

**THE SOCIAL CONDITIONS FOR ENTREPRENEURSHIP: A PERSONAL  
ESSAY AND STOCKTAKING OF PAST RESEARCH**

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## 1. Introduction

In current time of economic stagnation, the pursuit of growth and innovation by entrepreneurs is seen as fundamental for economic development. Growth-oriented entrepreneurship, despite being vigorously propagated by decision makers worldwide, is still remarkably scarce in some resource-rich countries such as Sweden and Finland. Other countries exhibit high rates of growth-oriented entrepreneurship, despite less developed economic institutions. Why is that so? One answer is that in addition to a well trained labor force, moderate taxation, and well functional legal institutions, a country cannot generate growth-oriented entrepreneurship if this is not *socially acceptable* and *socially encouraged*. This paper outlines some of my research up being awarded Entrepreneurship Forum's 'Young Researchers of the Year' Award in 2012 (joint with prof. Martin Andersson). The paper provides a general discussion of my research focus, followed by a brief introduction to four focused research streams that seeks to investigate the social conditions for growth-oriented entrepreneurship.

## 2. Research Focus and Research Activity

On an overview level, my research is situated in the intersection between Entrepreneurship, Economic/Regional Development, and Organization Theory. Specifically, I have been pursuing four streams of research emanating from this larger area:

*A) Exit from Entrepreneurship*

*B) Entrepreneurial Growth*

*C) Meso- and Macro level implication of micro-level entrepreneurship*

*D) Institutional change and entrepreneurship*

Some "classic" entrepreneurial questions addressed in my research includes: what individual-level and firm-level resources that decrease the risk of firm exit but facilitate the probability of firm growth, what geographic and institutional factors that shape the birth, growth and exit of new firms; and how important are new firms for the local economic development.

I have also addressed a number of less investigated questions by connecting the above questions to my specific theoretical interests, explaining what individual-level and firm-level resources that increase the risk of profitable exits but decrease the risk of unprofitable exits, how important are economic vs. social factors in explaining entrepreneurial exit or growth; which type of firms that matter for local economic development, and how individual experiences may serve to counteract social norms that inhibit entrepreneurship. In addition to my more scholarly work, I have strived to also study practical and policy implication of these streams of research, writing a number of

case studies for teaching, research notes, public policy papers and articles for public debate.

My work is inherently interdisciplinary. Working at an intersection of several fields is appropriate because of the open and evolving character of the field of Entrepreneurship as well as the phenomenon-driven nature of the field.<sup>1</sup> It is also motivated by fact that the impact of entrepreneurs on firms that they start and potentially also for the broader society, while sometimes profound, is often achieved only indirectly. This is due first to the large heterogeneity between entrepreneurs where most start minor firms where little growth or innovation occur, while others initiate firms that grow at a tremendous pace, sometimes changing industries by revolutionizing the way business practice is conducted. To investigate such processes I therefore tend anchor my work firmly in the of the established frameworks of Entrepreneurship, and Organization Theory. Second, the effect on society by entrepreneurs' launching new business ideas and innovations or initiating institutional change, is indirect also in that entrepreneurs often draw upon knowledge generate elsewhere that "spill over" to commercial applications through entrepreneurial efforts. To investigate such processes I therefore also tend to anchor my work firmly in the established framework of Entrepreneurship, and Economic/Regional Development.

In my work, I have used and sought to contribute to a number of theories developed in the broader field of organization theory, including social reference group theory (Wennberg, 2009b; Wennberg & Autio, 2009), behavioral learning theory (Holmquist & Wennberg, 2009; Wennberg, 2009b), and more recently, institutional organization theory (Wennberg, 2009c; Jonsson, Sebhatu & Wennberg, 2012).

My research projects have also encompassed several different methodologies, including traditional regression analysis (Stam & Wennberg, 2009) multimethod studies (Berglund and Wennberg, 2006; Jonsson, Jonsson, Sebhatu & Wennberg, 2012), event history modeling (Wennberg, 2009a), count data analyses and quantile regression (Delmar & Wennberg, 2010). More recently, I have also helped advanced a series of methods that help explain how entrepreneurial processes of entry and growth can be researched using "multi-level models" advanced in the economics of education, developing and testing such statistical models which parameters vary at more than one of these levels (Autio, Pathak & Wennberg, 2012; Wennberg, Pathak & Autio, 2012).

Following my dissertation work on Entrepreneurial Exit, my current research agenda is woven around four research projects emancipating from ideas developed during my dissertation work. All four projects looks at entrepreneurial processes from a multi-level

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<sup>1</sup> See for example, Shepherd, D./Elsevier Publ. (2010). Publication statement for Journal of Business Venturing: [http://www.elsevier.com/wps/find/journaldescription.cws\\_home/505723/](http://www.elsevier.com/wps/find/journaldescription.cws_home/505723/), or: Shane, S. (2003). *A General Theory of Entrepreneurship. The Individual-Opportunity Nexus*. Northampton, MA: Edward Elgar.

perspective – that is – using social sciences theories that allows one to describe and research a phenomenon that unfolds or is under influence from different levels of analysis (i.e. individual, group, region, and nation, etc), are at different stages of progress and with different research collaborators.

### **A) Entrepreneurial Exit**

### **B) Entrepreneurial Growth**

### **C) Meso- and Macrolevel implication of entrepreneurship**

### **D) Institutional change and entrepreneurship**

#### **2.1. Exit from Entrepreneurship (A)**

The basis for my work in this area is my doctoral dissertation (Wennberg 2009a), which investigated the economic and social predictors of exit, various ways that exits occur, and meso-level societal implications of entrepreneurial exits and growth. The dissertation has been cited several times in journals and working papers by other researchers for its insights in these areas and was awarded the Academy of Management Entrepreneurship divisions' award for “best doctoral dissertation in Entrepreneurship”.

The dissertation highlights that exit may be the outcome of both failing and successful venturing and furthermore, that while the resources and skills of entrepreneurs affect their possibilities to stay in business, exit is to a considerable extent a voluntary decision taken by entrepreneurs. I find in the dissertation evidence that a major trigger of that decision is whether the performance of their venture is less than what entrepreneurs aspired to. These aspirations are formed by entrepreneurs comparing themselves to individuals with similar social background and education. The empirical evidence presented in the dissertation indicates that the high failure rates among new firms reported in both the academic and popular press may be, at least partially, misinterpreted positive exit decisions rather than failures. Further, I showed in the dissertation that the factors leading to one type of exit – such as exit by the sale of a profitable firm – clearly differ from factors leading to another type – such as exit by the liquidation or sale of a firm in financial distress. The prevalence and distinctive patterns of these different exit routes highlight the limitation of previous theoretical models in explaining exit, something that my theoretical and empirical modeling advanced.

The broader theoretical contributions of my dissertation amounted to exit decisions as being triggered by both economic concerns (i.e. performance) and social factors such as comparison with an individual's prior experiences, or comparison with similar entrepreneurs. In the dissertation I also argued empirical studies should strive for multi-level designs and try to collect data on both individual entrepreneurs and the firms that they start.

During my time as a doctoral fellow at Stanford University, I also became interested in the role of institutions (both “hard” institutions à la’ Williamson and “soft” institutions such as culture and norms) in shaping both the quantity and quality of individual’s entrepreneurial efforts.

During the past two years, I have pursued these conclusions and ideas raised in my dissertation further through continued studies of how the intersection of economic conditions and social norms affect entrepreneurial exit routes (Delmar & Wennberg, 2010; Wennberg et al., 2011), and also linked this to my second stream of research on entrepreneurial growth. Specifically, my post doc work at Imperial College London focused on further the theoretical ideas developed in my dissertation work on a new multilevel dataset on entrepreneurs in varying institutional contexts, investigating how economic conditions and social norms interact in the decisions to (a) engage in entrepreneurship (Wennberg & Autio, 2009), (b) using past exit experience as a platform for “learning” in subsequent entrepreneurial endeavours (Pathak, Autio & Wennberg 2010), and (c) how culture acts as a regulator of both entrepreneurial entry and growth (Autio, Pathak & Wennberg 2012). These research efforts also involve developing and applying advanced multilevel methods that has hitherto been rarely used in entrepreneurship or organization research.

Another offshoot of my dissertations involves investigating the role of exit among firms that are founded and managed by a family. In this project I collaborate with experts in family business at Jönköping International Business School. Existing studies that have taken into account the complex decision making pertaining to the exit of family firms as this involves processes on multiple levels; individual, family, and firms. Empirically, we try to address the specific micro-level mechanisms that determine the reason behind ownership transitions in privately-held firms and the meso-and macro-level outcomes of such processes. Theoretically, we seek to create new knowledge about the entrepreneurial process related to both entry and exit to business ownership and management. Findings from this recent project have so far been reported in a review paper analyzing the full body of work on family firm succession from an entrepreneurship perspective (Norqvist et al., 2012) and an empirical paper investigating what happens to family firms that undergo either an internal succession within the family, or an external succession by being acquired by an outside party (Wennberg et al., 2011).

## **2.2. Entrepreneurship and Growth (B)**

My dissertation also inspired further work on growth, both on the firm level and the role of micro-level growth for societal outcomes. I intend to continue working in this focused research area and have been running a major research project (with Frederic Delmar and Erkkko Autio) on how micro-level entrepreneurial processes and macro-level institutions

affect entrepreneurial growth, both on the firm level and on the industry level. This is the focus of the next project.

First, the three studies with Erikko Autio and Saurav Pathak show that the institutional effects on entry into self-employment – the most commonly used proxy for entrepreneurial action – is radically different from institutional effects on ambitious entrepreneurship (Pathak, Autio & Wennberg, 2010). This distinction explains the pervasiveness of meager entrepreneurship in many modern societies despite the political attempts to transfer this into growth-oriented ventures, questioning the ontological claim that entrepreneurship as a social phenomenon is easily malleable by the forces of formal institutions. Our discussions of the mechanisms by which institutions have differential effects on different types of entrepreneurial action hence advance research investigating the conditions for entrepreneurship from a broader societal perspective.

Second, the studies with Frederic Delmar and collaborators (Stam & Wennberg, 2009; Delmar & Wennberg, 2010; Delmar, McKelvie & Wennberg, 2012) show that using both Dutch and Swedish data on individuals entrepreneurs and the firms that they initiate, the processes and predictors of “meager growth” differ radically from what characterized “rapid growth”. This has theoretical, methodological, as well as public policy implications.

Theoretically, my work on firm growth contributes by explaining the growth of new firms as an intricate evolutionary process that is simultaneously shaped by firms’ profitability and the surrounding environment and industry, but is also intimately tied to their chances of survival. Hitherto, most empirical work on firm growth has focused on either internal factors enhancing growth or external factors such as the competitive environment<sup>2</sup> – despite old theoretical argument by e.g. Edith Penrose that growth is an outcome from the interaction of firm’s resources and environmental contingencies.

Empirically, my work on firm growth differ from previous work in adopting an evolutionary view based on large populations of firms followed over time, highlighting the tremendous heterogeneity in growth rates with most new firms growing slowly or not at all, while a fraction of these grow at tremendous rate to become large corporations in a few years time. Further, my work reveals that profits do not necessarily lead to growth when controlling for firm survival. Rather, profits seem to be an important predictor of survival. Yet, survival is necessary in order for firms to grow. This indicates an endogenous cycle of performance related variables that current research has only begun to discern.<sup>3</sup>

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<sup>2</sup> See e.g. Barron, D. N. 1999. The structuring of organizational populations. *American Sociological Review*, 64(June): 421-445, or Wiklund J. & McKelvie, A. (2011). Advancing Firm Growth Research: A Focus on Growth Mode Instead of Growth Rate. *Entrepreneurship Theory & Practice*.

<sup>3</sup> See e.g. Davidsson, P., Steffens, P. & Fitzsimmons, J. (2009) Growing profitable or growing from profits: putting the horse in front of the cart? *Journal of Business Venturing*, 24(4).. 388-406, or Delmar, F., McKelvie, A., & Wennberg, K. (2012). Untangling the relationships among growth, profitability and survival in new firms. Forthcoming, *Technovation*.

Methodologically, despite the large interest in new venture growth, several literature reviews have concluded that research actually knows quite little about the driving mechanism behind how and when new firms try and manage to grow.<sup>4</sup> A possible cause is that we are not able to correctly mitigate the statistical problems that arise from the heterogeneous and dynamic picture of growth. My work on firm growth tries to address some of these shortcomings by modeling growth in different segments on the population, based on a quantile regression approach, while simultaneously correcting for the spurious relationship between firm survival and firm growth using Heckman-style selection models.

**Public policy implications.** Firm growth is considered important by policy makers as main creators of new jobs in modern economies. The absolute majority of new firms have, on their individual level, little impact on their industry and the economy at large. However, in a detailed examination of all 12,000 knowledge-intensive service firms started in Sweden between 1995 and 2002 I showed that while the average firm grows create only 11 full-time jobs after eight years in business, the four most rapidly growing firms grew at a tremendous rate to employ over 35% of all employees and generated 30% of all the sales in the population of firms as a whole (Delmar & Wennberg, 2010). Such gazelles are still relatively rare in Sweden and while these patterns are in line with international research<sup>5</sup>, in terms of amplitude Sweden and the rest of Europe is still lagging behind the U.S., where the number of rapidly growing firms is still relatively much common. Hence, most of my current research on firm growth involves detailed investigation of such ‘high-growth firms’ – using archival data and also simulations to discern whether there exist institutional or industrial contingencies that facilitate rapid growth.

### 2.3. Meso- and Macrolevel implication of entrepreneurship (C)

This project originated with my interest in economic geography, pursued first as a chapter in my dissertation with Göran Lindqvist (Wennberg & Lindqvist, 2010). In that paper we showed how new entrepreneurial firms contribute to regional economic development in terms of job creation and tax payments, and how those contributions were contingent on regional “clusters of firms”.

In another recent paper, we scrutinize the commonly held assumption in the new economic growth literature that entrepreneurship represents a missing link between new technology and economic growth.<sup>6</sup> Using the similar employee-employer databases employed in my dissertation work and a novel econometric approach pioneered in financial economics, we investigated the theoretical contingencies whereby technological knowledge spillover fosters the growth of new firms (Delmar, Wennberg & Hellerstedt,

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<sup>4</sup> See e.g. Davidsson, P., Achtenhagen, L., & Naldi, L. (2010). *Foundations and Trends in Entrepreneurship*, 6, 69–166

<sup>5</sup> Henrekson, M., & Johansson, D. 2010. Gazelles as job creators: a survey and interpretation of the evidence. *Small Business Economics*, 35(2): 227-244

<sup>6</sup> Braunerhjelm P, Acs ZJ, Audrescht DB, Carlson B. 2010. The missing link: knowledge diffusion and entrepreneurship in endogenous growth. *Small Business Economics*, 34: 105-125.

2012). This work furthers extant theory by showing how growth theory must not only consider entrepreneurship as a way to introduce variation (the trial-and-errors of entrepreneurial market activities) in the economy but also consider the selection mechanisms that allow for a better retention of created value from these activities.

A final a recently completed paper in this stream investigates the meso-level implications of entrepreneurial processes by examining whether knowledge transfer from academic research may flow indirectly by individuals with scientific background who become involved in new venture creation by means of corporate spin-offs later in the careers, rather than directly starting a business as a university spin-off (Wennberg, Wiklund & Wright, 2012). This paper finds that the commercial knowledge gained in the private sector is potentially more valuable for entrepreneurial performance compared to the academic knowledge gained by additional research experience, highlighting that the research and public policy efforts geared at promoting scientist entrepreneurship may have overlooked important components of the knowledge spillover process.

#### **2.4. Institutional change and entrepreneurship (D)**

This is the most recent project, originating during my time at Stanford University and later being pursued with two colleagues in organization studies to explain how institutional change may encourage various types of entrepreneurship, how entrepreneurial processes evolve under conditions of “institutional flux”, and how the loosening of political regulation or de-professionalization of roles affects the emergence of new actors and organizational forms. Empirically, the project investigating a radical policy shift in Swedish education that led to the emergence of a new organizational form from 1992 until today: the independent voucher school. We use a multi-method approach based on extensive archival searches, interviews with school managers, principals, teachers and students, and utilizing publicly available databases on school characteristics such as size, scope, structure, and quality indicators. Our findings from this emerging project have so far been reported at the Peer-reviewed McGill Conference on Institutions and Entrepreneurship in 2009, and two papers (Wennberg, 2009d, Jonsson et al., 2012) are being prepared. With this emerging stream of research I try to address orthogonal theoretical gaps in the literatures on entrepreneurship, population ecology, and institutional organization theory. The two latter bodies of research suggests that the success of emerging forms depends on the ability of entrepreneurs to legitimate their existence within a social sphere but do not address how legitimacy is constructed in the eyes of organizational constituents. Our tentative results suggest that the emergence of schools was hampered by coercive political forces but encouraged by legitimating processes of local discourses. Further, distinct patterns emerge in schools based on religion or a specific teaching philosophy: While religious schools were not affected by political legitimacy they relied on resources mobilization through pre-existing organizational affiliations. I believe that this stream of research has the potential to

present theoretical and methodological contributions to institutional theory and empirical contributions to models of entrepreneurial entry in semi-public markets.

## **CONCLUDING REMARKS**

While the pursuit of growth and innovation by entrepreneurs is seen as fundamental for economic development since Schumpeter and onwards, many European nations exhibit relatively limited level of growth oriented entrepreneurship despite having a well trained labor force, moderate taxation, and well functional legal institutions. This puzzle challenges the prevailing view that if taxes are low and labor is skilled, new firms will be created to exploit new market opportunities. In my research to date I have sought to combine a variety of data from multiple levels of analysis to investigate how the decision to seek growth is determined by entrepreneurs' social context. This research is still very much work in progress, and much work remains for us as scholars to ponder, identify, and investigate the social aspects of what triggers some individuals to pursue growth-oriented entrepreneurship, and the implications of these endeavours for them as persons, for their firms and employees, and for society at large. I believe such research has the potential to offer important theoretical and methodological contributions to entrepreneurship research, as well as provide implications for public policy.

## **REFERENCES**

Papers and references available upon request at [karl.wennberg@hhs.se](mailto:karl.wennberg@hhs.se)