Entrepreneurship Theory: Issues, Challenges, Debates

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Theorizing about entrepreneurship

► General issues and problems
► Some important theoretical contributions
► Relationship between theory and applied work
► Caveats
Issue #1: What exactly is entrepreneurship?

► A phenomenon
  - Self employment
  - Startups
  - Small-business management
  - New-product introduction
  - Analytical tools: “standard” economics, sociology, psychology, history

► A way of acting
  - Creativity, imagination, initiative
  - Innovativeness
  - Alertness to profit opportunities
  - Judgment under uncertainty
  - Analytical tools: “alternative” economics, sociology, psychology, history

► My secret desire: drop the e-word
Issue #2: “Theory” – varies by academic discipline

- **Neoclassical economics**
  - Labor-economics literature on occupational choice
  - Economics of innovation and technology
  - Economics of networks

- **Heterodox economics**
  - Behavioral economics models of biases and heuristics
  - Austrian perspectives on discovery and judgment

- **Sociology**
  - Social network theory
  - Identity

- **Psychology**
  - Entrepreneurial cognition

- **History, rhetoric**

- **Others?**

- **Multidisciplinary approaches**
  - Entrepreneurial orientation
  - Effectuation
  - Strategic entrepreneurship literature
  - Positioning issues?
Issue #3: Metholodogy

► The unit of analysis
  ▪ Individuals?
  ▪ Teams?
  ▪ Firms?
  ▪ Industries, economies, societies?
  ▪ Opportunities?
  ▪ Investments?
  ▪ Behaviors?

► Methodological individualism

► Causation

► Theory and practice

Figure 1: A General Model of Social Science Explanation

1. Individual action
2. Conditions of individual action
3. "micro"
4. "macro"

"Social facts" (e.g., institutions)
Some important theoretical contributions

- Schumpeter (1911): introducing exogenous change to Walrasian equilibrium
- Knight (1921): decomposing interest, wages, and profit; risk versus uncertainty
- Kirzner (1973): using alertness to explain market equilibration

(Note on instrumentalism)

- Kihlstrom and Laffont (1979): self-employment and risk aversion
- Baumol (1990): productive, unproductive, and destructive entrepreneurship
- Lumpkin and Dess (1996): entrepreneurial orientation
- Garud and Karnoe (2003): bricolage versus breakthrough
- Lazear (2004, 2005): balanced skills
- Alvarez and Barney (2007): discovery versus creation
Soapbox comments

► There is no “entrepreneurship theory.”
► Many theory papers try to do too much (the kitchen-sink model).
► We have few established criteria for choosing among rival theories.
► Good research can be phenomenon driven, not theory driven.