

Turning ideas into business

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Learning outcomes

- Understand entrepreneurial process and critically discuss its types and steps
- Integrate the knowledge about opportunity recognition process
- Understand business planning as a process and the role of business plan for entrepreneur
- Interpret the interview with entrepreneur in context of obligatory reading and discussed theory.

Schedule

- Friday
 - 16.30 -19.45 – introduction, entrepreneurial process
- Saturday
 - 9.00 – 10.30 - opportunity recognition
 - 10.45 – 12.15 –business planning

Course assignments

Readings: (pre-course assignments)

- 1.a. Shane, S., Prior Knowledge and the Discovery of Entrepreneurial opportunities, Organization Science, 2000. **OR**
- 1.b. Ardichvili, A., Cardozo, R., Ray, S., A theory of entrepreneurial opportunity identification and development, Journal of Business Venturing, 2003.
- 2. Davidson, P. The types and contextual fit of entrepreneurial processes, The Entrepreneurship research challenge, Edward Elgar publishing, 2008.
- 3.a. Sahlman, A., W., How to write a great Business plan, Harvard Business Review on Entrepreneurship, 1999. **OR**
- 3.b. Bhidé, A., How Entrepreneurs craft strategies that work, Harvard Business Review on Entrepreneurship, 1999.

Course assignments

- Additional reading
 - Shane, S., Venkataraman, S., The promise of entrepreneurship as a field of research, Academy of management review, 2000.
 - Alvarez, S.A., Barney, J.B., Discovery and creation: alternative theories of entrepreneurial action, Strategic Entrepreneurship Journal, 2007.

Course assignments

- **Interview with an entrepreneur:** think of **an entrepreneur** who you know and **conduct an interview** (up to 60 minutes) with him/her using identified questions based on pre-course readings. **Take notes from this interview.** The interviewed entrepreneur could be from any industry and from a company of any size and age.

For the beginning

- Introduce us with your entrepreneur – who is she/he, what is her/his business about?
- What word is describing the best her or him?

Where to start?

- Focus of entrepreneurship research (Davidson, 2008)
 - Focus on entrepreneur
 - Focus on entrepreneurial activity on aggregate level: environment
 - Focus on how to do it (entrepreneurial behavior) - focus on process view of entrepreneurship
 - Discovery and exploitation
- Definition of entrepreneurship – the creation of economic activity that is new to the market – all start ups – innovative and imitative ones (Davidson, 2008)

Focus on entrepreneur

- Early entrepreneurship research devoted all attention to the entrepreneur – explanation for entrepreneurial behavior and success - the unique characteristics of the individual (Davidson, 2008)
 - Little promise for entrepreneurship education
- Conclusion of these researches:
 - business founders are as heterogeneous as any other group of people
 - It is not possible to profile the “typical” entrepreneur
 - No characteristics have been found that exclude people from a successful entrepreneurial career

Focus on entrepreneur

- Positive result for EE
 - Idea to teach entrepreneurship is not wasted
 - Most people would be able to pursue successful careers as entrepreneurs faced with an opportunity that suits them (and in interaction with other people)

Focus on entrepreneurial activity on aggregate level: environment

- Valuable for policy makers
 - Limited value for entrepreneurs/business owners, students..
-
- Example: GEM research

Entrepreneurial process

- All cognitive and behavioral **steps from the initial conception** of a rough business idea, or first behavior towards the realization of a new business activity, until the process is either terminated or has led to an up-and-running business venture with regular sales (Davidson, 2008)
- Sub-processes: discovery and exploitation
- Linear process?

Discovery and exploitation

- **Discovery** - from an idea to the business concept - idea generation, opportunity identification, opportunity formation, opportunity development, opportunity refinement
 - Value creation
 - Value appropriation
 - The development of commitment on the part of key actors
 - Planning, making projections, gathering and analysis of information...

Discovery and exploitation

- **Exploitation** – action side of venture development
 - Realization or implementation of ideas
 - May or may not lead to profit attaining or achieving the goals
 - Legitimization of start up
 - Acquiring resources (VRIO, bricolage)
 - Combining and coordinating resources
 - Generate demand

Entrepreneurial process

- The process from idea to business venture
- Phases of entrepreneurial process (Barringer, 2010)
 1. Decision to become entrepreneur
 2. Developing successful business idea - **discovery**
 1. Opportunity recognition
 2. Industry analyses
 3. Business planning
 4. Developing business model
 3. From idea to business venture - **exploitation**
 1. Team development
 2. Assessing financial strength and viability
 3. Legal foundation
 4. Getting financing or funding
 4. Managing and growing business venture

Types of entrepreneurial processes

- Bhavé (1994)
 - Internally and externally triggered processes

Internally and externally triggered processes

- Externally stimulated
 - More textbook like process
 - Start with decision (or desire) to start a new business
- Internally stimulated
 - Less textbook like
 - No particular intention to start a business
 - Start from problem (at work, hobbies, as customer) and find solution (that has demand, high enough)
- Which stages of entrepreneurial process does this explain?
- What about next phases of entrepreneurial process?

Effectuation process

- Sarasvathy (2001)
 - Causation vs. Effectuation (iterative and interactive process)
 - Entrepreneurs start with:
 - Who am I ? (skills)
 - What do I know? (resources)
 - Whom do I know? (network)

Four principles of effectuation process

- Focus on **affordable loss** rather than expected returns – limit the damage if unsuccessful
- **Strategic alliances** rather than competitive analysis - with whom do I have to ally to go further
- **Exploitation of contingencies** rather than pre-existing knowledge – turn them into business strengths
- **Control of an unpredictable future**, rather than prediction of an uncertain one – create the future
- Who can tell us the example of Indian fast food restaurant – Curry in a Hurry – or any other similar story based on effectuation vs. causal logic?

Discussion

- Work in pairs: tell the partner story of an entrepreneur you interviewed and tell him/her story about entrepreneurial process in the beginning of his/her business venture. Then discuss:
 - Was his/her entrepreneurial process more internally or externally triggered?
 - Is causation or effectuation logic more present in this story?

Entrepreneurial opportunity

- Identification and development of entrepreneurial opportunity (Alvarez, Barney, 2007)
- „mountain climbing” or „mountain building”?
- Discovery or creation of entrepreneurial opportunity
- Discovery of entrepreneurial opportunity
 - Among most important abilities of a successful entrepreneur (Stevenson et.al., 1985)
 - Key part of entrepreneurship research (Venkataraman, 1997)

Entrepreneurship theories

- How entrepreneurship theories look at opportunity's discovery? (Shane, 2000)
- Neoclassical Equilibrium Theories
 - At any point of time, **all opportunities have been recognized** and all transactions perfectly coordinated
 - All opportunities must be equally “obvious” to everyone
 - Equilibrium theories explain entrepreneurship by identifying individuals who prefer to become entrepreneurs
 - Everyone can recognize all entrepreneurial opportunities
 - Fundamental attributes of people, rather than information about opportunities, determine who becomes an entrepreneur

Entrepreneurship theories

- **Psychological theories**

- **Entrepreneurship is a function of stable characteristics possessed by some people and not others**
- Human attributes (need for achievement, willingness to bear risk, self-efficacy, internal locus of control and tolerance for ambiguity) lead some people to choose entrepreneurship
- Focuses on the decision to exploit opportunities rather than on their discovery
 - Fundamental attributes of people, rather than information about opportunities, determine who becomes an entrepreneur
 - This process depends on people's ability and willingness to take action

Entrepreneurship theories

- **Austrian theories**

- Markets are composed of people with different information what allows people to see particular opportunities that others cannot see, even without searching for them.
- Differences in information lead people to see different value in a given good or service and offer different prices to obtain it.
 - People can not recognize all entrepreneurial opportunities
 - Information about opportunities rather than fundamental characteristics of people, determine who becomes an entrepreneur
- **Attributes of people who discover opportunities are correlated with the attributes of the opportunities they discover**

What is entrepreneurial opportunity?

- *Chance (interest or want) to meet a market need* (Schumpeter, 1934, Kirzner, 1973, Casson, 1982)
- A favorable set of circumstances that creates a need for a new product, service, or business (Barringer, Ireland, 2012.).
- *Imprecisely – defined market need or un-or under employed resources or capabilities* (Kirzner, 1997)
 - **Value sought** – opportunities seen from the perspective of prospective customers (problems).
 - **Value creation capability** – opportunities arising from underutilized or underemployed resources (solutions).

Types of opportunity

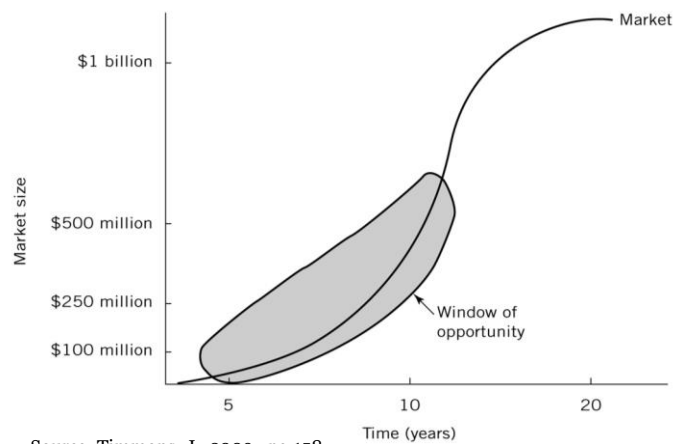
		Value sought - problem	
		Unidentified	Identified
Value creation capability - solution	Undefined	Dreams	Problem solving
	Defined	Technology transfer	Business Formation

Source: Ardichvili et.al., 2003, pg.117.

Characteristics of an opportunity

- Attractive
- Durable
- Timely– “windows of opportunity”
- Add value to the customers
 - Barringer, Ireland, Entrepreneurship, Pearson, 2012.

Windows of opportunity



Source: Timmons, J., 2009., pg.158.

Ways of opportunity recognition

- Solving problem
- Finding market niche
- Recognizing trends – disruptive vs. sustainable innovation?
 - Economic forces
 - Social forces
 - Technological advances
 - Political and regulatory changes
- Read the case Xhale and Vestagen: Solving the same problem in different ways and think about answers to the questions at the end of the case. What can we learn from it?

Entrepreneurial opportunity

- Are opportunities made or found – how would you explain this?
 - Recognition of opportunity
 - Evaluation
 - Development per se
 - Cyclical and iterative process

Opportunity recognition and development

- No comprehensive understanding of process of opportunity recognition (Ardichvili, A., Cardozo, R., Ray, S., 2003)
 - Different authors focus on different perspectives of this process: cognitive processes (De Koning, 1999), social study network context (Hills et al (1997), prior knowledge and experience necessary for success (Shane, 1999)
- It is needed for successfully bridge research and practice

Discovery vs. Creation theory

Discovery theory

- Much more attention in the literature (Gaglio and Katz, 2001; Shane, 2003; Venkataraman, 2003)
- Opportunities exist, independent of entrepreneurs
- Competitive imperfections exist in a market or industry and arise externally (changes in technology, consumer preferences...)
- Searching the environment to discover opportunities to produce new products or services

Creation theory

- Logical theoretical alternative to discovery theory (Gartner, 1985; Sarasvathy, 2004)
- Opportunities do not exist independent of entrepreneurs,
- they are created by the actions, reactions of entrepreneurs exploring ways to produce new products or services
- Entrepreneurs do not search for opport. – they act and observe how market respond to their actions

Discovery vs. Creation theory

Discovery theory

- Entrepreneurs who discover opportunities are significantly different from others in their ability to either see opportunities or, to exploit them (Kirzner, 1973; Shane, 2003)
- Decision making context is risky (vs. Uncertain)
 - Opportunities are objective in nature (collecting information about Mount Everest)

Creation theory

- Entrepreneurs may or may not differ from non-entrepreneurs – ex ante (influence of environment might lead one to create opportunity and make the difference between them ex post)
- Decision making context is uncertain (vs. Risky)
 - “There are no mountains to find”

Discussion

- Opportunity identification and development process in stories of your entrepreneurs?

What influence process of opportunity recognition and development?

- Entrepreneurial alertness
- Information asymmetry and prior knowledge
- Social networks
- Personality traits, (incl. Optimism, self-efficacy and creativity)
- Type of opportunity itself

Entrepreneurial alertness

- Kirzner (1973), Ray and Cardozo (1996) –
“...recognition of opportunity is preceded by a
heightened alertness to information.” –
entrepreneurial awareness (EA)
- Individual characteristics and environment
interact and influence intensity of EA (Shapero,
1975, Hisrich, 1990,...)

Information asymmetry and prior knowledge

- People tend to notice information that is related to information they already know
- Entrepreneurship exists because of information asymmetry between different actors (Hayek, 1945, Austrian economics)
- Any given entrepreneur will discover only those opportunities related to his or her **prior knowledge** (Shane, 1999)

Accidental discovery versus systematic search

- Systematic search for available opportunities
- Vs.
- People do not search for opportunities - they recognize the value of new information which they happen to receive.
 - “accidental” discovery may result from heightened entrepreneurial alertness in the mode of “passive search” (being receptive but not in formal search process) –
 - EA as powerful determinant of discovery – accidental or purposive

Social networks

- Important to opportunity recognition
- Weak-tie (casual acquaintances) and strong-tie networks (family and friends)
- “Entrepreneurs who have extended networks identify significantly more opportunities.” (Hills et.al, 1997)

Personality traits

- Research attempts have been unable to find differences in most personality traits between entrepreneurs and other groups (managers and the general public) – Shaver and Scott, 1991
- Connection between **optimism and higher opportunity recognition** (Krueger and Dickson, 1994, Krueger and Brazeal, 1994)
- Entrepreneurial **optimism is related to self-efficacy beliefs** (ability to achieve specific goals), but **not related to higher risk taking**.

Personality traits

- Creativity
 - Successful entrepreneurs discover opportunities that others do not see (Schumpeter, 1934)
 - Creative factors play a great role in entrepreneurial decision making (Kay, 1986)
 - 90 % of surveyed entrepreneurs found creativity very important for opportunity identification – more solo entrepreneurs than networked ones (Hills et.al., 1997)

From opportunity to business venture

- Entrepreneurial opportunity (market need)–
business concept – business model - business plan
– business formed – successful enterprise
(Ardichvili et.al., 2003)
- Business concept – core notions of how the market need might be served, or the resources deployed
- Planned, analytical and linear vs. Emergent, creative and iterative processes
- Fit between person and opportunity is very important (Shane, 2000)

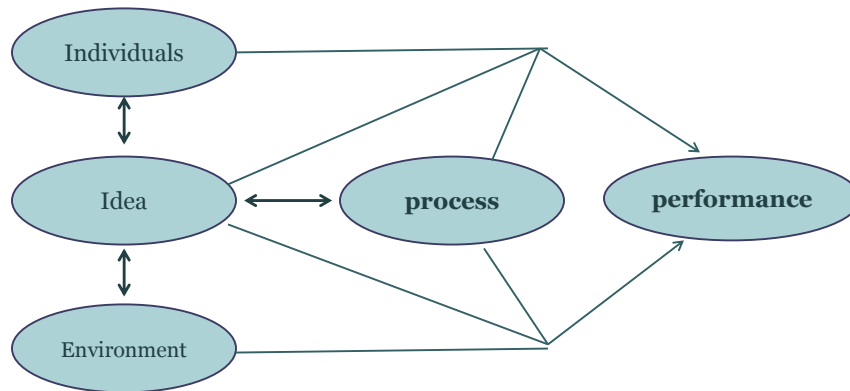
From opportunity to business venture

- Sequencing of start –up activities according to Delmar and Shane (2003) research:
 1. To write a business plan
 2. To gather information about customers
 3. To talk to customers
 4. To project financial statements
 5. To establish legal entity
 6. To obtain permits and licenses
 7. To secure intellectual property
 8. To seek financing
 9. To initiate marketing
 10. To acquire inputs

From opportunity to business venture

- What are some conclusions from this research:
 - Existence of a written business plan increases the legitimacy of the new venture in the eyes of others
 - Plan may make it easier to get customers and investors
 - Questionable part of planning – to use it blindly as a guide to action
- Other researchers (Carter et.al, 1996) do not see planning as one of important behaviors for start-ups

Entrepreneurial process and the context



How can we explain this figure?

Source: Davidson, P., 2008, pg.85.

Discussion

From opportunity to business venture

- What do you think about “average” sequence of start-up activities according to readings and according to your interviews?
- What is the practice in your case and in what way does it support literature findings?

Business planning and the business plan

- Business plan as a predictor of new venture's success?
- The more crafted the document the more likely the venture is to flop!
- What is wrong with most business plans?

Business planning and the business plan

- Four interdependent factors critical to every new venture (Sahlman, 1999):
 - The people
 - The opportunity
 - The context
 - Risk and reward

The people

- This is where more intelligent investors focus their attention
- What do they know?
- Whom do they know?
- How well are they known?

The opportunity

- Is the total market for the venture's product or service large enough, rapidly growing or both?
- Is the industry now, or can it become, structurally attractive?
- "If it is easy to predict what people will buy, there wouldn't be any opportunities!"
- Need to anticipate several moves in advance

The context

- Opportunity exists in a context.
 - Macroeconomic environment, wide range of government rules and regulations and technologies, industry standards etc.

Risk and reward

- A discussion of risk and how to manage it
- Myth about entrepreneurs:
“Entrepreneurs are gamblers (risk seekers).”
- Business plan must confront the risks ahead – in terms of people, opportunity and context.

What is role of business plan?

- A call for action
- Risk management tool
- Must demonstrate mastery of the entire entrepreneurial process – from opportunity identification to business formation

Discussion

- Did you ask your entrepreneurs about business plan?
- What did they say about it?
- What do you think about their answers and about importance of business plan?

Proposition/assumptions

- Propositions of a theory are logical deductions about the theory in operation – they are derived from the theory and they can be subjected to empirical testing (Dubin, 1978).
- What proposition can derive from the theory of this course? From our previous discussions? – that should be the base for your interview with entrepreneur and for final essay writing

Course assignement

- **After the course** – write a report based on interview with entrepreneur, literature review and course discussion.
- Report guidelines:
 - 6-8 pages
 - Times New Roman 12, 1.15 line spacing, justified
- Deadline:
 - April 30th, 2019.