

Conceptualizing and Rationalizing Opportunities: Inductive Reasoning and the Creation of a New Enterprise

By

Dr. Muhammad Nouman (corresponding author)

Associate Professor, Institute of Management Sciences Peshawar Pakistan

Prof. Alistair Anderson

Professor, Lancaster University Management School, Lancaster University UK

Dr. Fahad Abdullah

Assistant Professor, Institute of Management Sciences Peshawar Pakistan

Abstract

An entrepreneur conceptualizes and rationalizes the creation of the new enterprise through the use of inductive analogical or metaphorical reasoning. Such reasoning sets the stage for commercialization of the enterprise and helps clarify its purpose and justification particularly in the face of adverse environmental contexts. After providing a review of literature on creation of a new enterprise, sensemaking and inductive reasoning, we use a narrative case study methodology to present the story of a small enterprise located in Peshawar Pakistan. Through the perspective of a female entrepreneur interpretations and details of her work, her struggles and her views about her enterprise are provided. By presenting this case we argue that inductive reasoning by the entrepreneur is shaped by three determinants. These include conceptualizing the opportunity through a narrative on the wider norms and values of the society and the entrepreneur's role within the society. Secondly, rationalizing the opportunity through a narration of personal life and events before and after the enterprise was created. Thirdly, using analogies or metaphors in the form of drivers influencing the new enterprise and how the entrepreneur has or is managing them.

Key Words: ‘Inductive Reasoning’; ‘Analogy’; ‘Metaphor’, ‘Sensemaking’

Introduction:

The process of initiating a new enterprise is characterized by the entrepreneurs conceptualizing opportunities, working on their ideas, seeking or arranging investment and attempting to justify their initiatives to others for backing and legitimacy (Alvarez & Barney, 2007; McMullen & Shepherd, 2006). The phenomenon of how entrepreneurs seek to justify the creation of their enterprises with a focus on gaining institutional legitimacy has been conceptualized a number of times with growing evidence from literature (Zott & Huy, 2007) however, more work is needed. This is particularly vital in light of the cognitive processes and traits of entrepreneurs that serve as antecedents of their reasoning (Baron & Ensley, 2006; Busenitz & Barney, 1997; Shane, 2003) or of seeking legitimacy for what they are doing or have embarked upon (Aldrich & Fiol,

1994; Starr & MacMillan, 1990). However, it is pertinent to note that understanding the nature of entrepreneurship by using the explanations offered by such antecedents and outcomes may unnecessarily or unintentionally bring the individual entrepreneur into greater focus. This understanding may come at the expense of a more integrative approach whereby the cognitive state of an entrepreneur has not been understood within his or her social context (Garud & Karnøe, 2003; McMullen & Shepherd, 2006). This paper argues that employing a sensemaking approach (Taylor & Van Every, 2000; Weick, 1995) may provide the missing link. Sensemaking focuses on offering explanations in the form of the links among the language, cognition, and actions of the entrepreneur. It is argued that such an approach can be useful since it can offer a better understanding of how the entrepreneur imagines and conceptualizes his or her approach towards the new enterprise using cognitive and symbolic reasoning or argumentation.

Adopting this broader view, this paper offers a theoretical perspective on how an individual entrepreneur may use peculiar speech patterns, particularly analogy and metaphors, to justify the new enterprise. Interestingly, it is also likely that the entrepreneur may utilize these devices in an attempt to explain himself or herself to others such as potential investors, employees and more importantly his or her family, friends in particular and the social circle in general (Alvarez & Barney, 2007; Hill & Levenhagen, 1995) to seek support and assurance. Consequently, this paper aims to offer an understanding of the inductive analogical and metaphorical reasoning developed by an entrepreneur to conceptualize and rationalize his or her new enterprise. More specifically a single narrative case study methodology has been used to present the sensemaking offered by a female entrepreneur from Peshawar, Pakistan. This paper is particularly useful because even though the use of induction in entrepreneurship research has been well-recognized (Baron & Ward, 2004), there is a general lack of empirical work on how an entrepreneur uses inductive reasoning (Ward, 2004) to proceed further in terms of offering a better understanding of his or her new enterprise to others within a specific cultural and social context (Baron & Ward, 2004).

Creation of a New Enterprise

The literature on creation of a new enterprise seems to have two broader trajectories. The first of these is the cognitive view that focuses on the cognitive traits of the individual entrepreneur

characterized by his or her existing knowledge and expertise for conceptualizing a new enterprise (Baron, 2000; Busenitz & Barney, 1997; Shane, 2000). It means that when an entrepreneur attempts to make sense of an opportunity it is perceived as a cognitive process at the individual level. Scholars have attempted to explain this process in terms of the entrepreneur's cognitive prototype scripts or mental models that are influenced by his or her experience (Baron & Ensley, 2006; Korunka et al., 2003; Krueger et al., 2000). For instance, once an entrepreneur acquires repeated experience within a market, it can contribute to development of more detailed mental models or scripts of his or her environment (e.g., Baron & Ensley, 2006; Mitchell et al., 2000; Weick et al., 2005). As a result the entrepreneur further extends such a cognitive understanding to new situations including conceptualizing the opportunity to create a new enterprise. It is pertinent to point out that one of the limitations of the cognitive view is that it can present the entrepreneur as being isolated or divorced from the social environment that the entrepreneur is a part of. Consequently, it is likely that such explanations may fail to fully explain how an entrepreneur uses inductive reasoning to imagine any opportunity (Baron & Ward, 2004). A possible reason for such a flawed emphasis on individual-oriented cognitive explanations can be the lack of any guidelines for interpreting inductive reasoning (Edwards, 1997; Weick, 1995).

The second stream of literature that falls under the wider domain of institutional theory, attempts to explain entrepreneurship within its social context. It focuses on the cultural, social and symbolic meanings when discussing the creation of a new enterprise (Lounsbury & Glynn, 2001; Martens et al., 2007; Zott & Huy, 2007). It is important to point our that since a new enterprise lack any prior record on how it should work, an entrepreneur may have no choice but to rely on a common discourse to derive meaning and rationalize and justify the new enterprise (Aldrich & Fiol, 1994; Lounsbury & Glynn, 2001). Such a dialogue or interpretation that an individual entrepreneur uses in this regard is likely to result from social processes of gathering and sharing ideas, thoughts and information (Putnam & Fairhurst, 2001; Weber, 2005). One such example is entrepreneurs attempting to use cultural encryptions and mythologies to generate a collective link between their conceptualization of the new enterprise and the broader value system of their stakeholders (Weber et al., 2008; Zilber, 2006). However, one of the limitations of the institutional approach is that it does not connect to the material context an entrepreneur may use

to identify the opportunity for a new enterprise. Moreover, while the institutional perspective considers social structures as stable (Putnam & Fairhurst, 2001), it is unable to elaborate on how an individual entrepreneur may attempt to make sense of the world around him or her (Weick et al., 2005). Concerns for such limitations of the institutional perspective are further raised due to its focus on established institutional codes rather than giving due attention to specific local contexts (Phillips et al., 2004).

The Need for a Sensemaking View

In order to better link the individual entrepreneur with his or her social context, the overall perspective of sensemaking (Hill & Levenhagen, 1995; Weick, 1995) can be useful. Within the context of entrepreneurship, Hill and Levenhagen (1995) suggest that an entrepreneur mostly works at the edge of what he or she does not know and therefore tries to seek clarity surrounding the vagueness of events (Alvarez & Barney, 2007). Lounsbury and Glynn (2001) suggest that such attempts for clarity are particularly important in the earlier stages of the enterprise for which the entrepreneur may feel the need to speak to others about the overall idea and seek feedback and support. Hill and Levenhagen (1995) further point out that these perspectives on opportunities while perceptually imagined (Weick et al., 2005) are constructed into more detailed representations once articulated in words. Based on the above assertions it can be argued that the formative influence of language on thought process (Hill & Levenhagen, 1995) should be incorporated and theorized in order to better understand the whole notion of creating a new enterprise (Langacker, 1991).

Even though the inner thought processes and ideations of an entrepreneur are important they may not always be encapsulated in words or spoken. However, whatever happens in the entrepreneur's mind can be termed as sensemaking. Sensemaking can be termed as the point where new verbal thoughts take shape in the mind of the entrepreneur based on his or her experience of speech realigned with the requirements of spoken language. Consequently one can assume that sensemaking is as an act of converting vague situations or scenarios into comprehensible words that may guide the entrepreneur's future line of action (Taylor & Van Every, 2000; Weick et al., 2005). It further implies that the world around us may not always be possible to understand and present to others in direct or raw form. Rather the entrepreneur will build this world through the

available linguistic domains and vocabularies (Weber, 2005) in order to establish coherence. Even though Weick et al. (2005) argue that sensemaking is often retrospective Gioia and Mehra (1996) have opined that it may also be prospective particularly when dealing with the creation of new enterprises whereby the entrepreneur seeks to give meaning to the new idea.

Induction and the New Enterprise: Using Analogical and Metaphorical Reasoning

In the context of social speaking an entrepreneur uses inductive reasoning to generate the idea for a new enterprise and explain it to others in order to gather backing. An entrepreneur creates an imaginary world using such verbal argumentation regarding discursive objects in order to develop meaning for self and others (Quinn & Dutton, 2005). According to Hutchins (2005) such objects are usually expressed in the form of nouns or their equivalents in a language through the use of various phrases (Hutchins, 2005). Moreover, this is accomplished by combining conceptualizations that are word-oriented with conceptualizations of physical resources (Baker & Nelson, 2005; Denrell et al., 2003).

While an entrepreneur uses induction to conceptualize and rationalize the new enterprise, it is important to point out that no entrepreneur can see into the future in absolute terms or state categorically how the decisions taken or the actions performed will eventually turn out to be. Therefore, an entrepreneur may rely on analogies and metaphors for such inductive reasoning that is referring to other scenarios, situations and experiences through the use of words and language (Gentner et al., 2001; Holland et al., 1986; Nisbett & Ross, 1980). In order to explain the new venture, reduce uncertainty and gather support, an entrepreneur may frame analogical or metaphorical comparisons with other cases and situations (Lounsbury & Glynn, 2001; Sternberg, 2004; Ward, 2004). In relation to sensemaking analogies and metaphors provide order and coherence to potentially puzzling future scenarios (Gioia et al., 1994) and generate a connection for an entrepreneur's actions with his or her assumptions or inferences regarding a situation. Not only that but Creed et al., (2002) argue that analogies and metaphors generate justifications for such actions within a wider social context. Rindova et al., (2004) and Weick et al., (2005) go further to point out that they also help an entrepreneur validate some of these justifications and arguments while at the same time re-empting, discrediting or discarding others.

As pointed out earlier, the usage of analogies or metaphors is greatly influenced by previous experiences and knowledge of the entrepreneur. Literature suggests two important factors that can influence the extent of the usage of analogies or metaphors and how they will be used by the entrepreneur particularly during the initial stages of an enterprise. Firstly, as Shane (2000; 2003) suggests, one key factor is how much the new enterprise is similar to existing enterprises or a constituent of an already existing industry or sector. Secondly, the social pressure to demonstrate predictability and legitimacy to the stakeholders of the enterprise (Aldrich & Fiol, 1994; Lounsbury & Glynn, 2001; Hargadon & Douglas, 2001; Santos & Eisenhardt, 2009). Following the launch of an enterprise, once it achieves the ability to generate profits, Hite and Hesterley, (2001) and Zimmerman and Zeitz, (2002) opine that the entrepreneur will become less reliant of inductive reasoning. Rather a more calculated reasoning that is influenced by direct experiences of running the enterprise will take over (Aldrich & Fiol, 1994; Hargadon & Douglas, 2001; Hill & Levenhagen, 1995).

Therefore, from the above arguments it can be proposed that an entrepreneur who is a novice or lacks prior knowledge and experience of an industry or managing an enterprise is likely to construct arguments regarding his or her business metaphorically. However, how these analogies or metaphors look like needs to be investigated in order to develop a better understanding of early-stage entrepreneurship (Alvarez & Barney, 2007; Hannan et al., 2007; Epley & Gilovich, 2006).

Research Methodology:

Taking influence from qualitative methodology, this paper has adopted a narrative case study approach presenting inductive reasoning demonstrated by a young female entrepreneur who has launched a new enterprise in the city of Peshawar in Pakistan. According to Elliott, (2005) and Pinnegar and Daynes (2007) there are three main methodological stances regarding narrative case study. These are the socio-cultural, the naturalist and the literary. While the socio-cultural focuses on the broad cultural narratives and the naturalist emphasizes on offering rich descriptions of people's stories, it is the literary approach that has influenced this research. This is primarily because it focuses on describing thoughts and experiences of a person by focusing on analogies and metaphors (McAlpine, 2016; Hopwood & Paulson, 2012). Further, deriving

from McAlpine (2016) we have narrated the single case of the female entrepreneur after completing the three key steps of the research design; (a) collection and conception of data through a use of detailed interviews (semi-structured followed by structured) of the entrepreneur, transcription, use of flip charts and vignettes, (b) data analysis deriving from Riessman's (2008) approach of deriving results from the case and not just focusing on prior themes from literature and (c) data reporting in the form of a story derived from Holley and Colyar (2009) whereby inductive reasoning of the entrepreneur has been presented in three main sections below that are (1) conceptualizing the opportunity, (2) rationalizing the opportunity (3) analogies or metaphors regarding experiences and lessons learnt.

Conceptualizing the Opportunity:

In early 2018, Mrs. Daud started a Beauty Salon in a single bedroom at her house in Hayatabad, Peshawar KP Pakistan. She was married and had 3 children. Her youngest daughter is Fariha who was six years old at that time. Mrs. Daud was a passionate woman and had confidence in her own abilities. She believed she could put her skills, abilities and passion to work a business idea that could further nurture her entrepreneurial abilities, so she started a beauty salon named "Fariha's Beauty Salon" after her youngest daughter whom she thought will take over her business one day. The start-up cost was kept at a bare minimum by using her house as a starting point. Also, the idea being that by keeping costs low she thought she could invest more in her employees and equipment. Her family fully supported her in this venture both financially and emotionally. She was very fortunate to have an excellent family support system. Mrs. Daud was focused on women empowerment from the very start of her entrepreneurial venture. She hired a team of apprentices from the marginalized Christian community primarily because women in that community had little or no chance of success or too many opportunities in a country whose populous was 99% Muslim. Also, she wanted the two communities to interact through her work. Historically, ideas on personal appearances and beauty vary throughout the globe. Be it the body modification of the Kayan women in Burma, who use neck rings to exemplify their necks is an affiliation towards dragons (an important figure in Kayan Folklore) or the Meghwali women of Rajasthan who show their social status through nose rings. Similarly, Pukhtun women have upheld the preservation of body hair as a symbol of chastity and beauty. Fariha's Beauty Salon have helped women preserve this notion of beauty because that is what they believe in but most

occasions they noticed that Pukhtun women are moving towards a new idea of beauty where such notions are seen under a different light. Of crucial relevance were cases where women who could not remove their body hair due to social pressures and fear of reprimand but wanted to do so out of sheer self-expression in a conservative and patriarchal society. Fariha's Beauty Salon focused on preserving cultural and individual identity. It also has emphasized on upholding relationships with communities and individuals that want to either preserve this kind of link or want to surpass it.

According to Mrs. Daud her daughter's salon has begun to flourish as young female students from local universities and colleges have started to visit for personal care services. Fariha also sees this increase in female clients as a platform to reject the conservative norms of Pukhtun society that place restrictions on women especially when it came to personal appearances. An insight that is crucial to the launch of her enterprise has been the idea that education, training and self-development is the birth right of each individual. It is to be shared amongst all and not to be sold or kept hidden. Hence "Fariha's Beauty Salon" has been launched with a focus on training women in the art of beauty enhancement. It is also a financially rewarding experience for her workers whom Fariha believes will go on to open their own businesses serving as much needed competition in an industry that had little or no participants a few years ago. Fariha believes her Beauty Salon can play a significant role in women empowerment within her locality.

Rationalizing the Opportunity:

Within a few months of the launch of the enterprise in early 2018, Fariha took charge of the business. Mrs. Daud has been an inspiration for Fariha all her life. Fariha always dreamed following her mother's footsteps. While growing up, she has witnessed her mother's hardships in light of the social stigma attached to women involved in business. Fariha believes that her first sales and marketing breakthrough came within the first month of launching the salon when she noticed a high female attendance on social media sites such as Instagram and Facebook. This gave her an idea and she began to advertise her business on social media sites and ultimately gathered a huge following. Up until this day she uses social media sites to keep her clients posted on new products and services. It also helps her to generate quick reviews and feedback. The second breakthrough for Fariha's came when she got the opportunity to organize a bridal fashion

show at Pearl Continental Hotel, Peshawar. The attendance was in the hundreds if not thousands and this event saw a massive increase in followers and lead her to start believing in her role as a business development manager. This resulted in a rise in her cliental list. Her clients belonged to various backgrounds with different needs and expectations. Fariha wanted to understand each and every one of them in way that can help her meet their expectations. Hence, she dedicated the next couple of months towards her own training and development. Up until now she has undergone training with Huda Beauty (U.AE), L’Oreal and Fariha (Karachi) in make-up application, hairstyling, and business skills development.

Crucially, as the demand for Fariha’s services grew so did the need for highly trained staff. But it has been Fariha’s approach to hire non-skilled or semi-skilled individuals for their business, enrolling them in apprenticeship programs where they can also start generating some basic income to support them while learning the skills of the trade. In this way not only Fariha got access to greater numbers but also train and develop individuals with little or no skills, who would otherwise be left behind and risk becoming marginalized in society thus contributing towards women empowerment. So far Fariha’s Beauty Salon has trained and developed up to ten individuals from various backgrounds in KP who are now earning a living. With the rise of business came challenges, some were foreseeable but other not so much. As mentioned before the new housing regulations imposed by Peshawar Developmental Authority meant that Fariha’s Beauty Salon could no longer pursue their business from the confines of their home. It also meant that they could now expand into the city and can have the opportunity to access a greater cliental. It had been her desire to expand the enterprise into regions of greater competition but they had always refrained from taking such an action mainly due to the security risks. But with the slight improvement in security in the city and with no other option as far as the housing regulation enforcement agencies were concerned Fariha took the bold step to move their venue into Town Centre, Peshawar.

Fariha considers herself to be lucky to have found a location so soon that was commercial but it also had a residential feel to it. The expansion meant that Fariha had to inform all of her clients about the new location most of whom were residents of Hayatabad, Peshawar and not of Town II, Peshawar KP (New location). Expansion resulted in increased competition as expansion

meant going into a commercial area. There were other renowned brands working from years and already had their mark on the cliental. Fariha's Beauty Salon knew that they need to adapt to the demands of the new location to survive and earn the brand title.

Fariha's Beauty Salon is now known as one of the best salons in Peshawar due to the efforts and innovative ideas of Fariha. Fariha is determined to invest more in her venture that was started by her great mother Mrs. Daud. She is aware that the coming years will be tough for the business and new women entrepreneurs due to the uncertain political, social and economic climate, but with the rise of businesses run by women she is hopeful to see a greater change in the community. As far as her clients are concerned, she is proud to have a following of aware and enlightened women. She is determined to keep this legacy going. She is now planning to start ventures wherein she can help develop the skills of women in the area of Peshawar, in order to empower them so that they can take charge of their own life as they continue to progress in Pukhtun community. In that regard, she has plans to open a "skill's development and training centre" in Peshawar city that would not only train women into cosmology but also into other areas such as sustainable living, energy and waste management, art and design, architecture, finance and banking, economics and general business development.

Analogy or Metaphors Regarding Experiences and Lessons Learnt

Fariha narrates her views regarding her enterprise and her experiences through the analogy of 'drivers' versus 'barriers' and the constant struggle to capitalize on the drivers while attempting to minimize the barriers in order to take advantage from the opportunities the new enterprise offers.

The drivers revealed through qualitative analysis of narrative based interview data include 'mother as a role model', 'personal traits as enterprise attributes', 'family as a bedrock', 'innovation as a competitive edge', 'women empowerment as a dream' and 'growth and sustainability as core business values'.

Regarding her mother as a role model and an inspiration, Fariha narrated that her mother is a brave and ambitious woman who has never shied away from taking risks in life. She is also a

compassionate person who encouraged Fariha to hire staff for the salon from the Christian community that is a minority in Pakistan with lesser economic opportunities. Taking influence from her mother, Fariha believes her salon offers opportunities not just for her personal and professional growth but it also allows her workers the opportunity to get training, develop skills and obtain valuable experience. Fariha also sees her salon as a reflection of who she herself is as a person and what she wants to achieve in life. Visualizing her personality traits as being reflective of the attributes of her salon, Fariha narrated that her salon is ‘young’ and ‘vibrant’ like her. Moreover, she believes that the salon has a welcoming environment encouraging clients to access services as they want and the workers to feel energetic and passionate about their work. Fariha believes that these aspects of her salon and its environment are influenced by who she herself is as a person, ‘lively’ and ‘welcoming’.

When narrating the analogy of her family with ‘bedrock’, Fariha believes her success within a short span of time is owed to the extraordinary family support she has received both financially and emotionally. Besides her mother being her role model, Fariha believes her father provided his wife Mrs. Daud with the starting finances and has always supported her in her ventures. He has been very encouraging of his wife and daughter taking business initiatives and has firmly stood behind and supported Fariha’s decisions regarding relocating her salon and increasing her service portfolio to attract and serve greater number of clients. She believes that her father has been a constant source of encouragement even during times when she felt things were too difficult to manage. He is a man who takes pride in the success of women and wants to see his daughter as an independent and confident individual.

While narrating her salon’s competitive edge, Fariha related it to her focus on ‘innovation’ and improvement. Ever since starting her salon she has been constantly bringing in new ideas and projects including offering services for various age groups, attending training courses and making her staff take up training too for skill enhancement, organizing various kinds of contests, aggressive use of social media platforms for publicity and word-of-mouth promotions and maintaining a personal relationship with all her clients. She believes she has been constantly innovating and has kept her salon as a vibrant and happening place resulting in a competitive edge over others and increasing her clientele.

Describing the notion of ‘women empowerment’ as an often misunderstood or misplaced concept, Fariha believes it’s the small things that matter and the actions that are more important than rhetorical statements. Fariha’s Beauty Salon believes in establishing a legacy of hiring unskilled or semi-skilled female workers from economically backward communities and training them free of cost. In addition, such women are financially rewarded for taking up the endeavor. After completion of the training they are provided with the choice of staying and working with Fariha’s or they are free to start of their own businesses anywhere. In addition to that salon has been striving towards playing its role in preserving socio-cultural as well the individual identity of ‘Pakhtun’ women, thus helping them build confidence through enhancing personal appearances.

Narrating on her version of growth and sustainability as the core values of the business, Fariha narrated that she had to take the difficult decision of relocating her business due to legal constraints associated with operating a business within a residential area. However, through her parents support she has converted the decision to relocate into an opportunity for business growth. She has been continuously reinvesting the incoming profits into the upgradation of her new outlet including provision of a more comfortable environment, acquiring and using latest equipment and exclusive branded materials and better car parking facility. Fariha is continuing to attend training courses both inside and outside Pakistan so that she can acquire further knowledge and skills and transfer them to her staff and sustain growth by capturing more clients. This approach, Fariha believes, has contributed a great deal to the realization of opportunities vis-à-vis her new enterprise.

Discussion and Conclusion:

In this paper we have argued how inductive reasoning by the entrepreneur is shaped. Three determinants are presented in this regard as show in the thematic diagram below (Figure 1).

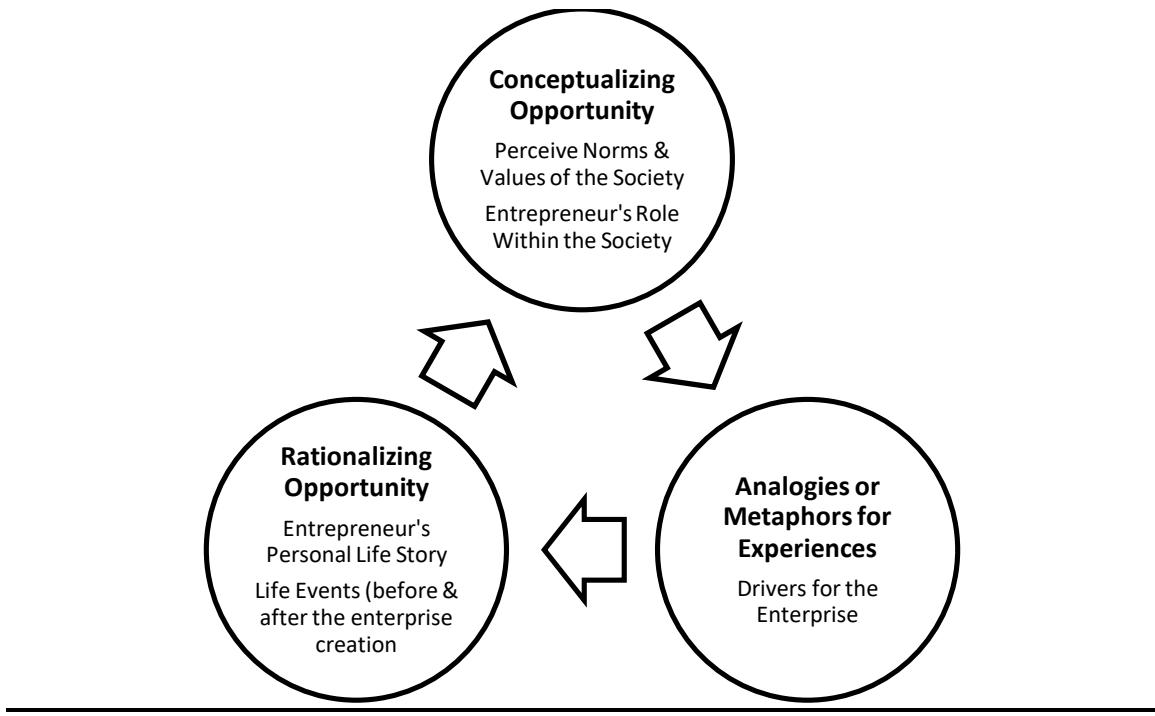


Figure 1: Thematic Diagram – An Entrepreneur’s Inductive Reasoning for Conceptualizing and Rationalizing New Enterprise Opportunity

Through this paper we believe we offer a noteworthy potential that exists for a focus on language and sensemaking (Taylor & Van Every, 2000; Weick et al., 2005) and contribute to existing theories and concerns within entrepreneurship research. More specifically, through this paper induction and inductive reasoning are recognized as central to not only how an entrepreneur visualizes a new enterprise and the opportunities it offers (e.g., Baker & Nelson, 2005; Baron & Ward, 2004; Sarasvathy, 2001, 2004; Sternberg, 2004) but also how he or she attempts to legitimize the new venture and opportunities it may offer to others (e.g., Lounsbury & Glynn, 2001). There is limited research on entrepreneurship that offers a theoretical perspective on when and how an entrepreneur may use analogical or metaphorical comparisons as an inductive source to argue in favor of a new enterprise. Our paper attempts to address this shortcoming by describing three determinants to inductive reasoning of an entrepreneur. In doing so we contribute directly to central questions about how opportunities for a new enterprise are identified and created (e.g., Alvarez and Barney, 2007; Baron & Ward, 2004).

In light of the above-mentioned submissions and contributions researchers in future can attempt to further conceptualize and investigate how entrepreneurs imagine new enterprise opportunities and how they simultaneously develop and legitimize new enterprises to exploit opportunities.

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