

A Case of Business Opportunity Identification and Entry Into Entrepreneurship : A Socio-Cognitive Approach

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Abstract

Entrepreneurship viewed from a macro-level perspective can be considered as an interaction between entrepreneur and the external environment. Theories related to socio cognitive approach state that an individual's behavior is affected by interaction between internal factors and external factors. The external environment plays a role in shaping intentions of entrepreneurs to start and develop their enterprise along with internal factors. This paper discusses the tale of an intrinsically motivated entrepreneur utilizing his social group, precisely, his friendship circle to identify an entrepreneurial opportunity and using the same for enterprise building.

Keywords : New venture creation, opportunity identification, organizing model, socio cognitive approach

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Entrepreneurship is the link between the presence of profitable opportunities and enterprising individuals (Venkataraman, 1997). Enterprising individuals identify a business opportunity, which they find to be profitable, and are confident enough to carry out the same. Thus, an individual takes the initiative (Schumpeter, 1934) to start an enterprise in the area which he or she has identified and these actions will collectively result in the formation of a new firm (Gartner, 1989). There are three schools of research regarding the identification of an entrepreneurial opportunity and initiation of a new venture.

Literature Review

The first school of research is psychological approach. It lays emphasis on the personality of entrepreneurs by spotting that certain common characteristics are shared by individuals who become entrepreneurs (Varghese, 2011). Theories in this school of research claim that certain personal traits make some people inclined to entrepreneurship. The motivation and traits which are internal to the entrepreneur play a leading role in the formation of behavior and attitude. Psychological approach elucidates entrepreneurship at the micro level considering internal factors such as innovation (Schumpeter, 1934), achievement motivation (McClelland, 1961), and internal locus of control (Rotter, 1966) to be critical in understanding the growth of an enterprise.

The second school of research is the economic approach. This approach argues that entrepreneurship is the result of disequilibrium between demand and supply, and the role of an individual in this process is minimal (Varghese, 2011). Disequilibrium may be the result of changes in aggregate demand or supply (Keynes, 1936) or the developmental stage of the economy attained through maturation (Rostow, 1963) or through revolution, and institutional change (Davis & North, 1971).

The third school of research is socio-cognitive approach. Here, the interaction between personality traits of an individual and the external environment is considered as the core theme. Socio cognitive theories view entrepreneurship from a macro-level perspective in which an individual's behavior is pretentious to the interaction between internal and external factors (Chen, Greene, & Crick, 1998). In this approach, the external environment also

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plays a role in entrepreneurial opportunity identification, initiation of an enterprise, and its development.

In this paper, the socio cognitive approach of entrepreneurial opportunity identification and initiation of the enterprise is discussed through the case of an entrepreneur who had entered printing business. Venture creation based on this approach involves interaction between the external environment and individuals.

The explanation of this approach is done with the aid of the organizing model which was proposed by Shook, Priem, and McGee (2003). In this model, venture creation passes through four stages namely, entrepreneurial intent, opportunity search and discovery, the decision to exploit through venture creation, and opportunity exploitation activities. These four stages are discussed to get a thorough understanding of the process of new venture creation.

Entrepreneurship Journey

Mr. Arun was born in 1980 to a government employee and his mother was a homemaker. He was an average student without much outstanding achievements in the arena of education. The options before him after graduation in the year 2001 were plenty like higher studies, private job, preparation for competitive exams to gain a secured government or pensionable job etc. His father's intention was to make his son a government employee, so that he would possess a secure job, and attain what he called 'safety in life'.

He was born and brought up at Ernakulum, the business capital of Kerala. His house was just 7 km away from the Kochi corporation area. Thus, based on the locational advantage, all the options were really viable. What should be his choice at this point? Whether to fulfill his father's dream or choose something else.

As he had secured low marks in graduation and was not interested in writing exams or the good reason of studying or preparing for them, he decided to take up a job. The easiest way to get a job without hurdles was by looking into the employment opportunities advertised by different companies in newspapers or similar media and attend walk-in interviews. He started the process, and was successful in securing the job of a clerk in a small logistic firm.

Entrepreneurial Intent

He wished to implement his creative ideas in the job but the hierarchical structure in the office discouraged him. Fresh ideas were taken to a higher level after the superior was convinced and at last suggestions, alterations, and critical analysis killed the ideas. Every day following the commands and getting permission for implementing ideas made him feel that the system chained him down.

He realized that to have good personal growth and to utilize one's full potential there should be independence or freedom. Thus, the quench for freedom and unlimited personal growth made him think about self-employment. These thoughts initiated the discussion of the idea of self-employment in different forums of friendship, relatives, and family members. Suggestions, experiences, opinions etc. regarding the initiation of the enterprise came in plenty. The positive and negative aspects of each business opportunity created a dilemma regarding what to start. The absence of vicarious or own experience in entrepreneurship made it more perplexing.

With a strong entrepreneurial intent he was waiting for the right opportunity and the right time. Entrepreneurial intent can be defined as the intent to own one's own business (Crant, 1996) or the intent to start a business (Bird, 1992). Once the entrepreneurial intent is developed among an individual, it takes a relatively short or long time to identify a new venture opportunity (Shook et al., 2003).

He started to make self-assessment regarding his desire of venture creation. This self-assessment gave a clear picture regarding his ability to successfully initiate a new venture. The self-assessment led to self-efficacy, which in turn created a belief in his self-ability to encounter the challenges ahead, and complete the task of new venture initiation successfully (Akhtar, 2008).

Motivation is an important component of new venture initiation (Herron & Sapienza, 1992). Here comes the importance of push and pull theory of entrepreneurship. The "push" theory states that external forces like dissatisfaction with job, unemployment etc. push a person into entrepreneurship and the "pull" theory states that individuals are pulled into entrepreneurship by internal forces like being independent, personal growth etc. (Segal, Borgia, & Schoenfeld, 2005). Researchers state that fondness for autonomy, which is intrinsic in nature discriminates

entrepreneurs from managers (Sexton, 1985). Again, people who are intending to be entrepreneurs in future are said to have more positive attitude toward independence (Douglas & Shepherd, 2002).

Desire for autonomy or independence, which is treated as the most important driver for those intending to be self-employed (Kolvereid, 1996) along with skills started the search behavior. The possession of self-efficacy ignited the entrepreneurial intent (Scherer, Adams, Carley, & Wiebe, 1989). Cognitions preceded the start-up decisions and he used his biases, heuristics, values, etc. for processing the information. This thought process developed a perception in Arun's mind about the feasibility of the new venture. Thus, entrepreneurial self-efficacy acted as a moderator between individual perceptions and the development of entrepreneurial intent (Shook et al., 2003).

What does this situation reveal? Would Arun look for a better job in an organization with a healthier culture? Would the negative forces of dissatisfaction with the current employment push him into entrepreneurship or whether he would be pulled into entrepreneurship by internal forces. Arun's interest in job was abridged because of two reasons:

- (i) Quest for autonomy or independence
- (ii) Lack of personal growth opportunities

The quench for independence or autonomy made Arun come out of the torpors of an employee. He had an option, to follow his father's path to be a government employee, but he rejected it. He looked for a private job, that too without much hurdles. He was a bachelor and he had a decent income to celebrate his bachelor life. A clerk in a company need not take big crucial decisions and he can do a peaceful job. Two things to be noted here are the thirst for autonomy and embracing the opening of unlimited personal growth. Autonomy or independence is proved to be a factor that pulls a person into entrepreneurship (Gelderen & Jansen, 2006). Personal growth opportunity is an intrinsic factor that creates job satisfaction (Wang et al., 2017). If an individual cannot meet his desire and need for personal growth in a job (Kristof-Brown, Zimmerman, & Johnson, 2005), it will definitely pull the person into entrepreneurship. Thus, the internal factors drove him towards entrepreneurship.

Searching and Identifying an Opportunity

The most important ability of a successful entrepreneur is to identify and choose the precise business opportunity (Stevenson et al., 1985). How an entrepreneur uncovers a business opportunity and evolves further is the crux of research in entrepreneurship (Venkataraman, 1997). As per Shapero's (1982) model of entrepreneurial event (SEE), the potential entrepreneur will continue in a state of inertia until something interrupts it. This interruption makes the decision maker pursue the best opportunity available by evaluating opportunities based on their feasibility, desirability, and propensity to act (Shook et al., 2003).

What decision should he have taken at this juncture? He was not hailing from an entrepreneurial family. Therefore, the better option might be to enter an area which was familiar to him or join a totally unfamiliar area with which he had developed some familiarity. If he was entering an unfamiliar area, the question was whether it would be a 'risk' to enter an unfamiliar field.

The relationship between entrepreneurs and others in the society provides vital resources in the form of information and materials that are required for starting a business (Larson, 1991). His internal triggering factors initiated the thought of starting his own business, the first step in the formation of an entrepreneur. He started discussing about his dream of starting an enterprise with friends and family. Lot of suggestions and opinions came, but he was not able to find the one which he could work on. They discussed about starting a logistics unit which would take external contracts for transferring materials for different companies, opening franchise of a courier company, starting a book shop or a bakery near the neighboring college etc. At that time, he met one of his friends who had completed a diploma (ITI) in printing technology and was working in an offset printing unit. Conversation between them slowly exposed the possibilities in the field. In the Bird's (1988) model of implementing entrepreneurial ideas (IEI), new venture ideas arise as fresh ones or modification of existing ones as a result of the interaction between the personal and social contexts with rational and instinctive thinking (Shook et al., 2003). Thus, even though he had no educational or job experience in the printing sector, he was attracted towards the idea of starting a printing unit and considered himself to be capable for the same (Shapero & Sokol, 1982). His personal disposition to act on this decision transformed his entrepreneurial intent into entrepreneurial actions (Shook et al., 2003).

He decided to fully depend on and trust the experience and knowledge his friend had in the printing field. The belief that he will be successful and the confidence he had on his friend made him select the printing area.

Decision to Create a New Venture

Decision to exploit an opportunity by venture creation should be analyzed in psychological and cognitive manners. If he knew all the aspects of a printing business to the minutest level, he may not have selected the same. With printing, most of the challenges and obstacles in the journey appeared to be entirely new or unexpected. Thus, it seems that he was not able to accurately perceive the risks involved (Simon, Houghton, & Aquino, 2000). This obliviousness was overwhelmed by his higher tolerance for ambiguity (Begley & Boyd, 1987), motivation (Shane, Kolvereid, & Westhead, 1991), strong optimism (Cooper, Woo, & Dunkelberg, 1988), and attitude (Robinson, Stimpson, Huefner, & Hunt, 1991).

He thought about different combinations like hiring someone who had adequate knowledge in offset printing, offering a better package to his friend, making his friend a consultant for the firm, starting the business along with his friend etc. What would be the best option for Arun?

Since the printing area was unfamiliar to him and he required resources to start the enterprise, he brought into the network his friend and family members (Rosenblatt, de Mik, Anderson, & Johnson, 1985). He selected the option of associating with his friend. He put forward the idea of partnership with which his friend agreed, and both of them entered into a partnership deed.

Exploiting the Opportunity to Start a New Venture

The first question was where to set the printing press. As per his friend's opinion with which others also agreed, 85% of the business in the offset printing area was concentrated in a particular area in Ernakulam. Thus, they could look for options of renting some building in that or a nearby area, look for the possibilities to utilize any family property for the same as Arun's home was situated in a sufficiently large area of land. They had two houses, an old one, and a new one. The old one was given for rent and his family was living in the new one.

Which was the best choice? Starting the firm in a rented building or utilizing the family asset. Of course, family asset as it incurs zero cost, but the problem was to convince Arun's parents. He had to argue and plead with his father to get permission for converting the rented house into an offset press. At last, his father permitted him and helped him to get necessary permissions from government authorities. Thus, after five years of job as a clerk, he transformed himself into an entrepreneur by converting the old house into an offset printing unit.

The initial challenge was the investments to be made and the combination of the same along with the ratio for sharing profit. The machine itself would cost more than ₹ 5 lakh and adding all other expenses, it would come to around ₹ 8 lakh. The land and building were contributed by Arun, and the knowledge regarding printing was contributed by his friend. In this situation, what could be the best combination of sources of fund, and how they should have shared the profit?

They decided to take ₹ 4 lakh each so that there was equal contribution and the profit could be shared equally. Even though the land and building were provided by Arun, the idea, knowledge, and information were provided by his friend. He considered these two aspects to have a balanced value, such that his friend would also feel that he gets the right share by honoring and recognizing his contribution.

Initially, both of them were workers, managers, and owners. Both of them used to do the field work for collecting orders, and they used to do printing work themselves. Their business was slowly increasing, and after just six months they found that the business volume increased beyond their capacity to control and manage. They decided to make the first appointment of 3 employees for doing the printing job.

Distance from the city was really creating a problem in getting new business as they rarely got walk-in orders, as most people preferred the agglomerated hub for business relations. The presence of more units in a single area gives customers the power of choice, comparison, and surety about business dealings. In order to overcome this drawback, both the partners started to spend more time with their customers and they evolved into customer relations executives

who dealt with all matters of their customers relating to business. They increased the number of employees further to five on the basis of the demand of the situation. Arun's hate towards intermediaries made him develop a model in which both the partners and the customers would always have a direct link with them in matters of business. Thus, they decided not to have marketing executives in their firm. All customers are directly contacted by them with the aid of all possible technologies. They believed that this model would create a very good rapport between customers and owners as their business unit was located about 7 km away from the offset printing business hub. This developed trust and dependability among customers. This worked well and they were highly successful in their path.

Conclusion

This case is a replica of the socio cognitive approach that focuses on how an intrinsically motivated potential entrepreneur exploits his friend circle and family to create his dream enterprise. Arun pooled ideas from his friends circle and pushed his family into the investment part for the creation of the new venture. The organizing model helped us to clearly understand the journey of Arun in the process of entrepreneurship.

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