The Opportunity Recognition Framework in the Hong Kong SMEs context

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ABSTRACT

This paper presents a preliminary framework of opportunity recognition in the Hong Kong small and medium enterprises (SMEs) context. Guanxi and four trait variables, namely self-monitoring, extroversion, self-efficacy and creativity are the independent variables while the number of opportunity recognized by entrepreneurs is the dependent variable in the framework. The model indicates a mediation effect of guanxi between self-monitoring and the number of opportunities recognized, and between extroversion and the number of opportunities recognized. Meanwhile, SMEs marketing characteristics are determined by personalities and behaviour of the entrepreneurs as they do not conform to the traditional marketing theories (Gilmore et al., 2001). This paper provides new research directions to the field of SMEs marketing.

INTRODUCTION

The Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong has provided many opportunities to Hong Kong enterprises in mainland China. These facts show that Hong Kong entrepreneurs of SMEs have to adapt to a variety of China business environments regarding the increase in business opportunities. Relationship is prominent in business development in China. The concept of “Guanxi” describes the special relationships embedded in the network in doing business, especially in the Chinese context (Davies et al., 1995). It is deeply embedded in the Chinese Confucianism philosophy and has perpetual influence in modern China. As CEPA brings numerous business opportunities to Hong Kong SMEs, identifying factors that affect these CEO’s number of business opportunities recognized should be considered as an important research area (Christen et al., 1994; Gaglio, 1997; Gartner et al., 2003; Kirzner, 1997; Shane and Venkataraman, 2000). Some studies (Ardichvili et al., 2003 and Kasouf, 2003) reveal that personal traits can explain entrepreneurs’ ability in opportunity recognition. This study develops an opportunity recognition framework of which guanxi is theorized to mediate the impacts of self-monitoring and extroversion on the number of opportunities recognized. In addition, entrepreneurial self-efficacy and creativity are proposed to have positive effects on the number of opportunities recognized.

Different from large enterprises, SMEs apply unconventional marketing approaches (Carson, 1990) to survive in fierce competitions. This phenomenon is mainly caused by haphazard, limited resources and expertise of these SMEs (Scase and Goffee, 1980). The entrepreneurs use their network as a tool to carry out marketing strategies (Gilmore et al., 2001). Guanxi and the four personal traits, namely self-monitoring, extroversion, self-efficacy and creativity provide directions to Chinese SMEs’ entrepreneurs to utilize their personal characteristics and network for marketing behaviour.

LITERATURE REVIEW AND PROPOSITIONS

Guanxi and Number of Opportunities Recognized

Opportunity recognition has emerged in the field of entrepreneurship research (Craig and Lindsay, 2001; Gaglio, 1997; Venkataraman, 1997; Shane and Venkataraman, 2000; Shepherd and De Tienne, 2001) for many years. It is the critical first step of the entrepreneurship process (Christen et al. 1994; Hills, 1995; Timmons et al. 1987). Stevenson and Jarrillo-Mossi (1986) asserted that entrepreneurship involves the ability and desire to recognize and pursue opportunities. Schumpeter (1934), the father of entrepreneurship, emphasized that individuals should pay attention to the ways which new opportunities arise in the market. As entrepreneurship is equivalent to market changes and development, recognition of opportunities is one of such changes and it represents a difference between entrepreneurs and other market variables. Therefore, scholars agreed that understanding opportunity recognition represents an interesting area for all of them to develop the entrepreneurship theory (Kirzner, 1979; Timmons, Muzyka, Stevenson and Bygrave, 1987).
Opportunity Recognition is defined as an activity that explores the development of a company throughout the lifetime of a firm and the entrepreneur prior to the formation of a new venture (Christen et al. 1989; Singh et al. 1999). Hills et al. (1997) indicate that social networks are important to opportunity recognition. In the Chinese society where guanxi is the translation of social network (Li, 2004), many scholars (Davies et al., 1995; Leung and Yeung, 1995, De Keijzer, 1992; Lovett et al., 1999, Ambler, 1994) regard guanxi as “special relationships” or “connections” and personal relationship networks of informal social bond that individuals have expectations and obligations to facilitate the exchange of favours. Guanxi lies at the heart of Chinese society and thus can be recognized as a key business determinant on business decision.

The Chinese Confucianism social hierarchical theory - the big five relationships, is pronounced as “wu-lun” in Chinese context. The word “lun” is exactly a concise description of guanxi among the five important relationships (Buttery and Leung, 1998). This implies every individual in the Chinese society falls into a guanxi web naturally. If all of them can submerge his or her proper position, social harmony can be attained and sustained in the Chinese society (Man and Cheng, 1996). Simultaneously, Chinese businessmen treat guanxi as the mind and heart of the business partners and reciprocity of benefits is a common behaviour within their business networks. Leung and Li (1997) particularly show that respondents rely on guanxi to look for business opportunities in China. Along with this line of reasoning, we propose that guanxi relates positively to the number of opportunities recognized by entrepreneurs.

\[ \text{P1: Guanxi is positively related to the number of opportunities recognized.} \]

**Self-monitoring and Guanxi**

Both Western concept of social network and Chinese concept of guanxi share some common features (Luo, 1997). Knight and Yueh (2002) regard guanxi as the relationships that an individual maintains in social networks. Mehra et al. (2001) and Anderson (2002) specially show that high self-monitors occupy central positions in their networks and get the benefits of accessing to diverse resource and information (Gangestad and Snyder, 2000). According to past theoretical analyses of self-monitoring, people differ in the extent to which they can observe and control their expressive behaviour and self-presentation (Snyder, 1979). The author describes high self-monitors as individuals who express themselves for pleasing others. They are sensitive to behave appropriately in different occasions and in the eyes of other people, and they are highly responsive to others’ expression and behaviour. On the other hand, low self-monitors are true-to-themselves relatively to their counterparts because they are likely to show their inner beliefs and attitudes in social context. As guanxi shows a perspective of social network, we hypothesize that self-monitoring positively relates to guanxi.

\[ \text{P2: Self-monitoring is positively related to guanxi.} \]

**Extroversion and Guanxi**

The term extroversion generally represents people who are always sociable and have many friends. Psychiatrist Jung (1989) defined extroversion as turning the interests and energies of the mind toward events, people, and things in the world. As a result, extroverts are more interested in what is going on around them than in their own thoughts and feelings. These people’s attention is directed outwards. They are individuals, who are sociable, friendly, self-confident and outgoing. When they have bad feelings or stresses, they are likely to look outside for relief and are sensitive to reward than punishment (Depue and Collins, 1999). If a man thinks, feels, acts, lives such that is directly correlated with the objective conditions and their demands, then the person is called extrovert (Jung 1989).

The characteristics of the people of this kind can be essentially summed up as follows. An extrovert is an individual whose constant endeavour is to make all his or her activities dependent on intellectual conclusions. Those conclusions in the last resort are oriented by objective data. All of them can be external facts or generally accepted ideas. Also, this type of individual elevates objective reality or any objectively oriented intellectual formula into his or her own principle. This act is not purposefully done for beneficial himself or herself but for his or her whole environment (Jung 1971). Moreover, an extrovert person carries the characteristic of interpersonal engagement. Interpersonal engagement at the same time includes the characteristics of affiliation and agency. Affiliation means enjoying to the company with others, while agency implies seeking social dominance and leadership role (Depue and Collins, 1999).
Based on the interviews and questionnaires, and customer evaluation from 12 companies, Van de Ven, Hudson and Schroeder (1984) concluded that high performing firms had expanding networks and strong involvement with external communication. The entrepreneurs or founders of high performing firms were found to be externally oriented as they increased the yearly sales, number of employees and customers. Roberts (1988) showed that technical entrepreneurs were likely to be more extrovert than their technical subordinates. Also, these entrepreneurs were relatively more sociable and capable of handling multiplicity of relationship than engineers and scientists. These results were obtained from 73 samples, who were individuals from the MIT Enterprise Forum and the monthly organizational groups in the Boston area that focused on technical entrepreneurship and venture capital activities. Brandstätter (1997) based on 368 subjects of Upper Austrian members of the chamber industry and commerce, researched on the differentiation of personality between founders and heirs. All the chamber members were operating businesses or interested in setting up their own businesses. The result found that there were slightly more extrovert founders of commercial enterprises than technical enterprises. Moreover, aspiring founders were even less extrovert than their heirs. Irahim and Goodwin (2001) sampled 74 small firms in America to collect the relationship between entrepreneurs and business characteristics. Those firms were asked to complete questionnaires and be interviewed. Extroversion was found to be factorized as one of the entrepreneurial values and one of the major variables in predicting the success of businesses.

Meanwhile, Lee and Tsang (2001) indicate that extrovert entrepreneur have more frequent and greater breath of communication with his or her business contacts. This implies an extrovert entrepreneur has more or stronger social network. Again, guanxi takes a part of social network and they both share common feature (Luo, 1997; Knight and Yueh, 2002), we predict that extroversion positively relates to guanxi.

\[ P_3: \text{Extroversion is positively related to } \text{guanxi}. \]

**Self-monitoring and Number of Opportunities Recognized**

During the last three decades, core research on self-monitoring has been accumulated in general social psychology (Gangestad and Snyder, 2000). Self-monitoring has consistently shown to influence human behaviour in different aspects (Gangestad and Snyder, 1985a, b; Snyder, 1991). According to past theoretical analyses of self-monitoring, people differ in the extent to which they can, do observe and control their expressive behaviour and self-presentation (Snyder, 1979). High self-monitoring individuals are more likely to use their expressive self-presentation for the sake of public appearances. Additionally, they are highly responsive to social and interpersonal cues (Snyder and Gangestad, 1986). The characteristics of this personality implies the richness of information that an individual receiving from others, and become sensitive to external business environment. Therefore, it leads to \[ P_4: \]

\[ P_4: \text{Self-monitoring is positively related to the number of opportunities recognized.} \]

**Extraversion and Number of Opportunities Recognized**

In the Big Five personality factors, extroversion captures the essence of human inter-relatedness (Vollrath et al., 2004). This term originated from Jung (1989), who defines people who are extrovert are being energized by situated with other people. They are individuals, who are sociable, friendly, self-confident and outgoing. These individuals are always being around with different kind of people, possibly, they have higher exposure to information resources, and sensitive to external business environment. Therefore, we predict that extroversion positively relates to the number of opportunities recognized:

\[ P_5: \text{Extroversion is positively related to the number of opportunities recognized.} \]

**Self-monitoring, Extraversion, Guanxi, and Number of Opportunities Recognized**

The above propositions have formed two mediating predictions. According to the above propositions, we contend that guanxi mediates the relationship between entrepreneurs’ personal traits (self-monitoring and extroversion) and the number of opportunities recognized. The mediation propositions are as follows:

\[ P_6: \text{Guanxi mediates the relations between self-monitoring and the number of opportunities recognized.} \]

\[ P_7: \text{Guanxi mediates the relations between extroversion and the number of opportunities recognized.} \]
Self-efficacy and Number of Opportunities Recognized

Not only do self-monitoring and extroversion affect the number of opportunities recognized, but also entrepreneurial self-efficacy and creativity. Scherer et al. (1989) and Kruegar Jr and Dickson (1994) claim that self-efficacy predicts opportunity recognition. De Noble et al. (1999) exhibit that entrepreneurial self-efficacy measures the individual’s confidence in their ability to perform tasks, like developing new products and market opportunities etc. In other words, entrepreneurial self-efficacy affects entrepreneurs’ confidence in their ability to opportunity recognition. Therefore, we propose that:

P8: Entrepreneurial self-efficacy is positively related to the number of opportunities recognized.

Creativity and Number of Opportunities Recognized

Numerous researchers of entrepreneurship have described opportunity recognition and entrepreneurship as a creative process (Ardichvili et al., 2003; De Bono, 1978; Gaglio and Taub, 1992; Long and McMullan, 1984; Schumpeter, 1950; Sigrist, 2000). In particular, Hills et al. (1999) suggested that opportunity recognition is a special case of creative process. The opportunity recognition process includes the elements that are introduced in the creative process of Wallas (1926). This creative process consists of preparation, incubation, insight and evaluation. In addition, other researchers included the fifth element to that process, that is elaboration (Csikszentmihalyi, 1996; Kao, 1989).

Moreover, Hansen, Lumpkin and Hills (2004) used confirmatory factor analysis and structural equation modeling to prove that opportunity recognition can be divided into a five stage process as Wallas (1926) suggested. Creativity was proved to have significant impact on incubation and elaboration stages respectively. Creativity takes place in the incubation stage because entrepreneurs are contemplating problems or considering ideas. Entrepreneurs are not consciously solving the problems or analyzing the information. However, they combine and intermingle all these information and ideas, which have been emerged in the previous stage, i.e. preparation (Lumpkin et al., 2003). The act of how combining and intermingling the information and ideas and turning them to business opportunities is creativity. Nevertheless, elaboration refers to the actualization of the creative insight. Entrepreneurs are required to pay attention to the world where different customers and problems exist. Creativity is embedded in this stage because entrepreneurs plan different activities to reduce those uncertainties.

Based on the above rationale, creativity impacts the opportunity recognition process. The number of opportunities recognized is exactly in the stage of elaboration of the process as it is the stage, where ideas, problems or gaps are actualized and ready for final presentation. Researchers claim that creativity and entrepreneurship are intercorrelated (Winslow and Solomon, 1993; Kay, 1986). There is research showing the positive relationship between creativity and opportunity recognition (Hills et al., 1999). To reaffirm this prediction, we posit that:

P9: Creativity is positively related to the number of opportunities recognized.

The above nine propositions constitute an opportunity recognition framework, as presented in Figure 1.

Figure 1. Opportunity Recognition Model in the Hong Kong SMEs context

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Self-monitoring → P2 → P6 → Guanxi
Extroversion
Entrepreneurial Self-efficacy
Creativity

P4 → P5 → P7 → P1

P1
Number of Opportunities Recognized
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METHODOLOGY

Sampling Frame: Entrepreneurs of Hong Kong SMEs is the research scope of this study. As mentioned in the introduction section, CEPA provides numerous business opportunities to Hong Kong enterprises. Opportunity recognition is an important task for SMEs. Therefore, we propose that 30 convenience samples of SMEs’ entrepreneurs will be used for the pilot test. In the fieldwork stage, 2000 entrepreneurs of SMEs will be randomly selected from a HKSMES data disc generated by Hong Kong Census and Statistics Department. Questionnaires will be mailed to the selected entrepreneurs.

Measurement: Guanxi will be measured by Luo and Park (2001)’s six statements. These six statements are related to respondents’ guanxi utilization. Self-monitoring will be measured using Snyder (1986) instrument. This scale is a popular measure of personality and has been proved to predict a variety of human behaviour (Snyder, 1986). Extroversion will be measured by Eysenck et al. (1985) instrument. Following the practice of Lee and Tsang (2001), 12 out of 100 items are selected to measure extroversion. Entrepreneurial self-efficacy will be measured by 7 items in the opportunity recognition dimension of De Noble et al.’s (1999) entrepreneurial self-efficacy study. Lumpkin et al., (2003) propose a creativity-based model of opportunity recognition. Meanwhile, Hansen et al.’s (2004) study shows that creativity has the greatest impact on the incubation and elaboration stages of the creativity-based opportunity recognition model. Therefore, creativity will be measured by the 8 items of measuring the incubation and elaboration stages in Hansen et al.’s (2004) study. Lastly, age, prior experience, education level, and business in China are also included in the questionnaires as the control variables.

CONCLUSION

A preliminary framework of opportunity recognition in the Hong Kong SMEs context is presented as below. This research is a work-in-progress study. Pilot test is now conducting to ensure the content and face validity of the items in the questionnaires.

REFERENCES


