

OPPORTUNITY-BASED NEW VENTURE CREATION: AN OPPORTUNITY, OUTCOME AND PROCESS (O-O-P) FRAMEWORK

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EXTENDED ABSTRACT

This paper develops a conceptual and functional opportunity-based framework for entrepreneurship theory and practice that ties the opportunity, outcome, and process (**O-O-P**) of a new venture at the *start-up* stage in *antecedent-end-mean* relationships. The role of *opportunity* (particularly its root-origin) in the *individual-opportunity nexus* (**IO-nexus**) notion (Venkataraman, 1997; Shane & Venkataraman, 2000) is rationalized as the *antecedent* of the *startup* phenomenon in terms of its *why*, *when*, *how*, and for *what outcome*. This paper submits as new contributions to entrepreneurship literature ‘regressionist’ epistemology as a fourth opportunity formation tradition, and the opportunity-hexadecadrant as an integrated platform for extending research, practice, teaching, and policy making.

New ventures drive economic development, innovation and job creation. The risks and potential for failure are high; yet as reflected in the oft-heard cliché ‘we go with out gut,’ there seems to be a lack of methodical approach and insight on startup venturing. Against this backdrop it will be beneficial for entrepreneurs to understand how best to orientate and manage the process of *starting up*, so that their new ventures can survive and grow.

Hitherto not much has been written on new venture creation as a *process*. Research studies providing insights on the startup phenomenon defer to ‘*entrepreneur*’ as the key driver of the IO-nexus. However, the sufficiency and criticality of the entrepreneur’s role, traits and characteristics have not been conclusively ascertained as some writers would like to argue (Casson, 2010). To plug the gap in knowledge, this paper submits ‘opportunity’ (particularly its root-origin) as the *antecedent* that determines the *why*, *when*, *how*, and for *what outcome* of the *startup entrepreneurial phenomenon*. Opportunity is a vital aspect of entrepreneurship (Alvarez & Barney, 2007; Buenstorf, 2007; Shepherd, McMullen, & Jennings, 2007) – it is the reason *why* a new venture is created to pursue opportunity as an “entrepreneurial event” (Bygrave, 1993, p. 257). Without opportunity, a startup venture lacks meaning and purpose, and the entrepreneur has no role. The new startup will have no basis to define its *venture outcome/s*, or the nature and orientation/direction of *what* entrepreneur does (Gartner, 1988).

We posit in this paper that the ontological nature of opportunity is foundational to the *antecedent-end-mean* framework of the startup venturing phenomenon, where the causal

relationships are in the order of *opportunity–outcome–process* (**O-O-P**). The O-O-P framework provides the context to *then* study the other determinants of startup venturing as mentioned. These other aspects do not alter the universality of the O-O-P causality patterns; they can however explain real world deviations from the posited relationships. The conceptual O-O-P framework is developed based on an extensive review of extant literature on entrepreneurship, in particular the seminal perspectives on opportunity as an entrepreneurship theme.

Brief background literature

Entrepreneurship. Considerable work has been done to define, explain and develop entrepreneurship as a field of study (Gartner, 1990). However, Shane and Venkataraman (2000) note that these studies have not been able to produce a conceptual framework capable of “explaining and predicting a unique set of empirical phenomena” (p. 217). In addition to the lack of agreement on the definition of entrepreneurship (Gartner, 1990) there is also the inability to develop models and theories built on the solid foundations from *other* social disciplines (Bygrave & Hofer, 1991). Additionally, there is reluctance among researchers even *within* the entrepreneurship domain to apply the work of their counterparts (Ucbasaran, Westhead, & Wright, 2001). The result is a myriad of determinant-based theories and research programs on *risk* and *uncertainty* (Knight, 1921), risk-taking and proactiveness (Miller, 1983), *arbitrage* and the ability to spot market imperfections (1973), profit-orientation (Cole, 1968), and innovation innovation (Drucker, 1985; Schumpeter, 1934). While *individually* interesting, these entrepreneurial aspects are not connected into a coherent conceptual framework for entrepreneurship process that reflects the dynamics of “numerous **antecedent** variables, and **outcomes** that are extremely sensitive to the initial conditions of these variables”(Bygrave, 1993:255). Moreover, each of the determinants captures only some aspects but not the whole picture of entrepreneurship which is “intertwined with a complex set of contiguous and overlapping constructs”(Low & MaacMillan, 1998:141). Bygrave (1993: 255) says that “some observers believe that the answer to entrepreneurship theory may be found in the *chaos theory*.

The role and importance of ‘entrepreneur’. A dominant seminal definition of entrepreneurship is the **IO-nexus notion** (Shane & Venkataraman, 2000) which views entrepreneurship as the “*joint characteristics* of the opportunity and the nature of the individual” reflected in the process of “how, by whom, and with what effects [or outcomes] opportunities to create future goods and services are discovered, evaluated, and exploited” (pp. 222 and 218, emphasis added). The process view of IO-nexus with its three stages of opportunity *discovery, evaluation, and exploitation (DEE)* (Eckhardt & Shane, 2010) is often

linked synonymously to the **DEE notion** in seminal works which is predicated on the *positivist-realist* or *discoverist* epistemological view of opportunity-formation (Alvarez, Barney, & Young, 2010). It treats the ‘opportunity’ element in the IO-nexus ‘*as is.*’ The individual *entrepreneur* is thus elevated to the antecedent role as ‘*the actor*’ in the entrepreneurial process (Ucbasaran, Westhead, & Wright, 2001). In this connection, research works based on the *entrepreneur* as an individual, his traits, socio-cultural background, or experiences have yielded controversial results. Low and MacMillan (1988:148) reason that “being innovators and idiosyncratic, entrepreneurs tend to defy aggregation . . . and any attempt to profile the typical entrepreneur is inherently futile. There are just too many variables that exist in the notion of ‘*entrepreneur*’ per se, so that “[t]hese studies—when taken as a whole—are inconclusive and often in conflict” (Stevenson, 2006, p. 2).

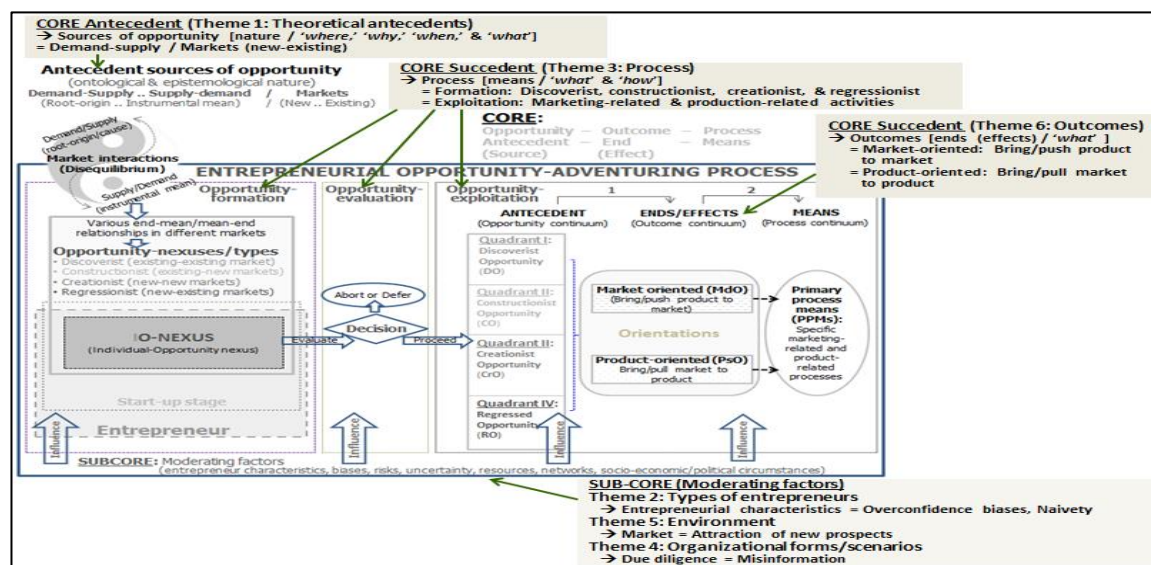
Entrepreneurial process. One direction that entrepreneurship research has taken is to shift towards *contextual* and *process* studies (Bygrave, 1993; Kuckertz, 2013; Low & MacMillan, 1988). Bygrave (1993) cautions however that, “The entrepreneurial process is a dynamic, discontinuous change of state. It involves numerous antecedent variables. It is extremely sensitive to initial conditions” (p. 255). The 2-dimensional perspective of the IO-nexus/DEE notion would have been an option to distill the antecedents for a general entrepreneurship framework. But as alluded to earlier, entrepreneur-based studies have been “generally . . . disappointing” (Ucbasaran, Westhead, & Wright, 2001, p. 4) and unable to offer sufficient validity or generalizable value.

Opportunity. If ‘entrepreneur’ is an insufficient explanatory factor, the alternative would be to cast ‘opportunity’ as the ‘other’ *initial condition* that gives *context* to *process-based* studies seeking to explain new venture creation. Scholars *value* opportunity as a vital aspect of the entrepreneurship phenomenon (Alvarez & Barney, 2007; Buenstorf, 2007; Casson & Wadeson, 2007 Apr; Kirzner, 1997; McMullen, Lawrence, & Zoltan, 2007; Shepherd, McMullen, & Jennings, 2007), and the reason for creating new venture as an “entrepreneurial event” (Bygrave, 1993, p. 257). As noted above, the IO-nexus/DEE notion’s discoverist position offers no clue on the ontology of *what* opportunity is, other than as a given. *Where* opportunity comes from is also one of the most neglected questions in entrepreneurship research (Venkataraman, 1997). Furthermore, the three *epistemological* traditions (i.e., discoverist, constructionist, and creationist) on opportunity formation in extant literature (Alvarez, Barney, & Young, 2010) are fragmented and semantically confusing to visualize. The *ontologies* and *epistemologies* regarding the *what*, *where*, *when*, and *how* of opportunity therefore require elaboration to be integrable into an opportunity-based startup framework.

Conceptual O-O-P Framework. What emerged from the literature review is that *opportunity* can serve as the cause and effect for the entrepreneurial process. After all, ‘*opportunity*’ is the antecedent cause for starting a venture, the *object* of *what* the entrepreneurs do (Gartner, 1988), and the *subject* (or the *end*, or *effect*) of *how* a startup venture conducts its entrepreneurial ‘*process*’ to achieve the *venture outcome* as the end effect. Opportunity therefore defines the parameters, yet allowing the startup process to be in a discontinuous change of state. There is justification therefore to consider *opportunity* as the most critical antecedent of the IO-nexus for researchers to construct a framework on entrepreneurship. This paper’s *opportunity-based* approach to a parsimonious general conceptual framework on entrepreneurship resonates with academic scholars like Drucker (1985) and Vesper (1991).

Overview of the conceptual O-O-P framework. Based on the discussion above, the *antecedent-end-mean* causal relationships and orientations for the a priori conceptual O-O-P framework are *operationalized* by the *core factors* in the order of *opportunity–outcome–process* as depicted in Figure 1.

Figure 1. Conceptual O-O-P framework



The core factors (opportunity, venture outcome, and process) of opportunity-based startup venturing have orientations that can be related back to the root-origin of the opportunity. Against this core set of O-O-P causal relationships, real-world deviations/distortions caused by other subcore variables can be examined and explained. The subcore moderators can include, without limitation, the different types of entrepreneurs (including their characteristics, biases, over-confidence) undertaking the startup process, organizational scenarios (resource constraints, resource acquisition and competitive strategies selected by entrepreneurs,

organizational modes/structures selected by entrepreneurs, networks, and information search and learning), and other external environmental factors (like risks, uncertainty, and social, economic and political circumstances). As structured in this paper, the conceptual O-O-P framework with its core and subcore thematic typology covers all the six entrepreneurial themes taxonomized by Ucbasaran, Westhead and Wright (2001).

The analysis presented in this paper demonstrates that the opportunity-based conceptual O-O-P framework depicted above is capable of providing a *parsimonious* but *holistic context* that is operationalized for entrepreneurship research, teaching, practice, and policy decisions on startup venturing as a process. The accuracy and precision of this paper's descriptions and explanations in regard the causality linkages of *core* opportunity–outcome–process factors will need to be verified against (a) the *nature* of *what* the *ends* and *means* are for a startup venture with a particular type of opportunity, and (b) the *functioning* in terms of *how* the startup *processes* unfold *over time* in the real world.

This paper shows that the *core* opportunity–outcome–process factors for the conceptual O-O-P framework can be deduced *naturally* from the extant stock of seminal knowledge without needing rigid assumptions or hypotheses, *stripping of context*, or compromising an *inclusionary* analytical structure that provides for the moderating effects of subcore variables. The *theoretical rigor* and *relevance* (in terms of *applicability* and *analytical generalizability*) of the conceptual O-O-P framework have not been compromised. Hence a conventional or positivist paradigm of research inquiry (Schwandt, 1994) will be appropriate, with the research methodology's epistemology that guides the gaining of knowledge being one of providing a literal account on how the startup venturing phenomenon unfolds as an opportunity-based process over time.

The startup stage is temporary but crucial to the transition of venture into a viable business. It is the most intense and tumultuous phase for a venture trying to start up and lay the foundation to pursue the opportunity. This paper applies a *logical-deductive* approach without involving rigid assumptions or complex hypotheses to *conceptualize* and *operationalize* the O-O-P framework with *opportunity* as the reason and driver in the startup process. In explaining the startup phenomenon, the O-O-P framework submits the ontology of opportunity, a key feature of entrepreneurship research (Davidsson, 2004), and the conceptual underpinnings of *how* the opportunity is *formed*, *how* the relevant *outcomes* (or *ends*) are determined, and *how* the *processes* of opportunity-exploitation are *oriented* to deliver the *means* to achieve the outcomes.

REFERENCES available upon request.