APPROACHES TO THE INTERPRETATION AND CLASSIFICATION OF OPPORTUNITIES IN MANAGEMENT

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Introduction

In a large part of the theoretical works opportunities are interpreted as conditions that are formed as a result of the favourable influence of the factors of the external environment. A major shortcoming of this approach is that it is passive in nature and narrows considerably the horizon of management by turning it into a “consumer”, rather than a creator of prerequisites for on-going development of the business organization.

Under conditions of a dynamically changing environment, increasing globalization and intensity of competition there is needed the adoption of a more active approach to the interpretation of opportunities.

The proposition being put forward is that the contemporary interpretation of opportunities requires a broader perspective of perception of the sources and the specific causes, which determine those. In this connection there is adopted the view that all external conditions and internal prerequisites must be treated as potential sources of opportunities.

Perceiving the latter in this way managers broaden their horizon by forming an entrepreneurial style of behaviour based on the constant development of knowledge in the business organizations run by them. In this way opportunities are “sought” in every situation, action, inaction and change which would allow improvement in the management, the way of functioning and ultimately the results of the activity.

The aim of the present article is to put forward an interpretation of opportunities in a way that goes beyond the limits of the generally adopted view that those are conditioned solely by the favourable influence of the factors of the external environment.

In order to achieve the main objective there have been set several principal tasks:

♦ To perform a brief characterization of the two main groups of approaches to the perception and interpretation of opportunities from managerial standpoint;
♦ To work out a classification of the main groups of approaches depending on the sources and the causes, which determine them;
♦ To propose a classification of opportunities, which supports the thesis defended in the article;
♦ To propose a common algorithm for the assessment of opportunities, identified by means of the active approaches.
1. Approaches to the interpretation of opportunities

Depending on the way in which those are viewed, there can generally be identified two main groups of approaches to perceiving opportunities – passive and active. The reason for their differentiation is the different viewpoints taken by the individual authors and schools in the area of strategic management.

1.1. Passive approaches

The first of the two main groups of approaches that are considered in the present article is the passive ones. What is characteristic of them is that as the sources of opportunities (for the business organizations) there are perceived only the favourable conditions formed as a result of the individual or combined positive influence of the factors of the external environment (Fig. 1).

The role of managers in this case consists in assessing the favourable preconditions through an “opportunities matrix”, which the business organization - depending on the strengths and weaknesses it possesses - is able or not to take advantage of. Threats are perceived only as unfavourable factors, in respect of which there must be taken defensive actions in order to minimize their negative effect.1/2/3/4

The basic passive approach

As the principal positive aspect of the basic passive approach there may be pointed out that it coincides with the traditional understanding, according to which as sources of opportunities there are regarded only the favourable conditions external to the organization. This makes it easy for acquisition, which is why it is widely adopted in theory and practice. The understanding of possibilities in this way coincides with the meaning of the word “opportunity” in the English language – appropriate moment or circumstances, which are conductive to the occurrence of something anticipated (positive).5

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4. Petkova, I, Georgieva, K., Praktichesko rakovodstvo po proekten menidzhmant, Sofia, ForKom, 2012
Fig. 1. Passive approaches to perceiving opportunities

Its main disadvantage consists in that it entails a passive or at best a reactive role on the part of the management. The manager is viewed as “capturing” the opportunities which are conditioned as a result of the favourable influence of the factors of the external environment, rather than as the “creator” of those. In the ultimate version of this approach opportunities are perceived as such only if they coincide with the strengths possessed by the organization.

Two varieties of the basic passive approach

Along with the basic passive approach, there are identified two principal varieties of the latter.

The first supplementary approach refers to the search for market opportunities, through which there are “exploited” the strengths that the business organization possesses. In this way we aim at maximizing the benefits which ensue from those.\textsuperscript{6,7}

The second supplementary approach is characterized with the fact that it considers the possibility for overcoming certain weaknesses.\textsuperscript{8,9}

These two varieties can be defined as “transitional”. On the one hand they entail relatively more active behaviour on the part of managers with respect to opportunities, in comparison with the basic passive approach. On the other hand they differ from the active approaches both in terms of the range of the sources from which there ensue the opportunities for the business organization, and in connection with the conditioning relation “goals (and strategies) - opportunities”. In that sense opportunities are identified on the basis of whether they contribute to achieving the approved goals and strategies, or not, without considering a scenario for their change.

\textsuperscript{6} Key, J., Foundation of Corporate Success, Oxford: Oxford University Press, 1993.

\textsuperscript{7} Heene A., Sanchez, D., Competence Based Strategic Management, New York: John Wiley&Sons, 1994.


1.2. Active approaches

The second group of examined approaches which are considered in the present article, are defined as active. They “prescribe” the perception of opportunities in far broader limits in comparison with the passive approaches. In this way the favourable conditions of the external environment are not viewed as the only source which determines opportunities for the organization. As such there are also accepted some unfavourable preconditions that are identified. Their distinctive characteristic is that the intercompany preconditions (company strengths and weaknesses) are regarded as main sources of opportunities (Fig.2).

The active approaches presuppose also a different way of perceiving the opportunities in terms of the relation “goals (and strategies) – opportunities”. In this connection opportunities are not identified solely in the context of the followed strategy. We break out of those narrow boundaries by allowing also a scenario of reconsidering the goals and the pursued strategy.  

![Fig. 2. Active approaches to perceiving opportunities](image)

Broadly speaking, the advantage of active approaches is expressed in an orientation towards constant development and search for new knowledge-based challenges. The perception of the latter in this way entails an active role on the part of managers, who not only identify opportunities, but also create those themselves. In that sense managers must “decisively relieve themselves of the role of ‘running after

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change’ and master the art of generating change, which leads to economically, socially and environmentally expedient results”.

One argument in favour of the adoption of the active approaches is found in the meaning of the noun “възможност” (possibility) in the Bulgarian language. According to the dictionary of the Bulgarian language “възможност” means “opportunity, way, means, which allow the accomplishment of something”. In the first part of the definition the possibility is connected with an “opportunity” which is conditioned by the environment. In the second part there are given the internal prerequisites – “way, means”, whereas in the third part there are the expected benefits from the realization of the possibility – the “accomplishment of something (goal, strategy)”.

With the synonyms that are found there can be done similar grouping. Through it there are revealed the various aspects of the meaning of the concept of “opportunity” in business organizations. In the first group there fall the synonyms according to which possibility is connected with the internal conditions and prerequisites: way, means, manner, chance, method, technique, sphere, competence. The second group of synonyms reveal possibilities as determined by the external conditions, and at the same time there is emphasized their probabilistic nature: opportunity, ground, reason, cause, hope, ease, probability, outlook, chance, certitude, hazard, risk, contingency. Finally there are included the synonyms which reveal the range of the possibility: sphere, place, range, scope.

The cited significance and the abovementioned synonyms confirm the need to adopt a broader perspective of perceiving opportunities. Those should be “sought” in every situation, action, inaction, change, which would allow us to improve the competitive position by product and market, improve the economic indicators, the image, etc.

Within the active approaches there can be identified three main varieties. The first is connected with the entrepreneurial approach, the second with the concept of “learning organizations”, whereas the third stems from the configuration approach in strategic management.

**Entrepreneurial approach**

This approach to perceiving opportunities is inherent in business organizations, mostly SMEs, which are characterized with the entrepreneurial model of management. Despite the uncertainty and the limitations faced by an organization, the entrepreneurial pattern of behaviour brings to the foreground the search for opportunities and their realization over the preservation of the status quo and the security. According to the traditional view, the entrepreneurial style of thinking is characterized by undivided authority where the entrepreneur is perceived as the only member of the organization, who is “authorized” to identify and assess the opportunities for the organization.
During the development of the entrepreneurial approach there is a breaking out of this narrow frame. There is reached the realization that the “cultivation” of entrepreneurial thinking underlies the on-going development both of the companies of entrepreneurial type, and of those with professional management. All members of the organization (not just the managers) are oriented towards a continuous search for new opportunities, viewed in their broadest sense.  

The concept of “the learning organization”

At the basis of this approach there is placed the accumulation and development of collective knowledge and continuous training of the management and the remaining employees in the organization. In its development there stand out various stages: private incrementalism, logical incrementalism, strategic initiatives, developing strategy, retrospective rationalization. According to the concept of learning organizations the identification of opportunities must not be approached one-sidedly, by considering only the internal prerequisites or the external conditions. Essentially, it rests on the principles of dialectic and holism, according to which opportunities are sought in the internal conditions of the business (resources, abilities, processes, key competencies, the different aspects of the activity) and in the conditions of the external environment (micro and macro factors). The basic idea is that the development of the business is determined by the abilities of the organization to acquire new knowledge and to develop the existing knowledge through continuous training at all levels and all areas of activity.  

Configuration approach

The configuration approach is the most complex of the three active approaches. The key starting notions, through which there is revealed its nature are configuration and transformation. Through configuration there is expressed the relative stability of the established structure in the organization, the organization culture, the pursued strategy, the achieved results, the effect of the factors of the external environment. Transformation in its turn is defined as a process of developing the strategies and passing from one state into another, during which there is carried out partial or total strategic change.

The configuration approach is applied in accordance with the internal conditions, prerequisites and opportunities and threats which are conditioned by the effect of the factors of the external environment. This approach is based on: the life cycle of the business organization and its products, the market positions, the organization structure, the size, the degree of diversification; the conditions of the macro- and microenvironment, the change in the priorities and goals.

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According to the configuration school, the role of strategic management is to ensure stability for comparatively long periods of time, and to a maximum extent utilize the opportunities which are “in accord” with the executed strategy. When strategic change is needed, there is determined the scope and the degree of transformation. In that sense, opportunities may affect one or several individual parts, and ultimately the organization as a whole. Along with the strategy, the transformation may include also opportunities connected with change in the remaining stable elements – structure, system, culture, staff, etc.\(^{28/29/30}\)

The great variety of opportunities offered by the active approaches, necessitate the need for their classification according to the sources and the causes, which condition them.

2. Basic classification of opportunities according to the active approaches

The basic classification of opportunities is done by determining the internal and external to the business organization sources and the causes, which determine them. The sources of the first two types of basic opportunities are outside the business organization, i.e. they are of the kind that cannot by definition be influenced by the management. The causes connected with this source are the favourable or unfavourable conditions of the environment. The source of the next two types of opportunities are the internal conditions, the specific causes being the weaknesses and strengths possessed by the business organization (Table 1).

**The first type of basic opportunities** ensue from the favourable effect of the factors of the external environment. The utilization of this type of opportunities in the short term and the medium term depends on the economic and managerial potential of the business organization, whereas in the long term - on their development. In short, the opportunity of this type can be described as: 1) “favourable precondition – possibility for achieving higher results”, when the positive influence of the external environment coincides with an existing strength; 2) “favourable precondition - possibility for achieving better results in the future”, when it is needed for the business organization to further develop its own strengths or to overcome certain weaknesses. Here are included actions connected with changes in the product and market profile and substantial investment cost.

**The second basic type of opportunities** are identified when the influence of external sources is unfavourable. At first sight the perception of the expression “to use the threat as an opportunity” sounds like a task that is practically impossible to fulfil. In practice there can be pointed out at least two main varieties of the opportunities of this type: 1) when all competing companies are subjected to the same unfavourable influence, for each one of them there exists the possibility to overcome the threat better than its competitors, by improving its competitive position in terms of individual products, markets and as a whole; 2) if the unfavourable conditions of the external

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environment are “interpreted” as inevitable and irreversible, they can “force” the managers to undertake changes, which have been put off – restructuring, entering new markets, launching new products, since there are present arguments for overcoming the resistance of various stakeholders.

### Table 1

<table>
<thead>
<tr>
<th>Sources of opportunities</th>
<th>Specific reasons</th>
<th>Identification and classification of the basic opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factors of the external environment</td>
<td>Favourable preconditions</td>
<td>1. First basic type - opportunities to “use” a favourable precondition, determined by the environment.</td>
</tr>
<tr>
<td></td>
<td>Unfavourable conditions</td>
<td>2. Second basic type - opportunities connected with overcoming the unfavourable effect of the external factors.</td>
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<tr>
<td>Factors of the internal environment</td>
<td>Weaknesses of the organization</td>
<td>3. Third basic type - opportunities for overcoming a weakness, which would help improve the management and the functioning of the business organization.</td>
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<tr>
<td></td>
<td>Strengths of the organization</td>
<td>4. Fourth basic type – opportunities, connected with the use of a particular strength of the business organization or its further development.</td>
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</tbody>
</table>

**Source:** Adapted from Zlatev, V., Radev, R., „Vavedenie v upravlenieto na proekti”, s. 57-64, UI „Stopanstvo”, 2011.

The third type of opportunities is connected with the need for the business organization to undertake actions aimed at overcoming its weaknesses, since they are perceived as internal conditions, having a restrictive and restraining effect on the present and/or future results. The study of this type of opportunities is based on the understanding that managers ought to regard the overcoming of every identified weakness as an opportunity to improve the competitive position of the business organization, its development potential and the results of its activities. An example of such an opportunity is the launch of an improved or completely new product on the market. Other similar examples are: if the business organization experiences a shortage of production capacities; weaknesses in the logistics area; lapses in the marketing area; shortage of managerial capacity, etc. Their overcoming is an opportunity for the business organization to improve its competitive positions, to increase sales, revenues and profits.

The fourth basic type is conditioned by the inherent in the business organization strengths, which are not “exploited” to the full. These are characteristics which form competitive advantages for the business organization. The possessed strengths further the achievement of better results of operations in the short term and the medium term, when external conditions are favourable. In the long term there arises the question of their development and expansion. Such an opportunity is present when the business organization possesses a product which is accepted well, but is offered on a limited geographical market. The expansion of its geographical presence is an opportunity to raise
the sales, market share, revenues, profits. Another similar opportunity is observed when the business organization possesses strong market positions through its existing products. This provides it with the opportunity to launch new products on the respective markets.

The identified groups of basic opportunities are further classified according to: the geographical range (local, regional, national, international and global); the duration of the opportunities and/or the anticipated benefits (short-term, medium-term and long-term); the nature of the benefits (economic, non-economic and managerial). An important classification attribute is the character of opportunities (whether they are of strategic, tactical or operating nature).

3. Algorithm for assessing opportunities

The existence of a multitude of opportunities gives us reason to introduce the concept of “opportunities portfolio management”. Generally speaking, its nature consists in that through it there is introduced the requirement for the managers to classify, assess and realize opportunities in accordance with the anticipated benefits, i.e. the extent to which those contribute to achieving the priorities of the business organization. The assessment is carried out by also considering the resources, connected with the realization of opportunities. Key terms in performing the assessment are: “groups - interests”, “need”, “benefits”, “costs”, “efficiency”.

The identified opportunities are assessed through the consideration of two hypothetical variants of development – “is not realized” and “is realized”. When considering the first variant there are assessed the consequences, which can be expected for the organization, if no actions are taken with respect to the identified opportunities. With the second variant there are assessed the effects, which can be expected, if the organization proceeds with the realization of the opportunities. The economic opportunities are assessed according to their economic expedience, whereas the non-economic ones - according to the expected benefits and costs. Lastly, there is carried out the final assessment. The adoption of the active approach in considering the opportunities requires that there be worked out a common algorithm for their assessment and prioritization (Fig. 3).

In the first stage there is conducted an analysis of the variant, in which the opportunity is not realized, going through five interrelated stages (from I.1. to I.5.). The aim is to assess what the consequences for the organization would be, if it does not realize the identified opportunity.

- First, there are identified the expected positive effects (I.1.). The main ones are as follows: no additional risk is taken, no additional resources are involved, no additional cost and investment cost is incurred, staff are not engaged in activities, which would distract them from their day-to-day duties, etc.

- Second, there are assessed the negative consequences if the opportunity is not realized (I.2.). Thus, for example, if a certain technological opportunity is not utilized, this would lead to a fall in the comparative productivity of the organization and its competitiveness.

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31 Zlatev, V., Radev, R. „Vavedenie v upravlenieto na proekti”, UI „Stopanstvo”, 2011, s. 57-64.
Third, the period is specified, within which the organization would stick to this variant, without any effect on its functioning and performance, threatening its survival (1.3.).

Fourth, a comparison is made of the positive aspects and the negative consequences for the organization, if the opportunity is not realized (1.4.).

Finally, a general assessment is presented, the aim being to estimate the expedience of the variant, in which the opportunity is not realized. The result of this stage is also the reason for subsequent comparison with the alternative variant, in which there is considered the hypothesis according to which the identified opportunity is not realized (1.5.).

Source: Adapted from Zlatev, V., Radev, R., „Vavedenie v upravlenieto na proekti“, s. 57-64, UI „Stopanstvo“, 2011.

Fig. 3 An algorithm for assessing opportunities
The second stage includes the assessment of the alternative, in which the opportunity is realized. In it there is assessed the situation, in which it is presumed that the identified opportunity is realized. This approach allows the assessment of the expected benefits on the one hand and the needed resources for that purpose, on the other. The assessment in this case is also carried out in passing through five steps. They correspond to the five steps, through which there is assessed the variant envisioning realization of the opportunity.

- **First**, an assessment is made of the particular results the realization of a given opportunity would lead to. What is important is to determine the expected benefits for the organization, their geographical range and the duration of their action (2.1.).
- **Second**, there is conducted an assessment of the resources that are necessary for the realization of the opportunity, including material, human and financial. Through this step there is determined the ability of the organization to create the necessary preconditions for the fulfilment of the identified opportunity. The assessment of the necessary resources and the costs connected with those is the basis, on which there is established the efficiency and the expedience of the respective opportunity (2.2.).
- **Third**, there is specified the period of time, which would be necessary in order to realize the opportunity and to get the expected results. In addition, there is assessed the impact which the realization would have on the commitment of those involved in the routine operations in the organization, on its present and future functioning (2.3.).
- **The fourth step** includes the accomplishment of comparative analysis, in which the expected results and benefits are contrasted with the costs in order to make an estimation of the efficiency and to substantiate the need to take action for the realization of the identified opportunity (2.4.).
- **By means of the fifth step** there is carried out a final assessment of the expedience of the realization of the identified opportunity. This requires the making of a comparison between (economic and non-economic) benefits which are expected on the one hand, and the costs and the resources which are necessary for that purpose, on the other (2.5.).

*In the third stage there is made the final decision and is substantiated the need for the realization of a given opportunity.*

At the basis of this argumentation are placed the results of the individual steps and the final general assessments of the two alternative variants. By means of the comparability, which is attained through the proposed methodological framework, a comparison is achieved of the two possible variants of development. Precisely that underlies the decision-making on whether the opportunity should be realized or not. For the final decision it is also necessary to assess whether or not the organization is capable of realizing the respective opportunity. The expedience of that decision is argued on the basis of the concept of the portfolio of opportunities, which was mentioned above.
Clarifications connected with the proposed algorithm

Proceeding from the assumption that managers carry out their assessment of opportunities more or less intuitively, it is recommended that they adopt a more methodical approach for their assessment. The proposed algorithm constitutes an approach of this kind. A major drawback in its current state is that it is presented in a too general and descriptive form. Its purpose is to outline the frame, by means of which there are taken the decisions connected with the opportunities. Depending on whether economic or non-economic opportunities are considered, there is recommended the use of the methods and approaches that are suitable for their assessment.

This assessment allows for opportunities to be classified according to the potential benefits and the necessary expenses. Depending on the expected benefits there are distinguished the following: 1) opportunities of low potential; 2) opportunities of medium potential and 3) opportunities of high potential. From the point of view of the expenses that are necessary, opportunities are subdivided into: 1) opportunities requiring no resources; 2) opportunities, requiring insignificant resources and 3) opportunities, the realization of which is connected with considerable resources.

Recommendations to managers concerning economic and non-economic opportunities

An important recommendation to managers is connected with the classification of opportunities into economic and non-economic. In so far as the first, as is clear from their name, have a direct effect on the economic indicators of the company, their identification, assessment and realization can be specified as relatively more routine for the management. Thus, for example, the management proceeds to utilize every opportunity which helps improve economic performance (e.g. increase in revenues, cost-cutting, increase in profits, etc.) in the short run, when for that purpose there is not required considerable investment. Even when economic opportunities require considerable investment cost and the positive effects are manifested years later, for their assessment there is used a multitude of well-established in the theory and practice methods of investment analysis.

Non-economic opportunities in their turn are more difficult to identify and assess. The main reason for this is that the positive effect of their utilization usually does not manifest itself directly in the values of the economic indicators. In the majority of cases, their effect is felt after a certain lag in time. The same holds true of the costs associated with them. For that reason managers tend to disregard this type of opportunity. In connection with that is the main recommendation to the former. It states that managers must not underrate the significance of non-economic opportunities, since quite often it is precisely their utilization that is at the basis of the steady growth of economic indicators in the medium term and the long term. Thus, for example, the change in the organizational structure, the corporate culture or the introduction of an automated management information system could lead to considerable economic benefits to the organization.
Conclusion

The proposed interpretation of opportunities differs from the one put forward in a large part of management literature, in which opportunities are treated solely as having been formed under the influence of the external factors favourable conditions.

The adoption of the active approaches which are discussed in the present article offers a broader interpretation, with which both external conditions and internal factors are to be perceived as potential sources of opportunities.

The perception of opportunities in this way is conducive to managers being perceived not only as “consumers” of opportunities, but also as the “creators” of those. At the root of the adoption of the active approaches are the entrepreneurial pattern of behaviour and the concept of learning organizations.

The proposed algorithm is suitable for the assessment both of a particular economic or non-economic opportunity, and with the assessment of a portfolio of opportunities. In its present state it aims at outlining the methodological framework, through which managers should assess opportunities, which are revealed before the business organizations run by them. Even if it is not formalized in its practical application, its adoption as a mental model for the assessment of opportunities is advisable.

For a more precise assessment of the opportunities there should be used a specific economic and non-economic set of tools. Of particular interest is also the concept of opportunities portfolio assessment. These two issues will be the subject of the author’s attention in future publications.

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Abstract

In the present publication there is proposed an interpretation of possibilities, which goes beyond the boundaries of the universally adopted view that those are conditioned solely by the favourable influence of the factors of the external environment. Defended is the proposition that there is needed a more active approach to the perception of possibilities, based on the understanding that all external conditions and internal prerequisites must be regarded as potential sources of possibilities. This approach to the perception of possibilities is conducive to the formation of an entrepreneurial pattern of behaviour and orientation towards continuous development of the business organizations.