

Factors Influencing Opportunity Development for New Venture Creation

Karine OGANISJANA

Faculty of Engineering Economics and Management, Riga Technical University
6 Kalnciema Str., Riga, LV-1048, Latvia

ABSTRACT

This paper is based on an interview of twenty Latvian entrepreneurs having the aim to reveal the factors which influence opportunity recognition and evolution in the course of the creation of new companies. With a broad individual-to-environment and environment-to-individual interrelationship view on this issue, it was decided to study who/what initially prompted the entrepreneurs to start their businesses, who/what helped them or hindered in the realization of the identified opportunities and what they would recommend novice entrepreneurs in this context based on their experience acquired. In the result five groups of opportunity development factors covering: personal fulfillment; professionalism; relationship with team, partners and clients; finances and market were determined. It was also revealed that education and experience influence the character and course of the development of the initial business idea.

Keywords: opportunity identification, opportunity development, opportunity development factors, new venture creation.

1. INTRODUCTION

The latest survey Flash Eurobarometer 354 "Entrepreneurship in the EU and beyond" conducted in 2012 by TNS Opinion & Social at the request of the European Commission showed that the Latvian (LV) society is more well-disposed towards entrepreneurship than EU countries on the average. More Latvian respondents were for: feasibility of the idea of self-employment within the next five years (LV – 51%, EU27 – 30% of) and desirability of becoming self-employed (LV – 55%, EU27 – 32%), stating that they were thinking (LV – 21%, EU27 – 13%) and taking steps to start up a business (LV – 29%, EU27 – 23%). Still, all these indicators concern mainly emotions and intentions at the theoretical level. However, the Latvian respondents didn't have higher entrepreneurial experience in operating businesses for more than three years (LV – 20%, EU27 – 26%) and the level of failure of their businesses was higher (LV – 16%, EU27 – 12%) [1]. Therefore it is topical to research the factors which help or hinder the Latvian entrepreneurs and entrepreneurs-to-be to recognize opportunities, develop and utilize them into new products and services.

This research was conducted within January – March 2014. Electronic forms of interviews in Latvian and Russian were sent 20 entrepreneurs (10 female, 10 male) who own production, service or combined production and service companies.

The scopes of the activities of the companies encompass production of: hygiene items; clothes; cardboard playthings for children; wooden toys and souvenirs; paving stones and concrete blocks. The services offered by the companies interviewed are: branding new products; sport tourism; the designing and setting out of gardens; accounting and audit services; hotels; real estate; IT support and trade; disposal of cement in Latvia; international trucking and logistics; trade of metallic constructions; food wholesale; trade of bedding and bedclothes. Two companies realize both cosmetics & body care production and retail and wholesale trade services at the same time. The two youngest among these twenty companies were established in 2010 while the two most experienced ones – in 1994.

2. THEORETICAL PERSPECTIVE OF OPPORTUNITY DEVELOPMENT

Though the field of entrepreneurship research lacks a common platform and is characterized with a great number of competing contradictory theories and approaches, the creation of new economic values serves as a key determinant of the success of entrepreneurial activities [2, 3, 4]. Within this framework, opportunity identification, development and realization become of particular importance and interest.

Opportunities are defined as: 1) the consequence of new ideas, inventions, beliefs and actions which generate new products and services, new ventures, markets, standards and practices [5]; 2) situations in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships [3, 6, 7].

Scholars argue that opportunities are:

- recognized [8];
- perceived [9];
- discovered [10];
- created [5];
- identified [11];
- developed [12, 13].

Opportunity theories focus on various phases and characters of opportunity evolution from the perspective of an individual's creativity [14] and alertness [15], cognitive processes [16], pre-experience and knowledge [17, 18]. Despite the variety of the conceptual approaches, they are complementary as they lay emphasis on different aspects and stages of opportunity evolution, started from its emergence up to its formation, development and utilization. Entrepreneurial opportunities manifest themselves in a variety of ways. According to Eckhardt and Shane, there are three valuable ways of categorizing opportunities: by the locus of the changes that generate the opportunity; by the source of the opportunities themselves; and by the initiator of the change [7].

Origination of opportunities is explained in different ways. Entrepreneurial opportunities can occur as a result of changes in a variety of parts of value creation chain, having different loci of changes which stem from: the creation of new products or services; the discovery of new geographical markets; the creation or discovery of new raw materials; new methods of production; and new ways of organizing processes [19].

Although the sources of opportunities have been proved to be very different, they are mainly explained by 1) individual; 2) environment; or 3) integrated individual and environment sides of entrepreneurship.

The sources of opportunity recognition and utilization conditioned by entrepreneurs' individual characteristics have been argued to be: utilization of knowledge [20]; schemas and mental models [21]; entrepreneurial intention [22]; broad experience and knowledge [17, 18, 23]; the ability to learn and adapt [23]; alertness [15]; personality traits, social networks and prior knowledge [12].

Peter Drucker connected the sources of opportunities with an environment perspective arguing that opportunities are innovations that occur due to changes in industry structure, demand, outside events and demographics [24].

A third group of scholars see sources of opportunities in the combination of individual and environment aspects: underutilized resources and unemployed services combined with effective benchmarking and mimicking in the context of the business [25]; opportunities which are based on the market process: allocative, discovery, & creative [5].

The aim of this research was to explore both the environment and individual conditioned factors which promote or hinder the entire chain of opportunity development and new value creation, covering all the range of individual qualities, personality traits and competencies of entrepreneurs, the environment and their interaction.

3. THE COURSE OF THE RESEARCH

The questions to entrepreneurs were about: the initial goal of creating their companies; how long they worked

with the initial idea; how the initial idea was developed; who/what prompted to start the business; who/what helped in the realization of the initial idea of the service/product; what hindrances they had to overcome in that process; based on the acquired entrepreneurial experience what recommendations they would give to novice entrepreneurs.

The social-demographic questions concerned the gender, year of the establishment of the company; character of the activity of the company (service or production); the field of education of the entrepreneur; having or not having economic/business related education and business experience at the moment of the establishment of the company.

The research method for data analysis was qualitative content analysis of the texts of interviews conducted by open coding according to Phillip Mayring's "Step model of inductive category development" [26] for revealing the factors. The coded data were processed with AQUAD 6.0 (Analysis of Qualitative Data) software [27]. In the course of the qualitative content analysis when the meaning of a conceptual code was mentioned with a negative impact, it was coded with an index "neg".

Data Analysis

In order to analyse, what happened to business opportunities in the course of a new venture creation, the responses to the question about "how the initial idea developed" were analysed and grouped according to the meaning of the answers given by entrepreneurs. That revealed five groups of opportunity development scenarios: 1) the idea fully proved out to meet the initial expectations; 2) the idea gave rise to other ideas which brought good results; 3) the idea had to be partly modified; 4) the idea fostered other ideas which didn't bring good results and 5) the idea failed (see fig. 1).

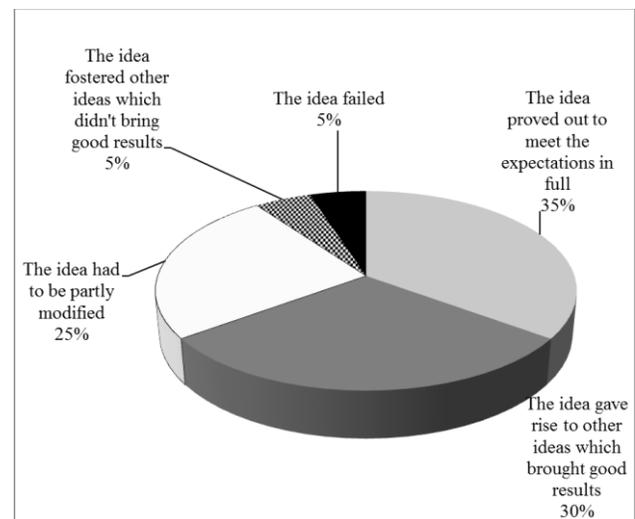


Fig. 1 The scenarios of opportunity development in the course of a new venture creation

The diagram in fig. 1 shows that more than one third of the interviewed entrepreneurs managed to implement the initial ideas into practice and get the expected results. Another third of entrepreneurs stated that their ideas developed and gave birth to new ideas which finally ended in good results. One fourth of the interviewees had to partly modify their business ideas and continued to run their businesses, while 10% of them failed or didn't get good results.

Aiming at exploring whether the character of opportunity development could be connected with having or not having economic/business related education and/or entrepreneurial experience, the corresponding data were organized together with the five scenarios for each interviewee as shown in table 1.

Table 1 Systemization of the data about interviewed entrepreneurs' education and business experience combined with the opportunity development scenarios in their companies

Nr.	Economic and business education	Business experience	The initial idea met expectations	Gave effective ideas	Partly modified	No good results	Failed
1.	1	1	0	1	0	0	0
2.	1	1	1	0	0	0	0
3.	1	1	1	0	0	0	0
4.	1	1	1	0	0	0	0
5.	1	1	1	0	0	0	0
6.	1	1	1	0	0	0	0
7.	1	1	1	0	0	0	0
8.	1	1	1	0	0	0	0
9.	1	1	0	0	1	0	0
10.	0	1	0	1	0	0	0
11.	0	1	0	1	0	0	0
12.	0	1	0	1	0	0	0
13.	0	1	0	0	1	0	0
14.	0	1	0	1	0	0	0
15.	1	0	0	0	1	0	0
16.	1	0	0	1	0	0	0
17.	0	0	0	0	1	0	0
18.	0	0	0	0	0	1	0
19.	0	0	0	0	1	0	0
20.	0	0	0	0	0	0	1

The table was built by assigning a code "1" for the answer "yes" and a code "0" – for "no". The diagram discloses three groups of interrelations: 1) those entrepreneurs (1-9) who had both economic education and experience in business acquired working in another company before mainly managed to achieve the desired result; 2) those who didn't have economic education but had business experience (10-14) on the whole managed to develop the initial idea into new fruitful ideas which brought good results; 3) those who didn't have business experience (15-20) exhibited broad diversity of dealing with opportunity – majority partly modified the initial idea, some developed initial ideas into new ones which brought or didn't bring good results, some – failed.

This shows that the combination of economic/business related education with business pre-experience could have made certain patterns for entrepreneurs based on which they worked with opportunities and succeeded. Comparing separately the effect of business experience with the effect of economic/business related education on opportunity recognition and development, it is seen that experience is more powerful than only education, as entrepreneurial patterns are created only by acting in real life situations but not just within traditional formal education.

Qualitative Content analysis

The other factors which influence opportunity development were determined in the result of qualitative content analysis of the interviewees' texts of answers to the questions on: 1) who/what prompted the idea for starting their businesses; this concerns the opportunity recognition/identification; 2) who /what helped and 3) who /what hindered the realizations of the opportunities; these two questions concern opportunity development; and 4) their recommendations.

The diagram in figure 2 is constructed based on the table of conceptual code frequencies which was created in the result of qualitative content analysis. That shows how entrepreneurs and their perception of processes and values change in different stages of their activity. For example, if intuition was mentioned as a significant prompter of starting a business, it didn't appear in the role of a "helper" in the opportunity development and realization stage. However in the final phase when recommendations were to be given to novice entrepreneurs, intuition again emerges.

Those conceptual codes which were assigned in two or three contexts have many-faceted influences on the course of business opportunity development. For instance, good business ideas, knowledge and competency in the field of the activity of that specific business, Latvian market research, understanding the needs of clients and society, finances, etc. emerged in three contexts. That means that: 1) these factors prompted the entrepreneurs to recognize opportunities; 2) helped in development and realization stages of the opportunities; and 3) therefore, based on their experience the entrepreneurs mentioned them in their recommendations.

The black columns – "Hindrances" are indexed with "neg" (negative). They show that in the course of the realization of the initial idea entrepreneurs faced challenges connected with the lack of: appropriate business idea; full understanding of clients' needs; finances; business competency and had to overcome difficulties in getting clients and good partners; hindrances related to legislation and instability of market. These factors have a serious impact on opportunity recognition and development till it is utilized into values.

Three conceptual codes – good business ideas, understanding needs of clients and society and finances emerged concerning the answers to all the four questions about "prompters", "helpers", "hindrances" and

“recommendations”. That only emphasizes their importance.

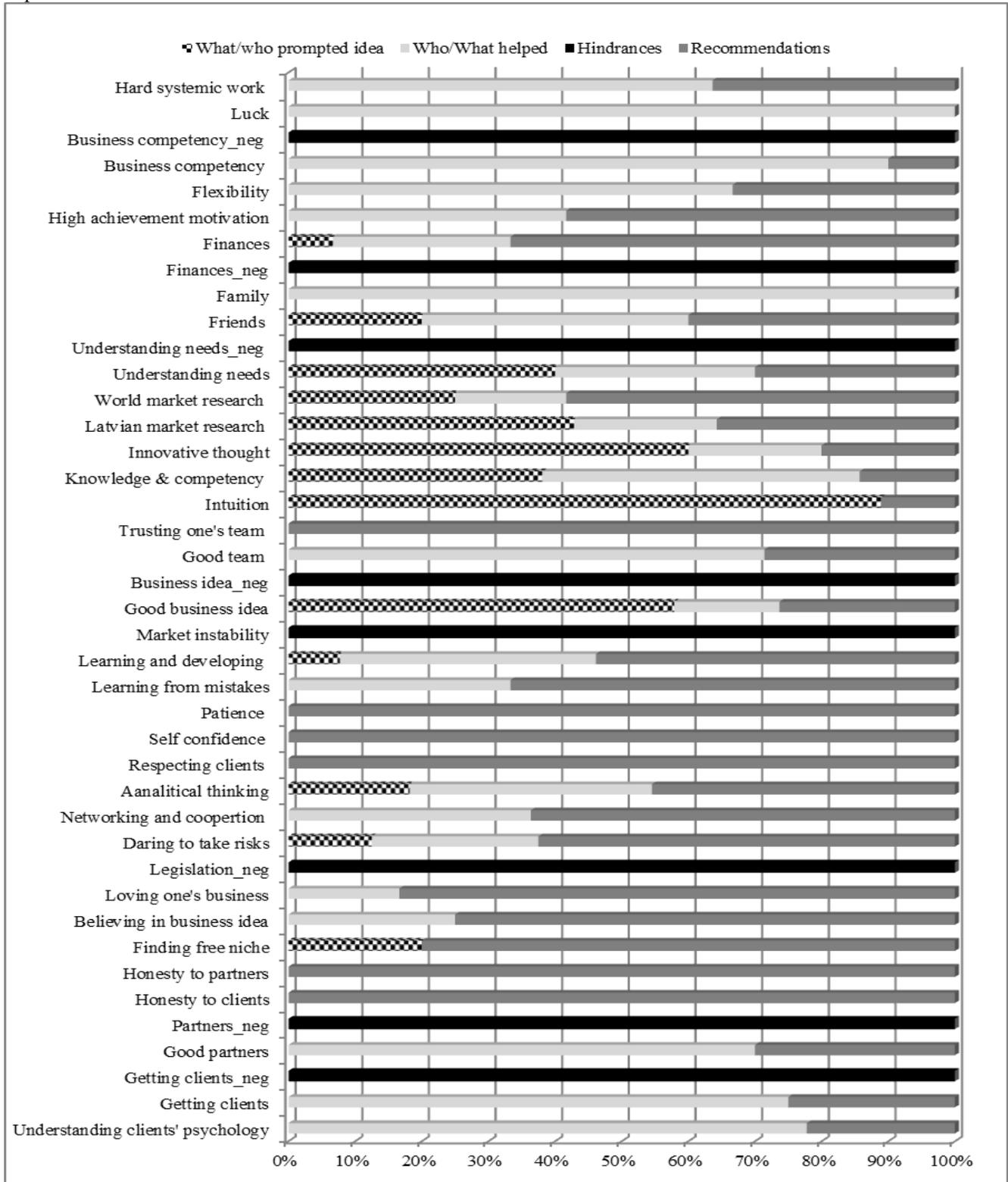


Fig. 2 The diagram of factors influencing business opportunity recognition and development; constructed based on the table of conceptual code frequencies

As for cases when the same conceptual codes emerged in the content analysis of the text about who/what helped to realize the business idea and in the text of recommendations, it is quite logical and comprehensible, as entrepreneurs, having reflected their business path and being aware of what or who assisted them, give corresponding advice to others. For example, a good team or hard systemic work helped majority of the respondents; therefore they recommend novice entrepreneurs to pay special attention to the creation of a professional and reliable team and be ready to work hard and purposefully.

However, there are some conceptual codes, such as trusting one's own team, respect and honesty to partners and clients, which appear only in the text of recommendations. That was explained by the entrepreneurs afterwards – answering the question about who/what helped in the realization of the initial idea of the service/product, they focused their attention on the crucial aspects - finances, a good business idea, a good team, etc., which make the pillars of any business. When giving recommendations based on their experience, they mentioned more sophisticated categories like trust, honesty, respect and others which were crystalized in the course of their activities and proved out to be essential success factors.

4. FACTORS WHICH INFLUENCE BUSINESS OPPORTUNITY DEVELOPMENT

Factors which influence opportunity development for new venture creation were determined based on the triangulation and systemization of the qualitative and quantitative results of the qualitative content analysis. The factors present five groups encompassing: personal fulfillment; professionalism; relationship with team, partners and clients; finances and market:

Personal fulfillment

- Education and experience
- Enthusiasm, hard work and purposefulness
- High achievement motivation and high ambitions
- Loving one's work and believing in the idea of the business
- Intuition
- Flexibility
- Creative problem-solving
- Risk taking without being afraid of difficulties
- Never stagnating and always being in development
- Learning from one's own and other people's mistakes and failures

Professionalism

- Core competencies and expertise in the field of one's business
- Experience acquired working in other companies
- Clear understanding of the goal and possibilities for its achievement
- Doing one's work qualitatively

- Keeping abreast with novelties in one's business field
- Mastering of information and using that in business
- Consulting with other professionals for getting advice and help
- Being deeply involved in the realization of the chosen idea without distracting attention on other activities

Relationship with team, partners and clients

- Choosing colleagues and partners very carefully
- Creation and development of a professional team
- Honesty and trust to one's own team
- Honesty to partners and clients
- Development of contacts and cooperating as well with other companies

Finances

- Attraction of finances from different funds which support start ups
- Clear vision and grounded distribution of finances for the utilization of opportunities
- Planning of financial flows
- Readiness to make financial investments which will not be paid back very quickly
- Investing money into enlargement of the business
- Investing money into education and development of the team

Market

- Thorough research of demand and supply in the Latvian and world market concerning the concrete field
- Legislation
- Matching ones intuition to the market situation
- Clear understanding of clients' wishes, needs and psychology
- Getting clients
- Finding a good business idea and a free niche
- Finding opportunities for exporting.

5. CONCLUSION

1. The development of opportunities for a new venture creation may have different characters depending on entrepreneurs' education and experience in business. When economic or business related education is combined with business experience, it is more probable that entrepreneurs are able to realize initial ideas into the desired values. In case if entrepreneurs have either economic/business related education or business experience separately, the latter may have more significant impact on the success of the realisation of opportunities.

2. The factors which influence all the chain of opportunity development, starting from opportunity recognition up to its utilization, encompass an individual-to-environment continuum: personal fulfillment;

relationship with team, partners and clients; professionalism; finances and market.

6. REFERENCES

- [1] European Commission, "Entrepreneurship in the EU and beyond", **Flash Eurobarometer 354**, 2012, Retrieved 23 January, 2014 from http://ec.europa.eu/public_opinion/flash/fl_354_en.pdf
- [2] B. McKenzie, S. Ugbah, & N. Smothers, "Who Is an Entrepreneur?" is still the wrong question?, **Academy of Entrepreneurship Journal**, Vol. 13, No. 1, 2007, pp. 23–43.
- [3] S. Shane & S. Venkataraman, "The Promise of Entrepreneurship as a Field of Research", **The Academy of Management Review**, Vol. 25, No. 1, 2000, pp. 217–226.
- [4] G. Falton, "Creating a Culture of Innovative Entrepreneurship", **Journal of International Business and Economy**, Vol. 2, No. 1, 2001, pp. 123–140.
- [5] S. Sarasvathy, N. Dew, N. Velmuri, & S. Venkataraman, "Three Views of Entrepreneurial Opportunity", in Z. Acs and D. Audretsch (Eds.), **Handbook of Entrepreneurship Research**, Dordrecht: Kluwer Academic Publishers, 2003, pp. 141–160
- [6] M. Casson, **The entrepreneur**, Totowa, NJ: Barnes & Noble Books, 1982.
- [7] J. T. Eckhardt & S. A. Shane, "Opportunities and Entrepreneurship", **Journal on Management**, Vol. 29, No. 3, 2003, pp. 333–349.
- [8] R.A. Baron, "Opportunity Recognition as Pattern Recognition: How Entrepreneurs "Connect the Dots" to Identify New Business Opportunities", **Academy of Management Perspectives**, February, 2006, pp. 104–119.
- [9] H. Stevenson & C. Jarillo, "A Paradigm of Entrepreneurship: Entrepreneurial Management", **Strategic Management Journal**, Vol. 11, 1990, pp. 17–27.
- [10] I. Kirzner, "Entrepreneurial Discovery and the Competitive Market Process: an Austrian Approach", **Journal of Economic Literature**, Vol. 35, No. 1, 1997, pp. 60–85.
- [11] W. Long and W. McMullan, "Mapping the Venture Opportunity Identification process", in J.A. Hornday, F.A. Tardley, J.A. Timmons & K.H. Vesper (Eds.), **Frontiers of Entrepreneurship Research**, Wellesley, MA: Babson College, 1984.
- [12] Ardichvili, R. Cardozo & S. Ray, "A Theory of Entrepreneurial Opportunity Identification and Development", **Journal of Business Venturing**, Vol. 18, 2003, pp. 105–123.
- [13] S.A. Sanz-Velasco, "Opportunity Development as a Learning Process for Entrepreneurs", **International Journal of Entrepreneurial Behaviour & Research**, Vol. 12, No. 5, 2006, pp. 251–271.
- [14] J. Vesalainen & T. Pihkala, "Motivation Structure and Entrepreneurial Intentions", In P. Reynolds et al. (Eds.) **Frontiers of Entrepreneurship Research**, pp. 73-87. Babson Park, MA: Babson College, 1999. J. Ivari, "A Paradigmatic Analysis of Contemporary Schools of IS Development", **European Journal of Information Systems**, Vol. 1, No. 4, 1991, pp. 249-272.
- [15] I.M. Kirzner, **Discovery and the Capitalist Process**, Chicago: University of Chicago Press, 1985.
- [16] S. Shane, **The Individual – Opportunity Nexus Approach to Entrepreneurship**, Aldershot, United Kingdom: Edward Elgar, 2003.
- [17] D.A. Shepherd & D.R. DeTienne, "Discovery of Opportunities: Anomalies, Accumulation and Alertness", In W.D. Bygrave et al. (Eds.), **Frontiers of Entrepreneurship Research**, pp. 138 – 148. Babson Park, MA: Center for Entrepreneurial Studies, 2001.
- [18] R.A. Baron, "Opportunity Recognition as Pattern Recognition: How Entrepreneurs "Connect the Dots" to Identify New Business Opportunities", **Academy of Management Perspectives**, February, 2006, pp. 104–119.
- [19] J.A. Schumpeter, **The Theory of Economic Development: An Inquiry into Profits, Capital Credits, Interest, and the Business Cycle**, Cambridge: Harvard University Press, 1934.
- [20] F. Hayek, "The Use of Knowledge in Society", **The American Economic Review**, Vol. 35, No. 4, 1945, pp. 519–530.
- [21] B. Bird & M. Jelinek, "The Operation of Entrepreneurial Intentions". **Entrepreneurship Theory & Practice**, Vol. 13, No. 2, 1988, pp. 21–29.
- [22] J. Katz, & W. Gartner, "Properties of Emerging Organizations", **Academy of Management Review**, Vol. 13, No. 3, 1988, pp. 429–441.
- [23] G. Hamel & C. K. Prahalad, "Competing in the New Economy: Managing out of Bounds", **Strategic Management Journal**, Vol. 17, No. 3, 1996, pp. 237–242.
- [24] P. Drucker, **Innovation and Entrepreneurship: Practice and Principles**. New York: Harper and Row, 1985.
- [25] M. Virtanen & S. Myntinen, "Development of Opportunities in the Value Chain of Rural High Quality Restaurants", prepared to be presented in the **16th Nordic Conference on small Business Research**, Kolding, Denmark, May 20-21, 2010.
- [26] P. Mayring, "Qualitative content analysis" [28 paragraphs]. **Forum Qualitative Sozialforschung / Forum: Qualitative Social Research Theories** [Online Journal], Vol. 1, No. 2, 2000, June. Retrieved 24 July, 2008 from <http://www.utsic.utoronto.ca/~kmacd/IDSC10/Readings/text%20analysis/CA.pdf>
- [27] G. Huber, & L. Gürtler, **AQUAD 6. Manual for the analysis of qualitative data**. Tübingen, Germany: Ingeborg Huber Verlag, 2004.