

# HOW DO ENTREPRENEURS RECOGNISE ENTREPRENEURIAL OPPORTUNITY?

## **Abstract:**

How do entrepreneurs recognise entrepreneurial opportunity? ‘Opportunity recognition’ is challenging because opportunities are rarely self-evident, information and context dependent, and time variant. To comprehend the entrepreneurial opportunity recognition process it is essential to explore the black-box of entrepreneurs’ sense-making for opportunity conviction, particularly those operating in the smaller Asian emerging market context. These emerging economies are witnessing global economic growth more acutely than elsewhere. Recognising the importance of this, we integrate three theories, actualisation approach, process theory of new venture creation and social network theory to explore the breadth and depth of entrepreneurial experience, and past entrepreneurial experience (both success and failure). We provide a new and holistic conceptual framework that extends previous attempts by integrating economic and non-economic objectives. Our framework more comprehensively explores the nature of entrepreneurial experience by incorporating its full effect on the sense-making process of entrepreneurs for opportunity conviction in an emerging market context.

**Keywords:** opportunity recognition; actualisation approach; process theory of new venture creation; social network theory; emerging market context.

## **INTRODUCTION**

The notion of ‘opportunity recognition’ within entrepreneurship literature is one which has featured prominently in research (Shane and Nicolaou, 2015; Tang et al., 2012; Vandor and Franke, 2016). Recognition of opportunities is central to entrepreneurs and entrepreneurship cannot exist without recognition of potential entrepreneurial opportunities (Sarason et al., 2006). This is specially so, in an underexplored emerging market context which is drawing significant attention in providing considerable entrepreneurial opportunity (Boso et al., 2013). A recent \$62 billion investment by China in to Pakistan is evidence of the increased interest in smaller emerging Asian markets. Therefore, it is increasingly assumed that “entrepreneurship is the engine that will push the emerging economies forward as the states of the developing world quickly grow to be major economic forces” (Bruton et al., 2008, p.5). However, to understand the opportunity recognition process of entrepreneurs, one must first

review the origin of opportunity. Looking back into the origin of an opportunity- is quite important to establish a refined definition of entrepreneurial opportunity recognition (Gartner et al., 2017). In addition, theoretical underpinnings and coherent, holistic explanations behind the development process of recognition of potential entrepreneurial opportunities is lacking in consistency and comprehensiveness. Our primary lens, the process theory of new venture creation (Cornelissen and Clarke, 2010), together with the integration of the actualisation approach (Ramoglou and Tsang, 2016), and social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985), will provide a comprehensive theoretical underpinning for our study to explore our research question - *How do entrepreneurs recognise entrepreneurial opportunity?*

‘Opportunities are discovered or created’ and have always been a focal discussion in the field of entrepreneurship (Alvarez and Barney, 2007; Ramoglou and Tsang, 2016; Shepherd et al., 2015). Though scholars of the discovery, creation and actualisation approaches agree that recognition of potential opportunities is significant their approaches to elucidate the notion of opportunity recognition vary (Ramoglou and Tsang, 2016). It is even more significant to understand the process that proceeds action and how an absence of certain knowledge of an outcome paves the ground for imaging an entrepreneurial opportunity (Loasby, 2011). As an illustration “by the sheer force of their imagination, Van Gogh and Steve Jobs created groundbreaking innovations in art and consumer technology...episodes of their creative breakthroughs illustrate that rather than having a single all defining thought or flash of insight, their imagination rested on a combination of inferences and on a culmination of ideas and insights they had built up over time” (Trank, 2013, p 707). Miller and Breton-Miller (2017) posit that entrepreneurs imagine an idea from inception, which they improve step by step thus they begin an entrepreneurial venture almost “tabula rasa”. When an entrepreneur thinks about new venture creation, it is significant to consider the role of his/her imagination

(i.e. imagine the products or services, imagine the markets to serve, imagination of the resources, capabilities the activities required) to exploit these perceived entrepreneurial opportunities (Keating and McLoughlin, 2010). According to Kiss et al. (2012) our understanding of how entrepreneurs respond and behave in a rapidly changing emerging market context is still limited. As an example of a transitional economy moving to an emerging market, countries such as Pakistan can provide an invaluable context to explore entrepreneurs' sense-making for opportunities.

The actualisation approach acknowledges that the process of entrepreneurial opportunity recognition begins with the imagination of an entrepreneurial opportunity (Ramoglou and Tsang, 2016). Imagining an entrepreneurial opportunity is a cognitive process and carries an initial imagination of making profit after engaging in an entrepreneurial activity (Korsgaard et al., 2016). As an illustration, in his own words Elon Musk (CEO of Tesla, PayPal and SpaceX) never expected to revolutionise the world and it was not his long –fulfilled expectation rather it was an abstract or *belief* in an area that would possibly influence the future of humanity (Khan Academy, 2013).

After imagining entrepreneurial opportunities entrepreneur develop believability about their imagined state of the entrepreneurial opportunity (Lounsbury and Glynn, 2001). Opportunity belief (i.e. potential value of an entrepreneurial opportunity, knowledge related to an opportunity, window of an opportunity, and number of entrepreneurial opportunities) (Mitchell and Shepherd, 2010) play a critical role in the entrepreneurial opportunity recognition process (Wood et al., 2014). Wood et al. (2014) considered profitability of an opportunity as a factor when exploring the opportunity beliefs of entrepreneurs. Contrarily, economic motives, such as profit, are not the only determinant of an entrepreneurial opportunity (Khelil, 2016). Entrepreneurs may value or forgo an entrepreneurial opportunity to meet their non-economic expectations such as autonomy (Miller, 2015), work and family

life balance (Karkoulou et al., 2016). Thus, entrepreneurs can envision a non-existent future in line with their subjectivity (Korsgaard et al., 2016; Ramoglou and Tsang, 2016) and it is difficult to determine *ex ante* that an entrepreneurial opportunity exists (Ramoglou and Tsang, 2016). Therefore, it is reasonable to claim that entrepreneurs cannot predict the future (Cornelissen and Clarke, 2010), that entrepreneurial opportunities objectively exist (Ramoglou and Tsang, 2016), but subjectively imagined and believed by entrepreneurs (Foss and Klein, 2012; McMullen, 2015; Ramoglou and Tsang, 2016).

Based on beliefs in entrepreneurial opportunities entrepreneurs tend to create self-fulfilling prophecies that effect their tendency for pursuing an entrepreneurial opportunity (Oblog et al., 2010). As an illustration, Bower (2017) characterises the allocation of resources as dependent on the subjective beliefs of entrepreneurs. Our paper is structured as follows. In the following section, we will discuss strengths and highlight limitations of previous theoretical approaches. Finally, we contribute theoretically and support future research by comprehensively defining opportunity recognition, developing and presenting a new and holistic conceptual framework and providing propositions to support future research.

## **LITERATURE REVIEW AND THEORETICAL UNDERPINNINGS**

### **Theoretical Underpinnings**

Key theories that underpin this field of study include actualisation approach (subjective imagination, believability and objective presence of entrepreneurial opportunities) (Ramoglou and Tsang, 2016), process theory of new venture creation (justification of previous entrepreneurial experience and entrepreneurial motivation to resolve uncertainty for a new venture) (Cornelissen and Clarke, 2010), and social network theory (transmission of useful knowledge and information through social networks ties and interpersonal

communication) (Burt, 1992, 1997; Granovetter, 1973, 1985). We develop and present a theoretical framework of the theoretical perspectives that underpin our study in Figure 1.

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The actualisation approach views entrepreneurial opportunities as un-actualised propensities and that the process of entrepreneurial opportunity recognition begins with the imagination of an entrepreneurial opportunity (Ramoglou and Tsang, 2016). Imagining an entrepreneurial opportunity is a cognitive process and carries an initial imagination of making profit after engaging in an entrepreneurial activity (Korsgaard et al., 2016). After imagining entrepreneurial opportunities entrepreneurs aim to develop believability about their imagined state of the entrepreneurial opportunity (Lounsbury and Glynn, 2001). Thereby, entrepreneurs envision a non-existent future in line with their subjectivity (Korsgaard et al., 2016; Ramoglou and Tsang, 2016) and it is difficult to determine *ex ante* that an entrepreneurial opportunity exists (Ramoglou and Tsang, 2016). Therefore, the actualization approach views entrepreneurial opportunity recognition as subjectively imagined, believed and an objectively existing process (Ramoglou and Tsang, 2016). According to Ramoglou and Tsang (2016) “entrepreneurs must act to realise their projects, but they cannot bend the social world, voluntaristically, to their wishes. Entrepreneurs act in, and on, a socially structured and culturally shaped world which may resist their efforts to transform it into new products, firms and markets” (p. 572). In order to strengthen the believability (self and others) in an imagined entrepreneurial opportunity entrepreneurs’ share and seek information from their social networks which identify what information entrepreneurs have access to (Zhou et al., 2007).

Social networks are considered as one of the most significant sources of information for entrepreneurs (Ma et al., 2011) and increase the likelihood of their success (Leyden et al., 2014). The role of social network perspective of entrepreneurs is treated as significant to resolve a long existing research paradox, namely, why certain entrepreneurs can recognise entrepreneurial opportunities, and why others cannot (Bhagvatula et al., 2010). In order to understand the dynamics and highlight the significance of entrepreneurs' social networks research focus has turned to social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985), which explains them as "the transmission of knowledge or useful information through interpersonal ties and social contacts with individuals" (Zhou et al., 2007, p. 676). Thus, information sharing is a key feature of social network theory and entrepreneurial opportunity recognition (Ozgen and Baron, 2007). Social network theory represents social relationships in terms of nodes and ties, as nodes represent the individuals within the social networks, and ties represent the relationships between these individuals (Ma et al., 2011). The focal idea of social network theory is that social structure is a core determinant of entrepreneurial opportunities and entrepreneurs through their web of social relations recognise entrepreneurial opportunities (Ozgen and baron, 2007). Social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985) has often been employed in entrepreneurial opportunity recognition research (Badi et al., 2017; Ma et al., 2011; Upson et al., 2017). However, the application of social network theory to specifically address entrepreneurs' imagination and beliefs for entrepreneurial opportunity recognition is still underexplored.

The process theory of new venture creation (Cornelissen and Clarke, 2010) highlights availability and applicability of past entrepreneurial experience, and the motivation to resolve uncertainty as important determinants of imagining and rationalising entrepreneurial opportunities (Cornelissen and Clarke, 2010). New ventures are the commercial entities that are imagined as well as rationalised by entrepreneurs in emerging or established markets

(Cornelissen and Clarke, 2010; Ramoglou and Tsang, 2016) Process theory of new venture subscribes to the notion that breadth (i.e. entrepreneurs learning in different industries) (Cornelissen and Clarke, 2010) and depth (i.e. great deal of time spent in the source industry) (Gavetti et al., 2005) of entrepreneurial experience play a vital role in venture creation. Experienced entrepreneurs tend to recall their past experience of a particular industry as well as different industries while making sense of a novel venture (Baron and Ensley, 2006). The process theory of new venture features entrepreneurs' motivation to reduce uncertainty as an important determinant for entrepreneurial opportunity recognition (Cornelissen and Clarke, 2010). Uncertainty mostly derives from uncertain demands, success of the proposed business model, and future resource requirement (Arend et al., 2015). Yet, entrepreneurs' keep moving forward in the constantly uncertain world of entrepreneurship (Foss and Klein, 2012). Cornelissen and Clarke (2010), posit that at the initial stage of a venture entrepreneurs are motivated to resolve uncertainty and legitimise their business idea. Therefore, according to Cornelissen and Clarke (2010), entrepreneurs tend to adapt their sense-making of a new venture in order to minimise uncertainty.

In the following section, we will illuminate upon the internal factors effecting entrepreneurs' imagination for entrepreneurial opportunities, and the influence of experimental knowledge.

## **Internal Factors Effecting Entrepreneurs' Entrepreneurial Opportunities**

### **Experiential Knowledge**

Though entrepreneurial opportunities exist in the market, one cannot exclusively rely on implicit market demands. Entrepreneurs link their past entrepreneurial experiences to recognition of new entrepreneurial opportunities (Baron and Ensley, 2006). According to Ucbasaran et al. (2009), entrepreneurs relate their prior business experience to future opportunity identification. Scholars of entrepreneurship have elaborated upon the notion of

entrepreneurial experience in several ways. In order to test the role of entrepreneurial experience in recognition of entrepreneurial opportunities, Baron and Ensley (2006) explained entrepreneurial experience as learning from involvement in past entrepreneurial activities. Similarly, Toft-Kehler et al. (2014) explained it as prior experience in managing the venture. In addition, Ucbasaran et al. (2010) characterised entrepreneurial experience as prior business ownership failure, and whether such entrepreneurial experience was acquired sequentially or concurrently. Gavetti et al. (2005) conceptualised entrepreneurial experience as breadth (i.e. entrepreneurs learning in different industries) and depth of experience (i.e. “great deal of time spent in the source industry”).

Recognising the importance of these interrelated dimensions, in our study we explore breadth and depth of entrepreneurial experience, as well as past entrepreneurial success *and failure* (i.e. nature of entrepreneurial experience) (Ucbasaran et al., 2009) to offer a greater level of comprehensiveness in conceptualisation. Thus, we extend upon previous research attempts by addressing their limitations to holistically define the entrepreneurial opportunity recognition process of entrepreneurs. Shepherd et al. (2015) call for studies that better explore the nature of entrepreneurial experience and its effect on entrepreneurial opportunity recognition process, and in our study we address this call, comprehensively.

### **Breadth of Experience**

Breadth of experience is the number of industries that an individual has experienced either vicariously or personally and it provides a platform to relate the multiple industries to the current context (Gavetti et al., 2005). Toft-Kehler et al. (2014) highlighted a positive role for entrepreneurial experience in venture performance. They concluded that there was a significant role for similar industry experience in venture performance as this specific type of industry experience yields direct and similar contextual relationships of past experience to the present venture. Contrarily, a more recent study by Williams et al. (2017) acknowledges the



positive strategic role of cross industry experience. William et al. (2017) justify their findings by recognising the benefits of across industry experience for managing competitive strategic and operational change and renewal of in-industry trends. As an illustration, according to Ganguly (2013), CEOs like Mittu Chandilya (Air Asia India) and Ramesh Krishnan (Reserve bank of India) had somewhat “tangential” experience before becoming CEOs of their respective organisations. In his own words, Mittu Chandilya recognised the need for across industry experience to run a venture more competitively, which he views as a strength and has incorporated this into his current role. Similarly, according to Nickisch (2016), “with experience in different competitive landscapes and unburdened by a long history and tangled relationships within the company, [CEOs] can have an easier time driving major changes (Nickisch, 2016. p. 1.)

### **Depth of Experience**

Depth of experience is the time spent in a source industry and it enables entrepreneurs to distinguish what is right and what is wrong in a particular context (Gavetti et al., 2005). Entrepreneurs with depth of experience are deemed directly relevant to the context of a new venture and these entrepreneurs more relevantly recall their past experiences with a novel entrepreneurial venture (Cornelissen and Clarke, 2010). A study by Baron and Ensley (2006) of 88 experienced and 106 novice (i.e. first time establishing vs running an entrepreneurial venture) entrepreneurs in the US identified a significantly positive role for entrepreneurial experience in entrepreneurial opportunity recognition. However, Baron and Ensley (2006) considered only the quantity of entrepreneurial experience (i.e. years of entrepreneurial experience and number of entrepreneurial ventures founded) to distinguish between experienced and novice entrepreneurs. They did not expressly (explicitly or implicitly) consider depth or breadth of entrepreneurial experience, which we consider a weakness, to merely consider the quantity of entrepreneurial experience. According to Shepherd et al.

(2015) quantity of experience is insufficient to untangle the complicated and heterogeneous nature of entrepreneurial experience and further research should advance beyond consideration of quantity of entrepreneurial experience, which we support.

Eggers (2012) addressed the significant role of breadth of experience for the introduction of new products and the role of depth of experience to increase the quality of existing products. Therefore, drawing on the theoretical lens of the process theory of new venture creation (Cornelissen and Clarke, 2010) our study adopts a more comprehensive approach and subscribes to the notion that “entrepreneurs with depth and breadth of experience in multiple industries are likely to induce analogies that highlight a common set of relations between an (experienced or observed) industry and the target industry when they are initially speaking to others about a novel venture” (Cornelissen and Clarke, 2010, p. 546).

### **Past Entrepreneurial - Success and Failure**

Entrepreneurs are heterogeneous in the nature and amount of their entrepreneurial experience as well as how these differences impact their decision-making (Shepherd et al., 2015). The nature of past entrepreneurial experience, either as a success or a failure, is significant in shaping future attitudes of entrepreneurs (Shepherd, 2003; Shepherd et al., 2015; Zhang and Cueto, 2017). Prior entrepreneurial experience substantially facilitates and inspires entrepreneurs’ decision-making to recognise entrepreneurial opportunities (Farmer et al., 2011). Prior studies have focused less on an emerging market context and are generally conducted in developed economies such as Great Britain, U.S. and Sweden. Prior research also shows inconclusive effects of the influence of entrepreneurial experience on entrepreneurs’ decision-making. A survey of 576 Great Britain based entrepreneurs revealed that after previous business failure, ‘portfolio’ entrepreneurs tend to imagine less positive expectations from future entrepreneurial opportunities and ‘serial’ entrepreneurs show no change in their attitude for subsequent entrepreneurial opportunities (Ucbasaran et al., 2010).

In contrast, a study based on 891 bankrupt firms in Sweden, Jenkins et al. (2014), found a positive attitude among portfolio entrepreneurs toward future entrepreneurial opportunities. Similarly, Zacharakis and Shepherd (2001) highlighted the value of entrepreneurial experience as it influences the future entrepreneurial opportunity recognition perception of entrepreneurs. Their study of 51 venture capitalist revealed that more experienced venture capitalist are more optimistic about success of future entrepreneurial opportunities. In another study, Shepherd et al. (2003), found a positive role for entrepreneurial experience in venture capitalist decisions. In contrast to the abovementioned studies, their study also identified the negative effect of entrepreneurial experiences as venture capitalists can become overconfident after an optimal level of 14 years of experience.

In contrast to Zacharakis and Shepherd (2001) and Shepherd et al. (2003), Forbes (2005) found that less experienced entrepreneurs were more positive about entrepreneurial opportunities as compare to more experienced entrepreneurs. Forbes, (2005) measured prior entrepreneurial experience by asking respondents “to report the number of times that they had previously been involved in founding or managing a new venture” (p. 633). However, Forbes (2005) ignored the nature of entrepreneurial experience and relied only on quantity of entrepreneurial experience. In contrast to the studies mentioned above, Hogarth and Karelaia (2012) found failed entrepreneurs are more confident about entrepreneurial opportunities then successful entrepreneurs. For this reason, Hogarth and Karelaia, (2012) suggest that entrepreneurs should keep experience and believability in entrepreneurial opportunities as separate dimensions. On the other hand, according to Shepherd et al. (2015), failure is a frequent phenomenon in the entrepreneurial world and it stimulates the sense-making of future entrepreneurial opportunity recognition. It is important to note that the contrasting evidence of the aforementioned studies are primarily due to the heterogeneous and complex

nature of entrepreneurial experience, which teaches different lessons to different entrepreneurs (Shepherd et al., 2015).

As an illustration, Ameriquest was among the largest mortgage lenders in US until it closed down due to financial crises of 2007-2010 (Stempel, 2007). The lessons that entrepreneurs of Ameriquest learned were primarily based on external economic factors that resulted in the ultimate failure of Ameriquest. Contrarily, Dell failed due to its non-competitive and slow innovation into the age of personal computing such as tablets or smartphones (McLntyre et al., 2013). Similarly, another big name, Mike Lazaridis (co-founder of BlackBerry), failed to transform BlackBerry's strategy from the corporate industry to the consumer smart phone industry and consequently neglected a great unserved market share (McLntyre et al., 2013). Hence, unlike Ameriquest, Dell and Blackberry failed as a result of internal factors related to poor competitive policies and weak innovation. Therefore, by keeping into consideration the heterogeneity of entrepreneurial experience and entrepreneurial failure as a frequent phenomenon (Shepherd et al., 2015), entrepreneurial failure can be viewed as an important element in learning and experience for entrepreneurs. This is frequently omitted from discussions on entrepreneurial experience. For this reason, we include the concept of failure and briefly mention the different types of entrepreneurial failure (Khelil, 2016).

“Failure is a necessary and unavoidable state of the world when venturing into the domain of nonopportunity-no matter how hard one might try (Ramoglou and Tsang, 2016, p. 421). By acknowledging the heterogeneous nature entrepreneurial failure, based on an integrated determinist (considering external uncontrollable environmental factors as a cause of entrepreneurial failure (Cardon et al., 2011), voluntarist (considers entrepreneurial policies and practices as primary determinist of entrepreneurial failure) (Khelil, 2016) and emotive approach (considerers entrepreneurs motivation and commitment as a critical determinant of entrepreneurial failure or persistence) (Khelil, 2016), we confirm the complex configurations

of entrepreneurial failure. Our conceptualisation of entrepreneurial failure includes: (1) Total failure, (2) Economically failing firm and entrepreneurs persistence, (3) Persistence with entrepreneurs disappointment, (4) Persistence with economic and psychological failure, (5) Exit caused by new venture economic failure, (6) Exit caused by entrepreneur's disappointment, and (7) Exit to avoid failure (Khelil, 2016). In the following section we will illuminate on the influence of entrepreneurial success on opportunity recognition in detail.

Entrepreneurial success or zero failure is an entrepreneurial context where an entrepreneurial venture is capable of economic growth and generates sufficient economic returns to meet an entrepreneur's expectations (Khelil, 2016). By keeping into consideration, the breadth of experience, depth of experience, past entrepreneurial success and past entrepreneurial failure, this study provides a more comprehensive understanding of the role of entrepreneurs' experiential knowledge in sense-making process (imagining entrepreneurial opportunity and believing in entrepreneurial opportunity) of entrepreneurs and leads to the first proposition.

**Proposition 1:** *Experiential knowledge (breadth, depth and past success and failure) directly influence entrepreneurs' sense-making for entrepreneurial opportunities.*

### **Entrepreneurs' motivation to resolve uncertainty**

According to Alvarez and Barney (2005), uncertainty is described as scenario where future outcomes of an act are unknowable and we cannot predict precisely the consequence of a decision (Downey et al., 1975). It is the discomfort of uncertainty that drives imagination of individuals to forge new connections (Loasby, 2011). Uncertainty is a primal feature of entrepreneurship and an entrepreneur's ability to interpret and react to uncertainty plays a significant role in success or failure of an entrepreneurial venture (McKelvie et al., 2011). According to Spender (2014), the core of entrepreneurial strategy is imagining and realising opportunities under uncertain conditions.

Scholars of the discovery approach (e.g. Baron, 2006; Shane and Nicolaou, 2015; Shane and Venkataraman, 2000), espouse the notion of discovering objectively existing opportunities. By doing so, the logic that follows is that entrepreneurs are featured as performing only discovery functions. Hence, they leave no room for uncertainty (McKelvie et al., 2011; Ramoglou and Tsang, 2016). On the other hand, according to Klein (2008) entrepreneurial gains such as profit cannot be determined ex-ante and only future results of an entrepreneurial action can determine the actual realisation of entrepreneurial gain or loss. Based on the resource based view (Barney, 1991) an experimental study by McKelvie et al. (2011) of 90 new product development decision makers in the Swedish software industry revealed that more uncertainty leads to less willingness for an entrepreneurial action. They further found the varying effect of state uncertainty (uncertainty to predict changing components of the environment), effect uncertainty (uncertainty to predict the effect of environmental changes) and response uncertainty (scarcity of information about how to response to environmental changes and inability to predict the consequence of response to environmental changes) (Miliken, 1987) on willingness to take entrepreneurial action. Similarly, again using the discovery approach the study by McKelvie et al. (2011) focused only on the objective existence of opportunities while subjectivity of entrepreneurial action was ignored. While scope of entrepreneurial action was considered it was only limited to resources mobility. According to Ramoglou and Tsang (2016) “we abandon the expectation that opportunities will inevitably be perceived at the moment of their emergence” (p. 423). Therefore, treating entrepreneurial opportunity recognition as an “Aha”, “eureka” or a one-time discovery experience eliminates the potential entrepreneurial role of understanding, interpreting or responding to uncertainty (Lumpkin and Lichtenstein, 2005). Similarly Ramoglou and Tsang (2016) posit “We are in a state of agnosticism. We can imagine endless possibilities, but we cannot know whether they fall within the domain of unactualized propensities or whether our

imagination has sidetracked into the domain of the impossible. We know philosophically that unactualized propensities exist in abstracto but not where they exist in concreto” (p. 425). Similarly while acknowledging these inherent complexities in conceptualisations, Loasby (2011) features uncertainty as a necessary condition for imagination, an initiative to action and a way to build our deeper understanding in the field of entrepreneurship.

Assumptions underpinning the actualisation approach (Ramoglou and Tsang, 2016), suggest we should not limit the scope of uncertainty to only profit or loss, uncertainty prevails in all environmental conditions that might hinder or facilitate an entrepreneurial imagination. Therefore our study elucidates the effect of state uncertainty (uncertainty to predict changing components of the environment), effect uncertainty (uncertainty to predict the effect of environmental changes) and response uncertainty (scarcity of information about how to response to environmental changes and inability to predict the consequence of response to environmental changes) (Miliken, 1987) on entrepreneurs imagination.

According to the theory of new venture creation (Cornelissen and Clarke, 2011) entrepreneurs are motivated to resolve uncertainty and this motivation justifies entrepreneurial actions in, especially in the early phases of creating an entrepreneurial venture. Therefore, by grounding our study in the theory of new venture creation (Cornelissen and Clarke, 2011) and the actualisation approach (Ramoglou and Tsang, 2016) we propose our second proposition.

**Proposition 2:** *Entrepreneurs’ motivation to resolve uncertainty directly influence the sense-making process of entrepreneurs for opportunity recognition.*

## **External Factors Effecting Entrepreneurial Opportunities**

### **Social networks**

Social networks are the key factors that determine the information access of an individual (Ma et al., 2011) and success of entrepreneurs partially depends upon being well connected

(Vissa, 2011). Previous studies (Johannison 1990; Stuart and Sorenson, 2007) have primarily focused on the significance of social networks. However, the nature of the entrepreneurial opportunity context is still under explored (Upson et al., 2017). For example, while the study of Stuart and Sorenson (2007), primarily focused on individual personalities to signify the importance of strategic social networks, surprisingly, their study ignored the importance of acknowledging the context as an essential element in the process of exploring how an entrepreneurial opportunity is recognised to exist or understanding its location.

By drawing on the study of Aldrich and Zimmer (1986) we can understand more fully that entrepreneurs rely on social ties while they follow the path of an entrepreneurial journey. More specifically, socially provided information is quite critical for entrepreneurial opportunity recognition (Ozgen and Baron, 2007). The study of Ozgen and Baron (2007) explored the significant role of social networks in entrepreneurial alertness for discovery of entrepreneurial opportunities. In their study Ozgen and Baron (2007) featured entrepreneurial opportunities as discoverable and entrepreneurs as alert individuals. Their study recalls two old research paradoxes i) should we focus on individual personalities or individual traits? and ii) do we ignore the role of ongoing individual efforts and development if opportunities are treated as merely discoverable? (Ramoglou and Tsang, 2016). While the scope of the study by Ozgen and Baron (2007) is extensive, it is nonetheless limited to only knowledge based industries i.e. IT (Chandra, 2017). Hence the industry based variation is ignored in their study. This may have important implications as we know the tacit knowledge sharing is supported by social capital and that this is especially important in emerging market contexts, where deep market-specific knowledge, compared to international knowledge (Lindstrand and Melen Hanell, 2017), is the most essential type of knowledge needed by new venture entrepreneurs in the recognition of entrepreneurial opportunity and new venture success. The IT sector is very global in its reach, and emerging markets are a context that are especially



challenging for entrepreneurs. These internal and external factors will influence entrepreneurial opportunities and the recognition process. Thus, we suggest industry based variations should not be ignored.

In order to understand the dynamics and to highlight the significance of an entrepreneur's social networks, recent as well as (Lindstrand and Melen Hanell, 2017) earlier research, has continued to focus on social capital and social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985). For example, one of the basic tenants of social network theory explains that "the transmission of knowledge or useful information [is transferred] through interpersonal ties and social contacts with individuals" (Zhou et al., 2007, p. 676). Thus, information sharing is a key feature of social network theory and entrepreneurial opportunity recognition (Ozgen and Baron, 2007). Social network theory represents social relationships in terms of nodes and ties. For example, nodes represent the individuals within the social networks, and ties represent the relationships between these individuals (Ma et al., 2011). The focal idea underpinning social network theory is that social structure is a core determinant of entrepreneurial opportunities and entrepreneurs through their webs of social relations recognise entrepreneurial opportunities (Ozgen and baron, 2007). Social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985) has often been employed in entrepreneurial opportunity recognition research, especially more recently (Badi et al., 2017; Kontinen and Ojala, 2011; Upson et al., 2017). However, the application of social network theory to explain entrepreneurs' imagination and beliefs (actualisation approach) for entrepreneurial opportunity recognition is still underexplored (Upson et al., 2017). Given the weakness in current research, in our study, we are address this concern by taking into consideration the important of social networks and why i) bridging ties, and the ii) tie strength of entrepreneurs is an important feature of the entrepreneurial opportunity recognition process.

### **Bridging Ties and Tie Strengths**

According to Burt (1992) in a competitive world of entrepreneurship each player (entrepreneur) has a social network/network of contacts and this network of contacts facilitates the process of entrepreneurial opportunity recognition (Ma et al., 2011). By drawing on the seminal as well as more recent literature in this field, specifically studies by McEvily and Zaheer (1999) and Ma et al. (2011), our study will identify the role of internal and external sources of information that entrepreneurs rely upon, given we know their importance in the entrepreneurial opportunity recognition process has been apparent and confirmed in the entrepreneurship literature for some time.

Tie strength is defined as the interaction and closeness frequency of a relationship among two parties. Ma et al. (2011) measured tie strength based on following three item scales: 1) closeness of working relationship among parties, 2) frequency of communication among parties, and 3) frequency of interaction among parties. Granovetter (1973) defined the strength of network ties as “a combination of the amount of time, the emotional intensity, the intimacy, and the reciprocal services which characterize the tie” (p. 1361). According to Granovetter (1973) though people in the closer (inner) social circle are connected through (bridged in) strong ties but they tend to share information with these strongly connected contacts. In contrast, people in relationships characterised as having weak ties, do share dynamic information and their weak social ties can have significant and strong effects in decision-making process (Ma et al., 2011). Therefore, based on social network theory (Burt, 1992, 1997; Granovetter, 1973, 1985) our study proposes.

**Proposition 3:** *Entrepreneurs’ social networks directly influence the sense-making process of entrepreneurs for opportunity recognition.*

### **Formal and Informal Market Orientation**

Market orientation is the “behavioural intention and attempt to understand the market and competitors’ ability to differentiate and seek new opportunities” (Hulbert et al., 2015, p. 619).

Through the interaction with demand-side participants of a product such as customers, entrepreneurs tend to make sense of entrepreneurial opportunities. However, our knowledge of how entrepreneurs understand market demand to conceive entrepreneurial opportunities remains limited (Nambisan and Zahra, 2016). Stronger market orientation (i.e. market intelligence generation, market intelligence dissemination and market intelligence responsiveness) is invaluable for a quick response to market needs and preferences. This is particularly so in the presence of “structural inertia”, which is a common characteristic of emerging markets (Boso et al., 2013). A study by Hulbert et al. (2015) revealed a mixed response by entrepreneurs towards the adoption of formal or informal market orientation. However, their study did not reveal the effect of formal and informal market orientation choices on the sense-making process of entrepreneurial opportunities. Despite the presence of obvious benefits and the complexity and cost of formal adoption of market orientation, its effects on opportunity recognition of entrepreneurs (Kuratko, 2017) varies from developed to less developed and emerging economies (Boso et al., 2013). Therefore, we propose our fourth proposition.

**Proposition 4:** *Entrepreneurs’ formal and informal market orientation adoption directly influences the sense-making process of entrepreneurs for opportunity recognition.*

### **Entrepreneurial Intention**

Intention is a “self-acknowledged conviction by a person that they intend to set up a new business venture and consciously plan to do so at some point in the future” (Thompson, 2009, p. 676). In an entrepreneurial context, “the more positive an individual’s evaluations of engaging in entrepreneurial behaviour are, the more supportive of entrepreneurial behaviour the individual perceives their significant others to be, and the more capable they feel of performing entrepreneurial activities, the stronger should be their intention, ceteris paribus, to engage in entrepreneurial behaviour” (Kautonen et al., 2013, p. 699).

Thus, intention is a function of beliefs. In the field of entrepreneurship, prior studies have heavily relied on students as a sample to determine the intentions to start an entrepreneurial venture (e.g. Peterman and Kennedy, 2003 and VanGelderen et al., 2008). This reliance in convenience sampling of students has potentially constrained the generalizability of previous studies. In the current study, we aim to explore the sense-making process of serial entrepreneurs in an emerging market context to explicate their intentions to start a venture.

**Proposition 5:** *The sense-making process of entrepreneurs for opportunity recognition directly influences entrepreneurial intention.*

## **Conclusion**

The notion of ‘opportunity recognition’ within entrepreneurship literature is one which has continued to feature in this field of research, especially more recently, given the important entrepreneurial opportunities that exist globally, **especially in the emerging markets**, fuelled by the expanding middle class in the last two decades (Shane and Nicolaou, 2015; Tang et al., 2012; Vantor and Franke, 2016). Recognition of opportunities is central to entrepreneurs and entrepreneurship plays a key role in providing a literature to explore the recognition of potential entrepreneurial opportunities (Sarason et al., 2006). However, to understand the opportunity recognition process of entrepreneurs, one must first review the origin of opportunity.

Thus, our study has explored the following research question, which we know is both timely and important - *How do entrepreneurs recognise entrepreneurial opportunity?* To do so, we have explored the entrepreneurship literature, both seminal and more recent, and to address current weaknesses in available models that research continues to affirm are lacking in theoretical explanations and myopic in their coverage of key concepts. To address our research question, we have therefore adopted an exploratory and broader perspective, by

keeping in view the significance of the sense-making process of entrepreneurs. This suggests the recognition of entrepreneurial opportunity comprises both subjective and objective factors that integrate the imagining and believing in an entrepreneurial opportunity. Thus, our study contributes by developing and presenting a new conceptual framework (Figure 2) with supporting propositions to theoretically explain the role of sense-making in the entrepreneurial opportunity recognition process.

Please Place Figure 2 here.

Our conceptual framework is supported by a delineation table (Table1), a summary of the key concepts and their dimensions, linked propositions and integrated theoretical underpinnings that contribute by offering a more holistic understanding and thus strengthens, as well as overcoming limitations of previous theoretical approaches. Finally, we contribute theoretically and support future research by comprehensively defining opportunity recognition, developing and presenting a new theoretically grounded and integrated conceptual framework and providing propositions, within the field of entrepreneurship, borrowing literature and theories from sociology, psychology and organisational management disciplines.

Please Place Table 1 Here

Our conceptual framework is an important theoretical contribution because it provides new explanations on ‘opportunity recognition’. This is a challenging concept, because opportunities are rarely self-evident, are information and context dependent, and time variant. Recognising the importance of this, we integrate three key theories, actualisation approach, process theory of new venture creation, and social network theory to explore breadth and depth of entrepreneurial experience, to overcome present limited theoretical explanations that offer myopic perspectives and as well as the role of past entrepreneurial experience (both

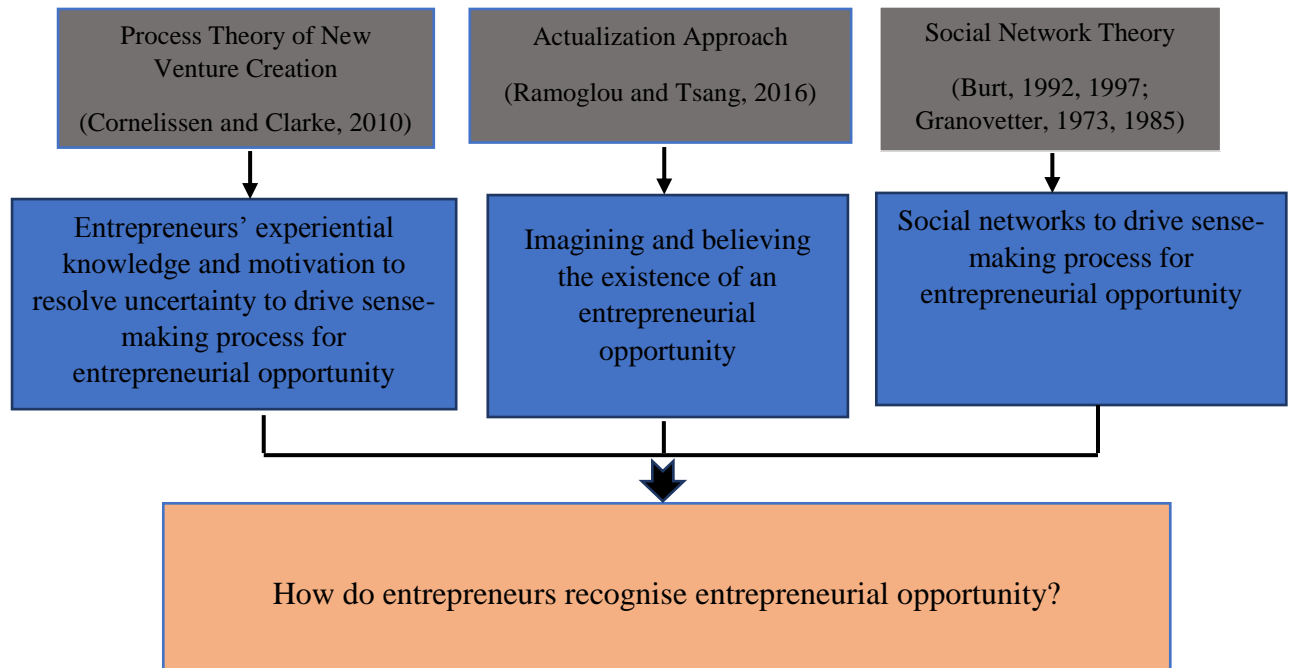
success and failure) on the entrepreneurial opportunity recognition process. We provide a new conceptual framework that extends previous attempts by integrating imagining and believing entrepreneurial opportunity. Finally, our framework more comprehensively explores the nature of entrepreneurial experience by incorporating its full effect on the entrepreneurial opportunity recognition process to support future testing.

## **Future Research**

Future research can apply and validate the proposed conceptual framework for empirical development in an emerging market context. This is timely and important, given the rapid investment now taking place in many emerging countries, their unique market characteristics and potential for becoming major economic forces in global trade. Surprisingly, prior research has focused far more on larger emerging markets in Asia such as China and India, and far less on smaller Asian emerging markets to comprehend the opportunity recognition process of entrepreneurs. Such understanding could be developed through qualitative and quantitative studies in the smaller Asian emerging market context. We recommend exploring the opportunity sense-making process of serial entrepreneur who are primary creators and have individually established their ventures (to avoid reliance on the role of partners in deciding the opportunity for a new venture), and ventures that are individually run (to avoid the role of team decision making) and new ventures operating fewer than five years (to avoid the role of venture spin-offs, such a subsidiary of an already established business). Subsequent research should seek to empirically explore the sense-making process of entrepreneurs for firm opportunity conviction. With an aim to explore the sense-making process of entrepreneurs, researchers should seek to answer how do entrepreneurs imagine (i.e. imagining the products or services, imagine the market to serve, imagine the resources, capabilities and activities) (Keating and McLoughlin, 2010) and develop beliefs (i.e. potential value of an entrepreneurial opportunity, knowledge adequacy for opportunity, window of an

opportunity and number of potential opportunities) ( Mitchell and Shepherd, 2010) in entrepreneurial opportunities.

**Figure 1: The Theoretical Perspectives Underpinning the Study**





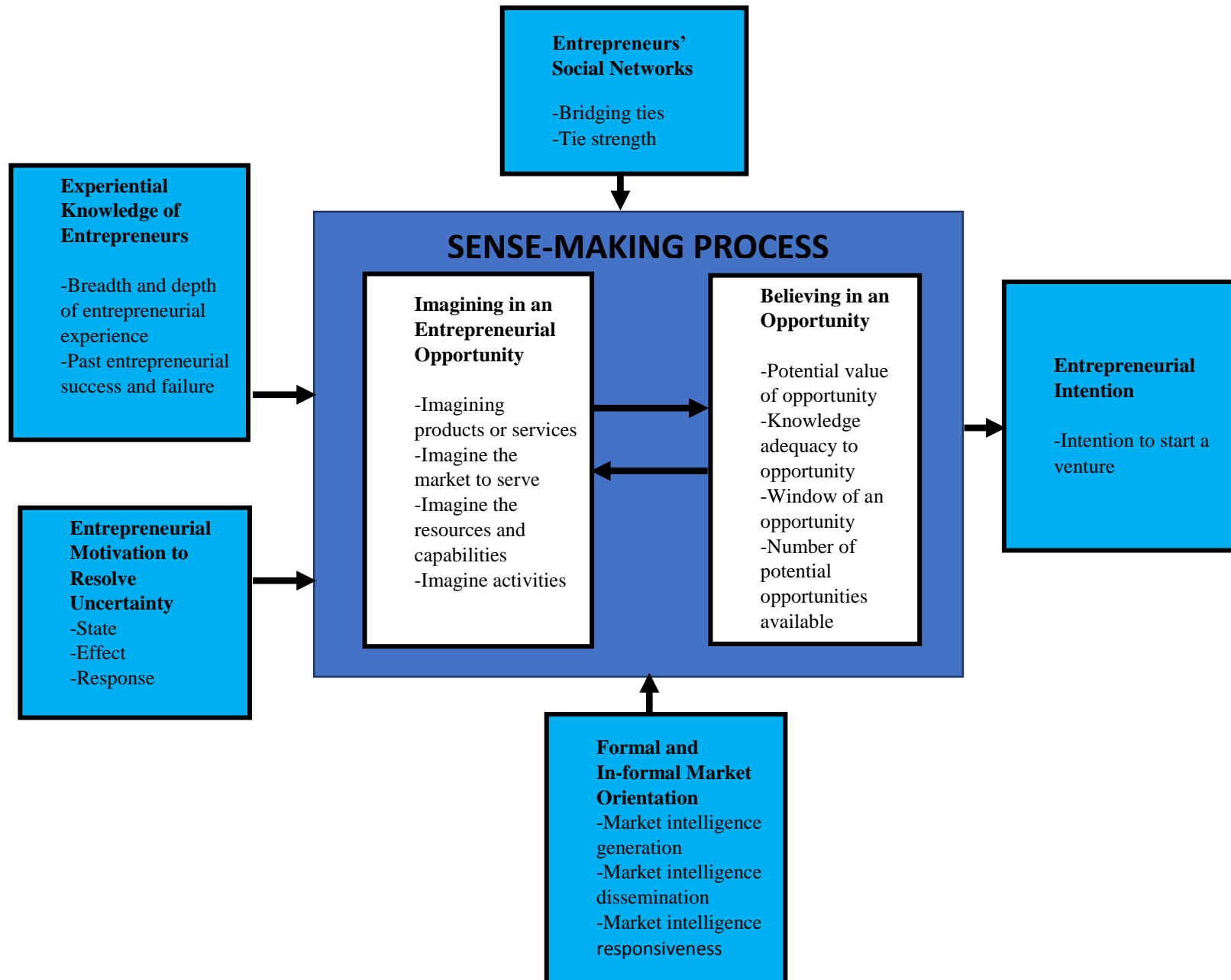


Figure 2: Conceptual Framework of the Entrepreneurial Opportunity Recognition Process

**Table 1: Deliniation of the Conceptual Framework**

Concepts and Dimensions	Supporting Research	Theories	Relevant Propositions
<b><u>Experiential Knowledge of Entrepreneurs</u></b> 1. Breadth and Depth of Entrepreneurial Experience  2. Past Entrepreneurial Success or Failure  <b><u>Motivation to Resolve Uncertainty</u></b> 1.State Uncertainty 2.Effect Uncertainty 3.Response Uncertainty	Baron and Ensley (2006); Cornelissen and Clarke (2010); Gavetti et al. (2005); Shepherd et al. (2015); Toft-Kehler et al. (2014); Ucbasaran et al. (2010); William et al. (2017)  Cardon et al. (2009); De Tienne et al. (2008); De Tienne et al. (2015); Khelil (2016); Ramoglou and Tsang (2016); Townsend et al. (2010)  Alvarez and Barney (2005); Cornelissen and Clarke (2010); Loasby (2011); McKelvie et al. (2011); Milken (1987); Ramoglou and Tsang (2016); Spender (2014)	Process Theory of New Venture Creation  Actualisation Approach          Process Theory of New Venture Creation  Actualisation Approach	<i>Proposition 1: Experiential knowledge (breadth, depth and past success and failure) directly influences entrepreneurs' sense-making for entrepreneurial opportunities.</i>          <i>Proposition 2: Entrepreneurs motivation to resolve uncertainty directly influences the sense-making process of entrepreneurs for opportunity recognition.</i>
<b><u>Imagining an Entrepreneurial Opportunity</u></b> 1. Imagining Products or Services 2. Imagine the Market to serve 3. Imagine the Resources and Capabilities 4. Imagine the Activities	Cornelissen and Clarke (2010); Keating and McLoughlin (2010); Korsgaard et al. (2016); Miller and Breton-Miller (2017); Ramoglou and Tsang (2016)	Process Theory of New Venture Creation  Actualisation Approach	<i>Proposition 1: Experiential knowledge (breadth, depth and past success and failure) directly influences entrepreneurs' sense-making for entrepreneurial opportunities.</i>
<b><u>Entrepreneurs' Social Networks</u></b> 1. Bridging Ties 2. Network (Tie) Strength	Badi et al. (2017); Burt (1992, 1997); Granovetter (1973, 1985); Ma et al. (2011); McEvily and Zaheer (1999); Ozgen and Baron (2007); Upson et al. (2017); Vissa (2011)	Social Network Theory	<i>Proposition 3: Entrepreneurs' social networks directly influence the sense-making process of entrepreneurs for opportunity recognition.</i>
<b><u>Believing in Entrepreneurial Opportunity (Economic &amp; Non-Economic)</u></b>	Lounsbury and Glynn (2001) McMullen (2015);	Actualisation Approach	<i>Proposition 1: Experiential knowledge (breadth, depth and past</i>

1. Potential Value of an Opportunity 2. Knowledge Adequacy to Opportunity 3. Window of an Opportunity 4. Number of Potential Opportunities Available	Mitchell and Shepherd (2010); Ramoglou and Tsang (2016); Wood et al. (2014)		<i>success and failure) directly influences entrepreneurs' sense-making for entrepreneurial opportunities.</i>
<b><u>Formal and Informal Market Orientation</u></b> 1. Market intelligence generation 2. Market intelligence dissemination 3. Market intelligence responsiveness	Boso et al., 2013; Bruton et al., (2008); Hulbert et al., 2015; Nambisan and Zehra, 2016; Kuratko, 2017	Actualisation Approach	<i>Proposition 4: Entrepreneurs' formal and informal market orientation directly influences the sense-making process of entrepreneurs for opportunity recognition.</i>
<b><u>Entrepreneurial Intention</u></b> Intention to start a venture	Kautonen et al., 2013; Peterman and Kennedy, 2003 Thompson, 2009; VanGelderen et al., 2008.	Actualization Approach	<i>Proposition 5: The sense-making process of entrepreneurs for opportunity recognition directly influences entrepreneurial intention.</i>

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