CHAPTER 12

Entrepreneurial Opportunities as the Heart of Entrepreneurship Research: A Reflection on Venkataraman (1997)

Golshan Javadian and Robert P. Singh

Introduction

In 1997, Venkataraman published a piece in *Advances in Entrepreneurship, Firm Emergence and Growth* that attempted to clarify the distinctive domain of entrepreneurship within the broader body of business research and academic literature. This paper served as a precursor and provided some of the key intellectual arguments for Shane and Venkataraman's (2000) often cited *Academy of Management Review* article, which argued for similar boundaries around the field of entrepreneurship. In reflecting on the 1997 paper, there is little question that it has been influential in shaping entrepreneurship research over the last two decades. As of July 2017, it has been cited over 3000 times based on Google Scholar. By making a case that the study of entrepreneurship should focus on "opportunities," he helped distinguish

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G. Javadian (✉) • R. P. Singh
Morgan State University, Baltimore, MD, USA

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the domain of entrepreneurship from other fields of study within business schools. Perhaps just as remarkable is that the arguments in the paper are just as relevant today and continue to guide researchers.

Venkataraman's (1997) article began with the observation that entrepreneurship research, at the time, had failed to identify the distinctive domain of entrepreneurship as a field of research. Citing Gartner (1988), Venkataraman pointed out the inconclusive and conflicting results that had come from the focus on the individual entrepreneur within traditional entrepreneurship research. He offered a new focus for the field of entrepreneurship as being about the understanding of how opportunities are "discovered, created, and exploited, by whom, and with what consequences" (p. 120). It is this argument and difference with previous research that qualifies the paper as a classic. He introduced opportunities as the central issue of entrepreneurship and identified the boundaries of entrepreneurship as a distinctive domain of research by explaining the processes evolving around opportunities. In fact, Venkataraman's article was one of the first to more fully explain the role of opportunities in the entrepreneurial process. Venkataraman made the case that opportunities and the process of opportunity identification were the heart of understanding entrepreneurship. That is, understanding the sources of opportunity, and how and why certain individuals are able to discover and exploit opportunities, while others cannot or do not, are the central questions for scholars in the field of entrepreneurship.

In this chapter, we reflect upon the contribution of this classic to the field of entrepreneurship. First, we review the opportunity research that appeared before Venkataraman. Then, we summarize the core ideas in the article and review some of the research built upon Venkataraman's argument. Finally, we discuss how future research can continue to build on the insights from the article and in ways that continue to resonate in the field.

Background of Opportunity Research

Before Venkataraman's publication, different scholars offered varying opinions of opportunities. According to Casson (1982), opportunities are those circumstances in which raw materials, goods, services, and organizing methods can be sold at a higher price than their cost of production. Kirzner (1979) argued that entrepreneurial opportunities exist primarily because different people have different opinions about the relative value of resources that can be transformed into a different state. Drucker (1985) believed that innovative opportunities originate from unexpected success or failure, external events, incongruity between reality and perceptions, changes in industry structure or market structure, demographic changes, changes in moods or meanings, and the dissemination of new knowledge. Hulbert, Brown, and Adams (1997) defined business opportunity as the chance to meet an unsatisfied need where there is sufficient demand to make meeting that need worthwhile. They argued that sources of opportunity exist when there is a change in political, economic, social, or technological environments. They identified factors that may create such opportunities as changes in a need, the way in which a need is currently being satisfied, the cost of supply, and the economics of supply. Thus, analyzing the marketplace and the business environment can lead to new opportunities; however, the mere existence of new opportunities is not sufficient, because such opportunities must first be recognized (Hulbert et al. 1997).

Research on the process of opportunity identification can be traced back to Schumpeter's (1934) work on creative destruction. While Schumpeter did not address opportunities directly, his emphasis on creative spirit contributed to the characterization of entrepreneurs as individuals who discover and exploit opportunities (Gaglio 1997). Following such a view, Long and McMullan (1984) defined a framework that explained the process of opportunity identification through creative insights gleaned from factors that individual entrepreneurs can control (e.g. education, experience) and those they cannot control (e.g. the economy, social values). Kirzner (1979), on the other hand, viewed opportunity identification as entrepreneurial alertness and believed that opportunity identification directs the market toward equilibrium. Herron and Sapienza (1992) took a different approach by associating opportunity identification with motivation to search. Christensen et al. (1994) defined opportunity recognition as identifying the possibility for new profit potential though the formation of a new venture or the improvement of an existing venture. The problem within the literature is that there is a lack of consensus. These differing views explained different aspects of opportunity identification but did not address it as a process (Gaglio 1997).

Summary of the Classic

Venkataraman's paper (1997) presented opportunity identification as the central process of entrepreneurship. He pointed out that most markets are inefficient which creates opportunities for those entrepreneurs who want to move markets to equilibrium. He referred to this as the "weak premise of entrepreneurship" (p. 121). This is consistent with the work of Kirzner (1979) that argued that certain individuals had profit-making insights and alertness to market inefficiencies that led to opportunities. The "strong premise of entrepreneurship" (p. 121) was related to the process of creative destruction (Schumpeter 1934). This view holds that states of market equilibrium are often disrupted by innovations and technologies which destroy existing markets and create all new markets (e.g. typewriters vs. word processing software on computers). With the full spectrum of opportunities being from slight market changes to move toward equilibrium versus creative destruction and the creation of all new markets for new innovations, Venkataraman pointed out that, "few scholars have begun to investigate the process by which knowledge is converted to commercial venture" (p. 124).

Venkataraman acknowledged that while opportunities exist in different forms, what is crucial to understand is how opportunities are discovered and exploited. His view was that the process differs for different people because individuals are different and hold different amounts of useful knowledge. These differences, as he argued, impact individuals' intentions to exploit opportunities, as well as the exploitation process. Such arguments not only contributed to opportunity research but also drew attention to cognitive and behavioral research in entrepreneurship, which were underexplored at the time. Venkataraman argued that in the process of bringing knowledge to commercial venture, cognitive conditions, incentives and creative processing matters, and the interaction of such factors not only influence the exploitation of opportunities but also the success of the exploitation process.

To Venkataraman, the creation of entrepreneurship from non-existent markets depends on individuals' risk-taking capabilities. He believed that individual differences in understanding statistical generalities impacted the decision to become an entrepreneur. This argument was consistent with Gartner's (1985) suggestion to view entrepreneurs through their behaviors and not their traits.

Venkataraman also highlighted the importance of access to resources and argued that converting knowledge to successful enterprise requires access to resources, which are not always reliably available. Accordingly, successful creation of an enterprise relies not only on an individual's ability to overcome adverse selection and moral hazard problems but also on the ability to secure resources (Venkataraman 1997). While not explicitly discussing social network theory, he touched on elements of social networks with his discussion of the need to develop trust and trustful relationships for different aspects of venture creation. To this end, Venkataraman highlighted the importance of financial investors and business angels, as well as customers (early and late adopters) to a successful venture creation process.

After clarifying how entrepreneurship is created from non-existent markets, Venkataraman discussed the mode of organization and argued that there is the need to understand why a particular mode is optimal under given circumstances. He acknowledged that while several theories deal with choice of mode from cost, market power, and resources perspectives, choice of mode needs to be understood based on all these perspectives as such factors often conflict with each other. Venkataraman then moves on to discuss the performance of ventures and believed that relative performance is not a sufficient measure of success in entrepreneurship since profits must first cover opportunity cost and lack of liquidity of investment. Instead Venkataraman introduced a model of performance, which took several entrepreneurship-related factors such as opportunity cost, risk, uncertainty, and liquidity premiums into consideration. Rather, he argued that the relevant performance benchmarks for studying entrepreneurship were the absolute level of economic performance (total profit) and the social contribution of the venture. The latter can be considered as the number of people an entrepreneur helps and touches on social entrepreneurship which has become a topic with increased interest in recent years.

In sum, Venkataraman's work not only reframed the understating of entrepreneurship through the lens of opportunities but also touched on several other concepts related to the process of entrepreneurship including cognitions, investor and customer relationships, choice of mode, risk-taking, trust, resources, social networks, and performance measures—including social benefits. His work offered a solid theoretical structure for the study of entrepreneurship, which integrated concepts from several disciplines including psychology, sociology, economics, marketing, and ethics.

Research Following Venkataraman

Since the publication of the article, there has been a decisive shift toward the study of opportunities and opportunity identification and significant new knowledge has been gained. Before Venkataraman's work, many believed that opportunity recognition was the result of systematic search or careful strategic planning (e.g. Vesper 1980; Timmons 1990). However, scholars now know that formal search for an idea is not the only method of opportunity recognition for all entrepreneurs (e.g. Hills 1996). As Hills and Singh (2004) argue, the process of identifying an opportunity can be either systematic, that is, the entrepreneur decides to start a business and then searches for a business idea, or it can be informal, in which the business is started after a need is determined. Sarasvathy's (2001) concept of effectuation has become a significant branch within the body of entrepreneurship research.

While Venkataraman clarified the definition of entrepreneurship and the role opportunities play in entrepreneurship research, a clear understanding of opportunity was still missing from the literature. Shane and Venkataraman (2000) used Casson's (1982) definition of opportunity, which differs from Venkataraman's (1997) definition. This led to some debate between Singh (2001) and Shane and Venkataraman (2001). Singh (2001) pointed out that since Casson's (1982) definition required financial profit to be achieved, it dismissed the possibility that opportunities may exist but not be executed on correctly. Singh (2001) offered a definition for entrepreneurial opportunity as "a feasible, profit-seeking, potential venture that provides an innovative new product or service to the market, improves on an existing product/service, or imitates profitable product/service in a less-than-saturated market."

More recently, Hansen, Shrader, and Monllor (2011) conducted an exhaustive review of nearly two decades worth of definitions of entrepreneurial opportunity and opportunity-related processes. Based on the 56 articles they examined from 6 leading entrepreneurship journals, they found dozens of different definitions and 25 distinct conceptual elements. They were able to distill these down to six overarching conceptual definitions in an effort to reduce the highly fragmented nature of the opportunity construct definitions within the literature. More work is still needed, but there has been progress in refining the definition of opportunity.

Beyond definitional issues, with respect to actual research on the process of opportunity recognition, just as Venkataraman drew from different academic fields, research has proceeded through different lenses. Eckhardt and Shane (2003) extended and elaborated in more detail the role of opportunities in the entrepreneurial process. In particular, their article explained the importance of examining entrepreneurship through a disequilibrium framework that focuses on entrepreneurial opportunities. Furthermore, Gaglio and Katz (2001) analyzed opportunity identification through a psychological lens and argued that opportunity alertness directs the opportunity identification process.

Social cognitive theory helps to explain the process of opportunity recognition (Ardichvili et al. 2003; DeKoning 1999; Ozgen 2003). From the cognitive perspective, Baron (2004, 2006) defined opportunity as a perceived means of generating economic value that has not previously been exploited and is not currently being exploited by others. As demonstrated in the works of Baron (2006), Baron and Ensley (2006), and Ozgen (2003), researchers are increasingly exploring the cognitive influences on opportunity recognition. Grégoire et al. (2010) also developed a model of opportunity recognition as a cognitive process of structural alignment and analyzed the think-aloud verbalizations of entrepreneurs as they try to recognize opportunities. In addition, Arenius and Clercq (2005) explained the role of networks and social ties in opportunity recognition, and Singh (2000) further clarified the process of opportunity recognition though social networks.

Based on Bhave's (1994) process model of venture creation, it appears that many entrepreneurs recognize two different types of opportunities—those that are internally stimulated and those that are externally stimulated. An externally stimulated opportunity is one where the decision to start a venture precedes opportunity recognition. The individual decides to become an entrepreneur and searches for an opportunity to proceed with. Those who pursue internally stimulated opportunity recognition first see a market disequilibria and work to solve the identified unmet market need. The individual may not have been actively attempting to create a new venture, but the opportunity presented itself and led to a new entrepreneurial firm. Using Panel Study of Entrepreneurial Dynamics (PSED) data, Singh and Hills (2003) found significant differences between nascent entrepreneurs pursuing the different types of opportunities with respect to the financial potential of their opportunities, their motivations for founding new ventures, and their expectations for success. The authors reported that those entrepreneurs whose opportunities were internally stimulated had higher net worth and higher educational attainment levels. In addition, Singh and Hills (2003) found that those who pursued internally stimulated opportunities anticipated significantly greater revenues for their ventures than those who pursued externally stimulated opportunities. These findings suggest a difference in the types and quality of the opportunities recognized and pursued by entrepreneurs based on the process used to recognize their opportunities. Singh and Hills (2003) speculated that higher levels of education gave individuals better analytical skills to allow them to identify more lucrative unfilled market needs. The higher net worth of those who pursued internally stimulated opportunities may have afforded those individuals the ability to execute on more attractive and financially promising opportunities.

In an extension to Singh and Hills' (2003) research, Singh, Knox, and Crump (2008) explored and found significant differences between black and white nascent entrepreneurs within the PSED with respect to recognizing internally stimulated opportunities versus externally stimulated opportunities. They were interested in better understanding the reasons for the diminished rate of black entrepreneurship relative to their white counterparts. Singh, et al. (2008) found that black nascent entrepreneurs were significantly more likely to pursue externally stimulated opportunities than white nascent entrepreneurs. The authors speculated that whites may be pulled toward entrepreneurship by opportunities they wish to pursue and blacks may be pushed toward entrepreneurship due to real or perceived inequities in the labor market. Whatever the cause, the difference in the type of opportunity resulted in black nascent entrepreneurs pursuing lower projected revenue opportunities than white nascent entrepreneurs. Interestingly, there were no differences in educational attainment between black and white nascent entrepreneurs, but regression results provided other insights into the nature of the differences between black and white nascent entrepreneurs. Controlling for age, education, and net worth, choosing to pursue externally stimulated opportunities resulted in lower projected revenue ventures. When race was added to the regression model, there was no difference in projected revenues. The significant difference in the projected new venture revenues (which could indicate the quality of the opportunities) pursued by black and white nascent entrepreneurs could be explained by the different ages of the two groups, the significant difference in net worth, and the opportunity recognition process chosen. Unsurprisingly, Singh, Knox, and Crump (2008) called for further study of the opportunity recognition processes of black entrepreneurs and research that assists scholars in understanding nonfinancial factors that may be impacting black entrepreneurship.

There has also been a body of research focused on identifying antecedents of opportunity recognition. Examples include Corbett (2005) who highlighted the importance of learning within the process of opportunity identification and Shepherd and DeTienne (2005) who explained the role potential financial reward and prior knowledge play in the opportunity identification process. In addition, Ucbasaran et al. (2008) explained the role human capital plays in opportunity recognition process and Ozgen and Baron (2007) found that mentors, informal industry networks, and participation in professional forums positively influence opportunity recognition. Opportunity recognition has also been identified as a factor moderating different relationships in entrepreneurial activity. One example includes Wiklund and Shepherd (2003), who argued that opportunities along with resources moderate the relationship between growth intentions and actual growth.

Additionally, some studies have been devoted to understanding opportunity recognition as a theory. Examples include Shane (2003), who summarizes the three main theories of opportunity recognition. Neoclassical equilibrium theories assume that it is possible for everyone to recognize all entrepreneurial opportunities since these are equally obvious to everyone. Equilibrium theories also propose that the basic attributes of people, as opposed to information about opportunities, play a decisive role in determining who will become an entrepreneur. According to psychological theories, people's fundamental attributes determine not only who becomes an entrepreneur but also that the entrepreneurship process depends on their ability and willingness to take action. Finally, Austrian theories propose that not everyone is able to recognize all entrepreneurial opportunities. Based on these theories, the entrepreneurial process depends on factors (attributes of opportunities) other than people's ability and willingness to take action (Shane 2003).

Alvarez and Barney (2007) go in a similar but slightly different direction. They used Venkataraman's argument and further described two distinctive theories of discovery and creation theory. They argue that discovery theory is focused on formation and exploitation of opportunities while creation theory is focused on the enactment process.

Ardichvili et al. (2003) extended Venkataraman's work by developing a theory of the opportunity identification process which considered entrepreneurs' personality traits, social networks, and prior knowledge as antecedents of entrepreneurial alertness to business opportunities. They argued that entrepreneurial alertness is a necessary condition for recognition, development, and evaluation of opportunities.

Research on opportunities has also attempted to explain the role of opportunity and opportunity recognition in different contexts playing different roles. For example, Zahra et al. (2005) discussed international opportunity recognition and examined how entrepreneurs recognize and exploit opportunities in international markets. Park (2005) used a qualitative approach to introduce an integrative model of opportunity recognition in high-tech start-ups. Bhagavatula et al. (2010) explained how the social and human capital of entrepreneurs influence their ability to recognize opportunities and mobilize resources in India. Sambasivan et al. (2009) argued that opportunity recognition mediates the relationship between managerial skills and venture performance in Malaysia. McCline et al. (2000) examined opportunity recognition in the context of the health-care industry, highlighting the importance of the industry variable in the success or failure of entrepreneurial ventures.

Moreover, gender differences may have an impact on the opportunity recognition process. Farr-Wharton and Brunetto (2007) found that the experience of trust in women's networking contributes to their opportunity recognition. De Bruin et al. (2007) argue that self-perceptions of women may restrict their possibility to recognize opportunities. Anna et al. (2000) believe that such restrictions lead to certain forms of female entrepreneurship. De Bruin et al. (2007) also believe that lower normative support results in a lower level of opportunity recognition for women and lower rates of female entrepreneurs. Research has also looked at the impact of gender stereotypes on opportunity recognition. Using stereotype threat theory, Gupta, Goktan, and Guney (2014) examined the gender differences in evaluation of opportunities and Gupta, Turban, and Pareek (2013) found that opportunity recognition is influenced by the content of stereotype (masculine vs. feminine) and the manner in which stereotype information is presented (subtle vs. blatant).

Finally, besides opportunities, other aspects of Venkataraman's article have been used in subsequent research. McGrath (1999) used Venkataraman's argument on uncertainty to explain the role of entrepreneurial failure in wealth creation. Shane and Stuart (2002) touched upon Venkataraman's point of view on investor relationships to explain how resource endowments affect the likelihood that new venture attract venture capital financing. Shane and Cable (2002) also used Venkataraman's argument on investors to explain the effects of network ties on venture finance decisions. Aldrich and Cliff (2003) used Venkataraman's argument on idiosyncratic knowledge to discuss family embeddedness perspective in new venture creation process.

Future Research

Entrepreneurship as a field of research and study has taken more firm shape as researchers have focused more effort on opportunities and opportunity recognition processes—the distinctive domain of entrepreneurship scholarship as argued by Venkataraman (1997). As discussed in this reflective chapter on the impacts of Venkataraman's (1997) work, research has come a long way and branched out in many directions, much as he argued for. As a result, we have a better understanding of sources of opportunities, how entrepreneurs recognize them, and how they execute on them. The process is better understood today and as a result, we know more about entrepreneurship than ever.

While much research has been devoted to understanding the antecedents of opportunity recognition, less attention has been given to the outcomes of opportunity recognition. It is possible that different moderators or mediators such as entrepreneur-related factors (e.g. personality, family background) and context-related factors (e.g. culture, economy) impact the process of opportunity recognition and may have performance implications. In addition, the majority of research on opportunity recognition has been related to venture creation rather than venture growth. It is possible that the recognition of venture growth opportunities requires different skills, support, and infrastructure than recognition of venture creation opportunities, and we would suggest it as an area for future research.

Research on opportunity and opportunity recognition has come a long way since Venkataraman's (1997) publication. That said, much work remains. As the population of the country ages, the nation becomes more racially diverse, greater numbers of women entrepreneurs found firms, and there are likely to be differing and changing opportunity identification processes. Further studies through the different lenses and differing contexts of individual entrepreneurs are needed.

Conclusion

In his seminal article, Venkataraman (1997) clarified the role of entrepreneurial opportunities in entrepreneurship research. The article also offered a framework to identify the boundaries of entrepreneurship as a distinctive domain of research by explaining the processes evolving around opportunities. Venkataraman's work not only reframed the understating of entrepreneurship through the lens of opportunities but also touched on several other concepts related to the process of entrepreneurship including cognitions, investor and customer relationships, choice of mode, risk-taking, trust, resources, social networks, and performance measures. While a great amount of research has been built upon Venkataraman's work, there is room for future research. We still need to understand the outcomes of opportunity recognition as well as the moderators and mediators related to opportunity recognition process. Opportunity recognition in terms of venture growth needs to be further analyzed and we need to better understand the role of context in opportunity identification processes.

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