Generating Initial Ideas for New Venture Opportunities

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ABSTRACT
This paper integrates current theory and research to provide direct guidance on how to generate initial ideas for new venture opportunities. Two major determinants of the idea-generation process are: conceptions of what constitutes an opportunity (opportunity prototype properties); and material as well as intangible (prior knowledge, networks, self-knowledge) resources. Another two factors comprise the idea-generation process itself: the focus of attention and information types pursued; and the transformation of information and experience into initial ideas for opportunities. The resulting initial ideas are discussed in terms of their diversity and idiosyncracy, and in terms of being ‘end-point’ or ‘starting-point’ ideas.

Keywords: Idea-generation; opportunities; creativity

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INTRODUCTION

Opportunities, and how they are discovered, evaluated, created, developed, enacted, and exploited, are seen as a core element of entrepreneurship (Sarasvathy, 2001; Shane & Venkataraman, 2000; Shane 2003). These topics are increasingly addressed in educational and training settings, including business schools, where entrepreneurship education has been booming for the past few decades (Florin, Karri & Rossiter, 2007; Kuratko, 2005). Often practical applications start with students being asked to think of initial ideas for opportunities. Various methods have been explored and applied (Baron, 2006; DeTienne & Chandler, 2004; Fiet, 2007; Fiet & Patel, 2008; Van Gelderen, 2004, 2010). The aim and purpose of this article is to integrate current theory and research to provide direct guidance on how to generate ideas for new venture opportunities. The focus is on initial idea-generation, and no attention is paid to opportunity enactment and development (Baker & Nelson, 2005; Dimov, 2007; Sarasvathy, 2001), evaluation (Keh, Foo & Lim, 2002), or exploitation (Choi & Shepherd, 2004). The paper concerns individuals who are thinking of ideas for a new, independent venture, rather than an employee who is thinking of an opportunity for his or her organization.

Generating ideas for business opportunities is a complex process to which several factors contribute (see Figure 1). Motivation serves as a starting point, which involves the notion of alertness. Alertness is defined by Kirzner (1997) as an attitude of receptiveness to opportunities. In behavioral terms, individuals direct their attention to signals or cues that signify opportunities. Ardichvili, Cardozo & Ray (2003) refer to a state in which a person ‘notices and is sensitive to information, objects, incidents, and patterns in the environment, with special sensitivity to maker and user problems, unmet needs and interests, and novel
combinations of resources’ (p.113). Whether and how a motivation to see opportunities (alertness) translates into initial ideas for opportunities is affected by the four factors depicted in Figure 1. They are: the attributes and properties of a person’s opportunity concept; intangible (prior knowledge, networks, self-awareness) and material resources; the focus of attention and information types; and the transformation of information and experience into ideas for opportunities. Methods for the generation of ideas for opportunities can target each of these factors, and a comprehensive method would encompass all of them. The first two factors can be considered foundational: they are major influences on the ideas that a person comes up with. The second two factors make up the idea-generation process itself. Each factor will be discussed below.

**Figure 1: Generating Initial Ideas for Opportunities**
FOUNDATIONAL FACTORS

Opportunity prototype properties. When generating ideas for opportunities a person has some sort of idea of what constitutes an opportunity. Just as we have a mental concept of a ‘house’ to which villas and townhouses belong, but not malls and skyscrapers, so we have a mental concept or prototype of an opportunity (Baron, 2004). Examples of attributes include profitability, uniqueness, superiority, feasibility, market potential, and manageable risks (Baron & Ensley, 2006). Note that these properties are also evaluative dimensions. Initial guesses of their content may in some cases be precise, but in other instances these may only become clear over time. The attributes of a prototype, and the weights they are given, differ from person to person, for example, depending on their entrepreneurial experience. Both Baron and Ensley (2006) and Ucbarasan, Westhead, and Wright (2009) found experienced entrepreneurs to be more attracted by profitability and feasibility, whereas novice entrepreneurs tended to think of newness and uniqueness as defining attributes of opportunities.

These attributes and their weights will also differ depending on the type of opportunity pursued: Arbitrage, franchise, takeovers, imitation, cheaper/better/faster, incremental innovation, and radical innovation opportunities. With arbitrage, the search is for price differentials; with franchises for well-run and profitable yet reasonably priced operations; with imitations for successful businesses; with take-overs for well-performing or underperforming businesses; with cheaper/better/faster opportunities for possibilities to be cheaper/better/faster; and with innovation for possibilities to do something marginally (incremental innovation) or totally (radical innovation) different.

Immaterial and material resources. Another factor that comes into play when generating initial ideas for opportunities are an individual’s intangible (know-how, know-whom, know-
why) and material (have-what) resources. One intangible resource is a person’s knowledge base (know-how). Research indicates that knowledge and information gathered through rich and varied business, work, and life experience help people to recognize opportunities (Baron, 2006). Prior knowledge and experience are a major influence on the ideas that a person generates (Shane, 2000). Prior knowledge domains relevant to opportunity recognition include both business and industry knowledge, as well as any special interest expertise that one might have, for example, because of a hobby (Ardichvili et al., 2003; Shane, 2003). In simple terms, someone trained as a cook is likely to initiate an idea for a restaurant, whereas an ICT expert is more likely to have an idea for an ICT company. However, being knowledgeable in multiple knowledge domains opens up possibilities to make connections between those different domains (Ardichvili et al., 2003; Baron, 2006). Thus, the ICT expert who also happens to be a cook has a higher chance than other people to think of an opportunity that combines features of the two domains.

One other factor that serves as a basis for the conjecturing of ideas for opportunities is a person’s sense of identity, work motivation, and personal meaning (know-why). These effect idea-generation in a comparable way to accumulated prior knowledge (know-how). Ideas that fit well with an individual’s aims, aspirations, and sense of identity are more likely to emerge. Not only that, they are also more likely to be actually pursued, rather than being ideas for someone else to act on (McMullen & Shepherd, 2006). Similarly, the information flowing from a person’s network (know-whom) influence the ideas that a person will think of (DeCarolis & Saparito, 2006; Ozgen & Baron, 2007). Whereas in the section foundational influences are highlighted, it’s obviously the case that conversely, ideas can be actively tested and discussed within one’s network (Dyer, Gregersen and Christensen, 2008). Finally, the availability of material resources influences initial ideas for opportunities. In Stevenson and Jarillo’s (1990) famous definition, entrepreneurs are people who pursue opportunities.
regardless of resources under their control. Careful study of entrepreneurial practice however reveals that many entrepreneurs use their resources, both material and intangible, as the starting point for opportunity creation (Baker & Nelson, 2005; Sarasvathy, 2001). Material resources can serve as a starting point for generating ideas, for example, when pondering what to do with a recently received inheritance, or with a recently acquired toolshed. Moreover, entrepreneurs often aim to be effective with whatever means they have under their control through processes of improvisation and bricolage (Baker & Nelson, 2005; Sarasvathy 2001).

It should be noted that all foundational factors discussed so far can serve as both enablers and constraints in the generation of initial ideas for opportunities. Stevenson and Jarillo’s definition (1990) direct us to the possibility to move beyond an individual’s current material resource base. Prior knowledge helps us to see opportunities but can also cloud them (Ward, 2004). Networks provide information that leads to opportunities but may be limited in the type and kind of information they provide (Baker, 2000). Thus, exercises exploring the foundational factors of the opportunity idea-generation process can aim for awareness of both their enabling and their constraining qualities. Recommendations can be provided to reduce the constraints. For example, with regard to knowledge, Baron (2006) argues that it is the ability to make connections between disparate strands of knowledge and information that is conducive to recognizing opportunities. Network research has shown the importance of developing a diverse and broad knowledge base and network (Burt, 2004; DeCarolis & Saparito, 2006).

**ACTIONAL FACTORS**

*Focus of attention and information types.* Generating initial ideas starts with directing the focus of attention. There are basically three directions (see Figure 2). These are not mutually exclusive, but rather inform and reinforce each other. First, attention is employed, sometimes
even unintentionally, in what has been labeled ‘passive search’ where a person is sensitive to his/her daily experience of problems, surprises, successes, pleasures, annoyances, frictions, and supply/demand imbalances, in terms of the opportunities that they may imply. People do not actively seek this information (Kirzner, 1997, 2009). Still, those engaged in passive search ‘position’ themselves in terms of their networks, activities, and information flows (Kaish & Gilad, 1991). It is a state of mind in which an individual is alert to ideas for opportunities in his/her daily encounters with situations, people and information. This state of mind can be consciously invoked as a method to generate ideas for new venture opportunities (DeTienne & Chandler, 2003; Fiet & Patel, 2008).

Figure 2: Three Search Directions and Information Types

In the other two search methods, information and knowledge is deliberately sought for and scanned for opportunities. Both can be labeled as forms of ‘active search’ but the two differ in their initial search direction. The starting point for active search can be inward-looking, where a person first engages in self-analysis to generate initial ideas (Sarasvathy, 2001; Fiet, 2007). With this search strategy a person proceeds from what one loves to do (interests, aspirations, passions, dreams, ambitions, fascinations, needs) and what one is good at (strengths, experience, skills, special knowledge, abilities, resources, past successes). The task is to think of ideas to combine the two to create value in other people’s lives, and a revenue model. Only later does one direct one’s attention outward to opportunity development, enactment, evaluation, and exploitation. Needs and constraints do sometimes serve as the starting point in
the search for opportunities. For example, someone who is homebound because of illness may be looking for income that can be generated from home. Also enthusiasm and excitement can be taken as leads. The positive feelings accompanied by an opportunity to generate income out of a hobby or a special interest will be helpful to overcome setbacks for the business, to assemble resources, and to convince customers and clients (Baron, 2007).

Taking oneself as the starting point for generating initial ideas for opportunities has the obvious advantage that ideas are more likely to fit well with one’s own motivation, capacities, and life situation. In contrast, the passive search approach described above may generate many ideas for opportunities that a person is unwilling to pursue personally (Fiet & Patel, 2008). Alternatively, one’s search can be immediately outward-looking, as when one searches and scans information about particular markets, industries, changes, trends, or new (technological) knowledge. Van Gelderen (2004) outlines such a method in which an industry is analyzed in terms of its history, consumer needs, trends and changes, innovations, and market reconceptualizations. When searching outwardly, it is not necessarily the newness of information that leads to opportunity identification. It can also be reflection on known information that allows for connections to be made (Corbett, 2007). This leads to the notion of under-exploited opportunities proposed by Plummer, Haylie, and Godesiabois (2007), who argue that the same opportunity can be exploited in various ways, and that any strategy to pursue an opportunity can still leave room for other, later strategies to pursue the opportunity even further.

Outward-looking search strategies can be directed to different opportunity types: Arbitrage, franchise, imitation, takeovers, cheaper/better/faster, incremental innovation, or radical innovation opportunities. Outward search can also take place at different levels: the macro- and micro-levels of analysis. Opportunities are often thought to derive from change (Shane, 2003), such as demographic, cultural, economic, environmental, or technological.
change. The opportunities that these changes imply often concern the macro level. However, opportunities can also be found at the micro level (Kirzner, 1979), for example, when analyzing what service or retail outlet is needed in a particular neighborhood. In each case, the entrepreneur has a notion of what the future may hold, and alertness is involved (Kirzner, 2009). Questioning and experimenting behaviors can also be considered as active forms of opportunity search and have been found to distinguish innovative entrepreneurs from executives who never started an innovative venture (Dyer, Gregersen and Christensen, 2008).

The three search directions (passive search, active search-inward, active search-outward) are not mutually exclusive, but can rather be seen as complementing each other. Inward search can be followed by outward search. Outward search directions are often based on internal considerations. Inward and outward search can trigger passive search, and vice versa.

*Transformation of information and experience.* Searching, whether actively or passively, inward or outward, does not necessarily result in ideas for opportunities. Generating ideas for opportunities does not only involve search processes, but also the transformation of information and experience into initial ideas for opportunities (Corbett, 2007). It is here that creativity enters the picture, although many opportunities can be found with little creativity involved, for example, when systematically and analytically scanning for arbitrage or franchise opportunities. In creativity theory, it is common to distinguish the insight and the preparation phases in the creative process (Wallas, 1926; Couger, 1995). Refinement of the opportunity prototype, the development of knowledge, and the building of networks can all be seen as preparational steps in the idea-generation process, and even the search strategies described above do not guarantee insights or ideas.
Entrepreneurs are found to rely more on intuition than non-entrepreneurs do (Armstrong and Hird, 2009). The intuitive use of heuristics plays a role in the generation of ideas for opportunities (Gaglio and Katz, 2001). In cognitive psychology, heuristics are defined as mental shortcuts. Busenitz and Arthurs (2007) argue that the use of heuristics helps entrepreneurs to learn more quickly and to think differently, which then can lead to innovative insights. Further, they state that ‘extensive use of heuristics allows one to make substantial leaps in logic and to make approximations regarding the future directions of a specific market’ (p. 140). The ability to think heuristically is seen by Alvarez and Busenitz (2001) as a resource that conveys a distinctive competitive advantage. Entrepreneurs typically operate in ambiguous and uncertain environments and the willingness and confidence to rely on heuristics to piece together limited information may be the only way to move forward (Busenitz & Barney, 1997). Time pressure can force entrepreneurs to think heuristically, when not all information can be processed. The speed, efficiency and creativity of heuristic thinking is especially important for idea-generation with regard to opportunities. The main drawback of the use of heuristics, inaccuracy, is less relevant to the generation of initial ideas, as initial ideas will be followed up by processes of shaping, adaptation and viability assessment (Berglund, 2007).

Training in the use of intuition involves, amongst others, receptiveness to intuition and the search for feedback to check whether intuitions were indeed correct (Sadler-Smith & Burke, 2009; Sadler-Smith & Shefy, 2004). In addition, the creativity literature describes a host of methods to train idea-generation. Both convergent and divergent thinking can be trained, although dispositional characteristics have an impact too (Garfield, Taylor, Dennis & Satzinger, 2001). Couger describes a wide range of methods, some analytical and some intuitive, some for individuals and some for groups. Methods differ in what allows them to stimulate creativity (Smith, 1998). Short descriptions now follow of brainstorming, the use of
metaphors and analogies, wishful thinking, wildest idea, boundary examination, and an analytical technique (Couger, 1995; Ward, 2004).

**Brainstorming** is a group technique in which people free-associate and generate ideas. The crucial rule is that to critique or criticize ideas is not allowed: the purpose is to get a flow of ideas in which one idea leads to another. Analogies and metaphors can help to stimulate creativity in idea-generation. An analogy is a similarity between two things which are otherwise dissimilar. If the opportunity involves solving a customer problem or need, it can be asked how the problem or need is similar to something unrelated. Similarly, when using metaphors a figure of speech or a phrase is related to the customer problem or need concerned.

With wishful thinking one starts out with the ideal situation or solution even when it seems impossible or unfeasible, e.g. that people are able to fly. The idea is that often people limit themselves in their thinking about possibilities because they start out from constraints. Unfortunately, this limits the imagination. By means of wishful thinking truly novel ideas may be generated that may subsequently be adapted into feasible forms. A related, imagination-based technique is the wildest idea technique. Here, one thinks of something as unusual or strange as possible. Couger (1995) relates that radar was discovered by means of this technique, as it was developed from the suggestion of a radio ‘death-ray’ for shooting down planes. The boundary examination technique involves the questioning of assumptions (i.e. thinking outside the box) when analyzing a consumer need or problem. This is a habit-breaking technique that provides new ways of looking at the problem. An example of suspending assumptions in the dating industry is a service directed to the matching of couples (as opposed to single people). The challenge is to reveal underlying assumptions and to generate ideas for opportunities in which these assumptions are challenged or relaxed.
Finally, an example of an analytical technique is the interrogatories (5Ws/H, who-what-where-when-why-how) technique. Here, when analyzing a change or a customer problem or need, the who-what-where-when-why-how questions are used to aid in expanding one’s view. A wide range of further creativity techniques are described by Michalko (2006).

**OUTCOMES: THE DIVERSITY AND IDIOSYNCRACY OF INITIAL IDEAS**

The factors associated with the opportunity recognition process make clear why we do not all see the same opportunities. Not everybody is motivated to see opportunities. But even if motivated and alert, differences will arise. Firstly, people differ in the type of opportunity they are looking for, and in their ideas of what constitutes an opportunity (the opportunity prototype properties). For example, those who emphasize novelty in their opportunity prototype are more likely to find novel ideas, whereas those who emphasize feasibility will find feasible ideas. Secondly, the ideas that a person generates depend on his or her idiosyncratic knowledge, information, beliefs, past experience, networks, self-concepts, and material conditions. For example, Shane (2000) and Eckhardt and Shane (2003) have convincingly argued that opportunity recognition is shaped by prior knowledge. Different people discover different things because they have diverse information and because evaluation processes are unique to each individual. Participants differ in terms of their experience and life history, and, in addition, they operate in unique environments and run different kinds of businesses. The newness of information is of less concern, as even publicly-known information will still be interpreted and evaluated differently. Similar arguments can be applied to the other resource types previously discussed.

Thirdly, the search directions and the type of information and experience encountered will differ from one person to another. Whether the attention is turned inwards, outwards, or
to experience will result in different outcomes. For example, those who take themselves as the starting point for searching ideas (inward-looking) are more likely to find ideas that correspond with their own capacities than those who are engaged in passive search. Finally, people differ in their creative processes: in how they transform information and experience into new ideas. Thus, those who employ creative cognition are more likely to generate ideas for ‘new means-ends relationships’ (Gaglio & Katz, 2001, p.95) than those who take a more analytical approach to information. Opportunity recognition methods can specifically address the opportunity prototype, the development of know-how, know-whom and know-why, search strategies, and the transformation of experience and information into ideas. The constellations of different factors will result in different initial ideas for opportunities.

OUTCOMES: INITIAL IDEAS AS END-POINT OR AS STARTING-POINT

The opportunity property prototypes are also evaluation criteria: the assessment of whether an initial idea for an opportunity exists is also its first evaluation. In some cases, it is possible to conduct a feasibility analysis to gain further information, including the advice and opinion of others, about such factors as market potential, acceptance by clients and customers, technical feasibility, the nature of the competition, the availability of needed resources, the costs, timing requirements, possibilities for appropriation (e.g. intellectual property rights), and potential for partnerships. These all help to assess the profitability of the opportunity and the (perceived) risks involved. Some initial ideas can be immediately implemented and can be referred to as end-point ideas. For example, if a product can be ordered at an outlet website under the price at which it is sold at an auction site, no further investigation is needed. It is simply a matter of buying cheap and selling dear.

Other ideas, on the other hand, are only very vague at first and can be referred to as starting-point ideas. They can only be rudimentarily evaluated because they are only the
beginning of a long process of development, adaptation and enactment. The example of the person who thought up the concept of the ice hotel (where everything in the hotel, as well as the building itself, is made of ice) is sometimes used (Davidsson, 2004). Here, the person will go through a long process of opportunity shaping and creation before the dream is realized (there are now ice hotels in Canada as well as in Sweden). With new services and products the entrepreneur creates a new template (Companys & McMullen, 2007), and they subsequently have to convince customers and other stakeholders that this new service is appropriate, feasible, and effective (Chiasson & Saunders, 2005). Experimentation gives rise to feedback which determines what will be retained, adapted or discarded (Baker & Nelson, 2005; Sarasvathy, 2001).

End-point ideas have been referred to as discovery, and starting-point ideas as creation (Berglund, 2007). With discovery, the opportunity can be said to ‘pre-exist’: it only needs to be recognized. Uncertainty and ignorance hides the opportunity but once it is found, it can be readily pursued. With creation, on the other hand, the opportunity is an emerging result. It is not a single insight but rather a process of development and enactment in which uncertainty and ignorance are gradually removed (Berglund, 2007). The details about demand or supply, or even about both, may be unknown (Ardichvili et al., 2003; Sarasvathy, Dew, Velamuri & Venkataraman, 2005). Discovery and creation can be seen as a continuum with arbitrage, franchise, imitation, takeovers, incremental innovations, and radical innovations spanning the spectrum. In sum, some ideas can be immediately applied, whereas others are just the starting point of a long journey. But whether ideas are the end-point for ready-made opportunities, or a starting point for creation processes, in both cases an initial idea is needed.

CONCLUSION
This paper has presented an overview of the factors involved in the generation of initial ideas for opportunities for new, independent ventures. It proposed that two factors are to be considered foundational: an individual’s ideas about what constitutes an opportunity (opportunity prototype properties), and an individual’s prior knowledge, networks, and self-knowledge. Another two factors make up the idea-generation process itself: the direction of attention and the associated information types pursued; and the transformation of information and experience into initial ideas for opportunities. Exercises can foster the awareness of the foundational factors, in both their enabling and their constraining qualities. The ideageneration process itself consists of different search directions, including passive search, and the transformation from information and experience to new ideas. Together, these factors make clear how to generate initial ideas for opportunities for new independent ventures. The associated methods result in ideas that are diverse, both in the sense that different persons see different opportunities, and in the sense that some can be readily implemented, whereas other ideas are only the starting point of a process of development, enactment and creation.

REFERENCES


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