ATTRACTIVENESS OF VENTURE IDEAS: A CONJOINT STUDY

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Abstract

Every venture starts with a venture idea; product/service, method of production, customer, market, or method of promotion etc. This study focused its attention on what factors drive entrepreneurs' perceptions of the relative attractiveness of specific venture ideas, and how important different venture idea characteristics are for making such assessments. Based on several idea characteristics – four dimensions of newness, two dimensions of relatedness and potential financial gains – the study investigated how 32 expert entrepreneurs in Sri Lanka trade off among different levels and attributes associated with different idea characteristics. The study utilized a Conjoint Analysis to understand how entrepreneurs make preferences for different profiles of venture idea characteristics. Results suggest that entrepreneurs are highly attractive of introducing substantial improved products. They prefer to use a higher knowledge in implementing venture idea. Further, results show that entrepreneurs give higher importance for process newness in perceiving venture idea.

1. Introduction

It is increasingly acknowledged that the venture idea– or often called entrepreneurial opportunity– as the central concept in entrepreneurship research (Davidsson, 2004; Shane & Venkataraman, 2000). Without venture idea there is no entrepreneurship (Shane & Venkataraman, 2000,p.220). Consequently, a number of conceptual and empirical work have been done on this topic, especially in terms of their existence, recognition and exploitation (e.g. Davidsson, 2004; Eckhardt & Shane, 2003; Sarasvathy, Dew, Velamuri, & Venkataraman, 2003; Shane, 2000; Shepherd & DeTienne, 2005; Ucbasaran, Westhead, & Wright, 2008). A specific entrepreneurship opportunity can be described by the venture idea. Venture ideas are the core ideas that an entrepreneur has about what to sell, how to sell whom to sell and how to acquire or produce the product or service which he/she sells. More specifically, venture ideas encompass the selection of product/service, method of production, method of promotion and target market or customer (cf. Schumpeter, 1934).

Davidsson (2004) asserts that the study of venture ideas, their characteristics and contextual fits are among the key research goals in entrepreneurship domain. However, we are yet to learn what factors drive entrepreneurs' perceptions of the relative attractiveness of venture ideas, and how important different idea characteristics are for such assessments. Ruef (2002) recognized that there is an uneven distribution of venture ideas undertaken by entrepreneurs in the USA. A majority introduce either a new product/service or access a new market or market segment. A smaller percentage of entrepreneurs introduce a new method of production, organizing, or distribution. This implies that some forms of venture ideas are perceived by entrepreneurs as more important or valuable than others. However, Ruef does not provide any information regarding why some forms of venture ideas are more common than others among entrepreneurs (c.f.Shane, 2003). Therefore, this study empirically

investigates what factors affect the attractiveness of venture ideas as well as their relative importance. Based on three key characteristics of venture ideas, namely venture idea *newness*, *relatedness, and potential financial gains*, our study investigates how different types and degrees of newness and relatedness of venture idea and potential financial gains of venture ideas affect their attractiveness as perceived by *expert entrepreneurs*.

We used conjoint analysis – an approach used relatively a less in entrepreneurship research compared to some other fields– to unravel how venture idea characteristics contribute to the entrepreneurs perceive attractiveness of a specific venture idea. Conjoint analysis is a multivariate technique developed specifically for understanding how respondents trade off among different attributes of products, or services or ideas (Green & Srinivasan, 1978). 32 expert entrepreneurs who had been awarded annual young entrepreneurship awards in Sri Lanka in 2007 were used as the sample for this study. Thus, the study contributes entrepreneurship research in light of how expert entrepreneurs perceive for different attributes and levels of venture idea characteristics in terms of their newness, relatedness and potential financial gains. At the same time it provides how each of venture idea characteristics perceived by entrepreneurs important which has not previously explored.

This study proceeds as follows. The following section will present the literature to explore the different characteristics of venture idea which make attractiveness to the entrepreneurs and followed by a description of conjoint analysis and the general steps followed by a typical conjoint study. Section 3 details the data and the sample. The findings from conjoint analysis are provided in Section 4. Section 5 devotes to present the results. The implications are discussed in Section 6.

2. Literature Review

Early esearch on entrepreneurship basically emphasized that individual dispositions are main drivers for the attractiveness of the creation of new goods or services (new venture creation). Consequently, different psychological and socio demographic characteristics of individuals –for e.g., need for achievement, locus of control, risk taking propensity, self-efficacy etc.– were treated as antecedents and success factors of new venture creation (Gartner, 1988). However these psychological characteristics of business founders were largely unsuccessful in explaining new venture creation in terms of why a section of the population make more attraction towards to becomes creators of new goods and services (entrepreneurs) and excel in entrepreneurship while others in the same condition are not (Davidsson, 2004, Gartner, 1988). However, later work on entrepreneurship focused on behaviours of entrepreneurs rather than characteristics of entrepreneurs in their attraction for the creation of new goods and services. Gartner (1988) asserts that an individual's attractiveness for a creation of a new venture cannot understand and explained by looking at the dispositions of that individual. In contrast, it should be done by observing what he or she does in the venture creation process. Thus, Gartner calls for a behavioural approach in this regard and suggests that the behaviour reflects what the entrepreneur does. In other words attitudes of entrepreneurs reflect their attractiveness for the creation of goods and services. This process approach of new venture creation advocates that the phenomenon encompasses with different sequential steps which have to be undertaken to different degrees, in different order, and at different points in time, by firm founders (Davidsson, 2008; Delmar & Shane, 2004; Gartner, 1985). Further, entrepreneurship as a process, scholars introduced *opportunity identification* as a critical step in the venture creation process (Bhave, 1994). Venkataraman (1997) and Shane & Venkataraman (2000) in their seminal papers further extended this process view of entrepreneurship and propagated that; (1) venture idea as the central concept in entrepreneurship, (2) the recognition and exploitation of venture idea characterize the process behaviour of entrepreneurs, and (3) entrepreneurship is about the nexus between venture idea and individuals. Entrepreneurship as the nexus between individuals and venture idea suggests that not only individual characteristics but also characteristics of opportunities should equally be taken in to consideration in entrepreneurship research. Thus, according to Shane & Venkataramn (2000) characteristics of venture idea could be regarded as the main driver for the attractiveness of venture idea for entrepreneurs.

Characteristics of Venture Idea

Venture Idea Newness

As noted above the notion of individual- opportunity nexus emphasize that both individual differences and differences of venture idea are important in a venture development process. If we delve into the views suggested by early proponents of entrepreneurship (i.e, Schumpeter, and Kirzner) we can discover one important property of venture idea. According to Schumpeter (1934) entrepreneurs could enter into a market by introducing new products/services, new method of productions, and introduction of new markets or accessing to new customers and by introducing new method of promotion. On the other hand Kirzner (1973) portrays that entrepreneurs could drive the market by offering products or services that other ventures have already introduced to the market. These offerings are important to a market process in light of consumers get additional choices and incumbent firms get reason to change their behaviours to meet this new competition (Davidsson, 2004). Schumpeter's new combinations indeed the introduction of something new can be referred as really new venture ideas or radical innovations. Kirzner's venture ideas on the other hand represent the introduction of reproduction and can be called as imitations (Shane, 2003). By distilling Schumpeter's and Kirzner's views, we can arrive at a specific property that exhibits by venture idea namely its *newness*.

However, Schumpter's innovation and Kirzner's imitation represents the extreme of the property of newness. These extremes of newness can be placed along a continuum at one end innovation and the other end imitation (Aldrich & Martinez, 2001). Amason et al., (2006) assert that innovations spark dramatic and radical changes for whole segments of an industry while imitative offerings modify and refine existing practices. New ventures can exist at any point along this continuum (Amason et al., 2006). In line with this view, Kleinschmidt and Cooper (1991) identified three categories of newness - highly innovative products that are new to the world products, moderately innovative products that include new lines to the firm but products that are not new to the market, and low innovativeness products such as product modifications that are not new to the firm. Lukas & Ferrel (2000) suggested three categories of product newness-line extensions, me-too product and new to the world. Thus, entrepreneurs introduce their different venture idea in different degrees from new to the world to imitative ideas Dahlqvist (2007) asserts four degrees of venture idea newness ranging from new to the world, new to the market, substantially improved and to imitations. We take this categorization for our study. The degree of newness involved with a venture idea, thus we assume that a main determinant for the attractiveness of a venture idea.

As different degrees of newness entails different advantages as well as disadvantages entrepreneurs perceive for a particular venture idea based on its degree of newness. For example, some entrepreneurs might select venture that processes higher degree of newness as because highly innovative products represent great opportunities for firms in terms of growth and expansion into new areas (Drucker, 1985). According to Danneels & Kleinschmidt (2001) significant innovations allow firms to establish competitively dominant positions, and afford new comer firms an opportunity to gain a foothold in the market. Choi & Shepherd (2004) assert that newness represents something rare, which can help differentiate a firm from its competitors. On the other hand some entrepreneurs are more likely to introduce venture idea that possesses low degree of newness or imitative ideas as they see that they fit with their experiences, routings, competencies and resources to receive higher rate of success (Danneels & Kleinschmidt, 2001). They highly attract for imitative ideas because they view that innovative offerings are fraught with higher level of risks, uncertainly, higher demand of resources and more development efforts.

Relatedness of Venture Idea

According to the notion of individual-opportunity nexus, venture idea is closely associated with the individual. Certain individual characteristics are closely associated with the recognition and exploitation of venture idea. Hence it is interesting to examine the relatedness of the venture to characteristics or the individual.

For example Shane (2000) identified that individual's prior knowledge is closely associated with the recognition of opportunities. Shane identified that that the prior knowledge of markets, ways to serve markets and customer problems affect the identification of opportunities generated from 3DP innovation introduced by MIT. Austrian economics assumes that individuals differ in the knowledge

that they possess (Hayek, 1945). Each person's idiosyncratic prior knowledge creates a "knowledge corridor" that allow him/her to recognize certain opportunities, but not others (Ronstadt, 1988). Therefore, knowledge differences between individuals allow some individuals to identify opportunities while others cannot. Shepherd & DeTienne (2005) further verified Shane's these findings and suggested that prior knowledge of entrepreneurs is highly related to the identification of innovative opportunities as well. Consequently, one important factor to explore is the relatedness of the venture to the entrepreneur's prior knowledge.

The resource position of an individual holds a higher association with venture idea. Sarasvathy (2001) contends that from her "Effectuation Theory", individuals' resource position in terms of intellectual capital, human capital and social capital is closely associated with the venture idea recognition and venture development. In elaborating her effectual reasoning of venture creation process, she argues that all entrepreneurs begin with three categories of means: (1) Who they are- their traits, tastes, and abilities; (2) What they know – their education, training and experience; and, (3) Whom they know- their social and professional networks. Using these means entrepreneurs begin to imagine and implement possible effects that can be created within them. Thus, it is interesting to investigate whether the relatedness of various physical, human and financial resources of the individual affects the attractiveness of a particular venture idea.

Potential Financial Gains

While its importance may not be as dominant as assumed in basic economic theory, it is inevitable that potential financial gain acts as a motivational factor in attracting venture ideas (Baumol, 1990; Venkataraman, 1997). Consequently, Shane & Venkataraman (2000) claim out that entrepreneur is more likely to exploit an opportunity, if the expected value of that opportunity is greater. Shepherd & DeTienne (2005) empirically identified that potential financial gain lead to the identification of more entrepreneurial opportunities. Thus, higher potential gain can be considered as a determinant of the attractiveness of venture idea. In contrast, some argue that entrepreneurs always look not for business ideas which give maximum commercial profits, instead they sometimes look for ideas where they can leverage their own unique interests and skills (Davidsson, 2008). According to a study done by Carter et al., (2003) on career reasons of entrepreneurs concluded that entrepreneurs start their ventures not solely based on financial success but equally considers reasons such as independence, self-realization, recognition, innovation and roles. However, it is worth to understand how entrepreneurs attract for venture ideas based on their potential financial gain.

Research Questions

1 How does the type and degree of newness of a venture idea affect their attractiveness as perceived by expert entrepreneurs?

2 How does the type and degree of relatedness of a venture idea affect its attractiveness as perceived by expert entrepreneurs?

3 How does the potential financial gain affect its attractiveness as perceived by expert entrepreneurs

4 What is the relative importance of each attributes of venture idea as perceived by expert entrepreneurs?

3. Conjoint Analysis

In order to be answered above questions conjoint analysis technique is usedConjoint analysis is a "research technique that is used to estimate or determine how respondents develop preferences for product, services or ideas and to measure the trade-offs people make when making a decision" (Schaupp & Bélanger, 2005.p.100). It is a technique used for dealing with situations in which a decision maker has to choose among options that simultaneously vary across two or more attributes. Conjoint analysis is used to estimate respondents' preferences in terms of utilities (or part-worth) for the various aspects of the attributes. In addition, the relative importance that attached to the various attributes could be determined from these utilities. Conjoint analysis was initially introduced in

marketing research (Green & Srinivasan, 1990; Green & Srinivasan, 1978). However this analysis has been used in hundreds of studies of judgement and decision making in variety of other fields, like economics, operations research, psychology, statistics (Wittink & Cattin, 1989), leadership (Soutar & Ridley, 2008), miscarriage management (Ryan & Hughes, 1997), education (Soutar & Turner, 2002), total quality management etc. Wittink & Cattin (1989) estimate that about 400 applications of conjoint have already been done annually in 1980s in the USA. According to recent Sawtooth Software customer surveys, they estimate that from 8,000 to 10,000 conjoint studies are conducted each year by their customers (Sawtooth, 2007). However the usage of conjoint analysis in entrepreneurship research is minimal.

In conducting conjoint analysis researchers and practitioners follow certain stages in the design and analysis of conjoint analysis studies: identifying the attributes to include in the study; assigning levels to these attributes; presenting scenarios to individuals which involve different levels of the attributes; obtaining preferences for these scenarios and analysing the responses. The following section illustrates each of these aspects in conjunction with the present study.

Identifying the attributes

The first step of a conjoint study is to determine the attributes of the object (product, service or idea) under consideration that will be studies. An attribute (or factor) is a specific feature or other characteristic of the object. As indicated in the literature review section we identified seven attributes of venture idea. Four attributes of venture idea are relevant to their newness- product/service, method of production, introduction of new market/customer, and method of promotion. Similarly, we identified two types of relatedness attributes- knowledge relatedness and resource relatedness. In addition potential financial gain acts as another attribute in the attractiveness of venture idea.

Assigning levels of attributes

The conjoint methodology requires levels for each attribute to be specified. A level is a specific value that describes an attribute. Each attribute must be represented by two or more levels. In this study, we identify four levels for each of four newness dimensions. Following Dahlqvist (2007) we operationalize newness into four levels- new to the world, new to the market, substantial improvement and imitations. In case of knowledge relatedness, resource relatedness and potential financial gain we categorize each of them into two levels- high and low- with the assumption that entrepreneurs might indifferent between higher and lower degrees of these properties in selecting venture idea. The Table 1 depicts the levels associated with each attribute.

Table1: Attributes and levels of venture idea

Attributes	**Levels**			
Product Newness	New to the world	New to the market	Substantially improved	imitative
Newness in method of production	New to the world	New to the market	Substantially improved	imitative
Newness in method of promotion	New to the world	New to the market	Substantially improved	imitative
Market/customer newness	Totally not served by other businesses	Not served by most of other firms	substantially differen*t* from what other businesses apply	Serve the customer and market where other firms operate
Knowledge relatedness	high	low	-	-
Resource relatedness	high	low	-	-
Potential financial gain	high	low	-	-

Presenting scenarios to individuals which involve different levels of the attributes

Participants in the study are asked to evaluate alternative profiles in order that we can analyze their preferences. In this endeavor respondents have to rate alternative profiles presented to them. In our study, their are 2048 (4*4*4*4*2*2*2) possible alternative profiles based on different levels of degrees of newness, relatedness and potential financial gains. This is certainly a huge number in which respondents cannot be requested to asses all of these profiles. Therefore, as an alternative the orthogonal procedure is used to reduce the profiles to a manageable level. This experimental design permits the statistical testing of several attributes without testing every combination of attribute levels. In this orthogonal array test combinations are selected so that the independent contributions of all attributes are balanced. The technique results in an orthogonal main effect design, thus ensuring the absence of multi-colinearity. The main effect design also assumes no interactions between the attributes. In an orthogonal design each level of one factor occurs with each level of another factor with equal or at least proportional frequencies (Ryan & Hughes, 1997). Consequently, the orthogonal design using SPSS conjoint generated a set of 32 full-profile descriptions and respondents were presented them to indicate their preferences for each of them.

4, Sample and Data

The sample for this study was selected among entrepreneurs who were awarded young entrepreneurship awards in Sri Lanka. These entrepreneurs have been running their businesses at least five years operations with success. Accordingly, 32 entrepreneurs were nested among 48 entrepreneurs who were awarded provincial young entrepreneurship awards in 2007. These entrepreneurs were located in the provinces of Western and North Western province in Sri Lanka. The Federation of Chambers Commerce & Industry in Sri Lanka (FCCISL) conducts an annual award programme "Sri Lankan Entrepreneur of the Year" in order to recognize, motivate and reward young entrepreneurs in Sri Lanka. The list of entrepreneurs was received from the FCCISL. Respondents were contacted through telephone calls appointments. The nested 32 entrepreneurs among 48 entrepreneurs were then met for interviews and presented scenarios one by one for obtaining their preferences. The full profile approach was used to receive preferences. In full profile approach each respondent sees a full set of profile which consists of combination of all levels for all attributes of interest. The full profile approach gives a more realistic description of stimuli by defining the levels of each of the factors and possibly taking into account the potential environmental correlations between factors in real stimuli (Green & Sirinivasan, 1978). Respondents were asked to assign their preferences for each scenario on a 1 to 100 scale in which 1 indicated that respondents had no any attractiveness for the profile and 100 indicated that they had higher attractiveness for the profile.

Data Analysis

SPSS 16 was employed to analyse the data. Utility scores (part- worth) for each factor were calculated. This utility scores show the preferences of respondents for each attribute and level. Higher utility values indicate greater preferences. These estimated part-worth utilities are analogous to coefficients of multiple regression. The total utility derives for any profile could be estimated by adding these part-worths together.

5, Results and Discussion

Part- worth utilities

The estimated part-worth or utilities are presented in the Table 2. As noted earlier part-worth utilities are an estimate of the desirability of each of the levels of each attributes included in the conjoint analysis (Souter & Ridley, 2008). Large utility values show higher preference and vice versa. Conversely, larger negative values mean lower utility. According to the Table 2, , the higher utility is generated from the substantially improved products (7.734). The second highest utility is 6.742 that generated from the higher knowledge relatedness. The third highest utility is generated from imitative

process newness (4.902). A surprising revelation as regards the newness is that it registers higher utility values for either substantial improved or imitative levels for all four newness attributes. It generates negative utilities for new to the world and new to the market in all newness attributes except market newness. For the higher knowledge relatedness, higher resource relatedness and higher potential financial rewards generate higher utilities. According to the part-worth utilities the highest utility is generated from the following combination;

Product with substantially improved + imitative method of production + substantially different market/customer + substantially improved promotion technique+ use of higher knowledge+ use of higher resource + higher potential financial gain.

The total utility derives from this combination is 75. 725 (42.766+ 7.734+ 4.902+ 3.383+ 4.715+ 6.732+ 1.057+ 4.436)

Table 2: Estimated part Worth Utilities

Attributes	Levels	Utility Estimate	Std.Error
Product newness	New to the world	-3.285	.706
	New to the market	-.598	.706
	Substantial improvements	7.734	.706
	Imitative	-3.852	.706
Process newness	New to the world	-3.859	.706
	New to the market	-2.590	.706
	Substantial improvements	1.547	.706
	Imitative	4.902	.706
Market Newness	Totally not served by other businesses	-2.730	.706
	Not served by other businesses	1.352	.706
	Substantially different from what others offer	3.383	.706
	Serve the customer/market where other firms operate	-2.004	.706
Promotion newness	New to the world	-3.172	.706
	New to the market	-.449	.706
	Substantial improvements	4.715	.706
	Imitative	-1.094	.706
Knowledge relatedness	high	6.732	.408
	low	-6.732	.408
Resource relatedness	high	1.057	.408
	low	-1.057	.408
Potential Financial gains	high	4.436	.408
	low	-4.436	.408
(Constant)		42.766	.408

Relative Importance

The relative importance of each attribute is shown in the Figure 2. The Relative importance of attributes was calculated through the ranges of utility values (highest and lowest). This shows that how each of attribute is important to the overall preference. Attributes that have greater value play a significant role than those with smaller values. Accordingly, entrepreneurs give their highset priority (17%) for the process newness. Product newness and promotion newness give second higher importance (15%) among the attributes. Knowledge relatedness and potential financial gains have 14% importance levels and market newness and resource relatedness account for 13% relative importance. However, there are no much differences between attributes in terms of their relative importance. The importance of all attributes ranges between 17%- 12 %, indicating that there exists no much difference between each other.

Figure 1: Average utility Scores

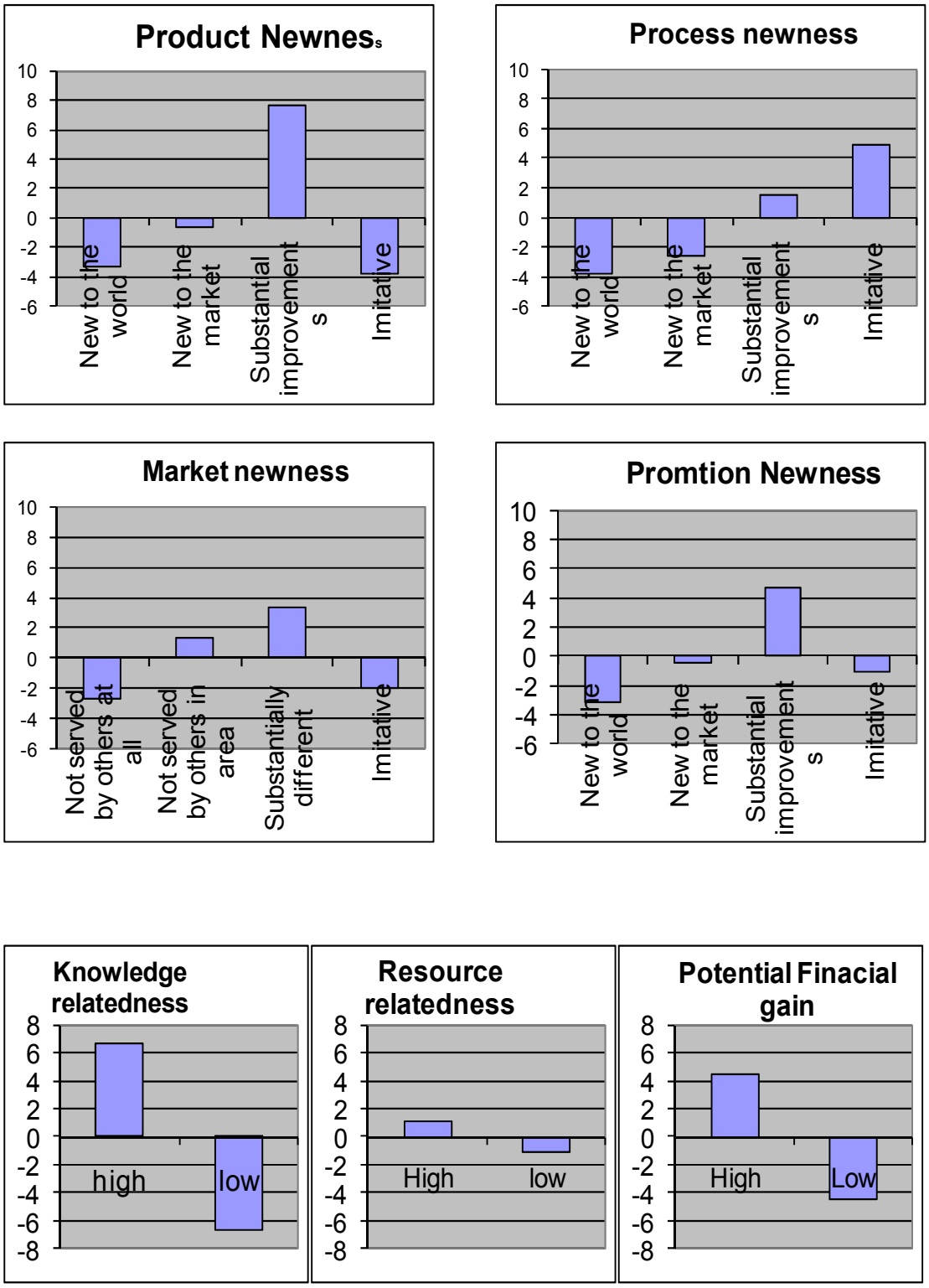
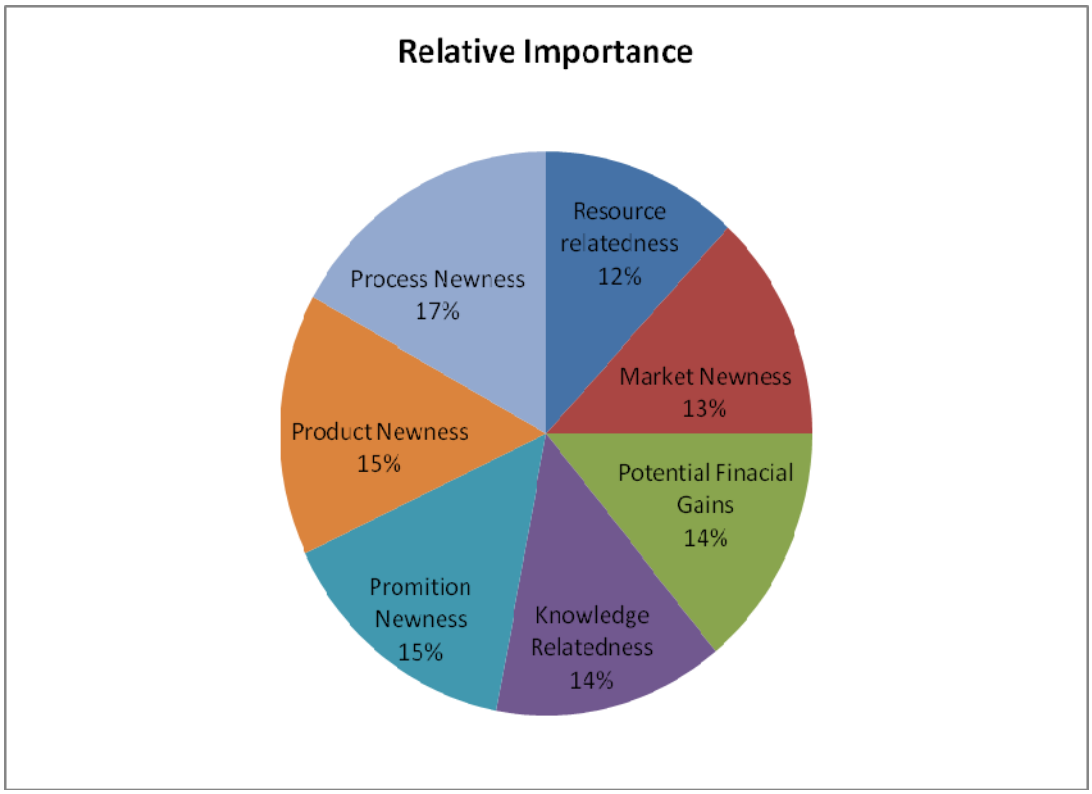


Figure 2: Relative Importance of Attributes



6. Implications and concluding remarks

The main objective of this study was to identify the factors that drive entrepreneurs' perceptions on relative attractiness of venture idea and their importance. The motivation basically arose through the findings of Ruef (2002) in connection with uneven distribution of venture idea. We assumes that characteristics of venture idea in terms of their newness, relatedness and potential finacial gain have a greater impact on the attactiveness for venture ideas. The application of conjoint study was useful in determining how entrepreneurs trade off among different attibutes and levels assocuiated with different types of newness, relaetedness and potential fiancial gains.

Our findings reveal that entrepreneurs have a strong prference to introduce substantially improved new products. They are less attracted to new to the world, new to the market or imitative products. We observe a similar pattern for most other types of newnes. We find that expert entrepreneurs are prefer to introduce substantially improved method of promotion and substantially new market or customer of which subsatantially different different from what others offer. All in all these results portray that respondents prefer a moderate degree of newness.

In contrast, however, entrepreneurs preferred new ventures using imitative processes. There is a strong preference away from process newness, with progressively stronger preferences against higher levels of process newness. Clearly entrepreneurs view the process diemension of newness differently from other forms of newness.

Above descriptions suggest that entrepreneurs are more likely introducelow to medium degree of newness. Results further revels that entrepreneurs are not attracted to introduce innovative offerings. They do not receive utilities by introducing new to the world or new to the market offerings except for market newness. These results are surprising as regards why these entrepreneurs unwillingly to offere highly innovative offereings. This result suggests that respondents infer that high degrees of newness are fraught with greater risk and/or greater resource needs.

We also find entrepreneurs prefer ventures with high levels of relatedness to both their prior knowledge and resources. The results are particularly strong for knowledge relatedness. These results corroborate with the Shane's (2000) and Saravathy's (2001) assertions. Knowledge plays a higher role in the attractiveness of venture idea. Its part worth utilities are second only to the product newness. This implies that knowledge is highly associated with introduction of venture ideas. During supplementary interviews with these entrepreneurs, the majority of them expressed that their knowledge was considered as a main incentive for starting their businesses. However, resource relatedness is not as important a factor in the attractiveness of venture idea when compared to the knowledge and potential financial gain.

Finally, as expected we also find that potential financial gains play a substantial role in the attractiveness of venture idea indicating that expected profitability is at a higher priority among entrepreneurs in starting ventures.

If we pay our attention to the relative importance of different factors in determining the attractiveness of a new venture, process newness takes higher importance in the attractiveness of venture idea. Respondents have given 17% weight to the process newness implying that they give higher preference for the method of production among the attributes. However the relative importance given for other attributes has no much difference from each other. All in all, it can be concluded that newness has a greater impact on the attractiveness of venture idea in terms of introducing relatively imitative offerings.

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