

How can Foundations Facilitate Entrepreneurial Activities?

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The importance of entrepreneurial activity for economic growth is a widely accepted premise. There is a need for more studies to underpin challenges faced by entrepreneurs in their entrepreneurial activities. To date academic studies on the role and contribution of foundations in reducing challenges and fueling entrepreneurial activities are limited and have not, as yet, been fully completed. Based on an economic, social and social-cognitive theoretical context the paper studies the role and impact of foundations in fostering entrepreneurial activities and identify areas where assistance is needed and could be beneficial.

INTRODUCTION

Entrepreneurial activity as an act of innovation that involves adding a new wealth-producing capacity to existing resources has been widely accepted an important premise in economic growth. Opportunity recognition is the first essential step in any entrepreneurial activity (Shane and Venkataraman, 2000). Opportunity recognition, (i.e. the discovery of an idea to create new businesses and the search of information regarding market and technological possibilities) is considered as a crucial step in the entrepreneurial process (Ardichvili, et al, 2003; Drucker, 2006; Timmons & Spinelli, 2008).

To date previous research studied the sources of opportunities by focusing on the external environment and the individual (Edelman and Yli-Renko, 2010; Vaghely & Pierre-Andre, 2010). Environment centered research branch focused on opportunities out there in the environment and studied many contextual factors in the external environment such as availability and access to resources, (Gaglio and Taub,1992), various technologies (Tushman and Anderson P, 1986; Zahra, 2008), consumer economics (Stevenson et al., 1998), social values and governmental regulations (Stevenson et al,1998), changing industry structure (Dean and Meyer (1992; Bhave, 1994; Kuratko and Welch, 2001), market circumstances (Lee and Venkataraman, 2006), networks (Arenius and Clercq, 2005), demand and supply gaps, price differences (Thakur, 1999), transaction cost and property rights (Foss and Foss, 2008) accelerated globalization (Bourgeois and Eisenhardt, 1988), network contacts (Davidsson and Honig, 2003) and the level of infrastructure (Ozgen, 2011; Manolova, Eunni and Gyoshev , 2008). It is suggested that entrepreneurial opportunity is determined by the physical and social situations (Aldrich, 2007). Entrepreneurs identify opportunities by using different types of information about the external environment (Aldrich, 2007; Baum et al, 2001). Entrepreneurs scan their environments for information that may lead to entrepreneurial opportunities (Shane, 2000). Focusing on markets, industry and customers increases the probability of recognizing opportunities (Stewart, May and Kalia, 2008). The external environment is a primary source of uncertainty for entrepreneurs in identifying entrepreneurial opportunities (Stewart, May and Kalia, 2008).

Individual centered research branch focused on the role of an individual in the opportunity recognition process and studied alertness (Tang, et al, 2012), cognition (Ward, 2004; De Carolis, 2006), self efficacy (Ozgen and Baron, 2007), mental process (Baron, 2006; Csikszentmihalyi and Sawyer, 1995), prior knowledge, knowledge acquisition (Shane, 2000), creativity (Zhou, 2008); motivation (Carsrud and Brännback, 2011), psychology (Gaglio and Katz, 2001). Scholars studying creative attributes of an individual suggested that opportunities are identified by being “alert” to possibilities that the market presents”. It is stated that entrepreneurial opportunity recognition is a cognitive process, relying on individual entrepreneur. Entrepreneurs use cognitive insights and spend more time than non-entrepreneurs in searching information that lead new opportunities.

Although numerous approaches were applied to study the factors that could impact opportunity recognition (Vaghely and Pierre-Andre, 2010); to date how” foundations play a role in entrepreneurs’ opportunity recognition has not, as yet, been investigated. Foundations are defined as non-governmental, non-profit organizations that are self sustaining due to an endowment and accountable the organization’s board of directory. Literature reveals rather limited academic research and scholarly studies on the position of foundation in advancing entrepreneurship (Lundsgaarde, et al, 2012).

In fact foundations could be valuable in mobilizing resources and disseminating them in supporting entrepreneurship development despite continuous change in economic, cultural and technological conditions. Therefore a study on the role of foundations on opportunity recognition and how foundations could trigger entrepreneurial opportunity recognition could be valuable in advancing entrepreneurship research. Such a study can be worthwhile for the stream of research on opportunities out there in the environment and also for the stream of research if opportunities are in the minds of specific individuals.

Further previous studies reported that there is a need to examine opportunity recognition under different theoretical approaches drawn from other fields. Applying a multidisciplinary lens could be valuable in studying opportunity recognition.

The purpose of this paper is within an interdisciplinary theoretical context to highlight the possible role and influence of foundations in opportunity recognition and entrepreneurial activities and develop propositions to point out potential domains that could be helpful for future entrepreneurial studies in identifying best practices and critical areas in which foundations support entrepreneurial activities.

This theoretical paper intends to highlight the role of foundations in opportunity recognition by raising such questions within a multidisciplinary framework for future entrepreneurial research:

- If opportunities are out there in the environment can foundations facilitate mobilizing resources and disseminating them and trigger opportunity recognition?
- If opportunities are out there in the environment can foundations’ network contacts in an industry assist the individual in making contacts in the field, such as with financiers, suppliers, and customers, increasing industry specific knowledge and access to an experience based and informed decision-making in recognizing opportunities?
- If opportunities are out there in the environment can foundations facilitate entrepreneur’s exposure to potential network ties that increase the likelihood of entrepreneurs’ opportunity recognition?
- If opportunities are out there in the environment can foundations provide access to mentoring support resources that increase the likelihood of entrepreneurs’ opportunity recognition?
- If knowledge acquisition, and information exchange are helpful in spotting opportunities can foundations be helpful in facilitating access to external and internal sources of information and diffusion of knowledge and trigger opportunity recognition?
- If opportunities are in the minds of specific individuals can foundations’ tolerance for risk facilitate opportunity recognition?
- If opportunities are in the minds of specific individuals can foundations’ support for innovative ideas and call for innovative projects open up the generation of ideas from open minded, intellectually curious individuals and facilitate opportunity recognition?

- If opportunities are out there in the environment can foundations' influential role in lobbying and advocacy facilitate opportunity recognition?
- If opportunities are in the minds of specific individuals can foundations' influential role in lobbying and advocacy facilitate opportunity recognition?

In this paper we aim to theoretically address these questions and help preparing the groundwork for the future entrepreneurship research. We now first explain the theoretical framework of the paper and then incorporating the theoretical foundation we will proceed to the possible role of foundations in opportunity recognition and entrepreneurial activities and develop propositions.

THEORETICAL BACKGROUND

The theoretical framework of the paper is built upon a multidisciplinary (economic, social and socio-cognitive) theoretical context.

German School of Thought

German School of Thought defined entrepreneurship based on mostly asymmetry of information and argued that in a competitive market economy, knowledge is unevenly dispersed. The German-Austrian school introduced the creative destruction theory describing that new innovations and developments replace the outdated ones (Schumpeter, 1942). The theory offers a search model and suggests the role of information search in innovation and opportunity discovery (Schumpeter, 1934; Schumpeter, 1942). Opportunities are not a solely accidental event but active search leads to new possibilities and opportunities.

The German Austrian school gives priority to the exploration of new possibilities, the experimentation of new ideas or active search in entrepreneurial opportunity recognition rather than the exploitation of existing competencies or resources. German School of thought stresses that identifying, evaluating and acting on opportunities and refining a set of knowledge structures, entrepreneurs transform insights into a feasible new products or processes (Schumpeter, 1934).

Austrian School of Thought

Similar to the German-Austrian school of thought the Austrian school of thought regards opportunity recognition as the essence of entrepreneurial activity. However, unlike the German-Austrian school thought Austrian school of thought stresses the importance of market arbitrage in identifying opportunities (Kirzner, 1979; Kirzner, 1997) and claims that marketplace inefficiencies create disequilibrium profit opportunities (Kirzner, 1979). Entrepreneurs exploit opportunities through learning and knowing things that others do not. Opportunities exist as people have different information. The Austrian school of thought suggests that anyone can become an entrepreneur and 'alert' entrepreneurs engage in non-random discovery. Entrepreneurs' contribution to economic development stems from their alertness to both identify and exploit market opportunities (Kirzner, 1973). In other words based on the Austrian school of thought knowing where to look for information is more useful than merely having some market knowledge.

The Austrian School of thought claims that having special information allows individuals to discover opportunities because an individual cannot identify all opportunities (Kirzner, 1973). Therefore opportunity recognition may occur without having been planned (in the absence of search).

Social Network Theory

Individuals are interconnected through their social networks. Social networks may initiate particular attitudes and establish norms for behavior. Therefore, an individual's behavior can best be understood within the context of her or his social network.

Social networks provide access to support, information and assistance; reveal how individuals are connected to each other and help to identify people through their relationships. Social network theory studies the connections between people and provides insights regarding to information flow and social

mobility and how individuals interact and disseminate information (Sexton and Bowman, 1991; Davidsson and Honig, 2003). Weak ties (acquaintances) provide a wider array of information than strong ties (close friends and family) (Granovetter, 1973; 1983). It is suggested that informal contacts are the most helpful in assembling the elements of business.

Individuals usually form weak ties based on their social structure, professions, and background. Social network theory provides insights into entrepreneurship with regard to venture initiation, resource accumulation and learning about and being aware of new developments, trends, demands in a specific domain. Social network is critical in the entrepreneurship process (Arenius, et al, 2005; Santarelli and Tran, 2013). Entrepreneurs' social networks create connections between resources and opportunities increasing information exchange (Sexton and Bowman, 1991).

It was found that entrepreneurs who have extended social networks identified significantly more opportunities and the quality of network contacts can affect other characteristics, such as alertness and creativity (Ozgen and Baron, 2007; Singh, 2000). Within the social network perspective, we assume that entrepreneurs' social network ties in a particular industry may help them to disseminate specific information related with that industry and facilitate opportunity recognition.

Social Cognitive Theory

Social Cognitive Theory (SCT) defines that emotional, cognitive, and behavioral reactions are interwoven and influenced by the learning environments of individuals (Bandura, 1977). The SCT focuses on one's cognitions and suggests that social interactions influence on behavior and suggests that behavior reflects individual's knowledge, beliefs, and attitudes within a social context. Thus, the theory proposes that one can predict a given behavior through the examination of related knowledge and social context in which the behavior will be endorsed (Bandura, 1986). Bandura (1989) suggests that external influences effect behavior through cognitive processes.

SCT suggests that most behavior is learned vicariously (i.e. not only from direct experience but observation of others (Bandura, 1986). Observational learning helps the individual explore activities for the attainment of new knowledge. Bandura (1986; 1977) suggested that attention span, i.e. the ability to selectively observe actions in the environment and retention processes of the individual mediates the information he/she extracts from the observation. He emphasized that the individual is more likely to model people that they associate with the most. The greater the assumed similarities between the role model and the observer, the more persuasive is the role model's behavior. The observed behavior can be modeled if one can store it in the memory and convert it into action (Bandura, 1986).

In sum, SCT posits that the interaction of the environment and one's cognition form an individual's reality (Bandura, 1986; De Koning and Muzyka, 1999). Thus within this perspective studying the influence of social, personal and environmental perspectives are considered relevant to understanding entrepreneurial opportunity recognition (De Koning and Muzyka, 1999).

FOUNDATIONS

Foundations are defined as non-governmental, non-profit organizations that are self sustaining due to an endowment and accountable the organization's board of directory (Council on Foundations, 2017; Cullinane, 2013).

Foundations have the potential to provide additional and alternative sources of financing for development assistance. Foundations have some critical roles such as exchanging information (Lundsgaarde, et al, 2012), building networks (Berman, 2016), having support resources, supporting innovation (Lundsgaarde, et al, 2012), risk taking (Berman, 2016) and lobbying and advocating (Quinn, et al, 2014; Berman, 2016).

Exchanging Information

Beyond grantmaking, foundations have the ability to manage and disseminate information. For instance, foundations facilitate knowledge-creation and improve information exchange (Lundsgaarde, et

al, 2012). Foundations have a responsibility to effectively communicate what they are doing. Such communication is especially important if foundations seek to disseminate innovative approaches in their practice.

Earlier research found the importance of knowledge acquisition, and information exchange in creating opportunities (Ozgen and Baron, 2007; Aldrich, 2007). Having access to external and internal sources of information may provide for diffusion of knowledge.

German – Austrian school of thought clearly ties entrepreneurship to innovation requiring the entrepreneur to innovate and active search of information. By attaining information and searching for knowledge, entrepreneurs expand and transform intuition into new products or processes. Based on the German – Austrian school of thought if information is out there in the environment theoretically foundations can provide access to resources and information flow related with the industry to potential entrepreneurs; help them update their knowledge and be aware of new possibilities which lead them to recognize more entrepreneurial opportunities in their industry. This leads to the proposition:

Proposition #1

Foundations can facilitate information exchange that increases the likelihood of entrepreneurs' opportunity recognition.

Building Networks

Foundations engage in collaborations and building strong partnerships (Berman, 2016). Foundations have ability to build social network ties across various platforms and use social network tools such as social media to promote the work of the foundation, the grantees, to keep up with the news and trends and solicit proposals (Lundsgaarde, et al, 2012). Previous research found the importance of network ties in opportunity recognition. Entrepreneurs' social ties influence their recognition of entrepreneurial opportunities and entrepreneurial pursuits.

Social network theory suggests the importance of having social network ties in getting information. Social networking provides potential entrepreneurs access to critical resources by enlarging the knowledge that leads them to pursue a set of ideas (Floyd and Woolridge, 1999). An entrepreneur's social network contacts can expand individual's access to knowledge (Davidsson and Honig, 2003). In return the new acquired information leads the individual to identify and screen opportunities that lead him to create new ventures. Having access to a pool of experience and expertise through networks in a certain field may provide relevant resources, means and information to potential entrepreneur that will increase the probability of discovering an entrepreneurial opportunity in the field.

If social network ties influence recognition of opportunities, can foundations facilitate entrepreneurial opportunities through potential social ties such as social media, social network tools and potential partnerships? Such possible social network ties such as conversations or connections with others working in the field, talking to customers, manufacturers, suppliers, investors and lenders may provide access to unique information and help to integrate new ideas and techniques. Theoretically, if an entrepreneur has many social network ties in a particular industry, he/she will be able to learn about many entrepreneurial opportunities in that field. Incorporating social network theory and previous research on social network we suggest that if information is out there in the environment then through foundations an entrepreneur's exposure to potential network ties may be correlated with perceived feasibility and desirability of entrepreneurship and opportunity recognition. This leads to the next propositions.

Proposition # 2

Foundations' help in building social networks relates to opportunity recognition.

Proposition # 3

Foundations can facilitate access to social networks that increases the likelihood of entrepreneurs' opportunity recognition.

Support Resources

Foundations provide significant support resources to developmental activities (Lundsgaarde, et al, 2012; Berman, 2016). Foundations also engage in capacity building, providing professional expertise, communications, and human resources (Berman, 2016) and especially assist access to mentors. For the support resources we will mainly focus on “mentoring” support resources. Foundations provide direct, catalytic services and resources to entrepreneurs, through foundations’ mentorship programs.

Mentors can be helpful in entrepreneurs’ entrepreneurial pursuits as they have experience and expertise and provide advice, guidance, knowledge, support and coaching that can broaden potential entrepreneurs’ creativity and perception of opportunities. Mentors can also facilitate access to various social and business networks that can trigger potential entrepreneurs’ recognition of opportunities (Ozgen and Baron, 2007).

Social network theory states the importance of social ties in recognition of opportunities and entrepreneurial pursuits. Based on the social network theory, having a mentor (especially in the similar industry) may assist the potential entrepreneur in making contacts with financiers, suppliers, and customers and also increasing industry specific knowledge and informed decision-making. Thus, having access to experience and expertise through a mentoring relationship may provide helpful resources and information to potential entrepreneur that will increase the probability of discovering opportunities.

Social Cognitive Theory (SCT) posits that most behavior is learned vicariously (by observing others). Observational learning helps individual in attainment of new knowledge. SCT suggests that observing the behavior of others helps one to develop behavior without actually performing the behavior oneself. Mentors also can be effective role models (Bandura, 1986; Ozgen and Baron, 2007). Based on SCT we assume that having a mentor may assist observational learning and foster creativity and act a stimulus for innovation of ideas. Therefore, theoretically an individual’s exposure to mentors through foundations’ mentoring support resources may trigger potential entrepreneur’s recognition of opportunities. Therefore, the next hypothesis is as follows:

Proposition # 4

Foundations’ access to mentoring support resources relates to opportunity recognition.

Proposition # 5

Foundations can facilitate access to mentoring support resources that increase the likelihood of entrepreneurs’ opportunity recognition.

Support for Innovation

Foundations develop a culture that fosters innovation to launch new ideas (Lundsgaarde, et al, 2012). Foundations can generate numerous innovative projects in different domains, encourage identification of new issues or solutions and call for idea contests. Can foundation’ support for innovative ideas/projects relate to opportunity recognition? Theoretically it can! German Austrian School of thought stresses that opportunities are “innovative” (Schumpeter, 1942). Foundations’ support for innovation (Lundsgaarde, et al, 2012) leads incentives for idea generation. Recognizing and creating an opportunity is a function of the cognitive mechanism that involves critical thinking and openness to experience.

Critical thinking involves thoughts that include analyzing and evaluating a situation by applying creativity, intuition and insight. We suggest that foundations’ call for special projects may trigger critical thinking in uniquely prepared (alert) individuals with prior knowledge by stimulating problem solving and generating ideas. Theoretically individuals engage in quality projects that involve innovative character may apply judgement, logic, knowledge, alternate points of view to generate ideas that could lead recognition of opportunities.

Openness to experience involves curiosity, imagination, and inclination to trying new ideas and being inventive. Openness to experience and creativity are found highly related to opportunity recognition (Zhao and Siebert, 2006; Shane, Nicolaou, Cherkas & Spector, 2010). An environment where innovation

is nurtured and encouraged in a systematic way can push creative mind set to go beyond and bring in innovative ideas from potential entrepreneurs.

Foundations' support for innovation as investors can open up the generation of ideas from open minded, intellectually curious individuals who have inclination to trying new ideas. Openness to experience involves curiosity, imagination, and inclination to trying new ideas and being inventive. Openness to experience and creativity are found highly related to opportunity recognition (Zhao and Siebert, 2006; Shane, et al, 2010) Foundations act as a hub and can help to connect people and new ideas from around the world, share ideas with a broad set of stakeholders and therefore stimulate recognition of opportunities.

In conclusion, we suggest that if opportunities are in the minds of specific individuals foundations' innovative project initiatives may play a role in stimulating critical thinking so potential entrepreneurs will be more proactive in generating ideas and recognizing opportunities. Also foundations support for innovative ideas can foster ingenious solutions for existing problems, methods, technologies and services stimulate curiosity and imagination in open minded individuals that relate to recognition of opportunities. This leads to next propositions:

Proposition # 6

Foundations' support for innovative ideas relates to opportunity recognition.

Proposition # 7

Foundations' call for numerous innovative projects in different domains increases the likelihood of entrepreneurs' opportunity recognition.

Tolerance for Risk

Foundations encourage risk taking as a driver for change (Rockefeller Brothers Fund, 2017). A growing number of foundations includes risk-taking into their procedures in search of radical innovative ideas (Rockefeller Brothers Fund, 2017; Foster and Taus, 2017; Llewellyn, 2017; Deng, 2017). Unlike businesses that are responsible for and accountable to their shareholders for the use of financing, foundations have more flexibility in funding risky projects and innovative ideas as they have endowment and other various public or private source of funding (Berman, 2016). Private foundations typically are self-funded and public foundations derive their finances by raising funds from the public, by soliciting donations and/or grants. Having a broader range of such funding sources, financial independence and limited accountability to stakeholders generate an environment and culture that is conducive to tolerance for risk. Therefore foundations can have more resilience in considering high-risk, experimentative innovative project ideas.

Opportunity recognition is a process influenced by many contextual factors in the external environment. Experimentation and tolerance for risk are integral to innovative ideas.

Technological uncertainty in rapidly changing environments stimulates innovative ideas in respond to shifting conditions in the external environment accelerating opportunity recognition. Especially radical innovations involve ambiguity regarding advances in technology, fluctuating market demand and uncertain competitive response and therefore necessitate dynamic risk taking (Kreiser, et al 2010). For instance in turbulent unpredictable environments the reconfiguration of existing resources into new functional capabilities as new products, services, methods and technologies, renewal activities and coming up with innovative responses involve risk. In such these situations innovative ideas that involve high level of risk may be facilitated through relatively high levels of capital financing, and risk tolerant strong collaborations. In rapidly changing turbulent environments foundations may have more financial flexibility for risk tolerance and that approach may facilitate and provide support for potential entrepreneurs' creative search for innovative and risk-taking opportunities. This leads to the next proposition:

Proposition # 8

Foundations' tolerance for risk relates to opportunity recognition.

Proposition # 9

Foundations' tolerance for risk increases the likelihood of entrepreneurs' opportunity recognition.

Lobbying and Advocacy

Foundations can play an influential role in lobbying and engage in advocacy (Coffman, 2008; CLPI, CF Leads, Council on Foundations and Rockefeller Brothers Fund, 2010; Quinn, et al, 2014; Berman, 2016). As a lobbyist they can extend their relationships and networking with numerous government implementors, media, community leaders, business community, educators and participate in shaping policies in various sectors (Bolder Advocacy, 2017; Srivastava, 2010). They can engage in coalition building and extend public knowledge on a broad range of critical issues acting as lobbyist. Foundations use the resources available for public policy grantmaking in educating decision makers, public and influencers in shaping policies and raise campaigns. Foundations can build relationships with legislators. As a result they have strong voice in making policy recommendations. In an attempt to achieve change in multiple directions foundations can distribute grantmaking on broad range of issues that can impact policy implementation and changes (Berman, 2016).

Can foundations' influential role in lobbying and advocacy relate to opportunity recognition? Theoretically it can. Their advocative and lobbyist approach points out some critical areas and issues that need improvement. In other words they help underpinning a range of issues in the market that need to be improved and problems that need to be solved and offer grants for projects finding an effective solution. Opportunity recognition involves perceiving a need in market and discovering a match between the needs and resources and discovering an idea for a viable venture regarding market and technological possibilities. As a result foundations act as a catalyst and externally stimulate potential entrepreneurs in bringing various innovative ideas and projects that address problems need to be solved which in turn lead recognition of opportunities.

Proposition # 10

Foundations have an influential role in lobbying and advocacy that can shape policies and impact the likelihood of entrepreneurs' opportunity recognition.

IMPLICATIONS

To date there is limited scholarly research on the impact of foundations on opportunity recognition. The paper intends to address the potential role of foundations in opportunity recognition within a multidisciplinary theoretical framework and raises some questions for future entrepreneurial research. It is suggested that the current study prepares the framework for further research on foundations to develop an understanding on the role of foundations in entrepreneurial activities. The paper highlights the potential powerful role of foundations in opportunity recognition and recommends future studies to better underpin the interconnection between foundations and entrepreneurial activities. Such future research on foundations could generate valuable results in getting the help of foundations in improving the quality and quantity of entrepreneurial activities and generating fertile collaborating domains.

Future suggested research path may also include:

- the role of foundations on opportunity recognition in social entrepreneurship in inducing positive social and environmental change addressing pressing problems.
- Foundations' support for opportunity recognition and entrepreneurial activities of various niche groups such as K-12, veterans and prisoner inmates .
- foundations' support on special ethnic groups and women entrepreneurs.
- foundations' role and assistance in entrepreneurial activities in developing and under-developed countries.
- Foundations' increasing private capital for funding entrepreneurial projects and initiatives.
- Foundations' role in collaboration and experimentation with both private and public sector partners in supporting entrepreneurial project and initiatives.

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