

# Identification and Creation of Business Opportunities as the Characteristic of the Entrepreneurial Mindset

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## ABSTRACT

The entrepreneurial mindset is defined as a specific state of mind which orientates human conduct towards entrepreneurial activities and outcomes. Identification and creation of business opportunities is characteristic of the entrepreneurial mindset. Harmonious passion, self-efficacy, risk-perception are the factors presence or absence of which determine why individuals approach differently to searching of business opportunities. This statement is confirmed by the research hypothesis.

**Keywords:** Causation, Effectuation, Entrepreneurial Mindset, Individual Level Characteristics.

## 1. INTRODUCTION

The research of entrepreneurial mindset is closely related to study of the “Born Global” phenomenon, rapidly growing in recent years, becoming increasingly important. “Born Global” serve clients worldwide, providing new, innovative products and services, often act as game-changers in their respective fields of expertise, create completely new markets, introduce new ideas, create niches in the market by combining existing ideas with new solutions [5] [25] [26] [40] [48], a “Born Global” company can emerge only with the help of an entrepreneur who possesses a certain set of individual characteristics [51].

Opinion on the entrepreneurial mindset as the basis for planning to start or to run your own business, is taken by the authors from Coyle’s ‘six characteristics’ model. The Coyle’s ‘six characteristics’ of the entrepreneurial mindset are: Seeing and creating opportunities; Reading the way; Managing risk; Turning ideas into action; Using resources smartly; Collaboration for shared value.

Authors of the current research are interested in the factors, affecting the inner motivation of entrepreneur to start a new business. This is another reason why further research is based on the first characteristic (seeing and creating opportunities) of the Coyle’s ‘six characteristics’ model.

The research object of the current study is the identification and creation of business opportunities. The research subject is the entrepreneurial mindset.

## 2. DEFINITION OF THE ENTREPRENEURIAL MINDSET

A widely available definition states that entrepreneurial mindset refers to a specific state of mind which orientates human conduct towards entrepreneurial activities and outcomes. Individuals with entrepreneurial mindsets are often drawn to opportunities, innovation and new value creation.

The authors have analyzed available literature sources including a wide range of individual definitions of entrepreneurial mindset and collected information in order to arrive at a general definition of entrepreneurial mindset, going from specific features to generalized. An analysis of definitions has led to a conclusion that the entrepreneurial mindset as a specific state of mind which orientates human conduct towards entrepreneurial activities and outcomes, embodies a dynamic. Referring to Nymoer (2004), dynamics is the fundamental feature of economy. Figure 1 is based on principles of the dynamic model, studied by Keen (2010, 2011) who has concluded that dynamic model describes the behavior of the system over time.

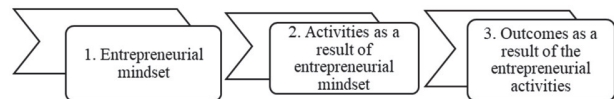


Figure 1 The dynamics of the entrepreneurial mindset

Figure 1 reflects the mentioned above generalized definition of the entrepreneurial mindset in the form of the move, over period of time, from:

- 1) The entrepreneurial mindset as a specific state of mind is reflected in the first block of the Figure 1
- 2) Entrepreneurial activities as a result of entrepreneurial mindset (block 2), resulting in
- 3) The expected outcomes (block 3).

Identification and creation of business opportunities is one of the human conduct towards entrepreneurial activities and outcomes. The authors of the current research have sought an answer that creates and influences the particular state of mind. The search for an answer has begun with a review of the scientific theories.

## 3. THEORETICAL BACKGROUND

Causation and effectuation are contemporary theoretic basis for the understanding of relationship between entrepreneurial mindset and entrepreneurship. Causal and effectual decision-making logics differ in terms of various heuristic principles that are applied in the new venture creation process. At the same time causation and effectuation do not seem to be diametrically

opposed concepts, as shown by results of various studies [21]. Differences between causal and effectual decision making logics for business companies widely studied by Sarasvathy and Dew in 2005, reflected in the Table 1.

Table 1  
Differences between causation and effectuation (based on theoretical issue [19])

Effects of the causal strategic decision-making logic	Effects of the effectual strategic decision-making logic
defining goals (target effects)	defining means
focusing on expected returns	focusing on affordable loss
engaging in planning activities	leveraging contingencies
emphasizing competitive analysis	seeking pre-commitments and strategic partnerships

Causation and effectuation at the firm level as strategic decision-making logics are carry out strategies of firms [9], effectuation positively affecting particularly new venture performance, in four ways:

- 1) Experimentation helps to formulate goals step by step and to seize opportunities in the changeable environment
- 2) Affordable loss controls the risk for firms and helps firms to make good use of limited resources
- 3) Flexibility helps firms to leverage contingencies in the uncertain environment and to use existing resources in creative combinations
- 4) Partnership enables firms to control the future with stakeholder which can eliminate uncertainties [9].

Effectuation as strategic decision-making logic plays a key role in the initial stage of the business company, that's why Table 2 includes the main principles of the effectuation.

Table 2  
Principles of Effectuation (based on theoretical issue [19])

Principle	Features of the principle
Bird-in-the-Hand (Means)	When entrepreneurs set out to build a new venture, they start with the means: who I am, what I know, and whom I know
Affordable Loss	Entrepreneurs limit risk by understanding what they can afford to lose at each step
Crazy Quilt (Partnerships)	Entrepreneurs build partnerships with self-selecting stakeholders
Lemonade (Leverage Contingencies)	Instead of making "what-if" scenarios, entrepreneurs interpret "bad" news and surprises as potential clues to create new markets
Pilot-in-the-Plane (Control vs. Predict)	An effectual worldview is rooted in the belief that the future is neither found nor predicted, but rather made

The connecting element between effectuation theory and entrepreneurial mindset, founded in the literature, is the first principle of effectuation (bird-in-the-hand (means)) as component of mindset, studied in [1] [2] [3] [4]. Sarasvathy at 2000 has worked out the dynamic model of effectuation which includes actual means of who I am, what I know, and whom I know as features of entrepreneurial mindset, followed by set of activities in the form of 'What can I do' [41] [42] [49].

Effectuation is not a static, one-time exercise, it is a logic and process that can be used as the firm develops in the early startup phase of growth. Entrepreneurs should follow the process to gain early customers and committed partners who then create new means and new goals as resources and viewpoints are added to the mix [41]. The conclusion of the chapter is that the first principle of effectuation, is the specific state of mind with the

same roots as characteristic of identification and creation of business opportunities.

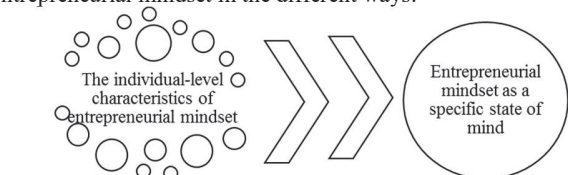
#### 4. PREDECESSORS OF SPECIFIC STATE OF MIND

It is necessary to look for an answer why the human's orientation towards entrepreneurial activities is different [32] [42] [13] [16]. Scientific literature sources show that an individual's abilities to make optimal or, at least, satisfactory decisions are limited by the cognitive limitations of their minds, environmental conditions of information isotropy, and the lack of resources [50] [51]. As claimed by researchers, the psychological antecedents of causation and effectuation logics consists of certain prominent individual-level variables. These variables are passion, entrepreneurial self-efficacy, and risk perceptions. These variables have been shown to affect a variety of entrepreneurial outcomes [12] [51] [50] [49] [49] [22] [10] [14] [15]. Individual-level variables are psychological constructs that are central to understanding of entrepreneurial drive and behavior and, by extension, entrepreneurial decision-making [6] [10] [41] [4] [6] [9] [22] [10] [17] [13]. Despite critiques about the state and development of research around effectuation as a theory [2] [32] [3] [20] [35], the burgeoning literature trying to understand how uncertainty, faced in contemporary business environment, influences a variety of entrepreneurial behaviors and outcomes [14] [15] [13] [11] [7] [16] [24] [16] [32] [16]. Table 3 presents the short description of the individual-level characteristics of entrepreneurial mindset

Table 3  
Individual level characteristics of the entrepreneurial mindset

Individual-level characteristic	Description of the characteristic
Passion	supposed to guide the entrepreneur toward achieving the highly significant venture outcome
Harmonious passion	characterized by process-focused motivation a sense of control over venture activity; flexibility in goal pursuit; openness to new experiences and experimentation
Obsessive passion	ability to be goal driven and plan desired entrepreneurial outcomes; rigidly follow initial goals and achieve these goals; ability to be competitor oriented
Self-efficacy	the appropriate level of confidence required for entrepreneurs to expect success in attaining the venture's goals
Risk perception	use of a non-predictive decision-making logic where the focus is on managing the process rather than outcomes; perceiving the environment as risky

Figure 2 reflects authors assumption according the individual level characteristics as the main factors, forming the entrepreneurial mindset in the different ways.



- Authors assumption that the individual-level characteristics of entrepreneurial mindset are main factors, forming the entrepreneurial mindset in the different ways

Figure 2. The individual level characteristics of the entrepreneurial mindset

Based on reflected in the Figure 2, we come to the hypothesis of the current research:

**Hypothesis:** Individual level characteristics of the entrepreneurial mindset are the main factors, forming a specific state of mind related to identification and creation of business opportunities which further orientates entrepreneur towards entrepreneurial activities and outcomes.

**5. RESEARCH METHODOLOGY**

The results of the major recent research were used in this study. The questionnaire of the recent research was designed for the purpose to focus on the use of causation and effectuation by nascent entrepreneurs, the following blocks of questions were included:

- 1) Block 1 – general questions about the company
- 2) Block 2 – exploration of entrepreneurs attitude towards an international experience and internationalization
- 3) Block 3 – sample items of causation research
- 4) Block 4 – sample items for flexibility and experimentation as the most essential effectuation subscales
- 5) Block 5 – sample items for harmonious
- 6) Block 6 – sample items measuring obsessive passion
- 7) Block 7 – sample items for entrepreneurial self-efficacy indication based on the degree of certainty entrepreneur has in his/her ability to perform such tasks as establish and achieve goals and objectives, make decisions under risk and uncertainty
- 8) Block 8 – sample items for risk perception as characteristic of the challenges
- 9) Block 9 – sample items related to the necessity and existence of practical skills for expansion in the international markets

The data were gathered accordingly the advice of Interreg Baltic Sea Region project “Smart-up accelerator”, LIAA Magnetic Latvia Startup database had used as well as Startup databases of Lithuania and Estonia had used. The gazelle - Latvia's fast growing companies had surveyed. Entrepreneurs from approximately 800 ventures in total were contacted through e-mail and invited to complete the online survey. Response rate was about 20%. Data were collected via an on-line survey with founders of companies who had been closely involved with their business development trajectory.

**6. RESULTS**

Cognitive approach is used to investigate an individual's abilities to make optimal, or at least satisfactory, decisions during the process of company formation. The research methodology included fuzzy-set qualitative comparative analysis (fsQCA) as the data analysis tool [37]. It is important to find an answer to the question according the sufficiency of individual level characteristics of the entrepreneurial mindset for respondents. Analysis of sufficient conditions for the presence of causation and effectuation are reflected in the Table 4.

The characteristics, included in the Table 4 could be as follows: Consistency refers to the percentage of causal configurations of similar composition which result in the same outcome value (if the consistency of a configuration is low, it is not supported by empirical evidence, therefore, it should be considered less relevant than other configurations with higher consistency); coverage refers to the number of cases for which a configuration is valid, unlike consistency, the fact that a configuration coverage is low does not imply less relevance [28] [29] [30]. As is customary in fsQCA analyses, the assessment of causal necessity

was based on a consistency threshold of 1 which means 1.00 = fully in; 0.80 = mostly in; 0.60 = more in than out; 0.40 = more out than in; 0.20 = mostly out; 0.00 = fully out. Every row in the table represents a configuration of the conditions that produce a particular outcome [31] [49].

Table 4 Analysis of sufficient conditions for the presence of causation and effectuation

Conditions	Outcome			
	Causation		Effectuation	
	IA	IIA	IB	IIB
<b>Harmonious passion</b>	●	●	●	●
Consistency	1	1	1	0.9
Raw coverage	0.48	0.5	0.5	0.66
Unique coverage	0.48	0.5	0.5	0.66
Overall solution consistency	1	1	1	0.9
Overall solution coverage	0.48	0.5	0.5	0.66
<b>Obsessive passion</b>	●	●	●	●
Consistency	1	0.99	1	0.89
Raw coverage	0.48	0.49	0.5	0.65
Unique coverage	0.48	0.49	0.5	0.65
Overall solution consistency	1	0.99	1	0.89
Overall solution coverage	0.48	0.5	0.5	0.65
<b>Self-efficacy</b>	●	●	●	●
Consistency	0.99	0.99	1	0.9
Raw coverage	0.51	0.53	0.54	0.71
Unique coverage	0.51	0.53	0.54	0.71
Overall solution consistency	0.99	0.99	1	0.9
Overall solution coverage	0.51	0.53	0.54	0.71
<b>Risk perception</b>	●	●	●	●
Consistency	0.99	0.99	1	0.9
Raw coverage	0.48	0.5	0.51	0.67
Unique coverage	0.48	0.5	0.51	0.67
Overall solution consistency	0.99	0.99	1	0.9
Overall solution coverage	0.48	0.5	0.51	0.67

Authors would like deepen these statements by returning to the issues of theory according the consistency scores which ranging from 0.90 to 1, implying their sufficiency for the presence of the outcome. As a higher coverage score reflects a better empirical explanation of the outcome [31]. Taking into account the results of the study included in the Table 4, and based on research of [19] as an example, the author would like to conclude the following:

- 1) For the presence of causation, that entrepreneurial self-efficacy (i.e., the belief that one is capable of achieving the venture's goals) for surveyed entrepreneurs is a sufficient condition for the entrepreneur to choose a predictive, goal-focused causal decision-making logic
- 2) A high level of obsessive passion leads entrepreneurs to adopt a causal decision-making logic
- 3) For the presence of effectuation, high sufficiency level of harmonious passion alone is not a sufficient condition, but it does play an important role
- 4) Entrepreneurs who experience harmonious passion and are self-efficacious eschew causal decision-making logic in favor of effectual logic

- 5) When entrepreneurs perceive risk in the environment, harmonious passion is needed to justify the choice of an effectual, non-predictive decision process.

Results of the research, reflected in the Table 4, indicate a sufficient level of features to use causal and effectual decision making logic to entrepreneurs. Mediocre results of coverage scores for all of the cases reflects the necessity in better empirical explanation of the outcomes, necessity of better understanding of causal and effectual decision making logic to entrepreneurs.

## 7. RESULTS OF THE CURRENT RESEARCH AS THE BASIS FOR UNDERSTANDING OF IDENTIFICATION AND CREATION OF BUSINESS OPPORTUNITIES

Identification and creation of business opportunities as the characteristic of the entrepreneurial mindset could also be supplemented by the following explanation. Opportunity as defined in Business Dictionary, means an exploitable set of circumstances with uncertain outcome, requiring commitment of resources and involving exposure to risk. To be effective in seeing and creating opportunities, the entrepreneurial mindset has to be a rigorous way of thinking and acting for the purpose of creating value in the world.

Based on the theoretical foundation, included in the Table 3 and results of the research, Table 5 was created.

Table 5

Seeing and creating opportunities in connection with causation and effectuation determinants

The determinant	Features of the determinant
Harmonious passion	Related to set with uncertain outcomes
Self-efficacy	Related to required commitment of resources and to involvement of exposure to risk
Risk-perception	Related to involvement of exposure to risk

As mentioned in the Chapter 6, mediocre results of coverage scores for all of the cases reflect the necessity in better empirical explanation of outcomes, necessity to better understand the causal and effectual decision making logic to entrepreneurs, to develop understanding how to use in the practice such individual level characteristics of entrepreneurial mindset as harmonious passion, self-efficacy, risk-perception. To learn from the experiences of other countries could be the initial step towards success.

### Using the Ideas Summarized in the Best Training Programs Worldwide

There are some of the successful beginnings:

- 1) e-Centre ltd of the Massey University, Albany, Auckland, New Zealand has introduced programs of workshops, seminars, and individual coaching for giving the participants the courage, skills, and resources they need to transform their ideas into a successful business
- 2) Imperial White City Incubator of the Imperial College London Country, United Kingdom Programs provide peace of mind, allowing customers to focus energy on their business
- 3) TEC of the Edmonton University of Alberta, Canada. The module offers an overview of the early stage that a small business needs to consider when bringing a product or service to market
- 4) Chalmers Ventures of the Chalmers University of Technology, Sweden. The incubator helps to start-up by giving inspiration, individual coaching and feedback: validation of the customer/user need

- 5) INiTS Vienna Business Agency of University of Vienna and Technical University of Vienna, Austria. The focus is on one-to-one coaching and advice, tailored to the specific needs, how to build network relationships.

### Recommendations to Work Out Training Programs

Using the best practices, described above and based on the current situation, the recommendations to create the training programs could be following.

- 1) Training of the Harmonious passion as personal characteristic should be based on:

the program of workshops and seminars to encourage entrepreneur to learn to think differently and approach problems from a range of different angles, to learn how to be flexible, to learn how to build network relationships; the programs of one-to-one coaching and advice, tailored to the specific needs, for giving the participants the courage, to provide participants with the tools every entrepreneur needs to succeed

- 2) Training of the Self-efficacy as personal characteristic should be based on:

the flexible program of workshops, seminars and networking with acknowledged leaders to provide the tools every entrepreneur needs to rapidly define and validate business ideas; supporting activities for individual coaching and feedback to provide participants with the tools every entrepreneur needs to rapidly define and validate business ideas, to look at a variety of complex activities when a small business is growing

- 3) Training of the Risk perception as personal characteristic should be based on:

group programs of introduction to thinking differently and approaching problems from a range of different angles; individual guidance from mentors to focus on the factors that are most important for the success of the business.

## 9. CONCLUSIONS

Results of the research confirm the hypothesis according individual level characteristics of the entrepreneurial mindset as the main factors, forming a specific state of mind related to identification and creation of business opportunities which further orientates entrepreneur towards entrepreneurial activities and outcomes. Harmonious passion, self-efficacy and risk-perception are the individual level characteristics forming a specific state of mind related to identification and creation of business opportunities. Results of the empirical research indicate a sufficient level of features to use causal and effectual decision making logic to surveyed entrepreneurs. Mediocre results of coverage scores for all of the cases reflect the necessity in better understanding of causal and effectual decision making logic to entrepreneurs. Based on the ideas of the best training programs worldwide, concluding recommendations are to work out training programs for nascent entrepreneurs of the Baltic states.

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