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Conceptualising the Entrepreneurial Process

**New Business Ventures (NBVs) as Activity Systems**

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## **Abstract**

The first objective in this paper is to review the work of authors who have linked organizational theory with entrepreneurship. Secondly, the intention is to explore the possibilities of utilising activity theory as a conceptual framework for the study of new venture creation. The model developed by Engeström (1999) has six interlinked factors: subject, object, community, mediating artefacts, organizational rules and divisions of labour and knowledge. Relationships between subject (the entrepreneur) and object (the new business venture) are mediated through what Vikkunen (1996) describes as ‘culturally formed artefacts’ which include language, rules, division of labour and community. It is suggested that there is a direct link between ‘the entrepreneurial process’ and ‘expansive learning’ which is key to the effective enactment of new business ventures.

## **Keywords**

Activity theory, Entrepreneurship, Expansive Learning, Enactment, New business ventures

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## Introduction

Much of the extensive literature on small firms and entrepreneurship focuses on the key issue of business startup. According to Dun and Bradstreet data over 200,000 new businesses are founded every year in the UK alone. Approximately 66% of these businesses fail in the first three years which indicates a substantial amount of ‘churning’ in terms of firms entering and exiting the marketplace (Beaver, 2002). Given this level of activity, interest from policy-makers and politicians as well as academics is not surprising. According to Mazzarol *et al* (1999:50/1), literature on entrepreneurial ventures is dominated by two approaches. First, an emphasis on personal traits believed to distinguish entrepreneurs from non-entrepreneurs (Brockhaus, 1980; McClelland, 1961; Kickul and Gundry, 2002). The second approach focuses on environment factors such as social networks (Johannison, 1988; 2000; Leonard-Barton, 1984; Larson and Starr, 1983), the role of socio-political elites (Gartner, 1985), the education system (Bull and Winter, 1991), the locality and labour market ‘slackness’ (Birley, 1996; Birley and Westhead, 1993; Pennings, 1982), as well as technological innovation (Brunton and Rubanik, 2002; Markman *et al*, 2001).

While a wide range of authors have proposed frameworks for the process of new venture creation (Gartner, 1985; Greenberger and Sexton, 1988; Katz and Gartner, 1988; Vesper, 1990) there is little evidence to suggest a common pattern of events. Mazzarol *et al* (1999) point out that differences in testing procedures and sampling techniques mean that insight from this kind of research remains ‘fuzzy’. In addition, ‘virtually all previous studies focused on entrepreneurs actually working in new a business and have ignored persons who are still in the process of starting a new business’ (Mazzarol *et al*, 1999:48). The moment of organizational ‘birth’ challenges entrepreneurial theorists to ‘probe how and why’ organisations are created, enacted (Weick, 1979) or socially constructed (Berger and Luckman, 1966). It also means that any analysis has to be sensitive to how entrepreneurial behaviour differs from organisational behaviour (Gartner *et al*, 1992; Katz and Gartner, 1988) because shifting from nascent to existing organisation represents quantum rather than evolutionary change. One such analysis of the potentially distinct characteristics of new business ventures (NBVs) comes from Carter *et al* (1996) who, drawing on Weick’s (1979) theory of organizing, describe a process of organizational ‘enactment’ based on the generation of specific patterns of interlocking behaviours amongst individuals.

*‘In broad terms, a view of organization formation as “enactment” would*

*assume that entrepreneurs who were involved in behaviors that demonstrated to others that the emerging business was “real” would be more likely to create an organization’ (Carter et al, 1996:154).*

Enactment sets the understanding of entrepreneurial activities within a broad social, cultural and historical context in which ‘demonstrations’ take place. According to Virkkunen (1998:272) most attempts to theorise these activities are based on the assumption that entrepreneurs undertake a set of rational and repeatable activities. Yet in admitting that NBVs are a product of ‘enactment’ such a calculating, stable and repeatable set of ‘demonstrations’ suggests an impossible unity of actions.

Entrepreneurial theorists should make explicit knowledge that is constantly enacted in practice. This involves identifying how different entrepreneurs configure the inception of NBVs (as they vary from context to context) as well as arriving at a definition of entrepreneurship which both theorists and entrepreneurs recognize as accurate. This has both an empirical and a philosophical element; consideration of ways that agents ‘demonstrate’ entrepreneurship and ways in which they are conceptually shared. We suggest that this task is met by analysing NBV’s as ‘activity systems’ (McKelvey, 1980; Katz and Gartner, 1988). The philosophical core of this approach lies in the work of Marx (1964) in which he suggests that *activity* bridges the subject-object dualism (Engeström and Miettinen, 1999; Nicolini *et al*, 2003). More recently, activity theory has been adopted by academics interested in the study of organisational learning (Engeström, 1987; Blackler *et al*, 1999). Engeström contrasts traditional views in which knowledge is based on cognitive processes with approaches dependent on linguistic material and social resources. This means organizational analysis has to account for the ways different structural and mediating influences coincide within the evolution and dissolution of activities rather than the worldview of isolate subjects or the ‘deep’ orchestration of social laws. Moreover, we posit activity theory is particularly appropriate for studies of NBVs because learning is a *sine qua non* of such organisations. Entrepreneurs attempting to set-up new businesses must ‘talk and act “as if” equivocal events are non-equivocal’ (Gartner *et al*, 1992:17). In existing organisations, non-equivocal events are the routines and repertoires individuals undertake that have meaning for other organisational actors. Emergence is, in part, concerned with generating a set of interactions which are convincing for external actors including (potential) customers, suppliers and employees as well as resource providers such as bankers. As such, it is the activity of learning that constitutes a NBV which transforms its ‘as if’ reality into an experienced one.

We begin this paper by discussing activity theory and its relevance to nascent firms. We then set out our analytical framework for the study of NBVs by analysing how the six dimensions associated with activity theory can both conceptualize entrepreneurship and map its applications. In the penultimate section we summarise the discussion by linking knowledge acquisition in a NBV to what Engeström describes as ‘expansive learning’. One objective of the paper, following the pioneering work of Gartner *et al* (1992), is to encourage greater interchange between those studying entrepreneurship and the more mainstream organizational theory literature. In summary, we argue that disputes as to the nature of entrepreneurship can be dissolved using activity theory and that such an approach can assist in the identification of entrepreneurial experiences.

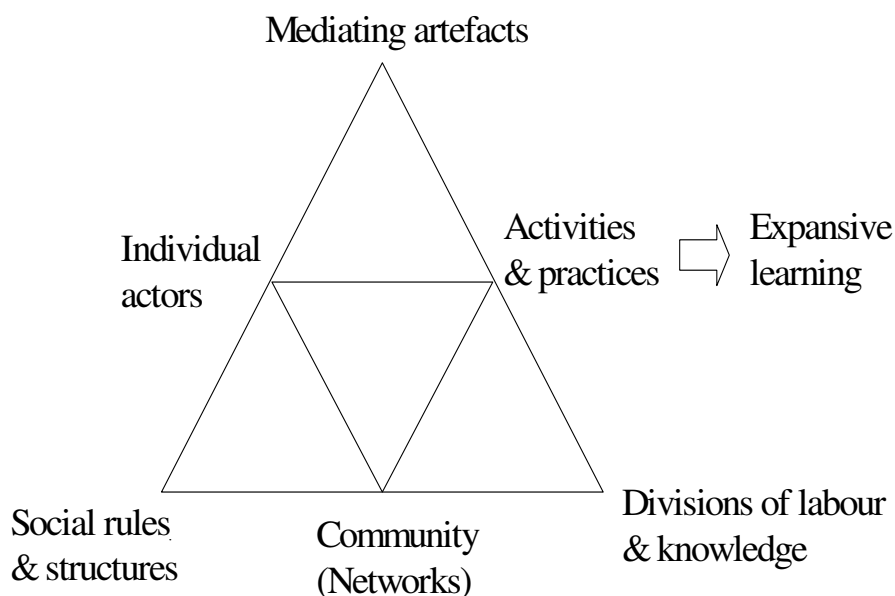
### **Activity Systems and Organisational Learning**

In recent years there has been a growth of interest in the application of activity theory to the study of organizations. The work of Blackler (1993; 1995) has been particularly important in demonstrating the value of activity theory for understanding organizational learning and knowing. To date, the focus of most theorising (and empirical studies) has been large organizations in both public and private sectors. Activity theory seems not to have been applied to nascent organizations which, given that entrepreneurial ventures are the archetypal ‘learning organizations’, seems a surprising omission. Following Engeström’s (2000a) insistence on using clear units of analysis we suggest NBVs should be accorded their own identity rather than being regarded as scaled-down large firms (Dandridge, 1979; Welsh and White, 1981). Smaller firms have many features that distinguish them from their larger counterparts: lack of formal structures, dominant role of owner-managers, absence of internal labour markets, greater environmental uncertainty, limited customer base, short time horizons and greater potential for innovation (Wynarczyk *et al.*, 1993). Independence and survival may also be a more important measure of success for owner-managers than growth in turnover or profit (Jennings and Beaver, 1997).

Utilising Vygotsky’s (1978) work on learning in social systems, Engeström (2000a) presents a framework for representing and analysing organizational activities that situates individuals in collective contexts where interaction is mediated through technology, language and symbolic artefacts (Figure 1). These collective contexts are structured through path dependencies (David, 1986) that create the divisions of labour, recipes, rules, procedures and routines that embody individual and collective knowledge. Blackler (1995) stresses the

collective, situated and tentative nature of ‘knowing and doing’ particularly where communities enact new conceptions of their activity (new business ventures). Interaction creates tensions and contradictions that are the source of innovation and knowledge creation as new conceptions of activity start a cycle of expansive learning (Engeström, 2000a). Consequently, as Gherardi (2000) comments, discursive practices are fundamental to practice-based theorizing that structures organizational activity. Knowing and ‘new’ knowledges are based on discourses which define the actions, rules and procedures of those participating in organizational communities. Thus, Engeström (2000b) argues that activity theory is useful for understanding the social construction of knowledge in organizations by focusing on the processes of developmental transformation triggered by disturbances that lead to innovative action.

**Figure 1 Modelling Activity Systems**



Within activity systems specific elements of knowledge and practices of ‘knowing’ are contested because identities, conceptions of activity and mediating artefacts are held in dynamic rather than static relations (Engeström, 1999: 380). The complexity and quality of knowledge relations are influenced by contradictions that exist both within the activity system (difficulties entrepreneurs have in sharing knowledge that restrict organizational growth) and between activity systems (such as supplementing internal knowledge by building links with external knowledge providers). Such contradictions and uncertainties can lead to a transformation of the firm if entrepreneurs are prepared to question existing artefacts and

prevailing conceptions of their activity. Here, change can occur from two perspectives: first, from that of the agent where ‘the objects of their activity are enacted and re-constituted in different forms and contents’ (Engeström, 1999: 381). Secondly, activity systems become increasingly interdependent as suppliers, customers and even competitors exchange knowledge. Operating in a steady state, entrepreneurs co-ordinate the application of existing knowledge within their particular activity system. Once contradictions are acknowledged, reconciled and internalised entrepreneurs may conceptualise their activity as the better application of linear problem-solving techniques, they may innovate by improving integration of knowledge, or they may innovate through collaboration and knowledge creation (Blackler, 1995). The latter initiates cycles of ‘expansive learning’ (Engeström, 2001) that occupy entrepreneurs in the self-productive creation and adoption of new conceptions of their activity (Blackler *et al.*, 1999; 2000).

### **New Business Ventures as Activity Systems**

Taking Low and Macmillan’s (1988:141) seminal definition of entrepreneurship as the ‘creation of a new venture’, there is an implicit recognition of its being a process which takes months or even years rather than its being an instantaneous event. This is reflected by the categorization of the entrepreneurial process (Stephenson and Sahlman, 1989) according to a number of distinct stages (Beaver, 2002:20):

1. developing idea or business concept;
2. establishing a market;
3. assessing the competition;
4. pre-start planning, preparation and assessment;
5. market entry (trial run or commercialisation);
6. post-entry development (refine and acquisition of resources).

In a similar vein, Deakins and Whittam (2000) posit a five stage model: idea formation, opportunity recognition, pre-start planning and preparation, entry and launch, post-entry development (in essence, Beaver’s points 2 and 3 are combined into ‘opportunity recognition’). By envisaging these ‘stages’ from an enactment perspective such sequential

models are based on the presumption that entrepreneurs behave in a predictable manner when starting businesses. In doing so, they impose a non-discursive schema on NBV analysis that is insensitive to the tensions and contradictions by which knowledge is acquired and utilised. 'Stage models' do not map dependencies so much as suggest a specific path is followed from business idea to market testing. Even a rudimentary analysis of entrepreneurship shows, for example, the ambition to 'make money' might precede any specific business idea or the identification of a market niche. Accepting the importance of modelling activity for any form of analysis to take place, we suggest the design of an NBV activity system exhibits certain components and relations without presupposing any specific path dependencies prevail in the enabling and constraining of 'knowing' (Figure 1). The six activity theory dimensions shown in Figure 1 (agent, object of activity, community, mediating artefacts, rules/norms and divisions of labour/knowledge) provide a suitable framework for analysing entrepreneurial activities within a historical and cultural context (Vikkunen, 1996). Rather than presupposing that specific directions or relational strengths pertain between the various dimensions emphasis is given to the activities themselves each of which is discussed below.

### *The Agent or Entrepreneur*

Although some NBVs are established by teams, generally individual entrepreneurs are the *subject* of study as they take responsibility for initiating new firms. Early entrepreneurship research was dominated by trait theory associated with risk-taking, achievement, autonomy, optimism and self-efficacy (Schumpeter 1934, McClelland, 1961; Chell *et al* 1991). Despite criticism of these approaches which concentrated on individual attributes and behaviours at the expense of environmental factors (Gartner, 1985; Vesper, 1990; Katz and Gartner, 1988) it is clear that new organizations cannot be created in isolation from human agency (Schoonhoven and Romanelli, 2001). Consequently, individual motivation, persistence and commitment together with social factors such as family, gender, education, work experience and networks are all of concern to classifications of entrepreneurship. The most widely quoted approach is based on responses to a number of behaviours associated with entrepreneurship: alertness to business opportunities, innovative, utiliser of finance, high profile image, restless, adventurous, an ideas person and an agent of change (Chell *et al*, 1991). However, Bridge *et al* (2003:72) point out that the typology is based on 'quite a narrow sample and does not yet appear to have been validated by other researchers'. While such approaches offer some insight into entrepreneurship they do not necessarily help



distinguish different ways in which NBVs are managed. We, therefore, offer a version based on two key dimensions associated with entrepreneurship: first, the extent to which owner-managers focus on innovation and, secondly, the extent to which growth is a strategic objective (Wickham, 2001). These dimensions provide a two-by-two categorisation which identifies four entrepreneurial types (Figure 2).

**Figure 2 Conceptualising**

		High Growth	
	Entrepreneur/ Manager	Growth- Oriented Entrepreneur	
Non- Innovative	Small Business Owner	Independence- Oriented Entrepreneur	Innovative
		Low Growth	

Owner-managers who focus on both growth and innovation are classified as ‘growth-oriented entrepreneurs’. In such firms the entrepreneur emphasises the innovation of products, processes and services as a basis for exploiting new business opportunities and broadening the customer base. There is also a recognition that in the longer-term, growth orientation means relinquishing some element of proprietary control by obtaining external finance and recruiting managers for crucial strategic functions (Greiner, 1973; 1998; Churchill and Lewis, 1982). Independence-oriented entrepreneurs will have a similar focus on innovation but are unwilling to relinquish control of their business. Hence, retaining control will take precedence over seeking out opportunities for growth. Those classified as ‘small business owners’ do not emphasise either innovation or growth and are primarily represented by family businesses operating in traditional retail sectors. In contrast, ‘entrepreneur-managers’ may be operating in mature sectors but still have a desire for business growth. However, rather than basing growth on innovation, which might be seen as inherently risky, this group focus on growth through the acquisition of other businesses.

### *Object of activity*

The object of activity is the creation of an NBV which encompasses a range of entrepreneurial actions from opportunity recognition to market entry. As discussed above, Gartner *et al* (1992:17) argue that emerging organisations are ‘elaborate fictions of possible future states of existence’. Successful entrepreneurs must change equivocal reality into unequivocal reality by ‘acting as if’ their organisation actually exists. This ‘enactment’ process (Weick, 1979) is associated with entrepreneurial behaviours that make NBVs ‘real’ for stakeholders (Carter *et al*, 1996). Activities associated with obtaining finance, buying equipment and establishing a legal entity distinguish those who have started a business from those who have failed or are ‘still trying’ (Carter *et al*, 1996). Identifying and developing a business idea is clearly the starting point for any entrepreneurial venture. While such activities may be consistent with the majority of NBVs they will also be influenced by the sector in which the entrepreneur is operating. Spender (1980: 65) argues that when *managers* are ‘confronted with an undetermined situation they characterize it with a set of correspondence rules, interests and purposes which comprises rationality’. The term ‘sectoral recipe’ (Spender, 1980; 1989; Schutz, 1976) indicates that the approach adopted by individual entrepreneurs will be ‘shaped’ by previous experience and by prevailing practices within the particular business sector. Recipes, akin to Weick’s (1995) sense-making tools, are grounded in the historical expression of enacted identities within shifting institutional contexts (Varela *et al*, 1991). At a straight-forward level, activities vary according to whether, for example, the NBV is located in services or manufacturing. There will also be variations according to region as some areas have a more appropriate infrastructure than others (Porter, 1998). The climate for a startup associated with high-technology motor-racing would be more favourable within the so-called ‘Oxford triangle’ (Henry and Pinch, 1999) than in other UK regions. The objective of activity focuses attention on the entrepreneur’s attempts to give the business a physical reality (acting as if) as well as sectoral and regional influences.

### *Community*

An entrepreneur’s community provides social capital by which the creation and survival prospects of an NBV can be enhanced. At its inception, the community might include family, friends and associates which then gradually expands to include professional and other *ad hoc* advisors, including bankers, accountants, lawyers, suppliers, government agencies, customers and consultants (Leonard-Barton, 1984). Entrepreneurs with good cultural and social

networks attract higher levels of capital and are more successful than those with limited networks (Shaw, 1998). Some linkages are planned, some accidental and others with organised groups, such as Chambers of Commerce, can help enhance entrepreneurial scope (Bennett *et al*, 2001). Strong ties with family and close friends are trust-based relationships which are generally of mutual benefit to both parties (Granovetter 1973, 1985). These ties are important for entrepreneurs: ‘they provide a means of avoiding the opportunism and uncertainty inherent in typical market-mediated transactions’ (Aldrich and Elam 2000:177).

Whether these communities or networks are open or closed and their respective importance to the development of social capital remains a contested issue for understanding entrepreneurial behaviour (Sandefur and Laumann, 1998). Burt (1992) argues that sparse social networks mean the inherent openness creates ‘brokerage opportunities’ (Burt *et al*, 2000). In contrast, Bourdieu (1985) suggests that social capital is mobilised as a result of resources which accrue to groups or individuals from institutionalised relationships which are the outcome of durable networks (see Coleman, 1988). According to Gargiulo and Benassi (2000) attempts to reconcile the opposing perspectives are based on the principle that benefits accruing from network structure may be contingent on exchanges between actors (Podolny and Baron, 1997). While Davidsson and Honig (2002) suggest the two forms of social capital, described as ‘bonding’ and ‘bridging’, are actually complementary. Social capital has been utilised in a number of studies related to the activities of ethnic entrepreneurs. In the early stages, support and resources provided to entrepreneurs by cohesive social networks are crucial to the survival of new businesses (Portes and Sensenbrenner, 1993). Eventually, constraints associated with reciprocal obligations make it difficult for entrepreneurs who wish to pursue new opportunities (see Amsden, 1998; Evans, 1989; Portes, 1987). More recently, Hite and Westerly (2001) develop a series of propositions related to links between social capital and business growth. In essence, their argument is broadly in-line with findings related to ethnic entrepreneurs. During startup ‘identity based’ ties which are homogenous and strongly embedded in the entrepreneur’s pre-existing social relationships predominate (Hite and Westerly, 2001:278). There is a gradual evolution to ‘calculative networks’ (Williamson, 1993) in which ties based on purpose and function are more significant than those based on identity (Hite and Westerly, 2001). In other words, there is a shift from strongly cohesive networks to linkages which are typified by ‘structural holes’. This more extensive and heterogenous network opens access to a wide range of knowledge and resources which are essential for business success.

In its early nascent stages, we see the inner triangle of the activity system (agent, object of activity and community) describing the ‘as if’ reality as propounded by Gartner *et al* (1992). The entrepreneur’s character, aspirations and attributes are coupled to his or her ideas and business vision along with the expectations and knowledge of their immediate peers and broader network. As the ‘quantum’ change takes place organizational reality shifts from ‘as if’ to an established entity and the three dimensions of the outer triangle are brought into sharper focus (mediating artefacts, social rules and division of labour). The entrepreneur’s activities gradual switch from the creativity associated with setting-up a new business to the more structured activities of an ‘owner-manager’. Language is an important mediating device but this is supplemented by technology (IT) and other fixed assets. Similarly, the informality associated with entrepreneurial ventures gives way to structure in terms of rules, procedures and the division of labour (Burns, 2002). This shows how the institutional dimensions, whilst essential to any NBV’s life, are given reality by being brought into the activity (they do not pre-exist or pre-determine the activity).

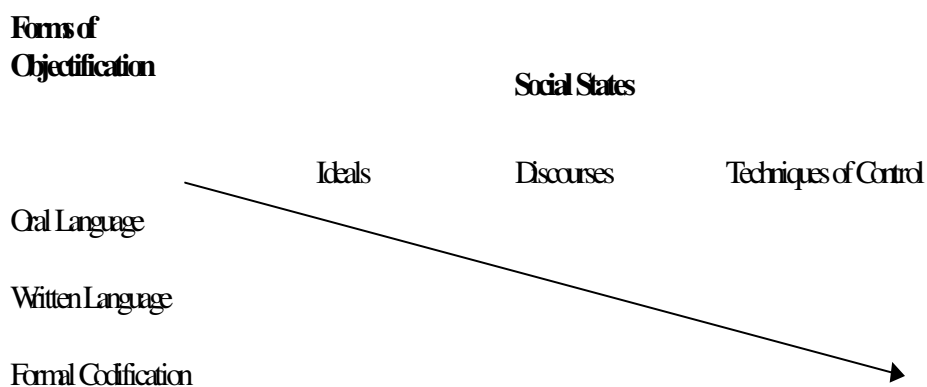
#### *Mediating artefacts*

This use of activity theory allows us to respond to Tolbert *et al*’s (1996:174) claim that early theorists (Zucker, 1983 Meyer and Rowan, 1977) did little to conceptualize the *process* of institutionalization (the creation of NBVs) despite being ‘a core process in the creation and perpetuation of enduring social groups’ (Berger and Luckman, 1966:180). The distinction we make between the inner and outer triangles follows Schumpeter’s distinction between managers who act according to organisational routines, and entrepreneurs who are innovators concerned with implementing new routines. Entrepreneurs identify strategic opportunities which lead to creative destruction while managers are creators of stability and embeddedness through institutional rules (Beckert, 1999). Yet in being seen as dimensions of a single activity system attention is also given to how this transformation is effected institutionally and moreover whether it is a totalizing and/or irreversible process. Hasselbladh and Kallinikos (2000:700) suggest that to fully understand the socially constructed nature of institutions it is necessary to engage more closely with procedures associated with the embeddedness of ‘rationalized beliefs and standardized schemes of action’. The authors argue that understanding the ‘processes’ of social construction demands closer interaction with ‘schemes of action’ adopted by entrepreneurial actors:

‘The means by which objects or patterns of formal organizing are stabilized constitute action and actors. Not only objectifying but also subjectifying effects emerge from the stabilization of instrumental artifacts by oral language, textualization and formal codification’ (Hasselbladh and Kallinikos, 2000: 701).

The institutionalisation process can be conceptualized as a move from oral to codified language and an associated shift from ideals and discourses to ‘techniques of control’. The latter are central to ‘objectification’ because they permit managerial control of organizational activities through the setting of goals and systems of measurement (Hasselbladh and Kallinkos, 2000:705). From the dimension of mediating artefacts, social reality is framed in three ways: (a) intersubjectively through speech and oral communication, (b) textualization by written language and (c) countability by formal codification (Hasselbladh and Kallinikos, 2000:705). In other words, the shift from ideals to discourses of control is facilitated by an associated move from oral language to formal codification (Figure 3). It is stressed that the arrow’s trajectory ‘only indicates a tendency’ rather than a ‘one to one correspondence between the idealised social states and.... social reality’ (Hasselbladh and Kallinikos, 2000:705). Hence, language is the foundational mediating device in the creation of a NBV because it has a direct influence on changing the equivocal reality of parole into the unequivocal reality of langue (Weick, 1979).

**Figure 3 Social States and Forms of Objectification**



*Rules and conventions*

Most businesses begin with one person (the entrepreneur) and even when the firm expands an informality pervades any organizational procedures. As a consequence, factors which typify

modern bureaucratic organisations: specialisation, standardisation, formalisation, centralisation and configuration (Pugh, 1984) are absent in entrepreneurial ventures. In fact, as Pugh (1984:69) argues in summarising the Aston Studies:

*'The larger it (the organisation) is the more likely its employees are to work in very specialised functions, following standard procedures and formalised documents; it will score highly on the structuring of activities and have many appearances of bureaucracy'.*

In contrast to large organisations, both employees and managers are generalists rather than specialists in smaller firms. Hence, formalisation of activities is unlikely to occur until the new business undergoes a major transition in terms of employee numbers. According to Burns (2002) an 'entrepreneurial structure' with the emphasis on informality works effectively until the firm has between 20 and 30 employees. Thereafter, as confirmed by various growth models, an emerging structure leads to more formality (Churchill and Lewis, 1983; Greiner, 1972; Scott *et al*, 1989). Moreover, many entrepreneurs have a strong desire for 'autonomy' accompanied by a commensurate reluctance to share decision-making (Bridge *et al*, 2003:67). As a consequence, NBVs are different than large firms because the entrepreneur is the agent who both exhibits rule-bound activity and recognizes it as legitimate, meaning most firms are typified by informality and a lack of structure.

This informality is reflected in the industrial relations practices which gives managers and employees 'flexibility' in terms of effort bargaining (Ram, 1994; Holliday, 1995). Data providing some support for Ram's thesis that 'informal negotiations of consent tend to predominate in very small firms' is presented by Moule (1998:654) who describes managers tolerating a range of minor fiddles including workers taking unofficial breaks and sacrificing quality, in order to maintain output targets. That shopfloor employees are able to create free time or exert some control over the pay-effort nexus is not in itself evidence that owner-managers adopt a benign approach to their employees. Rather, it is a reflection that workers in smaller firms are more likely to be engaged in low-skilled manual work which in larger organisations would be either replaced or controlled by technology (Jones, 2003). Small firms are also notable for absence of both trade unions and HR professionals (Scott *et al*, 1989; Marlow and Patton, 1993; Earnshaw *et al*, 1998). As a consequence, the proprietary rights of owner-managers are more transparent and not subject to the countervailing force of unions and personnel. The procedural norms of smaller firm control remain somewhat feudal from amongst which Goss (1991) identified four types: sweating, benevolent autocracy, paternalism and fraternalism. Autocratic styles of management 'tend to be found where the

nature of the product or service requires very low employee skills and where labour market conditions enable staff to be readily hired and fired...' (Goffee and Scase, 1995:18). In a recent study of managerial practice in small firms, Taylor *et al* (2002:555) focus on negotiated order which they argue is 'embedded in the routine social transactions of organizational life, such as talk, rules, values and ideologies'. These factors are complemented by structural constraints including hierarchy, systems of communication and work organization (division of labour) as well as the legitimacy of 'certified knowledge' related to managerial competences. The complexity of power relations in small firms is confirmed particularly in terms of managers' ability to judge the skills and knowledge possessed by shopfloor employees.

*'Employees... were able to construct spaces and dialogues within which managerial legitimacy could be questioned. This supports the emerging recognition that employee resistance can be manifest through identity work in tandem with operation opposition to managerial authority'. (Taylor et al, 2002:569)*

#### *Divisions of labour and knowledge*

The analysis of proximate norms and structures in NBVs illustrates how the last dimension of the activity system, the division of labour, is constantly changing. NBVs are essentially 'learning organizations' as the entrepreneur attempts to match internal resources to external opportunities (Wickham, 2001:27). The range of resources typically attached to a firm and which constitute its boundary, include: fixed assets (structures, machines etc.), liquid assets (cash, credit); market access assets (goodwill, customer base) and knowledge assets (managerial know-how, expertise) (Thompson, 2003:104). NBVs begin by being skewed to the latter as the organization is defined by entrepreneurial know-how. At a practical level 'the establishment of boundaries, such as incorporations, tax number requests, and phone listings, offers the first concrete and somewhat cleanly defined sampling frames for observing organizations early in their creation' (Katz and Gartner, 1988:432). Yet even these minimal boundaries are themselves dependent upon the exercise of knowledge. Knowledge, then, is a foundational asset, in fact the only asset an NBV possesses from the outset.

How firms grow is entwined with the entrepreneur's style (their particular blend of know-how and willingness to learn) making it possible to hypothesise that entrepreneurs who place more emphasis on innovation and growth will encourage organisational learning (Sadler-Smith *et al* 2003:53; Covin and Slevin, 1988). Much of the work on learning in organizations is based on Kolb's (1984) cycle which focuses on the processes of individual adaptation to the external

world. While the 'learning cycle' has been widely influential Kolb (1984) concentrates on individual experiences at the expense of broader social influences: 'The effect of this is that the learning cycle appears to be rather apolitical' (Vince, 1998: 306). Vince (1998; 2001) goes on to claim that the learning cycle is shaped by social power relations.

*'In terms of developments in relation to Kolb's learning cycle, this suggests the importance of attempting to extend the model from one that captures the evolution of individual learning from experience to a model that can acknowledge both the construction of that experience through complex and varied power relations and the role that subjectivity plays in creating new relations of power and powerlessness' (Vince, 1998:311).*

Recently, there has been a switch from cognitive approaches, typified by Kolb, to what is known as 'situated learning theory' (Lave and Wenger, 1991). Situated learning approaches pay attention to the broader organisational context including culture, 'mediating' artefacts and power relations. Lave and Wenger (1991:35) draw attention to the fact that learning is 'an integral part of generative social practices in the lived-in world'. Contu and Willmott (2003:285) expand on this analysis by identifying links between power, particularly in terms of control over resources, and the possibility of situated learning taking place. We suggest that this issue is particularly significant in SMEs where 'proprietary rights' give owner-managers much greater direct power than managers who rely on 'bureaucratic authority'. As pointed out by Hardy and Clegg (1996) both Marx and Weber acknowledge that power is derived from the ownership and control of the means of production. Although, in his more sophisticated analysis Weber rejected the view that power was reducible to categories of ownership or non-ownership.

*'Organisations could be differentiated in terms of people's ability to control the methods of production, as influenced by technical relations of production, and embedded in diverse occupational identities from which grew the subjective life-world of the organisation' (Hardy and Clegg, 1996:623).*

Hence, all organisation members have some opportunity to exercise creativity, discretion and even to challenge 'structures of domination'. Hardy and Clegg (1996:624) go on to say 'power in organisations necessarily concerns the hierarchical structure of offices and their relationship to each other' (see Hardy and Leiba-O'Sullivan, 1998). Given NBVs are defined largely by knowledge assets, entrepreneurial power is akin to what Spinoza (1955) terms the 'power to' whereby an individual motivated by their idea or vision. This is distinct from disciplinary 'power over' something or someone such as control of knowledge (in terms of access, speed of flow and conversion) based on organizational structures. As the NBV becomes institutionalised, the power to manifest in knowledge assets gradually becomes



supplemented by the power over manifest in tangible assets (fixed and liquid) and the intangible asset of market presence.

It is likely that the balance between these aspects of power exercised by owner-managers will directly influence the nature of knowledge generated within NBVs. Blackler (1995) offers five different ‘images’ of knowledge which are directly linked to modes of learning. Embrained knowledge, based on ‘conceptual skills and cognitive abilities’, is primarily abstract and has been described as ‘knowledge about’. Embodied knowledge is based on action rather than theory and consequently draws on individual tacit skills. Encultured knowledge is related to processes of socialisation through which shared meanings are created. Embedded knowledge resides in ‘systemic routines’ associated with formal roles and procedures. Finally, encoded knowledge, conveyed by signs and symbols, includes, books, reports, manuals as well as electronic information (Blackler, 1995:104/5). Mapping this onto Spinoza’s (1955) distinction we can envisage how embrained and embodied knowledge of the affective power to do things is gradually institutionalized in practices of socialization in the development of routines and the investiture of codes and symbols.

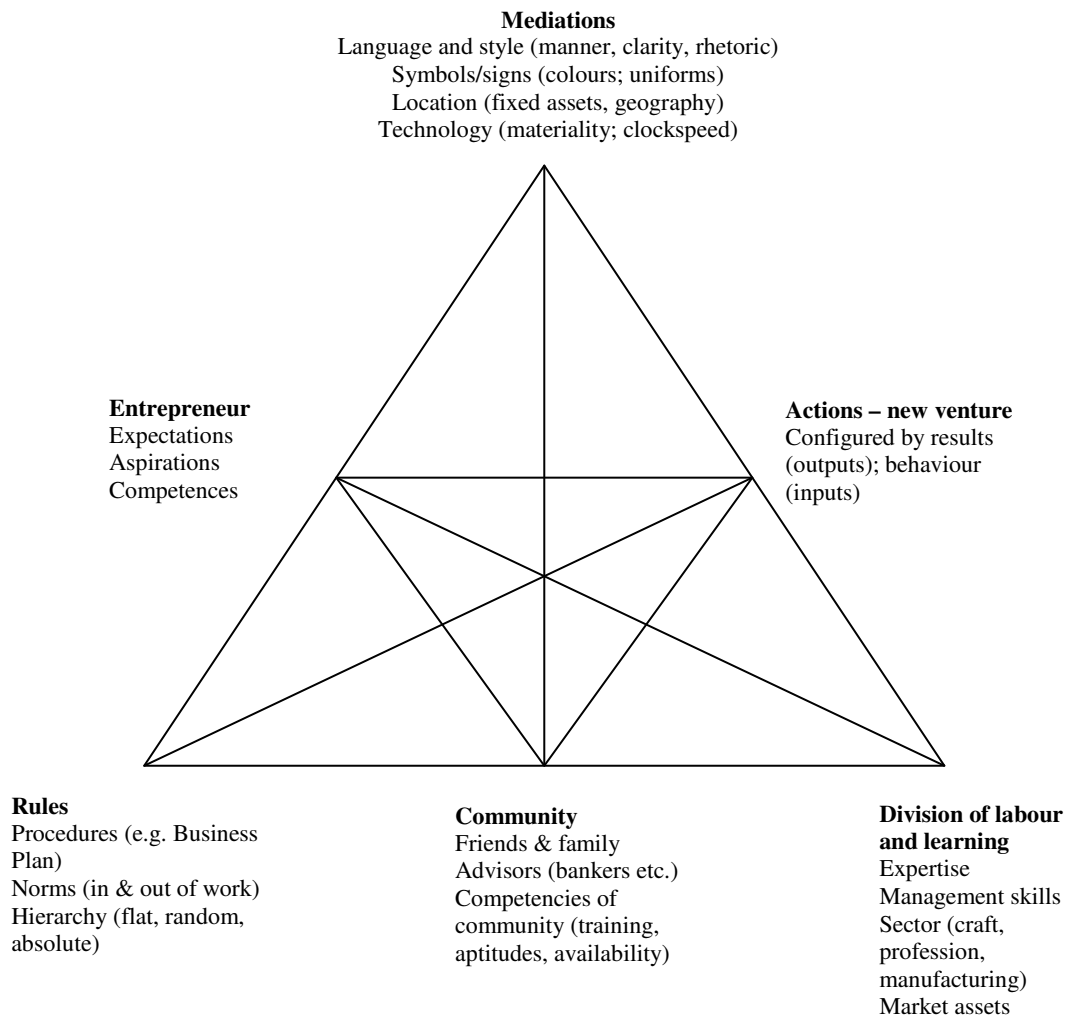
### **Entrepreneurship and the Process of Expansive Learning**

The previous discussion shows how entrepreneurship and NBVs can be conceptualized using the identification of an activity system where relations between the inner dimensions of agent, object of activity and community bring the outer dimensions into an alignment sufficiently stable to be identified as an organization. We now go on to discuss how this activity system model can be used to recognize instances of entrepreneurship; specifically suggesting how the emergence of an NBV can be mapped as a process of expansive learning. Given that we argue for the foundational influence of the inner dimensions on an NBV activity system the most significant influence on learning will be entrepreneurial objectives (Bridge *et al*, 2003:187). ‘Lifestyle’ businesses, founded by entrepreneurs who simply want a reasonable income will be very different than fast-growing firms established by ‘innovatory’ entrepreneurs (Chell *et al*, 1991). The characteristics of each NBV will closely reflect the founder’s motivations (Glancey, 1998; Kickul and Gundry, 2002; Sadler-Smith *et al*, 2003). As pointed out by Garland *et al* (1984), entrepreneurship can be defined in terms of innovative activities that are designed to create profitability and growth. This is confirmed by Georgelli *et al* (2000:17) who suggest that entrepreneurial core competences are based on planning capacity, changing business processes and new products. Whatever the explicit nature of motivation, a common

element is that the ‘entrepreneurial imperative’ is related to recognising and exploiting business opportunities whether oriented to lifestyle or high-growth (Covin and Slevin, 2002). Opportunity exploitation focuses attention on human capital embodied in ‘the knowledge and skills of a firm’s entire workforce’ (Hitt *et al.*, 2001:501). As we are concerned with recognising entrepreneurial activity associated with the creation of NBVs we can discount learning associated with the co-ordination of existing knowledge and instead identify instances of innovation realized by improved integration of knowledge and knowledge creation (Blackler, 1995). Within a NBV activity is never stable but constantly focused on producing and adopting new conceptions of activity in what Engeström (1999) calls cycles of expansive learning.

The NBV activity system model shows how the subject (entrepreneur), object (new ventures), community (peers and advisors), mediating artefacts (language and technology), rules and procedures (organizational norms) and division of labour (knowledge systems) combine to promote or inhibit ‘expansive learning’ (Figure 4). Engeström (1999:383) suggests that the ‘expansive learning cycle’ begins with individuals questioning current practices and existing wisdom. The second stage concerns empirical analysis of the situation to establish causes and explanatory mechanisms. The third stage involves construction of a ‘model’ that has the potential to offer problem solutions. Fourthly, the model is examined by testing its ‘dynamics, potentials and limitations’. Such testing might take the form of a tangible ‘model’ or may be based on a series of mental ‘what if’ scenarios. Testing the model is followed by implementation. The final two stages concern evaluation of the model and consolidation of the new practices.

**Figure 4 New Business Venture as Activity**



Adapted from Engeström (2000a. p136)

Figure 4 shows how the model of expansive learning can be applied to the actions of entrepreneurs in the process of creating NBVs. We do, however, take issue with Engeström’s view that learning is confined to a specific cycle. Limiting recognition of entrepreneurial practice to instances of linear or causal logic is, as argued above with regard to the phased development of NBVs, unrealistically static. The NBV activity system isolates six dimensions of this experience and suggests the inner three prefigure or ‘pull-in’ the outer three. Constructing and testing a model against experience in a cycle of iterative learning is only one way entrepreneurs experience these dimensions. To be confirmed as an instance of

expansive learning entrepreneurial experience involves the following: questioning of existing practices; creation of an idea; an empirical analysis of market data to isolate where the idea might 'sit' within an existing or new market; formalization of intent (preparation of a written business plan); consultation with close associates, formal meetings with potential funders of the business (bankers and business angels); obtaining assets (premises, equipment and employees) to commercialise the product or service; establishing processes of evaluation by which outcomes (number of customers, turnover etc) are set against projections made in the original business plan. Assuming that the business is operating satisfactorily then existing practices will be institutionalised as the firm becomes more firmly established at which juncture the entrepreneur who has successfully created a NBV must then decide whether to consolidate or go for growth. As described by various life-cycle models (Greiner, 1972; Churchill and Lewis, 1982) this usually involves the entrepreneur relinquishing some element of control. In summary, we suggest that activity theory provides a useful framework for analysing the entrepreneurial process associated with the creation and institutionalisation of a NBV. Initially the three factors associated with the inner triangle are dominant but gradual insitutionalisation of activities draws in the outer triangle is 'pulled-in'. For expansive learning to take place there must be an interaction between inner and outer triangles that fosters growth (Figure 4).

## **Conclusions**

The first objective in this paper was to build on the work of authors who have explicitly linked organizational theory with entrepreneurship. Secondly, we wanted to explore the possibilities of utilising activity theory as a conceptual framework for the recognition and analysis of new venture creation. As a number of influential writers have pointed out, much entrepreneurial research is based on large-scale surveys and sophisticated quantitative analyses at the expensive of detailed qualitative approaches (Aldrich, 1990; Gartner, *et al*, 1992). The benefit of adopting activity theory is that it locates entrepreneurship within a broad historical and social context. Relationships between subject (entrepreneur) and object (new business venture) are mediated through what Vikkunen (1996) describes as 'culturally formed artefacts' including language, rules, division of labour and community. The model developed by Engeström (1999) has six interlinked factors which are summarised in Table 1.

**Table 1 Activity Theory and NBVs**

<b>Dimension</b>	<b>Identifying Associated Activities</b>
Entrepreneur	Growth oriented, independence oriented, small business owner or entrepreneur-manager.
Object of activity	Stage of new business (enactment), sectoral recipe, regional infrastructure & support.
Community	Nature of network (open or closed) and nature of ties (identity based or calculative).
Mediating artefacts	Evolution of language: oral or codified and social states (ideals, discourses or techniques of control)
Rules & conventions	Standardisation & formalisation of activities and nature of entrepreneurial control.
Divisions of labour & knowledge	Exercise of entrepreneurial power and knowledge types (embrained, embodied, encultured, embedded and encoded)

Entrepreneurial motivation (independence or growth) will directly influence the nature of a NBV particularly in terms of activities associated with organizational ‘enactment’. It is now recognised that even the most individualistic of entrepreneurs rely heavily on their social networks. Ways in which social capital is mobilised and the nature of the network itself (open or closed) are central to accessing resources in the form of information, knowledge, skills and support. Key writers associated with activity theory (Engeström, 1999; Blackler, 1995) emphasise the importance of technology, organizational procedures and division of labour although we suggest that in the early stages of a NBV the agent, the object of activity and the existence of an immediate community will be more important. As pointed out by Gartner *et al* (1992), successful entrepreneurs must ‘talk and act “as if ” equivocal events are non-equivocal’. Here we draw on institutional theory to suggest that this process can be conceptualised as a shift from oral language to codification (Hasselbladh and Kallinikos, 2000). At a basic level this entails the entrepreneur formalising their idea in a written business plan. Language is also important factor in shaping the nature of control made manifest in organizational rules and procedures. Most new businesses are typified by high levels of informality which remains the norm until firms have between 20 and 30 employees (Burns, 2002). Subsequently, the nature of entrepreneurial control becomes more formalised as a result of a growing administrative structure (Greiner, 1972; Churchill and Lewis, 1983).

Success in NBVs will be influenced by the extent to which the concomitant shift from power to (creative vision of the entrepreneur) to power over (institutionalized processes) is managed so as to still foster the potential for expansive learning.

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