

# Sensemaking, a New Entrepreneurial Approach for Today's Uncertain Business Environment

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## Abstract

Sensemaking has gained substantial attention from scholars in various fields like organizational studies, information technology and chaotic environments. In the field of entrepreneurship, sensemaking earned significance in explaining entrepreneurial opportunity creation and enactment of opportunities as well as entrepreneurs' rhetoric, metaphors and narratives in justifying their decisions for other stakeholders by engaging in direct negotiations with them. When faced with ambiguity and while dealing with uncertain environments, sensemaking enables entrepreneurs to hold their ground by identifying salient elements of the environment, giving them meaningful labels and therefore enacting their own environment. Sensemaking has not been given adequate attention in entrepreneurial studies. This paper acknowledges previous efforts to link entrepreneurship and sensemaking but claims that there are important undiscovered sensemaking applications relevant to entrepreneurial activities, the most important of which could be failure prediction and failure prevention. On the other hand, lack of sensemaking among the entrepreneurial team in a given enterprise could not only deprive it of identifying or exploiting lucrative and profitable opportunities but also under severe circumstances lead to its final failure and collapse. The main goal of this paper is shedding more lights on those undiscovered field by conducting a comprehensive survey of not only sensemaking but also relevant entrepreneurial fields and claiming that sensemaking capability reduces the chances of entrepreneurial failure.

**Keywords:** Entrepreneurship, Sensemaking, Uncertainty, Applications

## Introduction

Sensemaking is a process according to which people give new frameworks to unexpected and unique environmental signals, give meaning to them so as to interact with others and take actions (Weick, Sutcliffe and Obstfeld, 2005). Sensemaking helps individual to give meanings to salient cues taken from myriad ongoing events, interpret these cues and act according to

these interpretations (Weick, 1995). Sensemaking is the process of creating new meanings and interpretations for an event that has already happened but does not have any name or meaning yet because of being unexpected, unknown and unique (Weick, 2001). According to Weick (2001), sensemaking is a social, retrospective and ongoing activity based on identity, cues and plausibility. The process of sensemaking begins when the current situation is so different from the expected one that almost all major activities are interrupted and individual asks themselves "what is going on?" and "what should I do?". Weick introduced sensemaking as an important organizational science, helping organizations to cope with changes and give meanings to unknown events, thus being able to survive as well as maintain their current activities. After its genesis, sensemaking has become a very important research topic in various fields of science including entrepreneurship. Not only sensemaking enables entrepreneurial firms to enhance their performance and operation, but also individual entrepreneurs need to make sense of various aspects of their enterprises and environments. Especially because of the growing uncertainty in entrepreneurial environments, sensemaking seems vital for entrepreneurs' survival. A lot of entrepreneurial scholars have emphasized the importance of sensemaking in the various aspects of entrepreneurship. Sensemaking and sensegiving (Hill and Levenhagen, 1995), entrepreneurial stories to gain resources (Lousbury and Glynn, 2001), entrepreneurial narratives (Gartner, 2007), pattern detection (Baron and Ensley, 2006), opportunity creation (Alvarez and Barney, 2007) and entrepreneurial Failure (Shepherd, 2009) are some of these researches that have examined the role of sensemaking directly or hinted to in implicitly in the field of entrepreneurship. Though the growing bulk of researches regarding entrepreneurial sensemaking seems satisfying, there seems to be some negligence about its importance in a few entrepreneurial related topics, for example, sensemaking capability could hinder entrepreneurial failure, but the role of sensemaking after failure has been given more attention from scholars, on the other hand, lack of sensemaking could deprive entrepreneurs of discovering lucrative opportunities, making necessary changes in the right span of time and could even lead to final collapse of the enterprise. This paper claims that though there are some great works about sensemaking, It could be much more useful and needs much more attention. In the following sections, we render our hypotheses about relatively unknown aspects of sensemaking after a thorough examination of the relevant literature.

### **Literature review and Hypothesis Development**

In this section, we develop our hypotheses after reviewing the relevant literature in the field of entrepreneurship.

#### **Sensemaking and opportunities**

Entrepreneurship is the process of opportunity discovery, opportunity evaluation and opportunity exploitation (Shane and Venkataraman, 2000). In order to discover opportunities, entrepreneurs need to surmise the value of current resources if used differently. According to Shane and Venkataraman (2000), information about the value of resources especially after changes and entrepreneurial guesses about the future value and applications of current resources play the main part in entrepreneurial opportunity discovery. On the other hand, Sensemaking is about detecting various environmental signals, interpreting information and act accordingly. Thus, one could suppose that sensemaking capability enhances the chances of entrepreneurial opportunity discovery, therefore:

*proposition1: sensemaking capability increases the chances of entrepreneurial opportunity discovery.*

Not only entrepreneurs discover opportunities, but they also do create them. Entrepreneurs do not wait for environmental shocks and changes for opportunities to be created, they create opportunities themselves with their own actions (Alvarez and Barney, 2007). In a very influential article, Sarasvathy, Dew, Velamury and Venkataraman (2003) introduced three views to study entrepreneurial opportunities, allocative, discovery and creative views, respectively. In the creative view, Weick's sensemaking plays an important role by theorizing that environments are enacted endogenously (by organizations) Entrepreneurs enact their environment by engaging in a chain of relevant activities. Entrepreneurial stories and metaphors play the major part in opportunity exploitation which is mostly an implicit process. Opportunities are created in the mind of the entrepreneurs and only after they take actions these opportunities exist in reality (Klein, 2008). Entrepreneurial sensemaking play an exceptionally important role in opportunity exploitation by explaining these opportunities to others, especially stakeholders, therefore gathering and mobilizing necessary resources (Lousbury and Glynn, 2001). One relevant theory in this regard is effectuation theory (Sarasvathy, 2001). According to effectuation theory, entrepreneurs use do not try to predict the future, they concentrate on what they could control. Entrepreneurs launch and build their businesses in a constant interaction with a current of entrepreneurial events which never stop, this statement is so similar to weick's sensemaking, that individual and organizations enact their own environments but what they do, thus:

*proposition2: sensemaking capability enhances of entrepreneurial opportunity exploitation and venture creation*

### **Sensemaking and sensegiving**

Entrepreneurs need to make sense of their environment in order to act, but this process is not enough for their survival. Entrepreneurs need also to give meanings to other stakeholders; therefore, sensemaking and sensegiving are parallel processes. Word, stories and metaphors are very important tools for entrepreneurs to legitimize their intentions and actions. In the initial phases of their businesses, entrepreneurs make sense of opportunities, markets and lots of other factors according to their experience and expertise, but they also need to give meanings to other important actors, support and resources of who are crucial for entrepreneurial success (Lounsbury and Glynn, 2001). Sensemaking without sensegiving is incomplete, therefore:

*proposition3: sensemaking and sensegiving are simultaneous activities done by entrepreneurs.*

### **Sensemaking, effectuation and decision making**

Given today's uncertain and complex business environment, the nature and scope of entrepreneurial decision making has changed. Entrepreneurs make decisions under environmental uncertainty and environmental complexity and information overload (Busenitz and Barney, 1997) regarding entrepreneurial decision making, sarasvathy's effectuation (2001) is a relatively new chapter by focusing on the uncertain business environment and saying that expert entrepreneurs turn their attention from what they could predict to what they are able to make and control, this is substantially similar to weick's sensemaking and enactment theories especially under uncertainty. Therefore, the combination of sensemaking and effectuation could enhance entrepreneurial decision making ability, thus:

*proposition4: the combination of effectuation and sensemaking capability improves entrepreneurial decisions in various uncertain business environments.*

### **Sensemaking and innovation**

Sensemaking could also play major roles in entrepreneurial innovation. Entrepreneurial firms with better sensemaking capability could gain competitive advantage by being innovative. Sensemaking transforms the implicit knowledge into explicit one, thus paving the way for innovation. New technologies are the main drivers of innovation, but the knowledge regarding them is implicit and sensemaking in an entrepreneurial firm could be very important in making new technologies as easy and practical as possible (Dougherty, Borrelli, Munir and O'sullivan, 2000). One could hypothesize that sensemaking plays an important role in turning various kinds of implicit and dispersed knowledge in explicit knowledge, therefore: *proposition5: sensemaking capability enhances entrepreneurial firms' innovativeness by turning implicit knowledge into explicit knowledge.*

### **Sensemaking and counterfactual thinking**

Entrepreneurs engage in counterfactual thinking a lot, thinking "what might have been if I had acted differently" (Baron, 1998). By counterfactual thinking, entrepreneurs look back and analyze different possible scenarios that could have occurred if they would have acted or decided differently. Studying counterfactual thinking is of grave importance to get better knowledge of entrepreneurial decisions as well as psychology. Sensemaking also is based on retrospection and looking back to detect cues and make sense of the presence, thus: *proposition6: sensemaking capability improves entrepreneurial counterfactual thinking*

### **Sensemaking and entrepreneurial affect**

Emotion and feelings (affect) play major roles in entrepreneurial processes (Baron, 2008). For example, positive emotions cause entrepreneurs to be more risk-taking and negative feelings make them more cautious. On the other hand, emotions and feelings are the main drivers of sensemaking process, beginning after interruptions (Weick, 2001). According to Weick (1995, 2001), interruptions in routines and also unexpected events impact neural systems and feelings which are themselves the triggers of sensemaking process, thus, by realizing that affects could trigger sensemaking process, one could suppose that entrepreneurial affect trigger entrepreneurial sensemaking, therefore: *proposition7: entrepreneurial affects (feelings and emotions) trigger entrepreneurial sensemaking process.*

### **Sensemaking and failure**

Studying entrepreneurial failure has become an important research topic because of various factors, from preventing further failures to hindering waste of resources. Effects of entrepreneurial failure is two-fold, on one hand it could increase entrepreneurial experience, on the other hand failure could be a painful experience resulting in entrepreneurial avoidance from failure activities (Cope, 2011). Entrepreneurial failure has been studied from other approaches, too, the most important of which learning from failure (Shepherd, 2003), recovery from grief after failure (Shepherd, 2009) and the importance of confidence in recovering from failure (Hayward, Forster, Sarasvathy and Fredrickson, 2009). By reviewing the literature on entrepreneurial failure, one could come to the conclusion that except for Shepherd (2003) which emphasized the importance of sensemaking in learning from and

recovery after failure, no major has been done on the relationship between entrepreneurial sensemaking and failure, on the other hand, the importance of sensemaking in preventing entrepreneurial failure has not been studied, yet. According to Weick's sensemaking, unexpected events and signals cause interruption in current activities. This is especially true in case of crises, which causes individuals to stop activities, resort to their identities (which is the first element in the process of sensemaking) to make sense of what is going on (Weick, 1993). Though sensemaking is a retrospective activity, therefore begins after an event (Weick, 2001), as soon as a crisis happens and therefore an interruption occurs, experienced entrepreneurs look back to their past in order to detect cues and make sense of what is going on. A crisis or an interruption for entrepreneurs could be any business related occurrence, from regulatory, competitive, technological and environmental changes to sudden changes in their own enterprises. In sensemaking after interruption and crises three factors play the main roles, namely *identity, commitment and expectation* (Weick, 2001). These factors are also important in entrepreneurial activities. According to Weick's sensemaking framework after crises and interruptions, entrepreneurs look back to detect meaningful signals and interpret them based on their identities, commitments and expectations, thus we could come to the conclusion that, when unexpected events, crises and interruptions in business and enterprise activities happen, sensemaking enables entrepreneurs to better cope with the situation and survive imminent reversals, thus:

*proposition8: sensemaking capability not only helps entrepreneurs recover from failure, but also could prevent failure.*

### Discussion and Conclusion

The hypotheses in this paper were built according to the existing literature and could be very useful in future researches regarding entrepreneurial sensemaking. Sensemaking is a very important topic for different fields of science. Studying sensemaking implications in the field of entrepreneurship is relatively young, and given that sensemaking has various implications for different aspects of entrepreneurship, we come to the conclusion that some important implications of sensemaking in the field of entrepreneurship has not been studied yet, among which are the importance of sensemaking in turning dispersed and implicit knowledge to explicit knowledge, innovation, entrepreneurial decision making and failure prevention. The importance of sensemaking in today's business environment is so obvious that we could suppose that, lack of sensemaking definitely leads to final collapse of entrepreneurial businesses. Future studies should study other important but neglected implications of sensemaking for entrepreneurs, mainly its effects on decision making, innovation and failure prevention.

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