DODGING BULLETS: OPPORTUNITIES AND THREATS IN NEW VENTURES (SUMMARY)

Elaine Mosakowski
University of Connecticut, USA

David Gras
University of Connecticut, USA, dgras@business.uconn.edu

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SUMMARY

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Elaine Mosakowski, University of Connecticut, USA
David Gras, University of Connecticut, USA

Principal Topic

Most business news these days is bad news. Internal and external threats are more common than are opportunities. What does this mean for entrepreneurs? We suggest that the concepts of sustained competitive disadvantage and its source, liabilities, speak to this question. We extend resource-based theory to define these concepts and formulate propositions concerning entry opportunities and firm success.

Method

We begin by defining the sources of sustained competitive disadvantage (SCD), liabilities. A firm can be said to have liabilities when four conditions exist: 1) when a firm’s factors reduce its efficiency or effectiveness; 2) when these value-erosion factors are not held by a firm’s competitors; 3) when these factors are nondivestible; 4) when the inefficiency or ineffectiveness of the factor is not so large as to cause firm failure. Thus, factors that are costly, rare, nondivestible, and non-life-threatening constitute liabilities that are causally linked to SCD.

To describe the relationship between liabilities and entrepreneurial opportunities, we create a typology of opportunity sources based on products, factors, and markets on one axis and internal versus external sources on the other axis. Traditionally, entrepreneurship literature has emphasized four of the five “cells” in this matrix: opportunities based on improving a firm’s own products, opportunities based on improving upon competitors’ products, opportunities based on developing or leveraging resources within the firm, and opportunities based on exploiting new markets with existing products and factors. Consistent with our emphasis on SCDs, we highlight the fifth cell – opportunities based on exploiting competitors’ liabilities using the new venture’s resources and/or its competitive strategy.

Lastly, we show that resources and liabilities are socially-embedded, causally-ambiguous, and time- and context-dependent. Firm characteristics, such as corporate culture, may be valuable resources at one time, yet later transform into liabilities, often for unknown reasons. We discuss uncertain situations where such transformations might emerge and how new ventures can behave differently ex ante than do incumbent firms.

Implications

Our research contributes to entrepreneurship theory by presenting two new constructs: liabilities and SCDs. We discuss how entrepreneurs can identify and exploit competitors’ liabilities and avoid these liabilities themselves. These prescriptions center on new venture resources and competitive strategy. Combining these prescriptions with the aforementioned descriptions, we advance the opportunity identification literature by highlighting SCDs.

CONTACT: David Gras; dgras@business.uconn.edu; (T): (860)486-5675.