A Practical Strategy for Discovering, Evaluating and Exploiting Entrepreneurial Opportunities: Research-based Action Guidelines

Kevin Hindle, Australian Graduate School of Entrepreneurship, Swinburne University of Technology

ABSTRACT. It has been argued that entrepreneurship researchers do not place sufficient emphasis on making their research findings relevant to entrepreneurs and their advisors. The paper utilises five general principles introduced by Hindle, Anderson and Gibson (2004) to convert a complex range of entrepreneurship research findings into useful action guidelines for practicing entrepreneurs. The existing research-based knowledge concerning opportunity assessment is distilled into a diagrammatic framework. This framework and a sequence of ten, plain-English questions, provides entrepreneurs and SME operators with a strategic tool (nick-named the "4/10 strategy") for discovering, evaluating and exploiting entrepreneurial opportunities.

SOMMAIRE. Il a été raisonné que les chercheurs en entrepreneuriat ne s'emploient pas assez à rendre les résultats de leur recherche pertinents pour les entrepreneurs et leurs conseillers. Le présent article se sert des cinq principes généraux présentés par Hindle, Anderson et Gibson (2004) pour convertir un éventail complexe de résultats de recherche en directives d'action utiles aux praticiens. Les connaissances actuelles, basées sur la recherche, qui concernent l'évaluation des opportunités sont fondues en un cadriciel synoptique. Ce cadriciel, ainsi qu'une suite de dix questions en langue de tous les jours, fournit aux entrepreneurs et opérateurs de PME un outil stratégique (surnommé la "stratégie 4/10") pour découvrir, évaluer et exploiter les opportunités entrepreneuriales.

Introduction

Hindle, Anderson and Gibson (2004, *JSBE* 17, no. 4, p. 263) have argued that

> It is our view that all theory—even the "purest"—can be made "theory for practice's sake" because the best current theory in any given field is simply the best explanation of the known facts. And good explanations are intrinsically useful.

In support of this belief, and in order to facilitate the development of a "third stream" of publication (augmenting conceptual and empirical research with a stream of papers devoted to making research useful to practitioners), Hindle, Anderson and Gibson (2004) presented five guiding principles for turning entrepreneurship research findings into action guidelines that practitioners could apply to the actual conduct of their businesses. For brevity and ease of reference, these will henceforth be referred to as the five "HAG" principles.

This paper is the first of what is hoped will be many in the new "third stream" of research publication: the stream devoted to making research findings assimilable by and useful to practitioners. In this generic context, this paper may be regarded as an exemplar of how the HAG five principles' approach can be employed.

In the more specific context of subject matter, the paper is focused on a gap between research and practice in a fundamental area of entrepreneurship. Though much has been discovered about entrepreneurial opportunity in the research literature, there seems to be a dearth of "down and dirty," practical management tools for the assessment and management of entrepreneurial opportunity available to hard-pressed practitioners: start-up participants, early-stage SME operators, and well-established SME firms.

This paper addresses the gap using the five HAG principles' approach. In format, the body of the paper is presented in two sections. First, an overview indicates, in general terms, how each of the five HAG principles will be applied to the specific task of producing a practical strategy for assessing entrepreneurial opportunities. The second section of the paper presents the strategy resulting from application of the principles to a body of research encapsulated in a seminal paper by Shane and Venkataraman (2000). The result is nick-named the "4/10 strategy" of entrepreneurial opportunity assessment because it applies ten focused questions to four key concepts.

Overview: Applying the Five HAG Principles to the Field of Opportunity Assessment[1]

Implementing the first and second HAG principles: (1) aggregate findings into as few key concepts as possible; and (2) turn key concepts from words into pictures

The example that follows is based on an attempt to turn a much-cited article by Shane and Venkataraman (2000) into a practical strategic tool. Shane and Venkataraman's article is itself an aggregation of the majority of a very substantial body of quite disparate research findings. In simultaneous compliance with the first and second HAG principle (Hindle, Anderson and Gibson, 2004), I have chosen the highly unoriginal but very familiar device of creating a flowchart. It is employed to reduce the Shane and Venkataraman article to a clear, highly visual focus on four key concepts.

When producing action guidelines for practitioners to follow, a picture really is worth a thousand words. Shane and Venkataraman's (2000) article on entrepreneurial opportunity does not contain one diagram or visual device of any kind (a not uncommon occurrence in formal research literature). It is all words. In the example to follow, the flowchart (left-hand side of Figure 1) provides a practical reduction of a great deal of information that, in a managerial context, would be impossible to absorb or convey effectively by words alone.

Implementing the third HAG principle: (3) link key process instructions directly to key concepts

In the example to follow, the key process is represented by four sets of questions; each set is directly related to the four key research-based concepts represented on the flowchart. By this means, process instructions are linked directly to key research concepts. Implementation of this principle also suggests a memorable nick-name for the suggested regime. It can be called the "4/10 strategy" for entrepreneurial opportunity assessment based on the combination of ten questions and four key concepts.

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1. As will become evident, opportunity "assessment" is used here as a term to embrace three aspects of opportunity: discovery, evaluation and exploitation. These activities might be regarded as endogenous to the firm. The fourth conceptual domain of opportunity—its existence—is an exogenous factor from the firm's point of view.

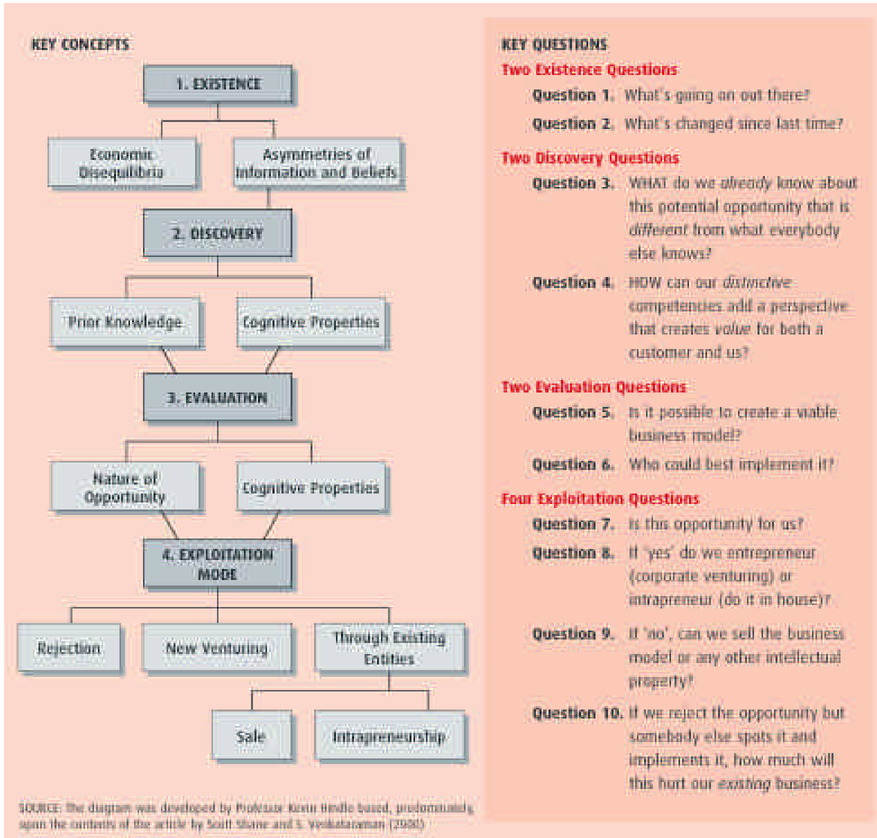

Figure 1. The 4/10 Strategy for Assessing Entrepreneurial Opportunity

Implementing the fourth HAG principle: (4) provide application scenarios that are indicative but not prescriptive

Hindle Anderson and Gibson (2004, *JSBE* 17, no. 4, p. 264) argue that "brief contextual scenarios are very helpful in getting recipients to "'see the light'," moving them to that "'Ah ha! I see!' response," indicating possession of the vital ability to "envisage just how action recommendations might be made applicable to particular circumstances." They argue that the quest for utility might be defeated by too little specificity (if recommended action guidelines were seen to exist in a void) or by too much:

> The trick is to sketch as *few* scenarios in as *little* detail as is just sufficient to convey the *flavour* of application possibilities without trying to provide a full meal for every palette. You want to stimulate readers' imaginative capacity to fill in the relevant details for themselves.

The example that follows provides three such indicative scenarios.

Implementing the fifth HAG principle: (5) keep guidelines broad, allowing room for provision of detail dependent upon resources and circumstances

Hindle, Anderson and Gibson (2004, *JSBE* 17, no. 4, p. 265) are at pains to stress the limits of any attempt to turn research findings into practical managerial tools:

> "Guidelines" is a key word. When academics have the temerity to offer practical advice to entrepreneurs and their advisors we should tread warily and not try to cover all of the territory in massive detail. The task is to indicate broad possibility: not to build detailed consulting tools. Using an analogy from the construction industry, the guidelines that we can offer are closer to the architect's first sketch of a building than to the detailed set of blueprints handed to a builder.

Bearing these limits firmly in mind, and with due regard to the five preceding principles espoused by Hindle, Anderson and Gibson (2004), the following section presents a practical, research-based strategy for assessing entrepreneurial opportunities.

The 4/10 Strategy for Discovering, Evaluating and Exploiting Entrepreneurial Opportunities

The research evidence: opportunity assessment is at the heart of successful entrepreneurship

The formal entrepreneurship research literature and most expert informants interviewed in the *Global Entrepreneurship Monitor* study (Reynolds et al., 2004, *passim*) talk a lot about how important it is for small and medium enterprises (SMEs) to "manage the process of opportunity assessment." But the question remains: *How* can this be done—especially by small firms with extremely limited time and resources who feel it is a struggle just to meet the everyday demands of running a business? The following action regime was initially developed as the action focus component of the Australian GEM report (Hindle and Rushworth, 2004, pp. 37–41). It provides nascent entrepreneurs and SME owners and managers with a suggested method for assessing entrepreneurial opportunities in a systematic, time-effective manner. The opportunity assessment process can be represented by combining a flowchart of four key concepts, with a sequence of ten, plain-English questions.

The combination of flowchart (summarizing the relevant research in the field) with a structured interrogation provides nascent entrepreneurs and SME operators with a tool for discovering, evaluating and considering the best ways to exploit entrepreneurial opportunities. The regime is offered as a specific example of the way in which research findings might be returned to practitioners of entrepreneurship as practical guides to action.

In four years of detailed research by the team conducting the *Global Entrepreneurship Monitor, Australia* project (see Hindle and Rushworth, 2004, *passim*) one issue has been consistently prominent. It occurs both as an area of deep concern among the experts interviewed and as a valid inference from the quantitative population surveys conducted. The issue involves three key aspects of entrepreneurial capacity: the ability of firms—especially smaller firms lacking abundant resources and strategic sophistication—to discover, evaluate and exploit entrepreneurial opportunities:

> Entrepreneurial opportunities are those situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their cost of production (Casson, 1982).

There is an essential distinction between specifically *entrepreneurial* opportunities and the larger set of all opportunities for profit—especially those concerned with enhancing the efficiency of *existing* goods, services, raw materials and organising methods. The key difference is that entrepreneurial opportunities involve the discovery and evaluation of *new* relationships between means and ends. This is quite distinct from improvement or optimisation within existing means-ends frameworks. Most management textbook tools, techniques and guidelines aim to help managers to do existing things better. Entrepreneurial opportunities are not about doing existing things better: they are about doing entirely new and different things and / or achieving outcomes in entirely new ways. Opportunity assessment is so much at the heart of entrepreneurship that many entrepreneurship researchers, worldwide, accept the opportunity-based definition provided by Shane and Venkataraman (2000, p. 218):

> We define the field of entrepreneurship as the scholarly examination of how, by whom and with what effects opportunities to create future goods and services are discovered, evaluated and exploited.

After a very brief discussion of the theoretical framework embedded in this definition (basically, turning a large volume of research into the small flowchart embodied in Figure 1) I will indicate how theory and the fruits of "scholarly examination" can be turned to practice. This produces a simple system, which even the smallest and most resource-poor businesses can use as a strategic tool to discover and evaluate potentially profitable entrepreneurial opportunities.

The Entrepreneurial Opportunity Framework

The left-hand half of Figure 1, above, is a stylised flow-chart of the relationship between the four key attributes of opportunity: existence, discovery, evaluation, and exploitation. I have developed the flow chart largely from the theoretical relationships described in the seminal article by Shane and Venkataraman (2000, *passim*). These authors used only words to summarise a great many research findings concerning the nature of entrepreneurial opportunity. The flowchart summarizes these many findings as a logically linked framework.

First, in research jargon, the theoretical *existence* of entrepreneurial opportunity depends on "economic disequilibria" and "asymmetries of information." Simply put, this boils down to the fact that, because of market imperfections, potential profit opportunities exist whether anyone sees them or not. So, what is critical is the ability of different people (with different ways of viewing the world) to see relevant opportunities in different aspects of various situations. The key practical issue for any SME management, consciously seeking to recognise entrepreneurial opportunities, is to find a way to scan the environment adequately, quickly and cheaply.

Second, the *discovery* of entrepreneurial opportunity results from a combination of an entrepreneur's prior knowledge and his or her cognitive properties (the way he or she thinks). The leading theorist of entrepreneurial discovery is James Fiet, Professor at the University of Louisville in the United States (Fiet, 2002, *passim*). Many years of research in the area of the nature of entrepreneurial opportunity have revealed some generic factors that tend to make some opportunities of "higher value" than others. These factors include large demand, high industry profit margins, young technology life cycle, middling competition density (neither very high nor very low), and low cost of capital. Research has also indicated several areas of individual difference that recurrently contribute to different perceptions of the value of an opportunity. These include differing perceptions of personal opportunity costs (for instance loss of leisure time may mean more to one person than another); resource cost differentials; prior relevant experience (for instance, it is very hard to perceive and rate a software opportunity if one has absolutely no experience in that industry); and transferability of experience. From the point of view of an individual firm, the key practical issue here is to discover something that we know—and nobody else does—that is highly valuable to identifiable customers.

Third, *evaluation* of entrepreneurial opportunities is a function of two things. There is the *nature* of the opportunity (for instance the opportunity to produce and market a new piece of technical software is intrinsically different from the opportunity to open a sandwich bar in an under-serviced high-rise office building). And there are pronounced differences between *individuals* (some people just are not interested in software or sandwiches—and some people are). The key practical questions here are can a profitable way (business model) be developed to exploit the opportunity, and is our firm (or some other) the best organization to implement it?

Fourth and finally, the mode of *exploitation* of an entrepreneurial opportunity must be considered. Should it be rejection (the decision *not* to exploit); the creation of a new venture; or the use of existing organizations (either selling the intellectual property to an external organization or developing it in an existing organization of one's own)?

Starting Scenarios

The suggested method for systematically assessing entrepreneurial opportunity is, essentially, a sequence of questions (see right-hand side of Figure 1, above) related to the opportunity framework (left-hand side of Figure 1). The issue now arises: in what context should these questions be asked? By whom? How often? What priority should be given to asking them? There is potentially a vast number of possible contextual scenarios, based on limitless variables, for an infinity of firms desiring to conduct a systematic search for and evaluation of entrepreneurial opportunities. For instance, a large SME with abundant resources in a highly volatile, technical market may have a formal opportunity-search division, with full-time, dedicated staff, in constant activity. A very small SME in a relatively stable market place would monitor the environment less often and apply less formality and fewer specialised resources in doing so. For what follows in this article, I provide, for illustrative purposes, just three imagined starting scenarios. All are very loosely conceived and general in nature.

Scenario One

A couple of software developers who have known each other since university and worked together from time to time for various employers have an idea for a software product and are considering going into business together to develop it. They are both working full time, so they are researching the opportunity in their spare time and agree to meet once a week over a takeaway meal at each others homes to share what they've learnt and try to put together a business plan.

Scenario Two

This is the famous "Friday afternoon sales meeting and wrap-up" in a small firm of about 20 employees in an industry not specified. A brief wrap-up of the week's activities has concluded. Attention now turns to the issue not of what we *have done* and *are doing*, but to the issue of what *we could be doing*. Are there any opportunities for making the firm better and stronger for everyone who works in it? Everyone has a copy of the flowchart, a list of ten key questions and is comfortably seated (beverage firmly in hand) facing a white board where good ideas can be quickly captured.

Scenario Three

The context envisaged here is of a larger SME with well-developed and more formal systems of corporate governance and management. It is a regularly scheduled meeting involving the CEO, the heads of all functional departments—sales and marketing, accounting and finance, human resources, information technology—and as many other key employees as are deemed relevant. This company has a conscious policy of opportunity management and this meeting has been prefaced by a process of short-listing opportunities. Pre-evaluations have been conducted by appropriately trained personnel. The opportunity evaluation committee members come to the meeting carrying well-annotated copies of a thorough set of briefing notes that each have received well in advance of the meeting. There has been a great deal of pre-meeting informal discussion among participants and they all possess a high degree of formal training in the skills of opportunity evaluation.

Your Starting Scenario?

In reading what follows, business practitioners will make their own minds up about the degree of formality, structure, training and preparation that might be relevant to their own circumstances. The opportunity assessment method presented here should be regarded as indicative, not prescriptive. It is painted with a very broad brush and provides a mere sketch of possibilities, not a portfolio of detail. Nevertheless, I hope to convey the core message that development and execution of a systematic process of opportunity management, based on the combination of principles and key questions I provide, is not beyond the reach or the purse of virtually any size of SME that has a genuine commitment to innovation and well-managed growth. For individuals about to launch a new venture from scratch, it provides a systematic assessment method that should save them from predictable mistakes and put them in a better position to cope with the inevitable uncertainties of new venturing.

A Practical Strategy for Assessing Entrepreneurial Opportunity

Space clearly limits capacity to illustrate the strategic possibilities of the following ten-question regime with reference to many and varied examples. So, reliance is placed upon the imagination and business experience of readers to envisage just how an application of the particular question to their business circumstances might yield fruitful results. The key idea in the sequence of ten questions is simply that it *is* a sequence. If you get a negative answer to any question in the list at any stage of the process, then you stop! You can be reasonably assured that the opportunity is not suitable for your firm. For instance, you might get as far as question three which asks: *What* do we *already* know about this potential opportunity that is *different* from what everybody else knows? And mature reflection quickly confirms that your firm has no pre-existing knowledge that is in any way unique and getting such knowledge is likely to cost more in terms of time and effort than is affordable. The investigation of that particular opportunity is now over. There is no need to even consider questions four through to ten.

So here, very briefly stated, is a regime for opportunity evaluation laid out as ten sequential questions related directly to the core elements of opportunity assessment as revealed by research and represented in Figure 1.

Two "Existence" Questions

The investigation can begin by asking two deceptively simple questions: *Question 1*. What's going on out there? and *Question 2*. What's changed since last time?

These questions are traditional staples of end-of-week or end-of-month reporting by sales people from the field, but participation should not be limited to sales or marketing or any category of personnel, nor to perceptions of existing market areas. For instance, someone in the production department might have been reading about some laboratory applications of some new technology and thinks that this offers the possibility of producing a radical product with high potential appeal to a defined group of customers. Now is the time to discuss it. The fundamental purpose of the "existence" questions is to pick up early indications of any trends, events or behaviours (by customers, potential customers, competitors or suppliers) *away* from any aspect of "business as usual." Any item that emerges positively from discussion of these two questions is listed, very broadly, as a potential opportunity for the market at large (but not necessarily our firm) and consideration proceeds. The next two questions seek to discover whether broad potential for someone can become focused potential for us.

Our two budding software entrepreneurs (scenario one) should be looking at what is going on and what is changing in the market they believe their product will address.

Two Discovery Questions

The two key discovery questions are: *Question 3. What* do we *already* know about this potential opportunity that is *different* from what everybody else knows? *Question 4. How* can our *distinctive* competencies add a perspective that creates *value* for both a customer and us?

The essential concepts here are *matching* and *feasibility*. For instance, no matter how strongly it exists in the market place and no matter how well our firm perceives it, it is unlikely that the opportunity to manufacture a new type of motor car is a viable opportunity for a company not already in either the established automotive industry or an industry allied to the alternative technology upon which the new vehicle will be based. We need to match our distinctive capabilities to a feasible plan for creating customer value.

By the time people reach question 4, a firm's investigation of a particularly appealing "candidate opportunity" may need to go well beyond the boundaries of the Friday afternoon meeting (scenario two), the initial evaluation session (scenario three) or the informal weekly catch-up over take-away (scenario one) with which we started. It is unlikely that adequate justice can be done in either environment to the task of matching what aspects of our distinctive competence can be allied to customers' value perceptions and needs. And as the questions get more complex, the time and resource required to answer them will increase proportionately. In a firm that has sufficient resources (such as scenario three), it may be deemed worthwhile to appoint a sub-group to investigate in depth and produce a mini-report at a future time and for a different audience. We may need to do some market research. And so on. The important thing for this narrative is to elucidate the *principles* involved in the process—not to try to anticipate the exact details of how the process might be carried out by particular firms in particular circumstances. That would be impossible. At every stage of the process it is assumed that the firm will be capable of determining both the extent of investigative effort required and whether the potential yield of further investigation is worth the effort in time and resources.

Two Evaluation Questions

Question 5. Is it possible to create a viable business model?

In prevailing business jargon, there is possibly no bigger buzzword or no worse defined concept than "business model." It can mean many different things to many different people. With practicality and brevity in mind, I offer the following succinct definition. As far as I know, the definition is original to me. The space and focus constraints pertaining to the current paper forbid my making a tangential foray into the literature of business models. But, based as it is on deep reading in this field, I am confident that the definition offered should be reasonably uncontroversial:

> A business model is a well-articulated plan for turning effort into profit using identified resources and stakeholders.

This is precisely what I recommend that your firm needs to do at this stage of its opportunity evaluation. It might take minutes (unlikely). It might take months. But no 'opportunity evaluation' is worth the name if it falls short of the key task of demonstrating how the service of customer needs in a particular way will produce reliable profits in a demonstrable way. If you can't come up with a viable business model, on paper, or are unwilling to make the effort or you make the effort but the profits do not emerge in the plan, then this alleged opportunity fails to pass the assessment criteria.

Question 6. Who could best implement it?

Suppose your investigation produces a brilliant business model: the blueprint of a well-designed money machine. The question of feasibility again raises its constantly obtrusive head. Brutal honesty is the order of the day. Maybe we in our firm could implement this business model, but—supposing they knew about it—are there any existing organizations that could implement it *better* than us? Whatever the answer to this question, if you have got this far in your investigation, there is no doubt that you have discovered a genuine entrepreneurial opportunity, that may be profitable even if you don't decide to execute all or any of it yourself.

You have reached the stage of needing to consider, systematically, how to exploit the entrepreneurial opportunity.

Four Exploitation Questions

Question 7. Is this one for us? *Question 8*. If "yes" do we entrepreneur (corporate venturing) or intrapreneur (do it in house)? *Question 9*. If "no," can we sell the business model or any other intellectual property?

In the case of our two software entrepreneurs (scenario one), they might be able to persuade an existing software development firm to hire them to set up a new division based on their software product idea, and might even give them an equity stake in the business.

Answers to these three questions are clearly matters for judgement contingent upon circumstances. So, there is little scope or need for advice, in this article, on how to answer them. Many firms might get this far but fail to consider the tenth and final question recommended in this opportunity assessment regime.

Question 10. If we reject the opportunity but somebody else spots it and implements, how much will this hurt our *existing* business?

As a conclusion to your evaluation of any entrepreneurial opportunity, force yourself to consider the implications if someone takes up an opportunity you decide to reject. The dark side of opportunity is threat. Never mind "profits foregone," if someone else recognises and acts on this opportunity, their innovation may threaten your existing business. There is a clear historical example in the electronics industry. Many companies producing transistors knew a great deal about the potential of silicon chips but consciously decided to reject the entrepreneurial opportunities involved. They were wiped out. Ironically, some of those now defunct transistor companies once were innovators. They owed their initial success to *not* rejecting the entrepreneurial opportunities of new technology (transistors) when diode-valves were the state of the art. Nothing could better illustrate the need for any firm with an interest in future growth to spend some of its valuable time upon *regular and systematic* search for entrepreneurial opportunities and their implications.

Potential Benefits of the Regime

The ten-question regime presented in this action focus does not pretend to be a "tick-the-box" or "turnkey" solution to every firm's need to discover, evaluate and exploit entrepreneurial opportunities. It is offered as a stimulus and aid to hard thinking in this vital area—not a substitute for it. But, in the hands of sensible venture managers, the method can serve as a tool of practical strategy. If you want to assess opportunity in a systematic way, you can begin by conceiving of entrepreneurial opportunity in its framework environment (Figure 1, above) and then use the ten suggested questions as a strategic review regime. Any firm—or individual contemplating a new venture—can use this method to develop the habit of constantly monitoring the business environment for entrepreneurial opportunities and evaluating their potential in a systematic manner. It seems a reasonable claim that acquisition of that habit creates some danger of earning a large profit from a small effort.

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