Where Are the Gaps in What Do We Know about Business Creation and How Could Ethnography Help Us Fill Them? [And where are the much-needed gaps and how can we preserve them?]

By

Howard E Aldrich

Department of sociology

University of Carolina at Chapel Hill

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We know that most new businesses arise from contexts in which they are socially embedded, with teams recruited from people well known to the founding entrepreneurs. Among the strong ties from which the founding team is recruited, a high proportion are family members, especially spouses (Ruef, Aldrich, & Carter, 2003). Teams tend to be homophilous along several dimensions, including race, sex, occupation, and age. Family members and friends are heavily involved as helpers, if they are not on the founding team (Aldrich, Carter, & Ruef, 2004). Power and authority tend to flow to the men on the founding team, except under certain limited conditions (Yang & Aldrich, 2014). Given the amount of work involved, it is somewhat surprising that most new businesses begin without employees and few hire employees in their early years (Zarutskie & Yang, 2016). Founders with experience in the same industry in which they are starting a business tend to do better (Yang & Aldrich, Forthcoming). Early on, founders benefit from taking actions that build the reality of the new entity, building relations with outsiders and creating symbols of the entity's existence (Katz & Gartner, 1988). Finally, money is important, although not as important as one might think (Frid, Wyman, & Coffey, 2016; Yang & Aldrich, Forthcoming).

Nationally representative data sets provide the evidence for these empirical generalizations, and some have been replicated over time and place (Reynolds, 2016). Panel data sets give us confidence that we understand the dynamics underlying some of these generalizations (Reynolds, 2007). However, most are based upon either surveys or government archival data, rather than close observation. The surveys are typically administered over the telephone, depriving interviewers of any sense of the context in which the founders are working (Aldrich & Baker, 1997). Similarly, massive archival data sets provide information on millions of people, but the data are collected by government bureaucrats for administrative and statistical purposes, rather than for research. The administrators have no interest in the social relationships underlying whatever patterns might be in the data. Thus, we can have a great deal of confidence in the abstract empirical generalizations accumulated by hard-working research teams, but because almost all were at arm’s length from their subjects, the results often lack verisimilitude.

In this short paper, I expand upon the list of empirical generalizations to ask the question, “to what extent can ethnographic research shed light on the social processes in which founding teams are embedded?” Moreover, to what extent can close observation in the field help correct mistaken interpretations based upon the arm’s-length data on which most of our research relies (Mastrofski & Parks, 1990). For example, Davidsson and Honig’s (2003) study raised a cautionary flag about making the facile assumption that entrepreneurial human capital always has a strong positive relationship with new venture success. Going beyond that, what are the kinds of questions about new businesses that might only be answered by ethnographers. I take up each of the empirical generalizations in turn and point out where ethnography might come to our rescue (Vaughan, 2009).

Homophily among Founding Teams

Founding teams are decidedly not drawn randomly from the general population. Instead, they are recruited from the social circles in which the founders are embedded, typically within families but also workplaces, friendship networks, and voluntary association memberships. Several social network theorists borrowed the phrase “birds of a feather flock together” to describe the tendency toward founding teams being composed of people of the same race, gender, occupation, and age (McPherson, Smith-Lovin, & Cook, 2001). Although the basic facts of team homophily are not in dispute (Steffens, Terjesen, & Davidsson, 2012), the causal process from which such homophily arises has not been settled. One explanation says that it results from the way in which social structures sort people into clusters of other people like themselves, in much the way that elementary schools create age-homogeneous cohorts of students that then move through the educational system together. If people are sorted into contexts in which they have few chances to meet dissimilar others, then any resulting social units that arise will contain mainly people who resemble one another (Aldrich & Kim, 2007; Elfenbein, Hamilton, &

Zenger, 2010). However, another explanation points out that people building founding teams would seem to have a choice about whom to select, intentionally picking others for things like social or emotional compatibility (McPherson & Smith-Lovin, 1987). Team homophily would thus result from deliberate strategic action by founders to ensure the smooth working of the team. Also, if selection is a more intentional process, then founders could be looking for characteristics such as complementarity of skills even while they simultaneously look for people with emotional compatibility for their teams.

How reflexive and deliberative are founding teams when recruiting members? Survey and archival research are of little help in this regard, as questions about intentionality, when answered after the fact, may not return truthful results. Almost all studies of team dynamics in academic research make use of constructed teams – – teams put together in the lab or the classroom by the researchers, rather than being allowed to emerge naturally (Arrow, McGrath, & Berdahl, 2000). Even studies of teams that emerge naturally, such as among MBA students, can't replicate the real process of entrepreneurial teambuilding, as we know that most founding team members have known each other for years, if not decades.

Close observation of founders as they discuss recruiting, interview potential candidates, attend social networking events, and otherwise go about the stressful process of building their teams could go a long way toward shedding light on the structural sorting versus intentional selection argument. Ethnographers would have to be embedded with the founding team leaders as soon as possible and then accompany them throughout the teambuilding process. In this process, it is important to document the leads not followed up, the people turned away from interviews, and the way the members of the team talk about possible candidates. Steffens et al. (2012) showed the value of following teams over time when they observed there was no association between homophily and performance in the short run, but in the long run, more homogeneous teams were higher performers.

The Role of Families

The process of business formation could be simpler in family-based new businesses, but even so, modern families are often complex and diverse entities and ultimate team membership is not assured, even if you are related to the boss. Most new businesses involve kin relationships, either through equity participation or just “lending a hand.” The usual form of startup team is a venture involving spouses or partners, with a much smaller proportion involving children or other relatives. (Although the family business literature makes a big deal out of ownership succession within families, such events are extremely rare. Most family businesses live and die within one generation.)

Survey data show that kin interactions are helpful to new ventures when they are role-appropriate, but others are harmful. For example, founders benefit from high commitment service and labor assistance provided by family and low commitment informal assistance from friends, but the reverse is not true (Kim, Longest, & Aldrich, 2013).

Embedding field researchers within families that are considering starting a business would provide a window into the potentially emotion-laden interactions among members as they sort out what roles they will take, how much of the family’s resources will be devoted to the startup, and who is eligible for an ownership stake. When family business researchers have looked at such questions, they have done it well after the fact, years or decades after the business was started, and have missed all those occasions in which interactions within the family led to the effort being abandoned. The challenge for researchers is to design a project that would locate families early enough in the process so that observations could be made before key milestones are passed, such as the legal form ownership is going to take or a decision is made to quit the process.

Gender and Business Creation

Patriarchy and misogyny are still rampant in capitalist societies and their effects ramify throughout the business creation process. Women are much less likely to attempt business startups than men and they face steep odds against their chances of “being the boss” when they are part of a mixed-sex venture (Yang & Aldrich, 2014). Some researchers have shown that some women start their own businesses because they seek and autonomous position in the labor market, trying to combat the stereotyping and discrimination they would face if they took wage and salary jobs. What barriers do women founders encounter as they attempt to build their businesses?

Ethnographers shadowing women founders as they go about their daily rounds, raising funds, meeting with suppliers, marketing to potential customers, hiring employees, meeting with bank officials, and so forth would give us a much more complete picture of the scope of the problem faced by women. Women often report discrimination and stereotyping in responses to survey questions and in personal essays about their experiences. Many self-help books aimed at women entrepreneurs offer advice about things like social networking, managing effectively, and so forth, but to what extent does such advice apply to the startup process?

The Importance of Relevant Industry Experience

Business schools and consultants often offer advice about startups that seems to be generic, listing the kinds of competencies and skills necessary to succeed. They seem to offer a generic recipe for new venture creation, implying that the skills useful in starting a business in one industry can be transferred to starting businesses in another industry and that experience with startups carries over to subsequent attempts. However, two projects using a nationally representative multi-wave panel sample of nascent entrepreneurs call this claim into question (Frid et al., 2016; Yang & Aldrich, Forthcoming). Both found that previous startup experience had no net effect on the persistence of nascent entrepreneurs and their new ventures, and only one found a net effect of prior managerial experience, and it was very small. The strongest effect of prior experience was found for managerial experience in the same industry as the startup. The survey included no questions that would help explain why generic experience carried no benefits but industry-specific experience was beneficial.

Ethnographers observing how founders attempt to put into practice what they've learned from previous experience could shed light on this question. As Polyani (1966) noted, people often know more than they can say, because they hold much of their knowledge as tacit or implicit, rather than explicit. With accumulated experience, people can easily do the same task when it is encountered in a familiar context. However, they may be unable to explain exactly how the task is done, because it has become a matter of habit and the knowledge has been pushed into their unconscious, unavailable for easy inspection. Experienced entrepreneurs may face the same situation. Although they've accumulated quite a bit of experience, they may not be able to consciously reflect upon it because it has become tacit rather than explicit. They will have trouble explaining it to others and they will also have difficulty transferring their skills to a new situation because it is hard for them to reflect on what the differences might be between what they see now and what they know from their past. Entrepreneurs who move into the same industry as their previous experience will have no such difficulty.

Ethnographers are in a unique situation to shed light on this conundrum. First, they can observe entrepreneurs trying to explain themselves to others, as they go about constructing the business, giving an account of what it is that they are doing. Second, if the founders hire employees, ethnographers can observe the training process and record whether the entrepreneurs are able to explain themselves clearly to employees, such that the employees can do the job without further monitoring by the founders. Third, ethnographers will note the extent to which founders consciously articulate justifications for their current actions by citing their previous experiences. I see these three benefits as perhaps the key to unpacking the issue of how much previous experience really matters. Only ethnography can convey these benefits to a research team (Reiss, 1971).

Why Don't Founders Hire More Employees?

The failure – – or perhaps the reluctance – – of founders to hire employees during the startup process is well documented (Zarutskie & Yang, 2016). Typically, explanations offered for this failure include an aversion to managing others, concerns over incurring fixed costs that they will not be able to cover, and a preference for "staying small." Surveys have found support for all three explanations, and once a business is underway, it is very hard to disentangle *a priori* attitudes toward employment with *a posteriori* justifications for current practices. This issue takes on added urgency as information from the Business Employment Dynamics database has shown that over the past three years, the average number of employees per startup has been dropping.

Just as ethnographers could tell us more about the ways in which entrepreneurs make use of prior experience, so too could they observe the ways in which founders handle the question of whether to hire employees, and if hiring occurs, how employees are trained and monitored. First, regarding whether to hire, ethnographers can observe the contingencies that drive the conversation among the founders and helpers regarding workload and the need for possibly hiring additional workers. What is the rhetoric surrounding staffing, workload, and allocation of responsibilities that drives the decision on hiring? Are such decisions affected by conversations with other business owners in the same industry? Is it a decision purely pragmatic or is it based upon *a priori* values? Second, most new businesses don't hire anyone, but if they do, the number of hires is small. Accordingly, the control structures of most new firms are simple and based on direct personal management by the founders. Observation of founders' interactions with employees can help us understand not only how founders develop positions on whether hiring is a good thing, but also on how much founders learn from their employees (Spreitzer, Sutcliffe, Dutton, Sonenshein, & Grant, 2005). I believe the literature on small firms implicitly assumes that employees often make discoveries that transform the nature of the business and that some employers encourage such employee initiative whereas others don't. Close observation of the employer/employee interaction and learning process would make a valuable contribution to our understanding of the startup process.

Constructing Boundaries Around a New Business

New businesses struggle to carve out place for themselves in local economies. From an institutional perspective, entrepreneurs must build a perception in the surrounding environment that their new businesses are viable entities and should be taken seriously (Aldrich & Fiol, 1994). This issue is not the same as the larger issue of institutional legitimacy that new industries face – – most new businesses are created within established industries whose legitimacy is already assured (Aldrich & Ruef, 2006). However, new businesses began with a blank slate for their reputation and accordingly founders must work to establish ties with others whose acknowledgment will heighten their visibility and increase the likelihood of positive external recognition. New businesses that are innovative seem to unfold at a faster pace than do businesses that simply reproduce existing organizational forms (Samuelsson & Davidsson, 2009), which is counterintuitive and certainly deserves greater attention in observational studies of the founding process in innovative ventures.

We have some ideas regarding actions that founders can take to increase the perception of their new businesses' entitativity (Katz & Gartner, 1988; Kim & Aldrich, 2011): signed contracts or retainers with external professionals such as lawyers and accountants, set up a bank account, establish a credit rating with Dun & Bradstreet, create a webpage, during the local Chamber of Commerce, join a trade association, and so forth. However, we don't know how salient these activities are to the typical founder, given the pressure they are under to monitor cash flow, supervise employees, and keep the business up and running. Thus, it would be extremely useful for ethnographers to study the ways in which founders enact markers of firm identity and create symbols aimed at convincing the external world to take them seriously. In practice, this means that ethnographers would accompany founders to meetings at offices, agencies, and institutions with which the firm is attempting to establish relations. Mintzberg's research practices in his study of managerial behavior provides a useful template for this kind of research (Kurke & Aldrich, 1983; Mintzberg, 1973).

Conclusion

Our field has benefited enormously from survey, unstructured interview, and archival research designs, but has lagged far behind best practices when it comes to collecting information from close observation in the field. As I noted, our knowledge of key pieces of the founding puzzle rest on information that has been collected at arm's length from the actual founding process. I think there are some questions that can't be addressed by ethnography, some that are ideally addressed by ethnography, and other questions that can only be addressed by ethnography. Until we take this research method seriously, however, we won't know the difference.

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