

# Discovery and Creation: Alternative Theories of Entrepreneurial Action

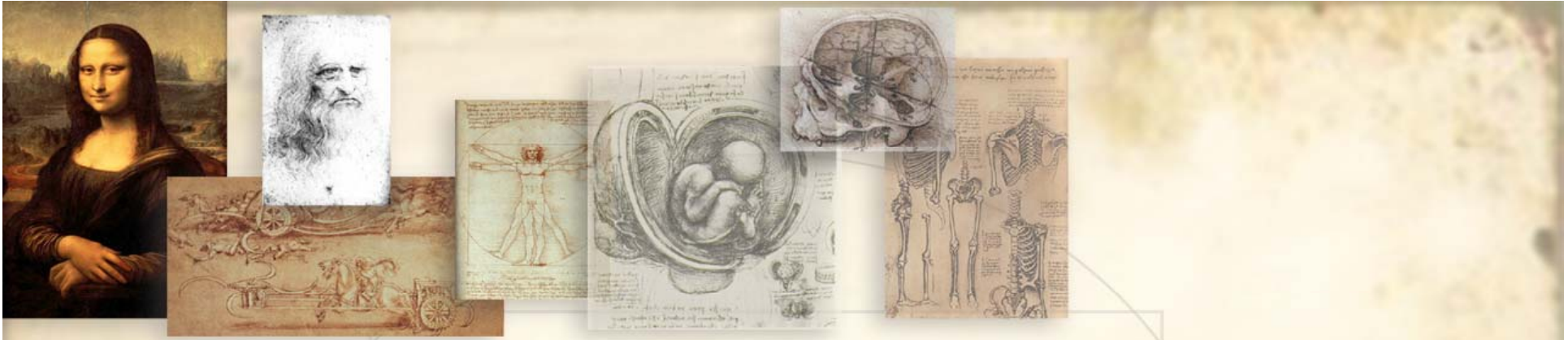
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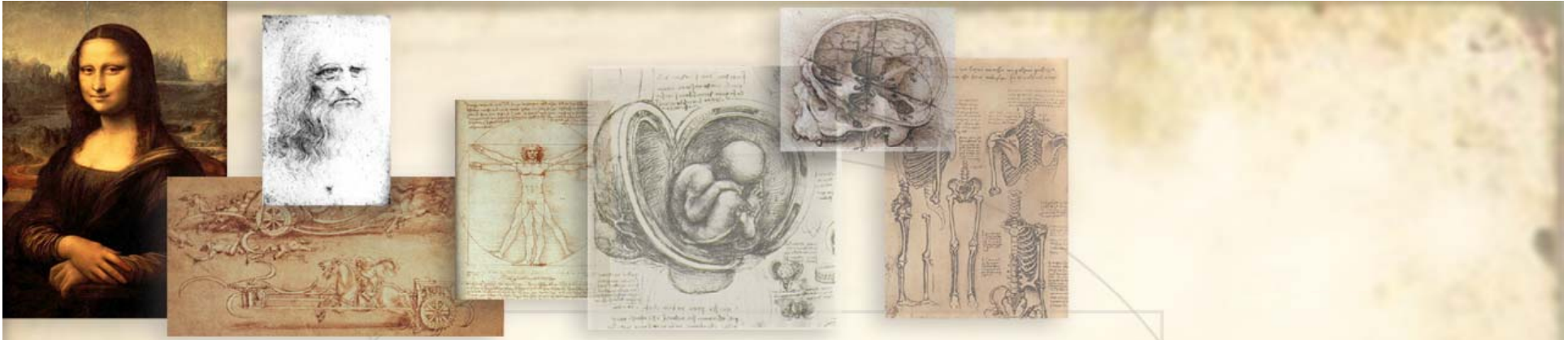
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Opportunities exist when competitive imperfections exist in markets.



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How opportunities are formed matters to how they are exploited and the organizations designed to exploit them.

- ❖ Discovery Opportunities
- ❖ Creation Opportunities

“Because it was there”





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“Because it was there”





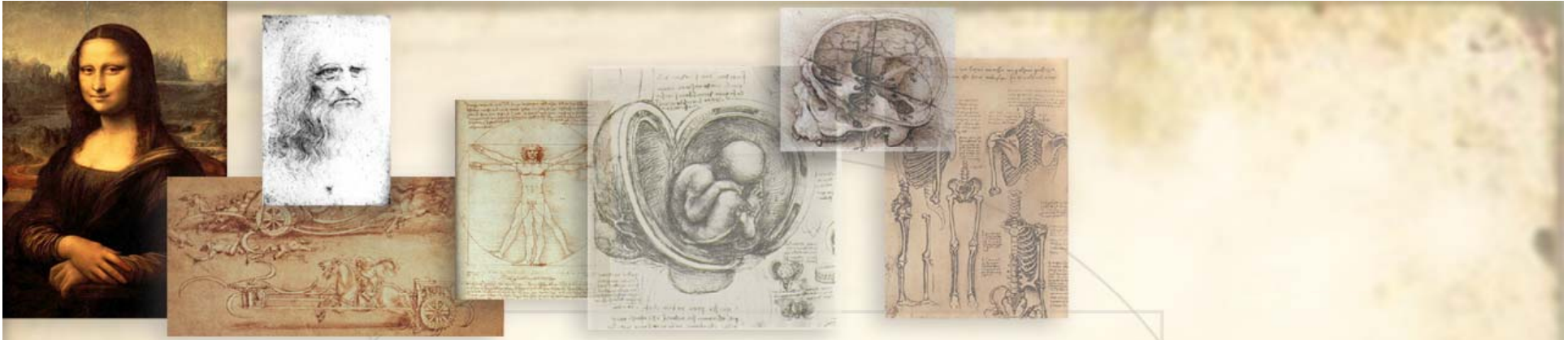


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# Suite at Ice Hotel



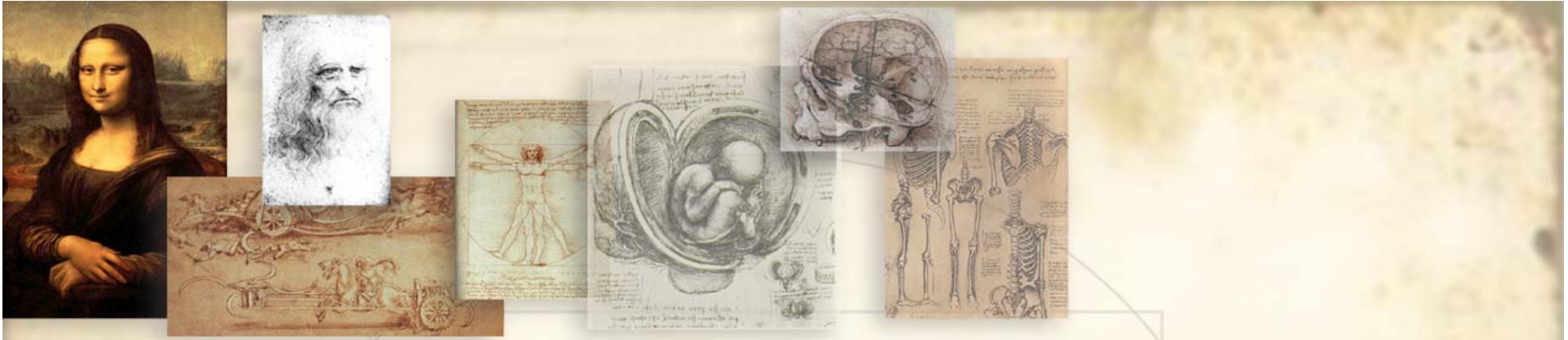


## Discovery

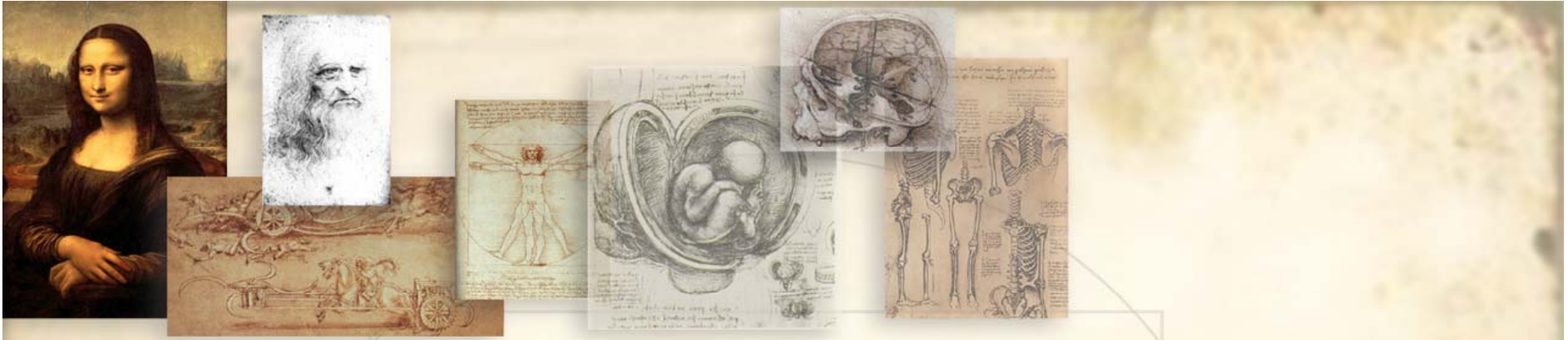
- ❖ Opportunities Exist
- ❖ Individual differences as cause - alertness
- ❖ Information and knowledge exist ex ante
  - know then act
  - Risk
  - Realist epistemology

## Creation

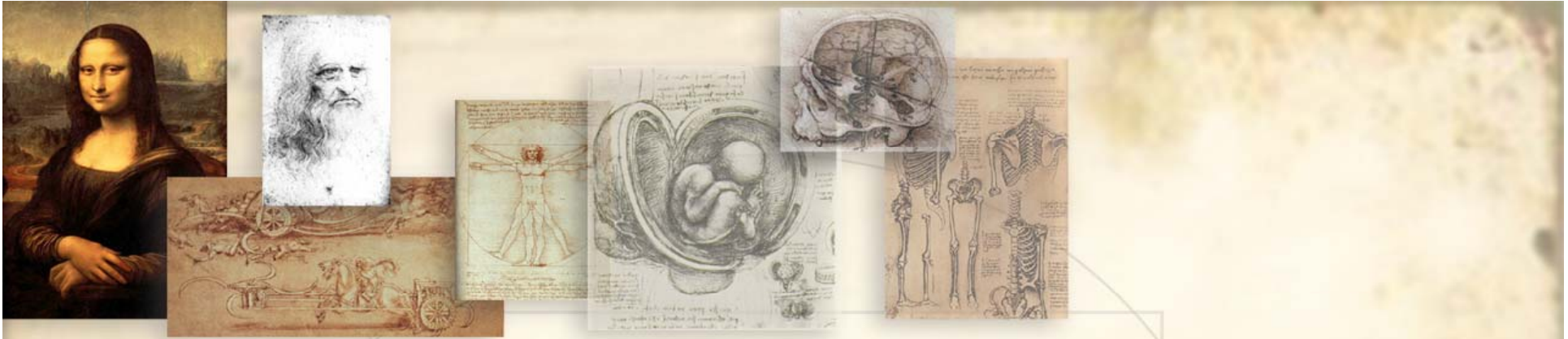
- ❖ Opportunities Enacted
- ❖ Individual differences as effect of process – myopic variation
- ❖ Information and knowledge emerge after action – act then know
  - Uncertainty
  - Evolutionary realist epistemology



- ❖ It is always possible to reinterpret discovery opportunities as creation and creation opportunities as discovery, ex post...

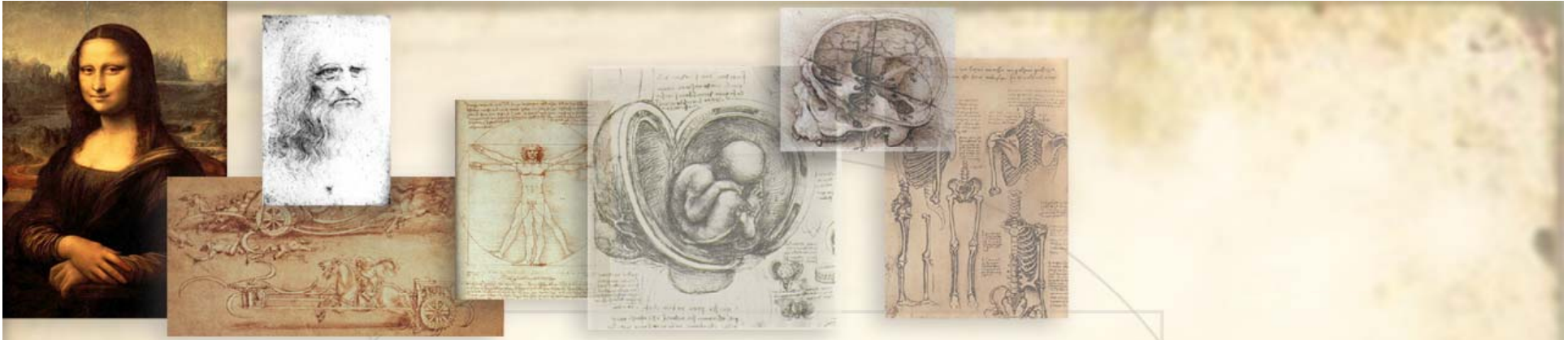


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- ❖ Do these contexts impact the effectiveness of entrepreneurial actions and the resulting organizations?



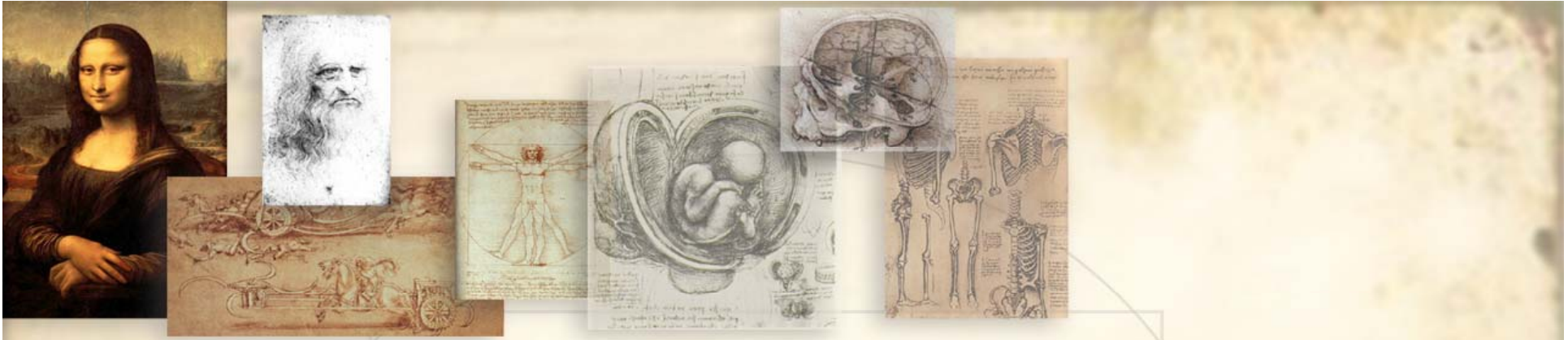
## Some Examples

- ❖ Ownership structure
- ❖ Vertical integration
- ❖ HR processes
- ❖ Financing
- ❖ Strategy Formulation
- ❖ Decision Making
- ❖ Leadership
- ❖ Etc.



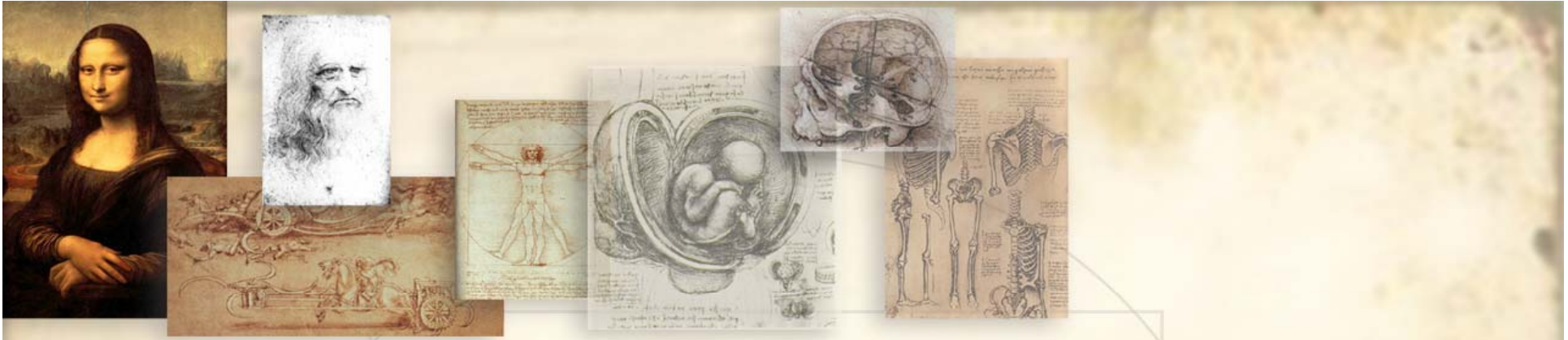
# Firm Typology

- ❖ **Expert-based Entrepreneurial Firms**
  - ❖ Traditional applications of Transactions Cost economics and Incomplete contract theory
- ❖ **Clan-based Entrepreneurial Firms**
  - ❖ Clan exists prior to firm formation – trust
- ❖ **Charismatic-based Entrepreneurial Firms**
  - ❖ Decision rights and residual claims depend on the charisma of parties



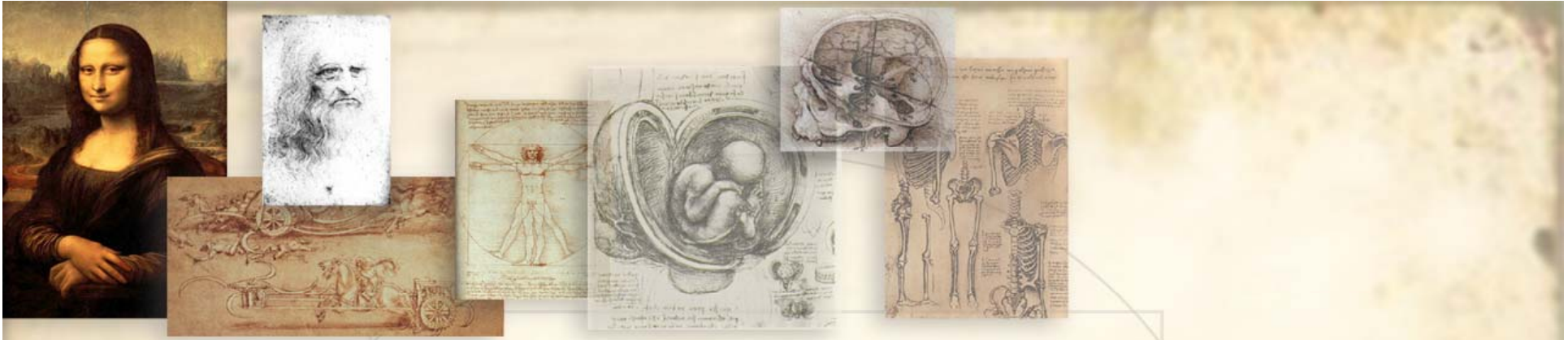
## Expert-based Firm

- ❖ Decision-rights - centered in the expert
  - ❖ Skybus – expertise is in the analysis
- ❖ Compensation –based on the job with a risk premium – could be compensated with flex time etc.
- ❖ Performance evaluation –firm and employee performance are intrinsically linked



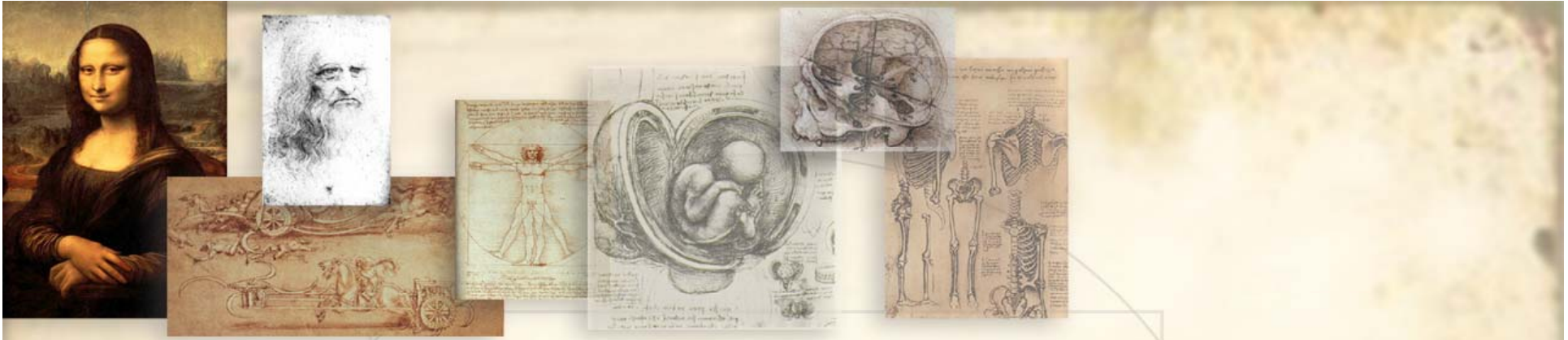
## Clan-based Firm

- ❖ Decision-rights – clan members share decision rights– Starbucks
- ❖ Compensation – goals and objectives of individuals are aligned, cooperation is assumed to be fair
- ❖ Performance evaluation - outcome of the firm and clan members are intrinsically linked



## Charisma-based Firm

- ❖ Decision-rights – Centered in the charismatic leader that transcends the bounds of everyday routines and influences followers of the correctness of their vision – Apple Computer
- ❖ Compensation – allocated by the leader
- ❖ Performance evaluation - outcome of the firm and employees are intrinsically linked.



## Implications of Opportunities

- ❖ Strategy and Entrepreneurship
  - ❖ Path dependence and competitive advantage
  - ❖ Founding conditions and firm boundaries
  - ❖ Where do heterogeneous resources come from?
- ❖ Competing ontology and competing rationalities
  - ❖ Assumptions about the nature of reality affect assertions about the nature of rationality