



# Consensus and conflict: Exploring moderating effects of knowledge workers on industry environment and entrepreneurial entry relationship



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## ABSTRACT

This article examines how knowledge workers in the labor force moderate the relationship between industry environmental conditions and entrepreneurial entry by using two competing streams of research: the consensus theory of employment and the conflict theory of employment. The two distinct literature streams provide competing predictions about knowledge workers' opportunity cost of entrepreneurial entry. Empirical analyses indicate that neither theoretical framework wholly explains the relationships for both munificent and complex environments. Rather, the application of each theory varies for different industry environments; the consensus theory applies to the complex environment, but the conflict theory is consistent with the munificent environment. Findings indicate that the characteristics of industry environments determine whether predictions from the consensus theory of employment or the conflict theory of employment are supported. This study also suggests that the two theoretical frameworks can be integrated to explain the relationships between industry environments and entrepreneurial entry in the knowledge-based economy.

## 1. Introduction

The shift in the labor market toward more information and knowledge-based work has resulted in increased attention toward attracting and retaining knowledge workers as a source of competitive advantage (Chiang & Shih, 2011; Jabbour & Santos, 2008). On the other hand, from an entrepreneurial entry perspective, these knowledge workers are also most likely to establish high-growth ventures that lead to wealth creation and economic growth (Acs, 2008; Schramm, 2004). As knowledge workers become important to the sphere of both intrapreneurship and entrepreneurship, it becomes important to explore whether those workers capitalize on their skills employment or within self-employment (Van Stel, Carree, & Thurik, 2005). Prior research shows that the probability of entry is high when the entrepreneur has experience in a similar business, prior entrepreneurial experience, greater entrepreneurial ability, more capital, and social ties to resource providers (Acs & Audretsch, 1989; Aldrich, 1999; Aldrich & Zimmer, 1986; Brüderl, Preisendörfer, & Ziegler, 1992; Carroll & Mosakowski, 1987; Cooper, Woo, & Dunkelberg, 1988; Dahl & Sorenson, 2012; Nanda & Sorensen, 2010; Shane, 2000). However, empirical evidence suggests that even if an individual possesses all the above-mentioned characteristics, the probability of entrepreneurial activity would still be low if entrepreneurs have high opportunity cost (Amit,

Mueller, & Cockburn, 1995; Arora & Nandkumar, 2011).

The prevailing (competing) theories that explain opportunity cost for entrepreneurial activities for knowledge workers in the context of the knowledge economy are the “consensus theory of employment” and the “conflict theory of employment” (Brown, Hesketh, & Williams, 2003). The consensus theory of employment argues that technological innovation is the driving force of social change (Drucker, 1993; Kerr, 1973). Advancement in technological innovation requires the application of technical skills and knowledge; thus, attracting and retaining talented knowledge workers have become crucial for incumbent firms, especially as the knowledge base of the economy expands (Tzortzaki & Mihiotis, 2014).

On the other hand, the conflict theory of employment challenges the idea that highly skilled workers have the opportunity to use their creative skills and enjoy autonomy in an organization. To maximize shareholder value, firms avoid offering internal career opportunities for employees, including knowledge workers; as a result, firms tend to hire employees on a “plug-in-and-play” basis (Lauder, 2001). Consequently, skilled workers encounter limited opportunity to preserve their autonomy and fulfill their expertise as employees (Brown et al., 2003). Thus, in the wake of emerging entrepreneurial opportunity, skilled workers' perceived opportunity cost would be low, and they are more likely to make the transition to entrepreneurship.

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The consensus theory of employment and the conflict theory of employment present contradictory implications about highly skilled workers' opportunity cost for pursuing entrepreneurial activities in the knowledge economy. This study examines these two theories and makes competing predictions about the role of knowledge workers in moderating the relationship between external environmental conditions and entrepreneurial activities. Although the knowledge base of an individual has an integral function in opportunity recognition, the generation of the opportunity itself would be a function of the external environmental conditions (Gnyawali & Fogel, 1994; Shane, 2003). Following prior research (e.g., Dess & Beard, 1984; Keats & Hitt, 1988; Krishnan & Park, 2005; Lin, Zeng, Liu, & Li, 2016; Simsek, Lubatkin, Veiga, & Dino, 2009), this study utilizes the dimensions of munificence and complexity to characterize the external environment. Environmental munificence refers to the abundance of resources available to the firm operating within a given environment and its ability to support growth (Keats & Hitt, 1988; Lin et al., 2016). Environmental complexity has largely been defined as a multidimensional construct that involves a number of institutions and resources that firms must interact with, amount of technical and knowledge diversity that firms must deal with, and fragmentation in the competitive environment (Cannon & St. John, 2007).

We tested the hypotheses presented in this study by using a panel data set that covers nine major industrial sectors in the United States and spans the period from 1997 to 2009, constructed by using archival data from the U.S. Census Bureau, the Bureau of Labor Statistics (BLS), and the Bureau of Economic Analysis (BEA). Based on analyses using the two dimensions of the industry environments (munificence and complexity), the results show that knowledge workers exert significant effects on the relationship between environmental conditions and entrepreneurial entry. Specifically, results show that knowledge workers positively moderate the relationship between environmental munificence and entrepreneurial entry, a finding that is consistent with the consensus theory of employment. However, for a complex environment, knowledge workers negatively moderate the relationship between industry environment and entrepreneurial entry, a finding that is consistent with the conflict theory of employment. Thus, the analysis found support for the two key arguments of this study: first, highly skilled knowledge workers in the labor force significantly affect the relationship between industry environmental conditions and entrepreneurial entry; and second, by distinguishing between the two different industry environments, the two theoretical frameworks (i.e., consensus theory of employment and conflict theory of employment) can be integrated. That is, neither theoretical framework wholly explains the relationships for both munificent and complex environments. Rather, the application of each theory varies for different industry environments.

The following sections briefly describe the labor dynamics in the knowledge-based economy and then explore the role of industry characteristics in shaping knowledge workers' propensity toward entrepreneurship, present hypotheses regarding highly skilled workers on the relationship between industry environments and entrepreneurial entry, present the research findings, and conclude with a discussion of the implications of this study.

## 2. Knowledge and the entrepreneurial economy

The shift toward a knowledge-based economy partly facilitated by the information and communication technology (ICT) revolution has reduced transaction costs and moved the advantage away from large firms toward the market and the individual as the smallest possible firm (Audretsch & Thurik, 2000; Wennekers & Thurik, 1999). Developments in information technology, especially computers and the Internet, have enabled faster codification of knowledge and enhanced the accessibility of that knowledge to a wider group of people. The increase in the accessibility of knowledge and lowered transaction costs thus enhance

opportunities for entrepreneurs and their roles in the society.

The increased proportion of highly educated individuals in the workforce due to the emergence of the knowledge-based economy leads to the rise in labor redundancies in the highly skilled labor market. As labor redundancies begin to occur in the skilled labor market due to technological innovations (most likely affecting the lowest-skilled knowledge workers within those jobs (Ray, 2007)), firms attach greater importance to individual initiative, social skills, and creative abilities to differentiate among job seekers. However, increased economic power of the knowledge workers implies that firms have to work hard to differentiate themselves from other firms to attract talent to their organization. Therefore, knowledge workers can either capitalize on their knowledge directly via entrepreneurial ventures or carve out knowledge-based entities within large corporations (Kleinman & Vallas, 2001). The choice essentially becomes a function of the level of satisfaction and intellectual stimulation available to a particular knowledge worker within a firm, and the availability of opportunities available to the knowledge worker based on his or her career capital. Furthermore, labor dynamics in a knowledge-based economy may be composed of two competing forces (in the context of knowledge workers): workers seek a portfolio career built on transactional, short-term, financial, and demarcated exchanges (Rousseau, 1995), whereas incumbent firms strive to revise their organizational structures and compensation packages with the intention of retaining human capital.

## 3. Hypotheses: knowledge workers, entrepreneurial entry, and industry external environment

In a knowledge-based economy, labor demand is increasing in knowledge-intensive sectors, such as high technology and service sectors (Acemoglu & Autor, 2011; Organisation for Economic Co-operation and Development [OECD], 1996; Whittaker, 2016; Zhou & De Wit, 2009). On the other hand, the advancement of information technology and the expansion of the service sector have increased the structural mismatch between the supply and demand for labor (Tasci & Lindner, 2010). Thus, knowledge workers are exposed to varying labor dynamics (demand and supply of knowledge workers) depending on the particular industry in which they are embedded. As workers' abilities to codify knowledge increase with the advancement of ICT technologies, more routine tasks become automated. Consequently, the need for manual work centered on these tasks declines. As competition increases among all skill levels, tacit knowledge in the form of human intuition, judgment, and creativity plays a larger function in terms of career progression within employment and entrepreneurial entry (Tempest & Coupland, 2016; Van der Sluis, Van Praag, & Vijverberg, 2008). Although individual tacit knowledge has an integral role in opportunity recognition, the emergence of the opportunity itself would be a function of the characteristics of the environment (Hayek, 1949; Shane, 2000).

The role of external environment in entrepreneurial opportunity recognition and generation is well recognized in the existing literature (Shane, 2003; Wang, Ellinger, & Jim Wu, 2013). According to Shane (2003), technological, political and regulatory, social, and demographic changes in the external environment are the primary sources of entrepreneurial opportunities. Other researchers have argued that factors such as external shocks (Krueger, 1998) and uncertainty in the external environment (Bhide, 2000; Lee & Venkataraman, 2006) influence individuals' ability to delve into entrepreneurship. Research in strategic management also stresses the importance of aligning firm process to its external environment (Dibrell, Craig, & Neubaum, 2014; Grant, 2003; Pfeffer & Salancik, 1978). Prior research exploring the impact of external environment on organizational behavior has focused on two conceptions of the organizational task environment: uncertainty that pertains to information flow and knowledge requirements of the organization (Freel, 2005; Reus, Ranft, Lamont, & Adams, 2009), and carrying capacity pertaining to the resource availability to support

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