

# **Entrepreneurship in Creative Capitalism: Revisiting An Opportunity Recognition Model**

## **Abstract**

The “profit-seeking potential venture” is a common theme in entrepreneurship literature (e.g. Hulbert, et al. 1997, Christensen, Madsen, and R. Peterson, 1989, Singh, 2000). The mindset of “profit-seeking” is widely accepted by scholars, researchers, and entrepreneurs since we operate on capitalism system in which profit is the only driver to start a business (Friedman, 1970). However, an emerging school of thought has been growing rapidly in the literature, which Gates (2008) called “creative capitalism”. Creative capitalism is a system where self- interest and caring for others come together hand in hand to serve the interest of entrepreneur and society (Gates, 2008). Creative capitalism is a way to expand the market to include its long ignored segment “Bottom Of the Pyramid” (Prahalad, 2006). Using the Bhave (1994) model of opportunity recognition, the purpose of this paper is to explore the how entrepreneurs in creative capitalism recognize an opportunity.

## **Key Words:**

Opportunity recognition, Creative Capitalism, Bhave Model

## **Entrepreneurship in Creative Capitalism: Revisiting An Opportunity Recognition Model**

Entrepreneurs are the engines for an economy. They come up with innovations, make products, and create jobs. According to Small Business & Entrepreneurship Council (2008), entrepreneurs and small business owners account for 46 percent of the nonfarm GDP in 2008. They were responsible for creating 63 percent of all the new jobs in US in the period of 1993-2013 and since the end of the recession of 2008 they created 60 percent of the new jobs from 2009 to 2013.

Because of the very important role entrepreneur play, academics and researchers have tried to answer the questions: who is entrepreneur, what motivate an entrepreneur, and what is the system that an entrepreneur can best operate within? For example, Carland, Hoy, and Carland (1988) suggested that entrepreneurship, as a research field needs to incorporate better methodologies in order to understand and identify the traits of entrepreneurs. However, Some scholars define entrepreneurship as the “creation of new organizations.” (Gartner, 1988, p. 11). This definition of entrepreneurship focuses on behaviors and actions rather than on traits and personalities.

Some researchers call to replace the question of who is entrepreneur? Or what it is entrepreneurship by what is entrepreneurial opportunity (Shane & Venkataraman, 2000; Singh, 2000). Entrepreneurs discover, evaluate and exploit opportunities in order to create future goods and services (Shane & Venkataraman, 2000). Singh (2000, p. 3) defines opportunity as “a feasible, profit-seeking potential venture that provides and innovative new product or service to the market, improves on an existing product/service, or imitates a profitable product/service in a less than saturated market.”

The “profit-seeking potential venture” is a common theme in entrepreneurship literature (e.g. Hulbert, et al. 1997, Christensen, Madsen, and R. Peterson, 1989, Singh, 2000). The mindset of “profit-seeking” is widely accepted by scholars, researchers, and entrepreneurs since we operate on capitalism system in which profit is the only driver to start a business (Friedman, 1970). Maximizing the wealth of shareholder and owners should be the only concern of managers (Friedman, 1970). Making profit is the ultimate goal for entrepreneurs who want to start a venture. Profits must justify the efforts that been invested in the venture creation (Hulbert, et al. 1997).

However, an emerging school of thought has been growing rapidly in the literature, which Gates (2008) called “creative capitalism”. Creative capitalism is a system where self-interest and caring for others come together hand in hand to serve the interest of entrepreneur and society (Gates, 2008). Creative capitalism is a way to expand the market to include its long ignored segment “Bottom Of the Pyramid” (Prahalad, 2006).

“Bottom Of the Pyramid” (Prahalad, 2006) or the “base of the pyramid” (Hammond, Kramer, Katz, Tran, & Walker, 2007) is the construct that describes about 3-4 billions people in the world who live in less than \$ 2.5 per day. Although “Base of the pyramid” considers the poorest in the world, their accumulated purchasing power is more than \$ 5 trillion (Hammond et al, 2007). There are valuable economic opportunities at the “Base of the Pyramid” but the strategy to approach that segment needs to take their special needs into consideration (Hammond et al, 2007). Although corporations could help alleviate poverty at the “Base of the Pyramid” and benefit (Prahalad, 2006),

entrepreneurs are well known for their innovations, fastness, and flexibility to meet the market needs.

Entrepreneurs in the creative capitalism seek a social need and problem and come up with innovative products and services to meet the need. They sympathize and synchronize with social fabric of the society in order to recognize an opportunity. There are two paths to recognize an opportunity, according to Bhavé's (1994) model of opportunity recognition; which are internally stimulated opportunity recognition versus externally stimulated opportunity recognition. Internally stimulated opportunity starts with recognizing a need in a society that needs to be filled while externally stimulated opportunity starts with a decision to create a business or a venture.

Using the Bhavé (1994) model of opportunity recognition, the purpose of this paper is to explore the how entrepreneurs in creative capitalism recognize an opportunity. The contribution of this paper is to shed a light on the process of how entrepreneurs identify opportunity on the creative capitalism mindset. Also, as practical contribution of this paper, understanding the process of which entrepreneurs recognize social need may help social incubators, government, and NGOs programs that aim to encourage entrepreneurs to tackle those social needs. To accomplish these goals, the paper will structured as follows. The first section of this paper is dedicated to explain what is capitalism in its original form and what is creative capitalism. The second section will explain Bhavé (1994) model and provide propositions. The third section will discuss the theories and propositions followed by limitation and future direction for research.

## Capitalism and Creative Capitalism

Capitalism comes from its root word capital. According to the *Oxford English Dictionary* (2006 p. 2305), capital refers to “accumulated wealth reproductively employed”. This means using what you have (the capital) to generate and reproduce wealth. The traditional way that society produces art, establishes castles, or distributes goods in a way that lacks the “reproductively employed” component (McCraw, 1997). Examples are Egyptian pyramids, the Forbidden City of China, the cathedrals of medieval Europe. In all of those examples, there is accumulated wealth but with no “reproductively employed” element. The efforts, money, and creativity that used to produce these ancient human products, at that time, did not increase society wealth nor did it create reproductive cycle in which people could benefit.

Capitalism provides human beings with a mean to produce and work through “accumulated wealth reproductively employed” lens (McCraw, 1997). It’s the “*invisible hand*” that serves self-interest in a way that brings prosperity to society (Smith, 2005). The word “*Capitalism*” could be defines as a system that “organized around a market economy that emphasizes private property, entrepreneurial opportunity, technological innovation, the sanctity of contracts, payment of wages in money, and the ready availability of credit” (McCraw, 1997: Pg. 3). The capitalism system provides a platform in which people can freely buy and sell land, equipment, and all market tools. The price of a product or service is what someone else is willing to pay for it. In addition, entrepreneurs have an access to credit and financial resources to turn ideas into realities in the market. The essence of capitalism is individual pursuing toward wealth and prosperity (McCraw, 1997).

Capitalism brought prosperity and growth to societies. According to the World Bank Report of richest and poorest nations in mid-1990s, out of 133 countries with a population of over a million the top 25 countries are capitalist economies. In addition, most of innovations and technology advancements in world today developed within capitalist economies. However, capitalism creates inequality in societies (Piketty, 2014). While inequality cross countries has declined, it has increased within them (El-Erian, 2014). Very few People at the top of the pyramid gain the most of wealth, while people struggle at the middle of pyramid, and majority of people in the world almost survive at the base of the pyramid.

Capitalism can be modified to utilize its outcome and overcome its shortcomings. Self-interest and caring for others are the two main forces that motivate human being's actions (Gates, 2008). Since capitalism serve self-interest very well, the twist of capitalism needs to be in "caring for others" part. This is what (Gates, 2008) calls "Creative Capitalism".

Creative capitalism is a system where entrepreneurs, corporations, governments, and the poor come together to come up with new ways, products, and services that serve the "Bottom Of Pyramid" (Prahalad, 2014). It's a system that encourage making profits as well as improving the life of unfortunate people whom the market largely ignores.

There are about 3-4 billion people who live in less than 2.5 dollar a day (Prahalad, 2014). Although those people individually do not have large amount of money, they accumulate a wealth of more than 5 trillion dollar (Prahalad, 2014). Also, although they may not well equipped with technological and modern skills, they are very talented in handy and survival skills. They know how invented their own way of transportation and

logistics from small, and isolated villages, and they know how to best utilize the nature surrounding them in their favor.

In a way, the people at “Base Of the Pyramid” are entrepreneurs as they possess entrepreneurial skills to try to survive through whatever resources they have. When an opportunity presents its self, they strive to succeed. For example, when Grameen Bank approaches women especially those with kids with holistic strategy to start a business, many poor women from small villages participated in the program and become micro-entrepreneurs (Yunus, 2007). The poor usually do not take initiative to change their life or to become an entrepreneur (Gladwell, 2008), because for long time they assume that the market has not been designed to serve them as they have been overlooked them for long time (Gladwell, 2008).

### **Entrepreneurs and Bhavé's Model**

Entrepreneurship's scholars and researchers have different views of what is entrepreneurship or who is entrepreneur (Carland, Hoy, & Carland, 1988; Gartner, 1988; Vesper, 1996). Since the core of entrepreneurship is new venture creation (Gartner, 1985, 1990), some researchers have argued that attention should be on the construct of opportunity recognition (Shane & Venkataraman, 2000; Singh, 2003).

Opportunity recognition is defined on the assumption that opportunity should be that make “profit” (Christensen et al, 1989; Singh, 2003). However, there are entrepreneurs who try to solve social problem (Yunus, 2007). Opportunity as social need or social problem is a new dimension to business that fit certain type of entrepreneurs (Yunus, 2007). Those entrepreneurs seek to tackle social problems and maybe generate some profit along the way to cover the cost or some more.

Opportunity recognition occurs on the first stage of the entrepreneurial endeavor

(Hills, 1995; Shane & Venkataraman, 2000; Singh, 2000). There are different models that try to explain the framework in which opportunity recognition develops (Bhave, 1994, Christensen, Madsen, & Peterson, 1994; Gaglio & Taub, 1992; Long & McMullan, 1984). Some models rely on the role of prior knowledge (Shane, 2000), alertness to entrepreneurial opportunities (Kirzner, 1973), and networks-based (Arenius & Clercq, 2005).

Bhave (1994) provides a process model that explains opportunity recognition in the early stage of venture creation. Bhave's model is based on the result of interview of 27 New York City entrepreneurs in four different industries that are trade and distribution, financial and management consulting, computer services, and technology based design and manufacturing. One of the main contributions of Bhave (1994) work is the classification of opportunity recognition that is externally stimulated and internally stimulated opportunity recognition.

The first path of recognizing an opportunity according to Bhave's model is externally stimulated opportunity recognition. In this path, an entrepreneur makes a conscious decision to start a business. Thinking through the creative capitalism lens, entrepreneurs would look for social problem that they can help solving. An example of that is Bill & Melinda Gates. After their first trip to Africa and exposing to the poverty in the world, Melinda and Bill decided to help solve social problems in the world. So, they start looking for the most urgent social needs that they should focus on. After serious search, they realized there are twenty most dangerous diseases that poor people from poor developing countries suffer from. Melinda and Gates, through their foundation, have made substantial progress in fighting the diseases since they started in 2000.



Entrepreneurs who identify opportunity “social problem” utilizing externally stimulated recognition experience “filtration” process of potential opportunities after they decide to start a business (Bhave, 1994). The filtration process allows the entrepreneur to select based on the knowledge, resources, and ability the opportunity that will reward him/her the most. Singh, (2003) found consistent result those entrepreneurs who utilized externally stimulated opportunities are likely to report that they engage in a deliberate search for opportunities.

The second path of recognizing opportunity according to Bhave’s model is internally stimulated opportunity recognition. In this path, entrepreneurs do not engage in formal search for opportunities; rather the opportunity represents itself to the entrepreneur. An example of that would be Ludwick Marishane who developed “Dry Bath”. “Dry Bath” is a gel that kills the germ in skin instead of taking bath. One night while he was out with friends, Marishane thought out of laziness about a product that make him not to smell if he does not take a bath (Marishane, 2012). After a search online, he recognized the need for “Dry Bath” not just for himself, but for million of people who do not have proper access to clean water.

Singh (2003) argues that entrepreneurs who utilized internally stimulated opportunities are more educated and have higher household income than entrepreneurs who utilized externally stimulated opportunities. Entrepreneurs who utilized internally stimulated opportunities gain more education, which make allow them to have better analytical skills (Singh, 2003). There is also a different between the two types of opportunity recognition in regard to the motive to start a business. Gaining more money, getting higher social status, and having greater flexibility are more likely to be the motive

to start a business for entrepreneurs who internally stimulated opportunities than entrepreneurs who externally stimulated opportunities (Singh, 2003).

However, these results and assumption of Bhavé's model are true when entrepreneurs are looking for only "profit" opportunities. In a creative capitalism system where entrepreneurs are trying to solve social problems, I argue that that entrepreneurs who search for potential social problems to solve them or "externally stimulated opportunities" are more financial independent; get good social status, and have more flexibility than entrepreneurs who accidentally find a social problem or "internally stimulated opportunities". In the examples that I mentioned above, Melinda and Gates have more financial freedom, social status, and flexibility than Marishane. Therefore, when Melinda and Gates decided to tackle social problems, they search for opportunities that they will have most impact on while Merishane accidentally found a social problem that he may help to solve. Therefore, this paper propose the following:

Proposition I: In creative capitalism, entrepreneurs who utilized internally stimulated opportunities tackle convenient social problems.

Proposition II: In creative capitalism, entrepreneurs who utilized externally stimulated opportunities tackle high-impact social problems.

## **Discussion**

Capitalism has brought prosperity and growth to societies. Industrialized countries' economies have benefited tremendously from it (McCraw, 1997). However, capitalism has left about half of earth population with some sort of poverty (Shah, 2013). Capitalism

is one-dimensional system that focuses on profit (Yunus, 2007). Capitalism does not capture the diversity of interests of all human being.

Creative capitalism is a proposed system that has two missions “making profit and improving the life of unfortunate people” (Gates, 2008 p. 2). There are two main forces that motive human being action; self-interest and caring for others (Gates, 2008).

Creative capitalism provides a lens in which investors, shareholders, and entrepreneurs can think through.

Entrepreneurs have gained substantial records in utilizing resources and making profits. Number of researches suggest that entrepreneurs identify opportunities through “making profits’ lens (e.g. Hulbert, et al. 1997, Christensen et al, 1989, Singh, 2001).

However, entrepreneurs identify opportunities through social needs paradigm (Yunus, 2007, Prahalad, 2014). They enjoy the entrepreneurial experience by tackling social problems and making some money along the way.

There are different models that explain how entrepreneurs recognize an opportunity. Bhava (1994) propose that two categories in which entrepreneurs recognize opportunity; externally stimulated or internally stimulated opportunity recognition.

(Singh, 2003) supports that internally stimulated entrepreneurs are more educated and tend to have more household income than externally stimulated entrepreneurs. However, this result is based on capitalism system mindset. If we want to apply the same model to creative capitalism entrepreneurs, the reverse may be true. Under creative capitalism, entrepreneurs devote themselves to solve social problems. Understanding the level of social complexity and having sufficient income that keep the focus on goal require certain level of education and social status. When an entrepreneur, with creative

capitalism mindset, dedicates him/her and engages in multi-step search to find an entrepreneurial opportunity, he/she, probably, wants to have substantial impact on society and has enough resources and education that support the mission. In the other hand, finding a social need accidentally that spark the interest to solve social problem may not require as much education and income to tackle the problem.

**Limitation and Future Research:**

Number of limitations exists in this paper. First creative capitalism is relatively new phenomenon. More researches have to be conducted to know its practicality and applicability in the market. Second, this is a conceptual piece that needs further empirical test in order to support its claims. Third, this paper deals with entrepreneurship in creative capitalism with regard of opportunity recognition only. There are many ways that we can approach entrepreneurship in creative capitalism e.g. government policy, entrepreneurial execution. This paper is initial step to more understanding of entrepreneurs' role in creative capitalism and in tackling social problems and more efforts need to support this effort for holistic understating of the phenomena.

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