ENVIRONMENTAL DISEQUILIBRIUM AND NEW VENTURE CREATION: AN EXAMINATION IN THE CONTEXT OF A LOCAL BUST ECONOMY (INTERACTIVE PAPER)

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Principal Topic

Some research suggests new venture activity maintains an even pace of creation and failure (Birley 1985; Shane, 1996), despite cycles in the economy. However, I theorize that a disruptive phenomenon, which I label catastrophic environmental disequilibrium (CED), impacts normal cycles of new venture creation (NVC) at an organizational task environment level of analysis.

Method

An important component of the economic engine, entrepreneurship, examined outside the normal cyclic interactions of the business environment, illuminates the importance of entrepreneurship’s input into the business cycle infrastructure. Study of circumstances at the environmental level, where the fabric of infrastructure stability and business processes are disrupted, reveals activity and sequencing of components in the business engine.

H1: In a geographical area with strong industry hubs or corridors, there will be a curvilinear relationship of the rate of local new venture creation following the occurrence of a catastrophic bust.

H2: The size of the impact of the CED is associated with the size of the period of NVC rate change.

This exploratory study has been designed as a comparison of two major CED events to test for environment-NVC associations. NVC is defined by the four properties of an organization (Katz and Gartner, 1988), documented by state registration, and examined in a metropolitan context from 1995 to 2005. Analysis found associations between CED and NVC events.

Results and Implications

Known in their own right as disequilibrium events (Stevenson and Harmeling, 1990), not enough is understood about entrepreneurial activities at the environmental level (Prescott, 1986; Gnyawaii and Fogel, 1994). Longitudinal study has been requested (Preim, Rasheed, and Kotylic; 1995) concerning metropolitan contexts (Deeds and McFarlin, 2004). This study extends entrepreneurship literature in the application of environmental and firm concepts to the entrepreneurial arena, toward building theory in entrepreneurship.

This study is pertinent to investment, policy, planning, decision-making and implementation aspects surrounding revitalization in the face of high magnitude uncertainty. Crisis in economy cycles begs for insight on NVC stabilization and recovery contributions. Crisis responses have moved from general market forces, to infrastructure stabilization efforts through governmental legislation, to SBA programs. Tailored responses, illuminated by research, could encourage NVC-linked revitalization.

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