

# Organizational change: a review of theoretical conceptions that explain how and why young firms change

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Received: 20 January 2013 / Accepted: 26 September 2014 / Published online: 8 January 2015  
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**Abstract** Change in new ventures is a vibrant research topic. Scholars can draw on a number of theories that emerged as a result of decades of research in organizational and social sciences focused on large and established firms. A review on organizational change theories that address young firms is still missing. We aim to contribute to the academic debate by (1) providing a systematic analysis and classification of theoretical conceptions on organizational change in terms of main assumptions, nature and reason of change, and by (2) discussing their applicability in the context of young firms. This article may aid researchers to select appropriate theoretical conceptions to study change in young firms.

**Keywords** Entrepreneurship · New venture · Organizational behavior · Organizational change · Young firms

**JEL Classification** D21 · L26 · M13

## 1 Introduction

Change in new ventures is a vibrant research topic (Pettigrew et al. 2001). To explain the change in new ventures, researchers can draw on a large number of theories that have emerged from decades of organizational science and

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entrepreneurship research. It is likely that researchers that address research questions concerning qualitative change of young firms need some orientation in this theory landscape. The purpose of this article is to provide this orientation. Hence, the paper reviews theoretical conceptions which can explain change of young firms.

Theories of *change* are concerned with how organizations change and which factors drive changes in organizations (Bennis 1966). In contrast, theories of *changing* focus on how change can be brought about and managed in an organization (change management). Change itself refers to a transformation into forms remarkably different from the original (March 1981) and is therefore at the heart of organizational phenomena such as the growth and decline of firms. The result of change is “a difference in form, quality, or state over time in an organizational entity” (Poole and Van de Ven 2004, p.xi). This differs from the term “development”, which commonly refers to the “increasing” directions (Beckhard 1969).

There are few comprehensive reviews on theories of change. These previous reviews discuss types of change (Porras and Silvers 1991), patterns of change (Mintzberg and Westley 1992), change concerning strategy (Rajagopalan and Spreitzer 1997; Lewin et al. 2004), logic of change (Van De Ven and Poole 1995), or provide a general review on organizational change (Armenakis and Bedeian 1999). A review of theories specifically focusing on the change of young firms is missing.

A theory of change covers three essential elements: factors which drive change (*what*), relationships of the factors (*how*), and assumptions about the causal relationships (*why*) (Whetten 1989). The *what* and the *how* serve to describe organizational change, where the *why* is able to explain and predict the mechanism of change (Bacharach 1989). Temporal (*when*) and contextual factors (*who*, *where*) “set the boundaries of generalizability, and as such constitute the range of a theory” (Whetten 1989, p.492). Bacharach (1989) states that “[t]he primary goal of a theory is to answer the questions of *how*, *when* and *why*, unlike the goal of description, which is to answer the question of *what*” (p.498). Following this discussion, we seek theoretical conceptions (theories and approaches) which go beyond the *what* and may explain the *how* and/or *why* of change in young firms.

This article provides a systematic analysis to classify theoretical conceptions on organizational change in terms of assumptions, nature and reasons of change. Furthermore, the applicability of theoretical conceptions in explaining the change in young firms will be examined. This article is relevant to aid researchers to select appropriate theoretical conceptions with respect to ontological aspects.

## 2 Characteristics of young firms

Young firms are those between less than 5 years (Fackler et al. 2013) and less than 8 years of age (Pellegrino et al. 2012). Although most firms are founded by solo entrepreneurs, highly innovative firms are predominately started by entrepreneurial teams (Watson et al. 1995). The entrepreneur (or team) drives the entrepreneurial process and especially in the first stages of development the entrepreneur is the most influential factor (Shane and Venkataraman 2000). Approximately 50 % of firms

survive the first 5 years (Eurostat 2009) with varying degrees of success. Many of those who do not survive are closed although they perform quite well, whilst others are closed because of poor performance. Young firms are different than established firms in that they have a lack of experience and legitimacy (“liability of newness”) as well as a lack of resources and power (“liability of smallness”) (Stinchcombe 1965).

Liability of newness is a result of limited experience and legitimacy. Most young firms have limited experience which could exacerbate the search for resources. Moreover, young firms do not have the knowledge and routines needed to operate efficiently and effectively (Aldrich and Auster 1986). This lack of experience may lead to the issue of legitimacy because relationships with customers and partners are still hampered by low trust (Shepherd et al. 2000). Moreover, having a limited network makes young firms difficult to achieve economies of scale and to integrate needed skills (Zheng et al. 2010). Despite the problems, the liabilities of newness may have sources of advantages for young firms. Their lack of routines and their youthfulness allow them to explore and learn faster than older firms (Autio et al. 2000).

Liabilities of smallness are a result of limited resources (Aldrich and Auster 1986). The most prominent limitation is that of financial resources, which frequently can only be acquired from a few close contacts. As financial resources are most easily converted into another type of resource, the limitation of financial resources has consequences for firm development (Winborg and Landström 2001). One consequence is operating with limited human resources, which make young firms rely on the entrepreneur or owner-manager. In the long run, when complexities are increasing, succession could be problematic. Limited human resources do not only imply that small firms may lack skills, but also induces problems in evolving skills, which can create extra costs and inhibit goal achievement. However, being small has some benefits, for example enabling firms to avoid extensive bureaucracies, make decisions more quickly and have greater flexibility (Fiegenbaum and Karnani 1991).

### 3 Method

The search strategy to identify theoretical conceptions for this literature review was two-pronged. We started by identifying review articles on organizational change (see Sect. 1). Then we identified articles in most prominent entrepreneurship journals (such as *Journal of Business Venturing*, *Entrepreneurship Theory and Practice*, *Small Business Economics*) that deal with the issues of change and development by performing key word queries, for example “organizational change”, “organizational development”, in Web of Science, EBSCO, and Elsevier. We then analyzed the articles that we found with regard to the theoretical conception that they address. During this step, articles about change management were excluded. We also excluded theoretical conceptions which explain the change at the industry or market level (e.g. population ecology), as our focus is on the change at the firm and entrepreneur (individual) level.

We then analyzed the theoretical conceptions based on ontological assumptions in three different ways to understand the logic of scientific inquiry (Grix 2002). Firstly, we examined concerning two different views of an organization. The “open system” (Katz and Kahn 1966) views an organization as a living organism which interacts with and depends on the environment where it resides. In this view, the organization is considered to be a “living thing” (for example when we say “organization interacts”). However, an organization is not a human and personification may obscure some significant ideas. This brings us to the second view: the “social construction” perspective (Berger and Luckmann 1967). An organization is a reification of a set of processes being developed by the actions and language of the people in it (Tsoukas 2009). Within this view, Weick (1995) defines organization as organizing (emphasis on “verb”) and writes “environment and organization conceal the fact that organizing is about flows, change and process” (p. 187).

Secondly, we examined *how* change occurs in the organization. This nature of change differs along three dimensions. First, firms may change and develop with planning or without planning (Porras and Silvers 1991). Members of an organization can be aware and have specific intentions with regard to the changes they wish to make. Changes can be unplanned, or as Weick and Quinn (1999) label it, “emergent changes”, which are the accommodation and adaptation without a priori intention to do so. Second, changes can be seen in terms of their scope or magnitude. Bartunek and Moch (1987) describe first-order change as being represented by “incremental modifications that make sense within an established framework or method of operating”, whilst second-order change is given by “modification in the framework itself” (p. 484). Similarly, other labels are used, for example incremental versus radical (Cyert and March 1963), evolution versus transformation (Lichtenstein 1995) and convergent versus radical (Greenwood and Hinings 1996). Third, the theoretical conceptions were analyzed by looking at the pace of change, namely episodic versus continuous change (Weick and Quinn 1999). Episodic change is defined as distinct periods of change that tend to be infrequent, discontinuous and intermittent. Continuous change reflects the idea that changes always occur and evolve within an organization.

Thirdly, we analyzed assumptions of a theoretical conception through the reasons of *why* an organization changes. According to Van De Ven and Poole (1995), the change triggers are classified into four “motors” or reasons: prescribed sequence, competitive selection, goal orientation, as well as conflicts and synthesis. The first reason is related with the view that the organization is a living organism that progresses through a prescribed (regulated) sequence of stages (for example the stages of commercialization). The second reason is concerned with the competition to acquire limited resources in the environment in order to survive. Competitive selection in the environment drives organizations to change. Thirdly, organizations are driven by a set of goals as destinations. Lastly, according to those theoretical conceptions which regard the organization as a socially constructed system, change and development is driven by conflicting goals, interests, and events between entities (groups) in the organization. These four “motors” are appropriate in explaining the change within young firms because they resemble the characteristics of young firms in the following way: the entrepreneurial process, the resources

acquisition, the fierce competition pressures given the fact that about 50 % do not survive, and endeavors to seek legitimacy.

## 4 Theories and theoretical approaches explaining change

In this section, theories and theoretical approaches are presented in chronological order that reflects when a seminal work of a theory appeared. This order reflects the fact that newer theories may represent an extension of earlier work. In our literature search, we have identified the following ten theories, which have the potential to explain the change on young firms: Contingency theory (CT), Strategic choice theory (SCT), Resource dependency theory (RDT), New institutional theory (NIT), Behavioral theory of the firm (BTotF), Resource based theory (RBT), Organizational learning theory (OLT), Evolutionary theory (ET), Cognitive approach (CA), and Political approach (PA).

### 4.1 Contingency theory

CT views the organization as a rational and integrated system which interacts with the environment. It follows the open system view. The idea is that the contingency factors, such as structure and strategy as well as the environment, provide a set of pressures to which the organization must adapt in the long run (Donaldson 1987). The pressure to adapt drives the organization to change. A change in one element must be followed by changes in other elements to achieve cohesiveness. Mainly, the change in the organization is structural in response to a specific contingency. Organizational change is conceived to be a continuous, incremental adaptation, yet reactive to environmental change. Options to change are constrained by the environment and by the situation. As a result, the organization achieves adaptation mostly through functional change (Gruber 2007).

In the context of young firms, the CT could address a causal explanation of environmental factors with regard to the organizational context. CT argues that performance depends on the match between situational factors (environment) and structural features (strategy, structure) (Khandwalla 1973). Examples are studies on the role of planning in dynamic environments (Gruber 2007), initial succession (Rubenson and Gupta 1996) and innovation during organization decline (Mone et al. 1998). It is important to note that CT puts less emphasis on the role of the entrepreneur, which is dominant in young firms.

### 4.2 Strategic choice theory

SCT is an elaboration of CT by emphasizing the role of manager (entrepreneur) in decision making (Child 1972). Although the SCT follows the open-systems view of organizations (Hrebiniak and Joyce 1985), it argues that environmental conditions cannot be regarded as a direct source of change, as the environment is not given, but is interpreted by the managers. Changes are driven by the interpretation (evaluation) of decision makers about the position of the organization in the environment.

Subsequently, managers make rational plans and direct performance enhancing changes. In the decision making process, managers (entrepreneurs) follow ideology, have expectations and power and ability to reshape the environment (Miles and Snow 1978). In a nutshell, the SCT argues that change is driven by goals. Organizational changes (mostly strategic changes) are mostly planned, gradual and continuous in order to achieve adaptation within its environment.

In the context of young firms, SCT could be applied to investigate liability of newness and smallness in relation to the chosen strategies. Examples are studies on relationship between the issue of lack of experience and strategy (Entrialgo 2002) and between business model adaptation, independence of new firms and its environment (Andries and Debackere 2007). SCT serve as an explanation concerning entrepreneurs' decisions about which environment to enter and which strategy to choose as shown by a study of Nicholls-Nixon et al. (2000).

#### 4.3 Resource dependency theory

RDT occupies a middle position between CT, which is environmentally deterministic, and SCT with the "free" choice of decision makers. Following an open system view, RDT further argues that an organization depends on the acquisition of resources from the environment. To do so, this theory rests on power over resources by dependence reduction and dependence structuring. Here, decision makers act as advocates and active manipulators of constraints and of the social settings in which the organization is embedded. To achieve adaptation, changes are planned, incremental and continuous. This theory highlights the effects of "environments on organizations and the effect of organizations on environment" with the focus on resources (Pfeffer and Salancik 1978, p.11).

Dealing with resources is a typical problem of young firms. Therefore, RDT is applicable. The way how entrepreneurs use networks to manage resources throughout different stages of life is studied by Sullivan and Ford (2014). Among new ventures, Villanueva et al. (2012) found that the flow of resources is predicted by total dependence between parties involved in the creation of value. The issue of legitimacy faced by young firms is theoretically covered by the RDT. Research on the link between legitimacy endeavors and organizational performance in young firms is needed (Drees and Heugens 2013).

#### 4.4 New institutional theory

NIT regards an organization as a flexible entity which is constrained by the environment. It views the organization as a socially constructed system, which explicitly rejects the "rational manager view" of organizing. NIT assumes that culture and cognition supersede the actions and motives of individuals in the organization (DiMaggio and Powell 1983). Organizations also constitute the institutional life of others which might drive organizations to mimic their environment. As a result, organizations become homogeneous and isomorphic. DiMaggio and Powell (1983) define isomorphism as "a constraining process that

forces one unit in a population to resemble other units that face the same set of environmental conditions” (p. 149). Isomorphism occurs when being driven by set of goals, by political pressures for legitimacy and by mimetic practices to compete in the environment. The efforts of organizations towards gaining legitimacy, which is the key idea of this theory, with their environment are carried out by aligning their organizational structure, strategy, and values with institutional norms and expectation (Meyer and Rowan 1977). The outcome of the change is the institutionalization process (Tolbert et al. 2011) which is carried out with/without planning in radical and episodic setting.

New ventures seek legitimacy through different ways such as by mimicking other institutions with which they are affiliated (Ensley and Hmieleski 2005) and by growing the network (Tolbert et al. 2011). Besides legitimacy, the impact of institutional change (such as regulation) on new ventures (Urbano and Alvarez 2014) can be explained by this theory. The role of the individual such as in goal setting of institutionalization is still under-explored (Bruton et al. 2010).

#### 4.5 Behavioral theory of the firm

In the BTotF, a firm is characterized as “an adaptively rational system rather than an omnisciently rational system” (Cyert and March 1963, p.99). When the environment exerts pressure upon an organization, rational managers and sub groups in the organization translate it into various goals, interests and expectations (Augier and March 2008). As a socially constructed system, the organization is not only in the hands of the managers. Rather, the organization is a political arena of sub groups with various interests. Hence, the organization is not only driven by the environmental forces, but also by internal forces. The BTotF depicts how organizations negotiate and influence their environment through plans, contractual arrangements and institutional norms (Argote and Greve 2007). Therefore changes are mostly incremental, continuous and planned. However, changing environmental conditions, which create uncertainty for a firm, may lead to unplanned and radical change. Decision making entails finding a satisfactory solution rather than evaluating the best possible solution (Dew et al. 2008). To summarize, the BTotF is built around the political conception, the bounded rationality conception and the adaptive conception and a set of ideas about how those factors interact and affect the decision making in the organization.

An example of research concerning young firms is carried out by Gavetti and Rivkin (2007). They examine strategic change by looking at the ways of searching for and interpreting information. This study confirms the effects of cognition and information sensors on strategic change of young firms. In the entrepreneurship context, the assumptions of the BTotF can be re-formulated into three ideas which are (1) accumulating commitment of members under goal ambiguity, (2) achieving control through emergent strategies and (3) developing toward adaptation (exaptation) (Dew et al. 2008). The conjecture is that the BTotF offers a foundation for how a firm makes decisions and the actions that follow.

#### 4.6 Resource based theory

RBT assumes that organization is an open system which interacts with environment. Resources and capabilities are heterogeneous across firms and influence different modes of growth (Penrose 1959). Resource heterogeneity is necessary but not sufficient for gaining and/or maintaining a sustainable advantage. Characteristics that make a resource a potential source of competitive advantage are valuable, rare, inimitable and non-substitutable (Barney 1991). RBT considers that environmental change can erode competitive advantage. Thus, to maintain competitive advantage, firms have to consistently generate and develop their resources base. A form of primary source of competitive advantage is a dynamic capability, defined as the mechanisms of developing and dissipating new capabilities (Teece et al. 1997). While resource heterogeneity focuses on pursuing a sustainable competitive advantage, dynamic capabilities focus on competitive survival. Changes in the firm are driven by competition in the quest for developing resources that have competitive advantages and by considering feedback from the environment (Sirmon et al. 2007). Although incremental changes take place in order to maintain competitive advantage, radical change may occur episodically to respond to the dynamism of the environment (Lichtenstein and Brush 2001).

In the context of young firms, RBT is able to shed a light on disentangling the problem of resources scarcity. RBT is a helpful exploration tool for a better understanding of how entrepreneurs recognize opportunities, acquire resources which are the sources of competitive advantages (Alvarez and Busenitz 2001), and manage the orchestration of resources (Sirmon et al. 2007). RBT aids in the investigation of the relative relevance of the resources (Hauschild and Knyphausen-Aufseß 2013), the process of change in resources for the quest of competitive advantage in the environment (Clarysse et al. 2011), and the mitigation of the liability of newness (Bruton and Rubanik 2002).

#### 4.7 Organizational learning theory

The OLT originates from the BTotF, which views organization as a socially constructed system. This theory specifically sees the organization as an experiential and adaptive learning entity. Learning is defined as a relatively permanent change, produced by experience (March 1991). An organization learns if any member acquires knowledge which is useful for the organization. Importantly, learning occurs on multiple levels through multiple mechanisms as a process of compilation where dissimilar elements (individuals) contribute in irregular and nonlinear ways. According to this view, the process of change occurs continuously and incrementally at the organizational level by routines and at the individual level by behavioral and cognitive change (Crossan et al. 1999). Often, organizational routines become obsolete, leading an organization into a “competency trap”; therefore, the organization should find the balance between exploration of new ways and exploitation of existing capabilities (March 1991). Likewise, change is driven by purposeful enactment and conflict resolution.



OLT is one of the theories which analyze the process of change. Growing attention has been attributed to OLT (Wang and Chugh 2014). This theory could assist in describing the phenomena of opportunity exploration and exploitation process of young firms (Shane and Venkataraman 2000; Holcomb et al. 2009). The process of dealing with a lack of experience faced by young firms as well as the change of capabilities could borrow the lens of OLT.

#### 4.8 Evolutionary theory

According to ET, an organization is a social system in the population directed by goals yet maintaining boundaries. The basic idea is labeled as variation-selection-retention (Aldrich and Martinez 2001). Variation in an organization is exemplified by the choices of novel forms of organization which may be intentional (when the organization attempts to seek alternatives) or blind (when it occurs independently of environmental and selection pressures). Subsequently organizations select certain types of variations. This selection process can be forced internally and externally to arrive at the form best fits with the resources and the environment of firms. Retention serves to establish balance between variations and selection. Retention is a process of preserving, duplicating and reproducing selected variations. This gives rise to routines, which are defined as “all regular and predictable behavioral patterns of firms” (Nelson and Winter 1982, p.14). These routines must reproduce themselves if organizations are to continue. The process of variation-selection-retention occurs incrementally in an episodic pace. The ET tells us that the drivers to change, as shown by variation-selection-retention, are the realization to follow a pattern, the endeavor to compete in the environment, and the resolution to deal with contradiction within the organization.

This theory has the potential to address the causal mechanism of variation-selection-retention with legitimacy, experience and routines in young firms (Breslin 2008). An empirical study is carried out by Fortune and Mitchell (2012) examining how managerial and functional capabilities affect firm adaptation in the environment in relation to incongruity. Suggestions to borrow from other approaches, such as learning and cognition, have been made in an effort to raise the explanatory power of variation-selection-retention (Breslin 2008).

#### 4.9 Cognitive approach

The CA views an organization as a socially constructed system representing as a set of thoughts. It assumes that cognition starts with the individual level and expands into cognition at the group and organization level (Walsh 1995). The manager is the actor who interprets a global understanding of the organization and its context. To achieve this, a manager (entrepreneur) makes efforts in absorbing, processing and disseminating information about problems and opportunities. The challenge is to deal with asymmetric, complex, ambiguous and munificent information. To interpret and make decisions accordingly, the manager calls upon his knowledge structure, defined by Walsh (1995) as “a mental template consisting of organized knowledge about an information environment that enables interpretation and action

in that environment” (p.286). It assumes that facts cannot stand alone and speak for themselves. This means that every entity in the organization actively constructs organizational reality according their interpretation. Thus, the organization poses multiple perspectives which enrich the understanding of the issue (Baron 2004). The multiplicity of perspectives can generate enthusiasm and commitment to change. The interpretation of the changing environment influences organizational change and action. Yet, internal forces likewise play a significant role in driving change, due to social processes of sense-making and sense-giving (Gioia and Chittipeddi 1991). In terms of change, the CA supports radical change after a period of incremental and continuous change. It argues that modifying the mental structure takes a lot of effort. Therefore, reframing a new structure is rare and painful. The outcome of the change is the new equilibrium.

In the entrepreneurship context, the CA could serve as a theoretical foundation in answering “why” questions, such as why some entrepreneurs recognize opportunity but others do not, and why some entrepreneurs are more successful than others (Baron 2004). An example is a qualitative study examining the relationship between growth intention, cognitive style and perceived competitive conditions with a focus on whether and why intentions change over time (Dutta and Crossan 2005; Dutta and Thornhill 2008). In the last decades, cognition has received great attention due to its emphasis on the entrepreneur.

#### 4.10 Political approach

The PA sees an organization as a socially constructed system in a political arena of groups of various interests and power. To unify these diverging interests, so that the organization continues to function, power is required. Power is defined as “the potential capacity to get others to do things they might otherwise not want to do and/or resist others’ effort to get one to do what they want one to do” (Frost and Egri 1991, p.236). Quinn (1978) argues that all members in an organization possess power at different levels, determined by the position, credibility and information they have. The environment may serve as the source of pressure for change. As the process of change implicates power and conflicts, change is about managing power relations and resources. Hence, change is conducted by applying political activities to continuously drive the change process. This approach argues that macro change is the result of micro changes, conducted by individuals in the organization. Thus, change is defined as incremental, with small steps leading to major change through accumulation.

The PA receives little attention in entrepreneurship research. However Weiskopf and Steyaert (2009) make an attempt to argue how the political view could be borrowed to explain metamorphoses in entrepreneurship. In a firm founded by a team, an investigation of the power and interest of different team members could be an area in which the PA is applicable. An example is shown by Jones (1985) who observed the effects of internal politics on the development of the strategic business plan. Political action of acquiring resources in young firms could be an area of study coupling with the RDT (Hillman et al. 2009).

## 5 Classification of theoretical conceptions

The theoretical conceptions discussed in the previous section are able to contribute to a better understanding of organizational change of young firms. Rather than reviewing the incompatibility and contradiction among those theoretical conceptions, we choose to discuss how each theory could explain phenomena of young firms. We will divide the discussion into three parts. The section will start with the ontological view and the discussions on the explanatory factors (*what*) of each theoretical conception. The second part deals with *how* young firms change and the third part is concerned with the applicability of each theoretical conception in explaining *why* young firms change. The summary of theoretical conceptions on the ontology, how and why young firms change is presented by Table 1.

### 5.1 Ontology

Ontology is the starting point of research, as it enables us to understand the logic behind the theoretical conceptions (Grix 2002). In this paper, we have examined the ontological assumptions concerning two views of an organization.

The open system view is the process of considering how people, processes, structures and policies exist in the interconnected web of relationships. Within the system, there are certain functional roles and procedures to support the system in functioning properly (Katz and Kahn 1966). As the organization interacts within and with the environment, changes in one part of the system will result in changes in other parts (Nadler and Tushman 1980). Theoretical conceptions which follow the open system view are the CT, SCT, RDT, NIT, and RBT. All these theoretical conceptions assume that environment is one of the explanatory variables which definitely are comprehended by others. According to the CT, the explanatory variable is the organizational context such as strategy and structure. SCT holds strategy as the central factor. Both the RDT and RBT retain resource as a critical point. However, the RDT concentrates on organizational management of resource flow and interdependencies between parties, while the RBT emphasizes firm resources (tangible and intangible) which lead to competitive advantage. The NIT focuses on institutional factors, namely isomorphisms.

The ontological position of the social constructed system asserts that phenomena and their meanings are accomplished by social actors (Grix 2002). This view defines “environment” as meanings which exist as the interpretation of its organizational members. This implies that interactions and language are important areas, which differentiate with the open system view. In this stream factors related with the interactions and interpretations of the world distinguish one theoretical conception from another. The BTotF takes considerations of organization slack, conflicts and uncertainty-avoidance strategies. The OLT focuses on the factors which balance exploration and exploitation in multi-level learning. The ET gives great weight to the selection forces (environmental forces), however they are not deterministic. This indeterminacy is the key of the analysis and human agency is very much the explanatory factor. Aldrich and Martinez (2001) specifies the factors which can explain change as the competencies carried out by members of an organization,

**Table 1** Summary of theoretical conceptions explaining the change of young firms

		Theoretical Conceptions									
Ontology		Contingency theory	Strategic choice theory	Resource dependency theory	New institutional theory	Behavioral theory of the firm	Resource based theory	Organizational learning	Evolutionary theory	Cognitive approach	Political approach
Open system		X	X	X		X	X				
	Socially constructed system				X			X	X	X	X
Planning	Planned	X	X	X							
	Planned and Unplanned				X	X	X	X	X	X	X
Scope	Incremental	X	X	X				X	X		X
	Radical				X	X	X			X	
Pace	Continuously	X	X	X				X			X
	Episodic				X	X	X		X	X	
Reasons	Prescribed sequence								X		
	Competitive selection	X			X	X	X		X		
	Goals achievement		X	X	X	X	X	X	X		
	Conflicts and synthesis				X	X		X		X	X

accumulated understandings within group, competitive and cooperative pressures from a population, and obligations from a society. The CA focuses on the role of individuals in making sense of the world or in interpreting. Likewise, the CA connects cognitive frames to outcome. Meanwhile, the PA emphasizes the realization of change in terms of power as the interaction between social actors within the organization and its environment.

## 5.2 How do young firms change?

The organizational change process is diverse, involving many entities both inside and outside the organization. The effect of these entities may be mixed, but each contributing its own specific momentum to the change process. The process of change within young firms is analyzed using three dimensions, namely planning, scope and pace (see Sect. 3).

The *planning* dimension is related to the ontology of an organization. According to the open system view, organizational change is naturally triggered by environmental shift. When the changes in the environment are sensed by organizations (through feedback), the intended response is to plan an organizational change. The CT, SCT and RDT are theoretical conceptions which assume that the organization is a rational system that is able to make plans to ensure alignment and achieve adaptation with the environment. Although the NIT and RBT belong to the open system view, both argue that unplanned changes may occur due to an immediate threat or a sudden lack of fit with the environment, which cause organizations and its members to respond in a highly reactive manner. For example, there is a new player in the market, which suddenly disrupts the business landscape or, simply, the entrepreneur suddenly leaves the company. The RBT recognizes unplanned change when the change of environment makes the incumbent resources become obsolete. The advocates of the social construction system are BTotF, ET, OLT, CA, and PA. In this view, dynamics of actions and language bring changes, either planned or unplanned. The concept of unplanned change is depicted by emergent events which occur as a result of dialectical and teleological drivers (Lichtenstein et al. 2006).

Two other dimensions, namely *scope* and *pace*, are borrowed from Greenwood and Hinings (1996) to show how changes occur in a firm. We discuss both dimensions simultaneously because the pattern of change is mostly depicted by scope and pace (e.g. Weick and Quinn 1999; Plowman et al. 2007; Street and Gallupe 2009). Changes are either incremental or radical in their scope and either continuous or episodic in their pace. The CT, SCT, RDT, OLT and PA assume that change is planned and occur incrementally in continues pace. Nevertheless, according to the ET, there is substantial turmoil when an organization re-aligns with the environment. This turmoil occurs very rarely and does not dominate the major pattern (i.e. incremental change). Theoretical conceptions which assume that change is driven by goals or conflicts may project a situation that is in principle unpredictable and may take a radical path. However, those theoretical conceptions explicate incremental processes by which goals are realized and conflicts are negotiated.

In a similar vein, radical change tends to occur in a specific episode. Theoretical conceptions which agree with this assumption are the RBT, NIT, BTotF, and CA. Radical change is undertaken in the form of dramatic and frame-bending replacement (Romanelli and Tushman 1994). The aforementioned theoretical conceptions also assume the occurrence of incremental or small change.

### 5.3 Why do young firms change?

A young firm may change due to following a prescribed sequence (regulated change), challenging a competitive selection (competitive change), being directed to goals achievement (teleological change), as well as coping with colliding events and conflicting interests in the organization (conflictual change) (Van De Ven and Poole 1995).

The entrepreneurial process seems to have a sequence: from idea discovery to exploitation. Changes along the process are driven by the realization to follow such a process. It might look a linear process, however, the empirical evidence shows the patterns of dynamics (Gartner et al. 2004). The ET posits that new ventures emerge and are established through the process of variation, selection, retention and diffusion. There may be divergence within the stages of sequence; therefore the ET does not rest solely on the assumption of regulated change. However, the organization as a whole goes through the change associated with the sequence, which results in a completed unit.

Young firms face fierce competition, given the fact that a high percentage of young firms disappear from the market during the first years. Hence, each new venture change due to challenge the facts that it gets “selected out” from the population. Interaction between changes within a firm and the changes of the environment could be examined by using the ET, CT, RBT, BTotF, and the NIT. Whereas defending position in the population as a reason to change can be explained by the ET and RBT, the decision making process regarding the changing environment cannot be explained by both theoretical conceptions. The NIT provides explanations for the process of change in relation to the underlying assumption of a socially constructed system. The process of how young firms defend their positions in the population can be seen through actions such as designing the organizational structure, applying standards, and raising capital (Tolbert et al. 2011).

Whether the goals of the entrepreneur are assumed to be preexistent or emerging, many theories suggest that it is the entrepreneur’s goals that drive change. According to the open system view, an organization receives feedback from the environment and acts accordingly. The acts could be by making a strategic move, seeking legitimacy, as well as allocating and acquiring resources. The SCT, NIT, RDT and RBT explain the relationship between the respective acts and the environment. In the stream of the socially constructed system view, goals are constructed by social actors as a result of interpretation and dialectical process. BTotF views an organization as a combination whose members endeavor to maximize their personal goals while satisfying the organization objectives. Therefore, changes are driven by the construction of goals between members and organization. Of the ET, goal setting occurs on the variation phase. According to the

OLT, members and the organization make sense of what is happening (Weick 1995). Therefore, balancing between exploration and exploitation in seeking ways to survive is the goal. The difference between the views can be distinguished as a proactive process for the open system view and as a post hoc process for the social constructed system view.

According to the socially constructed view, an organization is constructed by people who have strong interests in understanding of their actions. Conflicts and synthesis take place within the organization as a result of colliding events, contradictory values, and differing interests. All social constructionists regard conflicts and synthesis as the reasons for change. The NIT specifically emphasizes legitimacy as a potential source of conflicts. The BTotF provides a way to explain the dynamics of organizational change by investigating the political conception of organizational goals, the bounded rationality conception of expectations, an adaptive conception of rules, and a set of ideas explaining how the interactions among these factors affect the decision making process within a firm. Being introduced as a feature of organizational adaptation in the BTotF, the OLT offers the possibility to analyze change in a similar vein. However, the focus of OLT is to shed a light on the changes within firms by emphasizing how members and organizations manage information associated with the functioning of the firm. This theoretical conception argues that an organizational capacity for learning is necessary for interpreting and making sense of the environment and for designing strategies to adapt to the environment (Daft 2007).

Based on the assumption that people are the focus in the organization, going beyond theoretical conceptions of the firm appears to have merit. One explanation of conflicts and synthesis as a source of change is provided by the CA. This approach provides important insights into the key aspects of changes within a young firm, specifically by answering the “why” questions in relation to entrepreneurs (Baron 2004). Meanwhile, the PA argues that change does not only involve knowledge (resources) but also power as a source of change. Thus, the examination of power relations, conflicts, and resources provides a picture of the reason to change. The PA has not been explored widely to explain changes within young firms, although some attempts to use the PA were made a long time ago (Jones 1985).

## 6 Conclusions and limitations

The purpose of this paper was to provide a systematic analysis of theoretical conceptions of organizational change with the focus on young firms. Our literature review indicates that there is a variety of theoretical conceptions from multiple disciplines which can explain why and how young firms change (see Table 1). We conclude that none of the analyzed theoretical conceptions explains the change of young firms in *all aspects*. Each sheds a light on different aspects of the organization; therefore combining some of them can provide greater richness and insights. Integration of theories can have different impacts on the domains of theories, fields, researchers and external stakeholders (Zahra and Newey 2009).

Depending on the research question it is necessary to choose or integrate adequate theoretical conceptions.

Two approaches to change in new ventures were not considered in this analysis. One is the life-cycle approach that has come under severe criticism not only since Levie and Lichtenstein's (2010) "terminal assessment". Strong arguments against the validity of the life cycle approach may lead researchers to strongly consider alternative approaches such as those outlined in this paper.

The second one is the Configuration approach which we see as an approach that can integrate some of the theoretical perspectives mentioned in this article. Initially, the Configuration approach is regarded to be suitable to categorize organizational variables and the environment in the context of new ventures (Harms et al. 2009), which is useful as foundation for theory building (Bacharach 1989). Within each categorization (venture type), different change theories may be dominant. For example, Miller (1983) shows that the drivers for change and entrepreneurship differ by venture type. Recent research on configurations of young ventures (Kessler and Frank 2009) lay the foundation for explaining change in new ventures by first identifying startup and new venture firm types and then show how they develop over time (Harms et al. 2014)—this, of course, calls for theoretical explanations as well.

The aim of our study was to give an overview of theoretical conceptions. This broadness restrains the detail discussions of each theory. Therefore we suggest that researchers read further in the references we have provided. We hope researchers can use the findings to navigate the complex theory landscape in new venture development.

**Acknowledgments** We thank two anonymous reviewers and the editors for providing us with suggestions to re-shape this article. This research was supported by the Oesterreichische Nationalbank, Anniversary Fund (Project No. 13042).

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