

# The Study on Identifying the Relationship between Opportunity Recognition and Sustainability in Small Business in Sri Lanka

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## Abstract

Entrepreneurship nowadays is one of the fastest developing and expanding fields in the modern economic settings. Present in every industry and on both corporate and small business level, entrepreneurs are often regarded as the driving economic force for improvements and expansion. Nevertheless, with both scholars and practitioners increasingly recognizing the importance of this field and related research areas, an aspect receiving the most attention is the opportunity recognition and idea generation process. This study intends to identify whether high level opportunities mediate the relationship between opportunity recognition and firm's sustainability. The key constructs which give more concern in the research are sustainability & opportunity recognition. A questionnaire will be used to collect data as a methodology of the research. 150 samples of entrepreneurs are to be selected & descriptive statistics will be used to analyze data. The study will generate new factors which will restrict to identify high level of entrepreneurial opportunities for Sri Lankan entrepreneurs.

**Keywords:** Sustainability, Opportunity Recognition, Levels of Opportunity Recognition

**Paper Type:** Research Proposal

## Introduction

Entrepreneurial individuals are success driven, and hence are more likely to engage in the right kind of opportunity recognition to ensure that they are successful. Entrepreneurial opportunities are believed to exist when individuals have a special understanding of the value of uncommon opportunities and act upon this understanding, which results in entrepreneurial income. Some of the various definitions of opportunity recognition given are, (Lumpkin &

Lichtenstein, 2005 July) “*the ability to identify a good idea and transform it into business concepts that add value and generate revenue*” and also “The discovery, evaluation, and exploitation of opportunities is a defining feature of entrepreneurship” (Shane, Prior knowledge and the discovery of entrepreneurial opportunities, 2000); (Shane & Venkataraman, The promise of entrepreneurship as a field of research, 2000). These definitions make an emphasis that opportunity recognition is an inseparable part of entrepreneurship.

Even with such recognitions, one can argue that there are still insufficient confirmed relationships between recognized high level/low level opportunity recognition and sustainability of selected opportunity.

Opportunities come from many sources, for startups business it can be current or past work experiences of the entrepreneur, Hobbies that grow into business or lead to inventions, suggestions by friends or family and chance events. For established firms it can be needs of the existing customers, suggestions by suppliers and technological development that lead to new advancements. An entrepreneur might discover these opportunities spontaneously or unexpectedly, when first become aware of a new business concept or may occur as the result of deliberate search for new venture projects and creative solutions to business problems.

Discovered opportunity can be low level recognition or high level recognition. “Opportunities are situational. Some conditions under which opportunities are spawned are entirely idiosyncratic while at other times they are generalized...” (Timmons, 1994) High level opportunity may have factors such as attractive, Time, Durable and value creating. But still a low level opportunity can show good results. How far the sustainability of a business relies on the level of opportunity recognition?

For thousands of years, business existed only at the fringes of society. Society thought little of people in business, and people in business expected little of society. Profit was their only reward because power, social status, and even social acceptability were closed to them. In this context the idea that making a profit was the only goal of business might have some sense” (Solomon & Hanson, 1983). But in a time when the values of the business world largely influence the values of society as a whole and the possibilities of future generations, the purposes and goals of business changed. Many small businesses emerged.

This study pays attention on identifying the relationship between high level/low level opportunity recognition and sustainability in small business.

This proposal focus on the Research problem, Research questions, Research objectives, hypothesis of the study, literature review, conceptual framework, Research methodology and Time plan.

## **Research Problem**

The people who typically excel at opportunity recognition are the right-brain creative type people. These people are clever and look at the same situations that everyone else does, but envision something different. They see new angles, new possibilities, and new ways to do things.

Firms often engage in entrepreneurship to strengthen performance and further growth through strategic renewal and the creation of new venture opportunities (Stevenson & Jarillo, 1990).

Therefore opportunity recognition can be considered as the heart of an entrepreneurial firm. Recognition of opportunity level depends on the knowledge and experience of entrepreneur.

There are many entrepreneurial opportunities exists in Sri Lanka but, the recognition of those opportunities are at lower level. Although, there are two types of opportunities that namely high level/lower level of opportunities. In order to success entrepreneurs must recognize the high levels of opportunities. “Organizational learning can strengthen a firm’s ability to recognize opportunities and help equip them to effectively pursue new ventures. (Lumpkin & Lichtenstein, 2005 July)”.

They can start the business but the succession of the business may be subjective otherwise it goes to fail.

The present context many small businesses are being started the opportunities in relation to these newly started business are low level of opportunities. There is a problem arise that why Sri Lankan entrepreneurs cannot identify high level of opportunities. In accordance with the Sri Lankan context, we could observe that it does not have sufficient gazzells because the failure rate is very high due to poor levels of opportunity recognition.

A very few entrepreneurs in Sri Lanka has identified high level of opportunities such as Mr. Wagapitiya & Mr. Jayasekara etc are some of examples. These entrepreneurs have good knowledge about the present business environment as

well as & at the beginning of their business started. The businesses conducted by them are sustainable & do a huge impact to the national economic conditions. That's why they conduct their businesses with adding new things in relation to their fields. Due to lack of good education plus other factors, there may be a lack of recognizing high level of opportunities. That's why many small businesses fail within 5 years. In order to find the reasons for inability to identify high level of opportunities, we have to conduct this research.

It is not sufficient to find the reasons as well as at the final stage there should be some suggestions how we eliminate the problem of inability to recognize the high level of opportunities.

This study pays attention on identifying the relationship between high level/low level opportunity recognition and sustainability and how far the sustainability of a business relies on the level of opportunity recognition?

### Research Questions

1. What is the level of opportunity recognition among small entrepreneurs?
2. Up to what extent sustainability is ensured among small entrepreneurs?
3. What is the relationship between the level of opportunity recognition and sustainability?

### Research Objectives

1. To identify the levels of opportunity recognition among Sri Lankan small entrepreneurs.
2. To measure the sustainability level that is ensured.
3. To identify the relationship between opportunity recognition level & firms sustainability

### Hypothesis of the study

H<sub>1</sub>: High level of opportunity recognition is positively affected to the firm's sustainability.

H<sub>1a</sub>: Entrepreneurs prior knowledge positively affect to the high level opportunity recognition.

H<sub>1b</sub>: Entrepreneurs social ties positively affect to the high level of opportunity recognition.

H<sub>1c</sub>: Entrepreneurial activeness and alertness positively affect to the high level opportunity recognition.

H<sub>2</sub>: high level opportunities mediate the relationship between opportunity recognition and firm's sustainability.

## Literature Review

### Opportunity Recognition

In the field of Entrepreneurship, opportunity recognition is the heart of the field. It is the first step of the entrepreneurial process. Opportunities can be defined as “situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their production (Casson, 1982)” (Shane & Venkataraman, 2000) and therefore, emphasizes the importance of personal economic gain—financial profit for the entrepreneur—for recognizing opportunities.

There are many factors that affect opportunity recognition. Namely prior knowledge (Shane & Venkataraman, The promise of entrepreneurship as a field of research, 2000) (Kirzner, Perception, Opportunity, & Entrepreneurship, 1979), social ties (Ozgen & Baron, 2007), entrepreneurial activeness and alertness (Shane, Prior knowledge and the discovery of entrepreneurial opportunities, 2000), (Kirzner, Entrepreneurial Discovery & The Competitive Market Process; An Austrian Approach, 1997) & motivation. Individual person recognizes the opportunities in accordance with their previous life experience (Baron, 2006). Prior knowledge in association with high-level cognitive capabilities is important in identifying and pursuing an opportunity (Baron, 2006), (Shane & Venkataraman, The promise of entrepreneurship as a field of research, 2000). The extent of an entrepreneur's social network is positively related to opportunity recognition. Social ties serve as conduits for the spread of information concerning new opportunities ((Burt, 2004); (Granovetter, 1973).

The active role of entrepreneurship the search for new information is important in opportunity recognition (Baron, 2006), (Hills & Schrader, 1998). Found that for entrepreneurs, an active search for opportunities through personal contacts was regarded as more beneficial than the identification of opportunities from public information sources, such as magazines and newspapers.

These are the factors which will decide the opportunities whether they are high level or low level opportunities. *Growth objectives* (Donckels & E, 1991), *avoid risks* (Claver, L, & D, 2008), *desire to borrow from external sources to facilitate international expansion* (Graves & Thomas, 2006), *financial capital* (Gallo & C, 1996).

Though there are two types of opportunities which are high level & low level opportunities, most of the Sri Lankan entrepreneurs fail to identify high level of entrepreneurial opportunities in many circumstances. Opportunity recognition is a multidimensional phenomenon slightly focused in academic research (Fathima, iqbal, & Rehman, 2011).

Though there are many opportunities exist in accordance with Sri Lankan context, 90% of newly started ventures are being failed. Therefore, this research is being performed in order to find reasons for this matter.

### **Sustainability**

A growing number of companies worldwide have engaged in serious efforts to integrate sustainability into their business practices (Jones, 2003). But most of the firms have neglected the term “Sustainability” from their business strategies & policies. Sustainability can be defined as meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs (Commission, 1987). A Sustainable opportunity consists with economic, social & environmental benefits simultaneously.

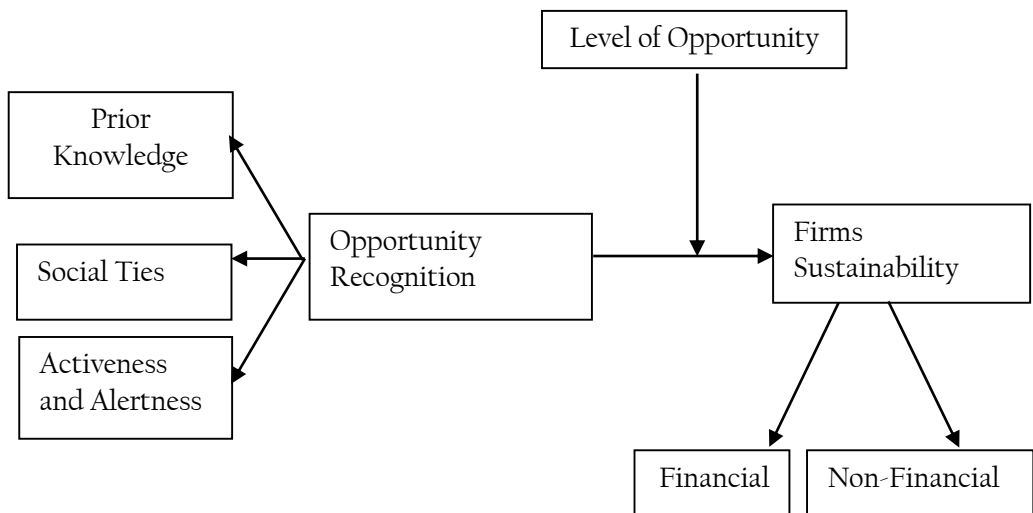
Sustainability can be measured by using financial as well as non-financial methods. Most firms have kept the question of sustainability separate from considerations of business strategy and performance evaluation, areas that are often dominated by purely economic performance indicators (Clarkson, 1995) However according to (Petrini & Pozzebon, 2010) ...managers have to take into consideration not only increased sales and profits and/or decreased costs, but also the sustainable development of the business itself and the surrounding context.

Measuring business sustainability (Falshaw & Glaister, 2006) , we chose to retain two types of complementary measures: financial measures and non-financial measures (Hart, 1992), (Hitt & Hoskisson, 1990), the financial performance is measured using a scale of three items developed and validated by (Ramanujam & Venkatraman, 1987). This scale was used in other several studies (Papke-Shields, Malhotra, & Grover, 2006). To measure financial performance, respondents were asked to evaluate and compare sales growth,

profit growth and return on investment of their companies versus their direct competitors. As for non- financial performance, it is measured by a scale we have built by inspiring from previous works (Shrivastava, Mohanty, & Lakhe, 2006). This scale for measuring non-financial performance correspond to evaluation by respondents of the satisfaction of owners, satisfaction of customers and satisfaction of employees of their firms versus their direct competitors.

According to above findings they have researched “The discovery, evaluation, and exploitation of opportunities is a defining feature of entrepreneurship” (Shane, Prior knowledge and the discovery of entrepreneurial opportunities, 2000); (Shane & Venkataraman, The promise of entrepreneurship as a field of research, 2000) it shows opportunity recognition is more important. Many successful companies worldwide have integrated sustainability into their business practices (Jones, 2003). Therefore there is a positive relationship between opportunity recognition and sustainability.

### Conceptual Model of the study



### Methodology

**Sample:** The population of the study that the small & medium size entrepreneurial firms which consist 2-100 of employees. But the number of population is unknown. As per the study purpose, 150 samples will be selected. Unit of analysis is firms which include a person or a company.

**Data collection methods:** This study plans to collect primary data by interviews. Close-ended questions will include into the questionnaire in order to get relevant feedback from Entrepreneurs. The questionnaire was designed to cover one dependent variable as well as independent variables.

**Data analysis:** Data analysis is very crucial in a research study. After collection of data with the help of appropriate tools & techniques, next step is to analyze & understand data in order to arrive at a practical situation. If there are any wrong in analyzing data, entire interpretations will be miscarried. Thus, this is a quantitative research; descriptive statistics methods will be used.

### **Significance of the study**

Being entrepreneurial is vital for a country to ensure the growth of the economy as well as the sustainability. Sustainability is depending on the entrepreneurial firm's succession. If the entrepreneurial firms can recognize the high level opportunities to perform their business it gives positive effect to sustainability. In this study evaluates the levels of opportunity recognition and firms sustainability. There are several reasons for that study, one is in Sri Lankan context there is higher rate of firm's failure. This study intends to identify the relationship between opportunity recognition and firms sustainability. Results of the study gives which level of opportunity is more effective to a firm as well as what are the factors affect to opportunity recognition and how to measure the firm's sustainability.

### **Expected contribution to the body of knowledge**

Opportunity recognition is very important in ensuring the sustainability of any venture. In order to achieve sustainability of ventures, entrepreneurs must identify viable opportunities. Also opportunities can be divided into two categories. They are high & low level of opportunities. Thus, entrepreneurs should recognize high level of opportunities in order to identify sustainable opportunities. It should be very important to emphasize that high levels of opportunities are subjective. If one entrepreneur thinks that he identified a high level of opportunities but another may identify that opportunity as a low level of opportunity. Most of the small & medium size entrepreneurs in Sri Lanka should recognize high level of opportunities in order to sustain in the local market as well as in foreign.



## Time frame

Weeks															
	1 <sup>s</sup> t	2 <sup>n</sup> d	3 <sup>r</sup> d	4 <sup>t</sup> h	5 <sup>t</sup> h	6 <sup>t</sup> h	7 <sup>t</sup> h	8 <sup>t</sup> h	9 <sup>t</sup> h	10 th	11 <sup>t</sup> h	12 th	13 th	14 th	15 th
Proposal writing															
Literature review															
Planning the research															
Data collection															
Data analysis															
Conclusions and implications															

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