2 Entrepreneurship as a Process

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Introduction

As entrepreneurs continue to attract the attention of governments, industrialists and academics, there has been substantial growth in entrepreneurial research. Although researchers have adopted different theoretical perspectives to understand entrepreneurship, Cope (2005) advises that three dominant theoretical perspectives have emerged. The first is the functional perspective which conceptualises entrepreneurs' interaction with their environment and the economic output of that interaction. The second perspective is the personality or traits of the entrepreneur as explored in Chapter 1. The third perspective, which is the focus of this chapter, is the behavioural or process perspective. This perspective focuses on the processes and functions of entrepreneurs and as such it is concerned with what entrepreneurs do, rather than who they are (Gartner, 1988).

As a process, entrepreneurship encompasses the identification, evaluation and exploitation of opportunities (Shane and Venkataraman, 2000). This theoretical perspective reflects the importance of the behaviour of entrepreneurs and the activities they undertake (Bygrave and Hofer, 1991) as well as the critical role of opportunities and innovation (Shane, 2012). It also recognises that an entrepreneur's personality is ancillary to this behaviour. Some academics argue therefore that this perspective provides a more comprehensive base from which to examine entrepreneurship (Cope, 2005). Furthermore, researchers have identified a number of different factors that influence entrepreneurial behaviour. The aim of this chapter therefore, is to develop your understanding of entrepreneurship as a process.

By the end of the chapter you should be able to:

- Identify the three key stages of the entrepreneurial process;
- Identify the factors that influence each of the key stages of the entrepreneurship process;
- Evaluate the central role of innovation throughout the entrepreneurial process.

The chapter explores each of these stages in turn using examples from the Holiday Inn hotel brand to illustrate. A conceptual framework of entrepreneurship as a process is developed and illustrated using another case study of a new lodging concept, Air BnB.

The stages of the entrepreneurship process

Schumpeter (1934) is frequently credited with the original definition of entrepreneurs in a business context, suggesting they are 'individuals whose function is to carry out new combinations of means of production' (cited in Carland *et al.*, 1984:354) and arguing they are distinguishable by type and conduct. However, since Schumpeter's efforts, numerous definitions have subsequently emerged within the literature that suggest entrepreneurs are involved in a range of activities in the process of entrepreneurship. Despite these different interpretations, it is generally agreed that this range of activities can be clustered within three key stages around opportunities. As such, the process of entrepreneurship involves opportunity identification, opportunity evaluation, and opportunity exploitation (Shane and Venkataraman, 2000; Ucbasaran *et al.*, 2008, Nasution *et al.*, 2011). Furthermore, research suggests that innovation plays a fundamental role throughout the process, and that there are a number of different factors which influence the activities undertaken within each entrepreneurial stage.

As this textbook demonstrates, entrepreneurship can be considered from both a commercial and social perspective. This chapter considers it from a purely commercial perspective and from the perspective of the individual, rather than from an organisational viewpoint. By doing so, it incorporates what Shane (2012) describes as the nexus of two entrepreneurial phenomenon; opportunities and enterprising individuals. Each stage of the entrepreneurial process is considered, in turn, in the following sections.

Opportunity identification

The identification of an opportunity is considered the first key step in the entrepreneurial process (Baron, 2006). An opportunity is a 'future situation which is deemed desirable and feasible' (Stevenson and Jarillo, 1990:23). Within a business context however, opportunities are considered as 'situations in which new goods, services, raw materials and organizing methods can be introduced and sold for greater than their cost of production' (Shane and Venkataraman, 2000:220). In other words, opportunities can generate economic value, although this is not always guaranteed (Baron, 2006).

There are conflicting theories as to whether opportunities are discovered or created (Edelman and Yli-Renko, 2010). Discovery theorists maintain that opportunities arise from macro environmental dynamics, whereas the creative view considers that opportunities are created through entrepreneurs' perceptions and interactions with the environment (Shane and Venkataraman, 2000). However, some researchers argue that opportunities can be made as well as found (Venkataraman *et al.*, 2012) and whichever is the case, individual entrepreneurs are needed to identify opportunities (Ucbasaran *et al.*,2008) through their perception of market inefficiencies. Changing demographics, government regulations or socio-cultural norms may yield new markets or new market segments (Ireland *et al.*, 2003). Recognising these changes, entrepreneurs identify a need in the market or underemployed resources that could be used, and determine a fit between these needs and the resources available (Ardchivelli *et al.*, 2003). As such, they require the recombination of resources to create a new means-end resource relationship (Shane and Venkataraman, 2000). These relationships could be slight modifications of existing ones or fundamentally new relationships in new markets or markets not yet saturated (Smith *et al.*, 2009; Shane, 2012).

The concept of innovation is central to the process of opportunity identification. Indeed, Schumpeter (1934) defined innovation as the novel combination of resources brought about by the vision of the entrepreneur. This combination can yield new products, services, methods of production or markets, or incorporate new technology into new products, processes and services (McDermott and O'Connor, 2002). Innovations therefore differ according to their degree of 'newness'. Innovations can be radically new, incrementally new, or even imitative innovations that can be introduced to new markets that are not saturated by competition. Innovation 'newness' therefore depends on the particular recombination of resources and the type of market where inefficiencies are addressed (Gaglio and Katz, 2001). Whatever the type of innovation however, entrepreneurs are the creative force behind innovation and during the stage of opportunity identification, innovations are considered to be initiated (Garud *et al.*, 2013) as illustrated in Text Box 1.