

The Entrepreneurship of Resource-based Theory*

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Abstract

This paper examines the relationship between resource-based theory and entrepreneurship and develops insights that advance the boundaries of resource-based theory and begin to address important questions in entrepreneurship. We extend the boundaries of resource-based theory to include the cognitive ability of individual entrepreneurs. Entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of resources for the venture. By focusing on resources, from opportunity recognition to the ability to organize these resources into a firm and then to the creation of heterogeneous outputs through the firm that are superior to the market, we help identify issues that begin to address the distinctive domain of entrepreneurship.

Introduction

Early work on Resource-Based Theory (RBT) acknowledged that entrepreneurship is an intricate part of the resource-based framework (Conner, 1991; Rumelt, 1987). However, while RBT has become a dominant paradigm for strategic management research (Peteraf, 1993), the interface between RBT and entrepreneurship has amounted to little more than providing a “research setting” for empirical work (e.g. Chandler & Hanks, 1994). Because of the lack of consideration given to entrepreneurship by most resource-based research, current RBT largely fails to integrate creativity and the entrepreneurial act (Barney, 2001). An understanding of how entrepreneurial actions, the creation and combining of resources that create new heterogeneous resources, can inform RBT by suggesting alternative uses of resources that have not been previously discovered leading to heterogeneous firm resources. It is the firm’s unique bundle of resources that is different from competitor firms that are potentially valuable and contribute to a firm’s competitive advantage.

Much prior research on entrepreneurship can be characterized as either work that describes the phenomena or work that borrows theories ad hoc from other disciplines. While an entrepreneurship context provides an excellent setting for

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much empirical research, the field of entrepreneurship needs to move further to create specific boundaries to establish the field's legitimacy and distinctive contribution (Busenitz et al. 2001). One of several challenges with entrepreneurship scholarship is that research settings often span several units of analysis leading to fragmentation of the field.

Entrepreneurial opportunities exist primarily because different agents have different beliefs about the relative value of resources when they are converted from inputs into outputs (Schumpeter, 1934; Kirzner, 1979; Shane & Venkataraman, 2000). Indeed, heterogeneity is a common attribute of both resource-based and entrepreneurship theory, – although resource based logic has tended to focus on heterogeneity of resources while entrepreneurship theory has tended to focus on heterogeneity in beliefs about the value of resources. However, when it is recognized that beliefs about the value of resources are themselves resources, apparent conflicts between the two theories are resolved.

Put differently, entrepreneurship and RBT adopt precisely the same unit of analysis – the resource. These resources may manifest themselves in several different ways. For example, firm-specific resources may reflect cognitive differences between managers in these firms. The different ways that resources, and the opportunities to exploit these resources, manifest themselves have resulted in different units of analysis and has hindered good theory development in the field of entrepreneurship. In this paper we examine entrepreneurship from individual opportunity recognition, to the firm's organizational capabilities, to the market, however in all three instances the resource is the unit of analysis. Through the integration of resources, from cognitive differences to opportunity recognition to the ability to organize these resources into a firm, we may begin to address the issue of the distinctive domain of entrepreneurship.

This paper has two primary purposes. First, we extend the boundaries of RBT by introducing two entrepreneurial concepts: 1) *entrepreneurial recognition*, which we define as the recognition of opportunities and opportunity seeking behavior as a resource and 2) the process of combining and organizing resources as a resource. The second goal is to build theory for the field of entrepreneurship that can potentially span micro to macro issues by focusing on resources as the unit of analysis. This effort is organized around the four conditions of RBT: resource heterogeneity, ex post limits to competition, imperfect factor mobility and ex ante limits to competition (Peteraf, 1993). By examining entrepreneurship, which we define as the recognition and exploitation of opportunities that result in the creation of a firm that seeks to obtain entrepreneurial rents, through the four conditions of RBT we theoretically inform and extend current research in both RBT and entrepreneurship.

Resource Heterogeneity

Resource heterogeneity is the most basic condition of resource-based theory and it assumes at least some resource bundles and capabilities underlying production are heterogeneous across firms (Barney, 1991). Resource-based theory suggests that