

Properties of emerging organizations: An empirical test

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Abstract

The process of new venture creation is central to the field of entrepreneurship. The effects of initial organizing have a direct influence on survival, yet empirical examination of the dimensions of emergent organizations is limited. Using longitudinal data on nascent entrepreneurs, this paper empirically tests four properties of emerging organizations—intentionality, resources, boundary and exchange— and their effect on likelihood of continued organizing [Katz, J., Gartner, W.B., 1988. Properties of emerging organizations. *Academy of Management Review* 13(3), 429–441]. Our results suggest that all four properties are necessary for firm survival in the short-term and those firms that organize more slowly are more likely to continue to organize. Further, nascent ventures in which intentionality preceded the other organizing properties were not significantly more likely to continue in the organizing effort. Our results suggest an extension of the original Katz and Gartner [Katz, J., Gartner, W.B., 1988. Properties of emerging organizations. *Academy of Management Review* 13(3), 429–441] framework.

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1. Executive summary

A central activity in entrepreneurship is the creation of new organizations. Organizations are defined as goal directed, boundary maintaining systems that emerge when entrepreneurs take the initiative to engage in founding activities (Aldrich, 1979, 1999; Gartner, 1985). Organizational formation is a dynamic process in which activities such as obtaining resources; developing products, hiring employees, and seeking funding are undertaken at different times and in different orders. Carrying out these activities lays the foundation for the new venture to develop unique capabilities, overcome liabilities of newness and gain the trust of constituents permitting the new venture to be perceived as legitimate (Suchman, 1995; Aldrich, 1999; Delmar and Shane, 2004). While empirical research in entrepreneurship identifies many of the activities that most new or nascent firms undertake, less work focuses on analyzing the actual dimensions of emerging organizations.

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Katz and Gartner (1988) developed a well-regarded framework that explains organizational formation by outlining the properties of emerging organizations. Starting with the assumption that organizations emerge from the interaction between individuals and the environment, they posit that four basic properties are central to organizational emergence. These properties are: *intentionality* — the purposeful effort involved in organization emergence; *resources* — the tangible building blocks of an organization; *boundary* — the creation of protected or formalized areas in which emergence occurs; and *exchange* — the crossing of boundaries to either secure inputs (e.g., resources) or outputs of the organization. While this framework is widely recognized, to date there is not a comprehensive empirical verification.

We develop four hypotheses that test this model. First, we posit that all four properties are important; second, that completeness of properties will positively influence the likelihood of continued organizing; third, the likelihood of continued organizing will be enhanced when intentions precede the other three properties; and fourth, that organizing will be more likely to continue when properties are assembled rapidly. Our paper offers empirical verification and, as our results suggest, an elaboration of the original Katz and Gartner (1988) model. Using a longitudinal database of nascent entrepreneurs from the Panel Study of Entrepreneurial Dynamics (PSED), we find that all four properties are necessary for firm survival in the short-term, but that the intention to start a venture does not necessarily precede the other three properties or increase the likelihood of continued organizing. Contrary to our expectations, results show that fledgling firms moving quickly through the process are less likely to continue organizing than those that move more slowly.

Our findings suggest that the organizing a new venture is not a patterned or linear process but rather is simultaneous, messy and iterative. This leads us to propose an extension to the original Katz and Gartner (1988) framework. While the original framework was developed as a way in which to identify the dimensions of emerging organizations, we suggest that the model should be expanded to make evident those linkages among properties that lead to intangible outcomes such as legitimacy and organizational knowledge. We propose it is these intangibles which are likely to lead to success in the product/market and hence are critical to the new ventures' survival.

2. Introduction

A central activity in entrepreneurship is the creation of new organizations (Gartner, 1985; Low and Abramson, 1997; Aldrich, 1999). Organizations are defined as goal directed, boundary maintaining activity systems that emerge when entrepreneurs take the initiative to engage in founding activities (Aldrich, 1979; McKelvey and Aldrich, 1983; Gartner 1985). While organization theory examines the development of exchange relationships (Stinchcombe, 1965), acquisition of legitimacy (Aldrich, 1999), and mobilization of resources (Scott, 1987) in existing or established organizations, there is considerably less research investigating the ways in which *new* organizations emerge or come into being (Gartner, 2001; Aldrich, 1999; McKelvey and Aldrich, 1983).

Organizational formation is a dynamic process in which activities such as obtaining resources; developing products, hiring employees, and seeking funds are undertaken at different times and in different orders (Gartner, 1985). While empirical studies in entrepreneurship have identified many of the activities that most new or nascent firms undertake (Reynolds and Miller, 1992; Brush et al., 2001; Delmar and Shane, 2002, 2003; Wiklund and Shepherd, 2005), research is inconclusive about the types and order of start-up activities taken by nascent firms and their likelihood of survival. At most, all we can conclude is that the more activities carried out by the nascent entrepreneur, the greater the new firm's chances of survival (Carter et al., 1996; Gartner and Carter, 2003).

If engaging in start-up activities is not a guarantee of start-up success, so then what do entrepreneurs need to ensure their survival? To help answer this question, Katz and Gartner (1988) developed a well regarded framework that explains organizational formation by outlining the properties of emerging organizations. Starting with the assumption that organizations emerge from the interaction between individuals and the environment, they posit that four basic properties, are central to organizational emergence. These properties are: *intentionality* — the purposeful effort involved in organization emergence; *resources* — the tangible building blocks of an organization; *boundary* — the creation of protected or formalized areas in which emergence occurs; and *exchange* — the crossing of boundaries to either secure inputs (e.g., resources) or outputs of the organization. They argue that all four dimensions characterize a "complete organization" (Katz and Gartner, 1988: 433).

Only a handful of studies have tested the four properties empirically (see Reynolds and White, 1997; Reynolds and Miller, 1992; Chrisman, 1999; Kundu and Katz, 2003 for partial tests of the theoretical model). While each of these studies examines elements of the properties framework, we found no empirical research that tested the whole

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