Beyond traditional developmental models: a fresh perspective on entrepreneurial new venture creation

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Abstract: Opportunity discovery and creation are key areas of research in entrepreneurship literature. Based on the ongoing discussion, this paper proposes an integrative view of a dynamic multi-stage new venture emergence. In particular, the findings of our research show how to match these approaches with the life cycle stages of an emerging venture. This paper contributes to existing entrepreneurship research by acknowledging the value of parallel sequential process combinations, by including customer demand as part of a market participant’s selection criteria, and by recognising failure as valuable outcome. The implication for entrepreneurs is that, beyond discovering a potential venture idea, substantial development efforts are required to form a sustainable business model. For entrepreneurship research, our model is a first step towards an integrative discussion of new venture emergence aimed at fostering further research and the advancement of new theoretical insights.

Keywords: new venture creation; new venture emergence; opportunity discovery; opportunity creation; effectuation; causation; developmental process model; entrepreneurship.


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1 Introduction

Despite the large number of existing developmental models describing how new ventures are created and developed, little information is available about new venture emergence; hence, this topic remains a major research challenge in the field of entrepreneurship (Rasmussen et al., 2011). At this time, “much more theoretical work is needed to map a course of study and adequately develop boundaries unique to the entrepreneurship domain” [Busenitz et al., (2003), p.303].

Following this call for more theoretical insights, we created a conceptual framework of new venture emergence based on previous empirical and theoretical considerations. This article is organised in three sections, beginning with Section 1, which discusses the differentiation between opportunity discovery as a realist approach and opportunity creation as an evolutionary approach to new venture creation, viewed through the causation versus effectuation lens of Sarasvathy (2001). Based on this differentiation, we suggest a conceptual framework that presents these opposing points of view as opposing ends of a continuum, and use this perspective as a foundation for our proposed emergence framework. With this framework, which is presented in Section 2, we contribute to the “balancing act on a multi-dimensional seesaw of theory” [Alvarez et al., (2010), p.39] associated with the issue and respond to the call for an integrative perspective regarding the formation of entrepreneurial opportunities (Sarasvathy et al., 2010). Section 3 summarises the proposed conceptual new venture emergence framework in light of the opportunity-based theory of entrepreneurship and discusses different avenues for further research.

In short, this paper provides additional insight into the linkage between opportunity discovery, creation, and exploitation.
2 New venture emergence in light of the opportunity-based theory of entrepreneurship

In order to comprehend our approach towards new venture emergence, it is essential to have a clear understanding of the importance of entrepreneurial opportunities in entrepreneurship research. After contrasting opportunity discovery – a realist approach to new venture creation – with opportunity creation, – an evolutionary approach to new venture creation – we suggest a model combining opportunity discovery and creation in a continuous perspective as a foundation for our proposed conceptual framework.

2.1 Opportunity discovery: a realist approach to new venture creation

The successful start-up of a new venture requires judgmental decision making from the entrepreneur based on scarce information. The entrepreneur is forced to make conjectures, and, because future events cannot be predicted, these conjectures are inevitably uncertain (Shane, 2003). The neoclassical theory of entrepreneurial behaviour ties in with this uncertainty issue and argues that risk is a random variable with knowable probabilities. Conversely, uncertainty is a random variable with unknowable and therefore unpredictable probabilities. The role of the entrepreneur is to bear the uncertainty and benefit from the profits generated by uncertain decisions (Knight, 1965). The theory argues that all entrepreneurs are risk neutral and have equal access to the same risky ideas or technologies. Based on the definition of profit, business opportunities are seen as market divergence between revenue and cost in market disequilibrium states. Entrepreneurs make the optimal imperfect decisions when considering whether to exploit these business opportunities. The neoclassical perspective assumes that the entrepreneur is always and everywhere a maximiser, evaluating all alternative opportunities in order to allocate resources in an equilibrating manner. The entrepreneur is especially eager to maximise the subjectively expected utility derived from risk bearing (Endres and Woods, 2006; Roncaglia and Labini, 2008). However, in the end, in the neoclassical perspective, the entrepreneurial firm is reduced to a production function and the transformation process from input to output can be seen as a black box, which makes the approach unable to explain various real-world business practices like vertical and lateral integration, franchising, mergers, etc. (Foss and Klein, 2005). While there is no doubt that entrepreneurs need to make extensive decisions in uncertain environments, reducing the entrepreneurial process to a black box is surely short-sighted. It takes more than luck to be successful as an entrepreneur and truly maximise the individual utility.

The Austrian theory of entrepreneurship, in contrast to the neoclassical theory, disputes the assertion that profit opportunities are equally accessible to everybody and are found by pure luck (Endres and Woods, 2006). This theory views the entrepreneur as an ‘alert’ individual who actively seeks opportunities. The willingness to bear entrepreneurial risks is not sufficient to distinguish entrepreneurs from the workforce or managers. Consequently, alertness is a core element of the Austrian theory, expressed as the ability to evaluate existing opportunities and forecast the potential gain associated with the opportunity (Endres and Woods, 2006; Gaglio and Katz, 2001; Kirzner, 1973, 1989). The influence of alertness on entrepreneurial success and opportunity identification is also the subject of various empirical studies. Ardichvili and Cardozo (2000), for example, showed that a high level of entrepreneurial alertness is associated with successful opportunity identification.
In summary, the new venture discovery theory is based on a realist philosophy describing market imperfections as ‘exogenous shocks’ created independently of the entrepreneur. Entrepreneurial opportunities are objective phenomena waiting to be discovered by ‘alert’ individuals differing ex ante in some ways from non-entrepreneurs (Alvarez and Barney, 2007). Neoclassical as well as Austrian theories assume that entrepreneurial opportunities exist ex ante. The discovery perspective shows two very important characteristics of successful entrepreneurs:

1. they are ‘different’ and ‘alert’ individuals able to identify and envision business opportunities

2. they are able to choose the most promising opportunity when more than one option arises.

Still, one question remains unanswered by the realist approach to new venture emergence. What happens after the opportunity is selected? The move from opportunity discovery towards a successful new venture remains a black box. To overcome this shortcoming, evolutionary approaches towards entrepreneurial opportunities go beyond alertness and provide a more dynamic perspective on opportunity emergence.

2.2 Opportunity creation: an evolutionary approach to new venture creation

As proposed by Schumpeter (1983), evolutionary approaches to new venture creation feature opportunities that need to be enriched with new information, expanding the available knowledge. This gain of information leads to a cognitive-driven opportunity creation process reflected in various modern, behaviour-oriented theories (Baron, 2008; Mathews, 2008). In the context of technology-driven firms, Siegel and Renko (2012) refer to these opportunities as stemming from technological knowledge (science push), in contrast to the opportunity discovery elaborated above, which stems primarily from knowledge about customers and markets (market pull). By linking insights from endogenous growth theory with entrepreneurship and the philosophy of science, Sanders (2007) argues that the commercialisation of this new knowledge is a driver of economic growth. Schumpeter’s (1950, 1983) concept of ‘creative destruction’, emphasising the disequilibrating power of new information, marks the advent of current theorising, centring around knowledge and cognition. Schumpeter further breaks with the neoclassical theory by distinguishing between the entrepreneur and the capitalist. In his opinion, an entrepreneur does not necessarily own the capital to run the firm (Foss and Klein, 2005). This perspective is in line with modern venture capital-financed start-ups, where entrepreneurs are more likely to ‘manage’ than ‘own’ the businesses they are setting up.

An example of such an approach to new venture creation comes from Mathews’ (2008) suggestion of a ‘personalistic cognitive platform model’. This framework is based on cognitive processes and the unique traits of an entrepreneur, who actively scans the environment for new inspirations and creates new ventures by transforming these inspirations into viable opportunities. The cognitive approaches see entrepreneurial opportunities “as contingent on the degree of ambiguity in the environment and on the ability of social actors to develop the mental models needed to interpret and define them as opportunities” [Companys and McMullen, (2007), p.305]. In this regard, Casson and Wadeson (2007) take an interesting perspective by comparing entrepreneurial
opportunities with projects. They argue that individuals select and invest their scarce resources only in ‘projects’ meeting the pre-defined criteria for success. In other words, according to behavioural theories, entrepreneurs have the ability to construct mental representations of profit opportunities in the market that are not visible to other market participants. This ability becomes even more relevant because many opportunities emerge out of environmental shifts and changes. In this context, the entrepreneur is challenged to choose appropriate strategies leading to products and services that will accommodate changing market demand (Mitchell et al., 2007). Thus, entrepreneurial abilities go beyond the identification of opportunities that are concealed from other individuals. The true strength of the entrepreneur is the cognitive capability to proactively shape a business opportunity.

The key to the discovery of venture ideas and their development into fully-fledged business opportunities is the knowledge of the entrepreneurial team. This knowledge as an ‘enabling factor’ is therefore a crucial element of the new venture creation process (Ihrig et al., 2006). Based on human capital theory, this knowledge can vary significantly among individuals because of contrasting life experiences (Baron, 2007; Becker, 1964; Halpern, 2005). Ardichvili and Cardozo (2000, p.107) showed that “prior knowledge creates a ‘knowledge corridor’ which allows entrepreneurs to recognise certain opportunities, but not others”. Siegel and Renko (2012) showed that it is necessary for entrepreneurs to combine different types of knowledge to carefully select a venture idea and develop it towards a business opportunity. They argue that knowledge of new technology needs to be paired with market knowledge when it comes to opportunity recognition and exploitation. As we will discuss later, knowledge or anticipation of market needs are essential when it comes to successfully establishing the business model. However, it takes more than prior knowledge to come up with an idea for a new venture: entrepreneurial creativity, which can be defined as “the generation and implementation of novel, appropriate ideas to establish a new venture” [Amabile, (1997), p.20], is an important complementary premise for the formation of entrepreneurial opportunities (Baron, 2007). Taking a more holistic perspective on creativity in an entrepreneurial context, Fillis and Rentschler (2010) see a clear link between creativity and innovation, finding that creativity serves as a source of competitive advantage leading to successful ventures, not only monetarily but also provides an advantage in the creation of social wealth.

For the new venture creation process, this implies – contrary to the discovery theory – that entrepreneurial opportunities need to be developed in a continuous proactive process by entrepreneurs (Ardichvili et al., 2003). In other words, new ends “emerge endogenously within a process of interactive human action (based on heterogeneous preferences and expectations) striving to imagine and create a better world” [Sarasvathy et al., (2010), p.90] and, of course, to generate profit. The foundation for this endogenous drive is the cognitive ability of the individual entrepreneur (Alvarez and Barney, 2007). Using bricolage, entrepreneurs even manage to create a viable outcome from virtually nothing by merely employing the resources at hand (Baker and Nelson, 2005).

Opportunity creation theory, in contrast to discovery theory, specifies that opportunities cannot exist independently from the entrepreneur but, instead, emerge through a creation process. Many successful start-up companies have shown that the true driver of success lies in the implementation and not the discovery of a business opportunity. For example, without the sophisticated combination of entrepreneurial spirit, knowledge, creativity, and external funding, a company like Facebook would never have
been able to grow from an ivy-league college directory to a venture with more than one billion members that was worth almost $150 billion at the end of 2013.

2.3 Combining opportunity discovery and creation in a continuous perspective

A recent approach contrasting the different new venture creation theories comes from Sarasvathy (2001), who distinguishes between a realist ‘causation’ and an evolutionary ‘effectuation’ approach: “causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means” [Sarasvathy, (2001), p.245]. Put differently, the causation entrepreneur carefully screens the environment and gathers all necessary resources to achieve the defined goal of the new venture. The effectuation entrepreneur, on the other hand, tries to achieve the best possible result with the resources at hand. In an evolutionary approach, this could lead the entrepreneur to varying outcomes for the new venture, some or all of which might differ significantly from the generalised end goal. This is consistent with the definition of entrepreneurial opportunities as a “set of ideas, beliefs and actions that enable the creation of future goods and services in the absence of current markets for them” [Sarasvathy et al., (2010), p.79]. Since the entrepreneur has the opportunity to change, shape, and constructs goals along the way, as well as capitalise contingencies as they arise, Sarasvathy (2001) suggests the effectuation approach especially for new or emerging markets or ventures with very limited resources. Instead of trying to predict an uncertain future and calculate an expected return, the effectuation approach focuses on controlling an unpredictable future and identifying an acceptable level of loss. Chandler et al. (2011) came up with empirical evidence supporting the efficiency of the effectuation logic to deal with uncertainty by showing that causation is negatively associated with uncertainty, while experimentation – which they define as a sub-dimension of effectuation – shows a positive correlation.

In contrast to the output-dependent realist approach, the entrepreneurial process in effectuation logic can be described as actor-dependent (Corner and Ho, 2010). This perspective underpins the role of the entrepreneur as a ‘maker’ determining what and how things will come to be in new venture creation (Sarasvathy, 2004). Similarly, Klein (2008) argues that opportunities are neither discovered nor created, but rather are imagined and exist only in the minds of entrepreneurs. Opportunities “can be treated as a latent concept underlying the real phenomenon of interest, namely entrepreneurial action” [Klein, (2008), p.176].

Read and Sarasvathy (2005) interpret effectuation as a form of entrepreneurial expertise. Due to greater levels of knowledge and experience, expert entrepreneurs are more likely to use effectuation logic when selecting solutions based on the means available. Furthermore, they are more likely to control the environment, in which they operate, rather than to try and predict it. On the other hand, novice entrepreneurs, lacking in knowledge and experience, are more likely to use causation logic by setting goals and assembling the necessary means to achieve them. However, in the case of bootstrapped start-ups – characterised by a scarcity of resources – even novice entrepreneurs might be forced to use effectual reasoning. In this regard, Dew et al. (2009) compared experienced entrepreneurs with MBA students – representing novice entrepreneurs – and confirmed that entrepreneurial experts are more likely to resort to ‘effectual’ logic and that novices more often use ‘causal’ logic in their entrepreneurial decision-making processes.
Similarly, Harms and Schiele (2012) showed that, from an international new venture creation process perspective, experienced entrepreneurs are more likely to resort to effectuation. Read and Sarasvathy (2005) propose, however, that there is a general shift towards causal reasoning in the life cycle of a company, regardless of the experience level of the entrepreneur. The effectual approaches that are responsible for success and growth in the start-up phase are incompatible with the static and causal environment of more mature companies. In other words, effectuation becomes less appropriate as a start-up becomes increasingly ‘corporate’ and, therefore, increasingly causal.

This discussion of effectuation and causation logic is relevant to the ongoing debate over venture discovery and creation. Following Bingham et al. (2007), who suggest that opportunity capture is not a question of discovery or creation of opportunities, but is about selecting appropriate venture ideas and translating them into business opportunities, we propose a model combining realist, causal logic with evolutionary, effectual logic that is dependent on the stage of organisational development (see Figure 1).

**Figure 1** Combining opportunity discovery and creation in a continuous perspective

By using an approach combining the two opposing viewpoints, we have created a sound framework for the strategic orientation of emerging ventures. The continuous perspective suggests that start-ups resort to evolutionary, effectual logic regardless of their resource supplies. This is in line with the evolutionary perspective discussed earlier, which might lead an established company to vary significantly from the original business model of the start-up. Consequently, the question of whether entrepreneurial opportunities are created or discovered becomes redundant. As Bingham et al. (2007) suggest above, the premise for a successful start-up is a venture idea. Since this idea is not necessarily equal to the entrepreneurial opportunity, its origin is insignificant. In other words, to establish a successful new venture, an initial spark stimulating the new venture creation process is necessary. In order to maximise the outcome with the given resources, entrepreneurs should adopt the effectuation approach in the early stages of organisational development. This provides the necessary flexibility to change the business model fundamentally, if necessary. Despite the clear focus on evolutionary, effectual logic, entrepreneurs should also pay some attention to realist, causal approaches in this early stage of organisational development. To some degree, planning and forecasting force the entrepreneur to constantly evaluate his or her business model and the various options that might arise and, at the same time, can assist the entrepreneur in his or her decision making. With the increasing success and growth of the new venture, the final business model or entrepreneurial opportunity emerges. In fact, as the venture becomes increasingly ‘corporate’, realist, causal logic becomes unavoidable in order to manage the increasingly complex structures. Nevertheless, even mature companies would do well to turn to
evolutionary, effectual logic periodically in order to stay competitive and to ensure the ongoing growth of the venture.

The role of the entrepreneur as a filter, selecting certain strategic opportunities and transforming them into commercialised outputs, can also be found in a current approach linking entrepreneurship with innovation management. From this perspective, the process from initial idea management over opportunity recognition, opportunity research, idea development, and commercialisation to diffusion can be seen as a continuum between innovation and entrepreneurship. This process shows the rather fuzzy transition from innovation-driven idea management towards entrepreneurial-driven commercialisation and diffusion of the selected entrepreneurial opportunities (Brem, 2011). Our review of the literature can be summarised with the following propositions:

- **Proposition 1:** In the early stages of organisational development, a start-up should resort primarily to evolutionary, effectual logic to optimise the use of the available resources. However, the planning that comes into play with the use of realist, causal logic, can be useful for evaluating possible alternatives along the way.

- **Proposition 2:** As the new venture becomes increasingly ‘corporate’, realist, causal logic is inevitable. However, to some extent, evolutionary, effectual logic is extremely helpful in order to stay innovative and competitive in the long run.

### 3 Taking a multi-stage approach towards new venture emergence: introduction of a conceptual framework

In order to create a sound new venture emergence model, it is necessary to integrate this continuous perspective with the new venture emergence process. After identifying the limitations of traditional developmental models, we will propose a dynamic conceptual framework regarding the success or failure of new ventures based on the continuous new venture emergence perspective.

#### 3.1 Shortcomings of traditional developmental models

In their current literature review on entrepreneurial process models, Moroz and Hindle (2012) differentiated between four types of entrepreneurial process models:

1. static frameworks, capturing the overall process
2. stage models, compensating for the lack of static frameworks by considering sequential processes
3. process dynamics models, showing the influence of context and process variations on the outcome
4. quantification sequence models explaining new venture emergence based on a historical sequence [please refer to Moroz and Hindle (2012) for a detailed description and comparison of the available theoretical and empirical literature on entrepreneurial process models].
Static and stage models represent the majority of the process models currently available. Developmental models can be classified into four types: industry, large-business, small-business and general growth models (Scott and Bruce, 1987). Industry growth models focusing on the product life cycle and large-business growth models dealing with large, multidimensional and geographical decentralised units are suitable to a limited extent for explaining new venture emergence. Since the general growth models are very broad in scope, however, probably the best way to investigate new venture emergence is with small-business growth models. Churchill and Lewis (1983), for example, suggest a five-stage model in which the strategic focus of the company develops from pure existence, through survival-, success-, and take-off-phases, and finally, to resource maturity. Another classic approach comes from Webster (1976), which takes the life cycle of the firm into consideration and describes a ‘knothole’ as a critical moment in the creation process that determines the success or failure of the venture.

An early meta-analysis by Quinn and Cameron (1983) provides a good integration – which is still valid today – of linear developmental models. Their four-stage integrative model starts with an entrepreneurial stage characterised by little planning and coordination as well as marshalling of resources. The next stage, collectivity, goes along with high commitment and a sense of mission and collaboration to drive the innovation towards a marketable product. In this stage, the internal structures and communication channels are rather informal. In the formalisation and control stage, procedures become more institutionalised and rules more formalised. In order to preserve stable structures, the emphasis at this point is on efficiency, maintenance, and conservatism. To ensure long-term competitiveness, the last stage, elaboration and structure, aims at domain expansion, adaptation, and renewal in a decentralised, elaborated organisational setting.

As Eckhardt and Ciuchta (2008) point out, most linear developmental models are not complete, however, since they neglect the selection criteria of market participants. They suggest an evolutionary multi-stage selection process that evolves over time and includes the possibility for entrepreneurs

1 to innovate in response to customer demands

2 to modify the customer demand by introducing new products or services and thereby transforming customer demands

3 to engage in specific organising actions to exploit an opportunity.

In other words, in order to become embodied in markets, a business opportunity must be selected by one or more entrepreneurs and subsequently be selected by the market. The success of a new venture depends on the congruence of the selection criteria of the founder and the market. This perspective expands the discovery vs. creation discussion debated in the last section by adding second discovery level. After an opportunity has been discovered and chosen by an entrepreneur, customers need to discover and choose the offered product.

Another critique of traditional developmental models is the proposition that the new venture emergence process involves parallel sequence combinations not captured by linear development models (Moroz and Hindle, 2012; Reynolds and Miller, 1992).
Similarly, Moroz and Hindle (2012) caution that it is not possible to fit the temporal order of events into – often overlapping – stages. Moreover, Corner and Wu (2012) found limited empirical evidence for linear developmental models. According to them, entrepreneurs can be seen as improvisers, enacting multiple development stages simultaneously. This combination of sequences cannot be captured by traditional, linear developmental models and has to be understood rather as a nonlinear, iterative, messy process characterised by improvisation, bricolage, and effectuation. Similarly, Liao et al. (2005) criticise the focus of most existing research on linear emergence processes and propose new venture gestation as a complex nonlinear process, with little evidence of developmental stages. Their perspective on the new venture creation process is centred on gestation activities, resembling key milestones such as purchasing raw material or hiring employees.

Although it is beyond question that new ventures emerge in stages of some sort, the apparent weaknesses of the traditional developmental models elaborated above cannot be disregarded. In the next section, we propose a model based on the developmental stages while considering the various parallel and sequential emergence options that are dependent on the acceptance by and interaction with market participants.

3.2 Our dynamic conceptual framework regarding the success or failure of a new venture

Our proposed framework starts with the discovery and selection of the venture idea. From there, the creation process – which is especially challenging in new industries, where entrepreneurs cannot simply follow the pioneered path of many predecessors (Aldrich and Fiol, 1994) – begins. The entrepreneur proactively shapes the venture idea into a promising business opportunity in interaction with the environment. While flexibility is necessary at this early stage, business planning can lead to a clearer identification of the action steps needed to reach important goals and to better manage resources (Matherne, 2004).

When the strategy is set, the new venture is on the brink of a very important stage. The skill of the entrepreneur in positioning the new product or service in the market and, above all, customer acceptance, determine the success or failure of the new venture. Following Webster (1976), this critical market selection step is referred to as a ‘knothole’. As shown in Figure 2, depending on the market feedback, three alternative scenarios are possible:

1. exploitation – the opportunity is successfully exploited and becomes manifested in a revenue model
2. alteration – in the process of opportunity refinement and market interaction new or altered business opportunities emerge
3. cancelation – the anticipated market acceptance fails to materialise and the venture flops.
As we propose a framework, which is not necessarily sequential, these three scenarios do not preclude one another and might, in fact, occur simultaneously. It is possible, for example, that in the process of opportunity refinement, the entrepreneur manages to successfully position the product or service in the market and at the same time initiates the development of a subsequent or altered product or service based on the experience gained. Below is a more in-depth look at each stage.

In the best case scenario, the opportunity is successfully exploited and becomes manifested in a business model. Alternatively, as Amit and Zott (2001, p.511) put it: “A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”. This definition underscores opportunity exploitation as a separate activity, going beyond the mere perception of entrepreneurial opportunity discovery (Siegel and Renko, 2012). From there, various factors determine the future development of the cycle; mechanisms that limit imitation or slow the transmission or recognition of information are especially likely to prolong the life of the opportunity (Eckhardt and Shane, 2003). Nevertheless, regardless of the life expectancy of the entrepreneurial opportunity, a constant effort towards product refinement is necessary to ensure the long-term competitiveness of the new venture. As mentioned above, this alteration scenario can occur instead of or parallel to successful opportunity exploitation. Sleptsov and Anand (2008), for example, proposed a symbiotic relationship between information gathering and information processing capabilities in order to discover, create, and exercise entrepreneurial opportunities effectively. As discussed earlier in the contribution from Eckhardt and
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Ciuchta (2008), this alteration process allows the founders to respond to customer demand for innovation. Alternatively, as Buenstorf (2007) argue, entrepreneurial opportunities can be the unintended outcome of competitive market processes. He illustrates his point with the example of Zeiss, Germany’s leading optics firm, which began in a small mechanical workshop. The competitive environment, along with customer demand, forced the founder, Carl Zeiss, to move beyond selling conventional microscopes. By collaborating with Ernst Abbe, who substantially improved Zeiss’ products by his theoretical advancements in the underlying laws of optics, Zeiss was able to offer superior products and created the opportunity for selling theory-backed microscopes. This example shows how entrepreneurs are influenced by a surrounding ecosystem. In this regard, Jack and Anderson (2002) emphasise the importance of being embedded in social structures. Embedding helps an entrepreneur cope with the new structural context by gaining credibility, experience, and knowledge. Moreover, viewed through a socio-political lens, entrepreneurial opportunities can only be exploited if entrepreneurs mobilise their network resources (Companys and McMullen, 2007).

Conversely, using the definition of entrepreneurship “as the process of creating value for business and social communities by bringing together unique combinations of public and private resources to exploit economic, social or cultural opportunities in an environment of change” [Fillis and Rentschler, (2010), p.50], an entrepreneur also gives something back to the social structures in which he or she is embedded. Similarly, De Carolis and Saparito (2006) argue that entrepreneurial behaviour is interplay between environment and individual cognition via dimensions like structural holes, weak ties, common language, and trust. Therefore, if the exploitation or alteration of an opportunity is seen as a creative process propelled by contextual and social influences, an entrepreneur depends on external stimulation from its network (Dimov, 2007).

This interaction is not only limited to customers and other market participants. Along with the observation that fast-growing ventures are much more likely to be founded by an entrepreneurial team, it has become obvious in recent years that the “romantic notion of the entrepreneur as a lone hero” [Cooney, (2005), p.226] is no longer relevant. Especially in high-tech industries, the founding of a new venture by more than one person is a widespread phenomenon (Henneke and Lüthje, 2007), and especially fast-growing ventures are likely to have been founded by an entrepreneurial team (Cooney, 2005). If a firm is considered a collection of productive resources, a new venture significantly benefits from the evolving links and relationships among the involved individuals, assets, and resources (Freiling et al., 2008; Penrose and Pitelis, 2009). In particular, interdisciplinary teams enable members to pool different types of knowledge and skill, which provides the team with ‘bridges’ to various external sources of knowledge and resources (Adler and Kwon, 2002; Henneke and Lüthje, 2007). In this context, various team characteristics such as conflict, friendship, and leadership affect the venture creation process (Chen, 2007; Foo et al., 2005; Francis and Sandberg, 2000).

The principal factor determining the success of a new venture is its ability to effectively deal with opportunities and to motivate all associates in a dynamic organisational setting (Darling et al., 2006; Foo et al., 2005). In the very early stages of a
new venture, the main characteristic of this dynamic process is the attempt of the team to redefine and modify the business model and acquire the relevant resources necessary for implementing it. This problem-solving process is assumed to turn an informal group into an entrepreneurial team (Kamm and Nurick, 1993). Moreover, these interdependencies among people are the substance of organisations and determine the successful development from a venture idea to a business opportunity (Weick, 1979).

In the worst case scenario, the anticipated market acceptance of the identified and (jointly) developed opportunity fails to appear and the venture flops. Another reason for failure could be the fact that the “founders fail to develop trusting relations with stakeholders, are unable to cope with opposing industries, and [do not]... win institutional support” [Aldrich and Fiol, (1994), p.664]. Failure might also occur because of imperfect or incomplete exploitation as well as strategic or tactical errors, potentially leading to an under-exploitation of entrepreneurial opportunities and allowing competitors or new ventures that recognise the potential resulting from failure to take advantage of these opportunities. The successes of Microsoft and Intel, for example, are based on the decision of IBM to outsource operating system software and microprocessors (Plummer et al., 2007). Building on McGrath’s (1999) criticism of a preoccupation with achieving success and avoiding failure in entrepreneurship research – which has led to an anti-failure bias – we included failure, not as a desirable outcome, but as a possible scenario. Influenced by Fama and Miller (1972), McGrath (1999) compared entrepreneurial opportunities with financial options and found that the expected upside rises as the volatility of the underlying asset increases, while the access cost remains constant. The key issue, therefore, is “not avoiding failure but managing the cost of failure by limiting exposure to the downside while preserving access to attractive opportunities and maximising gains” [McGrath, (1999), p.16]. In other words, failure is an undesirable but essential part of the entrepreneurial process. As Yusuf (2012) argues, the important aspect of failure is to recognise when to disengage from an entrepreneurial opportunity. What Yusuf (2012) calls ‘intelligent exit’ refers to a decision to disengage based on either causal or effectual learning. This exit may occur quite early in the start-up phase of a new venture.

This reasoning has two very important implications for our conceptual framework: first, deviations in the planned emergence process are vehicles for testing assumptions in order to contain costs and redirect resource flows so that failure can be avoided. Second, the knowledge gained from failures provides essential input for later successes by reducing technical and market uncertainty. In fact, preventing failure might actually lead to sacrificing an opportunity (Maidique and Zirger, 1985; Sarasvathy, 2004). While the offered product or service may not have been congruent with current market acceptance, these failed business opportunities are important, as they remain in the pool of possible opportunities available for future exploitation, when customers’ demands have matured or changed (Eckhardt and Ciuchta, 2008). Despite the failed business opportunity, the established organisational structure can persist and the already assembled entrepreneurial team can tackle a promising new entrepreneurial opportunity (Patzelt et al., 2006). The online payment service PayPal is an example of how a ‘new’ opportunity can come from an enhancement of the original – failed – opportunity. Before PayPal became a successful company (and was subsequently sold to eBay for $1.5 billion), Max Lechvin failed in his attempts to start a venture selling encryption technology for handheld devices or cryptography software. It took Lechvin seven attempts to find his breakthrough opportunity: an encryption technology allowing shoppers to safely pay for their online
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This is consistent with Saravathy’s (2004, p.520) assertion that “firm failures may be important inputs into entrepreneurial success, both at micro (individual) and macro (the economy) levels of analysis”. Failed opportunities have an important positive effect on the economy at large, allowing the involved entrepreneurs and future would-be entrepreneurs to learn from these examples and use the knowledge to come up with smarter solutions (Davidsson, 2005).

3.3 Realist causal logic and evolutionary effectual logic reflected in the conceptual framework

As outlined above, the exploitation of an entrepreneurial opportunity is a crucial stage for a new venture. When the path towards a successful business model is rough, possibly leading to alteration or cancelation, evolutionary, effectual logic is especially relevant to maintain the necessary flexibility. However, increasing economic success and mobilisation of essential resources creates the need for an organising process in the newly founded venture (Aldrich, 1999). As indicated above, the start-up of a new firm is generally a collective achievement (Van De Ven et al., 1984), and the entrepreneur needs to establish an organisation in order to exploit a business opportunity successfully. “This process – called organising – involves creating routines and structures that will be used to recombine resources into the product or service sold to customers, and to create the entity that will undertake the recombinatory activity” [Shane, (2003), p.220].

According to Weick (1979), organisations come in all sizes. Furthermore, he points out that micro-organisations – typically representing the organisational structure of a start-up – deserve close attention. By taking a dynamic perspective on venture creation, organising can be seen as a process and not as a state. Organising is a perpetual activity that includes tasks such as setting up a production process, obtaining equipment, hiring employees, and establishing a legal entity (Shane, 2003). The activities connected to the organising process lead to a “workable level of certainty” [Weick, (1979), p.6]. Organising facilitates interaction and communication in the entrepreneurial team. By attributing certain identities and prescribing certain patterns of behaviour, organisations begin to behave in predictable ways (Ahrne et al., 2007). Ultimately, organising is a key element in orchestrating the resources necessary to prepare for the successful exploitation of a business opportunity and in facilitating the cooperation of the entrepreneurial team. As the new venture moves towards successful exploitation of the identified opportunity and organisational structures emerge, evolutionary, effectual logic is superseded by realist, causal logic. Our conceptual framework suggests two additional propositions, which future research should take into consideration.

- **Proposition 3**: An entrepreneur or entrepreneurial team needs to discover or anticipate an unmet market need and proactively shape this venture idea towards a promising business opportunity. The market feedback and the ability of the founders to develop trusting relationships, cope with opposing industries, and gain institutional support determine the
  a) exploitation
  b) alteration
  c) cancelation of the identified opportunity.
Proposition 4: Failed business opportunities are of great importance: they allow future entrepreneurs to check the feasibility of their anticipated ventures and might even be – with respective adjustments – potential sources of future opportunities.

4 Conclusions

The questions of whether successful business opportunities are created or discovered, and whether evolutionary, effectual logic or realist, causal logic is the key to entrepreneurial success, may never be fully answered. However, by taking a closer look at the individual elements of the proposed framework, a reasonable compromise between the two opposing opinions can be achieved. This framework responds to the call for parallel sequence combinations that are not captured by linear development models (Corner and Wu, 2012; Liao et al., 2005; Reynolds and Miller, 1992). We have also taken into account the call for innovation in response to customer demand and have included the selection criteria of market participants as an essential success factor (Eckhardt and Ciuchta, 2008). As a result, this analysis contributes to the understanding of how entrepreneurial opportunities contribute to the functioning and emergence of markets. In this way, we attempt to provide additional insight into the theoretical dilemma of management scholars and economists stemming from the lack of clarity regarding entrepreneurial opportunities (McMullen et al., 2007). Another key contribution of our conceptual framework is the attempt to overcome the preoccupation with achieving success and avoiding failure in entrepreneurship research, which has led to an anti-failure bias (McGrath, 1999). We have also addressed the need to include entrepreneurial exit as an essential aspect of the entrepreneurial process (DeTienne, 2010). Specifically, our framework looks at entrepreneurial exit in the infancy phase of a new venture in terms of failure or voluntary resignation. Ultimately, our primary objective is to contribute to a better understanding of how a new venture emerges.

In their current entrepreneurial process literature review, Moroz and Hindle (2012) attest to a highly fragmented environment and conclude with an urgent call for a harmonised entrepreneurial process. According to them, a major weakness of the models they have studied is the fact that they provide a “limited or highly prescribed perspective of what entrepreneurship is all about” [Moroz and Hindle, (2012), p.810]. In other words, for most current entrepreneurial process models, certain assumptions have to be made – for example, entrepreneurial opportunities exist ex ante. Our conceptual framework, bridging different schools of thought, is a contribution to this call for a harmonised perspective of the entrepreneurial process. In particular, our proposed conceptual framework contains the six ingredients a harmonised model should include, according to Moroz and Hindle’s (2012) literature review:

1 A proper process model should pay attention to the relationship between individuals and opportunities. Based on the Austrian theory of entrepreneurship, our framework assumes that profit opportunities are not equally available to everyone and that it requires an ‘alert’ individual to detect those opportunities.

The next two ingredients state that
A harmonised model should acknowledge the disruptive value of knowledge. It takes evaluation to create a novel business model as opposed to optimising existing ones. By infusing the knowledge of the entrepreneur into the selected venture idea in order to ‘create’ a business opportunity and to make strategic choices about whether to exploit, alter, or exit according to market response, we include both of these points in our framework. The final ingredients suggest that a process model should take time, action, and context into consideration. Our sequential approach includes the timing aspect and responds to changes that might occur over time, for example, changed market demands. By underlining the strategic choices that an entrepreneur has to make based on contextual influences, our framework also includes these characteristics.

These contributions are a first step towards a more integrative, harmonised discussion of new venture emergence. An interesting issue for further research is the focus on the alteration branch of the emergence process. Gaglio and Katz (2001) and Ihrig and Knyphausen-Aufseß (2009) have shown that incremental or imitative opportunities could emerge even in existing means-ends frameworks. By using a sophisticated simulation approach, Ihrig (2010) demonstrated that international creative imitation – importing, adapting, and implementing an innovative business from a foreign market – represents a viable start-up strategy. In addition, it might be interesting to investigate whether competition shapes the opportunity creation process and, if so, to what degree. In this context, Luksah (2008) has opened an interesting avenue for further research. According to his parallels to evolutionary niche construction, the question is, “How can companies proactively shape their (competitive) environment?” The central issue here is not how to play by the rules of the market, but rather how to change these rules. Fillis and Rentschler (2010) define the entrepreneurial contribution to creativity by its role in breaking conventions in order to achieve groundbreaking success. It is important to note, however, that “breaking rules creates opportunities, but also increases the risks. The critical factor is an exact knowledge of the rules that shape one’s own line of business and the various corporate functions” [Knyphausen-Aufseß et al., (2006), p.370].

Third, although the proposed framework is built on prior empirical findings, it must be seen as a framework employing process theories a priori without a proper empirical test. Further empirical research is necessary to validate the framework. The particular challenge here is to choose the right measures and observation methods to match the process-oriented characteristics. Finally, more attention should be paid to entrepreneurial failure and how emerging ventures deal with it. Patzelt et al. (2006), for example, illustrated how a young biotech company managed to survive a breakdown of their technological basis. As shown in this example, it is likely that a sound entrepreneurial team can be very successful even though their initial effort failed. It would be interesting to investigate whether entrepreneurial opportunities are replaceable and if the emerging organisation is the true driver of entrepreneurial success.
In conclusion, an integrative perspective on new venture creation enriches opportunity-based theory by incorporating dynamic parallel sequence combinations, responding to customer demand, and including failure in a developmental model. We hope that this suggested framework sparks further research and the development of additional theories.

References


Beyond traditional developmental models


Beyond traditional developmental models


