

## Investigation Of The Dynamic Of Entrepreneurial Change

Brian McKenzie\*

*This study describes the adaptive behavior of a group of self-identified entrepreneurs. The study analyzes the oral histories of these entrepreneurs in an attempt to find commonality in their patterns of change and develops preliminary theory from this data. A common pattern of adaptive behavior was discovered in this study and is referred to as the dynamic of entrepreneurial change. This research has important implications for the practice of entrepreneurship. It is hoped that this research will offer the practitioner guidelines for the determining when to use loose adaptive strategies and when to use elaborate business planning strategies.*

### 1. INTRODUCTION

A number of entrepreneurship scholars hold the viewpoint that the firm should be the unit of analysis in the study of entrepreneurship (Aldrich, 1999; Gartner *et al.*, 1988; Hannan & Freeman, 1977; Low & MacMillan, 1988). This viewpoint has become known as the evolutionary perspective of entrepreneurship (Aldrich & Martinez, 2001). While the evolutionary perspective acknowledges the complexity of the entrepreneurial process, it also has an embedded worldview that business start-up is rational and progressive activity (Aldrich & Martinez, 2001; Reynolds, 1988). Bygrave (1989, p. 16) has criticized entrepreneurship researchers for being guilty of 'physics envy', which he defines as the inappropriate imitation of the theoretical and empirical methods of advanced rational scientific paradigms.

Another group of scholars hold a dissenting view of entrepreneurship. McKenzie (2003) found evidence suggesting that entrepreneurship is founded in the economic activity associated with identity-seeking of entrepreneurs. Bygrave and Minniti (2000) modeled entrepreneurial activity within a community as the unintended consequence of many individual choices with respect to entrepreneurship. A study by Erasmus & Nel (2007) shows a recursive pattern in which entrepreneurs need to develop strategic and negotiation skills in order to acquire the confidence to become skilled in these same entrepreneurial abilities. Salim (2005, p.52) suggests that entrepreneurs maximize the output feasible with current technological, socioeconomic and physical environments. (Bhide's (2000) in-depth interviews of the founders of 100 companies from the 1989 Inc 500 list showed that high uncertainty helped entrepreneurs who started businesses with limited endowments.

---

\* Dr. Brian McKenzie, Department of Marketing and Entrepreneurship, California State University, East Bay, USA. E-mail: [brian.mckenzie@csueastbay.edu](mailto:brian.mckenzie@csueastbay.edu)

## McKenzie

Morris, Altman and Pitt (1999) hypothesized that entrepreneurs use a strategy of adaptation to counter the ambiguity, risk and lack of control they face in their entrepreneurial activity. Lumpkin, Shrader and Hills (1998) found no significant correlation between using a formal written business plan and new venture performance.

It would appear that, while the evolutionary perspective offers researchers valuable macro-level insight into the process of entrepreneurship, a different perspective is necessary for researchers to gain micro-level insight. Baumol (1993, p.13) has suggested: "there is a sort of Heisenberg principle that holds for entrepreneurial acts." Davidson and Wiklund (2001) noted micro-level entrepreneurship research to date has tended to focus on the psychological characteristics of entrepreneurs instead of the more interesting research questions surrounding "irrational behaviors on the part of entrepreneurs".

This report describes the results of a micro-level inquiry into the ways that a group of 32 entrepreneurs remember the path of their venture creations. The study uses conceptual mapping of the oral histories of self-identified entrepreneurs to develop an understanding of the dynamics of entrepreneur's strategic venture development.

## 2. LITERATURE REVIEW

Stewart (1991,p.7) suggested ethnography is well suited to the study of entrepreneurship, pointing out participant observation allows scholars a unique glimpse of entrepreneurship's crucial lore. Low and MacMillan (1988, p.156) indicated the need for more contextual and process oriented research in the field of entrepreneurship. Aldrich and Baker (1997, p.393) claim ethnographic methods allow researchers to gain new insight from their field observations.

Oral history collection is a particular form of ethnography. The origin of contemporary oral history collection is credited to Nevins, who established the Columbia University Great Man recording project in 1948. While earlier collections had been undertaken (Starr, 1996), it was the development of portable tape recorders that led to acceptance of oral histories as a source of historical material and then to the recognition of oral histories as valuable data in their own right (Rosenberg, 1978). Oral history evidence, which is referred to as an 'actuality' (Ridington, 2001), has been defined as: "an account of first-hand experience recalled retrospectively, communicated to an interviewer for historical purposes and preserved on a system of reproducible sound" (Lummis, 1987, p.27). As a scholarly tool, oral history is an accurate collection of subjective evidence (Moss, 1974) created by the 'memoirist' (Moss & Mazikana, 1986) in dialogue with the interviewer.

Conceptual mapping originated with Ausubel's (1963) theories of the verbal learning of young people. The technique of conceptual mapping was formalized during Novak's (1990, 1995) studies at Cornell University. Conceptual mapping allows the researcher to uncover new linkages in the interpretation of structured knowledge (Miller & Riechert, 1994, p.2). In this study, the key events described by each of the memoirists have been mapped using a commonly available software tool, Compendium, which was developed by Verizon and the Open University (Conklin, 2001).

## **McKenzie**

An extensive search by the author suggests that this is the first time that conceptual mapping has been used as a tool to interpret oral histories.

### **3. METHODOLOGY**

This study analyzes the oral histories a group of self-identified entrepreneurs in an attempt to develop a grounded theory of the dynamic process of entrepreneurial change. This study utilized a process of theoretical sampling (Glaser & Strauss, 1967, p.45) in the determination of the number and types of candidates to be interviewed. Simply stated, theoretical sampling means that the ethnographer chooses the next people to interview when he or she feels the need for data to compare to the data already collected (Agar, 1980, p.124). Glaser and Strauss (1967, p.61) refer to this point as theoretical saturation.

Approximately twenty-seven hours of interviews with 32 entrepreneurs were recorded between 2002 and 2004. The entrepreneurs who agreed to be a part of this study were from a wide variety of industries: clothing, communications, consulting, health care, hospitality, manufacturing, retail, software development, trading and yachting. They ranged in age from 27 years to 76 years. Fourteen were American, fourteen were Canadian and four were immigrants to Canada from other countries. Approximately one third of the entrepreneurs were women and two thirds were men.

Each oral history collection session was conducted according to current best practices (McKenzie, 2006). The content of each oral history document was determined by the memoirist. The researcher only acted as a sounding board and prompted the storytelling if there was a long pause.

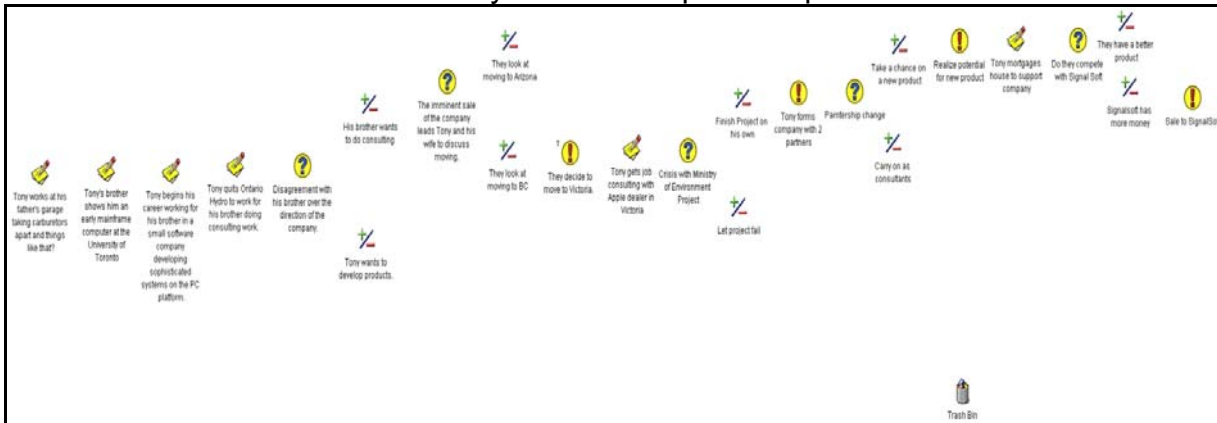
Soon after each recording session, the original recording was copied to a compact disk using Goldwave audio software. A complimentary compact disc was sent to the memoirist along with a letter of thanks. At the time of conversion to digital format the researcher created an outline of each recording as a Microsoft Word document. The outline of each recording is kept as a separate document filed with the memoirist's first and last name. A catalogue of all recordings is also kept.

The dynamic of each of these entrepreneurs' venture development was mapped using Compendium software in accordance with tested practices (Huff & Jenkins, 2002). Conceptual mapping is a form of story network analysis, categorizing story fragments into maps read as nodes and relationships (Boje, 2001, p.62). Narrative analysis of all types is a form of interpretation. As such, the researcher is striving for insight rather than empirically documenting the salient features of stories underlying structure. Thus no attempt was made to engage multiple researchers or to measure inter-rater reliability. Preliminary theory building was accomplished through interpretation of these patterns using a process of inductive reasoning.

### **4. ANALYSIS**

The 32 conceptual maps created in this study took the form of the one shown in Figure 1. Statements of the progress of the life story are captured in memo form. Turning points, or points where a critical decision was made by the entrepreneur are captioned with "?". Each of the possible options considered by the entrepreneur is listed and captioned with "+/-". The decision point is marked with "!".

Figure 1  
Tony Melli Conceptual Map



Central to each of the conceptual maps of the stories told by entrepreneurs was the successful navigation of turning points by the entrepreneur. An example of such a turning point, graphically depicted in the middle of Figure 1, is given in the following statement by Tony Melli, one of the participants of this study.

I stayed there for a month until I found a house to rent and just started to knock on some doors of some contacts I had made coming over here through my friend who was in the computer field. And he was working at the government at the time...I ended up working with the company that did consulting in the Apple field, and I had nothing; no experience in the Apple field at all...they ended up putting me in touch with one contract that they had, it was the Ministry of Forests Protection Branch.

The most significant finding of this study is the discovery that the entrepreneurs not only described multiple turning points in each of their life stories, but that their entrepreneurial success is mirrored in their successful navigation of each of these turning points.

This study, in general, supported the findings of Bhide (2000). None of the entrepreneurs in this study executed grand plans. Rather, as suggested by Bhide, the entrepreneurs of this study were found to be very adaptive, changing their businesses or changing businesses in response to critical incidents or turning points.

## 5. DISCUSSION

In order to come to an understanding of the importance of the successful navigation of turning points in an individual's life, we must turn to an investigation of the concept of identity.

Côté and Levine have designated the psychologist Erik Erikson as the "father of the identity concept" (Côté & Levine, 2002, p.xiii). Sökefeld (1999, p.417) described

## McKenzie

Erikson's contribution as the combining of the archaic meaning of identity, the self-sameness or consistency of personality, with the modern meaning of identity, the sameness of the self with others. Erikson's theory of identity grew out of the similarities he saw amongst his personal experiences immigrating to the US, the disturbances he had seen in conflicted young urban American patients and the strange disorder experienced by World War II victims referred to as identity crisis (Erikson, 1975, p.43). In all of these cases, Erikson thought that there appeared to have been a lost sense of connection to others (Erikson, 1968, pp.15-19). Erikson (1975) termed these moments of identity crisis as 'turning points'.

An important finding of this study is that entrepreneurs tend to successfully navigate turning points rather than have their stories disrupted by them. Often the story of the founding of business revolved around the successful navigation of a turning point. Tim Vasko, one of the participants of this study, described the founding of an investment banking venture in this way:

...and I got my mutual funds license and I made one sale. And so I was basically as salesman and I made one sale for...and the guy who sponsored me...the sale I made was a \$30,000 bond fund. And so I was expecting to get, the commission was four percent, so I was expecting to get \$1,200 or something less, maybe \$1,000. And I got a cheque for \$600. And I called the guy who had sponsored me to get my license and he goes, "Well half of it is mine". And I said, "You mean, I went out, I found the person, you don't give me an office, you don't give me anything, you don't pay any of my bills, you don't pay for my gas and you're going to keep 50% of my money." And he said, "Yeah, that's the way it works." And I said, "Not for me it doesn't." And so I decided that...I said, "Well, I'll just go and start my own company." And the guy said. "Good luck."

Embedded in this description is not only the story of the turning point, but also the implied story of how Vasko used the knowledge from navigation of this turning point to create a new venture. The successful navigation of multiple turning points can be seen as the dynamic of entrepreneurial change.

From this discussion, we can formulate a general proposition of entrepreneurial change, namely:

Proposition 1:

The dynamic of entrepreneurial change suggests that entrepreneurs act in the pursuit of self-identity.

On the other hand, entrepreneurs who experienced business failure tended to have disrupted life stories. Another of the participants of this study, explained in his oral history that he was currently in the process of winding down the organization he had founded. He choked with emotion as he said, "I'm an entrepreneur. It didn't necessarily translate into another Microsoft, obviously". This participant figured at this point, he had lost between US\$6 million and US\$7 million of his own money on the venture.

This finding suggests that the entrepreneurial identity of an individual is not developed in the experience of moments of crisis so much as it is developed in the experience of successful management of moments of crisis. This can be stated as a second general proposition of entrepreneurial behavior, namely:

## McKenzie

Proposition 2:

The dynamic of entrepreneurial change suggests entrepreneurial success results from successful navigation of turning points and failure results from stalled navigation of turning points.

### 6. IMPLICATIONS

This research enriches the discussion which is currently going on amongst entrepreneurship researchers by setting an example of the kind of interesting micro-level study that can be done outside of the traditional psychological approaches. Traditional entrepreneurship, aimed at the level of the firm provides an 'etic' (or top down) view of the process of venture creation. This research reveals an 'emic' (or bottom up) approach to the process of venture creation.

The etic view of entrepreneurship clouds the clear distinction of what is and what is not entrepreneurial failure, since business failure may or may not mean entrepreneurial failure (Headd, 2003; McKenzie & Sud 2007). This study suggests that the emic view of entrepreneurship clearly distinguishes what is entrepreneurial failure and what is business failure. The success of an entrepreneur can be based on his or her successful navigation of turning points and is independent of business failure. Central to the insight provided by this interpretation of the oral histories of working entrepreneurs is the importance of successful emotional management of turning points. It does not seem to matter whether or not the outcome of each of these turning points maximized the economic returns to the entrepreneur. Rather, what seems to be important is that the entrepreneur is able to build the turning point into his or her life story without the disruption of that story. It is only when a complete business failure, such as that described by the anonymous participant disrupts the life story that the entrepreneur feels a sense of personal failure.

This research has important implications for the practice of entrepreneurship. It is hoped that future research in this area will offer the practitioner guidelines for determining when to use loose adaptive strategies and when to use elaborate business planning strategies.

### REFERENCES:

- Agar, M. 1980. *The professional stranger: An informal introduction to ethnography*. New York, NY: Academic Press.
- Aldrich, H. 1999. *Organizations evolving*. Thousand Oaks, CA: Sage Publications Ltd.
- Aldrich, H. E., & T. Baker. 1997. Blinded by the cites? Has there been progress in entrepreneurship research? In D. L. Sexton & R. W. Smilor (Eds.), *Entrepreneurship 2000* (pp. 377-400). Chicago, IL: Upstart Publishing Company.
- Aldrich, H. E., & M. A. Martinez. 2001. Many are called, but few are chosen: An evolutionary perspective for the study of entrepreneurship. *Entrepreneurship Theory and Practice*, 25(4), 41-56.
- Ausubel, D. P. 1963. *The psychology of meaningful verbal learning*. New York: Grune & Stratton.
- Baumol, W. J. 1993. *Entrepreneurship, management, and the structure of payoffs*. Cambridge, MA: MIT Press.
- Bhide, A. V. 2000. *The origin and evolution of new businesses*. New York, NY: Oxford University Press Inc.

## McKenzie

- Boje, D. M. 2001. *Narative methods for organizational and communication research*. Thousand Oaks, Ca: Sage Publications.
- Bygrave, W., & M. Minniti. 2000. The social dynamics of entrepreneurship. *Entrepreneurship Theory and Practice*, 24(3), 25-36.
- Bygrave, W. D. 1989. The entrepreneurship paradigm (i): A philosophical look at its research methodologies. *Entrepreneurship Theory and Practice*, Fall 1989.
- Conklin, D. J. 2001. *Sense-making and knowledge collaboration tools*. Unpublished White Paper, Edgewater, MD.
- Côté, J. E., & C. G. Levine., 2002. *Identity formation, agency, and culture: A social psychological synthesis*. Mahwah, NJ: L. Erlbaum Associates.
- Davidsson, P., & J. Wiklund. 2001. Levels of analysis in entrepreneurship research: Current research practice and suggestions for the future. *Entrepreneurship Theory and Practice*, 25(4), 81-99.
- Erasmus, H., & Nel, P. 2007. What skills do emerging entrepreneurs need to learn? Proceedings of the 3rd Annual San Francisco - Silicon Valley 2007 Global Entrepreneurship Research Conference. San Francisco, CA.
- Erikson, E. H. 1968. *Identity youth and crisis*. New York, NY: W.W. Norton & Company.
- Erikson, E. H. 1975. *Life history and the historical moment*. New York, NY: W.W. Norton & Company.
- Glaser, B. G., & A. L. Strauss. 1967. *The discovery of grounded theory strategies for qualitative research*. Chicago, IL: Aldine Publishing Company.
- Grele, R. J., & S. Terkel. 1985. *Envelopes of sound: The art of oral history* (2nd, revised ed.). Chicago, IL: Precedent Publishing Inc.
- Hannan, M. T., & J. Freman. 1977. The population ecology of organizations. *American Journal of Sociology*, 82(5), 929-964.
- Headd, B. 2003. Redefining business success: Distinguishing between closure and failure. *Small Business Economics*, 21, 51-61.
- Headland, T. N., M. Harris, & K. L. Pike. 1990. *Emics and etics: The insider/outsider debate*. Newbury Park, CA: Sage Publications.
- Low, M. B., & I. C. MacMillan. 1988. Entrepreneurship: Past research and future challenges. *Journal of Management*, 14(2), 139-161.
- Lummis, T. 1987. *Listening to history: The authenticity of oral evidence*. London, UK: Hutchinson Education.
- McKenzie, B. 2003. *Understanding entrepreneurship: A definition and model based on economic activity and the pursuit of self-identity*. Unpublished Dissertation, University of Victoria, Victoria, B.C.
- McKenzie, B. 2006. Techniques in Collecting Verbal Histories. *Handbook of qualitative research methods in entrepreneurship*. H. Neergaard and J. P. Uihøi. Northampton, MA, Edward Elgar.
- McKenzie, B. and M. Sud 2007. *A Hermeneutical Approach to Understanding Entrepreneurial Failure*. Allied Academies Spring 2007 International Conference, Jacksonville.
- Miller, M. M., & B. P. Riechert. 1994. *Identifying themes via concept mapping: A new method of content analysis*. Paper presented at the Theory and Methodolgy Division, Association for Education in Journalism and Mass Communication Annual Meeting.
- Morris, M. H., J. W. Altman, & L. F. Pitt. 1999. *The need for adaptation in successful business concepts: Strategies for entrepreneurs*. Paper presented at the United States Association for Small Business and Entrepreneurship, San Diego.
- Moss, W. W. 1974. *Oral history program manual*. New York, NY: Praeger.
- Novak, J. D. 1990. Concept mapping: A useful tool for science education. *Journal of Research in Science Teaching*, 27(10), 937-949.

## McKenzie

- Novak, J. D. 1991. Clarify with concept maps. *The Science Teacher*, 58(7), 45-49.
- Novak, J. D. 1995. Concept mapping to facilitate teaching and learning. *Prospects*, 25(1), 79-86.
- Reynolds, P. D. 1988. *Organizational births: Perspectives on the emergence of new firms*. Paper presented at the Academy of Management 1988 Annual Meeting.
- Ridington, R. 2001. *Oral history practice (an overview)*. Unpublished evaluation, University of British Columbia, Vancouver, BC.
- Rosenberg, N. V. 1978. *Folklore and oral history*. Paper presented at the Second Annual Meeting of the Canadian Aural/Oral History Association, St. John's NFLD.
- Salim, A. 2005. "Modelling entrepreneurship in small-scale enterprises." *Applied Economics Letters* 12(1): 51-57.
- Sokefeld, M. 1999. Debating self, identity, and culture in anthropology. *Current Anthropology*, 40(4), 417-447.
- Starr, L. 1996. Oral history. In D. K. Dunaway & W. K. Baum (Eds.), *Oral history: An interdisciplinary anthology* (2nd ed., pp. 39-61). Walnut Creek, CA: AltaMira Press.
- Stewart, A. 1991. A prospectus on the anthropology of entrepreneurship. *Entrepreneurship: Theory and Practice*, 16, 2.
- Verizon Research Labs. 2004. Compendium (Version 1.3.04): Verizon.
- Wortman, M. S. 1986. A unified framework, research typologies and research prospectuses for the interface between entrepreneurship and small business. In D. Sexton & R. Smilor (Eds.), *The art and science of entrepreneurship* (pp. 273-333). Cambridge, MA: Ballinger.