Epistemology, Opportunities, and Entrepreneurship: Comments on Venkataraman et al. (2012) and Shane (2012)

Two reflection pieces, one by Venkataraman, Sarasvarthy, Dew, and Forster (2012) and one by Shane (2012), were recently published in AMR. Both articles focus on the impact of Shane and Venkataraman’s (2000) AMR article on the field of entrepreneurship. Since some of our prior work (e.g., Alvarez & Barney, 2007, 2010) was informed by Shane and Venkataraman’s (2000) original article, and since these reflective pieces also mention our work, we felt it was appropriate for us to write this commentary.

Before discussing Venkataraman et al. (2012) and Shane (2012), we want to first acknowledge the impact of Shane and Venkataraman’s (2000) AMR article. While we disagree with many of its conclusions, we appreciate how it helped stir debates about opportunities, their formation, and their exploitation in the entrepreneurship literature. Their article is clearly worthy of the AMR Decade Award.

We first consider Venkataraman et al.’s (2012) essay and then Shane’s (2012).

VENKATARAMAN ET AL. (2012)

This article takes Shane and Venkataraman’s (2000) argument as given and asks, “What are some potentially fruitful ways that the study of opportunities may evolve going forward?” Venkataraman et al.’s (2012) read of the literature is consistent with those arguing that opportunities are both objective and subjective phenomena—formed both by exogenous shocks to existing industries and enacted subjectively by entrepreneurs themselves (Alvarez & Barney, 2007). Their discussion of intersubjectivity helps clarify the process by which opportunities are created. In addition, their recognition of other important nexuses for the field of entrepreneurship—besides the individual-opportunity nexus emphasized in Shane and Venkataraman (2000)—and their call for entrepreneurship to embrace its social consequences ring true and represent important advances of the ideas first proffered in 2000.

Of course, we have some issues with their article. First, we continue to be confused as to why Venkataraman et al. use the terms found and made to describe “discovery” and “creation” processes, especially since Venkataraman (2003) was—as far as we know—the first person to use discovery and creation to label these processes. Theoretical developments subsequent to Venkataraman’s 2003 article (e.g., Chiasson & Saunders, 2005), including ours (Alvarez & Barney, 2007), also have used Venkataraman’s labels. Why the recent change? Of course, if there are real, theoretically relevant differences in these sets of terms, they need to be highlighted and subjected to debate. If not, parsimony suggests the need to pick one set.

This is not an insignificant issue. Label proliferation has impeded the development of other management fields (Barney, 2003). What we fear is that if no substantive differences actually exist between these concepts, some poor Ph.D. student somewhere will someday write a paper titled, “How Found Is Different from Discovery and Made Is Different from Created.”

Second, Venkataraman et al. (2012: 23) mischaracterize an important distinction in Alvarez and Barney (2010), suggesting that our article argues for two kinds of realist epistemologies—presumably critical realism and evolutionary realism. The intent in our 2010 article was to suggest that the “opportunities are objective” view (i.e., discovery) adopts a critical realist perspective, whereas the “opportunities are enacted within environments that have both objective and subjective properties” view (i.e., creation) adopts an evolutionary realist perspective (Alvarez, Barney, & Anderson, in press; Campbell, 1960). This is a relatively small issue in Venkataraman et al.’s (2012). However, it is significantly more important in Shane’s (2012) reflective essay.

SHANE (2012)

Whereas Venkataraman et al. (2012) focus on how the study of opportunities may yet evolve, Shane (2012) clarifies and extends, but ulti-
mately reinforces, the original article’s arguments. Shane begins by suggesting that debates about the objectivity and subjectivity of opportunities may reflect an omission in Shane and Venkataraman (2000) because of “the lack of clarity about what I meant...by ‘entrepreneurial opportunities’ in ‘Promise’ [the original article] and in subsequent writings” (Shane, 2012: 15). Shane hypothesizes that a distinction between “entrepreneurial opportunities” and “business ideas” would resolve the apparent conflict. For Shane, “business ideas are entrepreneurs’ interpretation of how to recombine resources in a way that allows pursuit of...[an] opportunity” (2012: 15). Shane then goes on to restate a sentence from Alvarez and Barney (2007) and Klein (2008), using the term business ideas, that apparently eliminates differences between these two articles and Shane and Venkataraman (2000).

If only it were that easy. While encouraged by Shane’s recognition of the importance of incorporating the subjective in the analysis of opportunities, a careful reading of Shane’s definition of a business idea suggests that it is still based on the assumption that opportunities exist before entrepreneurs are aware of them and, thus, are objective in this sense. This is even more clear as Shane (2012: 18) discusses the relationship between objective opportunities and subjective business ideas. If opportunities are not objective, Shane warns us, all sorts of dire theoretical consequences follow, including that there is no such thing as entrepreneurial failure.

We do not agree with Shane’s concerns. With respect to the concern that there can be no entrepreneurial failure without objective opportunities, consider the following:

Creation opportunities are social constructions that do not exist independent of entrepreneur’s perceptions (Aldrich & Kenworthy, 1999; Berger & Luckmann, 1967). However, when entrepreneurs act to exploit these socially constructed opportunities, they interact with an environment—the market—that tests the veracity of their perceptions (Alvarez & Barney, 2007: 15).

In other words, entrepreneurs who are trying to enact opportunities can fail. This is the case even if the market that leads to entrepreneurial failure is itself a social construction, although markets may also have objective properties (Alvarez & Barney, 2010: 565).

In particular, the epistemological assumptions that Alvarez and Barney (2007, 2010) and Alvarez et al. (in press) build on—evolutionary realism—do not deny the existence of objective phenomena—like gravity and scientific progress—their impact on the process of forming opportunities, nor do they deny their impact on returns to exploiting these opportunities. Like Shane we agree “that scientific advance, political and regulatory changes, and demographic and social shifts...make it possible to introduce new and potential profitable resource combinations” (2012: 15). However, that these “objective” conditions exist and can have an important impact on the ability of entrepreneurs to generate profits from their actions does not deny that entrepreneurs sometimes enact the opportunities they intend to exploit. It also does not deny that exploiting these enacted strategies can sometimes fail.

Indeed, given that the individual-opportunity nexus perspective is so firmly grounded in a critical realist epistemology (Alvarez & Barney, 2010)—an epistemology that asserts that a scientific proposition is meaningful if and only if its elements can be empirically examined using objective data (Ackroyd & Fleetwood, 2000; Fleetwood, 1999)—making the proposition that “opportunities are objective” so central to this theory is surprising to us. This is because the proposition that opportunities exist independent of their observation is not testable, according to critical realist epistemology. Critical realism suggests that one can only know if an opportunity exists by observing and then measuring it. Thus, according to critical realism, making propositions about the existence of opportunities that have yet to be observed and measured is not an empirically meaningful exercise.

Since the opportunities are objective proposition is not testable, it must be an assumption of individual-opportunity nexus theory. Assumptions are not tested empirically but, rather, are evaluated in terms of their fruitfulness—that is, the extent to which they help generate theoretically interesting and testable propositions (Merton, 1968). Fruitfulness implies comparing the theoretical and empirical implications of one assumption with the theoretical and empirical implications of another assumption—a test that Shane unfortunately rejects by assuming that the individual-opportunity nexus approach, as defined by
Shane and Venkataraman (2000), is the only way to study entrepreneurial opportunities.

We also found quite surprising Shane’s (2012) assertion that, to become a distinct field, entrepreneurship must explain and predict empirical phenomena that strategic management does not. This makes the distinctiveness of a field like entrepreneurship dependent not on research actually done by entrepreneurship scholars but, rather, on research in another field—in this case, strategic management—that is not done. If strategic management scholars spot an interesting phenomenon that has so far only been studied by entrepreneurship scholars and then, applying strategic management theories, explain and predict this phenomenon, by Shane’s logic (2012)—and to some extent Venkatraman et al.’s (2012: 25) logic—the distinctiveness of the domain of entrepreneurship goes away.

The slipperiness of this approach to defining entrepreneurship’s unique domain can be seen in Venkatraman and Shane’s (2000) efforts to identify five research questions supposedly asked by entrepreneurship scholars and not asked by strategy scholars. Unfortunately, many of these supposedly unique entrepreneurial questions have been addressed by strategy scholars, most well before 2000. Space limits us to one example: their second unique entrepreneurship question (strategic management only studies firms while entrepreneurship examines prefirm, intrafirm, and interfirm phenomena) fails to recognize a substantial theory of the firm literature in strategy (which asks when economic exchanges are best managed without a firm), the literature on strategy implementation (which focuses on intrafirm processes), and the larger literature on strategic alliances (which examines exchanges managed across firms instead of within a single firm or across markets). References to these bodies of literature are omitted because they are so vast.

Of course, these observations do not invalidate the effort to define a distinctive domain for entrepreneurship. They only bring into question the effort to define this domain relative to a set of phenomena that have only been examined by entrepreneurship scholars.

Shane (2012: 12) rejects an alternative to establishing the distinctiveness of entrepreneurship—for the field to develop new theories that can be applied to study phenomena of interest in other fields in new, interesting ways. He rejects this alternative because he has yet to see the development of such theories and cannot imagine what they might look like. We suspect that Shane is limited here by his commitment to the critical realist epistemology. It is not too surprising that a theory of entrepreneurship rooted in a critical realist view of the world would not be unique vis-à-vis strategic management, a field that is also dominated by the same critical realist approach. Perhaps, in his search for new entrepreneurship theories not found in other fields, Shane—blinded by his critical realist assumptions—has been looking in the wrong place.

However, a theory developed in entrepreneurship based on a less widely held epistemological view—say, evolutionary realism—may have very important and very different implications for research on phenomena normally studied by other fields, including strategic management. One of the purposes of our forthcoming article (Alvarez et al., in press) is to trace some of these implications. For example, applying an evolutionary realist view of opportunities to the study of where firm heterogeneity comes from refo
cuses attention on the processes by which strategies are enacted (Weick, 1969)—a topic that has received relatively less attention in the field of strategic management.

In the end, for entrepreneurship to stand as a unique domain, it needs to generate theories that explain things in other disciplines in ways that scholars in those disciplines have not done previously. Develop and test enough of those theories and entrepreneurship will emerge as a distinct domain.

REFERENCES


A Narrative Perspective on Entrepreneurial Opportunities

There continues to be considerable interest in entrepreneurial processes, as evidenced in recent reflection pieces in AMR (Shane, 2012; Venkataraman, Sarasvathy, Dew, & Forster, 2012). Of particular interest are questions about the sources of entrepreneurial opportunities. For instance, are entrepreneurial opportunities a result of a process of discovery or one of creation? Should we locate agency in specific individuals, or should we conceptualize entrepreneurs as part of a larger process where agency is distributed and emergent?

To address these questions, Shane (2012) distinguishes between “opportunities” and “business ideas” to account for both entrepreneurial failures and successes and to advance a notion of entrepreneurial agency emerging at the nexus of individuals and opportunities. Opportunities, for Shane, are objectively given, ones that individuals can seize by generating business ideas that are interpretations “of how to recombine resources in a way that allows pursuit of that opportunity” (Shane, 2012: 15). Venkataraman et al. (2012) take a different route, embracing Simon’s (1996) sciences of the artificial. Building on Davidson’s (2001) “tripod” consisting of interactions among objective, subjective, and intersubjective, the authors conceptualize entrepreneurial opportunities as being both “made” and “found” in and through such interactions.

We are sympathetic to the progressive shift in the conceptualization of entrepreneurial agency—from one that considers it to be located in specific individuals to one that considers it to be an outcome of an ecology of interactions between humans and artifacts. Yet there are unaddressed issues pertaining to the location of boundaries that are germane to entrepreneurial opportunities. Boundaries, after all, are not given but, rather, a key ontological variable constituting entrepreneurial agency.

As a way to address this issue and add to this dialogue, we propose a “narrative perspective” that is informed by actor-network theory (Callon, 1986; Latour, 2005). Such a perspective subscribes to a relational ontology, one where what is “in” and what is “out” is not given but instead emerges in and through actions and interactions (Garud, Kumaraswamy, & Karnøe, 2010). An additional advantage of taking a narrative perspective is that it endogenizes time (Garud & Gehman, 2012), thereby allowing one to examine issues around temporal agency, a facet that Venkataraman et al. (2012) allude to in their re-