



Entrepreneurial Success within the Process of Opportunity Recognition and Exploitation: An Expansion of Entrepreneurial Opportunity Recognition Model

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ABSTRACT

The purpose of this paper is to expand upon existing entrepreneurial opportunity recognition model (EORM) that builds on the existing theoretical literature, utilises the Dubin's theory-building framework. It identifies entrepreneurial awareness and viable business plan as the determinant of entrepreneurial success within the process opportunity recognition (OR) and exploitation. Entrepreneurial awareness is the central component of OR process. Entrepreneurial awareness and viable business plan, are the basic condition for the success of the OR and exploitation process which in turn yielding a successful entrepreneurial outcome. A proposed conceptual model, a set of propositions, and suggestions for further research are provided.

Keyword: Entrepreneurial Awareness, Viable Business Plan, Opportunity Recognition, Exploitation Process Model

JEL Classifications: L2, L26

1. INTRODUCTION

This study aims at expanding the model of entrepreneurial opportunity recognition (MEOR) (there after) build upon the prevailing theoretical studies (Ardichvili et al., 2003; Ardichvili and Cardozo, 2000; Moreno, 2008) by using "Dubin's theory-building framework" (Dubin, 1978; Holton and Lowe, 2007; Lynham, 2002). The first stage of entrepreneurial process is the OR (there after OR). It has been mentioned as a crucial and distinctive component of entrepreneurship. The problem confronting individuals in view of entrepreneurship is the identifying the right entrepreneurial opportunities and the right set of settings required for their success (Timmons and Spinelli, 2004). Nowadays, considering the role and development of entrepreneurship, it is increasingly becoming an important issue to contend with and to apprehend exactly how new entrepreneurial opportunities are developed and how individual attributes play a vital role in the identification of these opportunities (Abbasi et al., 2011). Significantly, entrepreneurs in any business (for both

new and existing ones) should recognise and choose the right opportunities (Mot, 2011). Therefore, clarifying the issue of OR necessitates choice to construct the theoretical model. In recent years, researchers came up with several models of OR (Ardichvili et al., 2003; Ardichvili and Cardozo, 2000; Baron and Ensley, 2006; Bhave, 1994; De Koning and Muzyka, 1999; Moreno and Victoria, 2008; Sigrist, 1999; Teach et al., 1989; Townsend and Harkins, 2005). Hence, all the aforementioned models are built on different assumptions copied from a wide range of disciplines ranging from cognitive psychology to Austrian economics or Spanish case. For example, De Koning and Muzyka (1999) looks at the cognitive processes on the "social study network context;" Sigrist (1999) viewed it as one that involved in OR. In addition, based on the empirical findings of the existing literatures OR resulted in successful ventures. Ardichvili and Cardozo (2000) identified three vital components as determinants of OR such as entrepreneurial alertness (EA), prior knowledge (PK) and social networks (SN). Another study based on the existing empirical/theoretical investigations in the same area (i.e., entrepreneurial OR

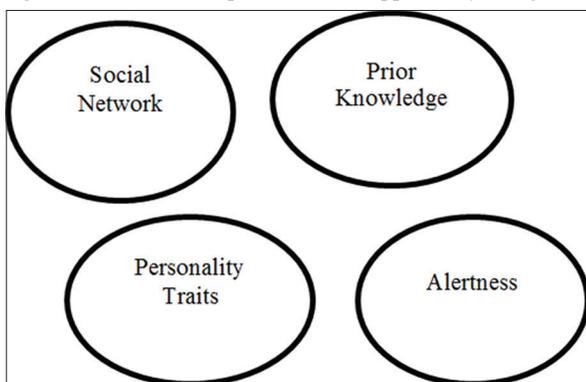
and development), Ardichvili et al. (2003) found that personality traits (PT) and PK are associated with EA and SN which resulted in the opportunity development. Moreover, Moreno and Victoria (2008) clarified and developed the limitation of the aforementioned studies by empirically investigated the “entrepreneurial opportunity identification and development from new Spanish firms.”

Nevertheless, Mot (2011) reviewed all the aforementioned studies and found out that, the studies still have certain limitations and suggested for further investigations within new cases and methodologies. Extant literature identified PT, SN, PK and EA as key components of the OR as presented in Figure 1.

According to Mot (2011) these variables largely known as important and the common components in OR process (ORP). Entrepreneurial process is an interactive combination of PT, SN, PK and EA, which eventually resulted in OR. Firstly, entrepreneurs’ PK related to market and means to serves the market, as well as the customers’ problems. SN of entrepreneur is the second component concentrating on the relationship among the entrepreneurs in businesses. Thirdly are the entrepreneurs’ PT. Finally, the entrepreneurs’ awareness about the entrepreneurial opportunities, this is viewed as centre surrounded by other components (i.e., PT, SN and PK) of the OR. Among the limitations of the previous studies were based on their assumptions and conclusions. They draw their assumptions and conclusions on single components in isolation, not focusing on the collective and interactive contribution of these four components. Mot also added that, these studies neglect the collaborative relationships of the four components that may have been the significant contribution in the OR. For example, the model of Ardichvili and Cardozo (2000) proposed only PK, EA, and SN as the components of OR. Baron and Ensley (2006) and Ucbasaran et al. (2009) considered the relationship between PT and OR. Kirzner (1997) studied the relationship between EA, discovery and OR. While, an investigation on PK, financial reward, and opportunity identification was undertaken by Shepherd and DeTienne (2005).

However, in the line with Ardichvili et al. (2003) and Moreno and Victoria (2008), Mot (2011) uses diverse methodology and PT as an additional variable in synthesizing the existing literatures to more complete model of OR theory (MORT). The main functions attached to the MORT are the collection and interaction of these components: The PK, SN, EA and PT of entrepreneurs. Where,

Figure 1: The four components of the opportunity recognition



PK refers to the knowledge of entrepreneurs prior recognising any business opportunities. SN is the network of entrepreneur in business settings. EA refers to the awareness of entrepreneurial and business opportunities by individuals. PT is the characteristics and traits of the entrepreneur identifying business opportunity (Mot, 2011).

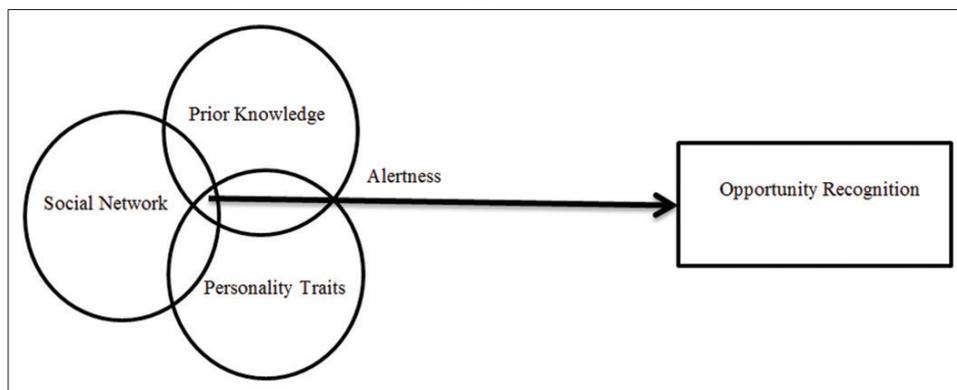
Therefore, the study of Mot (2011) utilised the first five steps among the eight steps of Dubin’s methodology: “Units of the theory,” “laws of interaction,” “boundaries of the theory,” “system states of the theory” and “propositions of the theory.” The first “four steps result in an informed, conceptual framework of the theory,” while the last step (i.e., propositions of the theory) is among the other four steps that resulted in an empirically verified and trustworthy theory. The study came with its own MOR as depicted in Figure 2.

Mot’s model shows the interactive and mutual influence of four components of OR. According to Mot, (2011), “entrepreneurial process is an interactive combination of these four components that ultimately result in OR.” Then, the postulation of Mot model is that, “EA is a mutual correlation between PK, SN, and PT.” As business opportunities that exists, awareness leads in the individuals’ recognitions of such opportunities, EOR is related to the entrepreneurial awareness. Hence, every opportunity to be recognised by any potential entrepreneur led by heightened level of awareness on information. Meaning that the greater the awareness the higher the possibility of individuals’ recognitions of entrepreneurial opportunity. Therefore, EA is associated with the OR (Ardichvili et al., 2003; Ardichvili and Cardozo, 2000; Busenitz, 1996; Kirzner, 1997; Mot, 2011; Shane, 2000).

However, it was understood from the literature that, all the aforementioned studies limited their study and model around four to five “steps of Dubin’s theory building methodology” and focusing on only recognition of the opportunity, where they neglect the issue of opportunity exploitation which leads to business success (Shane and Eckhardt, 2003). This will help to utilise the remaining three steps of Dubin’s framework: “Empirical indicators,” “hypotheses,” and “empirical testing.” Therefore, in line with this, this paper proposes to expand a Mot model (i.e., MORP), toward the opportunity exploitation that lead to entrepreneurial success, because the opportunity recognized cannot become a viable business without proper exploitation (Ardichvili et al., 2003), and among the driving forces in entrepreneurship is the entrepreneurial ability to recognise and exploit opportunities (Gunda, 2014). By so doing the researchers employ variables like: Entrepreneurial awareness, viable business plan, entrepreneurial opportunity and entrepreneurial success. This will enable further research to conduct empirical validation accordingly.

In line with Mot (2011), entrepreneurial awareness serves serves as the joint correlation among PK, SN, and PT, which operationalize as an entrepreneurs’ knowledge about the existence and benefit derives from available entrepreneurial opportunity. Entrepreneurial opportunity is the available business opportunity to be recognised by entrepreneurs for entrepreneurial activities. Viable business plan is a written document made by entrepreneur to express

Figure 2: A model of the opportunity recognition process



their decisions for the exploitation of available opportunities for entrepreneurial success. While entrepreneurial success is business outcome derive from the exploitation of such available opportunities.

2. ENTREPRENEURIAL AWARENESS, OR AND ENTREPRENEURIAL SUCCESS

Entrepreneurial opportunities exist in the external world (Alvarez and Barney, 2007; Miller et al., 2007). Such opportunities serves as a key element in entrepreneurial process and such opportunities need to be discovered, recognised, or created; these are the opportunity processes (Gunda, 2014). It was believed that, OR serves as the key element in the entrepreneurial process (Ozgen and Baron, 2007). Identification of opportunity leads to the formation of new ventures and their attendant success (Wood and McKinley, 2010). It has been established from the literature that, EA is the key component for OR (Ardichvili et al., 2003; Ardichvili and Cardozo, 2000; Busenitz, 1996; Kirzner, 1997; Mot, 2011; Shane, 2000).

EA is defined “as a propensity to notice and be sensitive to information about objects, incidents, and patterns of behavior in the environment with special sensitivity to maker and user of problem, unmet needs and interests, and novel combinations of resources” Ray and Cardozo (1996). Meanwhile, visualising of things that do not so far exist (i.e., business vision), discovering of opportunity, getting them into creation (opportunity exploitation) and the attainment of market acceptance are possibly the most attractive of all entrepreneurial activities (Gaglio, 2004). The discovery of such opportunities that promote entrepreneurial activities is the key to business success; opportunity identification is the forerunner of both personal and societal wealth (Venkataraman, 1997). Kirzner was the first among the scholars to use the word “alertness” (awareness) in explaining EOR. To Kirzner (1997), entrepreneurs have specific knowledge and they might utilise it to exploit opportunities. This is strengthened in the study of Busenitz (1996) and Kaish and Gilad (1991), where entrepreneurs exposed to become more vigorous to pursue opportunities than business directors. They also revealed that, high level of EA is an important factor to entrepreneurial success. Efficacious entrepreneurs has the ability to comprehend opportunity over others (Timmons and Spinelli, 2004).

“OR is a skill highly related to the field of technology where some huge product innovations have largely involved the transfer of a low-value technology from one business sector to another where it becomes of high value” (Christensen, 1997). Ray and Cardozo (1996) opined that any opportunity to be recognised by a potential entrepreneur need a sensitive awareness of information. Higher EA increases lead to an increase in OR (Kaish and Gilad, 1991). However, entrepreneurs exploit business opportunities to deliver and create value for investors in prospective ventures. The opportunity recognised will not yield a viable business without proper exploitation (Ardichvili et al., 2003), thus, proper exploitation of such opportunities leads to entrepreneurial success. Hence, entrepreneurial process is not complete if the potential entrepreneurs could not make decision to exploit the opportunities already recognized (Scott, 2003) Therefore, entrepreneurial awareness has significant impact on OR, and high level of entrepreneurs’ awareness is highly related to recognition of opportunity (Ardichvili et al., 2003; Ardichvili and Cardozo, 2000; Busenitz, 1996; Kirzner, 1997; Mot, 2011; Shane, 2000). Effective venture creation is the outcome of effective “opportunity development process” that consist of OR, this is in line with the assumption that, OR is a fundamental for this achievement (Mot, 2011). As stated earlier, for any opportunity to be recognised by potential entrepreneurs it is deemed to depend largely on heightened level of information awareness, thus, the prediction here is that, a high level of awareness is related with OR (Mot, 2011). Hence, in line with the above, likewise, this paper proposes the following propositions:

Proposition 1: A high level of EA is significantly related to successful OR and exploitation.

Proposition 2: EA is the central component of OR.

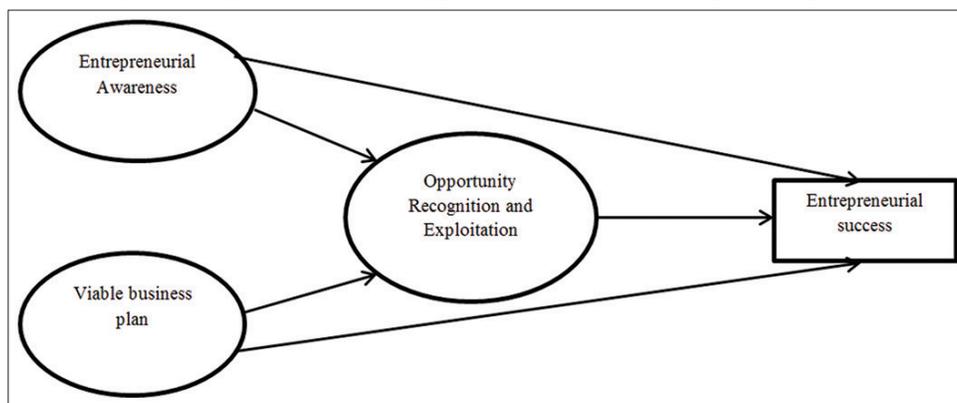
Proposition 3: EA is significantly related to entrepreneurial success.

Proposition 4: EOR and exploitation mediate the relationship between EA and entrepreneurial success.

3. VIABLE BUSINESS PLAN, OPPORTUNITY EXPLOITATION AND ENTREPRENEURIAL SUCCESS

Opportunity discovery and recognition perspective is believed to be one of the entrepreneurial risks, where the entrepreneurs are able to fold information about possible decisions concerning

Figure 3: Proposed model of the opportunity recognition and exploitation process



exploitation of entrepreneurial opportunities and the probabilities related with potential outcomes (Alvarez and Barney, 2007; Miller et al., 2007). They added that entrepreneurs conducted an in-depth feasibility analyses and prepare viable business plans to enhance their chances of success. Therefore, the process of opportunity exploitation involves the development and presentation of viable business plans (Hmieleski and Baron, 2008).

Castrogiovanni (1996) defined viable business plan as an entrepreneur's efforts to gather information about a business opportunity and to specify how that information will be used in decision making to exploit that opportunity. Exploitation of an opportunity refers to those activities or actions committed by entrepreneur to exploit an opportunity through the building of efficient business systems for full-scale operations that leads to a higher return (March, 1991). Business plan is the courses of gathering information, evaluating necessary tasks, classifying strategy and risks, sticking out financial developments, and then documenting these things in a written form (Castrogiovanni, 1996; Sexton and Bowman-Upton, 1991). Furthermore, the decision to exploit opportunities is an important action in creating a successful business (Choi and Shepherd, 2004). Delmar and Shane (2003) argued that planning helps potential entrepreneurs to make decisions more quickly in exploiting opportunity that yield entrepreneurial success. Delmar and Shane further added that, business planning connects specific goals to others in accomplishment of the tasks, in that way it enhance the rate of transfer of the organisation's general vision to others liable for acting on that vision. Therefore, viable business plan is positively related to OR and exploitation as well as successful business (Choi and Shepherd, 2004). Hence, based on the above literatures, this study proposes the following propositions:

Proposition 5: Viable business plan significantly related with the OR and exploitation.

Proposition 6: Viable business plan is significantly related to entrepreneurial success.

Proposition 7: If entrepreneurial opportunity is being recognised, then the exploitation of such opportunity will leads to entrepreneurial success.

Proposition 8: EOR and exploitation mediate the relationship between viable business plan and entrepreneurial success.

Figure 3 shows proposed conceptual model of the opportunity recognition and exploitation process

The above model predicts that, entrepreneurial awareness is the central component of OR; it comprises all other components (i.e., PK, SN, and PT) as used independently in the previous studies. EA and viable business plan are significantly related to successful OR and exploitation. If entrepreneurial opportunity is been recognized and properly exploited by an entrepreneur it will lead to entrepreneurial success. Logically it indicates that, OR and exploitation mediate the relationship between entrepreneurial awareness, viable business plan and entrepreneurial success.

4. CONCLUSION AND SUGGESTION FOR FUTURE RESEARCH

This research examines the existing theoretical studies that utilised "Dubin's methodology of theory building framework", which finally built a model of the EOR and exploitation process as an expansion to model of the EOR of Mot (2011). This model combined four major variables (i.e. PK, SN, PT and EA) as used by Mot (2011) in to one central component of OR (i.e. entrepreneurial awareness). The model suggests two major variables: entrepreneurial awareness and viable business plan as the influences of entrepreneurial success within the process of OR and exploitation.

The study proposes eight propositions on relevant variables under review. This paper recommends that, these variables are related to OR and exploitation that leads to successful entrepreneurship. An avenue for the future studies on entrepreneurial OR and exploitation to employ a specific entrepreneurial opportunity such as: Micro leasing, microfinancing, entrepreneurship programmes and other facilities available for entrepreneurial activities, which need to be recognised and exploit to substitute the current model for empirical testing is also being proposed. Hence, further empirical study should be conducted to test the proposed model by using the larger samples and possibly the structural equation modelling (SEM).

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