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**Opportunity and Entrepreneurship**

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**Summary**

This article discusses the equilibrium orientation that underlies much of the theory and empirical testing on entrepreneurship studies today. In response, we provide 4 arguments on why equilibrium assumptions are problematic. The 3rd section "Type of Opportunities" looks at 3 important dimensions of opportunities, and the 4th section "Implication of Theory Development and Theory Testing" discusses the ramification of our approach and data gathering and empirical analysis. The final section includes our conclusion.

**Existing Theories of Entrepreneurship**

for the past 30 years, theories on entrepreneurship sought to explain entrepreneurship as a function, as a result, have largely overlooked the role of opportunities. Khilstrom and Laffont (1979) argue that people with a greater preference for uncertainty than people with a lesser preference for uncertainty prefer to be entrepreneurs. But person person-centric approach is unsuccessful in explaining entrepreneurship (Gartner, 1990) entrepreneurial activity is episodic unlikely to be explained by factors that influence human action (Carroll and Mosakowski, 1987)

2nd, many researchers assumed entrepreneurship is an equilibrium phenomenon, either explicitly or implicitly.

To successfully explain entrepreneurship, assume or allow disequilibrium, below we summarize the basic assumptions of equilibrium theories and why these theories failed to capture entrepreneurship.

1st, equilibrium theories conclude that the current price conveys all of the relevant information necessary to direct resources. By incorporating information of every member, the price system provides a means to incorporate everyone’s information allowing them accurately coordinate resources (Hayek, 1945). But for the price system to work, all relevant information must be reducible into bids. Unfortunately, prices don’t convey all the necessary information.

2nd, equilibrium theories assume that all information and expectation of market participants about the future is reducible to current price bids (Arrow, 1974), enabling long-term contracts. However, future markets must exist for all goods and services. Future markets do not exist for creative activities, as a result, future markets for creative acts fail to base decisions.

3rd, equilibrium theories assume that all decisions are optimizing, decision making becomes a mechanical process of applying mathematical rules of optimization (Casson, 1982). However, many important decisions are not made by optimizing within given constraints.

4th, equilibrium theories ignore temporary disruptions in the price systems. In an equilibrium system, no one can possess such information because prices shift automatically in response to changes in supply and demand. In reality, prices don’t shift automatically but because of purchasing decisions of a “handful of people”, then a handful of entrepreneurs recognized a disequilibrium situation and purchased resources in the belief of future profit potential.

**Moving Away from Existing Theories of Entrepreneurship**

Given the problems of taking an equilibrium perspective, we assume that equilibrium is either never fully realized (Kirzner, 1985), or is intermittently disrupted by the profit-seeking action of individuals (Schumpteter, 1934).

Following Venkataraman (1982), entrepreneurship defines as the discovery, evaluation, and exploitation of future goods and services. To explain the presence of entrepreneurial opportunities, we define what they are and in contrast with other profit opportunities. Then we explain why the price is an indication of opportunities.

*Entrepreneurial Opportunities Defined*

Entrepreneurial opportunities as the situation in which new goods, services, raw materials, markets, and organizing methods can be introduced through the formation of new means, ends, or mean-ends relationships.

Entrepreneurial opportunities cannot be exploited by optimizing because the set of alternatives in introducing new things is unknown, precluding mechanical calculation between all possible alternatives (Baumol, 1993).

*Why Prices are Incomplete Indicators of Opportunity*

For entrepreneurial opportunities to existing, people must not agree on the value of resources. Prices convey only part of the information necessary to direct opportunities to serve existing markets. Evidence of the latter problem is most prevalent during periods of technological change. Hayek's tin market example shows the limitations of the price system for allocating resources.

*Discovery Defined*

Entrepreneurial discovery is a perception of a new means-end framework to incorporate the information, incompletely or partially neglected by prices. In exploiting opportunities, individuals acquire resources and engage in activities that change prices and provide information to others. The prices that are updated or created through this process increase the accuracy of decisions.

*The Life Cycle of Opportunity*

If an entrepreneur does discover a valuable opportunity, and that opportunity generates entrepreneurial profit, that profit is likely to be transient due to external and internal factors. The information asymmetry that creates opportunities in the first place is subsequently reduced by the diffusion of information about the opportunity. However, the opportunity half-life can last longer depending on a variety of factors. They include situations in which few parties have the requisite knowledge to copy a way of exploiting an opportunity despite its demonstration.

**Types of Opportunities**

Entrepreneurial opportunities are created when economic actors gain access to new information that allows them to purchase resources at low prices and sell them at an entrepreneurial profit. Several types of exogenic shifts exist, including those spurred by government action, triggered demographic changes, and those generated by the creation of new knowledge. Drucker (1985) discusses 4 sub-sets of opportunities, which are defined by the amount, variety, and source of feasible solutions. Opportunity conditions are most favorable when for a given investment the likelihood of achieving innovation is high and when it is possible to use a single development for multiple solutions. The nature of the knowledge itself is likely to influence the volume and type of entrepreneurial opportunities.

In the entrepreneurship literature, opportunities can be classified on whether the changes that generate them exist on the demand-side or supply-side side - i.e., whether the in-demand outpaces investments in production capacity. In this case, some empirical support exists for the existence of opportunities in growing markets, but more studies should explore demand-driven entrepreneurial opportunities. Entrepreneurial activity can be both productive and unproductive. Merger activity provides a good example of the potential for productive entrepreneurship. However, the merger may also generate unproductive opportunities, as would be the case if a merger merely shifts wealth from consumers to products by reducing competition. Different types of entities initiate the changes that result in entrepreneurial opportunities.

**Implication for Theory Building and Theory Testing in Entrepreneurship**

First, our arguments suggest that significant process in theory building may be achieved by a shift away from the “entrepreneurial type” paradigm that is rooted in implicit assumptions about equilibrium difference between entrepreneurs and other types of people to a paradigm of entrepreneurship that is embedded in the concept of disequilibrium and incomplete information about opportunities.

Second, an opportunity-based perspective on entrepreneurship provides researchers with the same general framework to explain many parts of the entrepreneurial process. As a result, the framework can be utilized by scholars to move beyond studies that test theories.

Third, the field is better served by studies of the entrepreneurial process itself than studies that focus on normative arguments for the performance of individual entrepreneurs

Fourth, is that explaining the emergence and existence of entrepreneurial opportunities is a question of fundamental importance. In addition, advancing our understanding of the potential of particular opportunities. As a result, the environment and structural approaches to entrepreneurship that these arguments entail may become a much larger part of the field than is currently the case.

The final implication of an opportunity-based perspective on entrepreneurship is that the methodologies that researchers use to test theories about entrepreneurship will have to change. From a non-statistical perspective, this means that a longitudinal process will be necessary to properly examine the entrepreneurship question. From a statistical point of view, the opportunity-based view of entrepreneurship suggests that researchers will not simply analyze questions through the use of ordinary least squares regression techniques. Rather researchers will likely use event history models, sequence analysis, and panel data sets with random and fixed effects models to partial out unobserved heterogeneity in opportunities and individuals.

**Reaction/Critique**

Opportunity and Entrepreneurship is an article written by Jonathan T. Eckhardt and Scott A. Shane. This article they’ve provided us with a more in-depth discussion of the role of opportunities. The article also discusses the equilibrium orientation that underlies much of the theory and empirical testing on entrepreneurship studies.

In the first section of the paper titled “Existing Theories of Entrepreneurship**”,** Khilstrom and Laffont quote that “people with the greater preference of uncertainty prefer to be an entrepreneur, while those prefer lesser uncertainty prefer to be a minimum wage earner.”, I can say this is true, in the world of business, the only one who can risk trying out new ideas and bring out huge amount of money without certainty of that money will come back are entrepreneurs. In the last paragraph, it was mentioned that “price does not shift automatically, but respond to purchasing decisions of a “handful of people”.”, in this quote they are referring to the people who hoard goods when they notice a disequilibrium, take for an example of what happens when pandemic starts, price of ethyl alcohol, face mask, and some essential like in food, how meat products rose exponentially, same with vegetable goods. They believe that they are hoarding goods and hiding them, when the time comes, the price will rise and they will sell it higher than the original price they bought them.

Next section titled “**Moving Away from Existing Theories of Entrepreneurship”,** Venkataraman define entrepreneurship as “as the discovery, evaluation, and exploitation of future goods and services.”. This is true, in our world where most of daily needs are limited, if an entrepreneur chose to exploit that goods or services for more profit, that is what entrepreneurship is defined as. But according to Casson “profits are limited if belief is universally shared.”. Its like a newly introduce internet provider. For the first month of service, you will not experience any internet traffics as only few people are using their service. But as time goes, you will experience slow internet as more people are using that internet.

The 3rd section titled “**Types of Opportunities”** in the 3rd paragraph. The creation of new goods or services can create new opportunities for entrepreneurial profit. This can be seen in our situation when pandemic starts, we were under lockdown and many of us cant go outside, many business see this as an opportunities and establish delivery services, example of this business are food panda, and grab delivery. They know people can’t go outside as it’s not safe and they can’t order to their favorite restaurant, so they think of an idea of someone will order for them plus deliver their order to them. Schumpteter quotes that “markets efficiency are punctuated by periods of upheaval”. This is also when sudden lockdown happens, prices of ethyl alcohol, face mask rise as the demand rise too.

In conclusion, the article shows how opportunities affect entrepreneurs. When there is sudden disruption, the market tend to rise and entrepreneur gain more profit. When entrepreneurs sees an opportunity to exploit a goods or services, they will take risk and return gain more profit. We can see this in the real world where entrepreneurs take risk to invest their money so that in hope they can get more in return than the money they have invested. “**THE ENTREPRENEUR** always searches for change, responds to it, and exploit it as **OPPORTUNITY**” – Peter Drucker.