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New theoretical perspectives on family business entrepreneurial behavior

Mary Barrett

University of Wollongong, mbarrett@uow.edu.au

Ken Moores

Bond University

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Abstract

Family business leaders are often characterized as entrepreneurs (Aldrich and Cliff 2003 ; Shepherd and Haynie 2009). In attempting to understand the entrepreneurial thinking of family firm leaders, scholars have typically borrowed from the extant literature on entrepreneurship, which traditionally emphasizes characteristics of individual entrepreneurs such as their personalities, propensity for risk-taking, personal values, and so on. However as Aldrich and Martinez (2003) point out, there are changes afoot in how entrepreneurship is being studied, including (a) a shift in theoretical emphasis from the characteristics of entrepreneurs as individuals to the consequences of their actions, (b) a deeper understanding of how entrepreneurs use knowledge, resources, and networks to construct and reconstruct firms, and (c) a more sophisticated taxonomy of environmental forces at different levels of analysis (population, community, and society) that affect entrepreneurship.

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Effectuation and radical subjectivism: New theoretical perspectives on family business entrepreneurial behaviour

Abstract The paper considers two new theories relating to entrepreneurial reasoning and thinking – effectuation and radical subjectivism – in the family firm context. We first explain the *prima facie* validity of combining specific elements of effectuation and radical subjectivism, then reinforce this by linking these elements to established characteristics of family firms, especially their knowledge sources, resources, and networks. The integrated elements from effectuation and radical subjectivism coincide with family firm realities, which allows for a more sophisticated understanding of the forces underpinning family firm entrepreneurialism. We illustrate this using a detailed case. The paper concludes with a formal expression of theoretical integration of effectuation and radical subjectivism via a series of propositions about entrepreneurial behavior in family firms.

Key words Effectuation, Entrepreneurial behavior, Entrepreneurs, Family firms, Radical subjectivism

Background and motivation

Family business leaders are often characterized as entrepreneurs (Shepherd and Haynie 2009; Martin et al. 2008). In attempting to understand the entrepreneurial thinking of family firm leaders, scholars have typically borrowed from the extant literature on entrepreneurship, which traditionally emphasizes characteristics of individual entrepreneurs such as their personalities, propensity for risk-taking,

personal values, and so on¹. However as Aldrich and Martinez (2003) point out, there are changes afoot in how entrepreneurship is being studied, including: (a) a shift in theoretical emphasis from the characteristics of entrepreneurs as individuals to the consequences of their actions, (b) a deeper understanding of how entrepreneurs use knowledge, resources, and networks to construct and reconstruct firms, and (c) a more sophisticated taxonomy of environmental forces at different levels of analysis (population, community, and society) that affect entrepreneurship. In the spirit of these changes, we consider two recent perspectives relating to entrepreneurial thinking and the subsequent behaviour of entrepreneurs. The first of these, effectuation (Dew and Sarasvathy 2002; Read et al. 2009; Sarasvathy 2001a, 2001b, 2008; Sarasvathy, Dew, Velamuri, and Venkataraman 2003; Sarasvathy and Venkataraman 2011), emphasizes a distinctive logic underlying the behaviour of entrepreneurs. The second, radical subjectivism² (Chiles et al. 2004; Chiles, Bluedorn, and Gupta, 2007; Chiles, Vultee, Greening, et al. 2010; Chiles, Tuggle, McMullen, et al. 2010), is derived from Austrian economics, particularly the radical subjectivists Ludwig Lachmann and George Shackle. Lachmann (1956, 1970, 1976a, 1976b, 1977, 1986, 1990) and Shackle (1958, 1966, 1967, 1970, 1972, 1974, 1979, 1983) offer non-equilibrium alternatives to equilibrium-based economic theories of entrepreneurship, and stress the process of imaginative choice inherent in

¹ Examples of such research in the family business arena include Craig and Lindsay (2002); Davis and Harveston (2002); Kellermanns et al. (2008); Koironen (2002); Littunen and Hyrsky (2000); Lumpkin et al. (2009); Pistrui et al. (2001); Pistrui et al. (2000); Rauch et al. (2009); Zahra (2005); Zhao et al. (2010).

² The name for this paradigm is unsettled, perhaps because it has so far received little attention from entrepreneurship scholars (Chiles et al. 2010, p. 139). “New non-equilibrium economic approaches”, “disequilibrium approaches”, “Austrian economics-based approaches”, “complexity-based approaches”, “radical Austrian approaches” and “radical subjectivist approaches” among others are all found in current literature, sometimes several different terms in one article. We have used “radical subjectivist approach” or “radical subjectivism” following Chiles et al. (2004, 2007, 2010, 2010), because these authors have championed this nascent approach to entrepreneurship, because these terms evoke the theory’s constructivist view of the social world, and because they are comparatively short.

entrepreneurial behavior. Shackle (1972) emphasizes the “kaleidic” nature of non-equilibrium markets which both lead to and follow from entrepreneurs’ imaginative choices. Chiles and his colleagues argue in the papers cited earlier that these theorists’ insights help redress the shortcomings of the dominant equilibrium-based perspectives which “completely eliminate or severely circumscribe such central entrepreneurial phenomena as (1) entrepreneurs’ choices, actions, and opportunities; (2) genuine uncertainty associated with capital investment and the passage of time; and (3) the continual emergence of novel ideas, resources, and products that drive competitive market processes” (Chiles, Vultee, Greening, et al. 2010, p. 138). Neither the effectuation nor the radical subjectivist approaches to entrepreneurship have been previously examined in the family firm context.

The paper proceeds as follows. We first review the broad concepts of effectuation and radical subjectivism in entrepreneurship. We then build a *prima facie* case for integration of specific elements of these approaches which focus on how entrepreneurs leverage their knowledge, resources, and networks. Importantly the elements selected for integration are those which not only coincide with the descriptive realities of family firms but also offer potential to develop a more sophisticated understanding of the facilitative forces underpinning their entrepreneurial behavior. We develop the integration further by applying the combined theoretical elements to a detailed case. We conclude with a formal expression of theoretical integration via a series of research propositions about entrepreneurial behavior in family firms.

Effectual reasoning and entrepreneurial behaviour

Entrepreneurial behavior as a problem-solving activity has conventionally been viewed through ‘causal reasoning’ lenses (Sarasvathy 2001a, 2001b, 2008). Causal rationality suggests the entrepreneur begins with a pre-determined goal and assembles a specific means, seeking to identify the optimal path to achieve the given goals (Sarasvathy 2008, p. 16). Effectual reasoning, however, inverts causal reasoning. Rather than beginning with a specific goal, entrepreneurs begin with a given set of means and allow contingent goals to emerge over time from their varied imaginations and the diverse aspirations of people they interact with. This means there is a fundamental difference between the conventional view of entrepreneurs as people who *discover* and then *exploit* opportunities, and effectual entrepreneurs who *fabricate* opportunities from the mundane realities of their lives and value systems, limiting their search and analysis to taking one step at a time. Sarasvathy (2008) has assembled empirical evidence for this alternative view of entrepreneurial behavior. From entrepreneurs’ verbal protocols of their search and analysis practices, she distilled three questions entrepreneurs ask about themselves, the answers to which are the means with which all entrepreneurs begin. The questions are: (1) who are they? – their tastes, traits and abilities; (2) what do they know? – their education, training, expertise and experience; and (3) whom do they know? – their social and professional networks. Using these means entrepreneurs start to imagine and implement possible effects that can be created with them (Sarasvathy 2001a, b; 2008). Entrepreneurs follow three coherent logics or principles which invert causal logic. They are: (1) the strategic partnerships principle, (2) the affordable loss principle, and (3) the leveraging contingencies principle.

Strategic partnerships principle: Entrepreneurs build a few key partnerships rather than undertaking systematic competitive analyses. The essence of a successful

strategic partnership is the induction of customers into them. The strategic partnerships principle dovetails with the affordable loss principle to bring the entrepreneur's idea to market at really low levels of capital outlay.

Affordable loss principle: Entrepreneurs do not tie themselves to any pre-conceived or theorized 'market' or strategic universe for their idea. Rather they open themselves to surprises as to which market/s they will eventually end up building their business in or even which new markets they will end up creating.

Leveraging contingencies principle: The leveraging contingencies principle is the heart of entrepreneurial expertise – the ability to turn the unexpected into the profitable. As Sarasvathy (2001b, p. 6) explains it, “great entrepreneurial firms are products of their contingencies – their structure, culture, core competence, and endurance are all residuals of particular human beings striving to forge and fulfil particular aspirations through their interactions with the space, time and technologies they live with. It is not the contingencies themselves that shape the companies but rather how entrepreneurs leverage the contingencies.”

Underlying all the principles of effectual reasoning is a coherent logic that rests on a fundamentally different assumption about the future from that of causal reasoning. Causal reasoning is based on the logic: “to the extent that we can predict the future we can control it.” In contrast, effectual reasoning is based on the logic: “to the extent that we can control the future we do not need to predict it.” Effectual reasoning and causal reasoning are thus inherently opposed, rather than occupying two ends of a spectrum. Nevertheless this does not mean that effectual reasoning should replace causal reasoning. Rather it is important to understand the types of problems and domains to which each type of reasoning is suited. Causal reasoning is useful when the decision problem requires a reasoned choice. Consequently, strategies

based on causal reasoning are useful when the future appears predictable, with clear goals which are brought about in an environment independent of the actions of persons involved in the decision. In these circumstances actors should begin their problem solving process by asking “What should I do to achieve a particular effect?” Effectual reasoning, by contrast, deals with problems of design where the logic of a solution is based on constructing an outcome from materials at hand. Strategies based on effectuation are appropriate when the future is unpredictable, when goals are unclear or even non-existent, and where the environment is shaped by present and previous human action. In such circumstances problem-solvers begin with the questions: “What can I do with these means?” and “What else can I do with them?” Table 1 summarizes the differences between causal and effectual reasoning.

Insert Table 1 about here.

Radical subjectivism and entrepreneurial behaviour

Radical subjectivism takes an integrative view of entrepreneurial behaviour, focusing on novel products that result from entrepreneurs’ divergent imaginations and drive far from equilibrium market processes to create a new market order (Chiles, Tuggle, McMullen, et al. 2010). As suggested by the term ‘radical subjectivism’, the entrepreneurial imagination is an integral aspect of entrepreneurship. This special capacity is the “ability to conceive of something, seen only fragmentarily or superficially, as a complete, perfected, and integrated whole” (Chiles et al. 2010 p. 16). The entrepreneurial imagination focuses on three capacities for creative organizing, which require an interdisciplinary perspective to understand them fully: (a) *empathy* (from psychology); (b) *modularity* (from strategy and organization theory); and (c) *self-organization* (one element of complexity theory). There are two

other important principles to how the entrepreneurial imagination works. First, it is essentially forward-looking rather than inspired by the past. That means it is not the same as analogy or pattern making. Rather it entails *imaginative visualization* which is future focussed, not *memory visualization* which is past focussed. Second, entrepreneurial thinking and behavior are always ‘decisions of the individual’. This return to a focus on the entrepreneur as an individual seems to run counter to the dominant trends in entrepreneurship research mentioned at the outset. However, rather than relying on the idea that an individual’s personality is special, the concept of the entrepreneurial imagination summarizes broad three imaginative capacities – empathy, modularity, and self-organizing – which transcend classic ‘personality’ analyses to encompass modes of conceptualizing people, firms, and markets.

Empathy: Empathy helps entrepreneurs to invent and organize subjectively imagined novel ideas in their minds (Chiles, Tuggle, McMullen, et al. 2010). Many conceptions of entrepreneurship incorporate ideas of novelty or innovation. What separates the radical subjectivism perspective from these others is how empathy actually *constrains* novelty. That is, creativity, novelty and innovation are necessary but not sufficient requirements of the entrepreneurial imagination; an element of *constraint* based the entrepreneur’s awareness of target users’ needs of target users is also necessary. In short, the innovation must have *value* for someone, such as future customers, or even customers in another culture.

Empathy is what entrepreneurs use to imagine what will be of value to these customers. It is useful to look closely at how entrepreneurship scholars, especially those using a radical subjectivism perspective, use this term. Empathy refers to the social competency of taking another’s perspective. However its usual meaning

suggests an affective rather than a cognitive capacity to enter another person's reality. McMullen (2010), in his examination of the entrepreneurialism inherent in new product development, prefers the term 'perspective taking' to 'empathy', pointing out that the former term connotes a rational capacity to enter into another person's "perceptual point of view" (2010, p. 116) enough to be able to communicate and cooperate, rather than entering into an affective or emotional connection. Whether the term is empathy or perspective-taking, imagining what will be of value to customers imposes an important discipline. For example, empathy needs genuine familiarity with an innovation's possible end users, otherwise there is a tendency towards conservatism in predicting the degree of novelty or risk in what end users will find attractive (Chiles, Tuggle, McMullen, et al. 2010). Many end users themselves become entrepreneurs (Shah and Tripsas 2007). End users' personal needs can alert them to a broader market problem, assuming that their personal interests reflect others' similar frustrations and that their solution will be sufficiently attractive to others for them to be willing to pay for it. Akrich (1995, p. x) refers to this as the I-methodology. Nevertheless, to the extent that the designer of an innovation is unaware of the fact that the user representation resembles herself (Oudshoorn, Rommes, and Stienstra 2004), the designer using the I-methodology may become too reliant on her own preferences to infer what future customers' preferences will be. Moreover, markets may evolve away from the interests of the entrepreneur, further diminishing the representativeness of her preferences to those of the market (Oudshoorn et al., 2004). Thus being an end user – as opposed to being familiar with end users – can have disadvantages.

It may seem obvious that ideas for new products and services need to be attractive to potential customers if they are to form the basis of a viable venture.

However ignoring this problem at a theoretical level would be to obscure the difficulty of imagining end users, especially in the case of radical innovations. The “fuzzy front end” of the innovation process – to use the McMullen’s (2010) description – where the product concept is developed and a decision is made about whether to invest resources in its development (Smith and Reinsertsen 1997; Koen, Ajamian, Burkart. et al., 2001), tends to be chaotic, unpredictable, and unstructured (Koen et al. 2001). This makes the early phase of innovation particularly challenging, unlike subsequent phases which are usually more structured, predictable and formal. Especially with novel transactions, entrepreneurs not only have to take the perspective of others, they must identify who these others should be. In technological entrepreneurship, as Chiles, Vultee, Greening et al. (2010) point out, the customers may not even exist yet, which requires the entrepreneurs to configure the target from a number of interests they think will be advanced by the product they plan to introduce.

Modularity: In the radical subjectivism view of entrepreneurship, modularity is an important aspect of how managers organize their firms’ heterogeneous resources to respond to dynamic markets buffeted by continuous change, abrupt shifts, and unpredictable competition (Chiles, Tuggle, McMullen et al. 2010, pp. 22-23). A module is “a unit whose structural elements are powerfully connected among themselves and relatively weakly connected to elements in other units”, that is, they have “common interface specifications” (Chiles, Tuggle, McMullen, et al. 2010, p. 23). Because entrepreneurs imagine and assemble the capital structure of their firms through their subjective expectations of the future (and interpretations of the past), that structure is not only novel but inherently heterogeneous. When inputs and demands are both heterogeneous, modularity can greatly enhance the ability to meet

diverse demands with diverse system configurations (Schilling and Steensma 2001, p. 1153).

There are two broad aspects of modularity: *complementarity* and *substitutability*. Complementarity promotes stability within the firm. Complementary modularity can be of two types: *plan* complementarity of a module's resources within one firm e.g. slack resources, or *structural* complementarity of resources within a module controlled by different firms which interact with each other, e.g. a network or a perceived shared culture which enables speedy decision-making between two firms. Substitutability, in contrast to complementarity, facilitates change within the firm. It refers to the capacity of individual elements within a firm's system to be removed and replaced with minimal disruption or loss of productivity (Schilling 2000; Pil and Cohen 2006) as for example in the case of multiple products, multiple divisions, strategic business units, or subsidiaries. Compiling complementary resources within each module reinforces organizational stability while compiling diverse substitutable modules promotes organizational flexibility (Chiles, Tuggle, McMullen, et al. 2010).

Self-organization: Self-ordering processes creatively organize competitive entrepreneurial markets by generating far-from-equilibrium market order. The entrepreneur has the capacity to imagine a "creative" order (that is, to subjectively imagine novel solutions to future customers' problems) and to realize these solutions as products by recombining firms' resources even when the future is 'under perpetual construction', with markets moving away from rather than towards equilibrium. The idea of self-organization does not assume that equilibrium is a somehow more desirable situation than disequilibrium, and that disequilibrium is inherently disordered. Rather, disequilibrium is taken as the normal state, and has its own form

of order born of what Geldof (1995) sees as the natural affinity of disequilibrium with the complexity, uncertainty, and subjectivity of processes that perpetually generate novelty. Shackle (1966, 1979) theorized that entrepreneurs interpret not only past experiences but also formulate their expectations of an imagined future. This takes the form of creating mental images of possible future actions and outcomes. The decision maker considers those sequels she or he deems possible, orders them from most to least desirable, and ultimately chooses by focusing attention on the most and the least desired of these imagined sequences of events. Shackle's emphasis on the unique generative power of such choices, which he likens to "uncaused causes" (1983, p. 7), allies them to the generative possibilities envisaged in complexity theory.

Theoretical integration

The effectuation and radical subjectivist perspectives are similar in that they are focussed on the actions of entrepreneurs and the consequences of these actions rather than what kind of personality or values entrepreneurs have. But there are also more fine-grained similarities between the principles of effectuation and the processes of radical subjectivism. As noted previously, according to effectual reasoning, all entrepreneurs begin with three categories of means: who they are, what they know, and whom they know. This emphasis on the personal, local, even idiosyncratic characteristics of entrepreneurs is consonant with radical subjectivisms' view of the entrepreneur. Consequently, "instead of distinguishing sharply between opportunities and entrepreneurs, radical subjectivists see them as inseparable" (Chiles, Tuggle, McMullen, et al. 2010, p. 143). Moreover, effectuation's "three categories of means" align closely with the domains of radical subjectivist processes, namely the entrepreneur's *mind* (for empathy), their *firm* (for modularity), and their *market* (for

self-organizing) respectively. This mapping of the fundamental questions “effectuation” entrepreneurs ask onto the processes “radical subjectivist” entrepreneurs follow invites more specific exploration of links between: (a) the strategic partnerships principle in effectuation and the empathy process in radical subjectivism, (b) the affordable loss principle in effectuation and the modularity principle in radical subjectivism, and (c) the leveraging contingencies principle in effectuation and the self-organizing principle in radical subjectivism.

Strategic partnerships and empathy: In the effectuation perspective strategic partnerships are the pre-commitments with customers that entrepreneurs secure for their idea or product. These customers fulfil a similar function to the imagined future users with whom radical subjectivist entrepreneurs exercise empathy: their use of the product provides feedback on the value of the idea or product and shapes what the entrepreneur does next. Entrepreneurs working to an effectuation logic may even incorporate the customer into the product’s design process to get over the problem of anticipating market needs. Both approaches – observing or imagining customers using the new entity – are likely to be superior to having customers *tell* the entrepreneur what they want, because customer feedback has its limitations and may even prevent development of a more appealing product (Woolgar 1994; Webb 1996). Thus in both the effectuation and radical subjectivism perspectives the idea of *constrained creativity* is important.

Affordable loss and modularity: In the effectuation perspective entrepreneurs do not need to try to predict the future because their decisions about what to produce and sell are based on what they can afford to lose. Instead of trying to assess likely returns in advance, they allow returns to emerge as a residual of the pre-commitments they previously established with key partners. Similarly, from the radical subjectivism

perspective entrepreneurs, in implementing their novel idea, combine and recombine resources in their firms to meet new market needs. In so doing, however, they also ensure that any new idea or product which does not meet customer needs can be quickly changed or jettisoned without major loss. Effectuation's reliance on pre-commitments with key partners and radical subjectivism's use of imagined (but not fanciful representations of) customer needs, both create order in a market that has yet to be realised as "demand", let alone as profit.

Leveraging uncertainty and self-organizing: In the effectuation perspective "opportunity tensions" arise from accumulating contingent information which emerges from the results of entrepreneurs' previous partnerships and actions. Entrepreneurs use this information to make subsequent "one step at a time" decisions which take advantage of the opportunity tensions. In a similar way, the radical subjectivism perspective describes how entrepreneurs continually imagine and adapt their actions to meet ever fluctuating markets and in so doing actually create their own new market order in response to permanent disequilibrium.

In pointing to these various similarities we do not suggest that the radical subjectivism and effectuation perspectives can be reduced to the same idea in all respects. We note for example that Sarasvathy and Venkataraman (2011) discuss effectual logic as akin to the scientific method. That is, they see it as a process that anyone can learn to do well, even if not all applications of it lead to hugely successful ventures, just as not all applications of the scientific method lead to revolutionary scientific discoveries. We are not aware of any similar claims for the thinking processes of radical subjectivism; indeed the recent review of research on the cognitive processes of entrepreneurship by Grégoire et al. (2011) suggests that understanding how and why certain some individuals mobilize mental representations

to identify entrepreneurial opportunities remains a major research challenge. In terms of our present integration of elements of the two ideas, it is clear that the principles of effectuation form a single, highly integrated problem-solving and decision-making protocol or logic which is not confined to a particular domain of realization. In contrast, understanding the three organizing processes of the radical subjectivism perspective, empathy, modularity, and self-organizing, means appreciating that each of them is realized serially in successive domains: the mind of the entrepreneur, the structure of the entrepreneur's firm, and the market environment, respectively. Nevertheless, as we will illustrate in the next section, the value of integrating elements of the two perspectives lies in the way combining them enhances our understanding of entrepreneurial behavior, especially in the context of family firms.

Thus far we have advanced the case for integrating effectuation and radical subjectivism by emphasizing the *prima facie* validity of combining their key theoretical components. In this section we reinforce the case for integration by drawing on established descriptions of the nature of family firms which are consistent with these views of entrepreneurial reasoning and behavior.

Features of family firms

To present the features of family firms in an exhaustive fashion would be beyond the scope of this paper. Fortunately there is an influential stream of research over the last decade spearheaded by Miller and Le Breton-Miller that affords a convenient focus for a coherent and empirically well supported account of the defining characteristics of family firms. It includes the well known and popular *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses* (Miller and Le Breton-Miller 2005). In this and many more empirically based publications, e.g. Le

Breton-Miller and Miller (2005, 2006a, 2006b, 2009); Le Breton-Miller et al. (2004); Miller and Le Breton-Miller (2003, 2005, 2006a, 2006b, 2006c, 2007); Miller et al. (2009); Miller et al. (2010; Miller et al. (2010); Miller et al. (2008); Miller et al. (2003), the authors highlight four key priorities that figure in the longest-lasting, best performing family firms: Continuity, Community, Connection and Command (the four Cs). The four Cs also resonate strongly with other ideas and concepts which are becoming paradigmatic within the evolving discipline of family business (see author 2009). One such core concept is the emerging concept of familiness as a unique bundle of resources (Habbershon and Williams 1999).

The four priorities of family firms as distilled from these various lines of research can be summarized as follows:

Continuity: Long-lived family firms commit to a mission over the long term: to do something important exceptionally well. Accordingly, members unite behind the goals of corporate health and continuity, and invest in the competencies needed to achieve the shared mission. Rather than acting as careerists, they exercise careful stewardship over the firm's resources. They encourage long executive apprenticeships and tenures, and avoid short-term tactics.

Community: To the same end, family firms build cohesive, clan-like teams based on strong values which family firms socialize staff into endorsing and supporting. Family firms are likely to pamper employees to elicit loyalty, initiative, and collaboration, rather than using rules and financial incentives to influence behavior.

Connection: Many great family firms nurture enduring, open-ended, mutually beneficial relationships with business partners, customers and society, even when the

demands imposed by these relationships greatly exceed the time span, scope, and potential of episodic market or contractual transactions.

Command: Family firm leaders need to be able to act independently – quickly and in original ways – often to renew or adapt the firm. They typically work with an empowered top team whose members, unlike in many non family firms, are free of shareholder constraints and so can make fast decisions.

While these priorities may be present in many family firms, specific elements among them manifest as the basis for sustained competitive advantage in the better performing family firms. In a study of successful versus struggling family firms Miller and Le Breton-Miller (2005) isolate specific elements of the four Cs that most strongly differentiate outstanding family-controlled businesses. They are:

- *Connection:* staying close to the client,
- *Community:* clarion values, assiduous selection and socialization, welfare state for employees, informality, initiative, and teamwork,
- *Continuity:* thematic competency based strategies, focussed long-term investment,
- *Command:* courageous and cohesive top team.

These descriptive features emerging from family firms that have been entrepreneurial over generations reinforce the value of integrating specific elements of effectuation and radical subjectivism. Notwithstanding that elements of the four Cs relate to several of the core ideas of these approaches, here we discuss effectuation and radical subjectivism in terms of the family firm characteristics to which their relationship is most salient.

Connection, Strategic Partnerships, and Empathy: Connection, or staying close to the client, is the practical manifestation of the strategic partnerships that

‘effectuation’ entrepreneurs create. It equally describes the practice of empathy by which ‘radical subjectivism’ entrepreneurs test their novel ideas. Having a family firm background is well established as valuable for becoming familiar with the general and personal disciplines needed for business (see authors 2002; authors 2009). These disciplines include understanding the necessity of making strategic partnerships which create opportunities, and testing ideas against the ‘constraint’ criterion of understanding what customers value and what their risk preferences are.

Community, Continuity, Affordable Loss, and Modularity: The community characteristic of enduring family firms coincides with the notions of affordable loss (effectuation) and modularity (radical subjectivism) which enable entrepreneurial flexibility. The shared values associated with the community aspect of family firms promote this flexibility. As noted earlier, the internal bonding of clan-like teams promotes values of loyalty, initiative and collaboration, which are conducive to entrepreneurial behavior. Because of these shared values, family firm entrepreneurs are more than usually able to deploy their resources in a flexible fashion, quickly reshuffling resources to implement novel ideas.

Further, implementing ideas requires capital and family firm capital is often described as “patient”. This patience refers to both the patience of investment (the deferring of decisions about when to exercise real options) and the patience of the expected returns from those investments. This equally coincides with the continuity characteristic of better performing family firms: thematic competency-based strategies, focussed long-term investment. The patience of investment enables the exploration of more real options while the patience of expected returns means that novel plans can be implemented without the need to realize returns quickly. This tolerance for slow returns may even extend to a capacity for affordable loss if the

initiative fails. Moreover, should the new initiative in fact fail, the clan-like team structures of family firms protect firm members associated with the failed initiative. This does not always happen in non-family firms. As Baetyer (1998) suggests in a discussion of non-family entrepreneurial ventures, while entrepreneurs may wish to retain flexibility by designing independent, future-focused modules, employees are likely to try to minimize their personal risk by associating themselves with initiatives that they judge likely to succeed and to be integrated into the mainstream organization. McMullen (2010, p. 123) makes the related point that “taking others’ perspective should enable entrepreneurs to anticipate whose interests are likely to be facilitated or encumbered [*by the new product, organization, network, or other artefact*], and how and why this is likely to be the case, thereby helping entrepreneurs to identify who the relevant stakeholders are.” Again, having a family business background is likely to help entrepreneurs develop and exercise this alertness to stakeholder interests. Further, in line with real options reasoning, family firms also provide an environment which allows entrepreneurs to create real options for their human resources when they engage in succession planning. This typically involves deliberative processes of career planning which not only have a long-term organizational dividend but also a personal return for the individual employee.

Command, Affordable Loss, and Modularity: The command characteristic of family firms means they are able to act quickly and independently in original ways which facilitate renewal and adaptation. This also connects with the notion of modularity and affordable loss in the way it enhances the prospects for entrepreneurial behavior in family firms. Courageous and cohesive top teams in family firms can reshuffle resources and commit capital without the need for lengthy advance justifications to outsiders. This means they can often move faster than their

competitors and pursue unorthodox strategies. This again highlights that the family firm context is conducive to entrepreneurial behavior because resources are deployed more quickly and losses, if they occur, can be tolerated for longer.

Command, Leveraging Contingencies, and Self-Organizing: This command characteristic of family firms is also consistent with how family firm entrepreneurs behave by quickly leveraging contingencies, differentiating their products from those of rivals to recreate opportunity tensions in self-organizing markets. Entrepreneurs respond to contingent information which flows from their relationships with customers and other stakeholders. However the speed with which family firm entrepreneurs can make decisions means they are able to take advantage of evolving “opportunity tensions” more quickly than their competitors. The result is that family firm entrepreneurs speedily blend their plans and resources with market forces which are in constant flux.

Connection, Leveraging Contingencies, and Self-Organizing: We saw the importance of the connection characteristic of family firms when considering the concepts of empathy and strategic partnerships in developing novel ideas into products which meet future customer needs. The connection characteristic of successful family firms is also made more salient by the concepts of leveraging contingencies and self-organizing markets. Successful family firms’ connection characteristic manifests itself in their high use of networks as a source of knowledge. This knowledge, or “bridging” social capital (Salvato and Melin 2008), is a source of opportunity. Over time, family firms’ strategic partnerships create networks or path dependencies. These in turn are the source of contingent information from which further novel opportunities arise. From a radical subjectivism perspective, self-organizing involves ‘entrainment’ or the capacity to make new sense of and

synchronize the multiple rhythms created by fluctuating markets. Family firm networks, because they allow family firm entrepreneurs to synchronize the information flowing from their strategic partnerships, are an important element in how they manage the uncertainty arising from these constantly fluctuating markets. Table 2 summarizes the integration of the principles of effectuation with the three organizing processes of radical subjectivism, and the way this is reinforced by the realities of successful family firms.

Insert Table 2 about here.

The next section sets out a detailed case which we will use to further justify our theoretical integration of elements of effectual reasoning and radical subjectivism within the context of family business entrepreneurship. The analytical technique we use to interpret the case is compatible with both effectuation's grounding in entrepreneurs' stories of how they built their firms (Sarasvathy 2001a, b) and the hermeneutic approach required by radical subjectivism. Hermeneutics in the strict sense refers to an interpretive (but not necessarily qualitative) approach that invokes the philosophical assumptions and principles associated with scholars such as Habermas, Gadamer, and Ricoeur. Hermeneutic principles encourage researchers first to define a relatively narrow context – such as the single family firm we analyze here – and expand it as their understanding increases. In this iterative process, each new level of understanding is informed by those that precede it. Accordingly in our analysis we work “outwards”, beginning with the history of individual actions within one firm, then later including the firm level context as we attempt to understand how the firm's entrepreneurs act on their plans by combining and recombining resources to create new capabilities and novel products. Finally, we consider how the firm's actions and interactions with other actors help drive continually fluctuating market

processes. Thus our approach aligns with the “event-driven” process methods (Van de Ven and Engleman, 2004, p. 345) which are needed to capture the salient features of events that “unfold over time” such as non-equilibrium market processes.

Illustrative case: Hawkins Transport Pty Ltd

In 1921, Bartholomew and Rosina Hawkins laid the foundations of the Hawkins family group with the establishment of a fuel station in Ipswich, Queensland, Australia. Hawkins Transport quickly evolved beyond the service station to become the first transport company to run in competition with the railway. It was able to run far more efficiently than the railway, but regulations protecting the railway restricted freight carriers from charging less than the railway. Consequently, Hawkins Transport enjoyed substantial profit margins and the business was very successful. Despite the early success of Hawkins Transport, its position deteriorated when Harold, the son of Bartholomew and Rosina, sold off the fuel station and struggled to maintain the financial position of the transport business. His premature death resulted in his son, Neville, taking over the family business in 1952 when he was 19 years old.

Hard work by Neville, his wife, Shirley, and over time their four children restored the business to its former profitable state. Complete reinvestment back into the business enabled Hawkins Transport to grow and commence interstate haulage. Then in 1971, Neville and Shirley began ferrying passengers and supplies to Moreton Island and the family began running the island’s general store. Both divisions continued to grow. As a result, in the 1990s the Hawkins family group was able to diversify further. Adding to their north Queensland depot in Townsville, about 1,000 miles from their Brisbane base, they bought a transport company based in Tully, in the nearby banana growing precinct. The acquisition of a small farm in Tully saw the group become involved in growing bananas. This enabled the group’s transport

vehicles to return to Brisbane with paying loads. In 2005, the Hawkins family group diversified further by establishing Hawkins Fuels with a truck stop at the port of Brisbane. This is a retail outlet serving the needs of truck drivers – major stakeholders in the transport industry as a whole. It provides washing machines, showers, internet access, as well as a lounge area and food facilities. In August 2007 another service was added with the opening of Port Wash, a truck, four-wheel drive and car washing facility.

Currently the family group consists of a range of diversified businesses, all with a link back to the family's transport origins. The organization employs over 200 people, including members of the third, fourth and fifth generations. Hawkins Road Transport is the largest privately-owned transport company operating in north Queensland and consists of a network of depots in Brisbane, Townsville, Mackay, Tully, and the Burdekin delta. The company owns a fleet of trucks and specializes in transporting fresh produce from north Queensland to Brisbane. Hawkins Road Transport also has a fuel and bulk liquid division and is a Shell and Caltex approved carrier. The Moreton Island operations have continued to expand from the humble beginnings of an 11-metre vessel to a 58-metre long, 16-metre wide, fast catamaran that can carry 52 four-wheel drive vehicles and 400 passengers. As well as ferry services between Moreton Island and the mainland, the catamaran is used for evening river cruises for both corporate and private events. The group's local store on the island has expanded to include adventure day trips, four-wheel drive tours, and catered beach events.

Over the years all four members of the fourth generation have worked in the business. John Hawkins, Neville and Shirley's only son, took over the transport business and opened the Townsville depot in the 1980s. However, John later exited

the business to pursue his own business interests in the United States. Over the years the youngest daughter, Roz, gravitated to positions of leadership, culminating in her appointment as CEO in 1997. In 2006, with her sisters Kerry and Anne, she finalized a sibling buyout of the business from their parents.

Further integration: Specific case realities

The realities of this specific family business map closely onto the theoretical integration we outlined above. Insights into this business are based on an extended interview the authors conducted with the CEO, Roz Shaw (nee Hawkins), in early 2010. Roz provided an unstructured but broadly chronological account of the firm's development over 80 years with particular emphasis on actions taken by members of the third and fourth generations. Our core integrated concepts as discussed above are readily discernible in the everyday language of this family business entrepreneur. In particular she highlighted the importance and effects of strategic partnerships and empathy, affordable loss and modularity, and leveraging contingencies and the entrepreneur's creation of (and participation in) self-organizing markets. These variously reflect the continuity, connection, community, and command priorities of long-lasting family firms. In this section we use extracts from our interview to draw attention to our integrated concepts derived from the effectuation and radical subjectivism perspectives.

Strategic Partnerships and Empathy Pre-commitments from a number of key customers were crucial to how the form and nature of the services the Hawkins group provided evolved over time. Their continuity over four generations has been heavily influenced by their proclivity for focus on connection with customers. Hawkins customers provided feedback on services the firm provided that progressively shaped what the entrepreneurial family would do next. Looking at the firm's evolution over

four generations reveals a capability to respond to customer feedback in ways that are central to the firm's definition of the services it provides. The initial opportunity to reap above-average rents in the protected environment of transport emerged from the firm's capacity to respond efficiently to customer needs. This capacity was reignited in the third and fourth generations and proved central to the evolving choice of services which configured the firm. A few trucks in Brisbane became refrigerated vans, a northern depot, bananas, and a truck stop, all progressively added in response to empathy with the needs of strategic partners inducted into the firm. Customer needs dictated areas of growth, not any conscious strategy.

The business has been grown always. We give great service so people continue to give us work and then more people would hear about us and give us more work. It's never been about some conscious strategy to grow the business.

Nevertheless the firm grew.

It did get beyond survival mode and actually John helped it do that. In the early days when he moved to Townsville he actually started the Townsville branch and that was a big increase in our business.

Interestingly, it was a single customer's needs that had caused this 'big increase'.

[...] it [the Townsville depot] actually did come from a customer that Dad had had – it actually stemmed from there – it was a natural progression.

Affordable Loss and Modularity Hawkins family entrepreneurs have implemented their novel ideas by combining and recombining the family firm resources primarily so as to meet customer needs rather than to predict specific future financial returns. Specifically the Hawkins family as a clan-like community has been able to flexibly deploy family human resources in a parsimonious way. As a

consequence, the knowledge resources embedded in the clan have been passed across generations as a key capability. The Hawkins approach to avoidable loss has been to avoid “unaffordable losses” that, if incurred, could endanger the survival and/or continuity of the firm. This stemmed from a culture of ensuring firm survival, which had been severely threatened by the actions of the second generation. In addition to foregoing maximized returns for survival purposes, there has been a family-first orientation rather than a business-first strategy.

Dad says to this day that he only ever wanted to not go broke. His motivation is that you don't go broke. Mum's motivation has always been she wants to give every child a job.

Deploying resources by giving every child a job meant developing the firm's structure in a modular way, for example establishing a branch in Townsville, which gave John employment to John. Over time, because the Townsville branch led to new firm activities, it also created flexibility which would ensure firm survival. Giving every child a job also afforded the family the chance to forego financial maximization in the interests of non-financial “family-first” emphases: a form of affordable opportunity loss. This manifested itself in John's non-financial focus over a number of years:

John never had anything to do with the financials. [...] He wasn't interested in making money. [...] I suppose he was interested in making money but he was not really focused on every aspect of the business.

The family-first approach, particularly during the reign of the third generation, yielded a set of human resources which could also be flexibly deployed to achieve the firm's survival objectives:

My sister and I would work twelve hours a day, eight hours on Saturday and a few hours on Sunday. We both had little children. They would come to work with us every day.

This parsimonious use of family resources nevertheless helped generate unique knowledge resources which were later passed on to members of the fourth generation. However the process was always driven by the inquisitive nature of the emerging fourth generation leader:

My father actually did provide some guidance and encouragement. By that time [the late 1980s] he had definitely recognized that I was going to be the leader of the business and was giving me support and mentoring, definitely. It was always from my questioning though. It was never instigated by him. [...] I would always run things by him, particularly because I was really interested in the accounts by then and numbers and making a profit. [...] He'd give me good information. Some of it was "family first" information like, "We do it because we love doing it and what else would we do?" which didn't really sit too well with me.

Over time there was a realization that knowledge had been acquired by the subsequent generation. This legitimated Roz's eventual command capability and is reflected in her formal leadership role.

Less and less people would go to him. As time goes past, when you're in the leadership role, more and more people are employed by you and interact with you so they have less interaction with him.

Leveraging Contingencies and Self-Organizing As Sarasvathy (2001b, p. 6) points out, "great entrepreneurial firms are products of their contingencies. Their structures, culture, core competence and endurance are all residuals of particular

human beings striving to forge and fulfil particular aspirations through interactions with the space, time, and technologies they live in.” Hawkins entrepreneurs are seen to have continually imagined and adapted their business to meet fluctuating markets. In the late 1990s they embarked on a more extensive set of connections through professional and other networks to further develop their knowledge resources and capabilities. The incumbent leadership at that time started making a series of “one step at a time” decisions about the systems and processes necessary to professionalize the family firm. These networks allowed the family’s entrepreneurs to accumulate and respond to contingent information and other actors in an enduring way, both reflecting and influencing how the road transport industry has changed and developed.

1997 is [...] when we joined Trucksafe. Today it seems like it was such a simple program but it was part of a quality system and it got me thinking about systems and processes and position descriptions and doing things more professionally. [...] I started talking to accountants and wondering about structuring the business.

This rapid leveraging of network relationships supports the findings of Zahra (2010), in his study of entrepreneurial dimensions of family firms, that family firms leverage organizational social capital differently, and perhaps to greater advantage, than non-family enterprises. Moreover, the information gleaned from these expanding networks prompted further development of the services the firm offered. Related diversifications such as the accommodation and retailing operations associated with Hawkins Fuels, the Port Wash facility, were specific responses to opportunities arising from the road transport safety agenda. In a similar vein, the new Moreton Island ferry was also inspired in part by safety and other market opportunities. With the passage of time and the growing command capacity of the incumbent leadership,

these decisions became still quicker. This is clear in the way Roz further developed the ferry side of the family business:

Interviewer: *What was the cost of the MiCat, just in rough terms?*

Roz: *Including design and everything, \$10 million.*

Interviewer: *So you were making a \$10 million investment and your father was indifferent to it. Would that be how you'd describe it?*

Roz: *Correct, yes.*

Interviewer: *Symbolically, this is probably a significant transitional event?*

Roz: *Probably, yes. You don't realize it at the time but it was sort of like, well if I've made that decision, I am in total control. \$10 million in 2002 was a significant proportion of the balance sheet.*

Roz's acknowledgement of the freedom of action she enjoyed leading up to and following the MiCat investment supports Miller and Le Breton-Miller's (2007) contention that family governance and leadership create unique conditions which can make family firms more effective than family firms. Specifically, unifying ownership and control increases CEO discretion, which makes it more possible to follow through on intuitions and judgements when making choices (Gedajlovic, Lubatkin, and Schulze 2004). Similarly, it suggests family firms may be better able than non family firms to create products or enter markets that are inaccessible to outside investor-controlled or managerially led firms, and to adapt swiftly to changing environments (Dyer 2006). This freedom to imagine and pursue unconventional choices also resonates with the radical subjectivist concept of the entrepreneur.

Roz is now the undisputed CEO of Hawkins Industries. Her capacity to occupy that position, envisaging and developing ongoing opportunities, is at least

partly the result of deep tacit knowledge drawn from her long experience with the network of companies, industries, and communities that Hawkins Industries has dealt with over several generations. Chiles, Vultee, Greening, et al. (2010) point out the virtual inseparability of entrepreneur and opportunity in the radical subjectivism perspective. As we saw earlier, a similarly holistic view of entrepreneur and opportunity is evident from effectuation's three categories of means, which are aspects of the entrepreneur herself, rather than something separate. By virtue of 'familiness' (Habbershon and Williams 1999) or family social capital (Arrègle et al. 2007), the family enterprise can exhibit a similar unity between its opportunities and its unique identity to that discerned in effectuation and radical subjectivism discern between individual entrepreneurs and their opportunities. In the words of Schulze and Gedajlovic (2010, p. 196), "the entwinement of the family and enterprise can help the firm create and wield a level of influence with its competitive context that is simply not available to the outside-investor owned, non-family enterprise."

Conclusions

In this paper we have integrated elements of two new perspectives on entrepreneurship to elaborate conditions that are conducive to entrepreneurial behavior: strategic partnerships inspired by empathy with potential customers; flexibility created by resource deployment mediated by the logic of affordable loss and modularity of firm structures, and the leveraging of contingencies that create opportunities even, or especially, in rapidly changing markets. We have also shown how these principles resonate with the established general descriptions of long-lasting family firms characterized by specific elements of the continuity, connection, community and command priorities. Family firms' substantive missions highlight continuity. That is, long-lasting family firms have a meaningful picture which keeps

the team together and facilitates a bias towards pragmatic execution. The strategic flexibility of family firms enables entrepreneurial behavior in which surprises are not seen as deviations from the path. Further, family firms make extensive use of networks which, because they generate information about customer needs (and feedback about potential solutions), and mediate family firms' reputational influence, allow family firms to make and remake order within fluctuating markets. Our detailed case has illustrated how one family enacted these principles and processes in an idiosyncratic fashion.

These theoretically grounded observations are now distilled in three propositions that reflect: (a) who the entrepreneur is, (b) what the entrepreneur knows, and (c) whom the entrepreneur knows, respectively.

- *Proposition 1* Family business entrepreneurs (FBEs) are better able to empathize with customer needs by establishing strategic partnerships than non FBEs.
- *Proposition 2* Family business entrepreneurs (FBEs) display greater stability (complementarity) and flexibility (substitutability) than non FBEs through modularizing their firm's resource bundles.
- *Proposition 3* Family business entrepreneurs (FBEs) create more entrepreneurial opportunities by leveraging contingencies generated by their extensive networks than non-FBEs.

Progressing to the theory testing stage would involve moving these propositions, which have been developed in the context of our single case study, to testable hypotheses. We invite scholars to join this research initiative which would contribute to understanding entrepreneurial behavior in family firms and more generally.

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	Causal	Effectual
Problems of...	Decision	Design
Logics help us to ...	Choose	Construct
Strategies are useful when: <ul style="list-style-type: none"> • Future is ... • Goals are... • Environment is ... 	Predictable Clear Independent of our actions	Unpredictable Unclear Driven by human action
Actor begins with question/s	What should I do to achieve this particular effect?	What can I do with these means? What else can I do with them?

Table 1. Causal v. Effectual Reasoning

Source: Adapted from Sarasvathy (2008)

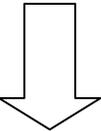
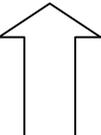
	Organizing processes of radical subjectivism	Empathy (from psychology)	Modularity (from organization theory)	Self-organizing (from complexity theory)
	Serial Domains	Mind →	Firm →	Environment
	Core concepts of radical subjectivism	Subjective mental constructions	Capital combinations and continual reshuffling	Plans, resources and market forces which are constantly in flux. Entrainment that synchronizes different rhythms
	Entrepreneurs...	Gauge appropriateness of novel ideas and plans	Organize novel resource combinations when implementing plans	Generate opportunity tension that triggers the creation of market order within disequilibrium
	Family firm realities	<p>Connection</p> <ul style="list-style-type: none"> • Staying close to customers fosters strategic partners and enables empathy. • Strategic partnerships build social capital through networks. 	<p>Community and Continuity</p> <ul style="list-style-type: none"> • Shared values enable entrepreneurial flexibility and protect employees associated with ventures which may fail. • Succession planning exercises create modular options with respect to their human resources. • “Family-first” philosophies create flexibility through modular firm structures <p>Command</p> <ul style="list-style-type: none"> • Quick decision-making enables capacity to organize and reorganize resources more quickly than competitors. 	<p>Command</p> <ul style="list-style-type: none"> • Quick decision-making enables quick responses to contingent information. <p>Connection</p> <ul style="list-style-type: none"> • Networks are a source of knowledge or “bridging” social capital. • Networks generate still more contingent information and opportunity tension.
	Entrepreneurs...	Secure pre-commitments from key stakeholders	Generate returns which are a residual of process of stakeholder acquisition	Take advantage of path dependencies and contingent information
	Core principles of effectuation	Strategic partnerships principle	Affordable loss principle	Leveraging contingencies principle
	Domains	Who entrepreneurs are	What entrepreneurs know	Whom entrepreneurs know

Table 2. Core concepts of effectuation and radical subjectivism illuminated by family firm realities