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Martin Ruef

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Martin Ruef

Department of Sociology

Princeton University

Princeton, NJ 08544

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Introduction

To many observers, a focus on entrepreneurial groups – or, more colloquially, venture 'founding teams' – is a thoroughly modern pre-occupation. It was only in the late 1980s and early 1990s that scholars in business management and policy began to question the image of the heroic individual found in traditional treatments of entrepreneurship. Writing in the *Harvard Business Review*, the economist Robert Reich (who would become Bill Clinton's Secretary of Labor six years later) argued that "to compete effectively in today's world, we must begin to celebrate collective entrepreneurship" rather than "the traditional myth of the entrepreneurial hero" (1987: 78). Some management thinkers had touted the importance of 'team entrepreneurship' as much as a decade earlier (e.g. Timmons 1975, 1979). But a new generation of scholars were the first to call for a systematic program of research that would document the prevalence of entrepreneurial groups, describe their properties, and assess their impact on business performance (e.g. Kamm et al. 1990; Gartner et al. 1994). In a review of developments in entrepreneur research and theory, Gartner and colleagues (1994: 6) noted that "the 'entrepreneur' in entrepreneurship is more likely to be plural, rather than singular". They offered an expansive definition of the entrepreneurial group, which included owner-managers, investors, organizational decision-makers, family members, advisors, critical suppliers and buyers as possible candidates in the entrepreneur role.

Contributors to the management literature have primarily displayed an interest in teams as a contemporary phenomenon. In this chapter, I will suggest that the historical evidence and frameworks that can be deployed to study entrepreneurial groups are far less recent than this literature might seem to suggest. Indeed, the social sciences evidence a long pedigree of research devoted to entrepreneurs and the collective nature of activities surrounding the creation of new organizations (Ruef and Lounsbury 2007). The goals of the chapter are twofold. First, the chapter offers a selective history of entrepreneurial groups, addressing the legal origins of commercial partnerships in Roman and medieval law, the elaboration of partnership systems in the Mediterranean region during the Renaissance, and the evolution of entrepreneurial groups during the industrial revolution. Second, it traces the intellectual origins of social scientific work on entrepreneurial groups. I emphasize four classical perspectives, in particular: (a) Georg Simmel's structural sociology; (b) Ronald Coase's theory of the firm; (c) the logic of collective action in entrepreneurial groups, as developed by Mancur Olson; and (d) theories of ethnic enterprise, with particular implications for the formation and persistence of entrepreneurial groups.[1] In designating these as 'classical' perspectives, I apply the informal criterion of emphasizing contributions that were published by the mid-1970s, a time when a number of new organizational theories with broad implications for entrepreneurial studies (including organizational ecology, institutional theory, and transaction cost economics) first emerged.

My review of the historical literature is necessarily selective. It is fairly easy to locate work on entrepreneurial groups that has intellectual roots aside from the classical perspectives discussed in this chapter. For instance, in a study of the decision-making biases of venture capitalists who are evaluating entrepreneurial teams, Franke and his colleagues (2006) employ social identity theory, a perspective developed by Henri Tajfel in the late 1970s (Tajfel and Turner 1979) which also draws on earlier research on in-group and out-group comparisons (e.g. Bass and Duntemann 1963). Despite the utility of social identity theory for understanding group dynamics, I restrict my attention to historical social science perspectives that sought to address the process of entrepreneurial association *even when those perspectives were first formulated*. That is, I focus on scholars who discuss entrepreneurial partnership *per se*, not simply generic aspects of group formation and functioning. In the concluding section of the chapter, I suggest how the classical perspectives continue to raise questions that animate contemporary research on entrepreneurial groups.

[1] A fifth classical perspective, Max Weber's ideal-types of commercial partnerships, will be addressed in my review of historical evidence on entrepreneurial groups.

Historical Evidence

Many of us – especially those raised in an Anglo-American context – take it for granted that individuals can readily construct autonomous, organizational entities to act on their behalf. However, even a cursory review of the historical record suggests that societies differ greatly in the amount of agency they accord to entrepreneurs and their organizational ventures (Meyer and Jepperson 2000; Hwang and Powell 2005). Institutional frameworks strongly influence whether entrepreneurial groups are short-lived affairs that are tied closely to the fates of their creators, or whether they are able to develop as independent and, potentially, perpetual legal fictions. Between the late Middle Ages and the 19th century, the understanding of entrepreneurial groups in Western civilization displayed considerable stability for four or five centuries, only to be disrupted by rapid social and legal changes during the era of industrialization.

From the Middle Ages to the Industrial Revolution

The German sociologist Max Weber (1864-1920) offered one of the earliest, and most prescient, treatments of the historical origins of entrepreneurial groups. In his J.D. dissertation on the *History of Commercial Partnerships* (hereafter, HCP), Weber (2003 [1889]) compared the influence of Roman and Germanic commercial laws on partnerships among medieval entrepreneurs. He based his analysis on a systematic review of Italian and Spanish legal charters and statutes from the 11th through the 16th centuries, with detailed case studies of commercial law in Florence and Pisa's *Constitutum Usus*. Beginning with a discussion of Roman property law, Weber (Chapter 1) argued that the legal differentiation of partnerships (*societas*) from individual entrepreneurs participating in them (*socius*) was largely nominal in this legal form: "the partnership, as merely a complex of obligatory relations among the *socii*, is of no concern to third parties; in its legal consequences, a transaction a *socius* makes on the account of the partnership is no different from any transaction made on a personal account" (2003: 54). The differentiation between individual and group strengthened, however, with the growing needs of maritime and overland trade during the Middle Ages. Two new organizational forms – the *societas maris* and *societas terrae* – relied increasingly on a cash fund that was separate from the assets of entrepreneurs participating in the venture (2003: Chapter 2). A further development was the emergence of the joint household in Germanic law. This organizational form introduced the concept of solidary liability, whereby the debt of a family or community member "encumbers the joint assets" of that community (2003: 98). The concept was quickly generalized in the Middle Ages to commercial partnerships, as joint households were not only defined in terms of kinship ties, but also in terms of cohabitation and 'communities of labor' (e.g. craft guilds).

In broad strokes, what Weber was identifying theoretically in the HCP were a set of institutional conditions that would allow for the social construction of entrepreneurial groups: partnerships that had a legal, economic, and social existence apart from the entrepreneurs that constituted them. A concrete example in this respect involves his comparison of medieval *commendas*, or trade associations (see Lutz, pp. 22-27, in Weber [2003]). In the unilateral commenda, investment capital was only provided by a single party, while in the bilateral commenda, investment came from (at least) two parties (see Figure 1). Each organizational form involved both a *commendator* (or passive investor) and an entrepreneur known as a *tractator*. The unilateral commenda differed, however, in that all of the financial risk was born on the part of the passive investor, who contributed to a fund that would be managed by the *tractator*, serving as his or her agent. In contrast to prevailing legal wisdom, Weber (2003: 135-136) argued that the lack of a separate fund in the unilateral commenda meant that it was not an institutional precursor of modern partnerships. Indeed, the weak organizational foundation that the unilateral commenda provided for entrepreneurial ventures led to its eventual replacement by simpler financing arrangements, such as commercial loans. The bilateral commenda, by contrast, specified the existence of a fund that was separate from the assets of investors and entrepreneurs and, in Weber's account, served as a legal template for modern partnership forms.[2]

[Insert Figure 1 About Here]

As Weber's legal history of partnerships attests, entrepreneurial groups have been a prominent feature of Western capitalism since its origins, even predating it according to some definitions. During the late Middle Ages, associations of businessmen already thrived in the Mediterranean region. These groups were not simply a reflection of economic growth, but an important catalyst as well. In thirteenth century Italy, the historian Thomas Blomquist (1971: 157-158) has argued, "the favored method of doing business … was through association: at all levels of business, capital and/or labor were pooled in order to realize a maximum economic potential". Whether the primary purpose of such associations was to achieve "maximum economic potential" is a debatable empirical point, but the prevalence of entrepreneurial groups is not. For example, the northern Italian city of Lucca, a center of the silk trade, featured at least 22 large-scale (international) business partnerships by the late 1200s, some with as many as nineteen partners (ibid: 159-160). Through associates in Flanders, Champagne, Paris, and England, these groups penetrated markets in Northern Europe and contributed to the widespread influence of the Italian associational business model.

By the time of the Renaissance, Europe witnessed not just the emergence of a precursor of modern partnerships, but also of "partnership systems": autonomous firms (either sole proprietorships or partnerships) that were connected together through a single or small group of entrepreneurs. As Padgett and McLean (2006) document, the new organizational form was first developed in Florence during the late 1300s to encourage diversification and protect

[2] Using his case study of commercial law in Pisa, Weber also examines partnerships that lacked a separate fund, but treats them as peripheral to the institutional evolution of this organizational form (see discussion by Lutz in Weber [2003]: 25).

entrepreneurs against the risk of unlimited liability. Prominent adopters included Francesco Datini, the merchant of Prato, who participated in one of the first partnership systems between 1382 and 1410 (Origo 1992 [1957]), as well as the banker Giovanni di Bicci de Medici and his descendents, Cosimo and Lorenzo 'the Magnificent' de Medici (de Roover 1966). The birth of partnership systems was a major organizational innovation at the time, predating other forms of entrepreneurial groups such as the limited liability partnership, which was not developed until 1408 in Florence and not widely adopted until the 1500s (Padget and McLean 2006: 1466).

During the early stages of the industrial revolution, business partnerships evidenced little change from their Medieval and Renaissance forebears. Considering partnership agreements (*actes de société*) in Lyon between 1783 and 1793, Taylor (1963: 49) commented that "as an entrepreneurial form the partnership met all the needs of business practice ... before the [French] Revolution and .... differed in no important way from partnerships of the Renaissance. On the other hand, it was far removed from the 19th century corporate or joint-stock institution ... [The partnership] had more in common with the remote past than with the organizational forms that appeared some seven decades later". The Lyonnaise partnership agreements, which were typical of much of late 18th century Europe, ran for short terms (3 to 8 years), established fixed financial relationships, and defined a line of specialized trade among partners. But the content of the agreements also suggests that these businesses were more than economic units. Highlighting their character as 'households', Taylor notes that "partners and employees often lived in the buildings that the companies rented[;] clerks got meals and rooms in addition to salaries, and servants, warehouse workers, and artisans lived and worked in the house" (1963: 53). The combination of business partners and workers from different status ranks at the same physical site led to "a curious mixture of commerce and gentility" in these enterprises (p. 54).

The legal forms available to entrepreneurial teams evolved considerably during the 19th century. At the beginning of the century, entrepreneurs who sought to found a venture together had little choice but to create a business partnership -- or to seek a special charter from a legislature that would allow them to incorporate their enterprise under public auspices (Lamoreaux 1998). Over the course of the succeeding decades, the diffusion of general laws of incorporation in the United States and Europe greatly simplified the chartering of corporate entities.

Aside from the obvious implications of the corporate form for the liability of business owners (which was far more limited than in commercial partnerships), it also had crucial implications for the longevity and governance of entrepreneurial ventures. As suggested by Taylor's Lyonnaise example, partnership agreements tended to end after a fixed period of time and they also tended to be dissolved by the death of one of their members. The corporation, by contrast, was "more commonly chartered in perpetuity" and its life "was independent of that of any of its stockholders" (Lamoreaux 1998: 66). In terms of governance, the autonomy of an owner of the corporate venture to act on behalf of the organization was also severely limited compared to the simpler business partnership. The legal view of these entrepreneurial groups evolved only gradually over the century: at the beginning of the 1800s, "the view that corporations were artificial creatures of the state held sway; by the middle it was increasingly common to view corporations as private contracts made by 'aggregations' of businessmen; by the end, the courts were moving toward the view that corporations were legal persons in the eye of the law" (p. 67). These institutional developments represented a culmination of the evolutionary process whose legal origins were already identified by Weber in the late medieval period.

Historical Diversity in Entrepreneurial Groups

While much of the historical literature on commercial partnerships has emphasized associations among male participants, entrepreneurial groups have likewise played an important role for women. In 19^{th} century Britain, women comprised roughly a fifth of all entrepreneurs, with a particularly strong concentration in the garment trades (Nenadic 1998). Because these businesses often relied on "the cultivation of 'dovetailed' effort whereby the income-producing activities of one related woman reinforced and supplemented those of another" (ibid: 633), kinship-based co-partnerships represented the dominant form of organization. For instance, in Stana Nenadic's sample of fifty-three female-run Edinburgh garment firms, more than 80% depended on kin co-partnerships, most commonly sibling or mother-daughter teams.[3] Owing to family law at the time, these 'co-partneries' became associated with separate funds that resembled the more formal arrangements found among male entrepreneurs in other contexts. As Nenadic suggests, "in family financial affairs, sisters were treated as a package, bound together for life – or until they married – the individualised interests of each sister subordinated to those of the family as a whole" (1998: 635). Moreover, in contrast to some of their male counterparts, "the non-individualised character of women's capital and women's business ... probably negated any imperative to maximize profits in the interests of self " (ibid). In Victorian Britain, then, one could argue that entrepreneurial groups were even more critical to business development among women than among male entrepreneurs.

Considering the importance of entrepreneurial groups in the West, one might also ask whether a similar influence can be identified during the emergence of Asian capitalism. Here the historical evidence is more difficult to interpret, given the unique pathway taken by these economies vis-à-vis the occident. In Japan, entrepreneurial activity in the medieval Buddhist economy was undertaken by monasteries and temples (Collins 1997), whereas secular capitalism was generally unknown before the Muromachi period (1333-1460). On the surface, the monastic enterprises appear quite different than the business partnerships that formed in the Mediterranean basin around the same time period. As the sociologist Randy Collins suggests, however, insightful parallels can be drawn with respect to the organizational preconditions of capitalist development. Monastic culture encouraged an ethos of asceticism and investment, much as entrepreneurial groups did in the West. Similar to the 'separate fund' that appeared in the

[3] Partnerships among male entrepreneurs in the same city were less common.

European partnership forms, the collective nature of monastic entrepreneurship was critical to capital accumulation: “Because celibate monks could not siphon [material capital] off to family consumption, it was the monastic corporation that grew rich” (ibid: 848). Some monasteries even recruited bands of wandering ascetics (*hijiri*), who had existing entrepreneurial skills as itinerant merchants and artisans. During the Kamakura period (1185-1333), monastic enterprises gained in political and economic status and subsequently served as the dominant institution in Japanese society for nearly two-and-a-half centuries (Collins 1997).

Summary

The historical record suggests, therefore, that the concept of the entrepreneurial group is neither distinctively modern nor distinctively Western. From its origins, capitalist development has relied on groups of entrepreneurs to pool resources and competencies, manage risk, expand into new territories, offer social support, and share responsibility for undertakings, both large and small. The legal evolution of these groups can be characterized broadly in three phases: (a) cases where the distinction of individual entrepreneurs and groups is largely nominal (e.g. Roman *societas*); (b) cases where the group maintains a separate fund from its members (communities of labor, joint households, Japanese monastic enterprise); and (c) cases where the responsibilities (debts and obligations) of the group are separated from the personal responsibility of the participating entrepreneurs (joint stock corporations). Over time, these legal conditions allowed for the emergence of entrepreneurial groups that were fully independent from the ‘natural’ persons that created them (Coleman 1974; Ruef and Lounsbury 2007).

Historical Perspectives

Now let us turn to the historical frameworks that have been used to study entrepreneurial groups. Who are their progenitors and what is their impact on the contemporary social sciences? Over the course of the century following Weber's treatment of commercial partnerships, a number of sociologists and economists tackled the functions and dysfunctions of entrepreneurial groups. Arguably, the most enduring of these contributions can be found in four intellectual traditions, including the structural sociology of Georg Simmel, Ronald Coase's theory of the firm, Mancur Olson's logic of collective action, and sociological theories of ethnic enterprise.

Simmel's Structural Sociology

Georg Simmel (1858-1918) was a contemporary of Weber and early proponent of structural sociology, a forerunner of modern network analysis.[4] He had a particular interest in interpersonal associations, which he described as the "form (realized in innumerable, different ways) in which individuals grow together into units that satisfy their interests" (1917 [1950]: 41). These units comprised a diverse set of groups, including social gatherings, religious sects, military alliances, extended families and (most notably for our purposes) business partnerships. While Simmel devoted considerable attention to the simplest structural arrangements – dyads and triads – he also maintained that structural sociology should account for the origin and composition of larger groups. It was in these settings, he maintained, that an "autonomous, super-individual unit" (Simmel 1908a [1950]) transcends the individual personalities involved

[4] Broadly construed, *structural sociology* entails the assumption that ongoing social relationships are critical to the explanation of individual identities, attitudes, and actions. It can be contrasted with "undersocialized" conceptions of actors (which presume that individuals follow a utilitarian model of action, apart from their social context) and "oversocialized" conceptions (which presume that individuals answer to internalized norms or beliefs, again apart from their present social context) (Granovetter 1985).

and confronts members as an objective structure. Like Weber, Simmel was thus intrigued by groups as an intermediate building block between individual persons and formal organizations.

In Simmel's work, a tension between autonomy and constraint is evident even in the simplest of entrepreneurial partnerships. Considering dyads of business partners, he noted that:

> "… The formation and operation of the business rests, exclusively perhaps, on the cooperation of these two personalities, nevertheless the subject matter of the cooperation, the business or firm, is an objective structure. Each of the two [entrepreneurs] has rights and duties toward it that in many respects are not different from those of any third party. And yet this fact here has another sociological significance …. Because of the objective character of the economic system, business is intrinsically separate from the person of the owner, whether he be one or two, or more persons." (Simmel 1908a [1950]: 132)

The question of the legal separation of a business from the entrepreneurs that create it – the central concern for Weber's historical analysis of entrepreneurial partnerships – was taken-for-granted in Simmel's structural sociology. In Simmel's mind, this fact alone was enough to fundamentally differentiate the social psychological dynamics of entrepreneurial dyads from other dyadic relationships, such as monogamous marriage.

Elaborating on this perspective, Simmel suggested that the addition of a third participant in a group created new tensions and opportunities. When the other two participants had limited prior affiliation or interpersonal trust, an individual who comprised the third element of the triad could assume the role of a broker or intermediary. A broker with self-serving motivations was identified by Simmel as the *tertius gaudens* (or the "third who enjoys"), since s/he could derive benefit from potential conflict between the other two members of the group (Simmel 1908a [1950]: 154-155). In contemporary structural sociology, this arrangement is seen by Ronald Burt as a defining characteristic of entrepreneurial activity: "when you take the opportunity to be the *tertius*, you are an entrepreneur in the literal sense of the word – a person who generates profit from being between others … [E]ntrepreneur refers to a kind of behavior, the *tertius* is a successful entrepreneur" (Burt 1992: 34).

Recent work on entrepreneurial groups has documented the impact of the *tertius* role on economic inequality within business partnerships. In one nationally-representative sample of U.S. founding teams, the equity share held by participating entrepreneurs was significantly higher when they assumed brokerage positions, mediating between weakly connected partners (Ruef 2009a). Consistent as well with Simmel's intuitions, however, the exercise of the *tertius* strategy was not appropriate in all contexts. As he (Simmel 1908a [1950]: 159) argued, "the advantage accruing to the *tertius* derives from the fact that he has an equal, *equally independent*, and for this reason decisive relation to two others" (italics added). Where entrepreneurs serve in a mediating position between their spouses or kin, who are co-owners in a startup business, and other partners, their lack of independence can lead to strong norms against the "divide and conquer" strategy of the *tertius gaudens*. Consequently, the empirical evidence for the U.S. suggests that entrepreneurs do not derive a greater equity stake in such contexts than would be expected in the absence of brokerage opportunities (Ruef 2009a). By the same token, David Obstfeld (2005) has found that an alternative strategy – the *tertius iungens* (or "third who joins") – may apply when an entrepreneur seeks to act as a non-partisan mediator between two disconnected parties.

Aside from his analysis of the *tertius gaudens*, Simmel's work has other implications for contemporary work on entrepreneurial groups. His essay on "The Stranger", for instance, highlighted the relationship between outsider status and middleman entrepreneurs, who make a living from intermediate trade between otherwise closed societies (Simmel 1908b [1950]). These middleman entrepreneurs are distinguished by their contact with diverse segments of society, but they lack an "organic" connection, "through ties of kinship, locality, and occupation, with any single one" (ibid: 404). A theoretical implication that follows from this claim is that an in-group affiliation bias should be sustained among middleman minorities, despite their regular contact with out-group members (typically, in the role of customers or suppliers). Recent statistics on homophilous (in-group) affiliations in entrepreneurial partnerships tend to support this contention. Among U.S. startups in 1998, for instance, the rate at which minority entrepreneurs formed new businesses with members of their own ethnic group was over 800 times the rate expected under a model of random mixing, while the comparable rate for white entrepreneurs was over 100 times random expectations (Ruef et al. 2003: Table 9, Model 3).

In other work, Simmel highlighted the effect of group size and composition on cohesiveness. He argued that group "solidarity decreases in the measure in which numerical increase involves the admission of heterogeneous individual elements" (1908a [1950]: 95). Again, his theory bears directly on modern conceptions of entrepreneurial groups, particularly the tension between a desire for functional diversification and the interpersonal conflict that may result from team heterogeneity (Ensley 1999). This paradox – which also pertains to top management teams more generally (Amason 1996) – was anticipated by Simmel in terms of "the disadvantages for cohesion and unity" following from increases in group size, coupled with the "advantages of nearing [functional] completeness" (ibid).

Following Simmel, structural sociology moved in two (quite distinctive) directions, each of which bears on the analysis of entrepreneurial groups. One direction involved the post-World War II development of *sociometry*, the formal methodological toolkit for collecting data on and analyzing social networks (see Wasserman and Faust 1994 for a systematic overview). While network analysts, on the whole, only gradually recognized the relevance of their framework for entrepreneurial behavior, it is now well-established that "most forms of entrepreneurship are centered around firms and interaction rather than around the activities of a single, heroic actor" (Swedberg and Granovetter 2001: 12-13). Some crucial theoretical milestones in the development of this relational view of entrepreneurial groups have been Mark Granovetter's (1985) influential statement on the "embeddedness" of economic life and Burt's (1992) conceptualization of the "network entrepreneur", both of which exhibit a strong Simmelian pedigree.

The other direction is the relationship of social structure outside of the organization to the internal dynamics of the entrepreneurial venture (Aldrich 2007 [1979]). Arthur Stinchcombe's path-breaking (1965) essay re-ignited sociological interest in this topic, emphasizing the fragility of entrepreneurial groups that formed without the benefit of pre-existing relationships that could be imported into startup enterprises. For entrepreneurial teams, "the process of inventing new roles, the determination of their mutual relations and of structuring the field of rewards and sanctions ... have high costs in time, worry, conflict, and temporary inefficiency" (1965: 148). These problems of organizational learning are compounded because "new organizations must rely heavily on social relations among strangers" (149), producing networks within the group that may be threatened by a lack of interpersonal trust. Stinchcombe argued that the problems could be mitigated by institutions – such as universalistic laws, religious norms, and contractual instruments – that enforce agreements developed among strangers.[5] These institutions seem to figure prominently in the history of entrepreneurial groups discussed in the previous section, with the *bilateral commenda*, for instance, providing a legal foundation for agency relationships in late medieval trade in the Mediterranean and Buddhist oaths serving a similar function among entrepreneurial *hijiri* in Japan.

In both the modern network and macro-structural treatments of entrepreneurship, we continue to see the sociological concepts (e.g. the 'tertius gaudens', the 'stranger') introduced by Georg Simmel. His legacy has had a far-reaching effect on the structural analysis of entrepreneurs and groups. Some contemporary analysts of entrepreneurial phenomena frame their analysis explicitly in Simmelian terms (Burt 1992, 2000; Ruef 2002; Obstfeld 2005; Aldrich and Kim 2007). In other cases, such as the wide-ranging literature on social networks and

[5] The severity of these problems also depends on the culture that is adopted by entrepreneurial groups from the broader community, including "norms concerning the extent of solidarity, norms about whose troubles one has to worry about and to contribute to alleviate" (Stinchcombe 1965: 187).

business founding (e.g. Baker and Nelson 2005; Renzulli et al. 2000), the intellectual debt is palpable yet unstated. What seems clear is that our understanding of the structural features of entrepreneurial groups – including size, diversity, in-group bias, brokerage, and potential for conflict -- would be diminished without Simmel's pioneering work.

Coase's Theory of the Firm

The theory of the firm developed by the British economist Ronald Coase (1910-) is widely recognized as a cornerstone of modern institutional economics. Nevertheless, at first glance, its implications for entrepreneurial groups may seem far from obvious. Oliver Williamson, Coase's most influential and active proponent, writes that the theory of the firm highlighted the fact that, in addition to the price mechanism of the market, the "economic system is also made up of subsystems, of which the *large corporation* is a conspicuous member" (Williamson and Winter 1993: 3, italics added). When we survey the contemporary literature on the governance of firms, much of it is devoted to the analysis of large and mature enterprises (see David and Han [2004] for a review). Closer scrutiny of Coase's seminal work suggests, however, that in both terminology and content, there is much effort to address the nature of the entrepreneurial firm. Moreover, contemporary economic work on the formation of entrepreneurial partnerships has drawn extensively from Coase's inspiration.

The 'Nature of the Firm' (1937) considers two "co-ordinating instruments" in the economy – one being the price mechanism and the other being the "co-ordinating function of the 'entrepreneur' " – and asks "why co-ordination is the work of the price mechanism in one case and of the entrepreneur in another" (p. 389). The central feature of Coase's response, now well rehearsed by students of transaction cost economics, is that the price mechanism imposes costs on market exchange (through problems of contract enforcement, monitoring, and the like) that can be alleviated by the entrepreneur who is coordinating similar transactions within the business firm. The 'transactional' view, in turn, leads Coase to his definition of the firm, which "consists of the system of relationships which comes into existence when the direction of resources is dependent on an entrepreneur" (Coase 1937: 393).

When this system of relationships involves a set of other entrepreneurs, then Coase's definition circumscribes the boundaries of the entrepreneurial group. The size of the group "becomes larger as additional transactions (which could be exchange transactions co-ordinated through the price mechanism) are organised by the [focal] entrepreneur and becomes smaller as he [*sic*] abandons the organisation of such transactions" (ibid). Coase defines the process of *combination* as an event "when transactions which were previously organised by two or more entrepreneurs become organised by one" and contrasts this with *integration*, which "involves the organisation of transactions which were previously carried out between the entrepreneurs on a market" (397-398). As in all facets of the theory of the firm, the decision as to when an entrepreneur should seek out combination or integration (and, thus, form a venture with greater transactional scope) depends on the costs of organizing, the likelihood that the entrepreneur will make 'mistakes' that would otherwise be corrected in the market, and the economies of scale that accrue to the entrepreneurial group.

By most accounts, Ronald Coase's article only exercised a limited influence in the decades after it was published (see Coase 1988 for a retrospective). Even after its resuscitation by Williamson in the 1970s, the initial impetus of transaction economics steered the theory of the firm away from small, entrepreneurial ventures (Williamson 1975, 1985). Nevertheless, recent applications have highlighted the relevance of Coase's ideas for entrepreneurial groups. In a model of the allocation of rights in venture capital contracts, for instance, Thomas Hellmann (1998) proposes that the willingness of an entrepreneur to give up control rights to an outside investor (e.g. permitting the replacement of the entrepreneur by a professional manager) is partially a function of the entrepreneur's wealth constraints and equity stake. As in Coase's formulation, the decision also hinges on the relative productivity of entrepreneurs (e.g. ability to achieve low organizing costs) compared to professional management (Hellmann 1998: 60). Similarly, in a study of joint ventures between Chinese and foreign partners, Chong-En Bai and his colleagues (2004) offer a theoretical model that emphasizes the private economic benefits and verifiable payoff to both partners as influencing the character of control-right and revenue sharing arrangements. Both Bai and colleagues and Hellmann build on the transaction cost economics (TCE) of Williamson (1985), which addresses the implications of opportunism, bounded rationality, and incomplete contracting for the allocation of control rights in business firms. Their approaches differ from TCE insofar as they consider features of entrepreneurial groups (e.g. founder replacement, revenue sharing) that tend to be ignored in Williamson's focus on mature businesses.

One of the most explicitly historical efforts to develop Coase's ideas in order to understand entrepreneurial partnerships can be found in Avner Greif's (2006) influential text on medieval trade. As Greif points out, a central problem in long distance mercantile exchange at the time was the reliance of entrepreneurs on overseas agents, a contractual partnership fraught with uncertainty and potential for theft or malfeasance. One possible solution – emphasized in other treatments of these partnerships (e.g. Rosenberg and Birdzell 1986) – is that these mercantile relationships would only be reliable if they were constructed on the basis of a "natural group", the family. Like Coase, Greif sought to identify other institutions and organizational arrangements that were able to reduce the transaction costs inherent in these affiliations.

A response that arose serendipitously among the (Jewish) Maghribi traders in the 11th century was the creation of a reputational mechanism that reflected past mercantile conduct. As Greif writes (1989: 862), "the Maghribi traders did not establish a separate religious-ethnic community ... nor did they represent a 'natural' group, which binds together individuals in all (or at least most) important aspects of their lives". But these traders did operate on a repeated basis through business associates and, in that process, constituted an informal entrepreneurial group – which Greif terms a "coalition". The Maghribi coalition was sustained by several institutional mechanisms, few of them sanctioned formally by law in the medieval states of the Mediterranean basin. Perhaps foremost among these, according to Greif, was an implicit contract that governed the relationships among coalition members. Maghribi traders agreed to only employ other coalition members as agents and to pay them a premium for their mercantile services. In addition, "all coalition merchants agree[d] never to employ an agent who cheated while operating for a coalition member" and were permitted to cheat any trader who had previously cheated a member of the coalition (Greif 1989: 868). Like Coase's 'firm', then, Greif's Maghribi coalition offered an organizational solution to the problem of rampant transaction costs in the open market.

Greif's research demonstrates that the concept of transaction costs can have wide-ranging implications for our understanding of entrepreneurial coordination in social groups. The Maghribi coalition represents a relatively informal organizational arrangement for managing these costs. Another – more formalized – arrangement identified by Greif was the merchant's guild, which was especially prevalent among the traders of the German *Hansestädte* (2006: Chapter 4). These exemplars flesh out the abstract features of the Coasian firm and illustrate how transactions costs may affect the nature of organizational activities among entrepreneurs. By cataloguing other organizational arrangements and the solutions they offer to instances of market (or state) failure, institutional economists can fruitfully extend Coase's approach to a variety of historical cases of entrepreneurial groups.

Olson's Theory of Collective Action

Mancur Olson (1932-1998) is often credited with introducing the analysis of groups with shared interests into economics. In his classic book on the *Logic of Collective Action*, Olson addressed the "free rider" problem, whereby the contributions offered by group members toward collective goals decline with increases in group size.[6] The free rider problem tends to arise in groups, such as entrepreneurial teams, where access to collective rewards (e.g. startup profits) is defined in advance and, for any given group member, is not contingent on their subsequent effort. A strong version of this dilemma applies when entrepreneurial groups formally specify ownership shares (and other benefits) early in the startup process based only on the ostensible competencies and traits of owner-managers, with little provision for sanctioning entrepreneurs whose subsequent investment of time, ideas, or other resources falls short of expectations. More commonly, there is not a complete "impossibility of exclusion" from collective goods (Hardin 1982; Oliver 1993), since business partnerships retain some ability to remove lackadaisical participants from the group. Still, the process of exclusion from the group imposes sufficient burden and turmoil that the free rider problem remains highly salient even in these contexts.

Given the assumptions that (a) group members cannot be excluded from collective benefits (at least not without burden) and that (b) those benefits are produced jointly through the actions of group members, Olson argued that rational individuals would engage in shirking behavior, especially within larger groups where the link between individual effort and collective outcomes was less tangible. Applying his theory to business partnerships, Olson wrote:

> "The fact that the [business] partnership can be a workable institutional form when the number of partners is quite small, but is generally unsuccessful when the number of partners is very large, may provide another illustration of the advantages of smaller groups. When a partnership has many members, the individual partner observes that his [*sic*] own effort or contribution will not greatly affect the performance of the enterprise, and expects that he will get his prearranged share of the earnings whether or not he contributes as much as he could have done. The earnings of a partnership, in which each

[6] The "free rider" problem, *per se*, did not originate with Olson, but enjoys a long scholarly pedigree extending back to Hume and Rousseau, among others (see Frohlich and Oppenheimer 1970: 104-106). Paul Samuelson first formulated the problem in economic terms.

> partner gets a prearranged percentage of the return, are a collective good to the partners, and when the number of partners increases, the incentive for each partner to work for the welfare of the enterprise lessens." (Olson 1971 [1965]: 55)

In Olson's perspective, there are compositional features of social groups that serve to mitigate the free rider problem. Particularly important, in this respect, are social incentives that encourage individuals to contribute, even when they might otherwise be inclined toward free riding. Olson distinguishes between groups bound by strong pre-existing social relationships and those that lack such interpersonal ties: "if a small group of people who had an interest in a collective good happened also to be personal friends .... and some of the group left the burden of providing that collective good on others, they might, even if they gained economically by this course of action, lose socially by it, and the social loss might outweigh the economic gain" (ibid: 60). Part of the reason that strong social networks are crucial to mitigating free riding is that they offer selective incentives to individuals that must not be explicitly agreed upon or paid for by other members of the group. As a consequence, these social incentives avoid the circularity inherent in the provision of private economic incentives to resolve the collective action problem, in which one collective action problem (the provision of collective goods) begets another (the creation of a system of selective incentives to resolve that problem).

During the late 1960s, the impact of Olson's monograph on the study of entrepreneurship was immediate, especially when 'entrepreneurs' are defined broadly to include actors in the political as well as the business realm. In the revised edition of the book, in 1971, Olson wrote that "some recent writers, in discussions of the difficulty of providing collective goods for unorganized groups, have introduced the idea of the entrepreneur who might help a group obtain a collective good it lacked" (1971: 173). Frohlich and Oppenheimer (1970, 1972), for instance, advocated an entrepreneurial theory of political behavior that was developed explicitly based on Olson's ideas. The earliest formulation of such a theory was advanced by Robert Salisbury

(1969), distinguishing between lead entrepreneurs, who develop an incentive structure for a new organization, and mere supporters, who are offered these incentives at the opportunity cost of organizational membership. In Salisbury's framing, the successful emergence of new organizations hinges on the particular mix of benefits – material, solidary, and expressive – between lead entrepreneurs and supporters. Olson's problem of collective action was thus re-formulated as a problem of exchange within a group.[7]

Despite its origin as a theory of economic groups, Olson's theory has since been applied almost exclusively to the formation of groups outside the world of business.[8] As Nownes and Neeley (1996: 122) write, "Olson's logic remains the dominant paradigm for explaining the formation (or lack of formation) of non-economic and public interest groups". In their own study of public interest group founders, Nownes and Neeley identified only partial support for an exchange-theoretic formulation of Olson's thesis: "virtually all entrepreneurs noted that they [could] offer charter members nothing in return for their support ... a member responding to initial entrepreneurial pleas has little or no prospect of personal or collective gain" (137). Still, political scientists have routinely invoked Olson in drawing a link between entrepreneurs and political groups (e.g. Moe 1988; Schneider and Teske 1992; Ainsworth and Sened 1993)

Some of these contributors have also raised questions about the relevance of Olson's theory of collective action for new business partnerships. Owing to the free rider problem, Schneider and Teske (1992: 741) suggest that the "stereotypical private sector entrepreneur works alone or in a small organization, thus solving collective action problems by avoiding collectivities". By contrast, "a public sector entrepreneur is much more likely to need a collective

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[7] Salisbury's formulation owes an obvious (and acknowledged) debt to two previous intellectual traditions in the social sciences, one being the exchange theory framework in sociology, as advanced by George Homans (1961) and Peter Blau (1964); the other being the theory of incentives in organizations, first put forward by Chester Barnard (1938) and subsequently advanced by Clark and Wilson (1961). What appears novel about Salisbury's treatment is that he explicitly ties exchange theory and the balance of incentives among members to the creation of new organizations, rather than the survival of existing ones.

[8] This coincides with the welcoming reception accorded to Olson's theory of collective action among political scientists and comparatively luke-warm reaction in contemporary economic theories of organizations.

group foundation to survive and prosper in the political marketplace." Nownes and Neeley (1996) approach the issue from a different angle, suggesting that the free rider thesis may apply to the maintenance of effort in established groups, rather than the elicitation of effort in new ones. This will be true, in particular, if newly formed organizations tend to receive substantial support from specific patrons, while older organizations rely on the incremental support of a broader set of supporters.[9]

To test the applicability of the theory of collective action to business partnerships, I conducted a recent empirical study of entrepreneurial effort (hours worked and additional funds invested) among a nationally representative sample of startups (Ruef 2009b: Chapter 7). As anticipated by Olson's thesis, effort decreased substantially as the number of owners in an entrepreneurial group grew larger. Olson also argued that the free rider problem could be resolved in face-to-face groups through social pressures created by intimate bonds among participants. In an entrepreneurial context, a particularly important source of such pressure involves the substantial number of ties between spouses and cohabiting (intimate) partners. Where such ties exist, we expect little free riding among entrepreneurs, since shirking in the amount of time and money devoted to the venture has immediate repercussions in the domestic realm. Consistent with these intuitions, I found that the free rider problem – i.e. the covariation of group size and level of entrepreneurial effort – was absent when a group of business startup owners included intimate partners.

The importance of Olson's theory for the formation of political groups is widely acknowledged, but its implications for entrepreneurial activity in other sectors (e.g. business or social entrepreneurship) would benefit from further attention. Olson's entrepreneur also retains an unusually heroic persona, often serving as a *deus ex machina* to resolve the (otherwise)

[9] There are other well-known critiques of Olson's argument that will not be reviewed here. Useful overviews can be found in Hardin (1982) and Oliver (1993).

unsolvable problem of collective action. This heroic attribution was pursued by Olson himself, when he wrote that the:

> "[E]ntrepreneur, who is generally trusted (or feared), or who can guess who is bluffing in the bargaining, or who can simply save bargaining time, can sometimes work out an arrangement that is better for all concerned than any outcome that could emerge without entrepreneurial leadership or organization." (1971: 175)

As Olson acknowledged, such heroic visions must be tempered by the constraints on entrepreneurial groups: entrepreneurs "strive mightily to organize large groups ... [but] many of [these efforts] will come to naught" (176).[10] The puzzle for a theory of collective action is identifying the social conditions and incentives under which entrepreneurs can develop stable and successful groups that produce collective goods.

Theories of Ethnic Enterprise

The last classical theory of entrepreneurial groups that I will review does not derive from the work of a single scholar, but, rather, from the work of a set of sociologists who reinvigorated interest in ethnic enterprise during the early 1970s. On a sporadic basis, one can readily locate earlier articles and monographs on ethnicity and entrepreneurship, such as Rose Lee's (1949) research on the changing organizational structure of Chinatown businesses. In the United States, there was also a sustained intellectual tradition that addressed entrepreneurial activity among African-Americans, including such influential works as E. Franklin Frazier's (1957) *Black Bourgeoisie* and W. E. B. DuBois's (1899) *Negro in Business*. Arguably, however, it was not

[10] Consequently, the entrepreneurial partnerships in representative samples tend to be small. In the contemporary United States, most business startups involve one or two founders, occasionally three or four, and seldom five or more (Ruef et al. 2003).

until the 1970s that sociologists developed a general *theory* of ethnic enterprise, as opposed to the empirical generalizations that were found in much of the preceding scholarship.[11]

Three scholars – Ivan Light, Edna Bonacich, and Howard Aldrich – were especially influential in developing the theory of ethnic enterprise and cultivating its implications for entrepreneurial groups. Light's (1972) *Ethnic Enterprise in America* offered one of the first comparative examinations of entrepreneurial activity across a number of ethnic categories, including Chinese, Japanese, and African-Americans. The puzzle identified by Light was that the Chinese and Japanese immigrants were historically "poor and visibly non-European and were subject to racial discrimination on that account ... [the] very qualities [that] tended to force [them] into the classic small business occupations with which they have now become identified in the popular mind" (1972: 5-6). At the same time, blacks, who were located in a similarly disadvantaged social location, lacked a corresponding level of prevalence among small business owners. Quoting Nathan Glazer and Daniel Moynihan on the same point, Light noted that the "complete absence of a business class" among African-Americans was "especially perplexing" (p. 4).[12]

According to Light, the theoretical solution to this puzzle lay in group processes. Descriptively, this could already be seen to some extent in the comparative propensity of Asians and African-Americans to form entrepreneurial groups: "there was a noteworthy tendency of Chinese and Japanese to operate partnerships with more than one owner ... while most of the black stores were solo proprietorships employing no hired labor" (p. 11). This difference in associational propensity may have proven to be minor, had it not also reflected on the ability of entrepreneurs from these different ethnic categories to secure business financing. Light suggested

[11] Given a sufficiently generous interpretation, a research interest in ethnic enterprise can also be traced back to Weber and Simmel, who noted the propensity of individuals assuming a marginalized identity in a society to band together for economic survival.

[12] To a large extent, this empirical generalization is historically contingent. Between the late 1990s and the present, rates of entrepreneurship among African-Americans have tended to be higher than those among whites in the United States (Ruef 2009b).

that the Chinese and Japanese had imported institutions – such as rotating credit associations (*hu* in China and *ko* in Japan) – which made it easier to capitalize small businesses, while similar institutional traditions from Africa and the Carribean (e.g. the West African *esusu*) "vanished from [the] cultural repertoire" (p. 36) of American-born blacks during slavery and beyond. The rotating credit associations were essential, not only as a means of distributing capital, but as a system of mutual trust among Chinese and Japanese immigrants. In Light's theory, it was the absence of group generalized exchange that accounted for the dampened entrepreneurial activity among blacks in America.

Extending Light's insights, Edna Bonacich (1973) developed a theory of "middleman minorities", entrepreneurs from minority ethnic groups who assume an intermediary mercantile position between producer and consumer.[13] Internationally, a variety of ethnic minorities – such as the Chinese of Southeast Asia, Indians in East Africa, Jews in Europe, or Armenians in Turkey – have taken on this role in host societies outside of their own. Like Light, Bonacich acknowledged that part of the catalyst for entrepreneurship among these minorities was the hostility of the host society and the effects of "sojourning", a form of temporary migration in which individuals plan to return to their homeland once their economic or political prospects have improved. But these are merely necessary, not sufficient conditions for middleman entrepreneurship. The missing variable, according to Bonacich's theory, was the appearance of "a general 'group' orientation," which is "undoubtedly a product of conditions in the country of emigration" (1973: 584). This group orientation yields an unusually high level of solidarity among middleman minorities, marked by features such as marital homogamy, residential self-segregation, the perpetuation of a distinct language and education, and an avoidance of political activism in the host society (except when the minority group itself is threatened). For middleman

[13] Unlike Burt's (2000) "network entrepreneur", this conceptualization does not automatically equate entrepreneurship with the act of brokerage. Bonacich notes that many forms of entrepreneurship – such as those found in the agricultural or industrial sectors – tend to be excluded from the occupational repertoire of middleman minorities.

entrepreneurs, in turn, this communal solidarity reinforces "family, regional, dialect, sect, and ultimately ethnic ties" that distribute business credit and information, allow for the recruitment of inexpensive labor, and place informal limits on business competition with co-ethnics (p. 586).

A third component of the classical perspective on ethnic enterprise involves the ecological succession of neighborhoods and how it impacts startup opportunities for entrepreneurs and their co-ethnic partners. Theories of 'ecological succession' – how one ethnic population in a neighborhood (or other urban region) replaces another – could be traced back to the Chicago School of Robert Park, Ernest Burgess, and their collaborators in the 1920s and 30s (Aldrich 1975). Although subsequent investigators also hypothesized that these residential changes would be associated with changes in the ecology of businesses, the thesis received little empirical attention until the 1970s. Howard Aldrich, along with his long-time collaborator Albert Reiss, proposed a number of parallels between residential turnover and the character of ethnic enterprise. Among black-owned business, for instance, the "removal of white-owned competition allows black businessmen to occupy types of businesses previously closed to them[;] as white businessmen leave the more desirable niches in the business structure, we would expect black and Puerto Rican entrepreneurs to move quickly to fill them" (1976: 848). These succession dynamics occur not just because of commercial vacancies in a neighborhood, but because ethnic enterprise has a 'group' orientation. The mix of businesses in a neighborhood must be responsive to the fact that a "new [ethnic] population [often] has different tastes and lower income" (Aldrich 1975: 339). Ethnic business enterprises may also be dependent on other 'new' ethnic organizations – newspapers, churches, and voluntary associations – to attract business partners, workers, and customers or, more generally, to promote their efforts within the local community.

Pioneered over thirty years ago, theories of ethnic enterprise have inspired a rich and cumulative body of scholarship. It will not be possible in the remainder of this section to review the numerous branches of this literature exhaustively (see Aldrich and Waldinger [1990] and Light [2005] for useful summaries), though several strands of research stand out. One area of intense empirical and theoretical attention has involved the entrepreneurial groups that arise from ethnic enclaves. Empirical debates in this area have often centered on the question as to whether the segregation and solidarity associated with ethnic enclaves generates economic benefits for immigrants; and, in particular, whether these benefits differ between entrepreneurs and non-entrepreneurs (Sanders and Nee 1987; Portes and Jensen 1989; Portes and Zhou 1996). Theoretical refinement of the enclave concept has emphasized the co-occurrence of ethnic enterprises in a given geographic locale and the implications this generates for social networks among entrepreneurs and their co-ethnic employees (Portes and Shafer 2007).

A related development has been the testing of theories bearing on ethnic enclaves and ecological succession in countries aside from the United States. Aldrich and colleagues (1985) found that segregation and social distance explained much of the contact between shopkeepers and customers in three urban areas of England. A follow-up study in the same region detailed the social networks of Asian and white shopkeepers, finding that both ethnic groups relied heavily on kin and friends in starting and sustaining new businesses, with some variation in capitalization and parental background (Zimmer and Aldrich 1987). Despite considerable differences in migration histories and political systems, the ecological succession of small Asian-owned businesses in the English context closely resembled the pattern found among black and Puerto Rican entrepreneurs in the United States (Aldrich et al. 1989; Aldrich and Reiss 1976).

Recent work on ethnic identity and social networks has also considered the cross-national character of many ethnic entrepreneurial groups themselves. As Alejandro Portes and his colleagues note, “instead of focusing on traditional concerns about [the] origins of immigrants and their adaptation to receiving societies, this emerging perspective concentrates on the continuing relations between immigrants and their places of origin” (2002: 279). Using data on respondents who had migrated to the United States from Colombia, the Dominican Republic, or El Salvador, Portes and his co-authors found that the social networks of Latino immigrant entrepreneurs contained a large number of non-local ties, with the ratio of non-local to local ties averaging 0.77 to 1. The prevalence of a transnational orientation among immigrant entrepreneurs has likewise received extensive qualitative attention, including Annalee Saxenian's (2006) recent monograph on Indian, Chinese, and Israeli entrepreneurs in Silicon Valley, which documents the ability of entrepreneurial groups to overcome international trade barriers and connect regional economies.

Research on ethnic enterprise has thus sustained several insights from the pioneering work of Light, Bonacich, and Aldrich. First, there is an understanding that ethnic identity, apart from the economic circumstances of the entrepreneur, produces both opportunities and constraints in the creation of new organizations. Second, the reason for the pervasive effect of ethnic identity is the "group orientation" it entails; as Aldrich and Waldinger (1990: 112) note, "what is 'ethnic' about ethnic enterprise may be no more than a set of connections and regular patterns of interaction among people sharing common national background or migratory experiences." Finally, there is an inherently comparative aspect to the study of these entrepreneurial groups – contrasting their activities and performance across ethnic enclaves, across generations, and across locales (Granovetter 1995).

Conclusion

If the classical perspectives on entrepreneurial groups had fallen into disuse, then this review would be largely of historical interest. But, as the preceding discussion has suggested, contemporary observers of new business and political ventures continue to draw extensively on the legacy of Simmel, Coase, and Olson, as well as the theories of ethnic enterprise developed by sociologists in the 1970s. In this concluding section, I will seek to identify the central questions that animate these perspectives and how they relate to one another. I will also address some respects in which the classical perspectives are underutilized by research on 'founding teams' that appears in specialized entrepreneurship journals.

[Insert Figure 2 About Here]

Figure 2 offers a basic typology of the classical perspectives and the central research questions they pose. One obvious distinction among the perspectives is disciplinary. The work of Georg Simmel and the scholarship on ethnic enterprise is rooted in sociology, and thus has a stronger emphasis on the identity and informal relationships among participants in entrepreneurial groups. By contrast, the work of Ronald Coase and Mancur Olson is rooted in economics (or, in the latter case, perhaps political economy), and thus has a stronger emphasis on the incentives and costs incurred among participants, as well as the 'productivity' of entrepreneurial groups as a whole. While these disciplines sometimes share explanatory variables, the outcomes they highlight tend to be distinctive. For instance, both Simmel and Olson consider size to be a crucial feature of entrepreneurial groups. In Simmel's structural sociology, the question is how the increasing size of a group will affect its level of internal cohesion and conflict. In Olson's logic of collective action, the question is how the increasing size of a group will affect the level of entrepreneurial effort on the part of each participant.

The other distinction among the classical perspectives is more subtle, pertaining to their tendency to address features of group structure *as a whole* (e.g. size, heterogeneity, relational composition) or features of the individual members or transactions *that constitute a group* (demography, benefits, costs). Applying this standard, the explanations of Simmel and Olson are both structural in nature. By contrast, theories of ethnic enterprise tend to infer that entrepreneurs have access to supportive institutions in an ethnic community -- such as rotating credit associations -- by virtue of their individual demographic characteristics. Similarly, Coase's theory of the firm argues that individual transactions are the appropriate units of analysis in judging what exchanges should be internal to the entrepreneurial firm and what exchanges should occur on the open market. The structure of the entrepreneurial group, as a whole, is somewhat ancillary to these concerns.

The classical perspectives on entrepreneurial groups thus offer variation in both their units of analysis and disciplinary orientation, features that – in turn – allow these perspectives to pose a rich array of research questions concerning entrepreneurial outcomes. Despite their impact on disciplinary research, what remains remarkable is that little of the literature in business management (and, particularly, in specialized journals on entrepreneurship) makes much use of the classical perspectives. Even early contributions in business management that examined the effects of founding team composition (e.g. Eisenhardt and Schoonhoven 1990) were relatively selective in their references, often emphasizing highly-cited precursors (such as Stinchcombe 1965) while ignoring the broader historical body of work on entrepreneurial groups. Considering our understanding of entrepreneurial groups, the consequences of this elision are not merely ones of historical myopia. Many of the questions posed by the classical perspectives have received only partial answers in contemporary empirical research.

It is hoped that this review will help stimulate entrepreneurship scholars to think further about the issues of group conflict and cohesion as raised by Simmel, transaction costs as raised by Coase, free-riding as raised by Olson, and ethnic solidarity as raised by scholars of ethnic enterprise. What may be especially promising are analyses of entrepreneurial groups that employ more than one of these classical perspectives simultaneously. How do brokerage opportunities and ethnic identities combine, for instance, to affect the distribution of rewards in business partnerships? Can the loss of entrepreneurial effort due to free-riding in large startup teams be offset by reductions in transaction costs? Scholars who draw on several of the classical perspectives will be well-positioned to answer such questions about the structure and effects of entrepreneurial groups.

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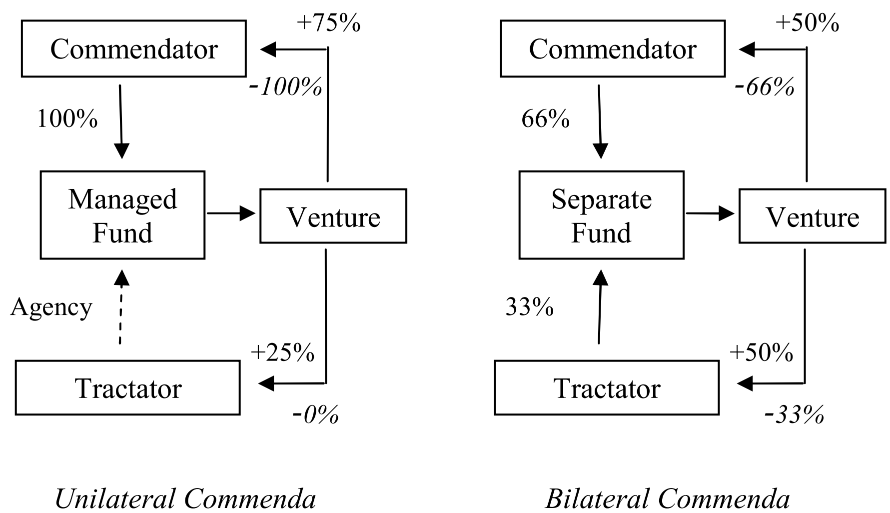
Figure 1. The Organizational Structure of Two Medieval Forms of Entrepreneurial Partnership (Ruef and Lounsbury [2007: 8]; based on Weber [2003])



Note: Positive percentages correspond to financial contributions and shares of profit. Negative percentages correspond to losses borne by each partner.

Figure 2. Classical Perspectives on Entrepreneurial Groups in the Social Sciences

		Disciplinary Orientation	
		Sociology	*Economics*
Conceptual Emphasis	*Group Structure* (Size, Relationships, Heterogeneity, etc.)	Classical Antecedent: Georg Simmel Question: How does the structure of a group generate potential for conflict, cohesion, or opportunity? Contemporary Example: Burt (2004)	Classical Antecedent: Mancur Olson Question: How does the structure of a group impact individual effort and the potential for collective action? Contemporary Example: Nownes and Neeley (1996)
	Characteristics of Members / Transactions (Demography, Benefits, Costs)	Classical Antecedent: Theories of Ethnic Enterprise Question: How does membership in an (ethnic) group yield access to capital, information, and other support? Contemporary Example: Portes, Haller, and Guarnizo (2002)	Classical Antecedent: Ronald Coase Question: How does membership in a group reduce costs that would be incurred in an open market? Contemporary Example: Greif (2006)