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SCIENTIFIC REVIEW

## New Venture Creation: Controversial Perspectives and Theories

Salamzadeh Aidin<sup>1</sup>, University of Tehran, Faculty of Entrepreneurship, Tehran, Iran

**ABSTRACT** – *New venture creation is a hot topic and different scholars tried to shed light on this fascinating research subject. Despite the vast body of existing literature, there is little consensus about which theoretical perspectives and theories are best suited for describing and explaining the phenomenon. One of the most controversial topics is that “whether this phenomenon could be considered as a process or not?” This paper presents the existing views and theories on new venture creation, and tries to answer the mentioned question. To do so, Moroz and Hindle’s (2012) distinguished views are used. Finally, the paper concludes with some suggestions and remarks. The main contribution of this paper is to criticize the existing perspectives and theories, to categorize them, and to present a more comprehensible view of the phenomenon.*

**KEY WORDS:** *new venture creation, perspectives, theories, process*

### Introduction

The history of new venture creation is as old as the history of organizations (Salamzadeh, 2015). However, in the early stages of this domain, i.e. organization sciences, less emphasis were placed on the “new venture creation” phenomenon. As one could see, the earliest notions of new venture creation came from distinguished theories of Schumpeter in 1912 and 1934 (Schumpeter, 1912, 1934). Schumpeter (1937), in “The Theory of Economic Development”, considers new ventures as one of the factors affecting economic development. He sees new venture creation as dependent on entrepreneur’s opportunity recognition process, and leads to technological change. He believes that innovation and creative destruction are the most important elements of creating new ventures, and new venture creation could be the engine for economic development.

Later, in 1970s, Hannan and Freeman (1977), in their theory of population ecology, highlight the importance of external environment in determining the lifestyle of companies in the same industry. This theory provides insights into the birth of a new type of company in a typical industry. However, the insights are less prone to be used at the meso and micro levels. These works of followed by other authors for several years, until in 1984, Van de Ven et al (1984) draw the attention of researchers in this field to consider the phenomenon in different levels, i.e. individual, organizational, and ecological levels. However, it did not take

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<sup>1</sup> Faculty of Entrepreneurship, University of Tehran, 16th Street, North Kargar Avenue, Tehran, 1439813141, Iran, e-mail: Salamzadeh@ut.ac.ir

so long. Just one year later, Gartner (1985) proposed his challenging view, which dominated the literature, and focused on too narrow a range of determinants to explain new venture creation. These works are followed by others such as, Katz and Gartner (1988), Vesper (1990), Aldrich (1990), Larson and Starr (1993), Bhaves (1994), Carter et al. (1996), Veciana (1988), Aldrich, (2000), Deakins and Whittam (2000), Sarasvathy (2001), Delmar and Shane (2004), Grimaldi and Grandi (2005), Lichtenstein et al. (2006), Serarols (2008), Lim et al. (2008), Samuelsson and Davidsson (2009), Campbell and De Nardi(2009), Dimov (2010), Davidsson and Gordon (2012), Brush et al. (2014), and Becker et al. (2015).

Yet, there is a lack of consensus on how to describe and explain this phenomenon. In this paper, the author tries to elaborate the axioms and presumptions used in the existing literature on new venture creation to elaborate what could be the best choice. Thus, it answers to the question: “whether new venture creation could be considered as a process or not?” To do so, first the existing literature is briefly reviewed. Then, the axioms and presumptions behind each study are discussed, and finally, the paper concludes with some remarks and suggestions for future directions.

### **Literature review: controversial perspectives and theories**

Recently, Kuratko et al. (2015) investigated the existing approaches, one of which was new venture creation view. They consider eight major themes which characterize recent research about entrepreneurs and new venture creation: (i) venture financing, (ii) corporate entrepreneurship, (iii) social entrepreneurship and sustainability, (iv) entrepreneurial cognition, (v) women and minority entrepreneurs, (vi) the global entrepreneurship movement, (vii) family business, and (viii) entrepreneurial education. On the other hand, proposing a “universal model” for “new venture creation” is not easy, and some scholars believe that it is not promising or reasonable. While some authors agree to the process view, some disagree. The rationale behind these arguments is the source of challenges in this domain. This dilemma, initiated by Gartner (1985), is followed by others and no consensus is reached yet. Some argue that this process is complex and varies among different entrepreneurs in different environments (Haugh, 2007), and some argue that transition between stages is not done automatically (Bhave, 1994).

Similar to Gartner (1985), Storey (1994) also criticizes the stage models. He personally adheres to this belief that understanding the factors which have influence on growth is important, compared to considering the stages. Albeit this view is initiated by Gartner (1985) and followed by many others, some process models show that considering a process model in which the environment and environmental factors are included could alleviate this dilemma. Some studies on new venture creation approve this argument (e.g. see, Parker, 2006).

By the way, despite Gartner’s (1985) critiques on process models, just one year after publishing his famous views, Katz and Gartner (1988) presented a model which implicitly follows a process view. They suggested four factors, i.e. intentionality, resources, boundaries, and exchange of resources in boundaries which show the creation of a typical new venture. These indicators convey a logical sequence behind the famous story of new venture creation. That means, once an intended entrepreneur starts its new venture creation activities, he or

she searches for resources, shapes the boundaries, and exchanges his/her resources, and enters into a market. This view is similar to Larson and Starr's (1993) conceptualization, which used network theories to explain new venture creation, and Bhavé's (1994) view which considers the opportunity stage, the technology set-up, the organization-creation stage, and the exchange stage.

However, Larson and Starr (1993) and Bhavé (1994) explicitly make arguments following process model views, some scholars like Vesper (1990), Lichtenstein et al. (2006), Lim et al. (2008), Campbell and De Nardi (2009), Dimov (2010), Brush et al. (2014) try to be more conservative and not enter into this controversial debate. Again, Haugh (2007) points out that different management styles are considered contingent to each stage in new venture creation. Although, this might be true, one could propose that high rates of failure might be a direct result of mismanagement of entrepreneurs/founders in different stages (Cardon et al., 2011). For instance, charismatic leadership might be an integral part of managing a new venture in the very early stages, such as recruiting new experts, dealing with angel investors, etc., however, it might not be appropriate in the next stages, such as resource mobilization which requires a more pragmatic than charismatic management style.

Moreover, Haugh (2007) argues that these stage models assume that movement between stages is triggered by a specific crisis. This is a challenging argument to make, which needs to be explored in another studies. Remember the notion made by Bhavé (1994) which tells that there is a transition between stages, and compare it to the Haugh's (2007) argument. Even if Haugh (2007) disagrees with the process view, she accepts it implicitly.

Veciana (1988) follows a timeline view. In her view, there are several stages in a lifecycle of an organization, i.e. gestation, creation, launching, and consolidation. She tries to be more specific, and makes clear arguments. Later, Núñez (2007) elaborates this model in more details, and adds practical comments to this work. Deakins and Whittam (2000) also make a similar argument. Despite the views that disagree with the process model, Deakins and Whittam (2000) consider formation of an idea, opportunity recognition, pre-start planning and preparation, entry into entrepreneurship launch, and post entry development, as the stages to new venture creation. Serarols (2008) agrees with Veciana (1988), Núñez (2007), and Deakins and Whittam (2000). He explicitly breaks down the new venture creation process into some stages, i.e. concept (or gestation) stage, planning stage, and implementation stage.

Samuelsson and Davidsson (2009) investigate the venture creation process, and mention that Katz and Gartner (1988) categorize gestation activities under three groups, i.e. legitimacy building activities, relationship building activities, and resource acquisition activities, which were considered by scholars such as Delmar and Shane (2004). Recently, Davidsson and Gordon (2012) conducted a panel study of new venture creation, and considered three main areas, i.e. characteristics of nascent entrepreneurs (person), antecedents and characteristics of new venture creation (process), and explaining new venture creation process outcomes (outcomes). In this study, they highlighted the existing approaches on new venture creation, and mentioned that the process view is dominated in last five years.

More recently, Becker et al. (2015) presented a model, an integrative view of a dynamic multi-stage new venture emergence, that they considered it as a first step towards an integrative discussion of new venture emergence. They used entrepreneurship theories in the

field of opportunity discovery and creation. Also, they mentioned that there should be a new venture creation process. To elaborate their meaning, they used Moroz and Hindle's (2012) distinguished work which considers entrepreneurship as a process. Moroz and Hindle (2012) differentiated between four types of entrepreneurial process models, which are: static frameworks, stage models, process dynamic models, and quantification sequence models.

These theories and perspectives are among the most important new venture creation studies which have numerous proponents and opponents. Cons and pros to these views challenged the ideas in their works, but as mentioned earlier there should be some starting points to reach consensus. In the next section we use Moroz and Hindle's (2012) categorization of entrepreneurial process models to elaborate the status in this domain.

### **Discussion: new venture creation models**

On the one hand, it is axiomatic that new venture creation is an integral part of entrepreneurship (Timmons and Spinelli, 1994). In fact, entrepreneurship deals with new venture ideas or opportunities to be discovered, created, evaluated, and exploited in order to create value (Shane and Venkataraman, 2000). On the other hand, like any other being, organizations or ventures have their lifecycles (Lester et al., 2003). They pass through a lifecycle: embryos, birth, growing, and death. As mentioned earlier, organization science, entrepreneurship, and some other fields have focused on different aspects of these entities. Yet, the research on new venture creation is still young and in its embryonic stages.

Considering that new venture creation is a process, and using Moroz and Hindle's (2012) distinguished views, the studies could be classified into the following categories:

- (i) **Static frameworks:** These frameworks capture the overall process. These models divide into a priori stages major tasks or phases. One major weakness of these models is that "they tend to narrow the scope of investigation and that temporal orders of events do not fit the proposed stages and/or often overlap" (Moroz and Hindle, 2012) (Type 1). For instance, see Van de Ven et al. (1984), Gartner (1985), Vesper (1990), Lim et al. (2008), Campbell and De Nardi (2009), etc.
- (ii) **Stage models:** These models add sequences to static frameworks and make sequential processes. These models "characterize the overall process of venture creation without examining the sequence of activities, consists of a limited set of variables connected by speculative causal links; process oriented but do not capture sequence of dynamics" (Moroz and Hindle, 2012) (Type 2). For instance, see Katz and Gartner (1988), Bhava (1994), etc.
- (iii) **Process dynamic models:** These models show the influence of context and process variations on outcomes. These models "employ qualitative methods to examine how and why variations in context and process shape outcomes; often interpretive, temporal, and change oriented" (Moroz and Hindle, 2012) (Type 3). For instance, see Larson and Starr (1993), Lichtenstein et al. (2006), Sarasvathy (2006), etc.
- (iv) **Quantification sequence models:** These models explain new venture creation based on a historical sequence. These models are "historical sequence-based approaches of the new venture creation process; this approach does not allow

researchers to understand the dynamics of how antecedent conditions shape the present and the emergent future within the process (Moroz and Hindle, 2012) (Type 4). For instance, see Veciana (1988), Carter et al. (1996), Deakins and Whittam (2000), Grimaldi and Grandi (2005), Serarols (2008), Becker et al. (2015), Salamzadeh and Kawamorita (2016).

- (v) Other models: Any other model which do not fit the four mentioned models. For instance, see Aldrich (1990, 2000), Sarasvathy (2001), Delmar and Shane (2004), etc.

Table 1 presents an overview of extant models of new venture creation and their key components, events, stages, or domains. As it is shown in the table, the literature lacks coherence and a clear set of models, and it is too narrowly focused and limited in scope.

*Table 1. An overview of extant models of new venture creation*

<b>Model class</b>	<b>Author(s)</b>	<b>Year</b>	<b>Key components/events/stages/domains</b>
<b>Static frameworks</b>	Van de Ven et al.	1984	Individual, Organizational, Ecological
	Gartner	1985	Individual, Organizational, Environment, Process
	Vesper	1990	Technical know-how, Product or service idea, Personal contacts, Physical resources, Customer orders
	Lim et al.	2008	Acquiring financial resources, Developing products, Developing a market and acquiring customers, Acquiring human and production resources, Delivering products, Developing production systems, Developing other systems
	Campbell and De Nardi	2009	“Who are you?”, “What are you trying to accomplish?”, “What have you and others put into the business?”, “What have you accomplished?”, “What remains to be done?”
<b>Stage models</b>	Katz and Gartner	1988	Intentionality, Resources, Boundaries, Exchange of resources in boundaries.
	Bhave	1994	Opportunity; technology set up/organizing; exchange stage; Separate opportunity process: External and/or Internal
<b>Process dynamic models</b>	Larson and Starr	1993	Focus on essential dyads, Converting dyadic ties to socio-economic exchanges, Layering the exchanges
	Lichtenstein et al.	2006	Measure the emergence in the dynamics of new venture creation
	Sarasvathy	2006	Inputs, effectual strategy, Outputs
<b>Quantification sequence models</b>	Veciana	1988	Gestation, Creation, Launching, Consolidation
	Carter et al.	1996	Up and running, Still trying; Given up
	Deakins and Whittam	2000	Formation of an idea, Opportunity recognition, Pre-start planning and preparation, Entry into entrepreneurship launch, Post entry development
	Grimaldi and Grandi	2005	The incubation models
	Serarols	2008	Concept (or gestation) stage, Planning stage, Implementation

Model class	Author(s)	Year	Key components/events/stages/domains
	Becker et al.	2015	A dynamic multi-stage new venture emergence model
	Salamzadeh and Kawamorita	2016	Formation stage, Challenges, Exit stage
<b>Other</b>	Aldrich	2000	Opportunity identification based on expertise, prior experience, and education
	Sarasvathy	2001	Effectuation
	Delmar and Shane	2004	Legitimacy building activities, Relationship building activities, Resource acquisition activities

Source: self-elaborated

## Conclusion

*“Organizational genesis does not mean virgin birth” (Padgett and Powell, 2012). It is “a journey from conception to birth”*

*(Evers, 2003).*

The process of new venture creation is a journey in which an entrepreneur or a group of entrepreneurs engage in entrepreneurial activities, to turn a new venture idea or an opportunity into value. To do so, like any other entrepreneurial activity, they should follow a process. Although the literature on new venture creation lacks consensus about a universal model, this research showed that there should be a process view toward this phenomenon to increase the rate of success and to make a better understanding of it. To do so, the author reviewed the literature to find the nuances and differences in diverse views. Next, the author used Moroz and Hindle’s (2012) outstanding view to categorize the main existing new venture creation models. But, the difference between this research and their approach is that the author considered all the relevant theories and frameworks, and not only the selected one. Although one could easily marginalize the ideas in this domain as “merely” addressing entrepreneurship as a process, the range and perspicacity of topics examined demonstrated that new venture creation is a more focused area of research.

Future researchers might study the main axioms of studies in this domain, categorize them into homogenous groups, and make clearer axioms. Also, still there are some dark points which need to shed light on, like investigating the levels of analyses, which is referred to in Moroz and Hindle (2012), to conduct panel studies like the one done by Davidsson and Gordon (2012) focusing on process views. Using other theories might add fruitful insights to the existing literature as well, such as activities proposed by Delmar and Shane (2004), which could be integrated into a process view. However, there are some limitations such as considering the industry type, entrepreneurial styles, type of new venture ideas, and last but not least the context.

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## Kreiranje novih poslova: kontroverzne perspektive i teorije

**REZIME** – Otvaranje novih poslova je vruća tema i stoga su različiti naučnici pokušali da je rasvetle u svojim istraživanjima . Uprkos obimnoj postojećoj literaturi, gotovo da ne postoji konsenzus o tome koje perspektive i teorije su najprikladnije za opisivanje i objašnjavanje ovog fenomena. Jedna od najkontroverznijih tema je "da li se ovaj fenomen može smatrati procesom ili ne?" Ovaj rad prikazuje postojeće stavove i teorije o novom stvaranju firme, i pokušava da odgovori na spomenuto pitanje. Da bi to učinili, Moroz i Hindle (2012.) su pokušali da naprave razlike između različitih stavova . Konačno, u radu se daje zaključak sa nekim predlozima i primedbama. Glavni doprinos ovog rada je kritika postojećih teorija, kako bi se izvršila njihova sistematizacija i predstavio razumljiviji pogled na fenomen.

**KLJUČNE REČI:** razvoj novih poslova, perspektive, teorije, proces

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