Entrepreneurship as a Key Element in Advancing the Psychology of Competitive Advantage

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Robert Ployhart (2012) is right—industrial–organizational (I–O) psychology should participate in the emerging development of a psychology of strategy and competitive advantage. However, the focal article does not go far enough: It does not include the emerging I–O psychology of entrepreneurship that has its core how psychology can contribute to competitive advantage. More specifically, we argue that the psychology of entrepreneurship is a core area for integrating the field of psychology and competitive advantage and that a psychology of competitive advantage may learn from the psychology of entrepreneurship.

There are three aspects of entrepreneurship that are important for a psychology of competitive advantage: First, entrepreneurship is concerned with the existence, recognition, and exploitation of business opportunities (Shane & Venkataraman, 2000)—as I–O psychology contributes to detecting, developing, and exploiting business opportunities, it contributes to a psychology of competitive advantage. Second, entrepreneurship is about starting companies (Gartner, 1988); as such there is no organizational level without entrepreneurship. Third, there is already a field of psychology of entrepreneurship that has a long tradition in combining psychological approaches, strategic management, and economic outcomes (Baum, Frese, & Baron, 2007).

Our first comment refers to a central tenant of Ployhart’s article: the issue that the resource-based view has a focus on the specific nonimitable firm resources in contrast to I–O psychology, which attempts to generalize. We suggest that the resource-based view also includes the idea of generalizability, like any other scientific theory.
The idea that nonimitable resources produce sustained advantage is, of course, a generalizable tenet of the resource-based view. Similarly, a higher degree of opportunity perception leads to the competitive advantage of the entrepreneurial firm—and again, this tenet is generalizable within entrepreneurship theory, although each solution for an opportunity and each perception of an opportunity are different and often follow a certain path dependency of the thoughts of entrepreneurs (Shane, 2000). Thus, the issue of generalizability is not the real difference between the resource-based view and I–O psychology.

However, we agree with Ployhart that the level of analysis is crucial. For cognitive ability, the carrier is the person, not the firm. Therefore, a non-imitable resource of a person may be cognitive ability and creativity; collecting highly intelligent and creative people in a firm and being able to keep them in the firm is the equivalent nonimitable approach on the firm level. In contrast, in early entrepreneurship, the individual may be important: The genius of Edison with his approach of dealing with errors to invent new products was nonimitable (Matson, 1996)—and this is an example where a founder of a firm can have profound influence on the company’s success for a very long period of time. Thus, in the start-up phase of entrepreneurial units, the individual entrepreneur is of particular importance for the company and the development of the company. In this particular situation, the company level actually is highly related to the individual level of the entrepreneur. Therefore, individual-level approaches (or very small group approaches) can be used as starting points to explain how entrepreneurs start business ventures and develop goals and strategies allowing them to perform successfully in a market. The starting point of companies often lays the foundation of the organizational culture of the organization (Koenig, Frese, Steinmetz, Rauch, & Wang, 2007). This is one of the attributes that will be difficult to imitate in the future. Other issues relate to specifics of implementing opportunities, aligning knowledge, skills, and other KSAs in specific ways—all of these help the small company to develop and exploit business opportunities. In this way, entrepreneurial firms can differentiate their products and services from their competitors and develop unique value propositions to their customers. Once the firm is established and competes in a market, such individual predispositions should affect decisions in entrepreneurial tasks and, thus, firm-level variables. Firm-level strategic variables that aim on competitive advantage include entrepreneurial orientation (Rauch, Wiklund, Lumpkin, & Frese, 2009) and planning processes (Frese, 2009). Thereby, entrepreneurship integrates evidence from psychology and strategy management in order to explain business performance.

Moreover, opportunity detection, development, and exploitation is a complex process that relies on the context. The context can be defined as a technical, societal, or economic situation in which opportunities come into existence including, for example, information asymmetries and societal and economic change. However, not all individuals recognize existing opportunities. Entrepreneurship research has shown that certain individuals possess the cognitive resources to recognize valuable business opportunities (Baron, 2004). Moreover, recognized opportunities need to be exploited successfully in order to generate economic value. Successful opportunity exploitation depends on the interaction between individuals and the context (Shane, 2000). Individual-level variables explaining opportunity exploitation include task-specific traits, such as achievement motivation, innovativeness, and self-efficacy (Rauch & Frese, 2007). The effect of task-specific traits on opportunity exploitation depends on the nature of the opportunity and the specific knowledge that people have with regard to such an opportunity (Shane, 2000).

Finally, the psychology of entrepreneurship describes economic activities as a process. Business organizations evolve, grow,
and diminish over time. The relative importance of specific variables varies in this process. Moreover, individual-level, firm-level, and macro-level variables affect the entrepreneurial process differently. Psychology has developed models explaining changes on a number of variables over the lifetime. We need such models for explaining the process of organizations as they develop and grow.

**Some Lessons of a Psychology of Entrepreneurship**

First, as Ployhart correctly pointed out, psychological approaches to firm performance need to address the mechanisms by which firms create a competitive advantage. In doing this, a psychology of strategy needs to look beyond resource-based theorizing. The resources that contribute to competitive advantage are frequently influenced by the decisions and actions of the entrepreneur (Frese, 2009).

Second, resource-based theorizing has difficulties with the notion that there are attributes of the firm that may have both negative as well as positive consequences. An example is the area of mistakes and errors. Errors can have both consequences—negative ones for performance and positive ones for learning and innovation. Which one of these consequences will dominate the firm depends on the organizational culture. Entrepreneurship has traditionally known that it is necessary to learn from mistakes and errors, although the exact mechanisms have not yet been clarified.

Third, a strategic organizational psychology should not only focus on competitive advantage but also on the process of the emergence of the firm. For example, new and emerging firms might have difficulty accessing technological, professional, and financial resources. Therefore, human resources need to be developed internally or need to be bootstrapped in order to achieve performance (Rauch, Frese, & Utsch, 2005; Winborg, & Landstrom, 2000). Established and growing companies can address human resource challenges in a different way, for example by selecting and recruiting employees for specific and specialized tasks.

Fourth, the field of entrepreneurship research provides a unique context for studying a psychology of competitive advantage and can clearly go beyond a resource-based view. Entrepreneurial firms provide clearly defined boundaries for the study. Large companies usually have diversified organizational structures consisting of different subdepartments and various hierarchical levels. As competitive advantage is an organization-level outcome, it is difficult to select the right participants for predicting competitive advantage. For example, not all teams in an organization may affect the competitive advantage of organizations in the same way. Thus, the question remains which teams at which level of the organization should be examined for studying the competitive advantage of organizations. New and smaller firms do not have different subdepartments and relatively flat hierarchies. This makes it easier to develop a stringent research design to study competitive advantage.

An example of such a study is to teach an intervention and to examine whether the intervention leads to competitive advantage. For example, the central construct of personal initiative (i.e., psychological skills and knowledge of how to behave proactively in the market) was taught to entrepreneurs. The intervention was then tested with the help of a controlled randomized long-term field experiment (Glaub, Fischer, Klemm, & Frese, 2011)—a design that is not typically used within the resource-based view but which is necessary to be able to test causal concepts.

The most important advantage of a psychological approach to strategic competitiveness is the study of how opportunities are discovered and created. Empirical work on creativity processes can be used to study this issue (DeTienne & Chandler, 2004; Gielnik, Frese, Graf, & Kampschulte, 2012). The important issue here is that
creative and innovation processes always lead to specific resources although they do so generally (Bledow, Frese, Anderson, Erez, & Farr, 2009). Finally, the domain of entrepreneurship offers various opportunities for the different psychological disciplines including but not limited to personality psychology, cognitive approaches, behavioral approaches, social psychology, negotiation, and decision making.

In summary, we believe that a psychology of competitive advantage should learn from the domain of entrepreneurship. There are mutual benefits for both fields: The field of entrepreneurship would benefit because of the profound knowledge in psychology about how individual level and group level processes affect behavior (Baron, Baum, & Frese, 2007); and, thus, psychology helps explain how the entrepreneur integrates resources and initiates activities in order to create value to his customers and the society. Industrial and organizational psychology would benefit because entrepreneurship has a substantial impact on organizations, regions, and the society as a whole.

References


