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**Opportunity and Entrepreneurship**

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**Summary**

In efforts of researchers to define a distinctive domain for the field of entrepreneurs, they have recently shifted their attention away to those people who want to become an entrepreneur (Venkataraman, 1997), this new focus required scholars to explain the role of opportunities in the entrepreneurial process.

Several articles sought outline to this theoretical perspective, but these articles just generated confusion among scholars. In this article, we provided a deeper discussion on the role of opportunities.

To accomplish this, our paper discusses the equilibrium orientation that underlies much of the theory and empirical testing on entrepreneurship studies today. For Example, in the section “Existing Theories of Entrepreneurship,” we point out that a large body of entrepreneurship research that entrepreneurship is a function of differences across people in stable attributes, in response, we provided 4 arguments on why equilibrium assumptions are problematic. 2nd section “Moving Away from Existing Theories of Entrepreneurship” explain why entrepreneurship requires theories based on the existence of opportunities and the actions of agents, we continue explaining what those opportunities are and why prices don’t reflect their existence. The 3rd section “Type of Opportunities” looks at 3 important dimensions of opportunities, 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*

The market system is a powerful means of coordinating economic activity. By efficiently transmitting information, the invisible hand of the market coordinates the action of millions of people who never interact directly with one another or even know how or why others produce goods and services (Barney, 1991; Smith, 1776)

For entrepreneurial opportunities to existing, people must not agree on the value of resources. For an entrepreneur to exploit an opportunity, he or she must believe that the value of resources. In addition, profits are limited if the belief is universally shared (Casson, 1982)

But why people should hold different beliefs regarding the value of resources? The answer is that price fails to provide all the necessary information to make all decisions about resources.

1st, prices convey only part of the information necessary to direct opportunities to serve existing markets.

2nd, prices only convey even less information to direct opportunities to serve markets that do not yet exist.

Evidence of the latter problem is most prevalent during periods of technological change, which do not appear to be anticipated by markets.

Given that prices cannot tell people what future demand will be, they provide limited information about the forward marginal cost of revenues. However, the appropriateness of resources allocation decisions in the current period is contingent on the characteristics of future markets for goods and services.

Thus, even Hayek’s (1945: 526) example of the value of the price system in the tin market shows the limitations of the price system for allocating resources for entrepreneurial opportunities. To Hayek, the producer need only to look at the prevailing price of the tin when making production.

To the entrepreneur seeking to profit from this change. If an entrepreneur believes that the shortage of tin has resulted from the new use of tin. Therefore, purchasing the tin, creating a new product, and then selling it would result in a profit.

*Discovery Defined*

The situation arisesin which prices provide insufficient information to allocate resources. Individuals must make decisions based on information not incorporated prices. Entrepreneurial discovery is a perception of a new means-end framework to incorporate the information, incompletely or partially neglected by prices.

Entrepreneurs bring new means-ends decisions making by forming perceptions and beliefs about how to allocate resources better than they currently allocated. By leading entrepreneurs in buying resources, use them for different purposes. The prices that are updated or created through this process increase the accuracy of decisions.

The discovery process describes individuals acting alone, or within firms, perceiving a previously unseen or unknown way to create a new means-ends of the framework. To establish the opportunity value, the individual must conjecture that positivity exists. In the latter case, the individual will need to conjecture that once others are presented with the actual product.

Predicting such things with certainty is not possible. In addition, individuals may be mistaken in their analysis of the characteristics of the usefulness of the new items. Therefore, individuals, operating alone or within firms

In exploiting opportunities, individuals acquire resources and engage in activities that change prices and provide information to others. This information may either encourage or discourage the individual pursuing the opportunity from continuing.

*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 also include situations in which few parties have the requisite knowledge to copy a way of exploiting an opportunity despite its demonstration (Zucker et al., 1998).

**Types of Opportunities**

Entrepreneurial opportunities manifest themselves in different ways. By locus of the changes, by the sources of the opportunities, and by the initiator of the change.

*Locus of Change*

Schumpteter (1934) suggested 5 different loci of these changes: those that stem from the creation of new products or services, those that stem from the discovery of a new geographical market, those that emerge from the creation or discovery of new raw materials, those that emerge from new methods of production, and those that are generated from new ways of organizing.

*Sources of Opportunity*

Prior research suggests 4 important ways of categorizing opportunities by sources: 1st involves considering differences between opportunities that result from asymmetries, 2nd comparison lies between supply and demand-side opportunities, 3rd differentiates between productivity-enhancing and rent-seeking opportunities. 4th lies in identifying the catalysts of change that generate the opportunities.

*Information asymmetry vs. exogenous shock.* This information changes the price for resources, thereby allowing economic actors who have early access to the new information to purchase resources at low prices and sell them at an entrepreneurial profit.

*The state of research on exogenic shift-based opportunities.* Existing research describesseveral dimensions of opportunities, we know that several types of exogenic shifts exist,including those spurred by government action, triggered demographic changes, andthose generated by the creation of new knowledge.

The exercise of government power influences the volume, distribution, and types of opportunities available. Similarly, the regulatory intervention has altered the structure of industries thereby creating opportunities for new entrants.

Shifts in societal demographics also generate and close off opportunities.

Opportunity conditions 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.

Appropriability conditions consider the effectiveness of efforts to imitate a mechanism to exploit an opportunity. For example, investments in new drugs in the pharmaceutical industry are protected from imitation by effective patents for an extended period.

Appropriability conditions may alter the type of opportunities available in an industry, but no clear relationship has been established between the strength of methods to protect innovation and the aggregate level of opportunities.

Cumulative conditions describe the relationship, if any, between historical and future exploitation of opportunities. Industries with strong cumulative conditions are those where current development builds on prior development.

Lastly, the nature of the knowledge itself is likely to influence the volume and type of entrepreneurial opportunities.

The *state of research addressing information asymmetry-based opportunities.* Drucker (1985) discusses 4 sub-sets of opportunities. 1st incongruities may exist between micro-level behavior and macro-level outcomes.

2nd, incongruities may exist between the realities of the industry and generally accepted assumptions about it. In this case, expected events result in observed surprises. However, such a relationship may not exist

3rd, incongruities may exist between the efforts of an industry and the particulars of consumer demands. In this case, firms fail to recognize that latent demand exists for only minor modifications to existing products, or an overlooked demographic group.

4th, internal incongruities may exist within the rhythm or the logic of a key industry process. In this case, opportunities exist for improving key steps in industry routines that have been perpetuated without question.

*Supply vs. demand-side changes. Opportunities can also be classified on whether the changes that generate them exist on the demand or the supply side. In general, the entrepreneurship literature implicitly focuses on the supply side. But changes in demand alone can generate opportunities. The opportunity is created if the in-demand outpaces investments in production capacity.*

To the extent that observed entry corresponds with the existence of opportunities, some empirical support exists for the existence of opportunities in growing markets. However, the research to date addresses this topic only indirectly, and more studies should explore demand-driven entrepreneurial opportunities.

*Productivity-enhancing vs rent-seeking opportunities.* Researchers imply when they discuss entrepreneurship is productive entrepreneurship. However, it is also possible to think of entrepreneurial action as private rent-seeking, Baumol (1990) points out several types of entrepreneurial opportunities including crime, piracy, and corruption.

Merger activity provides a good example of the potential for both productive and unproductive entrepreneurship. However, merger may also generate unproductive opportunities, as would be the case if a merger merely shifts wealth from consumers to products by reducing competition.

The researcher would provide a valuable contribution to understanding entrepreneurship by examining several facets of this categorization of opportunities. Baumol (1990) suggests that researchers also examine relative distribution over time, arguing that, in the same location at different points in time, the potential to add value from new combinations of resources might be higher or lower than the potential to shift value from others vie new combination of resources.

*Initiator of the change,* a final dimension on which opportunities have been classified. Different types of entities initiate the changes that result in entrepreneurial opportunities. Among the different types of actors that researchers have identified are non-commercial entities, such as governments of universities; existing commercial entities in an industry such as independent entrepreneurs, and diversifying entrants (klevorick et al., 1995). Researchers have shown that 2 sets of actors are very important. The 2 set actors have a different likelihood of generating opportunity-creating changes under different industry knowledge conditions.

**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.