Imagination in Entrepreneurial Opportunity Creation

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ABSTRACT

Many authors mention the use of imagination by entrepreneurs, but none of them discuss how entrepreneurs use their imagination and to what extent it helps them to create their opportunities. This research builds on existing entrepreneurship literature to answer the question how entrepreneurs use imagination to create opportunities. This question will be answered by performing in-depth case studies based on narratives.

INTRODUCTION

Entrepreneurship is surrounded by beautiful stories of how heroes like Steve Jobs started their own company in a garage and became self-made billionaires. These heroes have made a fortune by starting up companies that are based on an idea they had. Many of such stories contain phrases like: “he saw things differently” or “they had a stupid idea”, and “they pursued this idea, whereas others told them they are crazy”. When these entrepreneurs start their business, they seem crazy to most people, as most people think these ideas would not work. Afterwards, however, when the business is successful, success is rationalised in hindsight, as if it could have been expected. Taleb (2007) has already shown that such events cannot be predicted. Many other illusions and myths surrounding entrepreneurship stories have been “busted” as well (Shane, 2008).

There is, however, still a possible illusion or myth surrounding entrepreneurship. Many researchers state that entrepreneurs use their imagination (Baron, 2006; Baron & Ensley, 2006; Cornelissen & Clarke, 2010; Foss & Foss, 2008; Foss, Klein, Kor & Mahoney, 2008; Gartner, 2007; Kaish & Gilad, 1991; Kirzner, 1997a, 1999; Lumpkin & Dess, 1996; Mathews, 2010; Sarasvathy, 2001; Witt, 2007; Zahra, 2008). Unfortunately, none of these studies has explained how entrepreneurs use their imagination. In this study I would like to investigate to what extent entrepreneurs use their imagination to create opportunities.

BACKGROUND

Entrepreneurship

In entrepreneurship research we have seen major shifts in viewpoints (Grégoire, Noël, Déry & Béchard, 2006). Early entrepreneurship research had a trait approach that assumed a particular entrepreneurial personality. This means that it was assumed that someone is an entrepreneur or he is not an entrepreneur and there is not much that can be changed. However, this type of research could not find a particular entrepreneurial personality and “Who is an Entrepreneur?” turned out to be the wrong question (Gartner, 1988).

After the trait approach came the behavioural approach to entrepreneurship. If we cannot know who is an entrepreneur, we must find out what he does, because only by acting as an entrepreneur, we can distinguish entrepreneurs from non-entrepreneurs. This led to another problem, because what does an entrepreneur do? Is starting up new organisations a conditio sine qua non for an entrepreneur (Gartner, 1985)? And if so, is entrepreneurship more than just registering a new organisation at the Chamber of Commerce?

At the end of the nineties, the problem with this approach was recognised and it was suggested that entrepreneurship involves the nexus of two phenomena: the presence of lucrative opportunities and the presence of enterprising individuals (Venkataraman, 1997).
The field of entrepreneurship therefore “involves the study of sources of opportunities; the processes of discovery, evaluation and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them” (Shane & Venkataraman, 2000, italics in original). Until today opportunities are one of the central concepts within entrepreneurship research (Busenitz, West, Shepherd, Nelson, Chandler & Zacharakis, 2003; Eckhardt & Shane, 2003; Short, Ketchen Jr, Shook & Ireland, 2010). They can be defined as “situations in which new goods, services, raw materials, markets and organising methods can be introduced through the formation of new means, ends, or means-ends relationships” (Eckhardt & Shane, 2003; Shane & Venkataraman, 2000).

Understanding most opportunity-based entrepreneurship research is the assumption that opportunities, these specific situations, objectively exist, but that they are subjectively discovered (Shane & Venkataraman, 2000). This assumption has at least two important implications for the way we look at entrepreneurs and entrepreneurship.

The first implication is that everyone can discover objectively existing opportunities in the market, as they are “out there”, ready to be found. The few things a potential entrepreneur then need are the “right” knowledge or information (Dencker, Gruber & Shah, 2009; Shane & Venkataraman, 2000) and “right” capabilities, such as identifying means-ends relationships (Eckhardt & Shane, 2003; Shane & Venkataraman, 2000) or entrepreneurial alertness (Kirzner, 1997a, 1999). As information and knowledge can be obtained and capabilities can be learned, everyone can become an entrepreneur and therefore, the person itself does not really matter anymore. Typical human properties as creativity and imagination are not important then anymore.

The second implication is that there is only one way to exploit the opportunity. Because an opportunity objectively exists, there is a way where specific resources and activities can be combined in a specific way to address a specific group of customers. In the last few years several researchers have made empirical observations that show that the entrepreneurial process and the opportunity discovery process especially does not very sequentially and static as many old models prescribe. Bricolage (Baker, Miner & Eesley, 2003) and effectuation (Sarasvathy, 2001) show that opportunities will not be pursued in the way the entrepreneur thought when he discovered the opportunity.

The assumption that opportunities objectively exist is based on neoclassical equilibrium theories, whereas entrepreneurship better fits disequilibrium theories (Kirzner, 1997b; Lachmann, 1976), like evolutionary economics (Nelson & Winter, 1982; Van der Steen, 1999) or Austrian economics. Lachmann’s (1976) consideration of the nature of expectations led him to deny that the market tends to equilibrium (Boehm, Kirzner, Koppl, Lavoie, Lewin & Torr, 2000). He argued that expectations are bound to differ across individuals and these differences in expectations make the emergence of equilibrium impossible. These expectations differ because the future is unknown and unknowable. If we would know the future, we would know the actions of individuals in this future, but all action is based on knowledge and future action is, therefore, based on future knowledge. This means that if we would have knowledge of the future, we would have to have knowledge of future knowledge, which is a contradictio in terminis (Boehm et al., 2000; Lachmann, 1976).

However, Lachmann makes an important remark: “The future is unknowable, though not unimaginable” (Lachmann, 1976, p. 59). Entrepreneurs imagine different futures and choose from these subjectively mental creations. This choice is then a creative act (Chiles, Bluedorn...
& Gupta, 2007). Creative imagination differs significantly from both Kirznerian discovery, which uncovers what already exists, and Schumpeterian innovation, which eschews creating the truly novel through human subjectivity (Chiles et al., 2007). According to Lachmann entrepreneurs can create ex nihilo through “the forward-looking process of imagining” (Ford, 2002) that allows them to “think outside the box”, where the “box” is defined largely by the limits of knowledge rooted in interpretations of the past (Chiles et al., 2007). If opportunities then are imagined, they are by definition subjective and are then created by the entrepreneur (Alvarez & Barney, 2007).

Although many authors have stressed that entrepreneurs use imagination (Baron, 2006; Baron & Ensley, 2006; Cornelissen & Clarke, 2010; Foss & Foss, 2008; Foss et al., 2008; Gartner, 2007; Kaish & Gilad, 1991; Kirzner, 1997a, 1999; Lumpkin & Dess, 1996; Mathews, 2010; Sarasvathy, 2001; Witt, 2007; Zahra, 2008), none of these studies has explained how entrepreneurs use their imagination, how important it is, to what extent the imagination is related to the success of a company, how opportunities are started by using imagination.

Opportunity Discovery and Opportunity Creation

In the previous section it has already been stated that opportunities have been regarded as objective phenomena during the last decades in entrepreneurship research. When entrepreneurs imagine future goods, services, raw materials, markets and organising methods that can be introduced through the formation of means, ends or means-ends relationships, they have created a mental, subjective opportunity. In this section I will elaborate on how opportunity discovery differs from opportunity creation. Although it has been argued that discovery and creation form a virtuous cycle because both mechanisms enrich and enhance each other (Zahra, 2008), I will discuss them separately to emphasise the differences between them.

Alvarez & Barney (2007) distinguish between two teleological theories of entrepreneurial action: discovery theory and creation theory. Both theories explain how entrepreneurs behave and how they act, but there are different assumptions behind each theory. In discovery theory, the nature of the opportunity is assumed to be objective (Alvarez & Barney, 2007): opportunities are out there in the market, waiting to be discovered. Entrepreneurs need to find, discover or recognise them, after which they can actively decide whether the opportunity will be exploited. Because in this situation some entrepreneurs discover or recognise the opportunity, whereas others do not, it is assumed that entrepreneurs ex ante significantly differ from non-entrepreneurs: they will have a special entrepreneurial capabilities or personal characteristics that enables them to discover these opportunities. The third assumption is that the context in which the entrepreneur makes decisions is risky. Although the terms risk and uncertainty are often used interchangeably, there is a difference between them (Knight, 1921). A decision-making context is risky when the entrepreneur at the moment that the decision has to be made, can collect enough information about the different possible outcomes of the decision and the probability that a certain outcome will occur. In an uncertain decision-making context the information on the different possible outcomes, or on the probability of each outcome cannot be collected. As discovery theory assumes that opportunities objectively exist, information on these opportunities can be collected and data-analysis techniques can be used to understand the different possible outcomes and their probabilities and the decision-making context is, therefore, assumed to be risky.
In opportunity creation theory, opportunities do not exist independent of the entrepreneur. By first using their imagination to form different possible futures and then start acting and observing how customers and markets respond to their actions, they create opportunities that were not there before. They create an opportunity *ex nihilo* by using their imagination and by acting, reacting and enacting (Alvarez & Barney, 2007; Baker & Nelson, 2005; Gartner, 1985; Sarasvathy, 2001). Whereas discovery theory clearly assumes that entrepreneurs and non-entrepreneurs are significantly different *ex ante*, creation theory has no assumption on significant *ex ante* differences between entrepreneurs and non-entrepreneurs. If significant *ex ante* differences between entrepreneurs and non-entrepreneurs would exist, this would explain why some people form opportunities whereas others do not. Alternatively, if no such significant *ex ante* differences would exist, very small differences between two very identical persons could already lead to one to form opportunities, where the other does not. In this case very small variations in their local environment or luck (Alvarez & Barney, 2007) may cause one of them to form and exploit an opportunity whereas the other does not. The path the entrepreneur creates while forming and exploiting this opportunity will enable and constrain the activities of the involved actors (Garud & Karnøe, 2003). These actors then come embedded in the paths they create (Garud, Kumaraswamy & Karnøe, 2010). In turn these paths will then shape the entrepreneurs over time (Garud & Karnøe, 2003). In this way differences will emerge *ex post* between entrepreneurs and non-entrepreneurs. While discovery theory assumes a risky decision-making context, creation theory assumes an uncertain and unknowable future (Alvarez & Barney, 2007; Knight, 1921). The opportunity that already exists in discovery theory does not exist in creation theory as it gets shaped along the way. This means that before any action has been taken, there is no opportunity to measure or analyse. Therefore no outcomes or probabilities can be estimated. The future in creation theory is unknowable (Knight, 1921) but, again, not unimaginable (Lachmann, 1976).

**On Imagination**

To understand how entrepreneurs make use of their imagination, we need to understand the concept of imagination. Whereas the field of entrepreneurship is relatively young, many authors have written on the concept of imagination since the ancient Greeks. This means that there is much literature to discuss on this subject.

First, imagination needs to be distinguished from creativity. Just like many researchers claim that imagination is important to entrepreneurs, so do many researchers acknowledge that creativity is important to entrepreneurs. There is however a main difference between these two. Whereas creativity is concerned with action or creation (hence creativity), imagination is a mental process concerned with images (hence imagination). Creativity (creative action) is important to entrepreneurs, as new ventures have to be created, just like new, “creative” products and services. Some examples of creative action are effectuation (Sarasvathy, 2001) or bricolage (Baker & Nelson, 2005). As stated before, this research focuses on imagination, the mental process.

Secondly, two types of imagination can be distinguished. The first type, *reproductive imagination*, is a kind of imagination where images are mentally created, based on earlier perceptions. This can be experienced, for instance, when one closes his eyes and tries to “remember” how that delicious dish in the restaurant tastes like. As this is the kind of imagination that is based on ‘remembering’ previous experiences and perceptions, it is not

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1 This section is mainly based on Kraaijenbrink, Spender and Groen (n.d.)
this type of imagination this research focuses on. This research focuses on the second type of imagination: productive imagination. This is the kind of imagination is the human capacity to go beyond what already exists, and it is therefore the driver of new ideas and innovations.

This productive type of imagination can be divided in two subtypes: fancy imagination and constructive imagination. Fancy imagination is regarded as the type of imagination that can be seen as daydreaming or wild fantasies. It is the most free kind of imagination as it does not require any connection to the real world. Entrepreneurs, however, are bound to the limits of the real world and, therefore, this type of imagination is not relevant to them. Constructive imagination, a purpose-based kind of imagination, has two defining characteristics: first, it is an intentional act of consciousness, which means entrepreneurs can actively choose to use it; secondly, it is hypothetical, which means that when we imagine constructively, we construct hypotheses about how the world could be. Examples of this type of imagination is when one asks questions like “Suppose that. . . “, “What if. . . ?” or “Wouldn’t it. . . ?” (c.f. Gartner, 2007). It is this kind of imagination, the consciously creation of hypotheses about the future that Lachmann (1976) meant when he said that the future is unknowable, but not unimaginable (Chiles et al., 2007) and, therefore, this research focuses on the use of constructive imagination by entrepreneurs.

RESEARCH GOAL

As mentioned before, many entrepreneurship researchers acknowledge the use imagination by entrepreneurs, but none of them describes how they use their imagination and how it helps them to create their opportunities. This research, therefore, builds on opportunity creation theory (Alvarez & Barney, 2007) by emphasising the role of imagination in the entrepreneurial process. By assuming that the entrepreneur and his imaginative and creative abilities are the central focus in the opportunity creation process, this research will assume a path creation approach (Garud et al., 2010) and will describe how entrepreneurs use their imagination to rationalise (Cornelissen & Clarke, 2010) and create (Alvarez & Barney, 2007) their opportunity. The goal for this research is, therefore, to describe how the future images that entrepreneurs in the early stages of the entrepreneurial process sketch when they answer questions such as “Suppose that. . . “, “What if. . . ?” or “Wouldn’t it. . . ?” (c.f. Gartner, 2007) and how these images are used to rationalise the opportunity (Cornelissen & Clarke, 2010) and how they form the basis of the opportunity that is created during the entrepreneurial process.

Based on the previous problem state the following central research question has been formulated:

“To what extent do entrepreneurs use constructive imagination to create their opportunity?”

To find an answer to this central question, some sub-questions have been formulated:

1. How can the use of constructive imagination by entrepreneurs be conceptualised?
2. To what extent do entrepreneurs form images about the future?
3. To what extent do entrepreneurs use these images to rationalise the opportunity?
4. To what extent do entrepreneurs use these images as a goal in the opportunity creation process?
The first question will be answered by conducting a literature study. The result will be a conceptual paper that describes the role of imagination in the entrepreneurial process. The second and the third question will be answered by conducting case studies.

**RESEARCH DESIGN**

This research will consist of a two-step process to fully capture entrepreneurial imagination. First, a literature study will be conducted to find out what is already known about the use of imagination by entrepreneurs. This result of this stage will be an initial model and the formulation of some propositions. Secondly, an in-depth case study will be conducted to better understand how entrepreneurs use their imagination to create the opportunity. The case studies will help to improve the model that was derived from the literature study.

**Literature Study**

As the focus of this research is on the application of imagination in an entrepreneurial context, the main sources of the literature study will be academic business and management journals. The journals have been selected based on their content (entrepreneurship) and their 2010 ISI Journal Citation Reports impact factor, see Table 1. To perform this literature study, I would like to search within these journals for articles containing phrases like “imagination” or “imagine”. By examining the reference section of these articles for other potentially relevant articles, additional articles will be added to this study. From the literature I would like to build a model that describes how entrepreneurs use their imagination to form opportunities and to create images about the future and their opportunity.

<table>
<thead>
<tr>
<th>Name</th>
<th>JCR Impact Factor</th>
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<tr>
<td>Academy of Management Review</td>
<td>6.720</td>
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<tr>
<td>Academy of Management Journal</td>
<td>5.250</td>
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<tr>
<td>Journal of Management Studies</td>
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<tr>
<td>Organization Science</td>
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<td>Journal of Management</td>
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<tr>
<td>Administrative Science Quarterly</td>
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<td>Strategic Management Journal</td>
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<td>Strategic Organization</td>
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<tr>
<td>Organization Studies</td>
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<tr>
<td>Entrepreneurship Theory and Practice</td>
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<tr>
<td>Journal of Business Venturing</td>
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<tr>
<td>Management Science</td>
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**Table 1: List of journals used in literature review**

**Case Study**

Imagination is a quite intangible concept and difficult to measure, therefore I would like to use a sensemaking approach Weick (1995). By doing case studies based on narratives, I would like to capture how entrepreneurs use their imagination (Gartner, 2007; Henriksen, 2010 ISI Journal Citation Reports impact factor is the latest currently available ISI impact factor ranking scheme. See http://admin-apps.isiknowledge.com/JCR/JCR/
Nørreklit, Jørgensen, Christensen & O’Donnell, 2004). There are three main subjects that I would like to touch upon in these cases. First, I would like to ask them what questions they asked themselves about the future and their opportunity. Not every entrepreneur may ask the same questions and may derive at these future images in different ways. Secondly, I would like to know how they answered these questions and what “knowledge” they gained from these answers. Their answers to these questions should form the basis of the image. Third, I would like to ask them how they use these answers and the knowledge they gain from these answers, to form their opportunities. It could be that the image they have is very strict and fixed end goal that they would like to work towards to. On the other hand, it could be that these images are very vague and are only used as direction instead of a fixed goal. By making use of the knowledge that I will get from the case studies, I would like to refine and improve the model that I have built from the literature.

REFERENCES


Entrepreneurship Journal, 2(1), 73–94.


