Handbook of Research on New Venture Creation

Edited by

Kevin Hindle
Chair of Entrepreneurship Research and Director, Centre for Entrepreneurship Innovation and Community, Deakin University, Australia

Kim Klyver
Professor of Entrepreneurship, University of Southern Denmark

Edward Elgar
Cheltenham, UK • Northampton, MA, USA
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Contributors

Howard E. Aldrich is Kenan Professor of Sociology at the University of North Carolina, Chapel Hill, where he won the Carlyle Sitterson Award for Outstanding Teaching in 2002. He is Chair of the Department of Sociology and Adjunct Professor of Strategy and Entrepreneurship in the Kenan Flagler Business School. In 2000, he received two honours: the Swedish Foundation of Small Business Research named him the Entrepreneurship Researcher of the Year, and the Organization and Management Division of the Academy of Management presented him with an award for a Distinguished Career of Scholarly Achievement. His book Organizations Evolving won the Academy of Management George Terry Award as the best management book published in 1998–99 and was co-winner of the Max Weber Award from the American Sociological Association’s Section on Organizations, Occupations, and Work. His 1979 book Organizations and Environments was reprinted in 2007 as a ‘classic’ by Stanford University Press.

Fredrik Åström attained his Ph.D. in library and information science (LIS) in 2006 at Umeå University, Sweden. Since then, he has been employed as Assistant Professor at the LIS Master’s programme at Lund University, Sweden. Currently, he is active as Research Assistant at Lund University Libraries, where he is pursuing his postdoctoral project on visualizations of research fields. He spent the academic year 2008–09 as a visiting scholar at the University of Technology, Sydney, Australia. His research interest lies in the fields of science studies, scholarly communication and informetrics/bibliometrics, where he has been publishing internationally since 2002 in journals such as the Journal of the American Society for Information Science and Technology and the Journal of Documentation, as well as both presenting at, and being a member of the programme committee for, international conferences such as the biannual International Society for Scientometrics and Informetrics (ISSI) conference.

Torben Bager is Professor at the University of Southern Denmark, Department of Entrepreneurship and Relationship Management, and Director of IDEA Entrepreneurship Centre. From 2005 to 2009 he was Managing Director for the International Danish Entrepreneurship Academy, a nationwide network of universities and colleges aiming to strengthen entrepreneurship teaching and training at higher educational
institutions as well as enhancement of student-based entrepreneurial activities. From 2006 to 2008 he was a member of the EU Expert Group on Entrepreneurship Education, especially within non-business studies. His research interests fall into four areas: organization theory and management; economic sociology, immigrant business and globalization; entrepreneurship and firm growth; and entrepreneurship teaching and training.

Olivier Basso is currently devoting his time to teaching international executives and researching in the field of management studies at Singleton Institute (Belgium). His primary research interest is corporate entrepreneurship with particular emphasis in the areas of organizational behaviours and firm-level parameters fostering an entrepreneurial spirit.

Deborah Blackman obtained her Ph.D. for work entitled 'How learning organisation practices close knowledge creation' from Nottingham Trent University. This was a combination of philosophy and organizational learning research which considered why currently accepted theory was not effective; this is a common theme in her work, where she uses epistemological theory to reconsider management concepts. She currently works as an Associate Professor in the Faculty of Business and Government at the University of Canberra, where she is a member of the Australia and New Zealand Institute of Governance. She entered academia after working in the hospitality industry in the UK, Belgium and France. Her other research interests include knowledge management, innovation, public sector governance and change management.

Malin Brännback is Vice Rector of Åbo Akademi University and Chair of International Business at Åbo Akademi University, where she received her doctoral degree in management science in 1996. She also holds a B.Sc. in pharmacy. She has served as Associate Professor in Information Systems at the University of Turku, and Professor of Marketing at Turku School of Economics, Finland. She has co-authored, with Alan L. Carsrud, two books: Entrepreneurship and Understanding the Entrepreneurial Mind: Inside the Black Box. She has published widely on entrepreneurship, biotechnology business, and knowledge management. Her current research interests are in entrepreneurial cognition, intentionality, and firm growth and performance in high-technology entrepreneurship. Her research appears in the Journal of Small Business Management, the Journal of Enterprising Culture, New Biotechnology, Screenings, VINE: Journal of Information and Knowledge Management Systems, Knowledge Management Research and Practice, Knowledge and Process Management, Human Systems Management, the Journal of Decision Systems, the Journal of Market-Focused Management, and the European Management Journal.
Candida G. Brush is Professor of Entrepreneurship, holder of the Paul T. Babson Chair in Entrepreneurship, and Chair of the Entrepreneurship Division at Babson College. She is a Visiting Adjunct Professor to the Norwegian School of Engineering and Technology in Trondheim, Norway. She is a founding member of the Diana Project International, and received the 2007 FSF-NUTEK Award for outstanding contributions to entrepreneurship research. Her research investigates women’s growth businesses and resource acquisition strategies in emerging ventures. She is the author of 100 refereed journal articles, books and other publications. She is an Editor for Entrepreneurship Theory and Practice, and serves on several editorial boards. She is an active angel investor and board member of several emerging ventures and non-profit organizations.

Alan L. Carsrud, Ph.D. holds the Loretta Rogers Chair in Entrepreneurship in the Ted Rogers School of Management at Ryerson University in Canada. He is Docent at Åbo Akademi University in Finland. He has co-authored, with Malin Brännback, Entrepreneurship and Understanding the Entrepreneurial Mind: Inside the Black Box. He is Associate Editor of the Journal of Small Business Management and was founding Associate Editor of Entrepreneurship and Regional Development. His over 170 articles, books and chapters are in technology, entrepreneurship, innovation systems, entrepreneurial cognitions, family business, and clinical and social psychology. His research appears in the Journal of Business Venturing, Entrepreneurship: Theory and Practice, Entrepreneurship and Regional Development, Family Business Review, the Journal of Small Business Management, the Journal of Enterprising Culture, New Biotechnology, Screenings, VINE: Journal of Information and Knowledge Management Systems, the Journal of Applied Psychology, the American Journal on Mental Deficiency and the Journal of Consulting and Clinical Psychology.

Per Davidsson is Professor in Entrepreneurship and Director for the Australian Centre for Entrepreneurship Research (ACE) at the Queensland University of Technology, Australia. He has additional affiliations with the Jönköping International Business School, Sweden, Zhejiang University, China, and University of Louisville, US, and is the 2011/12 Chair of the Entrepreneurship Division of the Academy of Management. He has led and/or participated in multiple international-collaborative research projects addressing a broad array of entrepreneurship issues on the individual, team, organizational, regional and national levels. His primary areas of expertise are new venture creation, small firm growth and research methods, and he has authored more than 100 published works on entrepreneurship topics, including some of the best cited works in the leading journals in this field. He is associate editor of Small Business Economics,
is former manuscript editor of *Entrepreneurship Theory and Practice*, and serves on the editorial boards for several other leading journals.

**Gavin Don** is an expert in the field of entrepreneurial finance. Trained in corporate finance in the City of London, he established his own corporate finance practice (Equitas) in 1994, sourcing capital and debt finance for young Scottish high-growth companies. Since then he has arranged some £40 million of finance for dozens of companies, and has also started other businesses, including Newsbase, a global energy news publishing company. In 1998 he founded the first commercial news service aimed at informing the marketplace (Young Company Finance), and has been a leading thinker and innovator in the Scottish market for nearly 20 years. He is an Honorary Senior Lecturer at the Hunter Centre, Strathclyde University, and is also Visiting Professor of Entrepreneurial Finance at the Edinburgh University Management School. He regularly teaches entrepreneurial finance to undergraduate and postgraduate students, including MBAs, and is Edinburgh University’s first Entrepreneur in Residence.

**Amanda Elam** is President of Galaxy Diagnostics, Inc., a diagnostics company spun out from North Carolina State University. She holds a Ph.D. in sociology from the University of North Carolina at Chapel Hill. Her research to date has involved the application of sociological theories of social structure and societal change to multilevel, cross-national analyses of patterns of gender and entrepreneurship and to gendered patterns of work and social networks. Prior to her current engagement, she spent two years researching gender and entrepreneurship at two leading management schools in the field of entrepreneurship research at Education, the Queensland University of Technology in Brisbane, Australia and Babson College in Wellesley, Massachusetts. She recently published her dissertation research – a cross-national study of gender and entrepreneurship – with Edward Elgar Publishing. This research was recognized by the Academy of Management’s Entrepreneurship Division as one of the top dissertation projects completed in 2006.

**Majbritt Rostgaard Evald** received her Ph.D. from the Faculty of Social Sciences, University of Southern Denmark in 2005. Since 2006, she has been Assistant Professor at the Department of Entrepreneurship and Relationship Management, University of Southern Denmark. Her research is mainly focused on corporate entrepreneurship with particular interest in intrapreneurs’ networks, private incubator systems and various types of growth ventures located within or outside the incumbent firm. She has published articles in the field of entrepreneurship in journals such as
the *Journal of Enterprising Culture* and the *International Entrepreneurship and Management Journal*. She has also written and edited books.

**Alain Fayolle** is Professor and Director of the Entrepreneurship Research Centre at EMLYON Business School (France). He is also Visiting Professor at Solvay Brussels School of Economics and Management (Belgium). His current research works focus on the dynamics of entrepreneurial processes, the influences of cultural factors on organizations’ entrepreneurial orientation and the evaluation of entrepreneurship education. His books include *Entrepreneurship and New Value Creation: The Dynamic of the Entrepreneurial Process* (Cambridge University Press, 2007) and *The Dynamics between Entrepreneurship, Environment and Education* (Edward Elgar, 2008). His published research from 2009 appeared in *Academy of Management Learning & Education, Entrepreneurship and Regional Development, International Journal of Entrepreneurship and Innovation* and *Frontiers of Entrepreneurship Research*.

**William B. Gartner** holds the position of Arthur M. Spiro Professor of Entrepreneurship at Clemson University. Prior to Clemson he was at the University of Virginia, Georgetown University, San Francisco State University and the University of Southern California. He is the 2005 winner of the FSF-NUTEK Award for outstanding contributions to entrepreneurship and small business research. Besides his scholarship on entrepreneurial behaviour using the Panel Study of Entrepreneurial Dynamics (PSED), his research on entrepreneurial narrative explores: (a) the kinds of stories that entrepreneurs tell about their business development efforts, (b) the ways that stories are used to raise financing and generate support to transform ideas into ongoing businesses, and (c) insights that can be ascertained through new methods in evaluating entrepreneurial narrative. In January 2009, his entrepreneurship and small business management textbook *Enterprise* was published by Cengage.

**Scott Gordon** is a doctoral researcher with the Australian Centre for Entrepreneurship Research (ACE), at the Queensland University of Technology, Australia. His research examines the processes that enable entrepreneurial emergence. To this end he is currently applying socio-cognitive and behavioural approaches to understanding nascent entrepreneurial action, with a particular focus on the influence of prior experience. Entrepreneurship research is his second career. Originally trained as an electronics engineer, he spent a decade in scientific research with CSIRO.

**Patricia G. Greene** is the F.W. Olin Distinguished Chair in Entrepreneurship at Babson College, where she formerly served as Provost (2006–08) and Dean of the Undergraduate School (2003–06). Prior to joining Babson
she held the Ewing Marion Kauffman/Missouri Chair in Entrepreneurial Leadership at the University of Missouri-Kansas City (1998–2003) and the New Jersey Chair of Small Business and Entrepreneurship at Rutgers University (1996–98). Her research focuses on the identification, acquisition and combination of entrepreneurial resources, particularly by women and minority entrepreneurs. She is a founding member of the Diana Project, a research group focusing on women and the venture capital industry. In 2007 the Diana Project was awarded the SFS-NUTEK Award, given to recognize those who produce scientific work of outstanding quality and importance related to entrepreneurship.

**Gary Hancock** is Lecturer and Undergraduate Programme Coordinator for the Entrepreneurship, Commercialisation and Innovation Centre at the University of Adelaide. He has taught and developed courses in the areas of small business management, business start-up, consulting and entrepreneurship. His experience includes working in a large organization in both technical and senior management roles. He has spent over 16 years starting, operating and harvesting growth-oriented ventures in franchise and non-franchise environments. He provides volunteer mentor support and advice to young entrepreneurs via the South Australian Young Entrepreneur Scheme (SAYES). He is the President of a local not-for-profit education organization (WEA-SA). He is carrying out Ph.D. research in the field of early-stage business financing, investigating behaviour and motivation of investors and entrepreneurs who are friends or family.

**Kevin Hindle** is the foundation Research Director of the Centre for Entrepreneurship, Innovation and Community at Deakin University, Australia. His credentials include winning the highest award for entrepreneurial education in both Australia (Entrepreneurship Educator of the Year) and the United States (the Academy of Management Award for Innovative Pedagogy). He has over 80 peer-reviewed publications and global experience in teaching, research, management consulting and private equity investment. His research agenda focuses on understanding the role that contextual and community factors play in the entrepreneurial process. His mission is to apply the knowledge gained from rigorous research to the enhancement of entrepreneurial capacity: the ability to turn new knowledge into new value, for defined stakeholders. His scholarship and consulting embrace theory development, venture evaluation, entrepreneurial business planning, change management, organizational design, corporate strategy and management training. He is a pioneer in the field of Indigenous entrepreneurship. On an international scale, he has initiated and developed a wide range of new ventures, innovative teaching
programmes and insightful, applied research. The unifying theme of all his work is to develop and execute constructive, internationally relevant research whose findings can be used to enhance the teaching and development of ethical entrepreneurs in Australia and the world.

**Miguel Imas** obtained his Ph.D. in social psychology at the London School of Economics and Political Science and is a Senior Lecturer at the Faculty of Business and Law, Kingston University. His research interest focuses on art, social creativity and innovation in alternative communities and organizations primarily located in the developing world.

**Jerome A. Katz** (Ph.D. Michigan) is the Coleman Chair in Entrepreneurship at Saint Louis University, and founding Director of the University’s Billiken Angel Network. He has been involved in entrepreneurial development efforts in Sweden, Italy, the West Bank, Croatia and Israel, as well as the USA. He publishes in the areas of organizational emergence, career models of entrepreneurship, and infrastructural analyses of the discipline of entrepreneurship. He is founding Editor of the Emerald series Advances in Entrepreneurship, Firm Emergence and Growth and co-author of the text *Entrepreneurial Small Business* (McGraw-Hill).

**Phillip H. Kim** is an Assistant Professor of Management and Human Resources at the University of Wisconsin-Madison’s School of Business. He earned his MA and Ph.D. in Sociology at the University of North Carolina at Chapel Hill and his BS (Economics) and BAS (Materials Sciences) at the University of Pennsylvania. His research bridges macro- and micro-level explanations of entrepreneurship along societal, institutional and political dimensions. Specifically, his research examines entrepreneurial team and social network configurations, entrepreneurship in highly regulated industries, and the political economy of entrepreneurship. He also investigates how occupational mobility shapes founders’ work experiences. His research has been published in the *Strategic Entrepreneurship Journal, Small Business Economics* and *American Behavioral Scientist*.

**Kim Klyver** received his Ph.D. in 2005. Subsequently he worked as a post-doctoral fellow at the Australian Graduate School of Entrepreneurship at Swinburne University of Technology from 2006 to 2007 and as a post-doctoral fellow at Stanford University in 2009 after being awarded the Scancor Postdoctoral Fellowship Award 2009. Currently, he works as a Professor at the University of Southern Denmark. He has been a member of the Global Entrepreneurship Monitor (GEM) project since 2000 and has been part of both the Australian national team and the Danish national team. He has more than 80 publications and has published
intensively in international peer-reviewed journals. He has won several awards for his research. His main interests are entrepreneurial networks, nascent entrepreneurship, women’s entrepreneurship, entrepreneurship policy, and consultancy of entrepreneurs.

Fredric Kropp is a Professor of Entrepreneurship, Creativity and Innovation at the Monterey Institute of International Studies, and an Adjunct Professor at the University of Adelaide. He received his doctorate in marketing from the University of Oregon. He also taught at Bond University, Australia, and the University of Oregon and in South Africa, Canada and Austria. He has conducted workshops and seminars in creativity and innovation in several countries. He has published over 100 articles, book chapters and conference proceedings in outlets such as the Journal of Advertising, the Journal of Business Research, the Journal of Consumer Psychology, International Marketing Review, Advances in Consumer Research and Advances in Entrepreneurship Research. He worked as a management consultant conducting futures-oriented and marketing studies for clients including Hewlett-Packard, Timex, General Electric, Dow Corning, the US Departments of Energy and Transportation, and the Federal Aviation Administration. He is currently a consultant for nascent entrepreneurs, established firms and non-profit organizations.

Hans Landström attained his Ph.D. in industrial management at Lund Institute of Technology, Sweden, at the end of the 1980s. Since 2001 he has held a Chair in Entrepreneurship at Lund University School of Economics and Management, Sweden. He is a founding member and member of the executive group of the Centre for Innovation, Research and Competence in the Learning Economy (CIRCLE), and also responsible for programmes and courses in entrepreneurship at Lund University. His research interest includes entrepreneurial finance, informal and institutional venture capital, entrepreneurial learning and teaching, and the doctrine history of entrepreneurship research. He has published in journals including the Journal of Business Venturing, Entrepreneurship and Regional Development, Venture Capital, Entrepreneurship Theory and Practice, Small Business Economics and the Journal of Small Business Management.

John Legge started tertiary-level teaching after 28 years’ experience in technology-oriented business, including four years as a corporate business strategist for a multinational computer firm. His business career included extensive periods in the UK and Australia, and involved technical and marketing assignments in nine other countries. Since 1988 he has concentrated on consulting, research, writing and teaching. Nine of his books have been published, and he has completed a number of significant research papers.
He was Lecturer in Innovation and Entrepreneurship at Swinburne University between 1991 and 1996 and taught at the Royal Melbourne Institute of Technology Graduate School of Engineering in 1997 and in the Graduate School of Management, La Trobe University, from 1999 to 2002. He is currently a Senior Teaching Fellow, Ballarat University, a Fellow of the Chifley Business School, and a Teaching Fellow, Swinburne University of Technology, where he convenes the subject ‘Growth Venture Evaluation’ in the Australian Graduate School of Entrepreneurship. He is the principal consultant in his family consulting business.

Benoit Leleux is the Stephan Schmidheiny Professor of Entrepreneurship and Finance at IMD in Lausanne (Switzerland). He was previously Visiting Professor of Entrepreneurship at INSEAD and Director of the 3i VentureLab and Associate Professor and Zubillaga Chair in Finance and Entrepreneurship at Babson College, Wellesley, MA (USA) from 1994 to 1999. He obtained his Ph.D. at INSEAD, specializing in corporate finance and venture capital. He is the author of Investing Private Capital in Emerging and Frontier Market SMEs (IFC, 2009), Nurturing Science-Based Startups: An International Case Perspective (Springer Verlag, 2008), From Microfinance to Small Business Finance (Palgrave Macmillan, 2007), and A European Casebook on Entrepreneurship and New Ventures (Prentice Hall, 1996). He earned an M.Sc. in agricultural engineering, an M.Ed. in natural sciences from the Catholic University of Louvain (Belgium) and an MBA from Virginia Tech (USA).

Jonathan Levine is a Reader in the Hunter Centre for Entrepreneurship at the University of Strathclyde, Glasgow, UK, where he was Director from 2000 to 2005. He has held research and teaching posts at the London Business School, Babson College, INSEAD, and University College, Cork, Ireland. He is a visiting member of the teaching faculty of Audencia School of Management, Nantes, France. He has been researching and teaching entrepreneurship for over 25 years and has managed both new and growing firms. His current research interests include entrepreneurship and institutions, entrepreneurial management and performance, and strategic value creation and exit. He is an elected board member of the Global Entrepreneurship Research Association, and he leads the Global Entrepreneurship Monitor UK team with Professor Mark Hart. He holds a Ph.D. from London Business School and a B.Sc. and M.Sc. from the National University of Ireland.

Noel J. Lindsay dropped out of school at 16 to start his first business, which initially succeeded but then failed. Learning from this failure prompted him to complete his high school education and enter university.
After completing his Ph.D. in commerce at the University of Queensland, he co-founded and developed successful businesses in Australia, South Africa and Malaysia. He also worked in corporate insolvency and then private equity as a director of a successful venture capital firm that invested $1 million to $3 million in growth-oriented entrepreneurial ventures. As Professor of Entrepreneurship and Commercialisation and Director of the Entrepreneurship, Commercialisation and Innovation Centre at the University of Adelaide, he leads a team that undertakes research and teaches in the areas of entrepreneurship, innovation, technology commercialization and project management. He is a Fellow of, and holds a practising certificate with, CPA Australia and is an Affiliate of the Institute of Chartered Accountants in Australia.

Matjaž Mulec retired from the University of Maribor, Faculty of Economics and Business, as Professor Emeritus of Systems and Innovation Theory. He has over 1400 publications in over 40 countries. He was a visiting professor abroad for 15 semesters. He is the author of the Dialectical Systems Theory and Innovative Business Paradigm for catching-up countries. He is a member of the New York Academy of Sciences (1996), the European Academy of Sciences and Arts, Salzburg, and the European Academy of Sciences and Humanities, Paris, and president of the International Federation for Systems Research (IFSR). He has an MA in development economics and doctorates in systems theory and management.

Miroslav Rebernik, Ph.D. is Professor of Business Economics and Entrepreneurship, Head of the Department for Entrepreneurship and Business Economics, and Director of the Institute for Entrepreneurship and Small Business Management at the Faculty of Economics and Business, University of Maribor, Slovenia. His bibliography contains over 600 bibliographic units. Currently he leads the Global Entrepreneurship Monitor research for Slovenia. Since 1999 he has run the research project Slovenian Entrepreneurship Observatory and since 2004 the research programme Entrepreneurship for Innovative Society. He chairs the International Conference on Innovation and Entrepreneurship PODIM, co-chairs the International Conference STIQE, and runs and/or cooperates in national and international projects. He is country vice-president of the European Council for Small Business and Entrepreneurship, a member of the ECSB Board of Directors, and a member of the Working Group on Policy-Relevant Research on Entrepreneurship and SMEs organized by the European Commission. He is engaged in the editorial and reviewers’ boards of the refereed journals Naše gospodarstvo, Business & Economics Review, Journal of Small Business Management and International Journal of Entrepreneurial Venturing.
Dhafer Al-Shanfari is a Lecturer in the College of Commerce and Economics at Sultan Qaboos University, Sultanate of Oman and is the first Omani academic to specialize in entrepreneurship. In Oman, he is engaged in a range of academic and commercial projects. Beyond academia, he is a practising entrepreneur and an equity investor in local ventures. He is currently completing a doctoral candidature in the Centre for Entrepreneurship, Innovation and Community at Deakin University, Australia. His dissertation involves development of a framework for understanding the influence of the national environment pertaining in developing countries upon the successful generation of high-potential entrepreneurial ventures and the design of policies to enhance that environment. His wider research agenda embraces high-potential new venture creation, the entrepreneurial process in developing country environments and entrepreneurship policy. His principal goal as scholar and educator is to establish programmes of rigorous entrepreneurship research in his country, Oman.

David Smallbone is Professor of Small Business and Entrepreneurship and Associate Director of the Small Business Research Centre at Kingston University in the UK and Visiting Professor in Entrepreneurship at the China University of Geosciences in Wuhan, China. David is a Past President of the European Council for Small Business and Entrepreneurship (ECSB) and President Elect of the International Council for Small Business and Entrepreneurship (ICSB). He has published widely on topics that include high-growth SMEs, enterprise development in rural areas, innovation and innovation policy, internationalization and SME development, entrepreneurship and SME policy, immigrant and ethnic minority enterprise, and entrepreneurship and SME development in transition economies. David has recent experience of empirically based entrepreneurship projects in China, as well as in a variety of former Soviet republics and post-socialist economies in Central and Eastern Europe.

Paul Steffens is Associate Professor and Deputy Director of the Australian Centre for Entrepreneurship Research (ACE), Faculty of Business at Queensland University of Technology (QUT), Australia. He has also held positions at the University of Queensland, Monash University, Penn State University and the University of Kiel. Based on his research he has published over 50 works on various entrepreneurship- and innovation-related topics, including articles in leading entrepreneurship journals. He serves on the editorial board for the Journal of Business Venturing. He has been a chief investigator for several major research programmes, including the current Comprehensive Australian Study on Entrepreneurial Emergence (CAUSEE).
Jon Sundbo is a Professor in Business Administration and Innovation at Roskilde University, Denmark. He has throughout his whole career been doing research in innovation and entrepreneurship and has published articles and books (including *The Theory of Innovation* and *The Strategic Management of Innovation*) about these topics. He has particularly studied innovation and entrepreneurship in services and the experience economy. He is Director of the Innovation Research Group at the Department of Communication, Business and Information Technologies, Centre of Service Studies and Centre of Experience Research at Roskilde University. He is co-director of the university’s unit for practical entrepreneurship and relations between firms and the university (RUCinnovation). He has developed courses and taught innovation and entrepreneurship at Roskilde University and other universities. He has been director of the Roskilde Ph.D. programme in business and innovation and a member of the board of the Danish Doctoral Programme in Organization and Management.

Siri Terjesen is an Assistant Professor of Management and Entrepreneurship in the Kelley School of Business at Indiana University, USA and a visiting research scholar at the Max Planck Institute of Economics Group for Entrepreneurship, Growth and Public Policy in Jena, Germany. Her main research interests include international entrepreneurship, strategy and female entrepreneurship. She is a member of the Global Entrepreneurship Monitor team and co-leads the Social Entrepreneurship Study. She is the co-author of *Strategic Management: Logic and Action* (Wiley, 2008) and has also published numerous articles in leading journals. She holds a Ph.D. from Cranfield University, a Master’s degree from the Norwegian School of Economics and Business Administration and a Bachelor’s degree from the University of Richmond.

Erno T. Tornikoski has been Dean of the Faculty at the Saint-Etienne School of Management (SESOM) since September 2009. Before joining SESOM, he was an Associate Professor in Entrepreneurship at EMLYON Business School, Principal Lecturer in Entrepreneurship at Seinäjoki University of Applied Sciences, and Research Fellow at ESSEC New Business Centre. He was one of the founders of the entrepreneurship research team in Seinäjoki, and the Centre for Research in New Venture Creation and Growth at EMLYON Business School. His research interests are related to the role of personal networks and legitimacy in organizational emergence, the development of entrepreneurial intentions among the general population, and new venture growth. His published research has appeared in the *Journal of Business Venturing*, the *International Journal of Entrepreneurship and Small Business* and the *International Entrepreneurship and Management Journal*. 
Friederike Welter is Professor at Jönköping International Business School (JIBS) in Sweden and Visiting Professor at the Small Business Research Centre at Kingston University in the UK. In 2005, she was awarded the TeliaSonera Professorship of Entrepreneurship at the Stockholm School of Economics in Riga, Latvia for her research on entrepreneurship in a transition context. She is also Past President of the European Council for Small Business and Entrepreneurship (ECSB). Her main research interests are related to entrepreneurship and small business development and entrepreneurial behaviour in different regional contexts, women's entrepreneurship and support policies, on which topics she has published widely. She is on the review board of several international academic journals and is Associate Editor of Entrepreneurship Theory and Practice.
1 New venture creation research: from established perspectives to new horizons

Kevin Hindle and Kim Klyver

THE PHILOSOPHY AND DESIGN OF THE COLLECTION

It is the principal aim of this handbook on new venture creation (NVC) research to contribute to the greater unification of our knowledge through presentation of a diverse range of scholarship on various aspects of the topic. This is not a paradox. Greater unity can only be achieved by canvassing a broad range of perspectives and interests within the field and searching for the common ground. The chapters in this collection are, principally, forward-looking works of critique. In soliciting contributions for this volume we did not seek papers that fitted the traditional moulds of either empirically or conceptually oriented studies. Instead, when we issued our call for papers, we stressed that the mission of the book was that of critical commentary. We sought work that would focus on important aspects of new venture creation research and critically discuss, explore, criticize and suggest improvements to the field in that focal area. A reader of this book and any individual chapter within it should obtain a strong sense of both the ‘state of the art’ (what has and has not been done in the field of new venture creation research) and the ‘state of what could and should be’ (future directions the field should take to improve knowledge and address urgent issues). We provided an opportunity for experienced new venture researchers to tell the world not only where the field has been, but where it should be going. Their responses have provided an insightful and stimulating collection of essays which will, we hope, be of great practical value to researchers working in this vital and rapidly expanding field.

It is important to point out that, as editors, we do not equate the term ‘new venture creation’ with the whole field of entrepreneurship. We regard it as a distinct subcategory of the wider entrepreneurship literature. We have not forced this view on any of the contributors to this volume but we did ask every author or authorial team, should they so wish, to provide a short explanation, for the benefit of readers of the handbook, of the distinction (if any) which they believe exists between entrepreneurship and new venture creation. These authorial views are provided as the
Appendix, where it can be seen that most authors share our perspective. Without restricting diverse views or putting words in our authors’ mouths, this handbook, in common with Hindle and Al-Shanfari in Chapter 2, is happy to adopt the Carter et al. (1996, p. 52) definition of new venture creation, which is: ‘organization creation involves those events before an organization becomes an organization, that is, organization creation involves those factors that lead to and influence the process of starting a business’. The word ‘creation’ is important. The focus in this handbook is relentlessly upon new business creation rather than existing ventures. This is the case even, for chapters that may seem to depart from this emphasis. For instance, Jonathan Levie, Gavin Don and Benoît Leleux’s chapter on exploding business failure myths would seem, superficially, to be about businesses at the end of their life-cycle rather than the beginning. However, in the seed lies the tree. Fear of failure is a major deterrent to the birth of new ventures. So the dispelling of false myths about failure rates is of fundamental importance to understanding the rationale behind business births and the confidence of their creators.

We have organized the collection under four main headings:

- setting the agenda;
- theoretical perspectives;
- data and measurement;
- NVC through contextual lenses.

SETTING THE AGENDA

To open the collection, Kevin Hindle and Dhaifar Al-Shanfari offer an analytical investigation of the new venture creation literature with the aim of providing a comprehensive and parsimonious picture of the themes that literature contains. They attempt to ‘map the landscape’ of new venture creation research beginning with a succinct visit to the wider literature to try to tease out some key issues and themes in the ‘parent’ field of entrepreneurship and its ‘child’, new venture creation. They summarize some key definitional issues, clarify what is meant by and covered by the term ‘new venture creation’ and highlight some of the controversies, perspectives and problems associated with the conceptualization and classification of new ventures before exploring and evaluating several extant approaches to the conduct of entrepreneurship research as they affect new venture creation. They conclude by articulating the landscape of new venture creation research as it stands prior to the publication of the essays presented in this book. They produce a ‘new venture creation research theme map’ which
encapsulates an overview of the NVC literature that may be helpful to researchers who wish to position specific future work in the context of the general development of the field to date.

Complementing the analytical approach of Hindle and Al-Shanfari is the historical emphasis presented in Hans Landström and Fredrik Åström’s ‘Who’s asking the right question? Patterns and diversity in the literature of new venture creation’. Highlighting the pioneering works of William B. Gartner, Landström and Åström place the research on new venture creation into the historical context of entrepreneurship research in general. Analysis and discussion are based principally on a set of bibliometric analyses using the Social Sciences Citation Index (SSCI) for refereed publications on entrepreneurship and new venture creation published between 1956 and 2007. Surprisingly, the results indicate that venture creation can be characterized as a rather small area within the field of entrepreneurship research. At the same time, many different conversations are going on within the area, using different concepts in order to understand the various phenomena associated with venture creation. Over time, the research has been changeable and dynamic in terms of focal research topics. Despite this variety, however, the research on new venture creation appears to demonstrate a relatively clear distinction into two broad knowledge bases distinguished by whether the focus is on the micro or macro level of analysis.

We are always at risk of thinking that new scholarship replaces old rather than builds upon it. In his ‘Re-imagining The Achieving Society’ William B. Gartner demonstrates why it is that he will always hold the prominent and honoured place accorded to him not only by Landström and Åström but by everyone who cares and thinks deeply about entrepreneurship research and respects its heritage. Gartner is the scholar who was and remains at the forefront of the challenge to what many regard as the old and discredited approach of seeking understanding about entrepreneurship and new venture creation in the traits and characteristics of the individual entrepreneur. Didn’t we throw that ‘wrong’ idea out long ago? Well, no. Gartner’s (1988) ground-breaking article entitled ‘Who is an entrepreneur? is the wrong question’ was a direct challenge by a young scholar to the overly dominant and under-challenged preeminence of a renowned sage: David McClelland. Yet here, in his chapter for this handbook, Gartner demonstrates his breadth and openness of mind and generosity of spirit by revisiting and exploring McClelland’s 1961 book The Achieving Society in search of wisdom he may have missed in his earlier critique. His exploration reveals that McClelland’s ‘need for achievement’ might be seen as an act of the imagination. In his insightful re-reading of McClelland’s classic work, Gartner discovers that ‘need for achievement’
is less a characteristic or trait of individuals and more of a ‘sensibility’ about one’s future. Gartner focuses on portions of The Achieving Society to develop the intriguing perspective that ‘need for achievement’ is an attribution that individuals make about how they might imagine themselves. ‘Need for achievement’ is, therefore, seen as a prospective (and, more specifically, an ‘apperceptive’) characteristic of an individual’s view of themself. The chapter ends with some suggestions for how a reading of ‘need for achievement’ as an act of the imagination might impact both theory and practice in entrepreneurship.

Readers are bound to leave this chapter with a greater sensitivity to the fact that outstanding works of scholarship are historical as well as scientific artefacts. They always repay revisiting. Our understanding of new venture creation should be both cumulative and fluid. The first task of the Handbook of Research on New Venture Creation is to say ‘Handle with care.’ The best challenges to established ideas come from those with the deepest respect for the thinking that created them.

THEORETICAL PERSPECTIVES

In ‘Gender and new venture creation’, Siri Terjesen, Amanda Elam and Candida G. Brush provide an overview of the state of the field with respect to female entrepreneurship research, including extant literature reviews on female entrepreneurship and an assessment of progress. They replicate Brush’s (1992) review of entrepreneurship research, using an updated set of articles published from 1993 to 2008. They examine classification type, stated theory base, methodology, and statistical analysis techniques and conclude with suggestions for promising directions for the future, including new theories, new data, new methodologies and a focus on pragmatic issues.

In ‘Transgressive knowledge creation in entrepreneurship’, Deborah Blackman and Miguel Imas suggest alternative ways of addressing questions which can engender more imaginative interpretations about researching new venture creation. Discussion focuses not upon what entrepreneurship and new venture creation are or are not but upon how knowledge is created. They show how dialogue utilized to generate interpretations of actions and behaviours may limit the potential for alternative explanations. The authors posit that the concept of transgression could be adopted to break many currently accepted boundaries and mental models found within venture creation research. Different epistemological foundations are considered to explore how they might lead to changed outcomes in research and how different methodologies will favour some venture
creation forms and not others. The authors challenge NVC researchers to construct new venture creation research under a dynamic dialogical understanding of knowledge creation. This approach, they argue, will allow for ‘unique’ configurations that cannot be explained in terms of predictable, replicable, mechanical, a-contextual processes. New venture creation can only be understood as a process of creation within the context of encompassing events. The authors conclude by proposing an increased focus upon social constructivism, postmodernism and complexity theory, combined with a greater awareness of scepticism and pragmatism and the importance of ‘wholes’. These are themes that resonate strongly with subsequent authors – particularly Mulej and Rebernik. Many entrepreneurship scholars and new venture creation researchers are massively overconditioned and have become creatures of research habit. Whether we agree with some of their more radical prescriptions or not, Blackman and Imas alert us to the dangers of treading only where we have gone before and the exciting potentials of paths not yet explored.

In his chapter, John Legge asks the question ‘What does the economic literature contribute to understanding new venture creation?’ He concludes that the mainstream economics literature has relatively little to say about new venture formation, and what it does say has little resonance with reality as experienced by entrepreneurs and those who study the entrepreneurial process. While some economics writing touches on isolated aspects of the new venture creation process, none that he has discovered attempts comprehensive coverage of all the critical aspects. He goes on to show that it is possible to construct an economically stylized new venture creation process.

Matjaž Mulej and Miroslav Rebernik offer a refreshing and challenging approach to the way we might think about new venture creation, ‘Modelling the innovative new venturing process in terms of dialectical systemic thinking’. They argue that creating a new venture can be considered a type of the invention–innovation–diffusion process resulting in innovation, if it transforms an invention into a new benefit for its users, authors and owners. New ventures succeed in a similarly small percentage as other innovative attempts do. Mulej and Rebernik explain the challenging concept of ‘requisite holism’. Derived from systems thinking, it is the idea that a holistic approach to new venturing (or, indeed, any activity) need not be so overwhelming a task as to become impossible for all practical purposes. It is possible to embrace the spirit of realistic holism rather than debilitating reductionism through the notion of what is ‘requisite’ for a given problem. One does not and could never consider everything that acts on a situation, but one can and ought to address a wide range of issues that are demonstrably germane – and not just assume away complexity
by considering only an artificially reduced set of variables. Mulej and Rebernik argue that requisite holistic behaviour can provide a better basis for new venture success than the one-sidedness of specialists, who are inflexible and too narrow to succeed without interdisciplinary creative cooperation. Of course, this capability is difficult for many specialists to attain. While other variants of systems theory are helpful about other problems, Mulej and Rebernik argue that Mulej’s Dialectical Systems Theory has, in 35 years of development and application, proved to offer a helpful conceptual and practical approach to modelling the innovative new venturing process and a potent antidote to the poison of taking too narrow an approach to such a complex activity.

In their chapter ‘Social networks and new venture creation: the dark side of networks’, Kim Klyver, Majbritt Rostgaard Evald and Kevin Hindle are trying to re-direct future research on entrepreneurial networks to include not only the positive and optimistic perspective on how social networks enhance new venture creation but also the constraining mechanisms that social networks may impose. Based on a critical review of prior studies on entrepreneurial networks, they attack many assumptions previously taken for granted and develop four new propositions that they argue should be the baseline for future research on entrepreneurial networks: 1) individuals are not only purposeful actors; 2) part of the network is derived from the past; 3) relationships are diffuse; and 4) different spheres in life are mixed together.

Alain Fayolle, Olivier Basso and Erno T. Tornikoski’s ‘Entrepreneurial commitment and new venture creation: a conceptual exploration’ constitutes a significant introduction to better understanding of the phenomenon of commitment to the new venture creation process. They review the principal psycho-social theories of commitment, starting with an analysis of the concepts and theories developed in the fields of both social and cognitive psychology. They then examine the notion of commitment within the field of entrepreneurship by analysing the most prominent works devoted to the subject and scrutinizing two empirical cases. They employ psycho-social approaches to analyse the cases and, through the light of their findings, propose two perspectives to better understand the formation and persistence of entrepreneurial commitment before presenting the initial elements of a potential model of the phenomenon.

DATA AND MEASUREMENT

Phillip H. Kim and Howard E. Aldrich’s chapter, ‘Are we there yet? Measurement challenges in studying new ventures’, directly confronts
the difficulties scholars face when they attempt to accurately explain and measure new venture outcomes. Given the non-linear and multi-dimensional aspects of organizing new ventures, this is not surprising. And yet new venture research often uses single indicators or relies on founders’ perceptions regarding their status. Because theoretical explanations suggest that venture creation is a process, Kim and Aldrich propose that future research should strive to integrate multi-dimensional measurement models that reflect the complexity of the founding process. They show that such models would enable scholars to move beyond linear-based founding explanations and accommodate learning and other feedback mechanisms.

In an important challenge to broadly and wrongly held received wisdom, Jonathan Levie, Gavin Don and Benoît Leleux review the literature on perceptions and measures of new business mortality, and note wide and persistent gaps between perceptions and measures. Official statistics suggest that survival rates of new businesses in advanced economies tend to be around 80 per cent after one year and around 50 per cent after five years. Failure rates appear to be around half to a third of the inverse of the survival rate, depending on how failure is defined. A survey of estimates on the world wide web found the most quoted failure rate was 50 per cent after one year. Explanations for this gap between perception and official statistics include the way firm births are measured, vested interests, and misleading referencing. Using the UK as an example, Levie, Don and Leleux estimate that nascent entrepreneurship rates could be increased by a third if people knew the true failure rate for new businesses.

Per Davidsson, Paul Steffens and Scott Gordon’s chapter ‘Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE): design, data collection and descriptive results’ is a detailed description of an ongoing research programme aiming to uncover factors that initiate, hinder and facilitate the process of emergence of new economic activities and organizations. CAUSEE is a longitudinal panel study of new economic activities that follows the design logic developed in the programme Panel Studies of Entrepreneurial Dynamics (PSED). In this chapter, the authors explain carefully how CAUSEE distinguishes itself from forerunners such as the PSED, before they elaborate on the research design and the data collection regime and present some interesting descriptive results.

NVC THROUGH CONTEXTUAL LENSES

Addressing the importance of context to entrepreneurial process stressed in previous chapters by Blackman and Imas and by Mulej and Rebernik, the concluding group of chapters explores aspects of the contextual
dependency of new venture creation. Our authors demonstrate that new venture creation involves different meanings and values to people embedded in different contexts and plays different roles dependent upon these contexts.

In ‘Cultural context as a moderator of private entrepreneurship investment behavior’ Fredric Kropp, Noel J. Lindsay and Gary Hancock examine the effects of national culture on the investment decisions of three different groups of private equity investors: venture capitalists (VCs), business angels (BAs) and relation-based investors (friends and families). They argue that national culture will influence the decision to invest in entrepreneurial business ventures in different ways for each of the three private equity investor groups. VCs are professional investors and have a professional culture that transcends and minimizes some of the differences in national culture. In contrast, relation-based investors, many of whom invest altruistically on an ad hoc basis in family or friends’ businesses, are most affected by national culture. The investment decision for friends and family is a function of the strength and distance of the relationship, perceived needs and alternatives for the entrepreneur, and a sense of obligation. The authors propose that the effects of national culture on business advisers’ investor decision making will lie somewhere between VC and relation-based investor decision making depending on the business advisers’ investment experience levels.

Malin Brännback, Alan L. Carsrud and Jerome A. Katz investigate ‘Perceptual differences and perceptual problems in providing government support for new venture creation’. Government economic development programmes making investments in existing or potential businesses face several problems. This chapter addresses the perceptions of entrepreneurship by various players in society and discusses a particular problem – when public policies are based on bureaucratic perceptions very different from and in potential conflict with those of the entrepreneur. The problem is explained using three factors: prospect theory driven political needs, investment timing decisions, and perceptual differences between entrepreneurs and policy makers. Examples are drawn from several famous instances of economic development decision making in Finland and the United States. Based on this analysis, the authors provide suggestions on how to improve future economic decision-making efforts that affect entrepreneurs.

In ‘Entrepreneurship education and new venture creation: a comprehensive approach’, Torben Bager elaborates on the role of university education for new venture creation. University education in entrepreneurship and new venture creation is increasingly seen as a foundation for more knowledge-intensive start-ups and more high-end innovation in existing
firms. Although this is a dominant line of thinking among policy makers, it is generally not embraced by educators and educational institutions and often meets substantial resistance. Some of the resistance arises from difficulties in aligning these practical teaching approaches promoted by policy makers with fundamental university principles and the way academia understands itself. Bager elaborates on the components of comprehensive entrepreneurship education at university level as a means of paving the way toward ‘the entrepreneurial university’.

Adopting an administrator’s perspective, Patricia G. Greene provides deep-seated insight into ‘Managing NVC research in institutional context: an academic administrator’s perspective’. She uses the context of Babson College to explore institutional connections between new venture creation research and teaching by providing a review of Babson’s history and programmes, a short consideration of the growth and scope of the field of entrepreneurship and the context of the educational system. She applies Béchard and Grégoire’s pedagogical innovation framework to explore the teaching model, considering both the ontological assumptions supporting Babson’s work in entrepreneurship and the operational elements which characterize the school. Research is explored from the perspective of both relevance and rigour, and the blend of teaching and research is presented as a pedagogical innovation. The chapter concludes with a summary of lessons learned relating to research on new venture creation, specifically those concerning faculty recruitment and the balance between theory and practice.

In ‘Creative artists and entrepreneurship’ Jon Sundbo poses two principal questions: What is artistic entrepreneurship? Which specific problems are associated with artistic entrepreneurship? He concludes that artistic creativity is a good precondition for entrepreneurship understood as new venture creation; however, it is not sufficient. Artistic creativity and entrepreneurship are not the same phenomenon. Exploiting the entrepreneurship potential latent in artistic endeavour may require an effort in which the often solitary artist has to engage in plural activities, with a wide range of other people offering a wide variety of supporting roles. In particular, an artist of today could benefit from association with a ‘modern Maecenas’ capable of providing patronage or from ‘arts incubators’. Many artists demonstrate a range of entrepreneurial potentials, particularly marketing possibilities that may arise via exposure of interesting aspects of their personality. Artistic entrepreneurs face some highly particular problems centred on the difficulty of procuring the finances for business projects and severe impediments to the growth of their enterprise. So they can definitely benefit professionally from courses aimed at teaching them ‘artistic entrepreneurship’.
In the book’s concluding chapter Friederike Welter and David Smallbone explore the distinctive features of post-Soviet entrepreneurship, associated with the historical legacy inherited by entrepreneurs in the post-socialist period and the transformation path followed by countries which until less than 20 years ago were operating under socialism and the rules of central planning. While sharing many common features with venture creation imperatives in other environments, post-socialist countries exhibit some key differences. These arise from the precise nature and impact of the historical legacy, as well as the economic and institutional development path followed during the transformation period. Such differences give rise to many implications concerning the nature of entrepreneurship in a post-socialist context. A key theme emerging from Welter and Smallbone’s examination concerns the institutional embeddedness of post-socialist entrepreneurship. This refers to the embeddedness of entrepreneurship in legal and regulatory contexts as well as in society and is reflected by the impact of socialist legacy and societal attitudes toward entrepreneurship on entrepreneurial behaviour during transition.

**IS THERE A SYNTHESIS? DO WE NEED ONE?**

The chapters in this book demonstrate that new venture creation research currently embraces a wide range of disciplines, perspectives and methodological approaches. This handbook leaves open the question of whether the field could benefit by a refined synthesis of approaches and methods or would be better left as an area characterized more by variety than conformity.

It was not our ambition as editors to promote any commonly agreed synthesis. We opened a forum where a wide diversity of approaches and opinions were encouraged to engage in a vigorously eclectic debate. This is very much in line with Gartner’s (2001) comparison of entrepreneurship research with the ‘blind man and the elephant’ story.

This handbook presents no solutions but it could well be a catalyst. We hope the challenging contributions presented between these covers will enhance readers’ interest in conducting original new venture creation research, in a manner that is fully alert to the stimulating possibilities of performing collaborative work with scholars who possess different theoretical perspectives, come from different disciplines and apply different methods. The horizon for future work is both wide and alluring.
REFERENCES


