



## Contextualizing theory building in entrepreneurship research

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### Abstract

Theory development and testing are central to the advancement of entrepreneurship as a scholarly field. For nearly three decades now, researchers have borrowed popular theories from other disciplines and adapted them to the study of diverse entrepreneurship phenomena. This has enhanced the rigor of research findings. Future studies can achieve greater rigor and relevance by paying more attention to the context of their investigations. Understanding the nature, dynamics, uniqueness and limitations of this context can enrich future studies. This article describes common problems revealed in recent entrepreneurship research when applying existing and new theories to well known vs. emerging and novel phenomena. The article also suggests strategies to enrich creative and constructive theory building.

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### 1. Executive summary

Theory drives the evolution of scholarship in an academic discipline. It also shapes the academic conversation by delineating a field's boundaries, the core questions to be examined and preferred research methods. Research in entrepreneurship has benefited from borrowing theories from other disciplines, notably sociology, psychology and

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economics. Yet, for many entrepreneurship researchers building and testing theory remain an onerous challenge, leading some to ignore theory in conducting their research, arguing that entrepreneurial phenomena fall outside the boundaries of known theories. Other researchers have failed to invoke theory in innovative ways that enrich the academic conversation. Still, others have imported theories from other disciplines without considering the key and distinguishing qualities of entrepreneurial phenomena.

This article discusses ways that researchers can use to better apply existing and emerging theories by anchoring their analyses in entrepreneurial phenomena and their contexts. It also identifies key pitfalls of applying theories that have been developed in other disciplines to the study of fundamental entrepreneurial research questions and issues. The article also highlights the major challenges researchers might encounter as they introduce and develop new theories when examining established and emerging entrepreneurial phenomena. The discussion outlines several strategies that researchers can use to develop or introduce these theories, while safeguarding against over-generalizations that limit the relevance and rigor of their findings.

Effective strategies that link theory to entrepreneurial contexts center on: delineating the boundaries and sources of newness of these contexts; questioning and probing widely held assumptions about a given theory and prior findings using it; and recognizing key contingencies that influence relationships within a given context. One approach is to question the key assumptions underlying a particular theory or even relax those assumptions, opening the door for more creative applications of the theory. This article proffers that the usefulness and efficacy of these strategies vary between variance and process theories that address different entrepreneurial phenomena and research questions. Process and variance theories can complement each other, adding to the rigor and relevance of emerging research in the field of entrepreneurship.

Theory-based research can contribute greatly to our understanding of complex entrepreneurial phenomena and the challenges entrepreneurs confront as they conceive, develop and manage their new firms. Rigorous and theoretically grounded research can give entrepreneurs important insights into what works and does not, reducing the odds of their failure. It can also give policy makers an effective foundation on which they can map out their plans to nurture, support and harvest entrepreneurial activities in ways that improve our quality of life.

## **2. Introduction**

Theory building is a process of creativity and imagination. It demands careful reflection on the importance and uniqueness of the phenomenon at hand, the questions explored, and the context of the research. Theories serve as signposts that tell us what is important, why it is important, what determines this importance, and what outcomes should be expected. Theories also guide the reader through what was found and why it enriches or even challenges our understanding. Theoretically grounded studies pay particular attention to the context of their research and account for its complexity, uniqueness and richness. These studies also offer compelling arguments, provide a fair test of these arguments, and use findings to refine and enrich the theory they have invoked.

Reading recent entrepreneurship papers, however, one rarely gets a sense of the substance, magnitude or dynamics of the research context. These variables are often described in terms of summary statistics that are easy to understand but leave the reader wanting more information about the context of the research. Readers have no sense of what the researchers have observed, felt or thought. Alternative arguments or explanations are often omitted. Thus, theories are applied to sterile and highly sanitized settings, leaving a major gap in our understanding. As in silent movies, there is action—but readers have to watch carefully to infer what actors say and do. They need to read the actors' lips in order to decipher what is happening. Few entrepreneurship papers give us enough clues about the nature of their research settings and, instead, ask us to use our imagination to appreciate what has been done.

The sterility of our description of research sites and context is compounded by another problem. Entrepreneurship researchers frequently apply theories developed in other disciplines with different phenomena in mind. As such, these theories are grounded in assumptions that reflect the nature of distant phenomena, actors and sites. These assumptions may or may not apply to entrepreneurial contexts. A mismatch between theory and context can result in false leads and inconclusive findings. As often happens, inconclusive results encourage authors to question the utility of their chosen theories, invite calls for further research and lead to confusion about the relationships of interest. Even meta-analyses can prove inconclusive, magnifying concern about the theories used and phenomena examined. Some of these issues could be overcome by linking the theory of choice with the phenomenon being explored. Entrepreneurship researchers miss an opportunity to enrich their theory building when they overlook the characteristics of the phenomena they study in terms of their newness, uniqueness, magnitude, frequency, and complexity.

In this paper, I argue that greater care and creativity in “contextualizing” our research can enrich future scholarship in the field. Contextualizing our research means the effective linking of theory and research objectives and sites, where researchers build on the innate qualities of the phenomena they examine. Toward this end, I describe four scenarios that link the status of theory (established vs. emerging) with that of the phenomenon (established vs. new). Major shortcomings observed in the literature related to each of these scenarios and effective strategies that can improve scholarship are also discussed.

### **3. Linking theory and entrepreneurial phenomena**

One convenient way to link theory and research phenomena is to consider the stage of their development. Some theories are well established and widely diffused (e.g., agency). Other theories, however, are emerging and have not received as much attention in the literature (e.g., knowledge-based view of the firms). Similarly, some entrepreneurship research phenomena are relatively well studied and understood (e.g., how venture capitalists make decisions). Other research phenomena are not as well understood and cover emerging issues. Two dimensions are evident: (a) established vs. new theory and (b) established vs. new phenomena. Combining these two dimensions creates the four scenarios outlined in [Table 1](#).

Table 1  
Linking research phenomena, contextual richness and theory

Phenomenon	Established	New	Established	New
Theory	Established	Established	New	New
Scenarios	1	2	3	4
Contextual richness	Modest	Moderate	Moderate	Great
Common shortcomings	Applying theory mechanically without regard to setting Ignoring boundaries of theories Ignoring irregular or conflicting findings Over-looking counter arguments	Assuming universality of theory Providing elusive definition of boundaries Overlooking what findings mean to theory	Failing to explain relevance to new setting Failing to clearly articulate the superiority of the new theory to others Failing to establish why the phenomenon is worth explaining	Fishing expedition? Giving elusive definition of the phenomenon and theory
How to best contextualize theory?	Explore new contingencies Examine change overtime Relax assumptions Vary setting in which theory is tested. Conduct meta-analyses	Establish relevance of theory to new phenomenon Provide a fair test of basic arguments underlying theory Give back to theory: how do the results alter the assumptions and predications of theory	Reflect on and capture the richness of the research site; show how characteristics of the site influence proposed line of thought	Define the boundaries of the phenomenon with some precision Clarify uniqueness of phenomenon being explored Establish the newness of the arguments advanced Discuss conditions under which theory might apply to other phenomena

### 3.1. Scenario 1

This is one of the most frequently encountered scenarios in entrepreneurship research where researchers apply an established theory as they examine an established research question or phenomenon. One example is the use of agency theory to explain the motivations of middle managers to support (or sabotage) corporate venturing activities. We know quite a bit about the robustness of the predictions of agency theory. We also know a great deal about the dynamics of corporate venturing activities and how they may encourage middle managers to act opportunistically. Studies along these lines can extend our understanding of the dynamics of corporate venturing and refine or even challenge what we know.

The familiarity of the research setting could constrain researchers' ability to visualize or uncover new variables that could influence their findings. Imagine, however, that the same replication studies are conducted in a relatively more novel context. Imagine if we decide to use agency theory to predict subsidiary managers' behaviors in corporate venturing

processes in multinational companies' (MNCs') subsidiaries competing in far away markets. Subsidiary managers, at all levels, have to work hard to understand the demands of these new markets while coordinating their activities with their headquarters (HQs). HQ managers may have limited appreciation of the opportunities and challenges that the subsidiary faces. Middle managers play a dual role in this setting (employees and managers). This role can complicate middle managers' understanding of their organizational incentives used to support (or discourage) the subsidiary's entrepreneurial activities. To promote these activities, middle managers can use a mix of financial and non-financial rewards. But why should these managers do this in the first place? What if these activities fail and bring financial ruins to the subsidiary? Better yet, what if these entrepreneurial activities lead to greater discoveries that could be commercialized without the help and resources of the parent MNC? What keeps employees and their managers with MNCs? If the parent MNC belongs to a "group-oriented" culture, predictions and answers using agency theory may be quite different from the situation where the MNC belongs to a more individualistic culture.

A change in the research context can alter theory predictions in important and interesting ways. Assume, further, that researchers seek to understand middle managers' various roles in supporting corporate venturing activities in MNCs headquartered in countries that enjoy different stages of economic development (advanced vs. developing vs. emerging economies). Then, agency-based predictions would be quite different. Regrettably, entrepreneurship researchers have not been as creative in conducting rich replication studies capitalizing on the nuances and uniqueness of their research sites, a process that can enrich our well known theories. One consequence is that we have missed important opportunities to "give back" to the original or source disciplines that have developed these theories.

When reading entrepreneurship journals, one is likely to notice quickly that authors rarely articulate their assumptions, let alone question them. This is a critical shortcoming of a growing body of research in entrepreneurship. Each theory has its assumptions and violations of these assumptions can lead to questionable findings. Can you imagine applying the transaction cost without assuming opportunism? Would you take seriously the findings of a study that uses agency theory while overlooking the conflicts of interest of principals and agents?

Some recent entrepreneurship research ignores the key assumptions underlying theories when authors begin to explore a new context (e.g., applying agency theory to the study of academic entrepreneurship). Authors often claim that they need to do so to establish the robustness of the theoretical predictions offered by the theory—an important goal of scientific inquiry. But, at a minimum, authors need to show the relevance of their chosen theory to the new context in which it is applied. Is it reasonable to assume that principal–agent dynamics exist in academic entrepreneurial settings? Under what conditions do these dynamics exist? Who are the agents? Who are the principles? Exploring these simple issues can help authors decide if agency theory can guide and ground their research. Authors might conclude that a new set of assumptions should be introduced or that theorizing could then proceed with these revisions to the original assumptions in mind. One would expect researchers to interpret their findings, considering these new assumptions.

There is much to be gained from questioning the assumptions of a well established theory. Traditional economic theory has benefited greatly from relaxing the assumptions about equilibrium, opening the door for different predictions that are grounded in the neoclassical and Austrian research traditions. Similarly, Porter's (1980) well known framework emerged as a result of his relaxing the assumption of perfect competition. The resource-based view has become a viable and powerful theoretical framework once the assumption of firm homogeneity had been relaxed (Alvarez and Buzenitz, 2001).

Another example is the new stream of research applying agency theory to the study of family firms. Some believe that kin relationships, family ownership and involvement in the business and the owners' central role in managing the firm raise questions about the usefulness of agency theory in the context of these firms. Yet, Schulze et al. (2001) have questioned and revised long-held assumptions in the field. Their research advances that some family owners could be opportunistic in their behaviors, exploiting the firm and its resources to satisfy their own needs. Owner managers may also exclude non-family members from the decision making, marginalizing them and ultimately compelling them to leave. In many ways, owner managers behave more like agents, not principals. Without doubt, questioning the assumptions of existing theories is both legitimate and necessary because it sets the stage to consider alternative causal chains and counterintuitive findings.

### 3.2. Scenario 2

This scenario covers the use of established theories to explore new phenomena. It provides a richer setting, as compared to scenario 1, regarding the potential variability in the conditions examined. Phenomena of interest might relate to the content of entrepreneurial decisions or the processes entrepreneurs follow in making these decisions, finding opportunities, and organizing their nascent companies.

A significant portion of published research in entrepreneurship focuses on content-related phenomena, leaving a gap in our understanding of the processes associated with opportunity recognition, creation and exploitation. Admittedly process-variables tend to be messy and difficult to capture. As Langley (1999) notes, these variables often deal with "events", cross multiple levels and units of analysis. They also vary in their contextual embeddedness that influences their relevance and duration, requiring greater care in theorizing about process-oriented phenomena. Content-oriented theories may not help in explicating the boundaries of process-related phenomena or explaining them. A single theory may not sufficiently explain either the content or processes involved (Langley, 1999; Van De Ven et al., 1984).

Applying an established theory to a new setting poses several challenges. For example, a researcher may decide to examine the incentives a university provides its professors and other academic entrepreneurs to encourage them to commercialize their discoveries. Suppose the researcher wants to apply agency theory in building her/his argument. The researcher has to consider the various intrinsic and extrinsic motivations of academic entrepreneurs. Some scientists are not interested at all in getting rich but instead would like to contribute to the development of their fields. Besides, universities and research centers are not hierarchical, and power relationships within them differ markedly from those found in business companies. Authority is diffused in academic institutions and is grounded

mostly in professional expertise. The principal–agent dichotomy that is so central to agency theory is not as clear in these settings as it is in large public corporations. Authors seeking to advance effective theoretical predictions need also to consider the nuances of this unique employment relationship by pondering the dynamics of power within academic institutions.

Another example is the growing use of social networks to explain the early and rapid internationalization of new ventures. This is a phenomenon that has been explained using multiple theoretical links including industrial organization, traditional organizational theory, and the “born global” perspective, among others (Zahra and George, 2002; Zahra, 2005a,b). There is a growing awareness that the social capital theory can offer a rich explanation of new ventures’ early international expansion. Social capital comes in different forms and from different sources, of which networks are one key source. Researchers have applied network theory to explain how entrepreneurs get their information about foreign markets, how they interpret and use this information, and how they amass different resources for internationalization.

Assume that a researcher wishes to use social network theory to examine the early entry of new ventures into Western European or US markets from one of the former Eastern Bloc countries. With the weak links between these countries and Europe and the US, it would be a mistake to simply invoke social network theory arguments without recognizing the tenuous nature and boundaries of these links. An effective study would consider the context of the research and ask: where do ties to the West come from? What forms do they take? How different are these ties from those that exist in other countries that have enjoyed longer, reciprocal and enduring relationships with the West? Do these differences matter and, if so, how? These basic questions require researchers to consider the richness of the setting they are about to investigate. This might help researchers avoid a few common mistakes that we have noticed and summarized in Table 1, particularly failing to explain the relevance of the new setting and its implications for boundaries of the new theory. Researchers need also to fully understand the foundations of the theory being used and its track record of predictions.

### 3.3. Scenario 3

This scenario refers to the situation where a researcher applies a relatively new theory to an established phenomenon to validate what we know or how it enriches the literature (Table 1). This is a common situation because entrepreneurship researchers have been adept at importing theories from other disciplines to examine relatively well studied issues. For example, some have used economic and game theories to map out new venture strategies. Others have used upper echelon theory to explain how top management teams (TMTs) influence new ventures’ internationalization strategies (Reuber and Fischer, 1997). In each case, researchers have believed that applying a new theoretical perspective could enrich our understanding of their phenomena of interest.

Researchers can capitalize on the research setting and their chosen phenomenon when applying a new theory to a well established context. Assume a researcher wants to apply the knowledge-based view (KBV) to explain the competitive strategies that high technology new ventures follow in a given industry. The KBV is a relatively “new” theory and some

have questioned its value added above and beyond the well known resource based view (RBV). Still, assume that KBV is *the* “theory” of interest. The researcher needs to spell out what is new about this theory, beyond RBV. Why is it more appropriate than transaction economics (Williamson, 1985)? Why would this make a difference in the context of new ventures? What is it about the issue or phenomenon being explored that warrants the use of this theory? What does this mean in terms of developing testable hypotheses?

We should be concerned about applying new theories without grounding them in the research setting, a practice that can handicap the development of our field. Theories have boundaries and our predictions should consider these boundaries. Creative applications of new theories in relatively well established research settings should also consider the assumptions that underlie these theories; otherwise the analyses can generate false or even contradictory results that do not add up cumulatively to a well-accepted body of knowledge. Researchers should also question their focus on well established research questions. Is the effort of conducting these studies justified relative to the potentially marginal improvements in our collective knowledge? Our field is young and many questions await creative and thoughtful inquiry. Some of the fundamental issues about the nature and domain of our field remain unexplored (Sarasvathy, 2004; Zahra, 2005a,b).

#### 3.4. Scenario 4

This final scenario centers on applying a new theory to explain a new phenomenon. This is a rich setting that offers researchers important opportunities for theory building and imaginative research. Emerging research on entrepreneurial activities in nascent market domains is an example. While traditional findings on the behavior of nascent entrepreneurs could be useful and instructive, entrepreneurs committed to developing radically new industries might be different from those who want to build a new company around a well known technology in an existing industry. Presently, the nature of these differences is not well documented and studies are needed to explain them and articulate their implications for industry and market creation. Case studies and qualitative research may offer rich insights into the factors that lead particular entrepreneurs to focus on creating new industries, the various steps they take, and the consequences of these actions. This research could be useful in identifying the content of entrepreneurial behaviors and the processes that entrepreneurs take. Langley’s (1999) suggestions for effective theory building could guide future researchers’ efforts in this regard.

Studies that apply new theories to new entrepreneurial research phenomena have two common shortcomings. First, some resemble fishing expeditions into the unknown, as they ignore pertinent and potentially useful findings from related areas. Even exploratory studies have to have some theoretical anchors that give them focus and meaning. Second, researchers often err by being vague in describing their phenomena. Though these phenomena are not well defined, researchers need to carefully articulate the domain of their research.

Theory building could center on integrating insights from diverse, existing theoretical frameworks (e.g., Van De Ven et al., 1984) or developing new theories. Theory building should also consider the temporal relationships among key variables in the causal chain (Zaheer et al., 1999) as well as when, why and how changes might occur in these

relationships. Following entrepreneurs and entrepreneurial companies as they make decisions can enrich researchers' understanding of the forces that shape decisions over time and influence these temporal relationships (Langley, 1999). This provides another compelling reason for conducting and reporting more process-oriented studies.

Giving more attention to process-research could help to improve our understanding of content related issues of central importance to the field. Process studies can clarify which variables are important and why they might influence the outcomes researchers seek to explain. This interplay between content and process can sharpen researchers' focus on studying important contextual variables that explain the variance noted in their variables of interest. It can also enrich our explanations of the importance of the phenomena we examine and the results we find. The "messy" process variables can add much needed clarity about the content of entrepreneurs' decisions, yielding more sound findings that can guide more creative theory construction and testing. Contextualizing theory building would require researchers to delve deeply into the underlying logics and structures behind their phenomena, not simply to catalog them (Weick, 1999). Langley (1999) offers seven "sensemaking strategies" that can enhance the richness, complexity and dynamism of theory building. Though some tradeoffs are often necessary (Zaheer et al., 1999), these strategies can also link content (variance) and process theories. These strategies might also guide our quest to address pertinent questions that can define our young but changing field (Sarasvathy, 2004).

#### 4. Discussion and conclusion

Researchers frequently bemoan the absence of good theory in the field of entrepreneurship (Bull and Thomas, 1993; Phan, 2004; Zahra, 2005a,b). With the growing rigor of entrepreneurship research, there has been marked attention to careful theory construction and testing. Yet, some researchers do not pay adequate attention to the context of their research, often importing and applying existing theories from other disciplines to new entrepreneurial phenomena. Importation is a necessary first step toward developing unique theories that define and explain entrepreneurial phenomena. Still, the application of these theories often lacks rigor and creativity, producing obvious or inconclusive results. By understanding the nature, richness and dynamics of their research contexts, entrepreneurship researchers can offer more creative and insightful explanations of important issues and why they matter to the discovery, creation and exploitation of opportunities that give birth to independent or corporate new ventures. Entrepreneurial decisions and actions center on novelty and creating variety. These decisions are messy, a quality that should prompt us to delve deeply into the psyche, mental models and inner souls of entrepreneurs. We should also recognize the context of these decisions as we theorize about their causes, structures and effects. Weick (1995: 389) suggests that the "key lies in the context—what came before, what comes after".

Contextualizing entrepreneurship research does not imply abandoning received theory. We might start there but frame phenomena and our explanations quite differently. Weick (1995: 389) writes that theorizing requires "selecting, explaining, synthesizing, and idealizing". Weick also makes clear that theorizing demands more than these activities.

Effective theorizing, I believe, centers on framing the debate, seeing things afresh and offering fresh insights into things we know and those we should know. As Whetten (1989) observes, a useful theory should enrich and add to the body of knowledge in a field, not simply rewrite what we know.

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