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Understanding Venture Idea Newness, Relatedness and Change among Nascent and Young Entrepreneurs

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Principal Topic

The entrepreneurial process involves all the functions, activities, and actions associated with the perception of opportunities and the creation of the organizations to pursue these opportunities (cf. Key, Foo and Lim, 2002). Shane and Venkataraman (2000) introduced entrepreneurship as a nexus between the opportunity and entrepreneurial individuals. Thus, opportunities are an important part and central to the entrepreneurial process. Following Davidsson (2003) we here use the concept "venture idea" rather than "opportunities".

Venture ideas are ideas for new products or services or bundles; introducing new price/value relations; imitative entry and entering new markets (Davidsson, 2003). This implies that venture ideas are the core ideas of an entrepreneur about what to sell, how to sell, whom to sell and how an entrepreneur acquire or produce the product or service which he/she sells. Timmons (1994) states that the finding a good idea is the first step in the task of converting an entrepreneur's creativity in to an opportunity. Explaining the development of venture ideas or - as they are often called - 'opportunities' is regarded as a key research goal in entrepreneurship (Davidsson, Hunter and Klofsten, 2006). For example, since the ideas have differentiating effects on the discovery and exploitation processes as well as on profitability and potential market impact the identifying and selecting the right venture ideas for new businesses are among the most important abilities of a successful entrepreneur (Ardichvili, Cardozo and Ray, 2003)

Even though the opportunity, its recognition and exploitation have been extensively discussed and researched among researchers around the world (Bhave, 1994; Casson, 1982; Davidsson, 2003; Kirzner, 1973; Sarasvathy, Dew, Ramakrishna & Venkataraman, 2003; Shane, 2000; Shane & Venkataraman, 2000; Venkataraman, 1997) there is a scarcity of research carried out on the characteristics of those opportunities and how such characteristics affect, e.g., firm performance, growth or survival. The importance of investigating such questions is exemplified by Samuelsson (2004), who found that the gestation process and its determinants were vastly different for innovative vs. imitative ventures.

In this research we investigate how three aspects of venture ideas affect the pace at which progress is made in the venture creation process. Bhave (1994) argues that the venture creation process is more complex or difficult for novel business ideas. For this reason we assess and estimate the effects of four aspects of newness: the product/service itself; the method for promotion and selling; the methods for producing or sourcing, and newness in terms what markets or customers are served or targeted. Shane (2000) demonstrated that prior knowledge of the founders is an important factor in venture development. Similarly, Sarasvathy's (2001) Effectuation Theory proposes a high degree of relatedness with founders' knowledge and means. Hence, we assess and estimate the effects of the degree of alignment of the venture ideas with the prior knowledge and skills of the founders as well as with the financial, physical and other resources they had access to. Further, since entrepreneurs operate in an environment of heterogeneous and uncertain, they have to change their original business ideas time to time (Davidsson, Hunter, Klofsten, 2006). Presumably, changes of the venture idea could either facilitate or complicate the gestation process. In order to explore this we also assess and estimate the effect of the extent of change of the business idea that have been made. We investigate this for the same four aspects as for which we assess newness.

Methodology/Key Propositions

For this study we will compare early findings from data collected through the CAUSEE. CAUSEE is a longitudinal study whose primary objective is to describe how new venture come into existence. Data was collected from a representative sample of some 25,000 households in Australia using random digit dialling (RDD) telephone survey interviews. Included in the study are the approximately 600 cases where the respondent is

currently involved in a business start-up, and another 600 who are owners of an up-and-running firm started in the last three years, in both cases where the respondent is also willing to participate in the study. The unit of the analysis is the emerging venture, with the respondent acting as its spokesperson. The study methodology allows researchers to identify ventures in early stages of creation and to longitudinally follow their progression through data collection periods over time. Our measures of newness build on previous work by Dahlqvist (2007). Our adapted version was developed over two pre-tests with about 80 participants in each. The measures of relatedness and change were newly developed through the two rounds of pre-testing. The pace of progress in the venture creation process is assessed with the help of time-stamped gestation activities; a technique developed in the Panel Study of Entrepreneurial Dynamics (PSED) (see Gartner et al., 2004).

Results and Implications

Data collection is under way at the time of this writing. The results will help develop better knowledge of the venture creation process and its success factors, enabling better theory as well as more adequate dissemination of practical advice through teaching and consultancy.

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