Bridging the Supply and Demand Side: Toward a General Model of Value Creation in Entrepreneurship

Paper presented at the Rencontres de St. Gall 2004
Appenzell, 20-23 September 2004

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Entrepreneurship is commonly perceived as the engine of economic growth and development, through a process of value creation. According to Shane and Vankataraman (2000) entrepreneurship is defined as the process brought about by individuals of identifying new opportunities and converting them into marketable products or services. The existence of entrepreneurship is therefore a precondition for entrepreneurship. Entrepreneurial opportunities are those situations in which new goods, services, and processes can be introduced and sold at greater than their cost of production (Casson, 1982).

Opportunities can arise from changes that emerge on the demand as well as on the supply side. In general, the entrepreneurship literature implicitly focuses on *supply* side changes (Eckhart and Shane, 2003). For example, most discussions of opportunity concern changes in inputs, ways of organizing, production process, or products (Schumpeter, 1934). Here, the identification, marshalling, and combination of resources will allow the entrepreneur to exploit the opportunity and generate value in the marketplace. (Penrose, 1959). Without resources to exploit an opportunity, even the best opportunity cannot create an entrepreneur. Hence, for new ventures to create wealth in the long run, their early strategies must be founded on unique capabilities rooted in an innovative combination of resources (Schumpeter, 1934).

However, changes in *demand* alone can generate opportunities. Customer preferences influence the allocation of resources because producers need to respond to the preferences and purchasing habits of consumers. Thus, demand changes such as exogenous shifts in population structure, culture, perception, tastes, or mood can open opportunities (Drucker, 1985; Kirzner, 1997). The opportunity is created if the increase in demand outpaces investments in production capacity, generating opportunities to add more capacity, perhaps on more economic terms.

The supply side approach has traditionally been studied within the field of management sciences, including the discipline of strategic management, which is in turn largely built on

the resource-based theory. Strategic management entails the set of commitments, decisions and actions designed and executed to produce a competitive advantage and earn above-average results (Hitt et al., 2001: 480). The unit of analysis is the firm and its competitors in the same industry, and "shareholder value" is paramount. The demand side, is on the other hand, deeply rooted in marketing sciences. The American Association of Marketing defines marketing as: "the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals" (Hills, 1994:7). Here the motto goes: Know the market, share the market information, and act on it (Jaworski and Kohli, 1993). "Customer value" is often mentioned by marketing academics and managers alike as a central element of the value creation process.

The purpose of this paper is to bridge the gap between the supply and demand perspective by outlining the crucial role played by the entrepreneur in the value creation process. The first section introduces the fundamentals of the resource-based theory of entrepreneurship and presents the different types of resources in order to make a case for strategic entrepreneurship. The second section identifies the underlying dimensions of entrepreneurial marketing. The third section presents a model of value creation, which details the key actors involved in the process of the value creation, as well as the different types of value generated and received by each actor.

1. The supply side: The resource-based view

The resource-based theory considers that firms have different starting points for resources (called resource heterogeneity) and that other firms cannot get them (called resource immobility). New firms emerge as the result of a combination of resources under the leadership of an entrepreneur to pursue an attractive opportunity. Firms usually begin their history with a relatively small amount of strategically relevant resources and skills, and each company's uniqueness shows how these resources are expected to perform in the marketplace. According to the resource-based theory (Penrose, 1958; Wenerfelt, 1984), in order to be successful, entrepreneurs must exploit market imperfections based upon imperfect information or variations in expectations about prices while adhering to the following simple formula:

1. Buy (or acquire) resources and skills cheaply.
1. Transform the resources into a product or service (the production).
2. Deploy and implement (the strategy).
3. Sell dearly (for more than you paid – value creation).

However, this is only possible if cheap or undervalued resources and skills exist. And their availability depends on markets imperfections and differences of opinion about prices and events. These are not limitations, because perfect agreement seldom exists, and the key to an entrepreneur's vision is insight into the future (Dollinger, 1999).

1.1 Resource types

A resource is any thing or quality that is useful. The resource-based theory recognizes six types of resources: financial, physical, human, technological, reputation, and organizational (Wenerfelt, 1984). These six types are broadly drawn and include all assets, capabilities, organizational processes, firm attributes, information, and knowledge.

- *Financial resources*. Financial resources represent money, assets, and fungible stocks. Financial resources are generally the firm's borrowing capacity, the ability to raise new equity, and the amount of internal fund generation. Financial resources are seldom the source of sustainable competitive advantage. These resources are valuable, they are seldom rare, they are not imperfectly imitable, and substitutes do exist. However, while the actual financial resources may not provide a sustainable competitive advantage, the management of these resources can provide it.

- *Physical resources*. These resources are the tangible property the firm uses in production and administration (e.g. location, equipment, office space). Complex physical technology cannot provide a basis for a sustainable competitive advantage as it can be duplicated and reproduced. However, if the method for exploiting the technology is imperfectly imitable (assuming it is rare and difficult to substitute), the other resources can augment technology to provide a sustainable competitive advantage.

- *Human resources*. Human resources include the knowledge, training, and experience of the entrepreneur and his or her team of employees and managers. Human capital includes relationship capital (who the organization's members know and what information these people possess). Networking allows the entrepreneur to access resources without controlling them.

- *Technological resources.* These resources are embodied in a process, system, or physical transformation. They constitute physical or legal entities that are owned by a corporation. Examples of technological resources are patents, unique software products or tailored information system architecture. Technological capital is different from intellectual capital in that intellectual capital is embodied in a person or persons and is mobile.

- *Reputation.* Reputation encompasses the perceptions that constituents in the firm's environment have of the company. Reputational capital can exist at the product or corporate level, and it may be relatively long-lived. The most important aspects of reputation are product quality, management integrity, and financial soundness. Even a start-up can quickly acquire a reputation, for example by cooperating with a well established company.

- *Organsational resources.* These resources include the firm's structure, routines, and systems. The organization's structure is an intangible resource that can be differentiated from its competitors. A structure that promotes speed can be the entrepreneur's most valuable resource. Collective remembered history (myth) and recorded history (files and archives) may also be considered organizational resources. The capabilities of a firm –

what it can do as a result of teams of resources working together – are also part of organisational resources.

1.2 Attributes of strategic resources

Not all resources are strategically relevant for the entrepreneur. Only strategic resources will create competitive advantage, while common resources are necessary for carrying out the firm's usual activities but provide no specific advantage. Strategic resources matter because they are the bedrock of the firm's competitive advantage, which in turn determines its ability to earn a profit. Competitive advantage occurs when the entrepreneur is implementing a value-creating (above normal profit) strategy not simultaneously being implemented by any current or potential competitors. (Barney, 1991). Sustained competitive advantage is competitive advantage with a very important addition: current and potential firms are unable to duplicate the benefits of the strategy.

The resource-based view of entrepreneurship holds that sustainable competitive advantage is created when firms possess and employ resources with the following four attributes:

- *Valuable.* Resources are valuable when they help the organization implement its strategy effectively and efficiently by exploiting opportunities or minimizing threats in the firm's environment.
- *Rare.* Those resources that are not widely available to all competitors.
- *Non-substitutable.* To the degree that common resources are not strategically equivalent to the rare and valuable resources of another firm, the rare and valuable resources are said to be non-substitutable. For example, top-management teams cannot be a source of sustained competitive advantage because, even though these teams are valuable, rare, and imperfectly imitable, a substitute exists and can be employed.
- *Hard to copy.* If a resource cannot be duplicated at a price sufficiently low enough to leave profits, the resource is said to be hard to copy (imperfectly imitable). Imperfect imitability can stem from:
  - *Historical conditions*. The initial assets and resources that accompany the organisation's origin are unique for that place and time. Firms founded at a different time in another place cannot obtain these resources; thus, the resources cannot be duplicated.
  - *Ambiguous causes and effects*. The relationship between the organization's resources and its success is not well understood or it is ambiguous, sometimes even to the firm employing the high-performing resource.
  - *Complex social relationships*. As long as a firm uses human and organizational resources, social complexity may serve as a barrier to imitation. The most complex social phenomenon is organizational culture, which is a complex combination of the

> founder's values, habits, and beliefs and the interaction of these elements within the newly created organization and the market.

When a firm possesses and controls resources that are valuable, rare, imperfectly imitable, and non-substitutable, and it can protect these resources and maintain these four qualities, it will have a competitive advantage over the long term. If a firm has all of these qualities, but not in full measure and without protection, competitive advantage will be short-lived as competitors copy and imitate them.

1.3 Resources, capabilities and competencies: Toward strategic entrepreneurship

Generic resources are generally easy to identify and access, provided the organisation has the necessary financial ability to purchase or lease them. As generic and strategic resources are combined, they become capabilities that enhance the firm's capacity to deploy resources effecting a desired end (Amit and Shoemaker, 1993). Capabilities involve interactions among resources that allow the organisation to perform activities more effectively and efficiently.

Creating capabilities, however, is not simply a matter of assembling a team of resources: capabilities involve complex patterns of coordination between people and between people and other resources. Perfecting such coordination requires learning through repetition. To understand the anatomy of a firm's capabilities, Nelson and Winter's (1974) concept of "organisational routines" is illuminating. Organisational routines are regular and predictable patterns of activity which are made of a sequence of coordinated actions by individuals. A capability is, in essence, a routine, or a number of interacting routines.

When capabilities become crucial to the venture's mission, and are executed consistently well, they become competencies - "the things the firm does especially well that contribute to the value-creating aspects of competitive advantage." (Brush, Greene, and Hart, 2001: 68). Collections of core competencies that are increasingly specialised and allow the firm to outperform others in the industry become strategic assets. Having reached this level, the firm is most likely to compete in the market where significant wealth creation can be achieved. The systemic integration of resources, capabilities and competencies leads to their development as sustainable competitive strategy.

The returns to a firm's resources, capabilities, and competencies depend upon two factors: first, the sustainability of the competitive advantage that these resources confer upon the firm; and, second, the ability of the firm to appropriate the rents earned from its resources, capabilities, and competencies (Grant, 1991). These considerations show the proximity and sometimes overlap of entrepreneurship and strategic issues, which has recently lead to the concept of "strategic entrepreneurship" (Hitt et al. 2001). Essentially, this concept suggests entrepreneurial ventures develop and implement new business models within which entrepreneurial opportunities are identified and exploited through the application of strategic discipline to create wealth. Thus, opportunity-seeking and advantage-seeking behaviour are integrated (Hitt et al., 2002).

2. The demand side: Toward entrepreneurial marketing

The resource-based view also allows for both conventional approaches to marketing and for entrepreneurial marketing. Consistent with the dynamics of competition under the resource-based view, marketing can facilitate the ability of firms to create new resources and greatly enhance the productivity of current resources (1) through various leveraging approaches, and (2) by championing innovation in the form of new combinations of resources. This latter aspect implies a role for marketing in providing both leadership and support for an innovation portfolio within the firm. Such a portfolio includes an array of product, service and process innovations reflecting different degrees of innovativeness and risk.

Further, the ongoing seeking of new markets in which the firm's resources provide comparative advantage would be a core role for marketing according to the context of the resource-based theory. This is especially important when firms realise that their resource portfolios result in positions of competitive disadvantage. It would seem that, in such circumstances, a firm must be able to exhibit strategic flexibility, again justifying marketing as a conduit for enhancing such flexibility (Morris et al., 2002).

2.1 The marketing - entrepreneurship interface

The marketing - entrepreneurship interface has developed a substantial body of literature over the past decade. Marketing has much to offer to the study of entrepreneurship. Hills and LaForge (1992) identify four main potential contributions. First, the underlying philosophy and orientation of the discipline are attuned to markets and customers needs, which have direct applicability to entrepreneurship. Second, there is a major body of literature regarding marketing research methodologies for evaluating new venture ideas. Third, "marketing behaviour" and "entrepreneurial behaviour" are similar in nature - they are both boundary spanning and operate in uncertain environments. Fourth, as mentioned in the previous section, when entrepreneurship encompasses innovation, the marketing discipline offers insights regarding diffusion, adoption, and buyer behaviour.

Morris et al. (2002), remark that seven underlying dimensions capture the interface between marketing and entrepreneurship. Four of these dimensions (pro-activeness, calculated risk-taking, innovativeness, and an opportunity focus) are derived from the work on the entrepreneurial orientation of the firm. A fifth dimension, resource levering, is perhaps the single most emphasized element in the emergent perspectives on marketing, especially guerrilla marketing, and is also a common theme within the entrepreneurship literature. The sixth dimension, customer intensity, is consistent with the market orientation of the firm. However, the seventh and final dimension, value creation, is the core element of the commonly-accepted definition of entrepreneurship, as innovative efforts that do not convey customer value lack commercial potential.

Customer value is a key concept here. The term "customer value" is used within the marketing literature to portray both what is derived by the customer from the supplier, and also what is derived by the supplier from the customer. This latter property is now referred to as ‘customer lifetime value’ (CLV), but there is no agreement on a distinct name for the former. Woodall (2003), therefore, chooses the term ‘Value for the Customer’ (VC) to represent all similarly associated, demand-side notions of value. Recent investigations imply that VC is of increasing interest to marketers, both practicing and academic. It is important to state that VC is subjective in the sense that it is the customer's perception of the value that counts. The value is in the eyes of the beholder, the customer and not the supplier. This seems obvious but it is a very important fact, neglected in too many marketing situations. Buyers evaluate both concrete and abstract attributes! To understand how customers think, the value provider must learn what key dimensions of value the market uses when judging offerings. However, although the notion of VC is not new, the marketing literature offers little evidence to imply that anything by way of conceptual consensus exists. It remains, therefore, an area of continuing ambiguity, subject to both empirical and speculative enquiry, but with no clear theoretical anchorage.

2.2 Transactions and relationships: The source of value creation

The focal point of marketing has historically been the transaction, and more recently, the relationship. To Adam Smith, David Ricardo, and Karl Marx value is ‘an intrinsic part of commodities’ (McKnight, 1994) and can be measured/represented via an economic constant. Though recognised units of settlement might be as diverse as corn, gold, or any other arbitrarily determined system of exchange, value, it is argued, can be conceived purely as what can be ‘got’ for an item. The term, "exchange value", therefore, represents the idea that value is (ac)countable, and is predicated upon both cost (perceived in a variety of ways dependent upon place, time, cultural and socio-political agenda) and scarcity (Amin, 1978).

The focal point of entrepreneurial marketing is innovative value creation, on the assumption that value creation is the prerequisite for transactions and relationships. As Sheth et al. (1998: 196) note: "The main purpose of marketing is to create and distribute values among the market parties through the process of market transactions and market relationships." The task of the marketer is to discover untapped sources of customer value and to create unique combinations of resources to produce value. In dynamic markets, the value equation is continually redefined. The ongoing responsibility of the entrepreneur-marketer is to explore each of the marketing-mix elements in a search for new sources of customer value. Moreover, the amount of new value being created is the benchmark for judging marketing initiatives.

Rapid change and increased competition suggest the need for marketing to move into new directions. For example, there is increasing evidence that marketing should embrace a more cross-functional, cross-border, and cross-disciplinary orientation (Kinnear, 1999) and focus on networks of strategic alliances and relationships (Achrol and Kotler, 1999). Further, the relationship paradigm suggests marketing must replace a focus on short-term exchange with

an emphasis on acquiring and retaining customers and building customer equity in the long run.

Bjerke and Hultman (2002) foresee two effects for the discipline of marketing as a result of this change. First, marketing will probably not survive as a planning functional area or department, as defined within the managerial paradigm. The specialist functions related to marketing may well be selling, advertising, market research, on so on. However, these functions need to be linked to the environment (not to each other) and some of these functions may well be outsourced in the future. Second, marketing will be spread across all other functions of the firm. Because of competition and a high level of accessible information about alternatives, customers are able to distinguish between alternatives, and "value for money" will gain in importance. A successful firm must, therefore, be very oriented both to customers' subjective perception of what they find as "best buy" and to resources to create better customer value. This is not a functional task for the marketing department; it is a matter of survival as well as growth strategy for the firm at large, big or small.

2.3 Value creation within networks

In modern industrial systems, firms are engaged in production, distribution, and use of goods and services. Such systems can be described as networks - hybrid forms of organisation between the market and hierarchy. Moving from the market pole, where price captures all the relevant information necessary for exchange, we find various kinds of repeated trading, subcontracting arrangements, and licensing agreements; toward the hierarchy pole, franchising, strategic alliances, joint ventures and decentralised profit centres (Powell, 1990). The value chain of the firm as defined by Porter (1985) is therefore embedded in a system of inter-linked value chains, such as those of suppliers and distribution channels.

Strategic networks - those relationships which are of crucial importance to the partners - offer several sources of value creation. As Gulati et al. (2000) point out, these structures for collaboration may enable a firm to gain access to information, markets, and technologies. In addition, they offer the potential for the sharing of risk, economies of scale and scope, and learning benefits. Other sources of value in strategic networks include access to valuable resources and capabilities that reside outside the firm, shortened time to market, enhanced transaction efficiency, and reduced asymmetries of information. Amit and Zott (2002) remark that it is important to take network components (e.g. partners) and their configurations (e.g. the ties between them) into account when analyzing value creation in virtual markets.

Today, the capability of the firm to create customer value in value constellation is therefore a key factor for competitive advantage and survival. Marketing in this type of situation is far from finding the optimal marketing mix. Instead, relationship skills exist in combination with technology and production capabilities, which enable the firm to perform the best offer available - the best customer value which is possible to deliver in a given network configuration.

3. A model of value creation

To summarize the last two sections, we see that the value creation process is a complex phenomenon intrinsically related to entrepreneurship. The entrepreneurial action presents a somewhat ambiguous nature in that it is both one which generates a discontinuity in economic order by creating new ways of realizing value, and at the same time, it is one which ensures continuity in economic order by combining different economic resources which existed before. This ambiguous dimension of the entrepreneurial action is a way of understanding from a micro-evolutionary point of view what Schumpeter (1934) coined “creative destruction” from a macro-evolutionary point of view. Entrepreneurship takes a variety of forms and appears in small and large firms, in new firms and established ones, in the formal and informal economy, in legal and illegal activities, in innovative and more conventional business ventures, and in all regions and economic sub sectors. Today it is widely claimed that entrepreneurship is a vital component in the process of economic growth and development.

As shown in Figure 1, the value creation process operates at several levels, which each involves different actors and generates different types of value. Central to the entrepreneurship process are the entrepreneur - the agent of change and growth in a market economy who can act to accelerate the generation, dissemination and application of innovative ideas. Having distilled an opportunity, the would-be entrepreneur must be willing and capable of marshalling the resources to pursue that opportunity without any assurances of outcome or rewards, i.e. in the presence of risk and uncertainty. The second area of skill and knowledge needed by the entrepreneur is therefore the ability to transform the idea into a viable plan and to be able to articulate and communicate that plan with enough conviction and passion in order to procure the resources needed to create the new enterprise.

Another important set of skills includes those needed to build a team and a whole organisation to deliver the product or service to the market which inspired the original recognition of opportunity. This development stage usually entails the transition from start-up to a fully articulated and complex enterprise structure. At this point in the entrepreneurial process, large areas of centre stage begin to be allocated to key management processes such as human resources, finance, marketing, manufacturing, and quality management. Successful entrepreneurship must then evolve into good business management; but real entrepreneurship can never happen without business management seminal antecedent - opportunity recognition and evaluation; resource acquisition; and the creation of a business venture.

Figure 1 Levels in the value-creation process

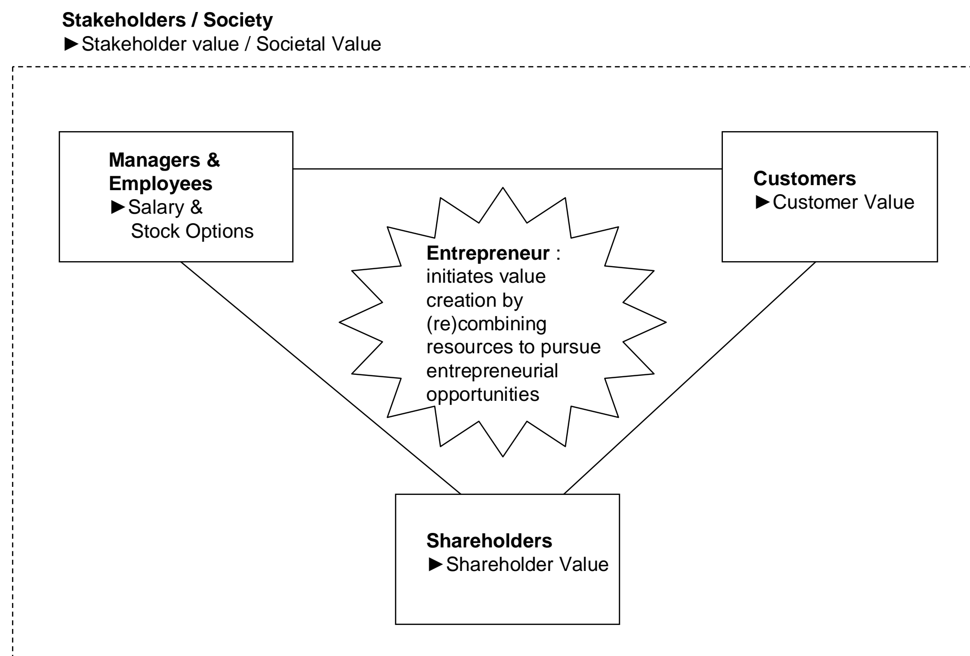
Level	Actor	Type of Value / Remuneration
Individual	Entrepreneur	Entrepreneur's value / Profits
Resourceholders	Shareholders Managers Employees	Shareholder value / Dividend ... / Salary and stock options ... / Salary
Network	Partners: Clients, Suppliers, Competitors	Network Value / Quasi rent
Stakeholders	Community, State	Stakeholder Value / gifts, tax
Society	Community, Region, Country	Societal Value / wealth spillover effects

Figure 2 reinforces the central role of the entrepreneur in the process of value creation. Economic circumstances are important; social networks are important; marketing is important, planning is important; finance is important; even public agency assistance is important. But none of these will, alone, create new value. For that we need a person in whose mind all of the possibilities come together, who identifies and shapes a business opportunity, and who has the motivation to persist until the job is done. The entrepreneur is the individual responsible for the process of creating new value (an innovation and/or an organisation). The entrepreneur is the missing link between unidentified and unexploited opportunities (the demand side) and resources which need to be assembled and combined in order to satisfy these opportunities (the supply side). Therefore, as pointed out by Bjerke and Hultman (2002: 170), the initiator of a new value-creation process is the entrepreneur using his or her capacity to find new economic where other individuals do not, thus spotting and exploiting opportunities, and providing innovation.

Whether he or she is perceived as a hard-headed risk bearer, a man apart, or a visionary, he or she is overwhelmingly perceived to be different in important ways from the non entrepreneur (e.g. the manager), and many believe these differences lie in the psychological traits and background of the entrepreneur. One often pursued avenue has been the attempt to develop a psychological profile of the entrepreneur. The need for achievement, the level of confidence, and the risk taking propensity are the three psychological traits that have been used in many studies and showed a good degree of validity in differentiating among types of entrepreneurs (Gartner, 1985). Two schools of thought can help to understand the entrepreneurial perspective in individuals: the economic perspective consider that the entrepreneur is an agent who specialises in certain roles, such as risk bearing (Cantillon, 1931), arbitrage (Hayek, 1959; Kirzner, 1973), innovation (Schumpeter, 1934) and co-ordination of scarce resources (Say, 1845). On the other hand, the behaviourist approach has identified three recurrent entrepreneurial traits: the need for achievement (McClelland, 1967), the internal locus of control, and the risk taking propensity (Knight, 1921).

However, entrepreneurs do not operate in a vacuum; they respond to their environments. A conducive political, economic, social, and infrastructure environment facilitates the emergence of new business ventures. The initiation of new ventures requires the combination of the right individual at the right place. The typical would-be entrepreneur is constantly attuned to environmental changes that may suggest an opportunity. The literature makes it clear, however, that opportunities do not drop from the sky (Low and MacMillan, 1988). They are created within and among organisations as a product of ongoing networks of relationships and exchanges. Opportunities come most frequently to people located at advantageous positions within networks. Entrepreneurs are not just opportunistic; they are also creative and innovative. The entrepreneur does not necessarily need to break new grounds but perhaps just remix old ideas to a seemingly new application. Many of today's fledgling software and Internet companies, for example, are merely altering existing technology or repackaging it to accommodate newly perceived market segments.

Figure 2 Key actors in the value-creation process



When markets are perfectly efficient, then increases in (appropriately discounted long-run) profit maximisation leads to societal welfare maximisation. In other words, shareholder value should coincide with societal value. Of course, markets are less than perfectly efficient in a large number of ways. Two pervasive inefficiencies, both of which lead to extensive corrective actions by governments, include market power and externalities. These

inefficiencies drive a wedge between value accruing to entrepreneurs (from profits) or to executives (from stock options) on the one hand, and value creation for the society on the other hand. It is also possible to think of entrepreneurial actions as private rent-seeking, which Baumol (1990) has defined as opportunities that generate personal value, but no societal value. He points out to several types of entrepreneurial opportunities that are not productivity-enhancing, including crime, piracy, and corruption.

In this case, enlightened self-restraint is one reason why entrepreneurs and managers should pay attention to societal value in addition to shareholder and customer value creation. Ethics is another one. Economic agents will always be faced with ethical dilemmas, and strong ethical norms and behaviours represent an important and powerful check on necessarily imperfectly designed and enforced incentive schemes.

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