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# Entrepreneurship theory: Possibilities and future directions

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## Introduction

# Entrepreneurship theory: possibilities and future directions

For those who monitor the progress of entrepreneurship research, the search for a distinctive theory of entrepreneurship continues. This is largely due to the phenomenological nature of the extant work—venture capital, innovation induced entrepreneurial opportunities, “network economics,” entrepreneur psychologies, and so forth—which perhaps, ironically, creates a bigger struggle against legitimacy issues. Despite [Shane and Venkataraman \(2000\)](#), advocates are still confronting the unconverted, sometimes less successfully, as the latter attempt to fathom why entrepreneurship is not just an organizational or sociological context, typology of behavioral patterns, or political economic development model. This special issue, birthed from a recent entrepreneurship scholars’ retreat, co-hosted by the Batten Institute in the Darden School of Business at the University of Virginia, and the Lally School of Management and Technology at Rensselaer Polytechnic Institute, attempts to understand the state and future direction of entrepreneurship research and in doing so, hope to build a future platform for building distinctive theories. This project begs the obvious question, “What is a distinct theory of the entrepreneurial firm?”

[Schumpeter’s \(1934\)](#) notion of creative destruction, currently popular reading on Wall Street and Capitol Hill, as regulators contemplate reorganizing the relationship among investors, employees, managers, and the public, is about novel combinations wherein an entrepreneur “reforms or revolutionizes the pattern of production. . .and reorganize[es] an industry.” These reorganizations, primarily based on some type of exogenous macroeconomic or technological shift, can obsolete entire industries while simultaneously creating new communities of firms. It turns out that standard theories of the firm (contracting, evolutionary, and resource-based) are not very good at accounting for the *emergence* process during these recombinant episodes. This is not to say that extant theories of the firm cannot be adapted to a theory of the entrepreneurial firm. However, such a theory must be capable of explaining why and when such firms do *not* emerge even when the conditions for the event appear to exist. This theory must also account for population and idiosyncratic emergence, which means that it must be capable of accounting for the simultaneous existence of established and entrepreneurial firms facing the same economic and sociological conditions in the population. Finally, the theory should be parsimonious—a tall order.

While I cannot say that the articles in this issue completely fulfill the conditions I laid out as qualifications for a theory of the entrepreneurial firm, I think they move us in the correct

direction. Specifically, these articles wrestle with where, how, and when entrepreneurial firms arise; a theoretical knot that is both intriguing and challenging and to be untied. Contracting theories of the firm generally rely on the characterization of firms as responses to market failure, and are maladapted to explain the firm in a market that would not exist except for the very actions of the firm. Evolutionary theory comes close but does not account for the unique case. Resource-based theory addresses the unique case but is not fully capable of explaining the emergence of entire populations. For me, these are reasons enough to believe that there exists a truly distinctive theoretical model that we can claim as our own.

The article by Alvarez and Barney, from Ohio State University, is an attempt to explain what they argue is the *simultaneous* problem of rent creation and appropriation, which is peculiar to the entrepreneurial firm. Established bureaucracies generally separate these processes. Extant research on theories of the firm usually does not combine the two, which the authors argue is the reason why they are not suited to explaining the emergence and continuation of the entrepreneurial firm. Their basic premise, drawn from the recognizable resource-based theory, is essentially a story of knowledge asymmetry, in which the entrepreneurial firm emerges when the entrepreneur possesses private knowledge of what he does *not* know, where he can go to fill the gaps, and when he can organize to create and appropriate value. This is a story that accounts for the unique case but can also be applied to the population level if we allow for exogenous changes to render certain kinds of nascent knowledge, possessed by a subset of the population, valuable.

The formal study of emergence is itself an emerging area in entrepreneurship research. Emergence is the spontaneous appearance of ordered social and organizational structures and processes from a seemingly random assortment of preexisting conditions that are governed by a set of rules and principles. The article by Minniti from Babson College uses a concrete example to illustrate how such a process can arise and more usefully, how it can be modeled. Complexity theorists use a variety of mathematical models to simulate this process and attempt to specify the conditions under which such self-organizing systems destabilize, evolve, reorganize, and replicate. Apparently, the phenomenon of emergence occurs everywhere in nature, from simple fractals to massively complex ecosystems. However, while the study of emergence is not particularly unique in the physical sciences, within the realm of entrepreneurship research, the formality with which it can now be employed is something relatively novel.

Entrepreneurship researchers have identified, although not always consciously, the phenomenon of emergence in the discovery and exploitation of economic opportunities, the coming-into-being of new firms, and in the creation of new industries. For example, the individual's ability to uniquely identify and act on environmental opportunities has been the subject of much entrepreneurship research in the past. In fact, the heart of opportunity recognition is often a creative insight that reframes old problems, seemingly from "out of the blue." The article by Dew, Velamuri, and Venkataraman, of the University of Virginia, attempts to imbue this ephemeral "out of the blue" with substance by describing the emergence of the entrepreneurial firm as the coming together of formerly dispersed knowledge about opportunity and resources at a specific location in a point in time. It is a very concrete model in which they attempt to specify the conditions under which entrepre-

neurial firms will emerge and under which they will *not* emerge. The model is also capable of explaining why entrepreneurial firms are observed coexisting with established firms in the same economic and market space, which confers it an ability to simultaneously explain the unique case and the population.

The emergence idea is also captured nicely in the concept of an “organization at the stage in which all properties necessary to be an organization come together” (Katz and Gartner, 1988). The concept helps us articulate the suddenness of the organizing processes that entrepreneurs encounter prior to the commencement of production. Therefore, an entrepreneurial theory of the firm should be able to model the preformation stage, which has until now been relatively poorly articulated in the literature. Note that organizational emergence is not about firm establishment, growth, or development although one could see where an emergent property can exist in sudden changes to growth trajectories that represent something novel and unanticipated. To illustrate with an example, the article by Fischer of York University and Reuber of the University of Toronto can be interpreted as an explanation for the emergence of a new economic unit from previously established ones, i.e., the strategic partnership between a young firm and an established firm, in which the creation of value is plagued by the appropriation problems outlined by Alvarez and Barney. Of particular interest is their use of the grounded theory approach in formulating the exploratory power model they offer, not usually encountered in entrepreneurship research.

An important subtext in this special issue, discussed by Sarasvathy at the University of Maryland, is the importance of encouraging diversity and creativity in our inquiry paradigms. First, it is clear that the articles here have made a concerted attempt to build dynamic models. Given the domain we are studying such theoretical approaches are naturally more satisfying. Further, I would add that we should pay attention to the tools, a variety of which the reader would encounter in this special issue, with which we use to construct our questions. Ours is still an emerging field, and thus to develop a catechism founded on positivist empiricism may hide the very grail we seek.

By now, the reader should have a nagging suspicion that if we are to find a theory of the entrepreneurial firm, it would likely have to include a story on information asymmetry, *but* with a very important difference. This theory of the entrepreneurial firm would probably have relied on the notion of idiosyncratic knowledge, not just asymmetric information, with random and nonrandom distributions. We can also probably embed this idiosyncratic knowledge in the entrepreneur, the combination of entrepreneurs (the team), or the ecology of institutions that make up the entrepreneurial socioeconomic environment. Finally, for our models to be meaningful, we would need to identify the specific types of idiosyncratic knowledge, the context in which they become value creating, and the processes that drive their growths.

The overall implication of my essay is that because emergence is a multilevel phenomenon, entrepreneurship theory building has to pay attention to the interactions among cognition, organization, and industry levels of analyses, although testable models tend to isolate these levels. Each level of analysis can be represented as a system of interdependent components. At higher levels, these components combine to form a system, itself a component in the next higher level of analysis. This “holarchy” (Koestler, 1979) emerges

through rule-governed interactions of the components. Thus, entrepreneurship scholars cannot ignore the holistic and coevolutionary quality of the emergence phenomenon, even at lower levels of analyses. One cannot fully understand, for example, opportunity recognition as an emergence phenomenon, without being sensitive to its higher contexts—culture, institutional arrangements, and political–economic exigencies.

In conclusion, I see the direction of entrepreneurship research moving toward more multilevel theories on questions of emergence. Entrepreneurship research is and should be breaking away from more applied economics, psychology, or sociology research and instead appropriate agnostically from the theories that can provide the greatest explanatory power.

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