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*a resource-based and institutional view of entrepreneurship*

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Individuals and Opportunities: A resource-based and institutional view  
of entrepreneurship

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## ABSTRACT

### Individual and Opportunities: A resource-based and institutional view of entrepreneurship

Entrepreneurial activity holds many promises for economic well-being. Some of the most well-documented promises are economic growth and job creation. Considering entrepreneurship's potential in creating jobs and economic growth, one would think that it is an ideal strategy to use in those places that need it the most; in the economically depleted regions of the world. The answer is yes and no. It is an ideal strategy because a healthy entrepreneurial base has far-reaching effects on the economy and society. It is not an ideal strategy if the human and institutional resource base is weak. Since entrepreneurship is a socially constructed phenomenon, it will only be as robust as the people practicing it and the institutional environment in which it is enacted.

This paper has two goals. The first is to examine human capabilities and the institutional environment as a set of resources giving rise to different processes and forms of entrepreneurship. The second goal is to consider how novel (Schumpeterian) and non-novel (Kirznerian) forms of entrepreneurship are affected by resources on these levels. Two theoretical platforms aid in this consideration: Edith Penrose's resource-based theory of firm growth and Douglas North's Theory of Institutions and Institutional Change. Penrose's theory supports the notion of the development of individual resources since the entrepreneur functions as a firm and is engaging in an individual process and not a collective one. His personal resources are anchored in his psychological traits and capability set. Douglas North and his Theory of Institutions and Institutional Change provide us with the missing context within which the entrepreneur acts. North sees institutions acting as societal rule or norm setters, thereby either permitting or constricting entrepreneurial economic action through the availability of resources in the environment.

The point of departure for this paper is that it begins to conceptualize a research framework to observe the entrepreneurial process from the standpoint of individual and institutional resources. The implication of this framework is that it can act as a resource assessment structure which could reveal a region's ability to support different forms of entrepreneurship. Regarding my future empirical research, it should provide more information as to what resources are used by non-novel entrepreneurs in what we deem as a resource-poor, post-socialist periphery.

**KEYWORDS:** Entrepreneurship, Resources, Resource-Based Theory, Institutions, Theory of Institutions and Institutional Change, Economic Development, Regional Development

## I. Introduction:

Entrepreneurial activity holds many promises for economic well-being. Some of the most well documented promises are economic growth (OECD 2003) and job creation (OECD 2003, Birch 1978). Entrepreneurship's promise of job growth was at first disbelieved by the research community as Birch's seminal study (1978) suggested that small business created the majority of all net new jobs (Carney 1991). With the publication of "Job Creation in America" (Birch 1978) overthrew the widespread belief that large companies were the engines of job creation. After analyzing 12 million businesses tracked by Dun & Bradstreet over the period between 1969-1986, Birch and his MIT research team discovered that small firms created about 88% of all net new jobs (Birch 1987, p.16). Some of entrepreneurship's effects on economic growth are manifested by increasing national and regional output, promoting economic diversity, ensuring competitive markets, countering poverty and welfare dependency. Considering entrepreneurship's potential in creating jobs and economic growth, one would think that it is an ideal strategy to use in those places that need it the most – resource poor peripheral regions. The answer is yes and no. It is an ideal strategy because a healthy entrepreneurial base has far-reaching effects on the economy and society. It is not an ideal strategy if the human and institutional resource base is very weak. To have the benefits of entrepreneurship rebound through an economy and society, simple acts of economic development need to take place focusing on two things. First, human capital resources need strengthening through healthcare, education, and training. Second, formal and informal institutions need to be robust to seed an environment where individuals can develop the knowledge and skills they need and where economic opportunities abound. The question arises: How does the individual resource set and institutional climate define what kind of entrepreneurship will take place and what benefits does society derive from the different forms of entrepreneurship created? <sup>1</sup>

The goal of this paper (presented in Figure 1) is to consider which resources the individual harbors and what aspects of the institutional environment need to be present to answer the above question. The framework I will begin constructing in this paper and complete in paper 2, addresses the resources residing within the

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<sup>1</sup> In my final paper presenting my empirical work, I hope to answer the question: How should entrepreneurship be used as a development tool in the post-socialist periphery?

individual, as well as, the institutional context which defines the resources and opportunities available in society. Taking on this holistic view of observing the capabilities of the entrepreneur and the context within which entrepreneurship takes place leads us to understand the process and outcome of entrepreneurship. Such a framework should answer two questions. First, do we have the resources (individual and institutional) to engender entrepreneurial action? Second, if we have a certain set of resources, then what kind of entrepreneurship is created? Before we delve deeper into frameworks, we need to understand what entrepreneurship is and what enables entrepreneurial action to take place. The first section explores this question from the standpoint of a literature review.

In the second section, I find two theoretical positions necessary to explain the dynamic of my framework. The theories consider how the interaction of the entrepreneur and his institutional (formal and informal) environment can predict the process and outcome of entrepreneurship. First, I use Edith Penrose's resource-based firm growth theory<sup>2</sup> to shed light on why we have different entrepreneurs. The answer lies in the tenets of the theory that heterogeneous, non-imitable resources, especially human and managerial, are responsible for the creation and growth of firms (Penrose, 1959). Since entrepreneurship is an individual process and not a collective one, the entrepreneur functions as a firm. His personal resources are anchored in his psychological traits and non-psychological capability set. What is still missing is a context where the entrepreneur acts. Douglas North's Theory of Institutions and Institutional Change provides a context for this. North sees institutions acting as societal rule or norm setters, thereby either permitting or constricting economic action at any one time. Using these two theories as intellectual tools, my goal is to have a holistic approach in observing entrepreneurs and their contextually embedded process. My later theoretical papers and the design of my empirical work will be structured around this framework.

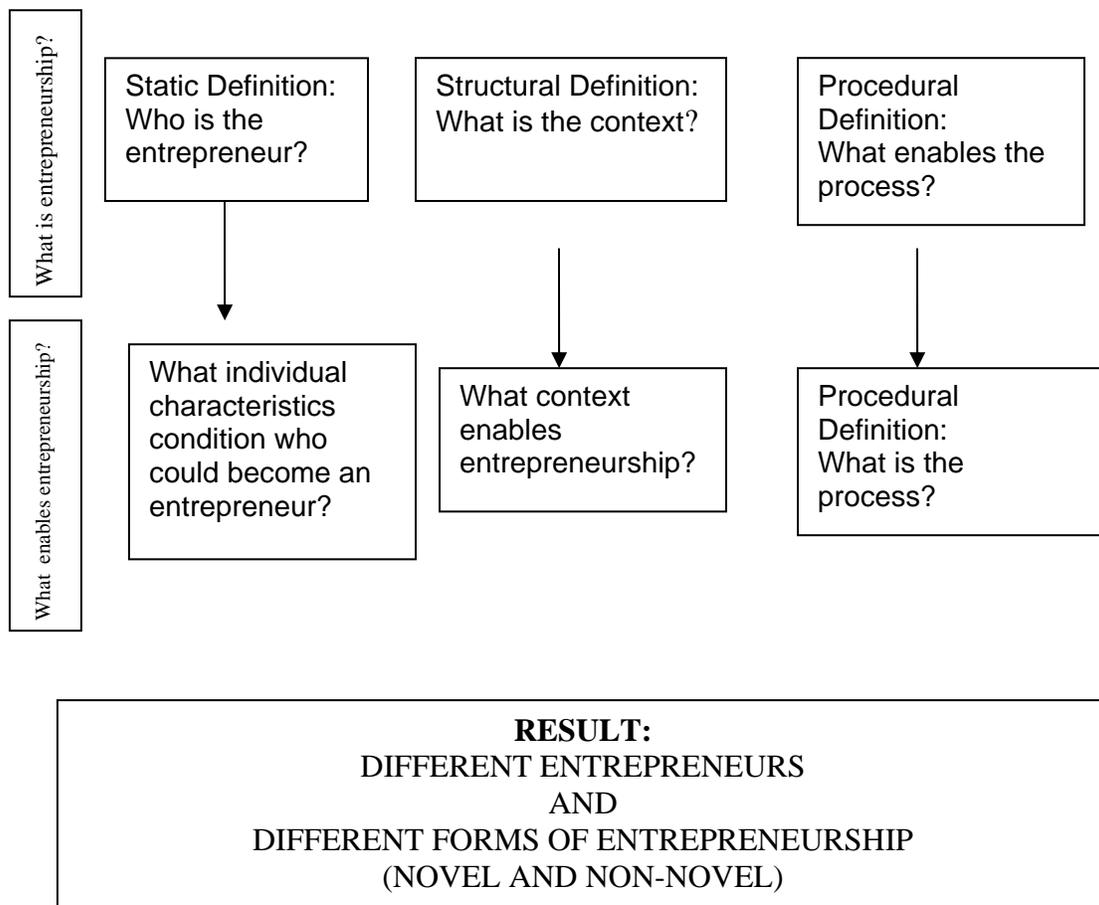
After the theory portion, I take a closer look at the forms of entrepreneurship that emerge as a result of the changing combinations in individual resources and the institutional structures. The literature focuses on two general types: the novel entrepreneur (Schumpeterian) and the non-novel (Kirznerian). The novel and non-novel entrepreneur are often described as being different and offering different economic benefits to society. We have much more insight into the Schumpeterian entrepreneur

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<sup>2</sup> Edith Penrose wrote, "A Theory of the Growth of the Firm", in 1959 before Resource-Based Theory (RBT) was defined. She was the first in the field of economics to approach firm conception and growth through the standpoint of internal resources, especially human and managerial. Thus, I have chosen to go to the origins of RBT.

because of his actions' effects on national economic growth. We do not know which combination of individual capabilities and institutional structures create opportunities for the non-novel entrepreneur because the sources of Kirznerian (non-novel) are considered to be too idiosyncratic to be studied (Shane, 2003). I believe that idiosyncrasies are not the problem, but that only a comprehensive framework has been missing to capture all of the complexity of the entrepreneurial process. In the last section, the conclusion, I provide an overview of what has been learned and venture forth a hypothesis for my research. My forthcoming paper (paper 2) will provide the detailed entrepreneurship framework showing the individual and institutional factors important in assessing the potential of entrepreneurship.

**Figure 1: Goal and Organization of this Paper**



## II. What is Entrepreneurship and What Makes it Happen?

Christopher Robin finished the mouthful he was eating and said carelessly: "I saw a Heffalump to-day Piglet."

"What was it doing?" asked Piglet.

"Just lumping along," said Christopher Robin, "I don't think it saw me."

"I saw one once," said Piglet. "At least, I think I did," he said. "Only perhaps it wasn't."

"So did I." said Pooh, wondering what a Heffalump was like.

"You don't often see them," said Christopher Robin carelessly.

"Not now," said Piglet.

"Not at this time of year," said Pooh

The Complete Tales of Winnie the Pooh (Milne & Shepard, 2001)

"The entrepreneurial Heffalump is a variegated sort of animal, which appears in different habitats and in different forms. It also appears to have undergone some evolutionary changes or mutations since the first reports of its existence were made public by Heffalump hunters in the past. So it is not surprising that there is a disagreement about the nature of the beast."

(Wilken, 1975)

### A. What is Entrepreneurship?

Academic discussions on the definition and nature of entrepreneurship often resemble the discussion between Piglet, Christopher Robin and Pooh. A phenomenon is being witnessed but there are a multitude of different descriptions and explanations of it (see Table 1). Wilken explains that this occurs because "different habitats, different forms, and evolutionary changes" make the definition and classification of entrepreneurship difficult. Thus, the field of entrepreneurship has no solid definition or generally accepted theoretical position because it is a socially constructed, continually evolving phenomenon which changes its characteristics based on the individual, the geography, the economy, the policies, the institutions, and the culture it is embedded in.

Table 1 has two purposes. The first is to show why it is difficult to categorize, define and theorize about entrepreneurship. It displays research from the last century to today showing a field with fragmented research directions. Instead of being troubled by this, I find that this fragmentation only accentuates how entrepreneurship has the ability to create economic meaning in many different contexts. This, naturally, is its attraction as a research field and as a tool of economic development. The second purpose of Table 1 is on a personal level. It reflects some of the literature that I read to prepare for my empirical work. In my preparation, I wanted to be clear which concepts in entrepreneurship were introduced and where they fell in the individual, institutional (for the purpose of this table I interchange institutional with

environmental), or process categories of entrepreneurial action. It was my goal to make sure that I understood what had been written before me and that my research was unique. Hence, the reasoning for the two columns with the headings: Concept Introduced and Research Angle.

**Table 1: Main Research Streams in Entrepreneurship**

<b>Author</b>	<b>Definition</b>	<b>Concept Introduced</b>	<b>Research Angle</b>
(Knight, 1921)	The entrepreneur is an individual with an unusually low level of risk aversion.	Risk aversion	Individual
(Schumpeter, 1934)	The entrepreneur is a leader and a contributor to “creative destruction”. He/She carries out “new combinations” which include: 1) the introduction of new goods or a new qualities of a good 2) a new method of production 3) a new market 4) a new supply of raw materials or components 5) reorganization of an industry.	Entrepreneur as innovator	Individual
(McClelland, 1961)	First attempt to explain the psychology of the entrepreneur through the need for achievement	Personality trait research	Individual
(Casson, 1982)	Entrepreneurship is about being different – from the aspect of having a different perception of the situation.	Entrepreneurial perception	Individual
(Z. Acs, Audretsch, & Feldman, 1994; Drucker, 1985)	Entrepreneurship is an act of innovation that involves endowing existing resources with new wealth-producing capacity.	Innovation	Process
(Gartner, 1988)	Entrepreneurship is best explained by what the entrepreneur does not who the entrepreneur is.	Process approach to entrepreneurship	Process
(Stevenson & Jarillo, 1990)	Entrepreneurship is the pursuit of opportunities without concern for current resources – either in a private business or within other organizations.	Current resources not a concern	Process
(Bygrave & Hofer, 1991)	Focus on the nature and characteristics of the entrepreneurial process	Entrepreneurial process entwined with the individual	Individual & Process
(North, 1990)	Institutional affects on entrepreneurship	Institutions	Institutional

(Amit, Glosten, & et.al., 1993)	Entrepreneurship is a process of extracting profits from unique and valuable resources in an uncertain environment.	Unique and valuable resources	Process & Institutional
(Krackhardt, 1995)	Entrepreneurship is a structural (embedded network ties) and dyadic concept where the entrepreneur assesses which relationship will lead to the greatest entrepreneurial opportunity.	Networks	Individual & Institutional
(I. M. Kirzner, 1997)	The entrepreneur identifies profit opportunities and initiates actions to fill currently unsatisfied demands or to improve inefficiencies correcting the market bringing it toward equilibrium.	Entrepreneur as market equalizer	Individual
(Becattini, 2000)	Industrial districts, local entrepreneurial tradition	Industrial districts	Institutional
(Low & Abrahamson, 1997) & (Ireland, Hitt, & et.al., 2001)	Entrepreneurship is a context dependent social & economic process.	Context Dependency (Hofstede et al., 2004)	Individual, Institutional & Process
(Shane, 2000, 2003; Shane & Venkataraman, 2000)	Entrepreneurship is characterized by how opportunities are discovered, created, and exploited by whom and with what consequences.	Opportunity Recognition	Individual & Institutional
(Alvarez & Busenitz, 2001)	Entrepreneurship encompasses individual level actions in the creation of the firm, firm-level actions in the pursuit of innovations, market-level actions in the exploitation of opportunities presented.	Individual, Firm, Market-Level Actions exploit opportunities	Individual, Institutional & Process
(Bruyat & Julien, 2001)	Contextualize the individual opportunity nexus in the environment.	Environmental context	Individual & Institutional
(Hitt, Ireland, & et.al., 2001)	Entrepreneurial thinking (the identification and exploitation of opportunities) and strategic thinking (focus on decisions and actions planned and executed to attain a competitive advantage.	Coined the term "Strategic Entrepreneurship"	Individual
Zahra & Dess	Environmental factors are	Environmental	Institutional

2001	important antecedents to entrepreneurship	Context	
(Johannisson, Ramirez-Pasillas, & Karlsson, 2002)	Institutional embeddedness of local inter-firm networks	Embeddedness and Networks	Individual & Institutional
(Hofstede et al., 2004)	The role of culture in entrepreneurship	Culture	Institutional
Shane 2003	"A General Theory of Entrepreneurship" is published which studies the origins, nature and evolution of opportunities	Entrepreneurial opportunities	Individual, Institutional & Process
(West III, 2003)	West recommends a theoretical framework that is based on information processing, asymmetric knowledge and networks.	Information, knowledge, social networks	Individual & Institutional
(Busenitz, West III, & et.al., 2003)	Entrepreneurship research should focus on the intersections of individuals, opportunities, modes of organizing, and the environment.	Modes of organizing and the environment added to individuals and opportunities	Individual, Institutional & Process
(Benneworth, 2003)	Entrepreneurship in the periphery	Peripherality	Individual & Institutional

All of the research in Table 1 and other subsequent studies I read were classified either in individual, institutional or process categories either formally as seen above, or informally in my notes. With the help of my doctoral supervisor<sup>3</sup>, I realized that there was a further categorization that could help order my thoughts. She suggested that there is a "static" and "structural" component to entrepreneurship and I soon realized that these components taken together point to the characteristics of the process of entrepreneurship – the topic which my empirical works pivots on in the post-socialist periphery. Table 2 elaborates this ordering process. The static element of entrepreneurship answers the question: Who is the entrepreneur? Naturally, the entrepreneur can and does change through learning and experience, but there are characteristics to his personality and his capability set (both can be viewed as resources) that are his starting point in seeing his business opportunity and making the decision to exploit it. The structural element of entrepreneurship can be viewed as the entrepreneur's landscape or even his stage. The context in which he finds himself in will determine what internal resources he has at his disposal (e.g. education opportunities) and either encourage or discourage him to use these

<sup>3</sup> Professor Anne Lorentzen, Meeting at Aalborg University, November 20, 2007

resources to start a new venture (e.g. economic, political, socio-cultural context). Finally, it became clear to me that by taking the static and structural elements of entrepreneurship and putting them into motion and into relationship with each other, we have the determination of the process and the outcome of entrepreneurial action. Thus, I needed to examine and order the fragmentation in Table 1 to develop the elements in Table 2 which will be the basis of my research framework. In the next two sections, the static and structural framework of entrepreneurship is examined from the perspectives of a literature review and theory. The procedural aspect is not examined in this paper because a more detailed discussion is being saved for my final empirical paper where the process of entrepreneurship is examined in a post-socialist periphery by bringing together the individual and his environment.

**Table 2: The Elements of Entrepreneurship**

<b>Element of Entrepreneurship</b>	<b>Question Posed</b>
Static	Who is the entrepreneur?
Structural	Which context engenders novel entrepreneurship? Which context engenders non-novel entrepreneurship?
Procedural	What is the process of entrepreneurial action?

The static, “Who is the entrepreneur?” position had its beginnings with the psychologist, David McClelland in his seminal work, “The Achieving Society” (1961). He used behavioral science to discuss why some societies are more dynamic than others. He found his answer in the norms and values that prevail, more specifically, with a society’s need for achievement. In this context, entrepreneurs were recognized as having a high need for achievement thus influencing a part of society’s development. Since McClelland, the personality traits of the entrepreneur have unleashed a large number of studies to try to identify who the entrepreneur is. Some of the enduring results of these studies are that the entrepreneur (when compared to the general population or managers) has a high need for achievement, high tolerance for risk, exhibits over-optimism, has the desire for freedom, and a belief that he controls his own actions versus the environment controlling him<sup>4</sup> (Delmar & Davidson, 2000). A discontent over the personality trait stream of research began in the late 1980’s (Gartner 1988). Researchers soon realized that the behavior of

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<sup>4</sup> For summaries on the psychological aspects of the entrepreneur see Brockhaus 1982 and Delmar 2000.

entrepreneurs is context dependent, hence the field shifted from interest in the entrepreneur as an individual to interest in the context and process of entrepreneurship. William Gartner's seminal article shifted the field of entrepreneurship research from the static position, "Who is the entrepreneur" to the procedural position by asking, "What does the entrepreneur do?" Researchers following his call have found that the entrepreneur discovers and exploits opportunities (Shane and Venk 2001, Shane 2003), develops networks to further his goals (Uzzi 1996, Johannisson and Ramirez 2001), re-orders existing resources to create higher value outputs (Kirzner), destroys existing economic structures by creating new ones (Schumpeter).

The structural aspect of entrepreneurship tells us that it exists within a context. This context shapes the individual and the form of entrepreneurship. In my mind, the structural component has two views: a relational structure and a socio-geographic structure. The relational structure includes individual networks and the networks of firms. The effects of large, varied social networks have been documented to be drivers of successful entrepreneurship (Johannisson et al., 2002; Uzzi, 1997). The socio-geographic structure includes topics such as culture, norms (Hofstede et al., 2004), local entrepreneurial traditions (Becattini, 2000) and issues of periphery vs. core (Benneworth, 2004; Smallbone, North, & Kalantaridis, 1997).

The implications of a static, structural and procedural description of entrepreneurship are compelling in that they acknowledge the complexity of the phenomenon. By acknowledging the complexity, researchers are encouraged to view entrepreneurship in a holistic way which gives rise to pertinent questions in terms of diagnosing problems and implementing prescriptives. If a nation/region/city/village wants to encourage entrepreneurial activity, do they address the individuals, or the process, or make adjustments in the context? Adjust all three? What adjustments are best? To what degree? Who is best equipped to do it? We do not have the answers to these questions. However, an ordering of the phenomenon within this framework makes the question-asking more coherent and more inclusive.

## **B. Determining Factors of Entrepreneurship**

The static and structural concepts I used to frame the question, "what is entrepreneurship?" are used to frame the question, "What enables entrepreneurship?" Table 2 outlines the questions related to the framework. The following sections will answer these questions from the standpoint of previous research.

TABLE 3: Questioning Framework: What makes entrepreneurship happen?

Element of Entrepreneurship	Question Posed
Static	What individual characteristics determine who becomes an entrepreneur?
Structural	What environment determines different forms of entrepreneurship?
Procedural	What determines the process of entrepreneurship?

1. Individual Psychological & Non-Psychological Resources Affecting Entrepreneurship

Even though the personality trait stream of research has mostly been abandoned, certain personality traits have been found to be present in the majority of entrepreneurs even across cultural boundaries. It is important to note that these traits can be found in the general population and are not indicators whether someone will become an entrepreneur or not because other factors weigh in equally importantly. Though, it has been proven that in specific contexts an entrepreneur does think differently than an employee or manager. What personality traits are often present in entrepreneurs? The literature can be divided into psychological (Table 4) and non-psychological resources (Table 5).

Psychological Traits:

**Intelligence:** IQ scores have a “positive and significant” (Shane, 2003) effect on self-employment. De Wit & Van Winden 1989, De Wit 1993 **Absorptive capacity:** Prior knowledge provides an absorptive capacity that facilitates the acquisition of additional information. Cohen & Levinthal 1990 Yu 2001 Two forms of knowledge necessary for entrepreneurship are knowledge about markets and knowledge of how to serve those markets. Venkataraman 1997 **Perceptiveness:** Firm founders have been known to have cognitive scripts that allow them to identify and use information that non-founders cannot see. Mitchell 2000, Roberts 1991a, Bhide 2000 Hills et al 1999 **Creativity:** Entrepreneurs exhibit creative tendencies because they must create new frameworks for valuing resources. (Sarasvathy, 2001), Shane & venk2000 (Schumpeter, 1934) Wu 1989 Hull 1980 **Risk Management:** Firm founders have higher levels of risk tolerance than the general population or managers. Stewart & Roth 2001, Kaish & Gilad 1991 sarasvathy et al 1998, (Knight, 1921)**The desire for freedom:** Entrepreneurs have high levels of independence. Reynolds & White 1997, Caird 1991 Burke et al 2000 However, if freedom seeking is the main motivation to start a business, those businesses tend to

fail more often (Cooper et al 1988). **Intuitiveness:** Entrepreneurs tend to be more comfortable than managers and employees in intuitive decision-making. Busentiz & Barney 1997, Allinson 2000, Shrader 1998 **Generalization of information:** Founders of new firms tend to generalize and act upon information that is not necessarily a reflection of the population at large. Busentiz & Barney 1997 Entrepreneurs tend to have an **optimism bias**, where the belief in one's own judgment is too high given actual data. Busenitz & Barney 1997, Amit et al 2001, Arabsheibani et al 2000 **Self-Efficacy** is the belief in one's ability to perform a task of which entrepreneurs score higher than general managers and the general population. Hull et al 1980, Chen et al 1998, Zietsma 1999 Having an **internal locus of control** is the belief that one can influence one's own environment. Entrepreneurs are more likely to have an internal versus an external locus of control. Caird 1991, Shapero 1975, Ward 1993 Bonnet & Furnham 1991, Robinson 1991 Protestant countries are more likely to be entrepreneurial than Catholic countries due to the Protestants' faith based internal locus of control (Shane, 2003) (cite Weber) Firm founders have more **need for achievement** than others. Hull et al 1980, Miner et al 1989, Bellu 1988 **Disagreeableness:** Entrepreneurs show more suspiciousness and skepticism than employees. Brodsky 1993 **Extroversion:** Firm founders tend to be more sociable, assertive, active, ambitious, talkative, expressive, and impetuous. Barrick & Mount 1991, Bhide 2000

Table 4: Psychological Traits often found in Entrepreneurs

PSYCHOLOGICAL TRAITS	LITERATURE
Intelligence	De Wit & Van Winden 1989, De Wit 1993
Absorptive Capacity	Cohen & Levinthal 1990 Yu 2001 Venkataraman 1997
Perceptiveness	Mitchell 2000, Roberts 1991a, Bhide 2000 Hills et al 1999
Creativity	(Sarasvathy, 2001), Shane & venk2000 (Schumpeter, 1934) Wu 1989 Hull 1980
Risk Management	Stewart & Roth 2001, Kaish & Gilad 1991 sarasvathy et al 1998, (Knight, 1921)
Desire for Freedom	Reynolds & White 1997, Caird 1991 Burke et al 2000, Cooper et al 1988
Intuitiveness	Busentiz & Barney 1997, Allinson 2000, Shrader 1998
Ability to Make Decisions on Generalizations	Busentiz & Barney 1997
Optimism Bias	Busenitz & Barney 1997, Amit et al 2001, Arabsheibani et al 2000
Self Efficacy	Hull et al 1980, Chen et al 1998, Zietsma 1999

Internal Locus of Control	Caird 1991, Shapero 1975, Ward 1993 Bonnet & Furnham 1991, Robinson 1991
Need for Achievement	Hull et al 1980, Miner et al 1989, Bellu 1988
Disagreeableness	Brodsky 1993
Extroversion	Barrick & Mount 1991, Bhide 2000

Individual Capabilities Enabling Entrepreneurship:

Non-psychological traits are the characteristics of an individual not having to do with personality. They are the experiences a person has gathered through their lives. Table 5 lists some of the non-psychological traits studied in entrepreneurship research. **Career experience** is a trigger that not only decides who becomes an entrepreneur but also decides what kind of entrepreneur he becomes. The literature tells us that the more general business, functional, industry, start-up experience a person has, the more likely this person will be an entrepreneur. If someone is exposed to entrepreneurial activity through **vicarious experience**, often in the form of family businesses and external role-models, they are more likely to become entrepreneurs. It has also been noted that a person with a more **varied career path** is more likely to become an entrepreneur.

**Knowledge of markets** and how to serve them is also a factor connected with entrepreneurial behavior. The more and varied **social ties** a person has the more likely they will be an entrepreneur. The issue of **income** can either enable or defeat entrepreneurship. If a person has a higher income, then they are better able to self-finance their venture (the most common form of new business financing), however, they also have much more to risk losing in case their venture fails. If a person has a low income stream, they are less able to self-finance but also have lower opportunity costs. The presence of an **employed spouse** encourages entrepreneurship because having a secure income stream lowers financial exposure. **Education** has no special effect on whether someone will start a business or not (after literacy is achieved). However, education does affect what kind of entrepreneurship is manifested. Novel, innovative entrepreneurs tend to be more educated. The **age** of people starting their own businesses tends to be around middle age (36-55). Young people often lack the experience needed to run a successful business and people older than 55 expose themselves to too much financial risk before retirement. The higher the **social position** of the entrepreneur, the more likely he will be an innovative, novel entrepreneur who is successful due to better access to financing, better quality networks, and a better education.

**Table 5: Individual Capabilities Enabling Entrepreneurship**

<b>CAPABILITIES</b>	<b>LITERATURE</b>
Career Experience	Shane & Khurana 2001
General Business Experience	Romanelli & Schoonhoven 2001, Klepper & Sleeper 2001
Functional Experience	Roberts 1991a
Industry Experience	Knight 1921, von Mises 1949, Aldrich 1999
Start-up Experience	Bruderl et al 1992
Vicarious Experience	Storey 1994b Reynolds 1997
Social Ties	Aldrich 1999, Shane and Stuart 2002
Income	Amit et al 1995, Evans and Leighton 1989
Unemployment	Taylor 2001, Reynolds 1994a
Employed Spouse	Bates 1995b, Schiller and Crewson 1997
Education	Casson 1995, Le 1999
Age	Bates 1995, Borjas and Bronars 1989
Social Position	Stuart et al 1999

### Psychological Traits and Capability Sets as Resources

The previous two subsections examined the psychological and non-psychological attributes that could predispose a person to becoming an entrepreneur. At first glance, it could seem that once again we have a situation of research fragmentation not pointing us in any valuable theoretical direction. However, a valuable theoretical platform can be found if these attributes can be seen as a bundle of resources which influence if a person becomes an entrepreneur and what kind of entrepreneurship he will practice. I have mentioned before that entrepreneurship is not a collective action, but an individual action. Instead of examining the resources of a firm, in the case of entrepreneurship, we take into account the resources harbored by the individual. In the resource-based view of the creation and growth of the firm as presented by Penrose, firms possess resources, which help them achieve competitive advantage which leads the firm to superior long-term performance (Penrose, 1959). For her, the essence of enterprise was the ability to detect and connect internal resources with external opportunities. The original concept of RBT (a term not coined by Penrose) was based on tangible firm assets. However, the theory later evolved into considering assets that were not only tangible but also tacit, socially complex assets, those harbored by individuals. Penrose recognized that the entrepreneur's skills and contacts are critical because they make

possible the recognition of potential resources and the detection of opportunities (Penrose, 1959). This process is shaped by the entrepreneur's perception of the environment. Penrose elaborates on this:

"The environment is treated in the first instance as an image in the entrepreneur's mind of possibilities and restrictions with which he is confronted, for it is after all, such an image which in fact determines a man's behavior; whether experience confirms expectations is another story." (Penrose 1959 p. 5)

Recent research has connected resource based theory with entrepreneurship. Alvarez and Busenitz (2001) extend the boundaries of resource based theory to include the cognitive ability of individual entrepreneurs. In this paper, I include their capability (non-cognitive) resources as well. The researchers state that entrepreneurship theory and RBT adopt the same unit of analysis which is the resource, or more specifically heterogeneous resources. Resource-based logic focuses on the heterogeneity of resources while entrepreneurship theory focuses on the heterogeneity in beliefs about the value of resources (I. Kirzner, 1973; Schumpeter, 1934; Shane & Venkataraman, 2000). The conflict is resolved when "it is recognized that beliefs about the value of resources are themselves resources" (Alvarez & Busenitz, 2001). Alvarez and Busenitz examine individual opportunity recognition, the firm's organizational capabilities, and the market and find that resources integrate all three levels of analysis. They address the issue of finding a distinctive domain of entrepreneurship through this resolution.

I fully agree with Penrose, Alvarez and Busenitz that the environment in the "first instance" can be an image in the entrepreneur's cognitions where opportunities and barriers abound; this place being very much dependent on psychological factors, such as perception. However, there is still a "second instance" where a much more universal environment, outside of the entrepreneur's mind, provides rules and norms that structure an economy, policy and culture. This second instance is the institutional environment where the entrepreneur with his specific resource bundle has a societal framework that he shares with everyone else. In the next section, I use Douglas North's Theory of Institutions and Institutional Change (North, 1990) to understand what institutional forums set the stage for the entrepreneur.

## 2. Institutional Structures Affecting Entrepreneurship

The purpose of using Penrose's resource theory and North's institutional theory as platforms to structure and carry out my own research is twofold. First, I am sensitized

to the fact that I am observing an individual with a set of resources and that there is a psychological and non-psychological structure to these resources. Second, I am also sensitized to the fact that this individual acts somewhere “out there”. This “out there” is an environment where there are rules and norms that either constrict the individual’s actions or provide opportunities. In the previous section, a theoretical model was chosen to understand how the individual is responsible for entrepreneurship by using intangible resources as a unit of analysis. In this section, Douglas North’s Theory of Institutions and Institutional Change aids in understanding how the institutional environment provides opportunities or barriers to entrepreneurship. This theory states that institutions (formal and informal) create the “**rules of the game**” on all levels of society (North, 1990), which in turn determine the **opportunities** in that society. Where there are opportunities then there are also incentives to take advantage of them and disincentives to ignore them. Not only do institutions affect the opportunities external to the entrepreneur, but institutions will also form how opportunities are viewed by the entrepreneur. North elaborates on this below:

“The kinds of information and knowledge required by the entrepreneur are in good part a consequence of a particular institutional context. Incentives/barriers are built in the institutional framework. The institutional framework will shape the direction of knowledge and skills which will be the decisive factor for the long run development of that society.” (North, 1990) p.78

Thus, Penrose’s and North’s theories have something in common. They both make statements about how resources (Penrose) and institutions (North) operate on an environmental level (external) and on an individual level (internal/personal). This leads to the conclusion that a relationship exists between resources and institutions. For example, I see a recursive relationship where institutions shape individual capabilities (non-psychological factors in my paper) and where individuals (with their psychologies and capabilities) shape their institutions. The implication for entrepreneurship research is that not only do we have a relationship but one in motion that stresses the importance of holistic research to encompass the complexity. Since North, other researchers have explored the impact that institutions have on entrepreneurial activity. Recent research explored the interaction of resources and institutions on the firm level by examining demand and supply factors enabling entrepreneurial activity (Verheul, Wennekers, Audretsch, & Thurik, 2001), the role that institutions have on social capital and

entrepreneurship (Ronning, 2006), and government's role in the development of entrepreneurship through strengthening institutions (Ebner, 2006).

What are these institutional structures affecting entrepreneurship? They are found in the spheres of economics, politics and cultural norms. These institutions are also the determinants of a nation's or region's industrial structure thereby being a large determining factor on the behavior of entrepreneurs and the opportunities available to them. An **economic structure** supporting entrepreneurship should insure economic growth and stability, sane tax structures, transparency, the availability of capital. The role of **political institutions** in triggering entrepreneurship should be to uphold personal freedoms, have a fair rule of law and uphold property rights, at the very least. Some governments have been known to stimulate entrepreneurship through setting resource-related and sectoral policies. The **cultural environment** has an enormous effect on who the entrepreneur is as an individual and what actions he takes. The entrepreneur's cultural background will decide if he will even consider becoming an entrepreneur, how willing he is to take on risks and what he will do if he ever experiences failure. Hofstede's cultural indices (power distance, individuality, uncertainty avoidance, masculinity) have varying effects across cultures on entrepreneurship. My forthcoming paper (Fuduric, 2008), examines economic, political and cultural institutions on a more detailed level.

### 3. The Process of Entrepreneurship

The field of entrepreneurship has not had a formalized version of a "process" of entrepreneurship, per se. It has had a series of ideas of what that process could look like (see Table 1 for a reminder). For example, the process of entrepreneurship for Schumpeter was the act of creative destruction. For Kirzner, the process of entrepreneurship was having the alertness to recognize opportunities in the environment. Scott Shane (2003) developed an entrepreneurial process framework based on entrepreneurial opportunities. I chose Shane's entrepreneurial process framework for four reasons: first, it is the most comprehensive that the field has, second, it creates awareness that entrepreneurship is a process embedded in time, third, it implicitly acknowledges that each phase requires different skills, actions and contexts, and fourth, it is a recursive process (not linear) reflecting the true learning and actions of

entrepreneurs practicing their craft. I am using six stages of this process depicted below in Figure 1.<sup>56</sup>

**Figure 1: The Entrepreneurial Process**



Source: Shane 2003

Each stage has a set of triggers that move entrepreneurial actions through the process. According to Schumpeter (Schumpeter 1986), the **existence of opportunity** (Stage 1) is driven by technological, political/regulatory, and socio-demographic changes. The **process of discovering opportunity** (Stage 2) and **exploiting opportunity** (Stage 3) is an endeavor of the individual entrepreneur which depends on their psychological and capability attributes. The decision to exploit an opportunity (Stage 3) is also affected by the industrial, economic, political and socio-cultural situation (this topic is covered in more detail in (Fuduric, 2008) ). What initiates the **resource acquisition process** (Stage 4) is need and it involves the collecting and recombination of resources which requires financing. In the majority of the cases, business founders finance out of their own savings (Aldrich, 1999). How the resource acquisition process is carried out depends on contractual mechanisms, social ties, venture capital, business angels, self-financing, persuasive communication strategies, business plans, founder attributes.

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<sup>5</sup> It really has seven stages with the last stage being “performance” or the everyday management of business. I chose to not examine that stage because we begin to move away from the entrepreneurial and into the managerial.

<sup>6</sup> For the sake of simplicity, the process looks linear. The reader is asked to use their imagination to understand that the entrepreneur could be in two or more stages at the same time and can move back through the stages.

Some conditions of **entrepreneurial strategy**<sup>7</sup> (Stage 5) involve two issues: First, how is competitive advantage protected from competition once when it is made public? Second, how does the entrepreneur manage information asymmetry and uncertainty in the exploitation of the opportunity? It is beyond the scope of this paper to examine competitive advantage, information asymmetries and uncertainty in more detail (For a detailed account see Shane 2003). The **organizing process** (Stage 6) is the last stage of entrepreneurial action it is caused by the need for routines and structures. Again, it is not in the scope of this paper to examine this in detail. For more information on the entrepreneurial organizing process and an exhaustive literature review see chapter 10 in (Shane, 2003).

So what is involved in the process of entrepreneurship? Reconsidering the 6 stages, the involvement of the individual entrepreneur with his environment is a constant throughout the stages. Every stage is an arena where the individual's psychology, experiences and capabilities meet the opportunities in the industry, economy and society.

The questions "What is entrepreneurship and what enables it?" are outlined in the previous section in a framework including the individual (static) and the institutional (structural), and procedural context. With the help of this framework, three relationships are evident. First, the psychological and capability characteristics of the individual affect whether a person will choose to be an entrepreneur and they will define the entrepreneurial outcome. Extrapolating from Edith Penrose's resource-based theory on firm growth, we could say that entrepreneurial cognition and behavior act as resource bundles. The second relationship inherent in my framework is the relationship between the entrepreneur and his environment. Economic, political, and cultural institutions set the rules of behavior (North, 1990; Scott, 1995) which will determine if entrepreneurs see opportunities or barriers. The third relationship is embedded within the process of entrepreneurship where individual resources and institutions have a recursive relationship thereby acting upon one another and changing their own characteristics through their interactions.

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<sup>7</sup> Entrepreneurial strategies are defined as the strategies by which entrepreneurs exploit new venture opportunities (Shane, 2003).

Considering the complexity of the interactions mentioned above, it is clear that through the unique combinations of individual resources and institutional characteristics why many forms of entrepreneurship can take place. The literature often categorizes the forms into two categories. They are the novel (Schumpeterian) and non-novel (Kirznerian) entrepreneur. Both have their strengths and weaknesses in typifying the entrepreneur and his actions. The next section examines the positions Schumpeter and Kirzner take on entrepreneurship.

### **III. Types of Entrepreneurs**

Because individual resource bundles and the qualities of formal and informal institutions are varied, not all entrepreneurs are created equal. Entrepreneurship research often addresses one of two categories of entrepreneur: the novel (Schumpeterian) and non-novel (Kirznerian). Both forms of entrepreneurship can be present in a society at the same time. Novel entrepreneurs are deemed as desirable because they have a “significant and positive effect” on the economy and society (Z. Acs & Storey, 2004). They start from an opportunity which is often associated with advanced technology and it impacts economic development, innovation, job growth, knowledge spillovers, increasing competition, encouraging firm diversity, (Zoltan Acs & Varga, 2006). The Schumpeterian entrepreneur is described as being novel because he is responsible for destroying old ways of business and replacing them with new, innovative, creative actions, even shifting the direction of whole economies. This entrepreneur is usually highly educated, lives in an urban or geographic core, has many financial and human resources at his disposal, a large and varied social network (GEM, 2006). Schumpeter informs entrepreneurship research by acknowledging that entrepreneurs possess the will to introduce revolutionary “new combinations” of products, production techniques, markets, supply sources, or organizational forms that push the prevailing equilibrium at rare and irregular intervals (Schumpeter, 1934).

There are, however, some limitations to Schumpeter’s understanding of entrepreneurship (Chiles, Bluedorn, & Gupta, 2007). First, even though his concept of “creative destruction” is ubiquitously quoted, it is often misunderstood. Schumpeter rejected the subjectivism of the human mind and was more in favor of human will (Witt, 1992). Consequently, this led to a failure to address entrepreneurial creativity. Because of this conceptual limitation, he could only explain the distribution of novelty and not its emergence (Witt, 1992). Second, Schumpeter actually believed that socialism could work (Schumpeter, 1947). He predicted that entrepreneurship would eventually become

obsolete because central planners would be better able to plan an economy into equilibrium. Schumpeter was caught between his preference for the static equilibrium assumption of neoclassical economics which is rooted in objectivism and could not reconcile the subjectivism of the Austrian framework (Langlois, 2003).

No economic theorist gave more attention to entrepreneurship than Kirzner (Chiles et al., 2007). He argues that neoclassical models ignore the entrepreneur who through superior alertness, discovers opportunities and corrects disequilibria (I. Kirzner, 1973). Kirzner's contribution to entrepreneurship research offered an environment that was riddled with opportunities and only required the alertness of the individual to see them and exploit them. This form of entrepreneurship is often described as non-novel and has two manifestations: the life-style and the necessity entrepreneur. They create micro-businesses like sole proprietorships, partnerships, and family businesses. The lifestyle, non-novel entrepreneur sacrifices growth for lifestyle and generally hires few people and makes no impact on economic growth (Zoltan Acs & Varga, 2006). The benefits that this entrepreneur provides society consist of making a small contribution to regional employment levels, being a role-model for others, and being involved in community well-being. The non-novel necessity entrepreneur turns to entrepreneurship because no other choices for employment exist. This form of entrepreneurship usually occurs in the most resource poor nations and regions of the world. The benefit of necessity entrepreneurship is that this form of economic action means the difference between abject poverty and perhaps living in some form of human dignity.

The impact of the two entrepreneurial types has been researched by Acs & Varga (2006). Their conclusion is that since all nations have necessity and opportunity entrepreneurs, a good indicator of economic development is the ratio of opportunity entrepreneurs to necessity entrepreneurs. For example, low income countries are depicted as having high levels of necessity entrepreneurship. As an economy develops, the necessity entrepreneurs become employees in firms (middle income countries) and as further development occurs, opportunity entrepreneurs emerge (high income countries).

Though Kirzner seems to depart from neo-classical positions, the basis of his tenet is still a return to equilibrium. Despite the importance of Kirzner's observations about entrepreneurship, he has received some criticisms. First, Kirzner states that entrepreneurs cannot introduce true novelty into the market because they are merely discovering what already exists (Vaughn, 1994). Second, since Kirzner believes that the market tends to perfect coordination, this means that entrepreneurs cannot create more

opportunities, they can only rely on changes from the environment (Vaughn, 1994). Third, he does address the fact that entrepreneurs can make mistakes in their perceptions, only that they correct the mistakes of others (Vaughn, 1994). This means that Kirzner cannot offer an explanation of venture failure. Finally, in the Kirznerian perspective, the pure entrepreneur requires no capital because he distinguishes between capitalists and entrepreneurs (like Schumpeter) (Chiles et al., 2007). Separating entrepreneurs from capital, focusing on past errors, and neglecting the passage of time, Kirzner cannot address uncertainty which is a fundamental feature of entrepreneurship (Venkataraman, 1997).

#### **IV. CONCLUSION**

The purpose of this paper is to begin conceptualizing what is needed in a framework from which I conduct my empirical research observing the non-novel entrepreneur in the post-socialist periphery. I am interested in understanding how non-novel entrepreneurs see and exploit opportunities in seemingly resource-poor regions. Before answering such questions, this paper focuses on the basics by attempting to answer what entrepreneurship is, what enables it and why different forms of entrepreneurship exist. Two things always seem to be joined and in interaction with each other in entrepreneurship - the individual and the environment. In understanding the role of the individual, I found a theoretical platform from which to structure my framework in Penrose's resource-based theory of firm growth. This theory helps me view the individual entrepreneur as an "entity" with a set of internal resources in the form of certain psychological traits, capabilities, and behaviors. It is in the heterogeneity and inimitability of these internal (personal) resources that brings about different forms of entrepreneurship.

Since the individual always acts in an environmental context, it is logical to assume that the environment affects his resource base. How does the environment do that? In this paper, I chose North's Theory of Institutions and Institutional Change to inform my research that institutions govern rules and norms in society. Economic, political and cultural institutions have formal and informal elements that form how people think and act thus defining what resources they have to work with. The implication for entrepreneurs is that the institutional environment often defines what kind of new venture opportunities are available and it offers incentives and disincentives to take action on those opportunities. The individual and the institutional environment affect one another

and at the same time change one another. Because individual resource bundles and the qualities of formal and informal institutions are varied, not all entrepreneurial action is created equal. This paper addresses the two main categories of entrepreneur: the novel (Schumpeterian) and non-novel (Kirznerian). Here I state a need for my research by arguing that the field of entrepreneurship needs more information on the resources and the environment in which the non-novel entrepreneur maneuvers, especially in resource-poor regions. I venture to hypothesize that such entrepreneurs are more novel (Schumpeterian) than non-novel (Kirznerian) because they cannot depend on old structures and old ways of doing things because often they do not exist or are weak. Thus, the entrepreneur and the entrepreneurial process is not a heffalump - an imaginary animal left to the description of anyone's imagination, but a chameleon - a very real animal that changes its characteristics depending upon the personality and skill set of the entrepreneur and upon the institutional environment that frames his actions.

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