

## **Future Directions in Entrepreneurship Research Series**

### **Introduction and Foreword**

**Susan Marlow: Editor**

We are indebted to Shaker Zahra, Mike Wright and Sondos Abdelgawad for their contribution to our 'Future Directions' occasional series of research papers. The focus on context is timely and apposite; in essence all social phenomena are undertaken in specific contexts which intersect to generate, enable or constrain particular forms of behaviour. Yet so often in contemporary research, the critical and dynamic influence of context is taken for granted and remains invisible and unacknowledged. Within this paper, the authors evaluate the role of context in advancing research into entrepreneurial propensities, activities and outcomes. As such, it offers an invaluable reminder of the importance of this construct but importantly, using the insights generated from the many iterations and influences of context suggests coherent future research pathways to advance current theoretical and empirical analyses of entrepreneurship. We are confident this article will be an invaluable contribution to informing future research endeavours.

## **Contextualization and the Advancement of Entrepreneurship Research<sup>1</sup>**

### **Abstract**

Within this article, we analyze the role of context in the advancement of entrepreneurship research. We define contextualization and discuss why and how it is important in entrepreneurship research; the evidence relating to different dimensions of entrepreneurial context, focusing on temporal, industry, spatial, social, and organizational, ownership and governance is reviewed. The nature of entrepreneurship research with and without contextualization is explored and finally, we consider the challenges in undertaking contextualized entrepreneurship research.

### **Introduction**

Research in entrepreneurship has made major strides towards ensuring currency, relevance and rigor. Further advancing this research requires attention to the role of context in motivating people to engage in entrepreneurship and endure the challenges associated with its various activities. Independent owners and corporate entrepreneurs

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alike must deal with a myriad of forces that arise from the “context” of their activities. Fortunately, recent research highlights the important role of context in explaining entrepreneurial actions and their outcomes (Bjørnskov and Foss, 2013; Foss, Lyngsie and Zahra, 2013; Sarasvathy and Venkataraman, 2011; Ucbasaran, Westhead and Wright, 2001; Cabral et al., 2013). These actions cross multiple levels and are shaped by different sets of contextual variables. Though there is no agreement on these contextual influences, they are believed to pervade and influence the micro processes that give entrepreneurial actions their substance and potency. This has led scholars to call for further research to account for these contextual variables (Welter, 2011; Zahra and Wright, 2011) and to link them to theory building and testing (Zahra, 2007).

Contextualization fosters creative and novel analyses and explanations by situating phenomena, research questions, theories and findings in their natural setting. The various attributes of the setting become an integral part of the research process. Given its recognition and integration of the setting, contextualization can enrich the various theoretical perspectives that have guided thinking about entrepreneurship by providing opportunities for their possible integration and even advancing new theoretical frameworks. Simply controlling for contextual variables in analyses of entrepreneurial phenomena grossly overlooks their micro foundations (Aldrich and Martinez, 2001). A prominent example is the ongoing discussion on the origin of opportunities and whether they are discovered or created (Alvarez and Barney, 2013). Without contextualization the different effects of individual, situation, and serendipity are unclear. The same could be said about opportunity recognition process in established companies where a multitude of variables are likely to influence the outcomes. How and why certain opportunities are

recognized and selected for exploitation in an existing company remains a topic of considerable debate (Foss et al., 2013). Likewise, answering simple questions like what makes certain settings more conducive than others to opportunity recognition and exploitation would benefit from considering contextual variables. Why are other settings more conducive to rich and varied entrepreneurial opportunities and outcomes (Saxenian, 1994)? By understanding contextual variables we are better positioned in the field to answer these and similar questions, adding to theory and practice.

### **Objective and Focus**

In this article, we explore the importance of contextualization as a means of advancing future research on the nature and contributions of entrepreneurial activities. To accomplish this goal, we identify key dimensions of context and use examples of studies that have attempted to understand their effects on phenomena of interest; describe how entrepreneurship research might look if contextualized; and explore the theoretical and practical implications of contextualization. As evident from the discussion that follows, we do not present a traditional, comprehensive review of the literature. Instead, our focus is on contextualization and how it benefits the field. We do so by selectively using representative studies that offer insights into how to situate entrepreneurial research into its natural settings, whether in independent or corporate new ventures.

### **Contextualization in Entrepreneurship**

Definitions of contextualization vary, causing confusion and inconsistencies among researchers and across studies. In this article, we use contextualization in the broadest sense of the term—placing our researched enterprises within their natural settings to understand their origins, forms, functioning, and diverse outcomes (Davidsson

and Wiklund, 2001, John, 2001; Welter, 2011; Ucbasaran, Westhead and Wright, 2001; Zahra and Wright, 2011). This requires attention to the micro-foundations of entrepreneurial activities (Teece, 2007). These micro-processes vary in their durations, intensity, objectives, actors, and dynamics. Together, they provide the raw material from which entrepreneurial actions spring. Contextualization allows researchers to map out these various micro-processes to better understand the mechanisms by which they work. It also enables longitudinal research to document the changes in these elements and micro-processes and link them to changes in different outcomes such as the variety of opportunities companies have, the speed of internationalization by new ventures, or the change in the domain of activities by a small business owner.

Early studies gave attention to those special factors that determined entrepreneurial actions, processes and outcomes (Bhave, 1994; Gartner, 1985; Low and MacMillan, 1988). For example, researchers studying corporate ventures (companies created by established companies to exploit new technologies or enter new markets) examined the characteristics of the opportunity set available for a company, key organizational actors who might affect the fate of the venture at various organizational levels, the conditions of the industry (e.g., stable vs. dynamic), the financial situation of the sponsoring organization (e.g., resource rich vs. resource constrained), the political climate within the parent corporation, organizational culture and its support of new ventures, among others. Like other areas of entrepreneurship research (Davidsson and Wiklund, 2001), it was understood that a range of contextual variables influence the various decisions made at different levels of the organization (Low and MacMillan, 1988; Van de Ven, Polley and Venkataraman 1999; Zahra, Sapienza and Davidsson,

2006). Most of these variables, however, were identified on an ad hoc (and sometimes post hoc) basis.

Contextualization offers the field an important opportunity to integrate existing frameworks and theories. Paradoxically, the fact that the field of entrepreneurship lacks a coherent, integrative framework (Sarasvathy and Venkataraman, 2011) might have made it easier for scholars to “pick and choose” contextual variables they thought were interesting. With limited prior empirical field work, lists of contextual variables proliferated---adding more noise to the statistical analyses reported in the literature than to help resolve persistent debates on fundamental issues in the field. Consider, for example, recent research in entrepreneurship in emerging economies. Research findings, though interesting, appear to suffer serious endogeneity problems. Statistical controls in these studies also vary considerably and place great emphasis on institutional forces. Though the role of these institutions is not disputed, their cultural and historical foundations are often overlooked, leading to serious problems arising from these “unobserved variables”. Further, emerging economies vary along a host of variables and popular existing theoretical frameworks do not distinguish among different types of these economies---raising questions about their usefulness and the external validity of their findings.

Contextualization can serve multiple other purposes in studying entrepreneurship. Notably, it could help delineate important phenomena that deserve study and related research questions (Wiklund, Davidsson, Audretsch and Karlsson, 2011). It can offer researchers an important foundation to link their questions to the underlying but not easily observable cultural and historical foundations of the setting. Contextualization can

generate competing, alternative explanations of the same phenomenon, spurring researchers to study it in greater depth and identify key contingencies that influence their form and effect. In turn, this can help define the causal links among variables of interest (Rousseau and Fried, 2001) and clarify the nature of the functional relationships among them (Johns, 2006). Contextualization, therefore, can open the proverbial “black box” underlying entrepreneurial phenomena within and across organizational levels of the analysis (Hjorth, Jones and Gartner, 2008), while accounting for the multi-dimensionality of entrepreneurial activities. Given the potential importance of contextualization, in the next section we pause and examine the various dimensions of entrepreneurial context.

### **Dimensions of entrepreneurial context**

Researchers disagree on the dimensions of context. To avoid confusion and ensure coherence in this article we build on and extend the dimensions of context elaborated by Zahra and Wright (2011). Specifically, we present a more refined categorization comprising temporal, industry and market, spatial, social and organizational, ownership and governance dimensions of context. To ensure comprehensiveness and representativeness, we consider institutional aspects of contexts within these categories as they overlay these dimensions. In what follows, we consider key dimensions of entrepreneurial behavior relating to each of these aspects of context turn (Figure 1).

### **Temporal Dimension**

As with other social sciences (Bamberger, 2008), the study of time and its implications for entrepreneurial phenomena has been the subject of interest for decades (Bhave, 1994;

Bird and West, 1997; Bluedorn and Martin, 2008; Das and Teng, 1997). Yet, despite the large number of studies touching on these issues in multiple research streams, our knowledge of time as a dimension of context remains fragmented at best. One potential reason is the failure of entrepreneurship researchers to adopt a coherent and theoretically-grounded framework in studying time and its consequences (Welter, 2011). Further, the study of temporal dimensions in entrepreneurship has focused on independent ventures while overlooking corporate new ventures that have received only passing recognition in previous research (e.g., Lerner, Zahra and Kuhavi, 2007). Whether studying corporate or independent entrepreneurship, however, the explicit treatment of time by entrepreneurship scholars has been sparse and unsystematic.

**Importance and Prior Research Limitations.** Interest in the temporal dimensions of the entrepreneurial context is understandable. The decisions that entrepreneurs make have consequences that become clearer as time passes, determining many of the strategic choices that new ventures make. Windows of opportunity in an industry are also time-sensitive; time defines the value and magnitude of opportunities (Short, et al., 2010) and meaning as well as extent of risk. Opportunity exploitation and the use of different modes of exploitation are time-based (Choi and Shepherd, 2004). Similarly, industry clocks influence the pace and direction of strategic actions (Zaheer, Albert and Zaheer, 1999) needed to build and protect any market advantages that new ventures might gain. Time also generates multiple and competing demands on organizational resources that require harmonizing through judicious decision-making.

Despite the widely acknowledged importance of the temporal dimensions of entrepreneurship (Zahra, 2007; Welter, 2011), most research has been cross-sectional and

fails to discern causal dynamics among variables of interest across levels of the analyses. Endogeneity problems are also endemic in this research, leaving us wondering what causes what - and under what conditions. The recursive nature of the temporal dynamics that often prevail in entrepreneurial settings have also been largely ignored, leading to stylized but often-questionable conclusions about these dynamics. Perhaps more serious, is the lack of a framework that encourages the systematic treatment of time in the study of entrepreneurial phenomena (Welter, 2011).

These limitations notwithstanding, we can glean some insights from exploring key themes in prior research that have touched on temporal issues in entrepreneurship. Even though no single review could fully capture the diverse and fragmented findings of prior research, examining past studies could be informative of what we know and what we need to do next to incorporate context into our studies. Broadly, the key research streams that have considered time relate to organizational emergence, evolution and life cycles, entrepreneurial orientation, and organizational learning. These issues are addressed in turn next.

**Organizational Emergence, Evolution and Life Cycles.** Researchers studying organizational emergence have documented the rates of organizational birth, the length of new ventures' gestation periods (Carter, Gartner and Reynolds, 1996; Reynolds and Miller, 1992), the factors that motivate entrepreneurs to create companies, how entrepreneurs go through the various activities associated with putting together a winning business plan, how they secure resources (funding) and attain the first important customer and achieve growth (Aldrich, 1999; Gartner, 1985; Gersick, 1994). Some of these studies have adopted longitudinal designs to explicate variables of interest; for example, the

Panel Study of Entrepreneurial Dynamics (PSED) has enabled researchers to study these issues in the US and now, Sweden. Another noteworthy effort is the Global Entrepreneurship Monitor (GEM), which builds heavily on the design and content of PSED, and facilitates longitudinal analyses of differing national entrepreneurial activity.

A related body of research has explored the organizational life cycle (OLC). It asserts that new firms undergo major changes over the course of their lives--in their characteristics, operations, organizational structures, and the role managers/entrepreneurs play. Although there are variations in the number of stages identified, this research stream highlight successive stages of birth, growth, maturity, and decline -- each of which manifests a bundle of these variables. Movement from one stage to the next often results in major changes in these bundles of organizational attributes (Gersick, 1994). Researchers have also examined internal and external triggers for these movements across the phases of the OLC as well as how such triggers change over time and the challenges faced when moving from one phase to the next within a non-linear process (Vohora et al, 2004).

Studies on organizational evolution and life cycles reveal a path dependency, where a new venture's actions in a given time period affect its actions during the following period (Zahra, Sapienza and Davidsson, 2006). Path dependence reinforces the need for strategic coherence - defined as the consistency of choices across time and different organizational levels. Rejecting "determinism" in exploring new venture actions, researchers have suggested that as these firms mature and grow, entrepreneurs do not always have a free hand in making decisions because past choices shape current and

future decisions (Zahra, 2006). The payoff from these choices appears to depend on the firms' entrepreneurial orientation.

**Entrepreneurial Orientation (EO).** EO is one of the most widely studied constructs in the literature (Covin and Slevin, in press; Wales et al., 2013; Wiklund and Shepherd, 2005, 2011). It refers to a willingness to take calculated risks, be proactive and emphasize "futuraity" in decisions meaning that decisions are made with the future of the firm in mind. Entrepreneurs vary in their risk preferences shaping their planning horizons. Despite the wide interest in the nature and consequences of EO, research has been static in its designs and analyses (Zahra and Covin, 1995). Little credible evidence exists today on the extent to which a firm's EO might change over time or the factors that influence these changes. The longitudinal effects of EO have not been well studied, leaving a serious gap in research. Similarly, to date, the link between EO and planning horizons has not been systematically addressed. Research on corporate entrepreneurship (CE) also ignores the fact that well-established companies might have different businesses, each of which might have a distinct EO. Different organizational levels might also espouse vastly different EO. Likewise, the specific links between EO and competitive strategy have been ignored, even though logic would suggest that companies with strong EO are likely to pursue aggressive, bold competitive strategies.

**Organizational Learning.** Recognition of the temporal dimensions in the study of entrepreneurship has drawn attention to the value of learning by entrepreneurs and their ventures (Zahra et al., 2000). Learning becomes crystallized and clearer over time as entrepreneurs mull over their experiences and integrate what they have learned. Lessons are often difficult to discern when the person is emotionally and cognitively

engaged with decisions making. Further, while the lessons from the past may help shape the future, the potential downside is that changed environmental conditions may mean that entrepreneurs need to adapt what they do - but are locked into past trajectories (Rasmussen, Mosey and Wright, 2011).

Both success and failure could induce learning by prompting entrepreneurs to make sense of their experiences and distill key insights. This learning process may depend upon the nature of prior successes and failures (Ucbasaran et al., 2010). Knowledge sharing is an important means of fusing this learning but it is a process that takes time; the entrepreneur has to become adept at understanding her/his associated information decision styles and which types of information matters to different recipients. This deftness, in turn, takes time to develop and use.

**Summary.** As the above discussion indicates, entrepreneurship scholars have not been systematic in studying the role of time. The diversity of issues this research has addressed, combined with the absence of an organizing and coherent framework, have contributed to fragmented, non-cumulative and sometimes conflicting findings. Researchers have not examined the dynamic interplay among the variables they have analyzed, especially when they have explored multiple levels of analysis. These cross-level effects could be strong and enduring, reinforcing the growing recognition of the role of path dependency in entrepreneurial phenomena and decisions. There has been limited attention to how entrepreneurs meet the challenges needed to shift their trajectories over time. Finally, researchers have not always been careful to connect their interest in temporal dimensions with other dimensions of context such as cultural milieu and space (Welter, 2011; Zahra and Wright, 2011).

**Industry and market dimension of context.**

In general terms, at a macro level endowed factor markets play a major role in determining differences in economic opportunities between countries (Hoskisson et al., 2013). At a micro level, industries involve contexts that vary in the opportunities they offer as well as the intensity of their competitive forces (Porter, 1980). The nature of the appropriability regime and the ownership of complementary assets also provide contexts that influence both the scope for entrepreneurial entry and the nature of entrepreneurial activities (Gans and Stern, 2003). These contextual factors influence the strategies that entrepreneurs adopt and the sequencing of their entry into industries and markets.

**Competitive strategies.** Entrepreneurial ventures need to develop competitive strategies to establish and protect their position in a particular industry or market (Carter, Stearns and Reynolds, 1994). For high tech firms for example, the role of appropriability and ownership of complementary assets has important implications regarding the feasible strategies that may be adopted (Clarysse, Bruneel and Wright, 2011). While the bulk of past research has been cross sectional in nature it highlights a host of important relationships. Among the most notable is timing of entry into an industry (Grant, 2012) and the implications of this decision for the success of new ventures. Knowing when to enter an industry therefore, can affect new venture survival and performance measured by growth and productivity.

Decisions to exit particular industry segments or niches are integral parts of a venture's competitive strategy (Porter, 1980). An extensive literature on divestment and refocusing by established corporations (Johnson, 1996) analyzes exit through

relinquishing ownership. The assets sold may remain in the industry under new ownership which is able to inject entrepreneurial endeavor to reinvigorate them, such as through a management buyout (Wright et al., 2000). Still, limited research has investigated the frequency of exit decisions by entrepreneurial firms, their reasons and the long-term effects. Even less longitudinal research exists on these fundamental issues. Some markets cannot support the profitability and growth goals of a large number of new ventures. These industries are inhospitable, fiercely competitive or are in maturing settings where opportunities decline as time passes (Grant, 2012). Researchers have studied the effect of the external environment and fit between venture resources and skills with the success requirements of those particular environments and also, probed key changes in managerial goals on new venture exit decisions (Zahra, 2006).

Research has also investigated how new ventures change their competitive strategies and how this might affect performance (Gersick, 1994). Factors that trigger these changes have also received attention highlighting: shifts in an industry's landscape (Short et al., 2009); nature and mix of competition (e.g., entry by foreign companies), and change in the strategic context in which new ventures compete (Bradley et al., 2011). These shifts occur either because of changes in the regulatory environment, cultural changes, or the advent of radical technological change.

An additional but related body of research indicates that internal changes may also induce change in new venture strategies. Shifts in resource bundles (Bradley et al., 2011) as well as changes in competition through the entry and exit of members, and the aspirations of these venture teams appear to have an effect (Rindova, Ferrier and Wiltbank, 2010). Interestingly, the changes that occur over time in the internal

environment or the external context in which ventures compete can generate changes in those variables which in turn, drive changes in competitive strategies. Such shifts in industry competitive intensity may render the skills of some senior teams obsolete, causing the exit and replacement of these executives which in turn, may alter the level of managerial aspirations in terms of profits and growth rates. Aspirations might change over time because of learning, where senior executives become more realistic about their expectations of profits and growth, although there is little research on how entrepreneurs adapt their expectations.

A related issue is the strategic posture that the new ventures adopt. Some new ventures have innovative technologies and therefore, can position themselves as technological pioneers. Yet, these pioneers frequently fail, whereas other ventures that enter later are able to position themselves successfully as market pioneers. These are the companies that work diligently to develop the market, establish their names and brands and use aggressive marketing strategies to protect their markets. This dichotomy between technological and market pioneering and its consequences has not been carefully studied.

The decision by new ventures to internationalize their operations has also received considerable research attention (Autio et al., 2000; Zahra, Ireland and Hitt, 2000). Though mostly cross sectional, this research has recognized the importance of time when studying these issues. Zahra and colleagues (2000), for example, propose and find that the mode of internationalization influences new venture learning about technology in foreign markets. Autio et al. (2000) also find that time is important for gaining advantages of newness - such as learning more quickly than established competitors. Likewise, Sapienza et al. (2006) theorize that new venture growth is the

result of several variables that unfold over time. By developing viable relationships with external groups, new ventures, are able to gain social capital. (Prashntham and Dhanaraj, 2010). Crick (2004) also considers issues relating to subsequent exit from foreign markets, while Wright, Westhead and Ucbasaran (2007) point out the need to consider the nature of the industry context before drawing general conclusions about internationalization strategies of entrepreneurs.

**Sequencing.** Research on new ventures' competitive strategy, pioneering and internationalization also highlights how entrepreneurs sequence their decisions relative to market entry and build their positions therein. Even though a limited number of studies have examined sequencing, it enables entrepreneurs to logically decide the various steps as well as the skills and resources needed to succeed in each. Sequencing has implications that become visible over time: new ventures often learn from each step and carry forward what they have learned to the next step, enriching their ability to create novelty.

Sequencing is not limited to new ventures' decisions about competitive strategy, however. It relates to almost every facet of organizational emergence and growth. New ventures, for instance, may sequence the time in which they approach external sources of funding (Bhawe, 2012) and thus maximize their access to capital. They may also sequence the building of different organizational capabilities as well as their deployment (Park and Zahra, 2013). Sequencing also improves resource allocation, learning, and efficiency. Further, it is important for capturing and retaining managerial attention (Maula, Keil and Zahra, 2013), which is a scarce commodity given the multitude of

issues entrepreneurs address on a daily basis. Sequential attention helps entrepreneurs tackle uncertainty while building their budding organizations.

**Summary.** An extensive and diverse literature has examined the relationship between industry context and entrepreneurial activity. While there has been some attention to the dynamics of industries and markets, there has been relatively little attention to the issues surrounding entrepreneurial exit from markets and their shift across markets, as distinct from notions of entrepreneurial failure. Attention to the implications of industry and market dynamics would appear to be especially apposite given the sharply reduced costs of entering some markets and the shortened and volatile life-cycles of certain products. As a link to the social dimension of context below, exploration of the roles that alliances play in enabling entrepreneurial ventures to enter and grow in certain markets may be a fruitful avenue for future research. Incorporation of institutional differences between and within emerging and developed economies also opens up new research opportunities to examine issues such as the sequencing of entry and adaptation as a result of learning about such differences.

### **Spatial Dimension of Context**

Space, broadly defined, is an important dimension of the entrepreneurial context. Entrepreneurship researchers have studied the effect of the spatial dimension of context by highlighting the role of geography and location on where new ventures develop and grow, the relationships they establish with their key stakeholders, and their participation in different networks as well as where and how they assemble resources.

**Geography.** Some researchers have examined the effect of geography on the birth and subsequent growth of different types of new ventures (Clark, Feldman and Gertler,

2000, 2002; 2006). Zahra et al. (2004) provide an extensive review of this literature, concluding that geography serves as a proxy for several important variables that determine the vigor of entrepreneurial activities. Some countries are well-placed geographically and thus benefit from the advantages that come from their location. Others are located in less attractive regions which deprive them of key resources, factors of production or international markets. Overall, this research provides a partial explanation of the variations observed in the intensity and variety of entrepreneurship across nations and world regions.

Research on the geography of entrepreneurship, however, cautions that geography alone is not the causal agent of these variations. Instead, it serves as a means of crystalizing the effect of other factors. For instance, several researchers have studied the entrepreneurial activities of emerging countries and how they have been able to overcome the limitations of their location and the distance that separates them from global markets (for a review, Zahra, Abdel-Gawad and Tsang, 2011; Bruton et al., 2013). Brazil, for instance, has witnessed a rise in entrepreneurial activities when it took steps to reconnect itself with the rest of the world. China has also invested heavily in building its linkages to different parts of the globe, facilitating the growth of its foreign trade and enhancing its position as an exporter while attracting foreign direct investors eager to capitalize on vast markets and resources. Thus, while geography partially explains the success of Brazil and China and the growth of their entrepreneurial activities, much more of this success is attributed to what these countries have done to overcome the limitations of physical distance and connect with other world regions and nations.

Geography is related to differences in institutional context. These institutional contexts likely evolve over time such that the dichotomy between emerging and developed economies, which always was too simplistic because of the differences within these two groupings, becomes less and less informative. Cross-learning, trade, outsourcing and collaborative ventures have reduced the knowledge and skill gaps among these countries. These activities have helped some emerging economies to become “mid-range” economies (Hoskisson et al., 2013). Researchers have yet to adopt this more refined approach in tracking institutional changes and their implications for transplanting entrepreneurship in different locations around the globe.

**Physical Distance in the Digital Economy.** With the advent of powerful information technologies and the growth of the Internet, some have proclaimed the death of physical distance as a key strategic factor in promoting international business and entrepreneurial activities. Others have been more cautious, positing that physical distance still matters in indirect, but important, ways (Nachum and Zaheer, 2005). They suggest that physical distance influences not only international business transactions but also the mobility of entrepreneurs, capital, ideas, and discoveries. For instance, in today’s interconnected economy, more and more entrepreneurs use crowd sourcing to gain ideas and funding from a global audience. They are also able to access funds from venture capitalists in other countries. Opportunities often reside in physically distant locations (Zahra, Newey and Li, in press), making it essential to consider the costs, challenges and advantages that arise from locating operations in those markets and becoming a transnational entrepreneur (Drori, Honig and Wright, 2009). Distance, however, complicates organizational learning.

**Physical Distance and Organizational Learning.** Recent discussions of the role of geography and physical distance in entrepreneurial activities have raised interest in organizational learning. As new ventures compete in a global market, they frequently locate their operations in other countries (Zahra et al., 2000). Zahra (2006) tackles the thorny issue of how new ventures learn about “distant cultures”, those that differ in fundamental ways from the norms and values of their own home markets. He underscores the importance of first-hand experience in understanding these cultures and leveraging their norms, but his research reveals significant differences among ventures from different countries (e.g., the US, France and Sweden) in how they compete and learn in the same market (i.e.; China). Physically distant locations are difficult to understand, probably because of the subtle differences that exist because of different national and organizational cultures. Entrepreneurs may learn about distant cultures by working in them or being educated there. When they return home they can use the knowledge, in terms of human and social capital, gained from this experience both to know how to export to these markets and to establish more successful businesses in their home market (Liu, et al., 2010).

**Regional Advantages.** Researchers have also studied the effect of geographic location on entrepreneurship in given countries. Feldman’s (1999) research on the geography of innovation in the US is an example of this body of literature. This research stream suggests that there is a regional difference in the distribution of entrepreneurial activities and talents; some regions are simply more innovative than others. Entrepreneurial regions have rich resource bases, diverse economic resources, supply of talented and educated entrepreneurs, and capable human resources, among others

(Saxenian, 1994). Their advantages arise from the combination of these forces along with the presence of a well-crafted policy that supports entrepreneurial activities. The Silicon Valley and the Triangle regions of the US, for example, have benefited from these advantages that have built on patient and sustained investments by supportive local governments and entrepreneurs (Saxenian, 1994).

Regions and their entrepreneurial advantages rise and fall over time, reflecting changes in the industrial landscape and regional policies. Changes in the spatial distribution of firms also influence who benefits from entrepreneurial activities directly through value creation or indirectly through knowledge spillovers. The dynamics and causes of these changes might change over time, mirroring changes in the competitive milieu and how value is defined by different groups of stakeholders. Given the dearth of empirical studies in the entrepreneurship literature, changes in the spatial distribution of new firms need further study especially because these companies are an important component of viable entrepreneurial ecosystems.

**Summary.** An extensive but fragmented body of research has provided important insights into the role of spatial context for entrepreneurial behavior. While this research has considered aspects of entrepreneurial mobility, much of the focus has been entrepreneurial firms internationalizing at a distance and on migrant entrepreneurs entering foreign countries. There would appear to be scope for further research in a number of areas. First, even though much attention has been given to entrepreneurs from developed economies entering emerging economies, a developing trend that has attracted little research attention involves emerging economy entrepreneurs entering developed economies. Second, the trend for entrepreneurs to return home from developed to emerging

economies opens up interesting issues regarding, for example, the relative impact of the knowledge they have gained versus the challenges in terms of under-maintained social network for entrepreneurial activity in their home countries. Third, there is a need for further research on the interaction between home country policies encouraging exporting/discouraging foreign entry and these policies in potential host country institutional environments on the nature of spatial behaviour by entrepreneurs.

### **Social dimension of context**

Networks refer to the constellation of relationships that develop among members of a social system. For example, there are global production networks, whose members engage in similar supply chain and production processes or activities. There are also global knowledge networks where people freely share and trade in knowledge across international borders. Frequently, network membership is determined by historical factors (being in the right place at the right time), capabilities, reputations, and business connections, etc. Membership in these networks tends to be stable over time, bonding companies within them. This reduces transaction costs and the need for monitoring. It increases trust and promotes collaboration.

Networks are a key source of information, resources, and access to markets (Stuart and Sorenson, 2007). Members often rely on each other for referrals that increase sales and promote new business creation. “White spaces” within these networks and opportunities for arbitrage and bridging signal areas where new ventures might be established. Networks foster the creation, growth and success of new ventures, some of which are joint ventures that members of the same network establish. Knowledge spillovers from these networks also encourage the formation of new ventures in specific

industries or across industries—helping to develop and sustain vibrant and productive ecosystems. Some new ventures grow and become key nodes in existing networks, some evolve into positions of industry leadership. On the other hand, others become suppliers to companies in these evolving ecosystems. Still, others create new networks of their own and compete (and/or collaborate) with existing networks.

The cycle of new venture creation, network formation and successful operations, capturing and leveraging knowledge spillovers and cultivating new knowledge when establishing a new generation of ventures, perpetuates the innovativeness and productivity of network membership. In turn, this reinforces the importance of networks in overcoming the challenges of physical distance and how it might affect the intensity and types of entrepreneurial activities undertaken. This, too, encourages the emergence of networks and their continued existence.

Over time, however, the effect of networks on new ventures might shift from being beneficial to being dysfunctional. Researchers have attempted to explain why networks form and persist over time, why certain firms from given countries gain access to these networks, and how networks affect overall entrepreneurial activities as well as the firm's strategic choices and performance (Stuart and Sorenson, 2007; Smith and Cao, 2007). Existing networks might seek to thwart entry by new ventures or constrain their efforts to grow, especially if their operations are believed to threaten those of existing network members. The timing of these shifts has not been carefully studied in prior research but deserves greater recognition and attention. Evidence suggests that radical technological change and industry jolts often decimate existing networks and their

members. How these externally derived forces of change combined with internal pressures to change (e.g., desire to switch to a different network) remains unclear.

**Clusters and Industry Parks.** Spatial and social aspects of context are interrelated. For example, recognizing the various advantages associated with physical proximity (closeness) and network memberships, some regions and countries have aggressively supported the creation of industry clusters where those in the same industry locate their operations in close proximity (Feldman and Braunerhjelm, 2006). Closeness fosters communication, knowledge sharing and collaboration. Firms within a cluster often benefit from sharing facilities and infrastructures that support operations. Interactions in the cluster create businesses and facilitate organizational learning. Vicarious learning is common, potentially fostering speedy and radical innovation processes. Clusters develop their unique cultures that promote solidarity and openness and so, facilitate knowledge sharing.

Industry parks are cooperative activities between regional institutions such as universities and research centres and local industries; they support the generation of new ventures - offering them the services needed to develop and commercialize new technologies and license or patent their innovations. Industry parks could be specialized along product or industry lines, promoting the accumulation of experience and knowledge sharing that leads to organizational learning. Knowledge spillovers from within and across industries also provide valuable clues about the types of innovations that could be developed and commercialized, promoting entrepreneurial and network creation activities. The spatial proximity of new firms, local institutions and universities fuels the cycle of discovery, innovation and new firm creation.

Similar to clusters, industry parks are fast becoming major parts of evolving entrepreneurial ecosystems that spawn entrepreneurial activities that renew industries and companies. Given their importance, where these clusters and science parks are located matters a great deal in gaining political and financial support for the incumbent firms. The relationships that develop within these clusters and science parks as well as with key stakeholders are likely to change over time, offering additional opportunities for new venture and wealth creation. These changes deserve close empirical attention in future research. This is especially the case as clusters evolve as the organizational demands and costs of many start-ups fall dramatically. For instance, the entrepreneurial accelerator programs represent a novel way in which start-ups can access support in the form of mentoring, initial finance, incubator space and networking with other participants in the programme.

**Summary.** Although there is an extensive literature on entrepreneur social networks, there is relatively limited analysis of the actual social capital that these networks generate (Gedajlovic et al., 2013). Further, there has been little research on the dark side of social aspects of context. While there has been attention to the temporal nature of occupancy of industrial parks, there has been little exploration of the temporal nature of the parks and clusters themselves. To what extent and why do parks cease to exist or experience a metamorphosis into a different format? A more general issue concerns the role of networks in the development and functioning of entrepreneurial ecosystems; much of this work has considered networks between firms (Moore, 1996), while at the same time the literature on national systems of entrepreneurship has focused upon the macro-conditions for the development of entrepreneurship (Acs, Autio, and

Szerb, 2013). Future analysis of the social context for entrepreneurship needs to bring together the macro and firm-levels to obtain a more complete perspective on the nature of entrepreneurial ecosystems (Wright, 2012).

### **Organizational, ownership and governance dimensions of context**

Ownership and its different effects throughout the entrepreneurial process represent an important dimension of context. The focus on independent owner-managed start-up as the stylized form of entrepreneurial phenomenon presents an important limitation to the role of organization, ownership and governance dimensions of context. Even independent owner-managed start-ups can vary in their organizational, ownership and governance characteristics. The variety of forms in which entrepreneurship occurs gives rise to contextual differences that may affect entrepreneurial behavior.

**Organizational context.** Organizational contexts may vary in the extent to which they encourage or discourage entrepreneurship. Some organizational contexts may facilitate entrepreneurship either because they are dynamic and high-tech, leading to the spawning of numerous ventures through employee spin-offs or because their constraining effect on entrepreneurial employees pushes dissatisfied employees to exit and start their own business. Different organizations have different objectives, opportunity recognition and exploitation capabilities, and access to resources which have implications for the nature of entrepreneurial activities. Nelson (forthcoming), for example, compares the influence of university versus private firm contexts in the commercialization process of a new technology. Mismatches between organizational context, and the resource, structural and aims-oriented demands of a commercialization process for university technology can severely hinder both the commercialization activity and the traditional activities of a

university. While there has been extensive analysis of spin-offs from universities or from corporations, there has been limited comparative work (for exceptions, see Zahra, Van de Velde, and Larraneta, 2007; Clarysse, Wright and Van de Velde, 2011). What is becoming clear is that spin-offs involving individuals who enter entrepreneurship directly from academia appear to perform less well than spin-offs where university graduates have also obtained commercial experience in a corporation (Wennberg, Wiklund and Wright, 2011). However, the processes by which entrepreneurs adopt these different routes to entrepreneurship are less well-known.

Social entrepreneurship ventures have dual commercial and social objectives that impose multiple and possibly conflicting demands arising from the juxtaposition of divergent cultures, practices, activities, values and logics in the organization (Austin et al., 2006). Some social entrepreneurship ventures may compromise their social objectives, while others may decouple their formal and from operational activities and project a symbolic image to legitimize their social goals. What is less clear however, is how differences in the relative importance of social versus commercial objectives are handled in hybrid structures adopted by social entrepreneurs and how sustainable these forms are over time (Zahra et al., in press).

Family firms may emphasize socio-emotional wealth rather than traditional profit-oriented objectives, potentially leading to differences in their entrepreneurial behavior compared to non-family firms (Gomez-Mejia, et al., 2007). But family firms are not homogeneous and differences may also arise between family firms regarding the extent to which entrepreneurship is encouraged for example, differences between first and second generations (Wright and Kellermans, 2011). These problems may be exacerbated in later

generations where objectives of family members involved in management of the business may differ from those who only own shares. A further neglected challenge may arise in later generations where different branches of the family begin to focus on their own objectives rather than of the family firm as a whole.

**Ownership.** Entrepreneurial firms exist in a range of ownership contexts, such as: private and listed corporations (including IPOs); family and non-family firms; venture capital (VC)/private equity (PE) ownership and non-VC/PE ownership; and single and group ownership structures. There are also variations in ownership structures within each of these categories. Ownership structures may also vary between differing types of developed and emerging economies. These different ownership structures involve varying degrees of alignment between ownership and control, giving rise not only to principal-agent problems but also multiple principal (such as through pyramidal ownership structures in emerging economies, see Peng and Sauerwald, 2013) and multiple agency conflicts (such as in IPOs, see Bruton et al., 2010). The focus of much of this literature has been on the negative effects of opportunistic behavior on financial performance. However, there has been little explicit examination of implications for the pursuit of entrepreneurial opportunities. For example, firms may create parent company-subsidiary group structures for various reasons. For family firms, creating a subsidiary can ring-fence the development of riskier new areas - perhaps managed by the second generation - in a manner which protects the parent company, should the activity fail. Although there is some limited evidence that these subsidiaries are indeed riskier, their entrepreneurial activities have not been explored.

Ownership differences also interact with other dimensions of context to influence the nature and outcome of entrepreneurial behavior. Different ownership forms have different temporal perspectives. For example, while the family firm temporal horizon may focus on longevity through succeeding generations, firms with venture capital and private equity ownership will have clear time horizons tied to the exit targets of financial investors. Public corporations may have shorter time horizons that affect their decision making (e.g., resource allocations) in ways that undermine potential entrepreneurship. These companies may show a proclivity to focus on those products and technologies that could be commercialized quickly---rather than building products that lead the market. These observations suggest that changes in ownership (e.g., a public company going private) can influence entrepreneurial activities and therefore, warrant greater research attention.

**Teams.** The majority of new start up are initiated by teams rather than individuals (Wright and Vanaelst, 2009). There has now been some attention to the dynamics of both team entry and exit (Ucbasaran, et al., 2003). Similarly, habitual entrepreneurs may create new ventures either by retaining a nucleus of team members or engage a different team each time. However, there has been limited empirical research on the nature of the ownership and governance dynamics within these teams. For example, we know relatively little about the distribution of ownership within teams, the challenges posed to ownership through team member turnover, team member compensation, and the relative importance of dominant lead founders versus other team members.

**Boards.** We noted earlier that entrepreneurial ventures experience an organizational life-cycle as they evolve. As part of this evolution, different demands arise

regarding the nature of governance of the venture, and in particular the role and composition of the board of directors. For example, at different phases the board may need to focus more on assisting entrepreneurs with their strategy development, while at other times the focus needs to be on ensuring accountability to stakeholders (Zahra, Filatotchev and Wright, 2009). This suggests a need for diversity in board skills and social capital according to the temporal context that goes beyond traditional measures of board size and the presence of independent directors. Ownership contexts may also influence the nature of board diversity. For example, Wilson, Wright and Scholes (2013) show that the lower likelihood for private family owned firms to enter bankruptcy than non-family firms reflects the composition of their boards, especially in terms of gender diversity, closer co-location of directors, lower turnover of board members, and greater experience. However, the contribution of the functional expertise of board members to entrepreneurial activities has been neglected.

**Summary.** Research has been limited and fragmented in the extent to which it has examined the implications of the organizational, ownership and governance dimension of context. To the extent that research has compared ownership structures these have oftentimes been in the form of, say, family versus non-family firms of VC-backed versus non-VC-backed firms. Such analyses tend to imply homogeneity of each group. As this is unlikely to be the case, failure to account for heterogeneity may be an important shortcoming of existing research that future studies need to address. We know little about how boards are constructed in different contexts. Further, understanding of board processes in entrepreneurial firms with different objectives and ownership structures remains elusive.

### **How will Contextualization Influence Future Entrepreneurship Scholarship?**

Having discussed the importance of contextualization in entrepreneurship research and covered key dimensions along which contextualization can occur, a question arises. How will this influence future research in entrepreneurship? We believe that contextualization can improve the quality of future entrepreneurship research in several ways. It encourages, indeed compels, scholars to become more familiar with the phenomena they are studying. Rather than being reporters of distant events and issues, researchers are expected to become engrossed in the dynamics that shape context. This can help to develop a deeper and more insightful understanding of the issues under consideration and reveal alternative explanations. Further, instead of controlling for contextual variables as is common today, context becomes part of the story being told. Specifically, results and descriptions of the setting could carry particular meaning and context-specific peculiarities that give unique meaning to events and issues. Thus, phenomena and their explanations are situated in their context, adding richness to theory building. These meanings and boundaries evolve as research progresses, instead of drawing such boundaries a priori as widely done in current research.

Becoming connected to and engaged with context can lead to bounded propositions, rather than the familiar broad assertions about causal mechanisms that underlie relationships. This, too, can improve theory building and provide focus for future entrepreneurship research. Finally, contextualization can encourage researchers to address issues that are relevant while applying rigorous methods that enable the development of well-grounded findings. As such, contextualization restores the craft to

the ever-growing empirical and theoretical research undertaken in entrepreneurship. For these benefits to materialize, however, researchers need to overcome a number of challenges.

### **What are the challenges in contextualizing entrepreneurship research?**

Researchers are likely to encounter both conceptual and empirical challenges in contextualizing entrepreneurship research. We have identified and discussed a number of dimensions of context independently yet, conceptually and empirically these dimensions interact. This integration could be tasking. Our overview has pointed to several areas of overlap between contextual factors, such as time and space. Consequently, further conceptual and empirical development is required to disentangle these interactions. While various national and regional level measures are available that recognise dimensions of the institutional context, there is also a need to identify collinearities between different dimensions of context. As an example, Hoskisson et al. (2013) use contextual measures from the World Economic Forum's Global Competitiveness Report relating to institutional development and infrastructure; they factor in market development to obtain more fine-grained insights into the heterogeneity of emerging economies.

Many of the measures of context are now available for different time periods but this only captures part of the temporal context, notably temporal changes in the institutional environment. Likewise, measures that capture the life-cycle phase of the venture also need to be incorporated. Tackling the issues that arise from longitudinal designs would be an important challenge.

Analysis of other dimensions of context may require access to fine-grained firm-level datasets that cross different levels of analysis. For example, there is a need for longitudinal firm level databases that include different ownership types of private firms at different stages in their life-cycle in order to address many temporal and ownership issues. This is likely to be problematic in countries where private firms are not required to disclose financial information but constructing such databases is feasible in some other contexts and may even enable multi-level studies. For example, Estrin et al. (2012) explore whether individual's social networks compensate for weaknesses in national institutions. Such studies will likely require time-intensive linking of data from different sources but are becoming increasingly feasible. More fundamentally, it may be possible to address some research questions only through gaining access to proprietary datasets held by organizations such as financial institutions or governmental agencies.

Much research takes context as given yet, the context may at least in part be shaped by entrepreneurial actions. Further, entrepreneurs may experience contextual mobility for example in terms of evolution over time, and spatial mobility to different locations (Wright, 2011). Entrepreneurs may also move from one organization to another, such as spinning off from a corporation or university. Hence, rather than being exogenous, the context is, to some extent, endogenous. Co-evolutionary approaches afford one type of lens with which to examine this interaction between entrepreneurs and their context. Alternatively, narrative approaches may yield useful insights as they bring together contexts and entrepreneurial agency (Garud and Guilian, 2013).

A further challenge stems from much research being focused on the role of context in influencing entrepreneurial start-up *entry* into a market. However, this research

has been limited in terms of the nature of other forms of entrepreneurial activity examined and in terms of how context influences entrepreneurial *processes*. This calls for the application of different types of research methods to address different types of research question. Notably, there is a need for further longitudinal process studies covering different contexts.

Zahra and Wright (2011) show that entrepreneurial activities can be heterogeneous in the magnitude of their novelty. Accordingly, a final challenge awaiting future researchers concerns the identification and measurement of different types of entrepreneurial opportunity and activity in different contexts. Relatedly, future researchers need to recognize that antecedents to entrepreneurship in one organizational level may have far reaching implications at other organizational levels. This suggests that advancing entrepreneurship entails adopting multi-level thinking and analysis.

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Figure 1: Context and Entrepreneurial Behavior

