

ENTREPRENEURIAL OPPORTUNITIES: CREATED OR DISCOVERED?

What is Opportunity?

- Entrepreneurial opportunities are defined as situations where products and services can be sold at a price that is greater than the cost of their production
- Eg: Innocent Smoothies: Cambridge graduated
 - o Sold their drinks from a stall at a music festival- with the bins: should they leave or keep their job. Coca Cola owns 90% of this company

Are opportunities created or discovered?

- **Fruit seller narrative- discovery**
 - o A fruit seller in dessert saw the customers ask for water so he also sold fruits+water
 - o Rose water v/s Lemonade
 - o Lemonade won
 - o There was an **opportunity** and he **discovered** he can fulfil the opportunity so he **created** rose water/ lemon water and through **iteration** he made his product better.
- **TATA NANO- discovery**
 - o Entrepreneurs recognized the gap- an affordable car where the family could fit
- Thus opportunities are existing independent of the entrepreneur in the environment
- This is the **Discovery Theory** is based on the **Objectivist Principle**
- **APPLE IPOD- creation**
 - o They create a brand new opportunity endogenously
 - o “ Opportunities emerge from subjective cognitions of the entrepreneur- **Sarasvathy, 2009**
- **RELIANCE JIO- Opportunity discovered & created**
 - o **Discovery:** High internet prices and demand for low
 - o **Creation:** Creating a cheap smart phone for people to access the easily available internet. Thus tapping into a new audience

DISCOVERY THEORY

- Searching
- Scanning the environment to discover opportunities
- Produce new products and services

CREATION THEORY

- Opportunities do not exist to be searched
- Entrepreneurs create and exploit opportunities
- Dependent on Entrepreneur's actions

DISCOVERY THEORY	CREATION THEORY
Assumes imperfections will arise exogenously	Imperfections are created endogenously by the action of entrepreneur.
The imperfections arise due to – social, demographic, political or technology changes	Iteration through observations. Beliefs are transformed. No meaning of SEARCH .

Involves identifying opportunities in existing markets	Creation entrepreneurship involves starting a business from scratch
CAUSATION - discovery - Having a goal and moving towards it	EFFECTUATION - Effectuation - Having lego block and building something out of it initially not having any idea about what to build.
Only possible wrt an existing business context .	Possible in a non-existent or not-yet existent market .
Focused on making improvements to existing products or services	Involves more innovative and disruptive ideas.

Henry Ford- If he asked the people the people would have wanted faster horses and not cars.

Pierre Omidyar- When he launched **Ebay** it was his **hobby not his business** all he wanted was a **self-sustaining platform**.

	DISCOVERY	CREATION
1) Nature of opportunities	Opportunities exist independently of entrepreneurs	Opportunity emerges along with the entrepreneur's perceptions
2) Nature of entrepreneurs	Ex ante - based on forecasts rather than actual results	Ex poste - based on actual results rather than forecasts.
3) Nature of decision making	Decision making is subject to risk. Info can be asses to anticipate possible outcomes and their probabibility. INFO ASSESSED	Decision making context is uncertain. Information needed to anticipate possible outcomes or their probability is unavailable. NO INFO

LEADERSHIP

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
Leadership	Leadership
Based on expertise & experience	Based on charisma
Seeds in pre-existing industries, prior knowledge is vital	Leader has to inspire creativity and dedication under uncertain conditions

DECISION MAKING

<u>DISCOVERY CONTEXT DECISION MAKING</u>	<u>CREATION CONTEXT DECISION MAKING</u>
Entrepreneurs operate under conditions of risk	Uncertain setting exists
Risk based data gathering tools	Cannot rely on traditional data collection tools
Customer focus groups and survey	Importance of Biases and Heuristics
Risk based decision making	Iterative, inductive, incremental decision making
Importance of opportunity cost	Importance of affordable loss

HUMAN RESOURCE PRACTICES

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
Entrepreneurs anticipate specific skill required	Can not anticipate skills needed. Depends on opportunity they create
Specific human capital recruited	General and flexible human capital recruited pre-existing networks used.

STRATEGY PRACTICES

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
Sufficient ex-ante info is available to assess market size and potential returns.	Traditional forms of strategic planning may be harmful.
Relatively complete and unchanging	Emergent and changing

FINANCE

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
External capital source	Bootstrapping
Banks and venture capital	Family, Friends and Fools
Information asymmetries between an entrepreneur and its external capital sources is low	Don't face info symmetries
Access to low cost capital	

MARKET EFFECT

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
Marketing mix changes with as new opportunities manifest themselves	Marketing mix changes as new opportunities emerge
Exogenous shocks to an industry or market occurred	Exogenous shocks to an industry or market have not occurred
Can effectively specify the product, price, distribution channel, promotion strategy, and customer service strategies	Entrepreneur may alter the distribution model like with introduction of internet, or now AI

SUSTAINING COMPETITIVE ADVANTAGE

<u>DISCOVERY CONTEXT</u>	<u>CREATION CONTEXT</u>
Speed of execution	Tactic Learning
Secrecy	Act of creating leads to competitive advantage
Erecting Barriers to Entry	No need to erect barriers to entry

The perceived context of the entrepreneurs, whether of discovery or creation would determine the effectiveness of the actions taken by entrepreneurs.