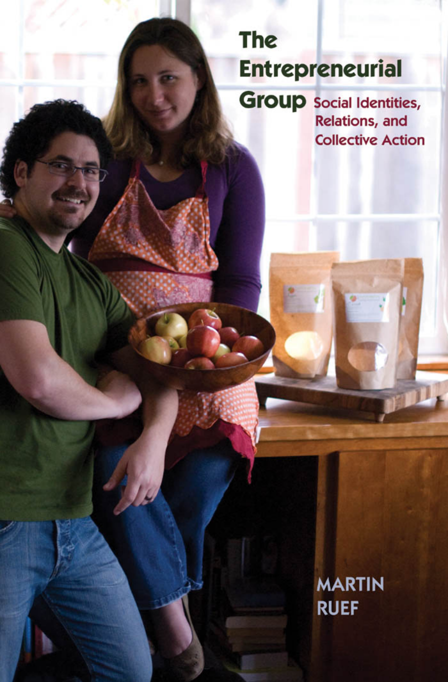
The Entrepreneurial Group

Social Identities, Relations, and Collective Action

MARTIN RUEF



The Entrepreneurial Group

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PRINCETON UNIVERSITY PRESS
PRINCETON AND OXFORD

Published by Princeton University Press, 41 William Street, Princeton, New Jersey 08540
In the United Kingdom: Princeton University Press, 6 Oxford Street, Woodstock, Oxfordshire OX20 1TW

Library of Congress Cataloging-in-Publication Data

Ruef, Martin.
The entrepreneurial group : social identities, relations, and collective action / Martin Ruef.
p. cm. — (The Kauffman Foundation series on innovation and entrepreneurship)
Includes bibliographical references and index.
ISBN 978-0-691-13809-1 (hbk. : alk. paper) 1. Entrepreneurship—Social aspects—United States. 2. Businesspeople—United States. 3. Social groups—United States. 4. Industrial sociology—United States. I. Title.
HB615.R84 2009
306.3 6.3′4—dc22 2009047958

British Library Cataloging-in-Publication Data is available

Published in collaboration with the Ewing Marion Kauffman Foundation and the Berkley Center for Entrepreneurial Studies, New York University

This book has been composed in Sabon

Printed on acid-free paper. ∞

press.princeton.edu

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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Preface

> Americans group together to . . . found seminaries, build inns, construct churches . . . They establish hospitals, prisons, schools by the same method . . . Where you see in France the government and in England a noble lord at the head of a great new initiative, in the United States you can count on finding an association.
>
> —Alexis De Tocqueville, *Democracy in America* (2003: 596)

THOUGH PENNED OVER A CENTURY-and-a-half ago, Tocqueville's book presents an enduring puzzle for the nature of entrepreneurial activity in the United States. On the one hand, American society is often characterized as a prototypical case of an individualistic culture. Media and academic accounts portray entrepreneurs as autonomous and self-sufficient agents who are often oriented toward their own material prosperity. Tocqueville himself endorsed an image of American entrepreneurs that was individualistic in a political sense, entailing a "shift from public and communal concerns to private and personal interests," and in a social sense, viewing them "as individuals in a Lockean state of nature."[1] In Seymour Martin Lipset's (1963) influential thesis, these individualistic values can be traced back to the origins of the Republic and provide the basis for the exceptionalism of American society.

At the same time, Americans also display a rich heritage of associational activity. During his extensive travels in the United States during the 1830s, Tocqueville found "Americans of all ages, conditions, and all dispositions constantly unit[ing] together" (ibid.: 596) to form organizations for commercial, political, religious, and other pursuits. In Tocqueville's eyes, it was the aristocratic societies of old Europe that were more likely to witness instances of heroic entrepreneurship on the part of solitary individuals. Countries such as England and France had a "number of very powerful and wealthy citizens each of whom has the ability to perform great enterprises single-handed"; consequently, "men feel no need to act in groups" in these societies (ibid.: 597).

For modern students of entrepreneurship, Tocqueville's claim about the relative level of associationalism in the United States and Europe may seem dubious.[2] But the central theoretical tension he identifies—that between individualism and associationalism—remains. Tocqueville's own resolution to the tension is arguably a centerpiece of liberal utilitarian theory, the "doctrine of self-interest properly understood" (Tocqueville 609–610). The doctrine posits that "every man can pursue his own self-interest [if] they turn themselves inside out," thereby deriving private benefit from the virtues of sociability. Given this doctrine, a widespread pattern of mutually beneficial association will result as a *consequence* of material self-interest and a rejection of state involvement (or noblesse oblige) in civil life. At its core, Tocqueville's logic assumes that Americans are oriented, first and foremost, toward their own prosperity, that their self-interested associations are governed by voluntary contract rather than by compulsory bonds, and that this characteristic form of "individualism" represents a rejection of entrepreneurial activity that is supported under the auspices of the state or communitarian ideals.

Until recently, many of these assumptions were deeply rooted in popular and academic perceptions of entrepreneurs in the United States. Yet, over the course of the last decade, careful empirical studies have increasingly come to challenge their factual validity. For instance, consider, the "passion for material prosperity" that animated Tocqueville's America. Studies of entrepreneurs, particularly in economics, have been built consistently around a model of profit-seeking individuals (e.g., Kihlstrom and Laffont 1979; Heaton and Lucas 2000; Cagetti and De Nardi 2006). In surveys of contemporary entrepreneurs, however, the drive for profits is often a secondary concern. Even for individuals starting businesses, a more typical motivation is that they do not like working for others or that they seek more fulfilling careers (see Shane 2008: 42–43).[3]

The Tocquevillian emphasis on voluntary association among otherwise autonomous equals is another point of empirical debate. Tocqueville marveled how "by chance men share an interest in a certain matter; maybe the management of a commercial enterprise or the conclusion of an industrial operation; they meet and join together, gradually familiarizing themselves thus with the idea of association" (2003: 604). It was this process of free and voluntary affiliation, he surmised, that led him "to observe the countless industrial enterprises run by partnerships in the United States" (608). In contemporary economics, it has become common to envision the business firm similarly, as a "nexus of contracts," an amalgamation of voluntary contractual relationships among individuals (Jensen and Meckling 1976). More recently, this conception has been criticized by legal scholars, who suggest that the notion of a firm held together by contracts is largely metaphorical and remains unsatisfying when it is interpreted as a set of free and reciprocal arrangements among individuals (Eisenberg 1999). The empirical evidence suggests that this is true even when the concept is applied to the relatively non-hierarchical context of startup firms.[4] Rather than autonomous equals, the startup context is most likely to be populated by entrepreneurs who have strong preexisting relationships with one another (such as those of marriage and kinship), posing challenges for both the equality and voluntary nature of their participation (Aldrich and Cliff 2003).

Tocqueville assumed that a key impetus to association was the relative powerlessness and poverty of enterprising individuals. In the United States, "all citizens are independent and weak; they can achieve almost nothing by themselves," he wrote. Consequently, businesspeople and social entrepreneurs alike would "sink into a state of impotence, if they [did] not learn to help each other voluntarily" (2003: 597). The tradition of liberal utilitarianism has maintained this assumption, calling attention to the status deficits and liquidity constraints that impede the activities of unaffiliated entrepreneurs.[5] Yet again, recent studies have suggested that these barriers to entrepreneurial entry may be mythological. Analyses of new business ventures reveal little propensity among entrepreneurs to seek affiliations with high-status partners (Ruef et al. 2003) and a relatively low financial threshold for initiating startup activity (Shane 2008: chapter 5). The evidence for "liquidity constraints" has been particularly contested, since nationally representative data do not identify a correlation between financial assets and rates of entrepreneurial entry, except at the extreme upper tail of the wealth distribution (Hurst and Lusardi 2004; Kim et al. 2006).

A final component of Tocqueville's argument is his contrast between the entrepreneurial ideology of European and American society. Among his nineteenth-century French contemporaries, he discerns the "claim that as citizens become weaker and more incompetent, government has to be more able and active," supporting commercial and civil associations that would otherwise be doomed to failure (2003: 598). But, according to Tocqueville (ibid.), such state intervention would have little efficacy in the United States: "a government could take the place of some of the largest American associations . . . but what political power could ever substitute for the countless small enterprises which American citizens carry out daily with the help of associations?" To some extent, Tocqueville's opposition of communitarian and liberal ideals of entrepreneurial activity remains relevant today. Modern surveys of entrepreneurs reveal a distinct contrast between those respondents who locate support for entrepreneurship in local and state governments, community groups, and banks and those who situate such support in a culture of autonomy, risk-taking, and personal responsibility.[6] However, Tocqueville's inference that the communitarian ideology is absent among American entrepreneurs seems more questionable. In the 2005–2006 *Panel Study of Entrepreneurial Dynamics*, half of all entrepreneurs reported that support from local and state government was as, or *more*, important to business startups in their community than a culture of self-sufficiency and personal initiative. Slightly more (57%) cited the importance of community groups as a catalyst to entrepreneurial activity, one whose influence was on par or greater than that of an ethos of liberalism.

In the final analysis, Tocqueville's *Democracy in America* was hardly a celebration of classical liberal theory. The book offered numerous normative critiques against the roots of the American polity and economy in an ideology of utilitarian individualism. But in the realm of entrepreneurial activity, the stylized facts generated by recent studies also speak against the *descriptive* accuracy of this portrayal of commercial partnerships in the United States. Why then has the image of Tocqueville's entrepreneur survived for so long? In this book, I will offer a number of possible reasons, ranging from a lack of data on "average" business startups to conceptual biases maintained by academics and the mass media. At the heart of these reasons is an empirical failure to understand the mechanisms of entrepreneurial affiliation. *The Entrepreneurial Group* seeks to explain the constraints and opportunities that bring together owners, employees, helpers, and investors in new business organizations that come to populate our society.

Acknowledgments

I experienced my first contact with entrepreneurial groups over twenty years ago. During the late 1980s, my father left his job as the vice president of the American division of a German textile machinery company in order to embark on an entrepreneurial career. The business startup he had in mind was a purveyor of equipment and services to clean industrial equipment, but it also served to sustain his research on the processing of textile materials. He assembled his business partners from a close-knit circle of family and friends. A golfing buddy and fellow Austrian became his principal partner in the firm. My mother was the treasurer for the residentially based business. I became involved as a (more or less) passive investor. On the surface, the composition of this entrepreneurial team must have seemed curious to outside observers, constituted as it was by a mix of co-ethnicity, kinship ties, and geographic convenience. I wondered how many other businesses in the United States started this way.

In 1993, I moved to Stanford, California to begin my graduate studies in sociology. These were heady times in Silicon Valley, as the World Wide Web had just been opened to the public. New startups were founded daily, often initiated by young college graduates who sensed that a technological revolution was under way. Grounded in the fast-paced and ephemeral information age, the Valley's ventures appeared to adopt a business model that was diametrically opposed to the industrial-era business that I knew from home. But were they really so different? Following in the earlier footsteps of Jobs and Wozniak (Apple), the tech entrepreneurs were highly collaborative, giving rise to the iconic dyads of Brin and Page (Google), Filo and Yang (Yahoo!), Omidyar and Skoll (eBay). Within each partnership, members tended to be highly homogeneous in age, gender, and professional background. Partners often knew each other through preexisting network ties before they embarked on the path of initiating a new business enterprise. Many startups began in the houses, dorm rooms, and garages of entrepreneurs. I was soon reminded of the cluttered garage that we had at home.

In 1998, I became a postdoctoral fellow in the Center for Entrepreneurial Studies at Stanford's Graduate School of Business (GSB). The opportunity to conduct a survey of entrepreneurial alumni presented itself and I took it on with eager anticipation. A considerable portion of the instrument was devoted to mapping the composition of entrepreneurial groups that initiated new businesses, as well as the network of individuals who assisted them in the process. Based on discussions with Howard

Aldrich, I discovered that an interdisciplinary group of scholars was launching a similar survey of entrepreneurs across the United States.

Ten years (and many surveys) later, my intellectual and practical debts run deep. In many respects, the ideas for this book were first hatched when my father Helmut became a serial entrepreneur. His sociability, creativity, and drive to create an organizational legacy represent a real-world embodiment of the mechanisms underlying entrepreneurial groups. Howard Aldrich has nurtured my interest in entrepreneurship from my days as a junior faculty member at UNC-Chapel Hill. His inspiration and counsel have been invaluable in bringing this project to fruition, as have his detailed comments on draft versions of this manuscript. Paul Reynolds and Rich Curtin have worked tirelessly to develop a data infrastructure for the study of startup activity in the United States and abroad. This book would not have been possible without their dedicated effort to launch and replicate a panel survey of "average" entrepreneurs. Bill Barnett and Chuck Holloway provided an early impetus to the project, through their involvement with the Center for Entrepreneurial Studies. My experiences there launched a scholarly career devoted to the sociology of entrepreneurship. Dick Scott got me interested in the process of organizational emergence and change. I remain deeply appreciative that my apprenticeship in the field began with him.

Several research collaborators have helped me prepare materials for the book. Bart Bonikowski carried out the analyses describing the characteristics and network dynamics of owner teams in chapters 3 and 4. His initiative and diligence have been exemplary. During my time as a faculty member at Stanford, Hongwei Xu worked with me on an insightful paper addressing the topic of organizational boundaries among startup businesses. It was first published as a chapter in the 2007 volume of *Research in the Sociology of Organizations* and appears here (with new data and some rewriting) as chapter 5. Another Stanford graduate, Nick Switanek, provided early research assistance on the issue of group sampling. This methodological theme has since been folded into this book's treatment of inverse-size weighting and appendix B. Finally, Nancy Carter offered advice on data structure—as well as statistical command files—when I was first becoming acquainted with the *Panel Study of Entrepreneurial Dynamics*.

Many colleagues at Princeton and the Center for Advanced Study in the Behavioral Sciences (CASBS) have provided generous support and diversion during the process of writing this book. At Princeton, I am especially thankful for the high standard of scholarship and collegiality established by the faculty in the economic sociology cluster, including Paul DiMaggio, Alex Portes, and Viviana Zelizer. At CASBS, I have been lucky to reap the benefits of a similar "critical mass" of scholars with an

interest in organizational and economic issues, including Steve Barley, Marion Fourcade, Kieran Healy, Karin Knorr-Cetina, Woody Powell, Kate Stovel, and Xueguang Zhou. Despite Lynne Gayle's valiant efforts, my volleyball game did not improve at the Center, though my time there did offer a unique opportunity to interact with scholars in diverse disciplines, to read literature that I would otherwise have had no exposure to, and to gather new ideas.

Over the years, this project has benefited greatly from feedback in colloquia and panels around the world. The individuals providing useful advice are probably too numerous to mention, but I will attempt to do so anyway: Holly Arrow, Tom Ástebro, Nina Bandelj, James Baron, Ron Breiger, Diane Burton, Glenn Carroll, Russell Coff, Margo Crouppen, Jerker Denrell, Nancy DiTomaso, Silvia Dorado, Claude Fischer, Neil Fligstein, Robert Freeland, Jenny Godley, Mark Granovetter, Michael Hannan, Heather Haveman, Chip Heath, Michael Hout, Sandra Kalev, Phil Kim, Mike Lounsbury, Elizabeth Mannix, Andy Markovits, Bill McEvily, Dale Miller, Mark Mizruchi, Richard Moreland, Francois Nielsen, Charles O'Reilly, Sonja Opper, Jill Perry-Smith, Misiek Piskorski, Huggy Rao, Peter Roberts, Jesper Sorensen, Olav Sorenson, Sarah Soule, David Stark, Howard Stevenson, Art Stinchcombe, David Strang, Robin Stryker, Toby Stuart, Richard Swedberg, Ann Swidler, Karl Wennberg, Robb Willer, and Valery Yakubovich. I apologize to those whom I may have missed and remain thankful for your constructive suggestions.

This book would also not have been possible without the folks at Princeton University Press. Peter Dougherty and Tim Sullivan have built an incredible line of work in economic sociology and I am very pleased that this book will be part of it. The tradition continues with Eric Schwartz, who has shepherded my manuscript through its final stages.

Data collection for this study has been funded by the Ewing Marion Kauffman Foundation, the National Science Foundation, and the Center for Entrepreneurial Studies at the Stanford GSB. While virtually all of the data analysis in the book is new, several chapters draw on material that has previously been published in journal or chapter form and are used here with permission. Parts of chapters 4 and 9 are based on a descriptive overview of startup owners, published as "Business Owner Demography, Human Capital, and Social Networks" (coauthored with Bart Bonikowski and Howard Aldrich, in P. Reynolds and R. Curtin, eds., *New Firm Creation in the United States: Preliminary Explorations with the PSED II Data Set*, 2009). A much earlier version of chapter 4 was published as "The Structure of Founding Teams: Homophily, Strong Ties, and Isolation among U.S. Entrepreneurs" (with Howard Aldrich and Nancy Carter, *American Sociological Review*, 2003). Chapter 5 draws on "Boundary Formation in Emergent Organizations" (with Hongwei Xu, *Research in the Sociology of Organizations*, 2007). Using older data, the material in chapter 6 has appeared in “Inequality among Entrepreneurs” (*Research in the Sociology of Work*, 2009). Also employing a different data set, the ideas in chapter 8 have been described in “Strong Ties, Weak Ties, and Islands: Structural and Cultural Predictors of Organizational Innovation” (*Industrial and Corporate Change*, 2002). The methodology summarized in appendix C was first introduced in “A Structural Event Approach to the Analysis of Group Composition” (*Social Networks*, 2002).

After completing the draft of the first half of the book, I returned to Silicon Valley as a fellow at CASBS. The Valley remains the heart of America’s entrepreneurial mind-set and it seemed only appropriate that I should finish my book there. My wife Jennifer and son Edison have been constant companions on this journey and I remain eternally grateful for their love and support. Our time in California has inspired another entrepreneurial venture, as Edison has become a big brother to baby Donovan. Only time will tell whether my two boys will ever go into business together.

PART ONE

Concepts, Theories, and Puzzles

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CHAPTER ONE

Who Is an Entrepreneur?

It was the fall of 1998 and Bob Moog was eager to jump on the Internet bandwagon. As the founder and president of University Games, Moog had been in the game business for well over a decade, producing mystery, trivia, and educational games for adults and children. The St. Louis native first gained media attention when he marketed a board game based on murder mystery parties, a social event conceived in Europe, replete with dramatized mysteries to intrigue guests. On April Fool's Day 1985, Moog founded University Games together with his close friend Cris Lehman, a former accountant. From that point, they went on to sell popular titles such as "Blue's Clues," "20 Questions," "Green Eggs and Ham," and "Where in the World Is Carmen San Diego?"

By the late 1990s, the business had established an international reputation in gaming. Spurred by predictions that cyber traffic would balloon during the 1998 holiday season, Moog sought to join a surge of retailers—including Macy's, Sears, and Kmart—who were rushing to develop an online presence. But how to go about it? University Games (UG) could create an in-house unit devoted exclusively to e-commerce and UG products; or Moog could spin off a new company, which would initially sell toys and games exclusively from the UG family, but would later provide specialty items from other manufacturers. Perhaps sensing that the Internet boom called for a shift in business models, Moog and his colleagues opted for the spin-off.

The new venture, AreYouGame.Com, was headquartered in Burlingame, California, near the northern edge of Silicon Valley. In many respects, this entrepreneurial experience was fundamentally different than the founding of University Games years before. Whereas Moog's earlier startup effort had relied on a shoestring budget of $20,000 in seed funding and an office sublet from the father of his former girlfriend, the new venture had the backing of a corporation with $50 million in annual revenues. Still, the social blueprint of the new business was similar to that of many dot-com startups. Jim Stern, the firm's new general manager, emphasized that "we eat together, play games together, and service our customers together." Years later, the company would continue to tout the "crackerjack team" that founded it and argue that this was the "secret formula" in the success of the enterprise.

Despite such pronouncements, the family atmosphere at AreYouGame.Com faced challenges at an early stage. In 1999, Bob Moog was courted by Toys 'R' Us, which sought to do more of its business online. Moog was publicly named CEO of the online Toys 'R' Us unit in May, but the arrangement suddenly fell through two months later. A statement from the giant toy retailer simply noted that Moog was "unable to extricate himself from his responsibilities as founder and CEO" of University Games. Moog's inability to "extricate himself" ultimately proved propitious. Toys 'R' Us ended 1999 in disarray and its e-commerce unit was soon pummeled by the bursting Internet bubble. When Moog announced, two years later, that he thought AreYouGame.Com deserved the label "last one standing" in the volatile e-commerce toy market, he could also have been referring to his own longevity in the capacity of a dot-com entrepreneur.[1]

• • •

Around the time that Moog was developing his Internet startup, John and Emily Koslowski were pursuing their own entrepreneurial venture halfway across the country. John, age forty-four, was an experienced technician with a background as a military officer, and Emily, age fifty, worked in an office. Following John's military service, the Koslowskis had settled down in St. Clair County, Illinois, just outside of St. Louis. John had been thinking about starting his own business since he was in his early thirties and, as he approached his fortieth birthday, he decided that it was time for a change. In August 1993, he and Emily began to plan a startup that would put his technical skills to use in refrigerator repair and servicing.

The business was set up as a service franchise that John and Emily would operate out of their home. John would be responsible for the day-to-day operation of the business, while Emily would handle occasional clerical functions. One barrier to getting the franchise off the ground was financial: John believed that the business would need a large cash infusion to be self-sustaining and he had soon invested some $50,000, culled from savings, credit card debt, and a loan from a personal finance firm. Despite a contribution from Emily, the funds did not seem sufficient to cover the costs of supplies and hiring an employee to help John. The Koslowskis decided to approach Emily's elderly mother, who offered to give them another $12,000 in financial assistance.

A second barrier for the startup was John's own lack of entrepreneurial experience. John had plenty of opportunities to "manage" in the military, but this exercise of authority did not necessarily translate well in the private sector. Shortly after he started working full time on the service franchise, in March 1994, John began to take classes and workshops on starting a business. Over the next few years, he would complete a dozen courses to bolster his entrepreneurial skills and clock about 2,000 hours in the classroom.

By the fall of 1998, the Koslowskis had much to be proud of. Their business was listed in the phone book and they had hired an employee, albeit on a part-time basis. John believed that his own business training, which was now extensive, was the most important contribution that he brought to the enterprise. Still, all was not well in the refrigerator repair business. Although the startup had first posted revenue in October 1994, monthly revenue typically did not exceed expenses some four years later. Surprisingly, John himself did not put money problems at the top of his list of worries about the business. Instead, he wondered about the strain of the partnership on his marriage and how he could better balance business and family life. John was also aware that he was missing other opportunities as a result of the entrepreneurial endeavor.

In September 1999, the Koslowskis pulled the plug on the service franchise. John spent some time looking for work and remained ambivalent about his time as an entrepreneur. Asked whether he would give it another go, he answered that it would need to be under the right conditions.[2]

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Paralleling much of the academic literature on the topic, the Koslowskis' refrigerator repair franchise and Bob Moog's game e-commerce site offer very different images of entrepreneurship. Is entrepreneurial activity a matter of innovation? Of organizational creation? Of branching out on one's own? Or of risk-bearing and uncertainty? Entrepreneurship scholars have tackled these images in the abstract, offering taxonomies of entrepreneurs and discussions that seek to adjudicate definitional disputes (for recent reviews, see Aldrich and Ruef 2006: chapter 4; Ruef and Lounsbury 2007). It takes the experiences of real entrepreneurs, however, to put flesh on the bones of these distinctions.

The economist Joseph Schumpeter famously declared that "the function of entrepreneurs is to reform or revolutionize the pattern of production" (1942: 132) and that we ought to pay special attention to new combinations of existing methods and technologies (Schumpeter 1934). Moog's effort to reorganize the board game industry through an online mechanism of marketing and distribution conforms reasonably well to Schumpeter's conception. In effect, Moog combined an established product (board games) with an emerging technology (the Internet). By contrast, the Koslowskis' refrigerator repair business was comparatively humdrum, especially when pursued within a franchise model. Schumpeter's description of "innovative" entrepreneurship would seem to exclude such mundane instances of organizational replication.

A similar conclusion holds if we apply a second definition, which conceptualizes entrepreneurship as a *successful* act of organizational founding (see Carroll and Khessina 2005). Here the locus of attention shifts from individual entrepreneurs to the emergence of viable enterprises. But when can we claim that the founding process of an organization is complete? By 1998, the Koslowskis had an entry in the phone book, full-time commitment to the startup (at least, on John's part), some external funding, and numerous completed service calls to customers. Yet their franchise lacked other features—including positive cash flow, a physical presence outside of the home, and full-time employees—often used to demarcate operating businesses from other arrangements (e.g., self-employment). Given the processual nature of organizational startups, this definition of entrepreneurship contributes to considerable variation in the businesses enumerated by different markers of founding (Aldrich et al. 1989; Ruef 2005).

Still other perspectives on entrepreneurship lead to the conclusion that the Koslowskis' venture may have been *more* entrepreneurial than Moog's e-commerce spin-off. The German sociologist Max Weber, in particular, is credited with a definition that opposes the role of the entrepreneur with that of the managerial bureaucrat (Hartmann 1959; Swedberg 2005: 87–88). In his influential discussion of bureaucracy, Weber noted that the "[entrepreneur] is the only type who has been able to maintain at least relative immunity from subjection to the control of rational bureaucratic knowledge" (Weber 1968: 225). Because Moog's new endeavor was so intimately tied to University Games, this definition raises the question as to whether he was truly "immune" from the bureaucratic demands of his other business. Indeed, the statement by managers at Toys 'R' Us following their unsuccessful recruitment effort would seem to claim the opposite: Moog "was unable to extricate himself from his responsibilities as founder and CEO" of University Games.[3]

A complementary image of an entrepreneur follows the eighteenth-century economists Richard Cantillon and Jean-Baptiste Say, who emphasized the literal interpretation of the term as someone who "undertakes" the risks of a business or enterprise (see Xu and Ruef 2004 and Brockhaus 1980 for empirical critiques). Here again, the Koslowskis' venture arguably appears more entrepreneurial than that of Bob Moog. While their refrigerator service franchise required that much of their personal savings and credit be placed at risk, Moog's Internet spin-off could rely on the deep pockets and reputation of an established firm. By sponsoring a new venture (rather than creating an in-house unit), Moog and his team also insulated University Games from the risks of a novel e-commerce site.

The apparent incompatibility of different definitions of entrepreneurship has led many scholars to seek an alternative approach. Some have suggested that the term "entrepreneur" be dropped altogether, given its ambiguity in both everyday language and in the academic literature.[4] Others, most notably William Gartner and his colleagues (1988), have proposed that asking "Who is an entrepreneur?" is simply the wrong question. Instead of focusing on individual entrepreneurs, their personality traits, and accomplishments, they have argued that entrepreneurship be seen as a series of activities culminating in the process of organizational creation. This conception substitutes an emphasis on properties of *emerging* organizations for properties of viable organizations and their founders (Katz and Gartner 1988).

Building on the "emerging organization" perspective, this book offers yet a third alternative. It begins with the intuition that startup efforts such as those initiated by Moog or the Koslowskis share important features because they involve *collective action* that is oriented toward the founding of a new organization. In contrast to a state of self-employment, these individuals have an active interest in recruiting others to work with them, as co-founders, employees, investors, advisors, or unpaid helpers. This social process allows John Koslowski's partnership with his wife and Bob Moog's "crackerjack team" at AnyOneGame.com to be studied using a common lens. Entrepreneurs, in this conception, are defined by their intention to form a *social group*.[5]

An emphasis on entrepreneurial groups does not lead to an elision of the question as to "who is an entrepreneur?" but reconceptualizes it in fundamental respects. Rather than split individuals into discrete categories of entrepreneurs and non-entrepreneurs, the perspective considers entrepreneurship to range on a continuum that connects individuals to entrepreneurial groups based on their material and time investments, social networks, identities, and goals. Considering the Koslowskis' refrigerator repair franchise as one example, the perspective asks *to what extent* might Emily Koslowski be considered an entrepreneur? Or Emily's elderly mother, who has served as an "angel" investor for the business? Or the Koslowskis' part-time employee, whose commitment to the venture may range from disinterested to opportunistic to altruistic? The porous boundaries of entrepreneurial groups argue against simple answers to these questions and, instead, call attention to the social and economic processes that embed individuals in entrepreneurial activity.

Why Study Entrepreneurial Groups?

At first glance, a definition of entrepreneurship that emphasizes social groups may appear to be at odds with empirical evidence. In 2005, the Internal Revenue Service received income returns from more than 21 million nonfarm sole proprietorships and another 8.5 million partnerships and corporations (U.S. Department of Commerce 2009). Classified based on legal status, then, one might argue that over 70 percent of the businesses in the United States involved a single entrepreneur. Using employment statistics as another criterion, it is well established that the majority of business enterprises are extremely small (Granovetter 1984). While the Small Business Administration (SBA) identified more than 640,000 new employer firms created between 2004 and 2005, estimates for nonemployer firms account for approximately three times that total, even when restricted to enterprises with receipts of $1,000 or more (U.S. SBA 2009). Whether based on owners or employees, the number of individuals involved in "entrepreneurial groups" must therefore seem quite modest relative to a residual category of self-employed workers, or solo entrepreneurs.

Classical treatments of entrepreneurship echo this emphasis on solo entrepreneurs. In his *Theory of Economic Development*, Schumpeter offered a vision of heroic individual entrepreneurs, possessed of "supernormal qualities of intellect and will," who pushed the frontiers of capitalism (Raines and Leathers 2000: 377; Harper 2008). Considering the locus of innovation in advanced capitalism, he later juxtaposed large-scale corporations to this individualist ideal-type (Schumpeter 1942), without considering entrepreneurial groups as an intermediate social form.[6] In *Economy and Society*, Weber's analysis was likewise implicitly concerned with solo entrepreneurs, noting that "it is the peculiarity of the modern entrepreneur that he (*sic*) conducts himself as the 'first official' of his enterprise" (1968: 957). James Coleman (1986) cites Weber's earlier landmark study, the *Protestant Ethic and the Spirit of Capitalism*, as a useful application of methodological individualism, tracing the impact of worldly asceticism on the values of individuals and then suggesting how these individual entrepreneurs might engender change in the (capitalist) economic system as a whole. By contrasting a macro-level analysis that emphasizes entire cultures and economies with a micro-level analysis that focuses exclusively on individuals, Coleman's interpretation ignores group processes that may mediate the relationship between these levels.[7]

Although conceptual and empirical treatments continue to sustain an image of the solo entrepreneur, it is a central thesis of this book that this image is at best misleading and at worst, mythological. While a number of factors may have contributed to an individualist view of entrepreneurs, four appear particularly relevant: (a) official statistics (such as those collected by the IRS, Census, and SBA) are poorly equipped to measure the social scope of organizational startup activity; (b) past empirical and conceptual treatments have overwhelmingly focused on the social scope that entrepreneurs were able to achieve, not what they intended to achieve, when they initiated their startup; (c) the narratives advanced by the mass media and entrepreneurs themselves place a spotlight on heroic individuals rather than dutiful or recalcitrant members of entrepreneurial groups; and (d) academic conceptions have also tacitly adopted the popular portrayal of entrepreneurs as rugged individualists, without subjecting this view to critical reflection.

The first issue entails a problem of data. Administrative statistics, such as those generated in the aggregate for IRS returns, offer crude proxies for the number of individuals involved in any given business venture. The vast numbers of sole proprietorships that have been enumerated in the United States are based on Schedule C returns, which identify any substantial payment received by an individual as an independent agent. Many of these proprietorships are not intended to be durable business organizations, instead involving receipts from consulting fees, contract work, and the like. By contrast, surveys of entrepreneurs specifically ask whether individuals are trying to start businesses.

A related problem concerns the unit of analysis employed in administrative data. Statistics for IRS returns, for instance, are commonly enumerated at the level of establishments. However, estimates of the extent of group involvement on the part of individual entrepreneurs require that such data be weighted by the number of owners in each startup business. As a result, survey methods lead to different estimates of the distribution of business owners than do tax returns. Whereas the IRS data suggest that fewer than 30 percent of businesses in the United States involve more than one owner, 2005–2006 data from the *Panel Study of Entrepreneurial Dynamics* (PSED II) estimate that nearly 50 percent of entrepreneurs share ownership with others in their businesses. Moreover, that estimate increases to over 54 percent when attention is restricted to businesses that have filed tax returns.[8]

Administrative data also miss a more subtle feature of the social scope of new enterprises: the variety of non-owners and non-employees who become involved in these business startups. Even at the earliest stage of startup development (i.e., before there was a stream of positive cash flow), over a third of U.S. entrepreneurs in 2006 relied on regular contributions—including material investment, guidance, and other support—from non-owner helpers. By comparison, only 8 percent had hired full- or part-time employees. Combining the statistics on co-owners, helpers, and employees, we find that merely 16 percent of U.S. entrepreneurs can be identified as the true solos that are privileged by classical accounts of entrepreneurial activity.[9]

A second factor contributing to the common emphasis on solo entrepreneurs is the tendency to emphasize results rather than intentions. Many entrepreneurs end up going it alone, but the reasons for this outcome can be complex. Some entrepreneurs are relatively isolated and suffer from limited social networks. Others face exclusion due to their gender, ethnicity, age, or national origin. Yet another faction of entrepreneurs finds that they cannot locate suitable partners for their enterprise, owing to constraints of geography or industry expertise. In all of these cases, the resulting outcome may be solo entrepreneurship, but it is important not to equate this outcome with the intentions or preferences of the entrepreneur.

An emphasis on entrepreneurial groups is sensitive to the opportunities, constraints, and intentions that may ultimately produce either solo ventures or entrepreneurial teams. Stated another way, the "group" is not just considered as an observed outcome that obtains for a subset of startup efforts, but as a possibility that is entertained by many entrepreneurs. While a very small proportion of entrepreneurs are able to hire employees at the earliest stages of startup development, PSED data suggest that roughly five times that number (42%) believe that they *will be* adding employees or managers in the near future. Considering long-term expectations, a substantial 76 percent of entrepreneurs in 2006 responded that they would be hiring employees or managers over a five-year time horizon. With hindsight, we know that many of these expectations are likely to be frustrated. This does not minimize the fact, however, that relatively few startup founders expect to carry on entrepreneurial activity by themselves.

The theoretical importance of intentionality in group formation can be analyzed further by plotting the long-term expectations which entrepreneurs express concerning their desire to add more participants to a startup effort. A basic typology of groups distinguishes between *open groups*, that is, collectivities in which existing members display a strong and durable propensity to recruit further members (including managers and employees), *constrained groups*, in which the propensity to recruit further members declines rapidly with group size (especially as the group is perceived to be "full"), and *closed groups*, in which the group is restricted to a constant set of members. As shown in figure 1.1, entrepreneurial partnerships are generally formed as open groups. The empirical pattern of intentions suggests some variation with group size, as a critical mass of participants in a group (roughly, 6–8) generates the strongest expectations regarding the addition of new members. Still, the probability that entrepreneurs wish to add other managers or employees generally hovers in the range between 0.7 and 0.85. There is little evidence that entrepre-

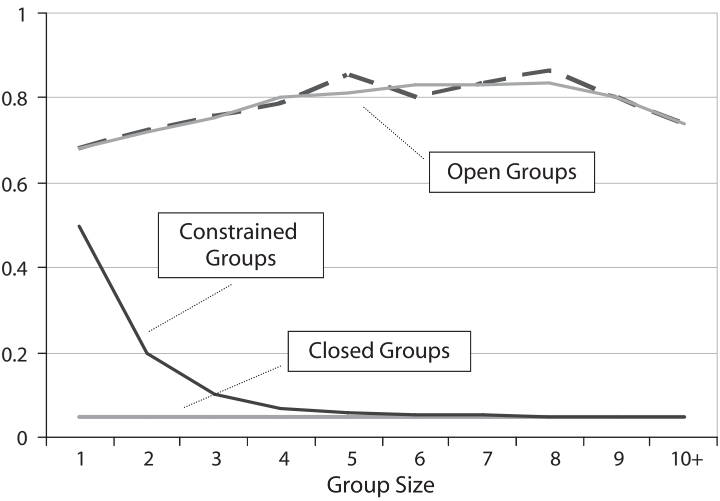

Figure 1.1. Proportion of Entrepreneurs Who Intend to Add More Participants by Group Size. *Note*: Figures for "open groups" are empirical estimates drawn from the PSED II. Raw data are represented by dashed line; smoothed data by solid line. Figures for "constrained" and "closed groups" are hypothetical.

neurs close ranks with increases in group size (as suggested by the hypothetical pattern for constrained groups) or that they close ranks apart from group size (hypothetical pattern for closed groups). Considering the size of entrepreneurial groups in combination with intentions, only 5 percent of entrepreneurs in the United States work alone *and* have no expectations of adding other startup participants.[10]

A third reason for the mythology of solo entrepreneurship concerns the accounts developed by the mass media and entrepreneurs themselves. The acquisition of resources and legitimacy in new enterprises hinges to a considerable extent on the narratives that entrepreneurs are able to project (Lounsbury and Glynn 2001). Entrepreneurial storytelling that focuses on a single individual simplifies the attribution of precedence (who was the first to originate an idea), leadership (who guides a startup on a daily basis), identity (whose personality is reflected in the culture of a startup), and succession (whose departure may endanger the startup's operations or culture). Like Ayn Rand's iconic character, John Galt, in *Atlas Shrugged* (2005), these narratives tend to dwell on modern-day cowboys who transform the economic landscape against all odds. In America, Europe, and Japan, the motif of solo entrepreneurship also echoes a long-standing value placed on self-reliance and self-direction in middle-class culture (Pearlin and Kohn 1966; Kohn et al. 1990).

This trope is evident in the two narratives that began this chapter, each of which focused on a single male protagonist. A deeper examination of these cases reveals that the social context of entrepreneurship is far richer than it might at first appear. For instance, Bob Moog is often named as an inventor in media accounts, a well-deserved credit that extends back to his work on a murder mystery game, which led to the founding of University Games. But Moog originally developed the game with the assistance of Patricia Stewart and Edna Maples, two child psychologists in Denver, who had been writing and selling mystery games through a "basement operation" (Miller 1985). Inspiration for the game can also be traced to Mystery Weekends, a business co-founded by former travel agents Gladys Germann and Kathi Platt, where Moog and his business partner Cris Lehman attended an early adventure get-away (Halstead 1985). And so forth. Rather than engage in infinite regress, narratives about entrepreneurs typically truncate such complex patterns of social influence and focus instead on the biographies of individuals.

There is some evidence, finally, that contemporary academic accounts have also adopted the popular, individualist image of entrepreneurship, even if only tacitly. Sociological studies of career values distinguish between "entrepreneurial" and "bureaucratic" job orientations, where the former is associated with a preference for autonomy, self-sufficiency, and risk, while the latter is based on a preference for job security and stable relationships with employers and co-workers (Miller and Swanson 1958; Hout 1984; Halaby 2003). Clearly, the issue as to *whether* entrepreneurs and non-entrepreneurs hold such value orientations is a useful empirical question. But researchers have more often been inclined to *attribute* these values to entrepreneurs, without recourse to empirical investigation. If academic accounts automatically place entrepreneurs in a conceptual category of rugged individualists, by virtue of definition alone, they tend to reflect or reinforce popular stereotypes.

In economic sociology, perhaps the most influential statement offered against an individualist conception of economic actors was Mark Granovetter's (1985) manifesto on the "Problem of Embeddedness." At the time, Granovetter suggested that neoclassical economists typically employed an undersocialized perspective on economic actors, viewing their behavior as both utilitarian and acontextual (i.e., unaffected by social relations). This critique remains relevant for contemporary economic treatments of entrepreneurs, which overwhelmingly describe entrepreneurial entry and persistence as an individual decision that is influenced largely by capital liquidity constraints (e.g., Evans and Jovanovic 1989; Holtz-Eakin et al. 1994; Blanchflower and Oswald 1998). Granovetter likewise criticized many sociological views of economic actors as oversocialized, with behavior dictated by internalized norms and the opinions