Knowledge as the source of opportunity

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ABSTRACT

In this paper, we show how Davidson’s theory of knowledge can be used to elaborate the objective, intersubjective and subjective components of knowledge. Departing from Hayek’s core insights about the dispersion of knowledge in society, we reiterate that opportunities involve subjective knowledge such as judgment and imagination, intersubjective knowledge of the social and institutional context, as well as knowledge about objective realities “out there”.

1. Introduction

The domain of entrepreneurship is still scattered with regard to what constitutes its core. Widespread agreement has emerged, however, that entrepreneurship involves the pursuit of opportunities. During the past decade, entrepreneurship has mainly been understood through the discovery perspective (e.g., opportunities are ontologically “out there”; they just have to be discovered) (Shane, 2003, 2012). In critical response to this view, the so-called creation view has argued that opportunities are created through processes of social construction (Aldrich and Fiol, 1994; Alvarez et al., 2013; Korsgaard, 2013). Additionally, the subjectivist perspective has added nuance to the debate by suggesting that opportunities are creatively imagined by the entrepreneur (Chiles et al., 2007, 2010a, 2010b; Mahoney and Michael, 2005; Lachmann, 1976), or that opportunity is latent to subjective judgments about allocation of resources (Foss and Klein, 2012; Klein, 2008). The differences between the competing views have largely been taken as ontological and epistemological disagreement concerning the nature of opportunities as a category. Ultimately this has led to a (arguably conceptually stimulating) stalemate with none of the competing views really successfully incorporating a holistic conceptualization of opportunities in the entrepreneurial process (Crawford et al., 2016).

In this paper, we follow Crawford and colleagues (Crawford et al., 2016) in questioning the importance of making the issue of “opportunity” into a deep ontological debate, and instead we attempt to circumvent the impasse of the ontologically driven debate. We do this by re-emphasizing the original observation of Hayek and Kirzner that opportunities arise from the distribution of knowledge in the society and therefore may be treated as a function of knowledge (Hayek, 1945) and a form of future looking knowledge; (Knight, 1921). As a robust point of departure, we look to Hayek’s (1945) influential paper on the distribution of knowledge in society and its consequences. As pointed out by Hayek (1945: 519).

The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate “given” resources … it is a problem of the utilization of knowledge not given to anyone in its totality.

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In the Hayek model it is the uneven distribution of knowledge that gives rise to the problem of allocation, to which entrepreneurship is the solution. Any given economic actor will have incomplete and imperfect knowledge, and while this makes it impossible for all to make rational and optimizing decisions, it also gives "practically every individual ... some advantage over all others in that he possesses unique information of which beneficial use might be made" (Hayek, 1945: 521). Notably, the uneven distribution is both cross-sectional and longitudinal, meaning that the distribution is both across people and places as well as over time (Dew et al., 2004). As emphasized by Kirzner (1973) (Korsgaard et al., 2016) it is in the uneven distribution of knowledge across people, places and time that we find opportunities. Opportunities reside in knowledge and information, the differences in where it exists, where it does not exist, who has it and who does not have it. While (too) much has been made of Kirzner's metaphor of discovering the opportunities, we suggest that there is value in exploring the Hayek-Kirzner idea of opportunities as originating in knowledge and its distribution.

In this paper, we explore the idea of opportunities as knowledge by employing Donald Davidson’s tripod of knowledge (objective, intersubjective, and subjective) to claim that opportunities consist of these three forms of knowledge dispersed among people and places, and over time. This argument mirrors recent criticisms of the opportunity concept, including Per Davidsson’s (2015) attempt to break up the opportunity concept into three distinct constructs (external enablers, new venture ideas, and opportunity confidence) and Kitching and Rouse’s (2016) critical realism, which incorporates structural (objective), social (intersubjective) and agentic (subjective) components. Our argument, however, maintains the value of the opportunity concept, while catering to the insightful concerns raised by critics.

2. Davidson’s main thesis

Our point of departure builds on the premise laid down by Venkataraman et al. (2012) that the domain of entrepreneurship can be grounded on a philosophical ‘tripod’ which captures the objective, intersubjective and subjective. Consequently, the domain of entrepreneurship must be concerned with the external physical world (the objective), what is socially constructed between minds (the intersubjective) and the subjectivity within minds. Like Venkataraman and colleagues, we explicitly use the theory of knowledge laid forward by the late philosopher Davidson (2001). While the existing discussion to some extent manages to touch upon all these dimensions, it does not manage to understand the connections between them. We therefore sketch Davidson’s thesis of the three varieties of knowledge, and develop a set of propositions. Our overall argument is that we must “trichotomize” our epistemological understanding of entrepreneurship if we are to build more complete theories within the domain. Davidson’s conception of the subjective, the intersubjective and the objective captures the requisite elements for these endeavours.

According to Davidson (2001: 208), there are three basic problems within philosophy of knowledge: “how a mind can know the world of nature, how it is possible for one mind to know another, and how it is possible to know the contents of our own minds...”. These questions reflect the objective, the intersubjective, and the subjective forms of knowledge, respectively, and they reflect three different epistemological types, and cannot, therefore, according to Davidson, be further collapsed. These three types of knowledge are also strongly interrelated (2001: 208–220). In brief, the nature of the ‘objective’ regards the mind’s representation of the external world. The nature of the intersubjective captures what is between minds, i.e. social and institutional interactions (Durati, 2010). The nature of the subjective captures what ‘I’ know, or what is embedded in my taste, preferences, expectations, intuition, creative imagination or judgment, based on my personal experiences – from a lived life. It also captures subjective knowledge of time and place (Hayek, 1945). In the remaining, we use these concepts as the main structure.

2.1. The ‘Objective’

Shane (2003, 2012) and colleagues have argued for entrepreneurship understood through the discovery lens. Building on the original ideas of Kirzner, the discovery perspective suggests that opportunities are waiting “out there” to be discovered by would-be entrepreneurs. While merits and challenges of the discovery view have been discussed intensely elsewhere, we focus on a key insight of the discovery view – and one which also makes up a key counterargument to the creation view – namely that a conceptualization of opportunity must connect to some objective reality independent of the entrepreneur (Shane, 2012; Shane and Venkataraman, 2000). Otherwise, the success of an entrepreneurial process would be decided solely by the intensity with which the entrepreneur believes in her opportunity. As pointed by Ramoglou and Zygilidopoulos (2015: 75) ”the realm of the naturally possible is narrower than the realm of the imaginable”. Consequently, there are some realities out there that are arbiters of the success of the entrepreneurial vision and actions. A similar line of argument has been adopted by Davidsson (2015: 684), who refer to this as the “external enablers” of new venture creation. Examples include new demand caused by demographic changes or changes in the environment and new supply resulting from scientific discoveries (Shane, 2012; Shane and Venkataraman, 2000). Ultimately, this has to do with the material feasibility of what the entrepreneur envisions to do (Davidsson, 2015). Without resonance in the material reality opportunities can be only figments of the entrepreneurs’ imagination. A cure for cancer is clearly a great opportunity due to high and given demand, but only if the treatment is technically feasible. Correspondingly, we have the basis for our first proposition:

Proposition 1. Opportunities contain knowledge of objective realities beyond the control of the entrepreneur.

2.2. The ‘Intersubjective’

In Davidson’s tripod, the intersubjective refers to the explicit and tacit knowledge between minds. In other words the past,
current, and future interactions and communications between people (potentially) involved in the entrepreneurial process. This theme has been emphasized in relation to opportunities in many contributions, in particular in the creation view of opportunities. A key insight from this view is that entrepreneurial processes are iterative and involve exchanges between multiple actors that are enrolled, persuaded, dissuaded, consulted, or involved. These exchanges result in the enactment of new realities in the form of new ventures, products and services, partnerships etc.

This insight is perhaps most prominently formulated in effectuation theory, which argues that entrepreneurship is essentially a collective undertaking that feeds on the enrolment of others to buy in to and develop the opportunity (Sarasvathy, 2001). Notable recent contributions have emphasized the role of stories in the entrepreneurial process, thereby emphasizing the intersubjective and communicative dimension (Garud and Giuliani, 2013; Hjorth, 2007).

Entrepreneurial opportunities thus involve knowledge of some past and current social interactions, which may enable and constrain the entrepreneurial efforts in question. Notably, this emphasizes how the entrepreneurial processes are embedded in institutions, understood as habitual and rule-based interactions (Jack and Anderson, 2002; Venkataraman, et al., 2012). Intersubjective knowledge resides “out there” but is subject to change through entrepreneurial efforts, and the success of an entrepreneurial venture may indeed depend on changing the local and or broader intersubjective and institutional conditions.

This leads us to our second proposition:

Proposition 2. Opportunities contain intersubjective knowledge of the social and institutional context.

2.3. The ‘Subjective’

The most recent contribution to the opportunities debate, also builds on Austrian subjectivism but in a different form from the one derived from Hayek and Kirzner. Foss and Klein’s (Foss and Klein, 2012; Klein, 2008b) recent work explicitly emphasizes subjective elements, highlighting the autonomy of individual choice. In addition, Chiles and colleagues highlight creative imagination in relation to an ‘unknown but not unimaginable future’ (cf. Chiles et al., 2007; Gloria-Palermo, 1999; Lachmann, 1976). As pointed out by Vaughn (1994: 134) this form of ‘radical subjectivism’ of Lachmann is different from the ‘static subjectivism’ of neoclassical economics. The latter limits subjectivity to utility preferences and maximization of constrained choice (i.e. the concept of perfect rationality), whereas the former includes creativity and futurity; the unknowable of the future and the "fuzzy" choices (bounded cognition and, thus, bounded rationality). The subjective dimension highlights that opportunities as knowledge contains information related to the individual entrepreneur; their imaginations, interpretations, and judgments about what is feasible and desirable (from a general as well as individual perspective). Consequently, opportunities are to some extent idiosyncratic, and what may appear to be a desirable opportunity for one person will likely not be for another and vice versa (cf. Haynie et al., 2009). This emphasis on creative imagination and judgment leads us to our third proposition:

Proposition 3. Opportunities contain subjective judgment and creative imagination.

3. Implications

Above, we have outlined how it is possible to bypass some of the ontological troubles of the debate on opportunities by using Davidson’s tripod of knowledge to help us understand the objective, intersubjective and subjective elements of opportunities. Instead of considering opportunity as an ontological category, we suggest that opportunities are composed of three types of knowledge that are woven together in the entrepreneurial process. An opportunity proper thus contains three forms of knowledge. Notably, this introduces an important processual and temporal dimension to entrepreneurship (Korsgaard et al., 2016; McMullen and Dimov, 2013), as the collection of these knowledge components takes time. Also, entrepreneurs may need different techniques and approaches to obtain the knowledge in question. Objective knowledge may thus oftentimes best be obtained through research intensive analytical approaches, while intersubjective knowledge may best be obtained through experimenting and collaborative efforts. Subjective knowledge oftentimes resides in processes which are difficult to manage and depend to some extent on serendipity and highly idiosyncratic factors.

Following this line of thinking, entrepreneurial processes are processes of knowledge creation and collection. And dependent on the ordering and priorities of the different types of knowledge, entrepreneurial processes likely will unfold in many different ways. Tracking and understanding the knowledge creation and collection of entrepreneurs thus becomes a vital task, and perhaps our research time is better spent doing this, as opposed to discussing at length the ontological refineries of opportunity as a concept (Crawford et al., 2016).

References
