


**DISCOVERY AND EXPLOITATION**

Entrepreneurship is concerned with the discovery and exploitation of opportunities for economic value creation. The opportunity can be in the form of new goods, services, raw materials, business models, or different organizing methods that can be exploited for profit. The term *discovery* implies the awareness or realization of potential opportunities and is based on two primary modes: search and recognition. *Exploitation* implies that the entrepreneur realizes a means-end relationship to utilize the discovered opportunity for profit. An embedded causal relationship exists between discovery and exploitation.

Entrepreneurial opportunities and their discovery are often distinguished from opportunities in general, since entrepreneurial opportunities are typically restricted to novel and/or new approaches to relationships and business models. Hence the refinement of existing models, improvements in processes to increase efficiency, and the like do not fall under the purview of entrepreneurial opportunities. An entrepreneurial opportunity, when discovered and exploited, typically results in a new means, ends, or means-end relationship.

Scott Shane and S. Venkataraman suggest that the discovery of entrepreneurial opportunities materializes as a result of (1) the existence of prior information regarding the opportunity or similar opportunities, and (2) individuals or teams that possess the necessary cognitive properties to evaluate the opportunity. Prior information, as referred to above, includes experience of the individual or the firm, the stock of knowledge acquired by the firm through market interactions, and research and developmental expenses incurred in the past. The discovery of an opportunity can also be due to a deliberate search for an opportunity. That opportunities exist and can be openly discovered implies that entrepreneurs know *ex ante* what they are seeking. The existing capabilities of a firm enable the discovery of new entrepreneurial opportunities and the exploitation of these discoveries in novel ways. In addition, the idiosyncratic information and experience allow certain individuals or firms to evaluate and exploit information more fully and better determine if and how to exploit the opportunity. Essentially, these opportunities enable the firm to create the means, ends, or both in the process of exploitation.

Adequate cognitive capabilities enable the entrepreneur or firm to assess the potential value to be created through an opportunity and/or the opportunity's (un)attractiveness. It is this combination of prior information and the cognitive capabilities of the entrepreneur that enables the evaluation and exploitation of these opportunities. This prior knowledge enables the entrepreneur to make sense of the patterns that emerge in the external environment and assimilate the new information. Jointly, the processes of discovery, evaluation, and exploitation allow the creation of new products and services.

Discovery is realized in multiple ways. The various types of discovery include the identification of valuable products and services, new markets (geographic or demographic), new ways of organizing and/or structures, new methods of production, and new raw materials. In addition, while theoretically achievable at the individual level, the process of opportunity discovery normally stems from the mutual contribution of various actors. Thus, the discovery process is a function of numerous resources (tangible and intangible) that are effectively identified and combined, resulting in the recognition of market opportunity.
Exploitation of these opportunities can take the form of creation of a new firm or the sale of the opportunity to existing firms. It should be noted that the term *exploitation* carries a different meaning within the search literature. Generally speaking, the search literature considers exploitation to be the refinement or enhancement of existing products or processes to increase efficiency or improve quality. As used here, however, exploitation implies the creation of new means-end relationships for profit. Exploitation involves new entries and is carried out through *de novo* ventures. Exploitation is achieved through a realized outcome of the process of discovery. Thus, exploitation, by definition, is action as a result of opportunity discovery.

The terms discovery and exploitation have also been used in the context of existing firms and their ongoing search for new and novel products and services. *Entrepreneurial orientation* refers to the processes carried out in a firm that lead to new entry. Discovery and exploitation both play a vital role in the ability of a firm to recognize and capture opportunity. Exploitation requires that the entrepreneur commit significant time and resources, collect information, perform market research, and deal with significant uncertainty, ambiguity, and market variability. Danny Miller initially viewed the processes leading to new entry or exploitation of these opportunities (entrepreneurial orientation) as a function of three main activities carried out within a firm: innovation, proactiveness, and risk taking. In his view, it is through the collective presence of all of these behaviors that a firm acts in an entrepreneurial fashion, resulting in market entry. The proactiveness element has direct ties to the discovery and exploitation of opportunity. By definition, proactiveness refers to the ability to identify opportunities in a market setting and then actively pursue these market opportunities. Thus, it is both a recognition process and an action. This, in essence, is the combination of discovery and the initial stage of exploitation and is essential to the pursuit of new market entry for existing firms. This proactive disposition is key in linking discovery to action (exploitation). In this way, exploitation is carried out through an entrepreneurial action or new market entry. The acceptance of risk allows the firm to act on identified opportunities. Thus, opportunity recognition without the willingness to accept risk will fail to result in exploitation (new entry).

Netflix and Amazon are excellent examples of entrepreneurial discovery and exploitation. Reed Hastings, the founder of Netflix, was unhappy with late fees being charged for video rentals; he believed this was a common feeling among consumers in this market and viewed this discontent of the customer as an opportunity to be exploited. Through this opportunity recognition process, the innovation of a new business model, and the willingness to accept the financial and market risks associated with entry into this already competitive market, Hastings was able to exploit a market deficiency. In addition, in this case the discovery process came as a result of market-specific knowledge that was accrued through past experience. Hastings exploited this discovered opportunity through his creation of a rental-by-mail business model that eliminated late fees for the consumer and provided structural flexibility for the firm itself. This venture has morphed into a very successful rental and streaming service.

Similarly, Amazon founder Jeff Bezos started an online book store during the mid-1990s when he saw the potential for the growth of the Internet. He recognized the futility of brick-and-mortar stores and foresaw a future where customers would be comfortable buying over the Internet. The Website also offered reviews from customers and allowed customers to research books before purchasing them. Amazon has since grown to be a portal for the sale of goods from multiple providers.

_Dinesh N. Iyer
Justin L. Davis
Ohio University_

See also Cognition in Experts and Novices; Creativity and Opportunities; Opportunity Development; Opportunity Identification and Structural Alignment; Opportunity Recognition; Search-Based Discovery

Further Readings

