



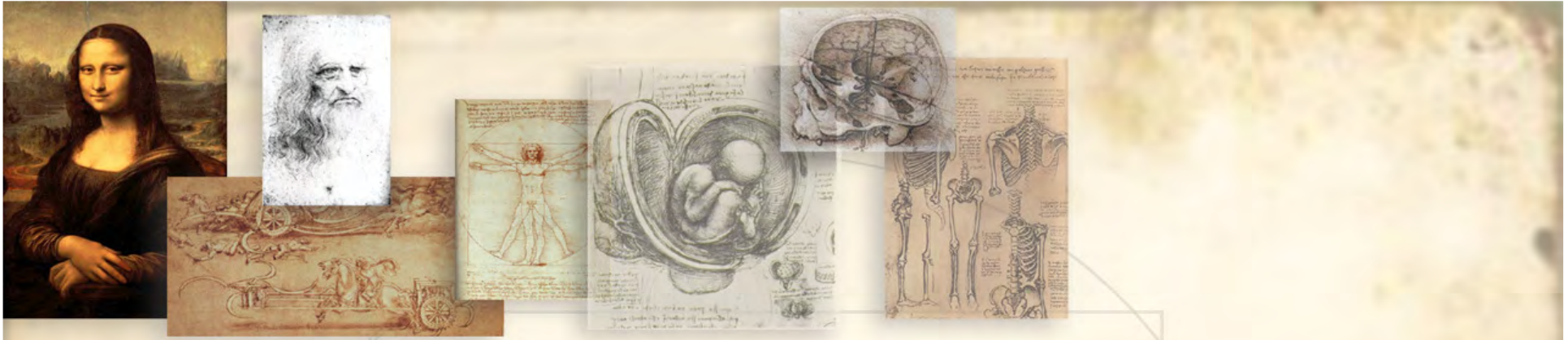
Opportunities and Entrepreneurs

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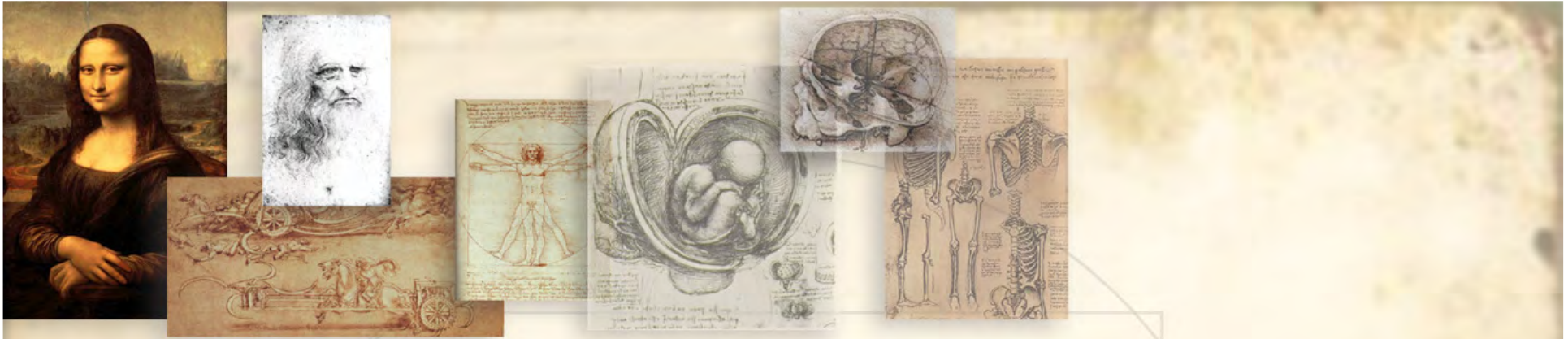
Sharon Alvarez

The University of Denver



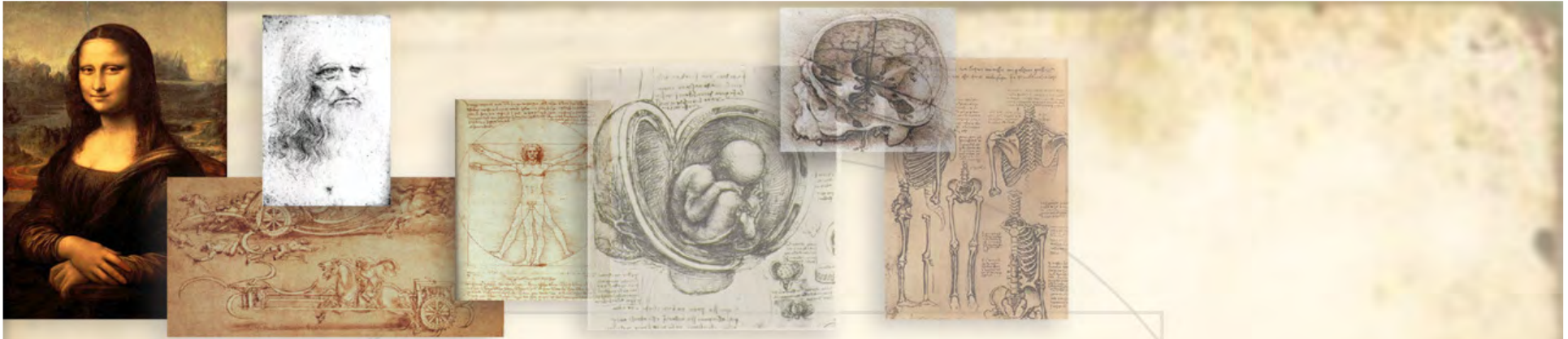
Opportunities exist when competitive imperfections exist in markets.

But, where do these competitive imperfections come from?



Two Types of Opportunities

Discovery versus Creation Opportunities



Discovery Opportunities

Competitive imperfections are formed by exogenous shocks to a market

- ❖ Changes in technology, politics, consumer preferences, and so forth



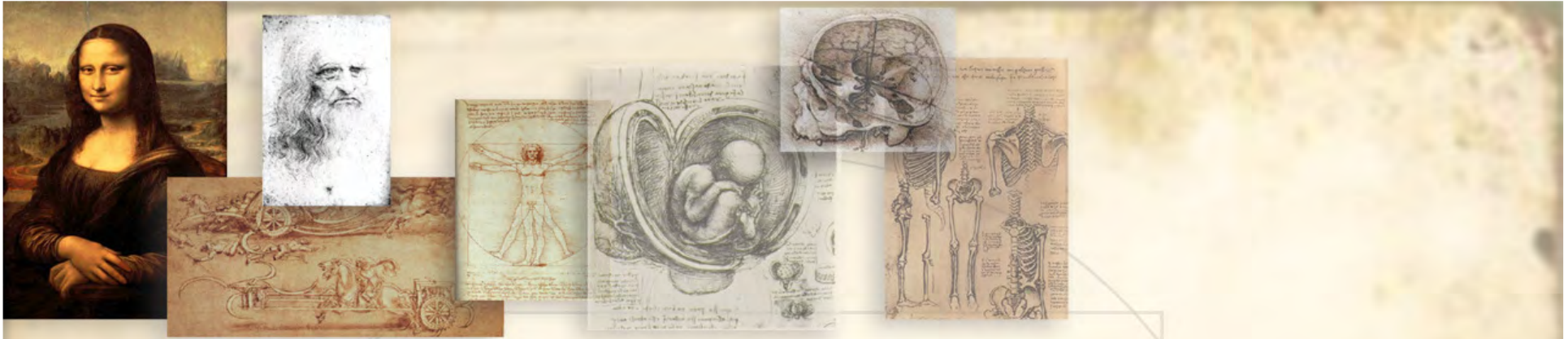
Discovery Opportunities

Waiting to be discovered by unusually alert individuals.

Mt. Everest

Mount Everest





Creation Opportunities

Competitive imperfections are formed endogenously by entrepreneurial actions



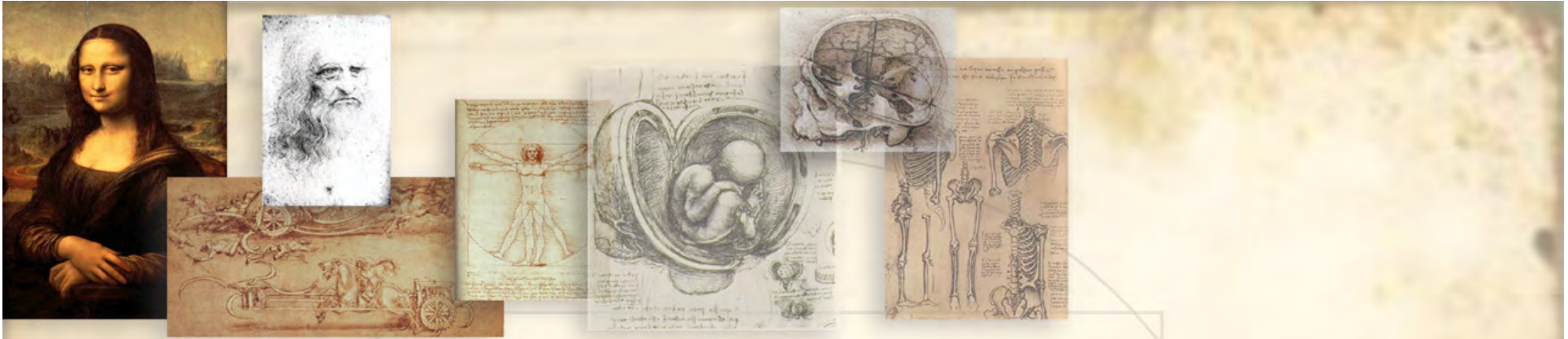
Creation Opportunities

Do not exist independent of actions of entrepreneur to create them.

The Ice Hotel

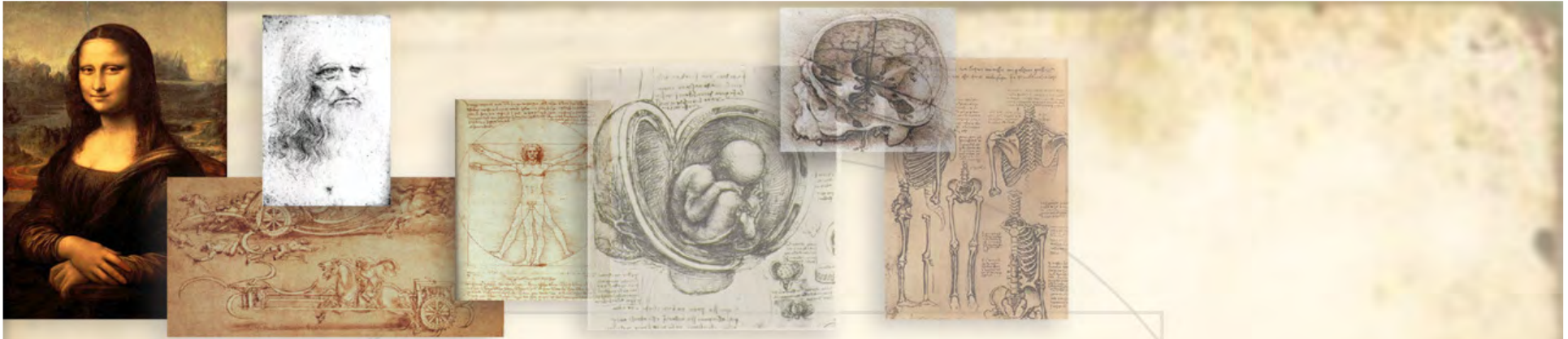






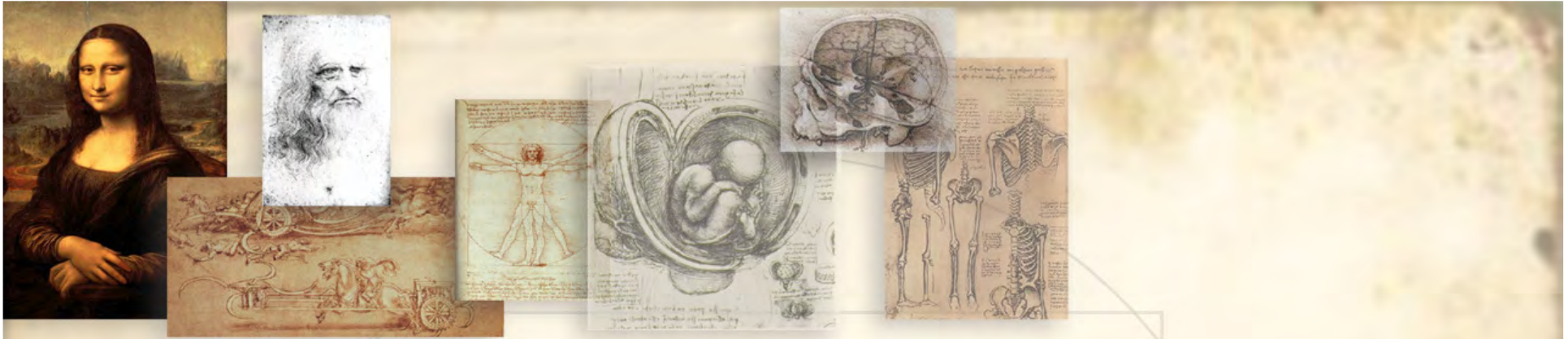
Discovery Opportunities: Mt. Everest

- Exist independent of entrepreneurs
- Assumes entrepreneurs are more alert than others
- Condition of risk



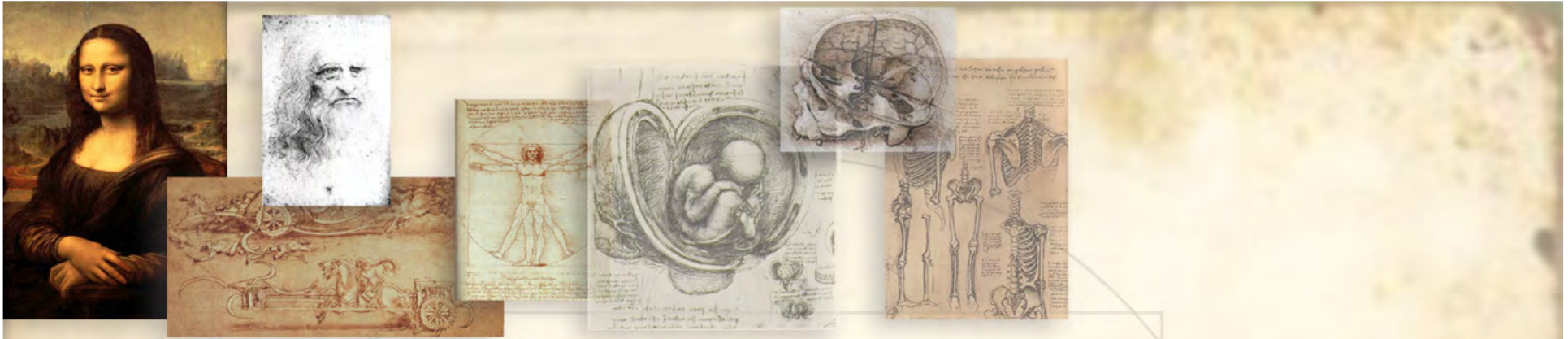
The Search for Individual Differences

- Thirty years on personality differences
 - Risk propensity, locus of control, self confidence, self worth
 - Limited systematic personality differences



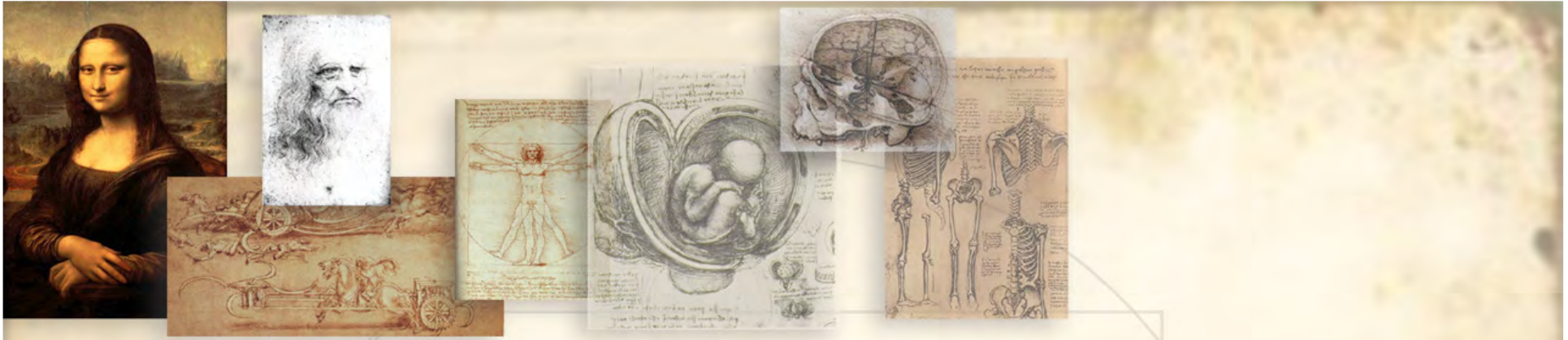
The Search for Individual Differences

- Thirty years on personality differences
- Recent cognitive work
 - Representativeness bias, Overconfidence bias
 - Cause or effect of entrepreneurship?
Attributes of all successful people?



Creation Opportunities: Ice Hotel

- Endogenous to entrepreneurial actions
- Entrepreneurs may not be special ex ante
- Conditions of uncertainty



Decision Making under Uncertainty

- Risk: Ready, aim, fire
- Uncertainty: Fire, ready, aim

Act, interpret market feedback, act again,
and so forth (Bayesian updating)



Some Implications for Entrepreneurs

Discovery

1. Finance with banks/VC: Information asymmetry and potential moral hazard
2. Business plans relatively fixed: Radical changes equals bad analysis
3. Risk-based decision making tools: NPV
4. Leadership: Expert

Creation

1. Finance with FFF or bootstrap: No information and adverse selection
2. Business plans constantly evolving: Average plan changes 12 times
3. Inductive, iterative, and intuitive decision making: Meaningless financials
4. Leadership: Charisma



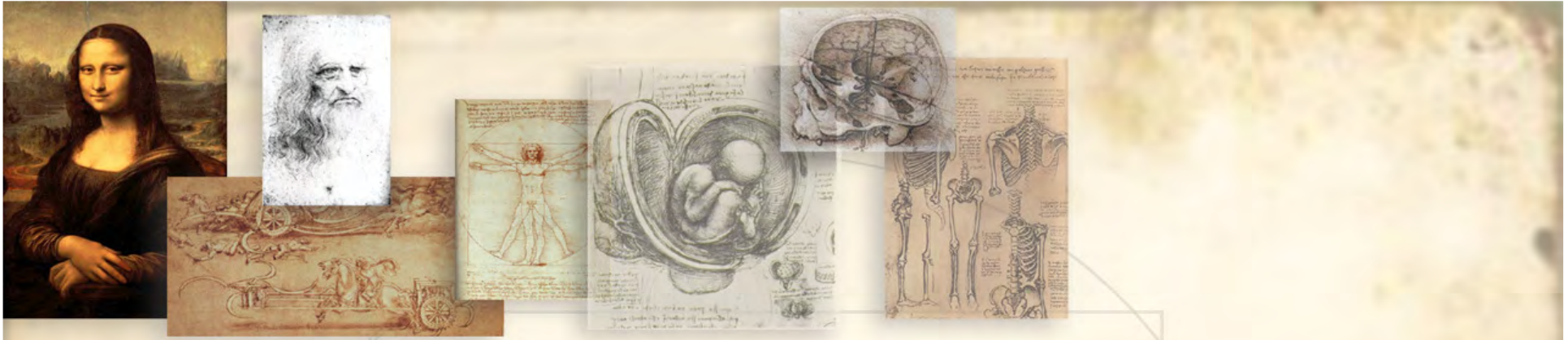
Key Strategic Problems

Discovery

- Rapid implementation
- Erecting barriers to imitation (can't rely on path dependence)
- Motivation through equity

Creation

- Learning under uncertainty
- Persistence in the face of negative feedback
- Path dependence decreases threat of imitation
- Motivation through loyalty



Managing a discovery opportunity using
creation methods: Inefficient

Managing a creation opportunity using
discovery methods: Ineffective



Calyx Flowers vs. Starbucks's Coffee

Systematic information
collection

Focus Groups

Industry reports

Present value calculations

Adopt routines from other
firms

Bank funding

Leader had substantial prior
industry experience:
Expert



 CALYX FLOWERSSM



All information about coffee market in US says its declining

Some experience in Italy

Coffee bean business, coffee business, the “other place” business

Founder from outside the industry

Turned down for funding 200/242 pitches

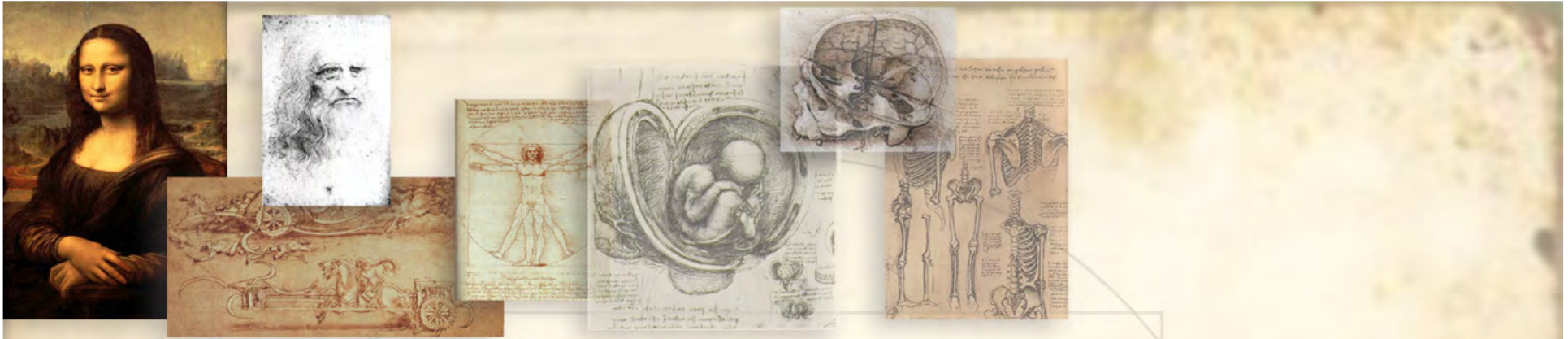




Established Firms?

Routines for doing discovery innovation inconsistent with routines for doing creation innovation

1. Change your innovation processes/culture
2. Form alliances with smaller independent firms
3. Create a separate business whose mission is to replace a firm's current core competence



Thank You