Review Article

Enterprise Formation: A Multidimensional Conceptual Review of Ideation, Institutional Dynamics, and Strategic Development Pathways

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Abstract

Enterprise formation is often treated either as a procedural sequence of start-up activities or as a context-free account of opportunity pursuit. In response, this paper develops a conceptual review that integrates entrepreneurial cognition, process-based venture creation, and institutional analysis to explain how ventures emerge, adapt, and formalize under uncertainty. Methodologically, the review draws on interdisciplinary scholarship in entrepreneurship, innovation, strategy, and institutional theory and synthesizes it through iterative thematic comparison and concept integration. The paper identifies a key gap in the literature: there is limited conceptual work that explains how decision logics, venture-building capabilities, and institutional asymmetries interact across stages of enterprise formation, especially in emerging economies. The article's contribution is twofold. First, it proposes an integrated process-capabilities-context framework linking ideation, validation, resource mobilization, legal structuring, launch, and maturation to entrepreneurial cognition and institutional conditions. Second, it uses the Nigerian context not merely as an illustration but as a theoretically generative setting for understanding formalization as a continuum shaped by informality, trust deficits, infrastructural constraints, and adaptive entrepreneurial practice. The review argues that enterprise formation is best understood as an iterative and contextually embedded process rather than a linear administrative sequence. Because the study is conceptual, its claims are interpretive and intended to guide future empirical testing rather than establish causal effects.

Categories: SME Entrepreneurship, Entrepreneurship in developing nations, Sustainable entrepreneurship

Keywords: enterprise formation, informal entrepreneurship, institutional asymmetry, nigeria, formalization, entrepreneurial ecosystems, venture creation, enterprise ecosystem, idea formation, conceptual review

Introduction And Background

Enterprise formation is theoretically conceptualized as a complex, iterative sequence through which nascent ideas are transformed into legally recognized and operational ventures. However, mainstream processual models predominantly assume stable regulatory environments and linear progression, frequently reducing venture creation to a predictable sequence of analytical and managerial tasks. This linear, causally driven paradigm often collapses when applied to emerging economies, where institutional voids, regulatory ambiguity, and infrastructural deficits fundamentally alter the mechanics of venture emergence (Argaw and Liu, 2024). Consequently, a critical theoretical gap persists because existing scholarship tends to analytically isolate venture stages, entrepreneurial cognition, and institutional context. This fragmentation limits our theoretical capacity to explain how these dimensions dynamically interact under conditions of severe institutional asymmetry.

To resolve this fragmentation, this conceptual review synthesizes three distinct streams of literature: process-based accounts of venture creation, cognitive perspectives on entrepreneurial decision-making (specifically the oscillation between causation and effectuation) (Sarasvathy, 2001), and institutional analyses of emerging economies (Webb et al., 2019). A central motivation for this synthesis is the enduring limitation in how developing contexts are theorized. Studies of emerging markets frequently relegate the institutional environment to the background or adopt a "deficit framing," treating the absence of formal institutions merely as an obstruction to optimal entrepreneurial activity. This review challenges that premise. Instead, it theorizes how institutional asymmetry, pervasive informality, and trust deficits serve as productive analytical mechanisms that generate distinctive pathways of network-based experimentation, hybrid organizing, and gradual formalization.

Through this multidisciplinary synthesis, the article makes three distinct theoretical contributions. First, it re-conceptualizes enterprise formation as a relational, non-linear continuum, demonstrating that venture stages are continuously enabled and constrained by the interplay of entrepreneurial cognition and overarching institutional conditions. Second, it develops an integrated theoretical framework that explicitly links core venture-building activities such as resource orchestration and legal structuring to the strategic deployment of decision logics (Sarasvathy, 2001). Third, by utilizing Nigeria as a substantively generative case for theory development (Welter, 2011), the paper elucidates how entrepreneurs rely on informal socio-economic structures to navigate state-level regulatory failures.

Rather than offering a descriptive catalogue of start-up tasks, this review adopts a strictly conceptual stance to theorize contexts in which market access, social legitimacy, and regulatory compliance are unevenly distributed. Ultimately, this synthesis moves the discourse beyond prescriptive frameworks, providing a robust explanation of how ventures emerge when actors must configure adaptive cognitive strategies to survive in deeply asymmetrical institutional environments.

Review

Conceptual and theoretical foundations

Definition and Scope of Enterprise Formation

"Enterprise formation" refers to the comprehensive sequence of activities through which a novel idea is transformed into a functioning and legally recognized business entity. This process encompasses the identification of market opportunities, the mobilization of critical resources, and the strategic establishment of organizational and legal infrastructures (Amboala and Richardson, 2016). It is inherently complex, requiring the integration of ideation, planning, and execution under conditions of uncertainty (Packard et al., 2017). It involves opportunity identification, resource orchestration, organizational design, and legal formalization. Rather than a linear sequence, it is characterized by iterative cycles of theorization, experimentation, and adaptation guided by rigorous assessments of feasibility, desirability, and viability (Goldsby et al., 2017). Entrepreneurs often engage in iterative, design-centered methodologies such as ideation, prototyping, and market testing to refine concepts and mitigate risk (Goldsby et al., 2017), (Sandhu et al., 2025), and (Asmar et al., 2021).

At its core, enterprise formation is driven by dynamic decision-making under uncertainty, balancing proactive opportunity exploitation with adaptive responses to emergent challenges (Schlichte and Junge, 2024) (Shepherd et al., 2018). Central to this process is entrepreneurial theorization: the development of causal mental models that frame how opportunities are identified, created, and pursued (Ott and Hannah, 2024). These models reflect the interplay between individual agency and environmental conditions, enabling entrepreneurs to translate abstract insights into viable business strategies.

This cognitive process is recursive and learning-oriented, involving continuous validation and refinement of business models in response to evolving market feedback (Pryor et al., 2015). By leveraging constraints as catalysts for innovation, entrepreneurs construct actionable theories that guide organizational formation and strategic differentiation, even in the absence of prior experience (Felin and Zenger, 2009) (Ott and Hannah, 2024).

Cognitive Foundations of Entrepreneurship

Entrepreneurial cognition shapes how individuals interpret opportunities, assess uncertainty, and construct causal mental models. Cognitive versatility, balancing analytical and intuitive reasoning, enhances opportunity recognition and innovation outcomes.

Contrary to linear models of venture creation, enterprise formation is often characterized by iterative cycles of theorization and experimentation (Breuer, 2013). Entrepreneurs develop and refine mental models, or "entrepreneurial theories," that articulate their understanding of market dynamics and guide value creation strategies (Ott and Hannah, 2024) (Valentine et al., 2024). The ability to construct and iteratively refine these cognitive frameworks often differentiates successful ventures from those that fail to launch or scale effectively (Wuebker et al., 2023). This process is frequently articulated through a "theory of change," which maps long-term entrepreneurial goals onto a sequence of causal steps and milestones, thereby translating abstract intentions into executable strategies (Dimov, 2021). Enterprise formation is further shaped by two dominant decision-making logics: causation and effectuation (Shirokova et al., 2021).

The Theoretical Interplay of Causation and Effectuation

Causation and effectuation are best understood as distinct but complementary decision-making logics rather than as rival theories of entrepreneurship. Causation operates on a predictive rationality; it begins with a defined goal and emphasizes deliberate planning, competitor analysis, and the strategic alignment of resources to achieve expected outcomes. Conversely, effectuation, as conceptualized by Sarasvathy (Sarasvathy, 2001), begins with an entrepreneur's available means (who they are, what they know, and whom they know) and prioritizes affordable loss, experimentation, stakeholder commitments, and the co-creation of opportunities under extreme uncertainty. The theoretical distinction is critical: causation seeks to reduce uncertainty through rigorous analysis and planning, whereas effectuation functions within uncertainty through continuous action and iterative adjustment.

For the study of enterprise formation, the primary analytical challenge is not determining whether entrepreneurs use one logic over the other but explaining when, how, and with what consequences they configure these logics across venture stages (Shirokova et al., 2021). Contemporary research increasingly highlights the necessity of "cognitive ambidexterity" (Smolka et al., 2018), wherein founders must dynamically pivot between logics. Early ideation and initial validation disproportionately benefit from effectual practices, as goals are emergent and market information is inherently incomplete. However, as ventures transition toward legal structuring, financing, scaling, and governance, causal reasoning becomes increasingly salient, as these activities demand structured sequencing and coordination with formal external stakeholders.

Importantly, this cognitive shift is rarely a linear progression. Entrepreneurs frequently oscillate between predictive planning and adaptive experimentation as feedback loops, resource constraints, and institutional conditions evolve. A sharper conceptualization, therefore, treats effectuation and causation as stage-sensitive and context-dependent logics, their utility contingent upon the venture's resource position, stakeholder commitments, and the stability of the institutional environment.

The theoretical imperative to contextualize entrepreneurial cognition (Welter, 2011) becomes acutely visible in emerging economies. Studies increasingly suggest that performance outcomes depend less on the isolated deployment of either logic than on their configuration and fit with the surrounding institutional context. In environments marked by institutional volatility, weak regulatory enforcement, and infrastructural deficits, formal planning often fails. Here, effectual action serves as a vital adaptive mechanism, enabling entrepreneurs to bypass institutional voids and progress despite the unreliability of formal state supports. Conversely, in highly stable environments, or during the maturation stages that require institutional investor confidence and organizational routinization, causal planning confers a distinct comparative advantage.

Accordingly, the analytical task is to explain the patterned interplay between these cognitive logics and the institutional environment, rather than elevating one logic as universally superior.

Proposition 1: Entrepreneurial cognitive logics are moderated by institutional stability; high institutional asymmetry forces a sustained reliance on effectuation, whereas institutional stability and venture maturation catalyze a necessary transition toward causal reasoning.

Institutional Theory and Contextual Dynamics

The institutional context, encompassing regulatory, normative, and cultural-cognitive dimensions, exerts a profound influence on entrepreneurial behavior and the processes underlying enterprise formation. Regulatory frameworks, including laws, policies, and enforcement mechanisms, establish the formal boundaries within which entrepreneurial activities are either facilitated or constrained. Normative influences, such as societal expectations, professional standards, and prevailing business practices, further shape the legitimacy and desirability of entrepreneurial initiatives. Cultural-cognitive factors, such as shared beliefs, values, and mental models, influence the perception, interpretation, and pursuit of opportunities within a given environment.

In environments characterized by institutional voids, where formal structures are weak, missing, or inconsistent, entrepreneurs often navigate complex asymmetries and enforcement gaps. These conditions can foster the proliferation of informal entrepreneurship, whereby individuals and organizations operate outside established legal frameworks to exploit emerging market opportunities. Institutional asymmetries, such as unequal access to resources or inconsistent regulatory enforcement, may also influence the pathways by which ventures transition from informal to formal status. The prevalence of informal entrepreneurship is thus closely linked to the adaptability and resourcefulness of entrepreneurs as they respond to regulatory ambiguity and shifting normative expectations.

Importantly, the interplay between institutional dynamics and entrepreneurial cognition determines not only the feasibility of business formation but also the strategic choices made throughout the venture life cycle (Alvarez et al., 2025). Entrepreneurs must continuously assess and adapt to changes in institutional environments, leveraging opportunities for innovation while mitigating risks associated with uncertainty and potential regulatory disruption. The strategic navigation of institutional contexts can serve as a source of competitive advantage, enabling ventures to differentiate themselves and achieve sustainable growth even in volatile or rapidly changing settings.

Methodology

Review Design

This study adopts a conceptual review design aimed at theory building rather than meta-analysis or bibliometric mapping. The objective is to integrate dispersed insights across management, psychology, and institutional economics into a coherent explanation of enterprise formation. To ensure methodological rigor and transparency, the review was structured conceptually, interpretively, and thematically. The analysis is anchored in four core bodies of multidisciplinary scholarship: venture creation processes, entrepreneurial cognition, innovation validation, and institutional analyses of emerging economies.

Search Strategy

To capture a comprehensive and multidisciplinary dataset, a systematic literature search was conducted across four major academic databases: Web of Science, Scopus, EBSCOhost (Business Source Complete), and Google Scholar. The search targeted peer-reviewed literature published over a 15-year period (2010-2025) to capture both foundational institutional theories and contemporary debates on entrepreneurial cognition.

The search strategy utilized specific Boolean keyword combinations tailored to the core constructs of the study. The primary search strings included:

("enterprise formation" OR "venture creation" OR "start-up process") AND ("effectuation" OR "causation" OR "entrepreneurial cognition")

("informal entrepreneurship" OR "institutional asymmetry" OR "institutional theory") AND ("emerging economies" OR "Nigeria" OR "Sub-Saharan Africa")

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("formalisation" OR "hybrid organising") AND ("entrepreneurial capabilities" OR "resource mobilisation")

Inclusion and Exclusion Criteria

To maintain theoretical precision and avoid excessive breadth, the literature was screened against strict criteria. The initial search yielded an expansive pool of articles, which were filtered based on the following parameters:

Inclusion Criteria

Source Type: Peer-reviewed journal articles and seminal foundational texts (e.g., seminal works on effectuation and institutional theory).

Thematic Focus: Studies that explicitly examined the intersection of entrepreneurial decision-making (cognition/logics) and institutional environments.

Contextual Relevance: Papers that presented theoretical insights into informality, institutional voids, or enterprise development in emerging economies, with a particular focus on the Nigerian context as a theoretically generative setting.

Exclusion Criteria

Methodological Mismatch: Purely descriptive empirical studies or quantitative papers that lacked a dedicated conceptual framework or theoretical contribution.

Scope Misalignment: Articles focused exclusively on granular, jurisdiction-specific legal procedures (e.g., specific tax codes or isolated LLC regulations) without broader theoretical implications for enterprise formation.

Quality and Format: Non-peer-reviewed working papers, industry reports, and publications not written in English.

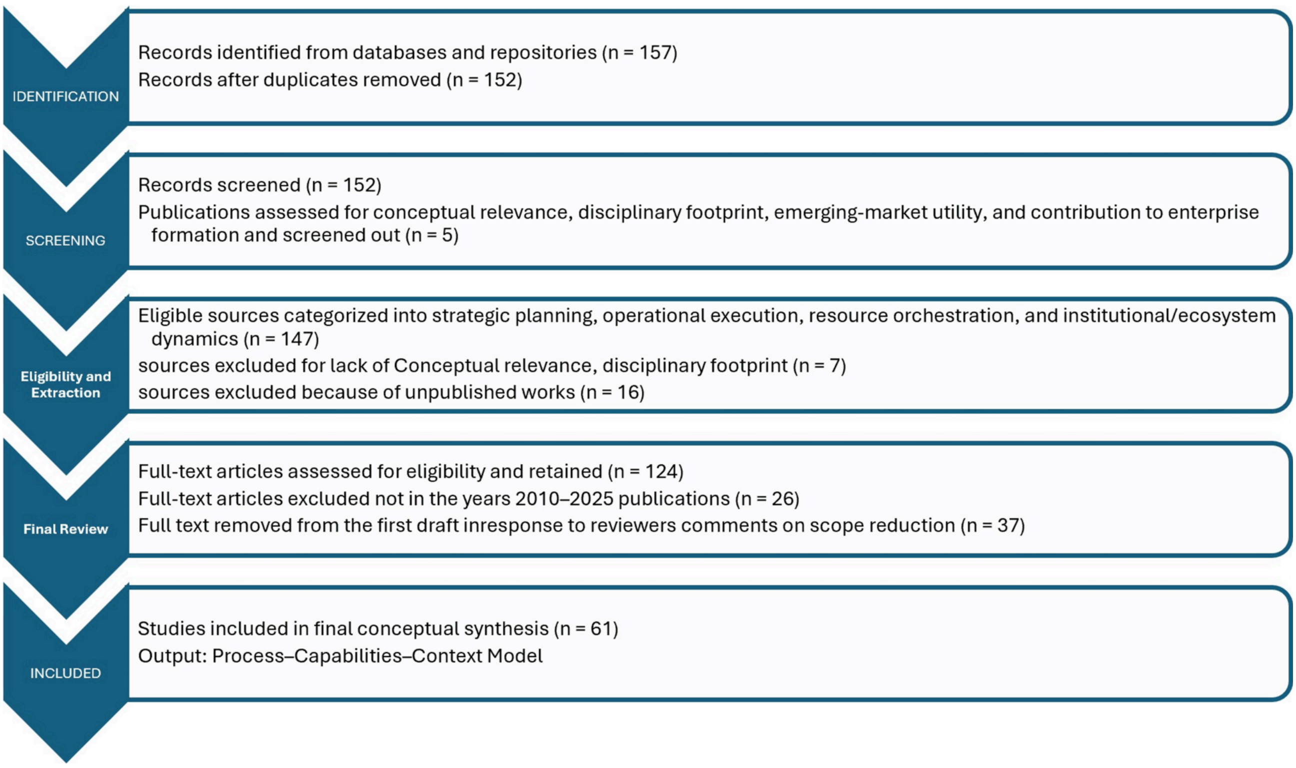

FIGURE 1: Flowchart for selection of articles

The flowchart (Figure *1*) presents the literature-selection and synthesis process as a sequential funnel that moves from broad source discovery to focused conceptual model development. At the identification stage, 152 articles were initially located through interdisciplinary academic databases, electronic repositories, and citation-tracking procedures. This stage corresponds to the discovery phase of the review, where the search was deliberately broad enough to capture literature from venture creation, entrepreneurial cognition and decision-making, innovation and validation, and institutional analysis. The purpose of this first activity was to establish a sufficiently wide evidence base for examining enterprise formation across multiple disciplinary traditions.

The screening stage then narrowed the initial pool by assessing the publications against clearly defined inclusion considerations. These included conceptual relevance, disciplinary footprint, emerging-market utility, and contribution to different stages of enterprise formation. As reflected in the document, the screening process focused particularly on publications produced between 2010 and 2025, while also retaining relevant seminal books, journal articles, and working papers. This activity ensured that the selected materials were not only current but also theoretically meaningful and applicable to the study's multidimensional treatment of enterprise formation.

Following screening, the eligible sources moved into the extraction and categorization stage. At this point, the validated literature was organized into four major analytical domains: strategic planning and decision logics, operational and structural execution, resource orchestration, and institutional and ecosystem dynamics. This stage corresponds to the extraction phase described in the document, where the final set of 61 articles and foundational texts was classified according to its contribution to the conceptual layers of the review. The categorization activity helped transform the literature from a collection of individual sources into an organized structure for thematic analysis.

The final review corpus therefore consisted of 61 articles and foundational texts that satisfied the exclusion criteria and were retained for synthesis. These sources provided the basis for examining the venture process, entrepreneurial capabilities, and institutional context, as further summarized in the thematic distribution table. In the final synthesis and output-generation stage, insights from the retained literature were integrated to develop the Process-Capabilities-Context Model of enterprise formation. Thus, the flowchart does not merely report article counts; it shows how the review progressed from broad discovery to selective screening, thematic organization, and finally to the generation of the study's central conceptual framework (Figure *2*).

Data Extraction and Thematic Synthesis

The synthesis proceeded through an interpretive and thematic approach to theory building. First, the extracted literature was coded into primary conceptual categories: cognitive logic (causation vs. effectuation), venture stages (ideation, validation, and resource mobilization), and institutional conditions (asymmetry, informality, and networks).

Second, points of convergence and contradiction were interpretively analyzed across these categories. Particular attention was given to resolving theoretical tensions such as the interplay between predictive planning (causation) and adaptive experimentation (effectuation) in resource-constrained environments.

Finally, these synthesized themes were mapped onto the Nigerian context to move beyond deficit framing. This allowed for the generation of a multidisciplinary framework that specifies how entrepreneurial action unfolds through the iterative interaction between venture tasks, cognitive logics, and institutional conditions.

Core review and conceptual synthesis

Ideation under Institutional Constraint

Rather than a boundless search for optimal market gaps, ideation in emerging economies is heavily constrained and directed by the institutional environment. Mainstream process models often position ideation as a causally driven exercise requiring extensive market data, analytical reasoning, and predictive forecasting. However, in contexts characterized by institutional asymmetry and data scarcity, commonly conceptualized in the literature as "institutional voids" (Mair and Martí, 2009) (Webb et al., 2019), predictive analytical reasoning frequently fails to yield actionable venture concepts. Consequently, nascent entrepreneurs must abandon causal opportunity discovery in favor of effectual opportunity creation (Sarasvathy, 2001).

Under these conditions, ideation is less about identifying a predefined market need and more about leveraging the entrepreneur's immediate, available means: existing knowledge, local reputation, and localized social networks. Because formal institutional supports are weak or inaccessible, the cognitive framing of an opportunity shifts from maximizing potential returns to assessing affordable loss (Sarasvathy, 2001). Cognitive versatility remains essential, requiring founders to integrate both intuitive insight and analytical rigor (Baldacchino et al., 2022) (Cunningham et al., 2023). However, this versatility is operationalized not through sophisticated analytical models but through the entrepreneur's ability to rapidly synthesize fragmented information from informal networks and adapt nascent ideas to bypass infrastructural bottlenecks (Hui and Xuebing, 2025). Therefore, ideation in this context is theoretically best understood as an embedded cognitive process where institutional voids dictate the boundaries of what is conceivable and actionable (Welter, 2011).

Validation through Informal Networks and Affordable Loss

The validation of nascent business concepts is theoretically assumed to rely on formal empirical techniques, including predictive data analytics, structured customer surveys, and digital prototyping (Kruachottikul et al., 2023), (Raji et al., 2024), and (Asmar et al., 2021). Yet, these causal validation mechanisms presuppose a level of institutional stability, formal market access, and consumer trust that is frequently absent in emerging economies. When ventures face a "fuzzy front end" of innovation compounded by severe institutional voids (Falahat et al., 2023), conventional metrics of validation become unreliable or prohibitively expensive to acquire.

To navigate this uncertainty, venture validation transitions from a structured analytical phase into an iterative cycle of social experimentation. Rather than relying solely on formal lean validation methodologies designed for stable, resource-rich markets (Blank, 2013) (Breuer, 2013), founders in high-asymmetry contexts rely heavily on effectuation. They utilize localized, trust-based meso-level networks to test and refine prototypes in real time. Instead of seeking formal market validation, founders seek pre-commitments from informal stakeholders such as kin, community members, or existing supply chain actors, which serve to simultaneously validate the concept and mobilize initial resources (Sutter et al., 2019). This iterative, co-creative process reduces the high costs associated with formal market entry and allows the venture to pivot rapidly in response to volatile local conditions (Gama et al., 2022). Thus, validation in high-asymmetry environments is achieved not through predictive data gathering, but through the incremental securing of cognitive and socio-political legitimacy within informal networks (Aldrich and Fiol, 1994).

Resource Orchestration and Financial Bricolage under Uncertainty

Rather than a linear sequence of capital accumulation and predictive financial modeling, resource mobilization in emerging economies is heavily mediated by institutional voids. Standard models of enterprise formation often assume a causal approach to financial strategy, emphasizing capital structure optimization, risk modeling, and formal credit acquisition (Karadag, 2015), (Pukala, 2021), and (Alsharari, 2021). However, in environments characterized by severe infrastructural constraints and uneven regulatory enforcement, these formal mechanisms are frequently inaccessible or carry prohibitive transaction costs.

Consequently, entrepreneurs must pivot from predictive financial modeling to effectual resource orchestration (Shirokova et al., 2021). Financial strategy becomes less about optimizing predefined capital structures and more about leveraging available means, who the entrepreneur knows, and what localized networks can be mobilized (Westover, 2025). The reliance on kinship ties, religious associations, and informal market networks lowers early-stage transaction costs and facilitates survival without the need for immediate, capital-intensive formalization (Williams and Krasniqi, 2018) (Sautet, 2005). This symbiotic relationship between internal dynamic capabilities and localized external networks allows firms to reconfigure their resource base in alignment with volatile market opportunities (Muñoz-Peñas et al., 2024) (Teece, 2007).

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Proposition 2: Under conditions of high institutional asymmetry, nascent ventures will disproportionately employ effectual resource mobilization and resource improvisation over causal financial optimization to overcome formal capital constraints.

Legal Structuring as Institutional Navigation

The selection of a legal structure is not merely an administrative milestone or a static choice between corporate forms; it is a dynamic process of institutional navigation (Al-Tarawneh et al., 2024) (Uwamusi, 2025). Enterprise formation must be understood as an interaction between venture stages, entrepreneurial capabilities, and institutional context. In contexts like Nigeria, where trust deficits are prevalent and institutional enforcement is inconsistent, legal structuring is utilized as a strategic shield and a signaling mechanism (Gerdsri and Manotungvorapun, 2021).

Entrepreneurs rationally assess the trade-offs of formalization, leading to an adaptive organizational response rather than a binary transition from informal to formal status (Ault and Spicer, 2022) (Castro et al., 2014). Ventures frequently inhabit hybrid positions, adopting partial formalization to mitigate the burdensome costs of full regulatory compliance while securing the minimum legal legitimacy required for market operation (Fredström et al., 2021) (Kluzek et al., 2023). For example, a venture may formally register a business name to satisfy banking and licensing requirements while maintaining labor and supply contracts within the informal economy, demonstrating structural flexibility in response to evolving business conditions (Khurana et al., 2020).

Proposition 3: Venture formalization is a non-linear continuum wherein entrepreneurs adopt hybrid legal and organizational structures to mitigate the costs of institutional incongruence while securing targeted market legitimacy.

Venture Maturation and the Shift in Cognitive Logics

As ventures mature, the cognitive logics and operational structures that facilitated initial launch often become constraints to scaling. While effectuation and reliance on informal, socially embedded networks are productive analytical mechanisms for early survival, these same networks can reproduce exclusion and limit access to broader, formal market opportunities.

Scaling operations, securing institutional venture capital, or entering international markets requires a shift toward causal reasoning and structured corporate models (Cai and Doranz, 2019), (Uwamusi, 2025), and (Arrigo et al., 2024). Maturation necessitates the deliberate replacement of informal, trust-based coordination with formal governance mechanisms, predictive scenario modeling, and rigid legal compliance (Gómez-Cram and Olbert, 2023) (Wedraogo et al., 2023). This transition frequently involves structural evolution, such as moving from a flexible LLC to a C-corporation, to align with the governance expectations of institutional investors, despite potential tax inefficiencies (Allen et al., 2022), (Satterthwaite, 2019), and (Atadoga et al., 2024). Ultimately, this progression requires ventures to abandon the flexible, adaptive improvisation that ensured their early survival in favor of the structured predictability demanded by formal financial markets and global regulatory frameworks.

Proposition 4: Venture maturation in emerging economies requires a cognitive and structural shift from effectual network reliance to causal governance mechanisms in order to overcome the scalability limits of informal institutional arrangements.

The Nigerian Enterprise Ecosystem as a Theoretically Generative Context

In conventional entrepreneurship literature, emerging economies are frequently positioned as peripheral settings used merely to test the boundary conditions of theories developed in the Global North (Argaw and Liu, 2024). However, the Nigerian context offers a theoretically generative landscape for examining how ventures emerge when actors must navigate severe institutional asymmetry, infrastructural bottlenecks, and dense informal networks. Viewing this environment solely through a "deficit framing," where missing formal institutions are seen only as obstacles to be eradicated obscures the complex adaptive mechanisms entrepreneurs employ to build and sustain ventures.

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Instead, institutional voids in settings like Nigeria must be theorized as productive analytical mechanisms (Webb et al., 2019). Rather than resulting in an absence of entrepreneurial structure, these voids are actively filled by informal institutions - socially shared rules, trust-based networks, and community norms that substitute for formal state support (Webb et al., 2019). Empirical evaluations of informal entrepreneurship in Nigeria demonstrate that operating outside formal frameworks is not exclusively a necessity-driven survival strategy for the marginalized; it is often a rational, structured form of production integral to contemporary economic activity (Ladan and Williams, 2019).

Consequently, enterprise formation in this context is heavily embedded in non-state forms of coordination. Traditional open markets and dispersed retail systems function not only as commercial spaces but also as meso-level institutional arenas where informal governance shapes entry, competition, and survival. This demands that theoretical models of enterprise formation expand to include how market embeddedness, kinship ties, and local reputation are mobilized to stabilize nascent ventures when formal regulatory frameworks fail.

Proposition 5: In environments characterized by deep institutional voids, informal networks and meso-level market governance do not merely supplement formal institutions; they actively substitute for them, functioning as the primary coordinating mechanisms for venture emergence.

Institutional Asymmetry and the Formalization Continuum

A central limitation of classical institutional theory is the conceptualization of formalization as a binary transition: a venture is either informal and non-compliant or formal and fully registered. However, contemporary institutional analyses reveal that formalization is better understood as a fluid continuum (Williams and Shahid, 2014). This continuum is fundamentally shaped by "institutional asymmetry," the degree of incongruence between the codified laws of formal institutions and the accepted norms, values, and beliefs of informal institutions (Williams and Bezeredi, 2018).

When institutional asymmetry is high, such as when entrepreneurs perceive severe public sector corruption, unfair tax burdens, or excessive red tape, 'tax morale' or vertical trust in the state deteriorates (Williams and Bezeredi, 2018), (Williams and Kosta, 2019), and (Atadoga et al., 2024). Under these conditions, informality is not simply a residual category but an adaptive organizational response to costly compliance and low institutional trust. Entrepreneurs rationally adopt hybrid organizational forms, exhibiting calculated partial formalization (Williams and Shahid, 2014). For example, a venture may formally register a business name to secure banking infrastructure and market legitimacy while keeping labor contracts, supply chains, and revenue reporting firmly embedded within the informal sector.

Therefore, policy interventions aiming to spur enterprise formalization must pivot away from punitive, deterrence-based approaches that assume informality is merely an evasion of duty. Sustained enterprise formalization requires a reduction in institutional asymmetry, which can only be achieved by aligning state regulatory frameworks with the lived realities of entrepreneurs and rebuilding vertical (state-citizen) and horizontal (peer-to-peer) trust (Williams and Bezeredi, 2018) (Williams and Kosta, 2019). This theoretical lens clarifies that the pathway to formalization in Nigeria is not simply a matter of lowering administrative registration fees but a complex, incremental process of institutional reconciliation.

Proposition 6: The likelihood of a venture transitioning along the formalization continuum is inversely related to the degree of institutional asymmetry; high asymmetry incentivizes the persistence of hybrid organizational forms over full legal compliance.

Conceptual framework of enterprise formation

This conceptual framework presents enterprise formation as a nested, staged, and non-linear process shaped by the interaction of institutional conditions, entrepreneurial capabilities, and venture-level processes. Rather than treating enterprise creation as a strictly sequential activity, the framework emphasizes feedback, adaptation, and contextual embeddedness across multiple levels of analysis.

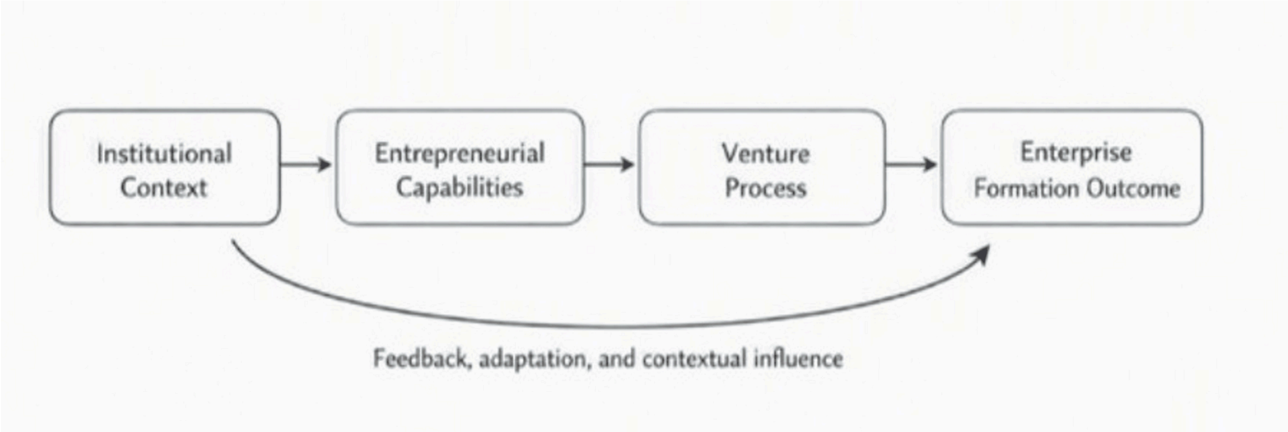

FIGURE 2: Conceptual framework of enterprise formation as a nested, staged, and non-linear process

The framework is organized around three interdependent layers. The institutional context layer provides the broader environment that enables or constrains enterprise formation through formal rules, informal norms, infrastructure, and governance arrangements. The entrepreneurial capabilities layer explains how founders interpret opportunities and respond strategically through cognition, experimentation, validation, and resource orchestration. The venture process layer captures the practical sequence of activities through which enterprise ideas are transformed into operating ventures.

Importantly, the model treats enterprise formation as non-linear rather than strictly sequential. Entrepreneurs may return from launch to validation, revise legal structures after resource mobilization, or adjust opportunity choices in response to institutional constraints. The arrows implied in the framework therefore represent reciprocal influence, feedback, and adaptation across levels. Enterprise formation is consequently understood as an evolving pathway produced by the joint interaction of context, capability, and process.

Discussion

The central argument of this review is that enterprise formation is best conceptualized as an iterative interaction between three analytically distinct but mutually constitutive dimensions: process stages, entrepreneurial capabilities, and institutional context. "Process stages" refer to the evolving sequence of venture-building activities, including ideation, validation, resource mobilization, legal structuring, launch, and post-launch adaptation. Entrepreneurial capabilities refer to the micro-level mechanisms through which actors navigate these stages, particularly cognitive framing, the use of causation and effectuation, experimentation, and resource orchestration. Institutional context refers to the formal and informal conditions that enable, constrain, and shape entrepreneurial choices, including regulation, infrastructure, legitimacy structures, and social networks.

The value of this framework lies in specifying relationships that descriptive reviews often leave implicit. Venture stages do not unfold independently of cognition or context. For example, ideation and early validation are shaped by how entrepreneurs frame uncertainty and by whether they can rely on stakeholder commitments, market feedback, or institutional supports. Legal structuring and formal launch are not simply downstream administrative decisions; they represent moments where institutional conditions become especially salient because legitimacy, compliance, taxation, and access to capital are at stake. Maturation similarly involves feedback into earlier stages as entrepreneurs revise assumptions, reconfigure resources, and, in some cases, re-enter exploratory search.

The Nigerian context sharpens this framework by revealing that institutional asymmetry does more than raise transaction costs; it alters the architecture of venture formation itself. Where formal rules are unevenly enforced and institutional trust is low, entrepreneurs may depend more heavily on effectual experimentation, network-based coordination, and incremental formalization. This suggests that emerging-economy entrepreneurship should not be theorized only as a constrained version of a universal process. Instead, contexts such as Nigeria can illuminate mechanisms of hybrid organizing, partial compliance, and socially embedded venture development that remain under-theorized in mainstream accounts.

Taken together, the review advances a conceptual move from linear and descriptive understandings of enterprise formation toward a relational framework in which venture emergence is staged, cognitively mediated, and institutionally embedded. The framework does not claim universal predictive power. Rather, it offers a structured explanation of how entrepreneurial action may vary across contexts and stages and provides a basis for future empirical work on formalization pathways, decision logic in use, and the conditions under which different capability combinations support venture progression.

Implications

Theoretical Implications

The main theoretical implication of this review is that enterprise formation should be modeled as a relational and staged phenomenon rather than as a single event or a fixed sequence of administrative steps. The proposed framework contributes by linking venture stages to entrepreneurial capabilities and institutional conditions within one explanatory structure (Alvarez et al., 2025). In doing so, it clarifies that constructs often examined separately, such as ideation, validation, effectuation, legal structuring, and formalization, gain analytical power when treated as interdependent elements of venture emergence.

A second implication concerns context. The review suggests that emerging economies should not be treated solely as boundary conditions for theories developed elsewhere. The Nigerian case indicates that institutional asymmetry, informality, and low-trust environments can generate distinctive entrepreneurial mechanisms, including hybrid organizing and incremental formalization. This expands theorizing on enterprise formation by reframing formalization as a continuum and by showing how entrepreneurs move between formal and informal arrangements in ways that are strategic, constrained, and socially embedded.

A further implication is methodological for future scholarship: empirical studies should examine not only whether ventures formalize or perform, but also how decision logics, institutional conditions, and resource configurations interact over time. Longitudinal and comparative designs would be especially useful for testing stage transitions, hybrid organizational forms, and the conditions under which effectuation, causation, or their combination supports venture progression.

Practical Implications

The findings of this review underscore several actionable strategies for entrepreneurs operating within emerging economies, particularly those characterized by institutional asymmetry and regulatory ambiguity. First, entrepreneurs are advised to adopt a structured approach to ideation, systematically identifying and evaluating potential opportunities, considering both personal cognitive capabilities and prevailing institutional conditions. This process should be complemented by rigorous validation mechanisms that assess the feasibility and scalability of proposed ventures, incorporating market analysis, stakeholder feedback, and iterative prototyping.

Additionally, strategic financial planning emerges as a critical component of enterprise formation. Entrepreneurs should prioritize the development of robust financial models that account for both formal and informal sources of capital, anticipate fluctuations in regulatory environments, and ensure sustainable resource allocation (Alsharari, 2021). Adaptive legal structuring is equally essential; entrepreneurs must navigate complex legal landscapes by balancing compliance with innovative approaches that leverage informal networks and alternative dispute resolution mechanisms. By integrating these practices, entrepreneurs can enhance their resilience, optimize resource mobilization, and incrementally advance toward formalization, even in contexts marked by institutional incongruence.

Policy Implications

From a policy perspective, the review advocates for the adoption of supportive, trust-building interventions that bridge the gap between formal regulations and informal norms. Policymakers should prioritize the development of regulatory frameworks that are not only transparent and consistent but also culturally resonant and context sensitive. This entails engaging with local communities, understanding the socio-economic realities that shape informal entrepreneurship, and designing policies that incentivize compliance through positive reinforcement rather than punitive enforcement.

Reducing institutional friction requires the alignment of formal state structures with the adaptive strategies employed by entrepreneurs. Initiatives such as participatory governance, streamlined registration processes, and accessible dispute resolution can foster greater trust in formal institutions and encourage the gradual formalization of informal enterprises. Furthermore, leveraging the social capital embedded within informal networks can facilitate information dissemination, peer learning, and collective problem-solving, ultimately strengthening the overall entrepreneurial ecosystem (Arrigo et al., 2024). By embracing a holistic approach that recognizes the continuum of informality and the multifaceted nature of entrepreneurial activity, policymakers can promote inclusive, sustainable economic development and unlock the full potential of enterprise formation in emerging economies.

Limitations

This study has several limitations. First, it is a conceptual review and therefore does not test the proposed relationships empirically. The framework should be read as a theoretically informed synthesis rather than as a verified causal explanation. Second, although the review draws on interdisciplinary literature, its integration necessarily reflects interpretive judgement regarding which constructs are central and how they relate. Third, the Nigerian context is used here as a substantively important source of insight, but the argument does not imply that all emerging economies share the same institutional configurations or entrepreneurial responses. Future research should therefore examine the framework comparatively across sectors, regions, and national contexts and should test whether the proposed stage-capability-context relationships hold under different institutional conditions.

Conclusions

This review has argued that enterprise formation is best understood as an iterative, staged, and institutionally embedded process rather than as a linear sequence of start-up tasks. By integrating venture process studies, entrepreneurial cognition, and institutional analysis, the paper develops a framework that links what entrepreneurs do, how they decide, and the conditions under which they act. The framework is intended to clarify conceptual relationships across ideation, validation, resource mobilization, legal structuring, launch, and maturation, while also showing why these stages unfold differently across settings.

A key claim of the paper is that the Nigerian context contributes theoretically to this discussion by foregrounding mechanisms that are less visible in context-neutral models of entrepreneurship. Institutional asymmetry, informality, social embeddedness, and infrastructural constraints shape not only entrepreneurial outcomes but also the pathways through which ventures emerge, adapt, and formalize. In this sense, Nigeria is analytically useful not only because it presents challenges, but because it reveals how venture formation may depend on hybrid arrangements between formal rules and informal coordination.

The conclusions should nonetheless be interpreted cautiously. As a conceptual review, the paper does not claim to resolve empirical debates about performance effects, causal ordering, or the universality of specific entrepreneurial logics. Its contribution is to offer a more coherent language for analyzing enterprise formation and to identify propositions that future empirical work can evaluate in different ecosystems.

Overall, the proposed framework provides a basis for moving from descriptive accounts of start-up activity toward a more explicit conceptual explanation of how process, capability, and context interact in venture creation. Its value will ultimately depend on whether future research can refine, challenge, and empirically test these relationships across varied entrepreneurial settings.

Additional Information

Author Contributions

All authors have reviewed the final version to be published and agreed to be accountable for all aspects of the work.

Concept and design: Yaibimi S. Ayogoi

Acquisition, analysis, or interpretation of data: Yaibimi S. Ayogoi

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Data Availability Statements

Data sharing is not applicable to this article as no new datasets were generated or analyzed during the current study. This work is a conceptual review based entirely on the synthesis of existing published literature.

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