity identification, and the nature and quality of the opportunities identified. Studies exploring the relationship between business ownership experience and outcomes have tended to focus on whether or not the entrepreneur has experience and/or the amount of experience. We seek to make several conceptual and empirical contributions. Guided by institutional theory a balanced view which considers the ‘assets’ (i.e., advantages) and ‘liabilities’ (i.e., disadvantages) of social network in entrepreneurial opportunity identification. It is important not to underestimate the role of social network structures in shaping entrepreneurial activity and its different types. While we try to find some moderating effect of social networks, the article is structured as follows. In the next section, insights from institutional theory suggesting links between an individual's level of social network and behavior are drawn upon to derive the hypotheses. This is followed by a discussion of the data collected and the research method. Results are then reported. In the following section, key findings are discussed. Finally, conclusions are presented

4.1 units of the theory

Opportunity. In broad terms, an opportunity may be the chance to meet a market need (or interest or want) through a creative combination of resources to deliver superior value (Schumpeter, 1934; Kirzner, 1973; Casson, 1982). But “opportunities” describe arrange of phenomena that begin unformed and become more developed through time. In its most elemental form, what may later be called an “opportunity” may appear as an imprecisely-defined market need, or un-employed resources or capabilities (Kirzner, 1997). The latter may include basic technologies, inventions for which no market has been defined, or ideas for products and services. Prospective customers may or may not be able to articulate their needs, interests, or problems (Von
Hippel, 1994). Even if prospective customers cannot do so, they may still be able to recognize the value to them in something new when they are presented with it and have its operation and benefits explained.

4.2 The development process
Opportunities seen from the perspective of prospective customers represent value sought. Opportunity development. Opportunities begin as simple concepts that become more elaborate as entrepreneurs develop them. This process involves proactive efforts much like that of new product development, but the developmental process here gives rise to an entire business, not just a product (Pavia, 1991). Our position here departs from earlier literature (e.g., Kirzner, 1973) that considers opportunity recognition largely a process of discovering something already formed. We regard opportunity development as a continuous, proactive process essential to the formation of a business. Opportunity recognition. Opportunities develop as individuals shape elemental ideas into full-blown business plans Argyris, C., Schoen, D., 1978. But the process of opportunity development is conceptually distinct from opportunity recognition or identification. What most literature in entrepreneurship calls ‘‘opportunity recognition’’ appears to include three distinct processes: (1) sensing or perceiving market needs and/or underemployed resources, (2) recognizing or discovering a level between particular market needs and specified resources, and (3) creating a new fit between heretofore separate needs and resources in the form of a business concept.

4.1.1.2 Opportunity evaluation.
Opportunities are evaluated at each stage of their development, although the evaluation may be informal or even unarticulated. Individuals may informally pursue investigations of presumed market needs or resources (including inventions) until concluding either that these warrant no further consideration, or that more formal pursuit of the possibility is appropriate. This ‘‘evaluation’’ may not be communicated to others until a request is made for resources to mount further investigation. Once resources beyond the time of an individual have been committed to the development process, evaluation becomes more formal. In the case of inventions, prospective new products or services, the first formal evaluation may involve a feasibility analysis, which addresses the question of whether the proposed combination of resources can, in fact, deliver specified value. A feasibility analysis will likely also assess whether the value that a particular combination of resources can deliver will translate into economic success. A feasibility analysis useful for prospective stakeholders implies the existence of a business concept, even one rudimentary in form. Baumol (1990, 1993) identified, institutions create the structure of incentives determining the choice of entrepreneurship as against other occupations, and the type of entrepreneurship chosen. However, the literature to date has been fairly general with respect both to the forms of entrepreneurship and types of institution under consideration and more fine grained analysis is needed concerning both(Desai, M., Gompers, P., Josh Lerner, J., 2003). Thus, there is little consensus about precisely which institutions are important for entrepreneurship(DiMaggio, P.J., Powell, W.W., 1991). Recent work illustrates a variety of different frameworks and measures (Acs et al., 2008; Aidis et al., 2012; Bowen and DeClercq, 2008; Desai et al., 2003). At the same time, the institutions favoring self-employment or very small firms might be different to those underpinning the formation of new ventures which plan to grow to considerable scale (Djankov, S., LaPorta, R., Lopez-De-Silanes, F., Shleifer, A., 2002). Our attention is on the latter, because of their potential significance for economic growth, development and employment creation (Acs, 2006; Autio and Acs, 2010; Hessels et al., 2008; Minniti and Lévesque, 2010).
4.1.1.3 Opportunity evaluation

Indeed, a public policy which focuses on promoting entrepreneurship in general, but not on high growth firms, is likely to be ineffective in enhancing employment. Moreover, differences in entrepreneurial ambitions play a critical role. Environmental factors may affect entrepreneurial attitudes and growth ambitions negatively. (van Stel and Story, 2016) An opportunity that does not successfully pass through a “gate” to the subsequent stage of development or implementation may be revised or even aborted. Evaluation of resources, and markets often leads to useful revisions of business concepts. At the same time, evaluation procedures have the effect of aborting many opportunities at each of several levels of development. The number of market needs and un- or underemployed resources perceived greatly exceeds the number of successful businesses formed. The match between theories of entrepreneurship and the empirical testing of associated hypotheses is a non-trivial issue also because entrepreneurship itself is often measured imperfectly (Parker, 2009). Thus empirical researchers have been on occasion found themselves combining a variety of types of entrepreneurs: necessity and opportunity; self-employed, small and medium size enterprises. We agree with Autio, Estrin, S., Mickiewicz, T., (2011) that high growth aspiration entrepreneurship fits best “with the profile of entrepreneurs inferred from economic theories”, and represents the group most likely to create jobs and to attract the interest of policy makers. However, almost no work addresses the determinants of entrepreneur's growth aspirations across institutional contexts. Thu2.1.3

4. Theories foundation

Economic anthropologists seeking to explain the myriad, often well-organized economic activities taking place outside the view of law enforcement introduced the “informal economy” concept in the early 1970s (i.e., Hart, 1973). Developmental economists adopted the concept, viewing the understanding of the informal economy as critical to the development of emerging economies (Hart, 2006; Rakowski, 1994). Over the next few decades, scholars from several disciplines examined organizational issues related to the informal economy. Scholars have used terms such as underground economy, shadow economy, irregular economy, unobserved economy, and hidden enterprises to refer to the activities we categorize as part of the informal economy. Scholars have also advanced an array of definitions of the informal economy. We employ a definition offered recently in the management literature, which is that the informal economy is concerned with economic activities that are outside of formal institutional boundaries (i.e., illegal) yet fall within informal institutional boundaries (i.e., legitimate) (Webb et al., 2009). More specifically, the activities, while illegal, remain legitimate for large portions of society that serve as an entrepreneur's stakeholders (i.e., consumers, suppliers, employees, interest groups, etc.) (Rutherford and Buller, 2007). Phenomena falling within the scope of this definition include the use of undocumented workers, counterfeiting, ticket scalping, the sale of unregulated pharmaceuticals, unregistered and/or tax-avoiding businesses, trader-tourism, bootlegging, the skirting of environmental/labor regulations, and often street vending, among others. This definition from the management literature is consistent with De Soto's (1989: 11) description of the informal economy, which captures illegal economic activities yet excludes activities that are “antisocial in intent,” such as cocaine distribution, human trafficking, and bank robbery. Certainly, while drug cartels, human trafficking rings, and other illegal and illegitimate operations can be large organizations with supporting employees and consumers, our position is that their growth has been facilitated by mechanisms other than legitimacy, such as coercion, addiction, and clandestine operations.

5. Community entrepreneurship highlights

Community entrepreneurship highlights the use of networks of individuals committed to the community good, although not necessarily for profit (Nyssens, 2006). People, not the government, govern community enterprises, and given the focus of nonprofits in promoting community
entrepreneurship as perhaps a more effective solution to development in impoverished markets of emerging economies (Peredo and Chrisman, 2006), community entrepreneurship shares some elements (i.e., presence in impoverished contexts and network-based operations) with informal entrepreneurs. While the government does not control the modes of community entrepreneurship, these community enterprises may still be registered entities, unlike the ventures of informal entrepreneurs. Also, informal entrepreneurs often seek to promote their own needs as opposed to those of the community (e.g., see Neuwirth, 2011). Emerging firms are at the nascent stages of development. Entrepreneurs in emerging firms undertake various start-up activities, from hiring employees to purchasing office equipment to registering their business; these activities can occur in random order depending on an entrepreneur's preferences (Carter et al., 1996). Business registration may be delayed for some entrepreneurs until they perceive a viable market opportunity. In such cases, entrepreneurs in emerging firms would operate informally until they became registered. Entrepreneurs can register their business early in their venture's development for various reasons, however, such as to stake claim to a trademark-able name, in which case they would operate formally. Self-employment, or when a single operator-own manages a business, is another concept related to informality. Many subsistence-oriented forms of informality are undertaken as self-employment. In fact, self-employment has been used as a proxy for informality (e.g., Heemskerk, 2003; Loayza and Rigolini, 2011; Williams, 2005), although empirically, self-employment has minimal correlation with other proxies of informality. For example, Henley et al. (2009) suggest that self-employment as a proxy overlooks the fact that (1) many self-employed individuals can be registered and (2) many firms larger than self-employed entities are operated informally (e.g., sweatshops or construction companies employing undocumented workers). Finally, homework, or work that is done in the home, is another potential manifestation of informality, Hills, G., Lumpkin, G.T., Singh, R.P., 1997. although not necessarily. Homework has been discussed in terms of informal entrepreneurship given the ability for individuals to work inside their home to avoid detection by enforcement in terms of registration and/or labor regulations (Fernandez-Kelly and Garcia, 1991). Homework seems to be linked to entrepreneurs subcontracting to employees who work from their home in a wide range of industries from electronics to the manufacture of items such as soccer balls and garments. Technological advancements have increased the potential for individuals to work from home; but, those working from home can still be registered entities. Moreover, many examples of informal entrepreneurs operating outside the home are notable as well, including the use of undocumented workers in construction or trader-tourism. Entrepreneurship occurs at the nexus of individuals and opportunities (Shane and Venkataraman, 2000). As a process, entrepreneurship unfolds as an alert individual recognizes and then exploits an opportunity (Bygrave and Hofer, 1991). An opportunity surfaces when situational conditions (i.e., encompassing a confluence of variables such as institutional prescriptions, new technologies, socio-cultural constraints, etc.) allow an entrepreneur to create value through developing new means and/or ends (Casson, 1982)

Conclusion
We have taken a some few information at building a theory of opportunity identification, using Dubin’s method of theory development. Our theory explains opportunity identification recognition as a process in which entrepreneurs undergo in order to reach the second stage. We argue that both individual and situational differences influence the process. In its present form the theory appears to offer rich opportunities for research into the process of opportunity identification recognition and development. We hope that our statement of the theory will encourage others to develop further the theory itself.
Reference


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