



What Does Opportunity Value Mean to the Entrepreneur, and How Does it Influence Opportunity Pursuit?

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Motivation / Research Question

- What makes an entrepreneur pursue an opportunity when others do not?
- Given the scarcity of literature detailing how entrepreneurs determine the value of an opportunity, which variables impact the decision to pursue an opportunity, and entrepreneurs' perception of value and cost, this research seeks to explore the meaning of opportunity, cost and value from this perspective.
- In so doing, we contribute to understanding the cognitive differences between those who choose to become entrepreneurs and those who do not.

Background of the Study

- Prior research has shown that cognitive biases may affect how the entrepreneur values opportunities and perceives risk (Palich & Bagby, 1995) and ultimately influences the decision to pursue an opportunity (Simon et al., 2000).
- Entrepreneurs may evaluate opportunities and risk using different perspectives than typical managers; hence, entrepreneurs can use similar valuation methods as non-entrepreneurs to evaluate a potential opportunity (opportunity cost, risk, potential payoff, et.) and derive a dissimilar conclusion.
- Accordingly, entrepreneurs base their go/no go decision to pursue an opportunity on their interpretation of the opportunity, and their perception of the risk.
- While *opportunity cost* is well recognized in the economic literature, *opportunity value*, or the perceived benefits to be derived from the pursuit of a new opportunity, has not (to our knowledge) been defined, or adequately addressed in the literature.

Hypotheses (all supported)

- H1 – Entrepreneurs and non-entrepreneurs place differing values on individual components of the cost and benefit equation.
- H2a – Entrepreneurs emphasize opportunity value (will place higher values on the benefits associated with the opportunity and lower values on the cost).
- H2b – Non-entrepreneurs emphasize costs (will place higher values on the costs associated with the opportunity and lower values on the benefits).
- H2c – Entrepreneurs emphasize non-monetary items over monetary items when compared to non-entrepreneurs.

Methodology

- Employs grounded theory, an applied methodology of analysis linked with qualitative data to induce a theory (Creswell, 2002).
- A two-phase approach was employed. Phase one used semi-structured interviews to question a purposeful sample of entrepreneurs and non-entrepreneurs with regard to the pursuit of opportunities in order to define opportunity value and derive testable hypotheses.
- The set of open and closed ended questions allowed participants to describe in detail how they believe they would make their decisions, what factors are important to them, and any concerns they possess.
- Phase two used a scenario and cross sectional survey data (n=405) to examine the values determined by entrepreneurs and non-entrepreneurs when faced with the decision to leave paid employment for an entrepreneurial opportunity.
- The scenario and questions took into account prior research (Birkey and Westhead 1994; Carter, Gartner, Shaver, & Gatewood, 2003; Shaver, Gartner, Crosby, Bakalarova, & Gatewood, 2001), were pre-tested with doctoral students, a group of business people, and a group of undergraduate students to test for clarity and wording issues.
- The 36 survey questions covered time, finances, relationships, control and autonomy with half the items relating to attributes being abandoned (ex steady salary, friendships and routine) and half relating to potential items that could be received via pursuit of the opportunity (ex financial freedom, autonomy and new relationships.)

Findings / Conclusions

Opportunity value is defined as ***the perceived tangible and intangible benefits to be derived from the pursuit of a new opportunity.***

These benefits appear to have three dimensions:

- 1) The ***immediate*** or short-term dimension, which includes items such as money, control, freedom and power;
- 2) The ***aspiration*** or future dimension, which includes financial security, success, fulfillment, freedom and the side benefit that financial success will allow them to devote time and money to other causes and/or purposes; and
- 3) The ***passion***, or thrill of the chase, deriving fulfillment and pride from chasing a dream, and attempting to make the dream a reality.

- The entrepreneur group considered more intangible, futuristic, and self-motivational items than did the non-entrepreneur group.
- Entrepreneurs focused more on the potential values that could be obtained while the non-entrepreneurs appeared to focus more on the costs.
- The differences encompassed all five categories tested: finances, freedom, time, power and relationships.

Contributions

- Identifies and defines a new construct, ***opportunity value***, as well as its' three dimensions, and shows how this new construct influences the pursuit of entrepreneurial opportunities.
- Details how entrepreneurs and non-entrepreneurs place value and cost on opportunities by identifying several specific items that these groups value differently. For instance, entrepreneurs focused more on the value obtained, non-entrepreneurs focused more on the costs.
- Suggests differences among male and female entrepreneurs in terms of how they value opportunities.
- Could be important to venture capitalist in their dealing with entrepreneurs. VC's ability to understand how entrepreneurs value opportunities, and decide which opportunities to pursue, may permit them to place limits on their own risk in funding ventures.
- Could allow VCs (using methods of decisions making that are complementary to the entrepreneur) to collaborate with entrepreneurs, to obtain more objective valuations of costs and value when pursuing funding for ventures.

Future Research

- Test each of the three dimensions of opportunity value (in the context of the pursuit of an entrepreneurial opportunity), to delve deeper into the differences that exist between entrepreneurs and non-entrepreneurs, as well as between male and female entrepreneurs.
- Check for correlations or interactions between the various dimensions of opportunity value, cost, and the cognitive biases typically found in entrepreneurs.
- Examine the possibility that personality influences, or interacts with, cognitive biases and thus plays a role in the above scenarios.



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