

Surviving or Thriving

Social Framing, Spatial Embeddedness, and Venture Performance

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Instagram (San Francisco, CA)

2010 : \$500,000 seed round

2011 : \$7 million Series A

2012: \$50 million Series B

2012: bought for \$1 billion
by Facebook

- Little revenue
- Negative cash flow
- Age 2.5 years

- Annual growth ?







Dart Container Corp (Mason, Michigan)

- Founded 1960
- 4,950 employees in MI
 - largest employer in Mason
 - privately and locally owned
- Development loans and tax breaks from State of Michigan and Ingham County
- **3% average annual growth**



Outcome perceptions depend on the community framing

	Instagram	Dart Corp.
Silicon Valley view	A success:  <ul style="list-style-type: none"> • Rapid growth • Technical product • Big payoff for investors 	Not a success:  <ul style="list-style-type: none"> • Slow growth • Non-technical product • Privately held by founders
Michigan view	Not a success:  <ul style="list-style-type: none"> • Few employees • Focus on financial gain • HQ and jobs quickly moved away 	A success:  <ul style="list-style-type: none"> • Substantial employment • Stable employment • Civic community involvement

AN ELECTRIC EXAMPLE

- Lincoln Electric
 - founded 1890's, operates in dozens of countries, is publically listed
 - Lincoln Electric is committed to its workforce:
 - it has paid out a profit-sharing program since 1934 (currently 32% of earnings).
 - The firm was founded has had a no-layoff policy since 1958.
 - CEO, John Stropki said "we see that our obligation to these workers who help us create value for our shareholders and help us serve our customers as ... not mutually exclusive considerations."
- General Electric
 - founded 1890's, operates in dozens of countries, is publically listed
 - General Electric frequently reduces employment
 - cut 100,000 jobs under Jack Welch's 20-year leadership.
 - Since CEO Immelt took over in 2001, GE has acquired hundreds of firms yet laid off as many
 - Today GE employs more people overseas than in the US.
 - Immelt said, "I work for investors. Investors want to see us grow earnings and cash flow."

Query

What explains these divergent framings and outcomes?



Community and Organizations

- Effect of community on organization objectives
 - Organization objective arise from community values (Polyani 1944, Marquis and Battalana 2009)
 - Communities shape a firm's identity (Glynn, Halgin 2014)

- Effect of community on organization capabilities
 - Social relationships serve as channels of information about opportunities (Audia, Freeman & Reynolds 2006)
 - Knowledge spillovers (Powell, Koput & Smith-Doerr, 1996)
 - Knowledge of opportunities, and the resources to use them (Uzzi 1999; Jack & Anderson, 2002; Burh & Owen-Smith, 2010; Birley, 1986)
 - Resources for growth by clustering in a resource rich environment (Stuart Sorenson 2003)

Communities benefit from organizations

- Communities also gain from, organizations
 - Employment
 - Social network creation and cohesion
 - Social outputs
- Community members thus have a *dual nature*
 - They provide resource benefits to organizations
 - They benefit the communities by belonging to organizations



Our Thought

- Key idea: The nature of employment
 - Employment is framed economically as an **INPUT**
 - Employment is framed in local communities as an **OUTPUT**
- When employment is framed as an **OUTPUT** - the *objectives* of an organization focus on *employment*
- When employment is framed as an **OUTPUT** - the *objectives* of an organization focus on *stability*
- When employment is framed as an **INPUT**, the *objectives* of an organization focus on *growth*

Community, Firms, Employees

- The dual role that communities place on employment is important
 - If differing community values explain diverse firm to resolves the theoretical conundrum of why:
 - Some firms moderate their growth to preserve stability (Uzzi, 1996).
 - Firm growth is attenuated when deeply embedded in a community (Maurer & Ebers, 2006; Rowley, Behrens & Krackhardt, 2000) and survival is affected(Uzzi 1999)
 - Researchers risk evaluating firm-level performance inappropriately.
 - if a firm emphasizes survival, survival may be an appropriate dependent variable but sales growth might not.
- This unique aspect of employment shapes the actions and outcomes of the organization.
 - We contribute a fresh understanding of non-linear embeddedness effects on firm performance
 - We contribute a fresh understanding of the growing concern over how resources become restricted in an era of increasing electronic communication (Haveman & Rider, 2011).
 - We also provide a theoretical separation of survival from growth in entrepreneurial studies.
- Thus, we bring the forces of the community to the forefront of entrepreneurship theory

Predictions

- Prior literature on local embeddedness
 - predicts that as embedding in a local setting
 - advances then retards growth and survival
 - studies of employment are limited
 - prior conclusions often depends on DV selected
 - Is not consistent with new literature on information technology effects
- We build on this by changing the focus from resources provided by the community to the objectives of the community, and focusing on appropriate DV's to predict:
 - non-urban embedded ventures will employ more than similar firms not embedded
 - non-urban embedded ventures will survive longer than similar firms not embedded
 - non-urban embedded ventures will grow slower than similar firms not embedded (as earlier literature predicts)

Empirical Context: Japan

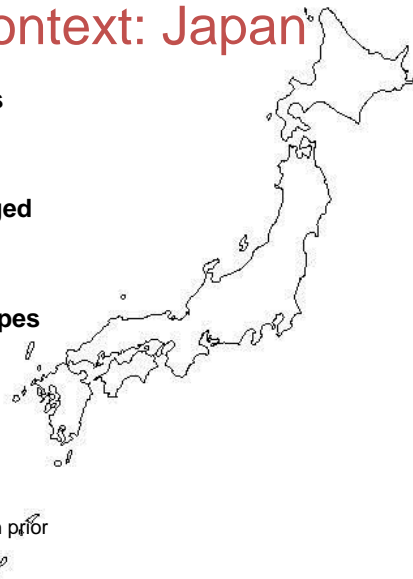
Appropriate because communities are cohesive by tradition and policy

Local industries are locally managed and prevalence of community banks

Generalizable: Commercial law, types of industries, and wealth are equivalent to other advanced economies,

37,899 firms

- Teikoku Databank database
- Founded from 1998 – 2008
- Operating firms (with sales or employees in prior year)
- Includes bankrupt firms



Operationalizing Embeddedness

Non-Urban Embedded:

- Not located in a metropolitan/commercial center
- Founders are locally born and educated
- Involvement of community banks

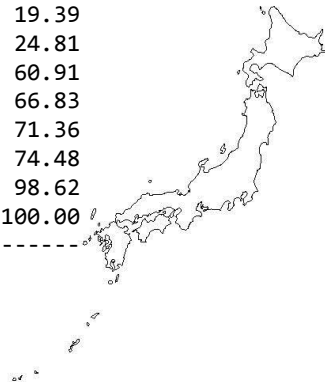
Urban Embedded:

- In a

Propensity Score Matching (Abadie & Imbens, 2012; Caliendo and Kopeinig, 2008; Rosenbaum & Rubin 1985)

Sample Composition

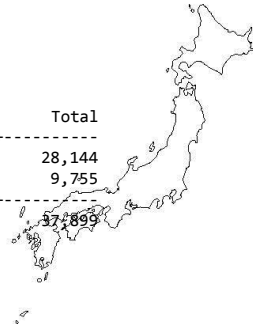
Industry Category	Freq.	Percent	Cum.
Prime	183	0.48	0.48
Construction	5,975	15.77	16.25
Food	1,191	3.14	19.39
Manuf	2,053	5.42	24.81
Trans	13,681	36.10	60.91
Sales	2,244	5.92	66.83
Finance	1,719	4.54	71.36
Soft-Tech	1,182	3.12	74.48
Services	9,147	24.14	98.62
Govt	524	1.38	100.00
Total	37,899	100.00	



Sample Embeddedness

embeddedne ss: CEO born & any comm+coop bank	Industry Category				
	Prime	Comstr	Food	Manuf	Trans
0	100	4,012	850	1,362	10,189
1	83	1,963	341	691	3,492
Total	183	5,975	1,191	2,053	13,681

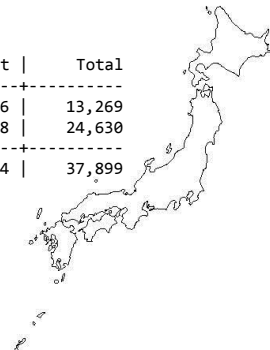
embeddedne ss: CEO born & any comm+coop bank	Industry Category					Total
	Sales	Finance	Soft-Tech	Services	Govt	
0	1,632	1,149	918	7,549	383	28,144
1	612	570	264	1,598	141	9,755
Total	2,244	1,719	1,182	9,147	524	37,899



Sample Urbanity

location: Large City	Industry Category					Total
	Prime	Constr	Food	Manuf	Trans	
0	147	2,648	591	948	4,946	13,681
1	36	3,327	600	1,105	8,735	9,755
Total	183	5,975	1,191	2,053	13,681	23,436

location: Large City	Industry Category					Total
	Sales	Finance	Soft-Tech	Services	Govt	
0	533	775	442	1,993	246	13,269
1	1,711	944	740	7,154	278	24,630
Total	2,244	1,719	1,182	9,147	524	37,899



Prediction 1 - Employment

Communities act to preserve employment in local firms

- Locally embedded firms have interlocking social relationships and services that benefit communities (Davis 2013; Tolbert, Irwin, Tyson, Nucci 2002)
- Employment loss can interrupt social interactions that enable communities to cohere (Gaventa, Smith, Willingham 2011; Davis 2015; Whitford 2006)

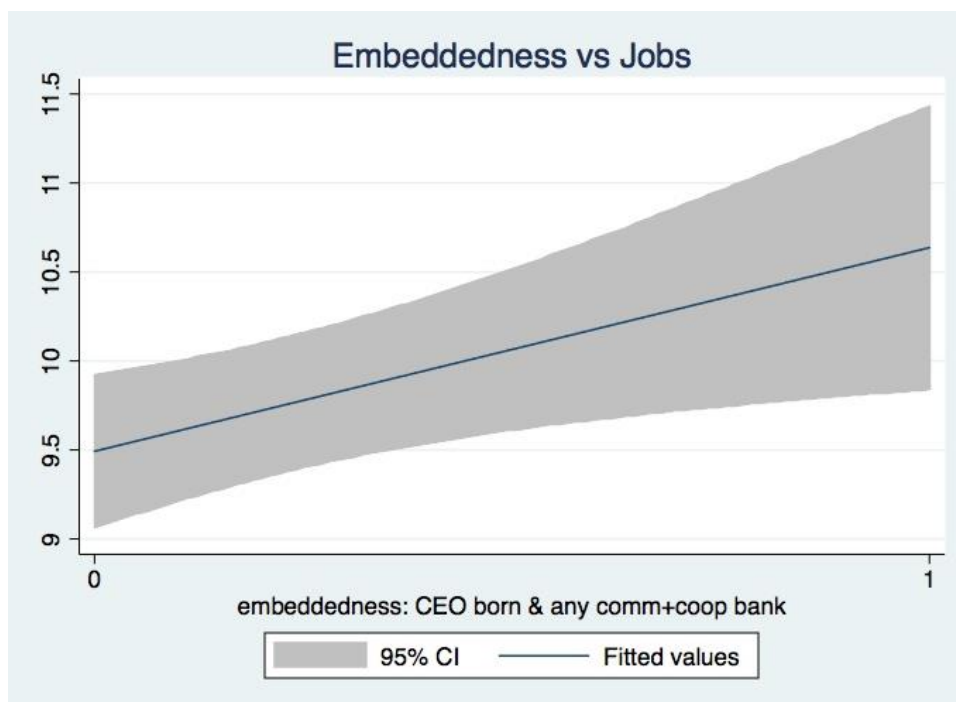
A ventures objectives are shaped by and emerge from their community (Shoohoven & Romanelli 2014)

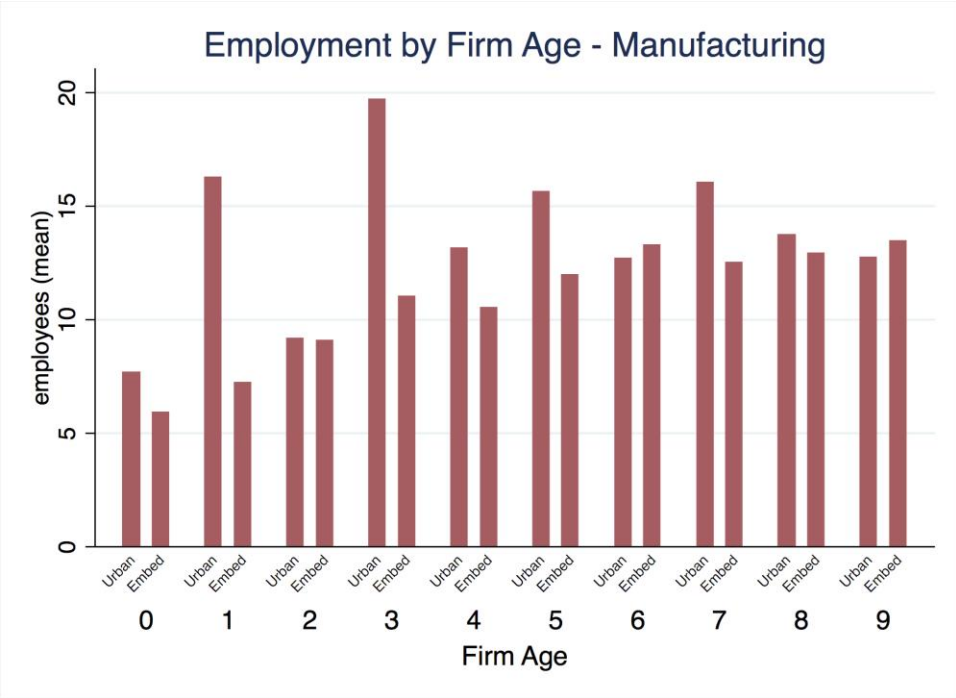
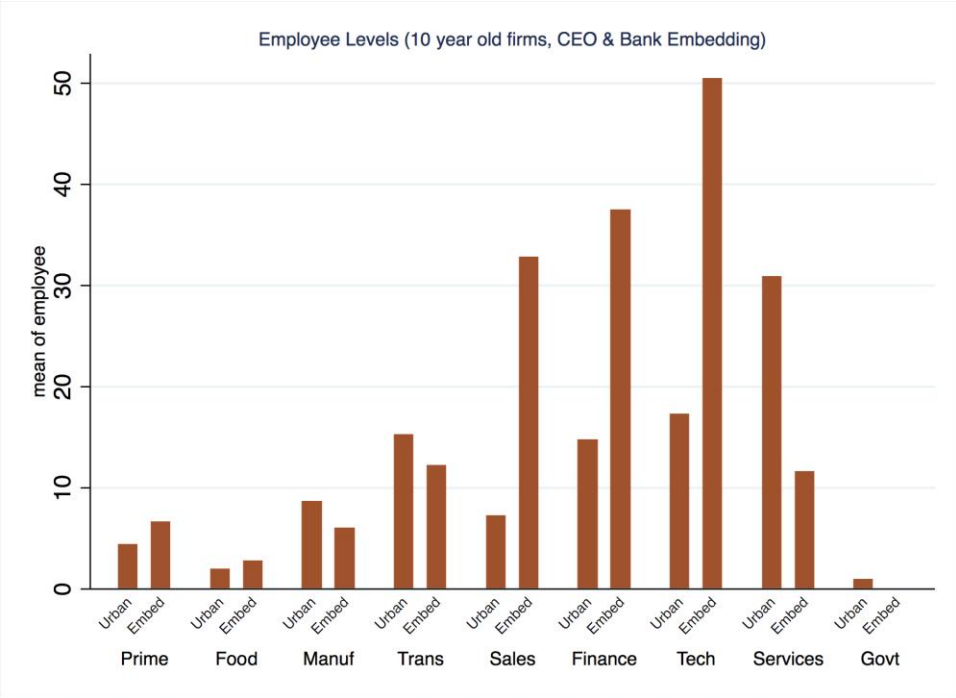
- to ensure continued community support (both directions)
- to assure supportive social interactions are stable
- because they are part of the community and have community-shared taken-for-granted beliefs about appropriate actions

Locally embedded ventures adopt strategies to protect/increase employment, even at the expense of growth

- Example: Japanese firms because of cultural norms sacrifice productivity to maintain employment (Lincoln, Kalleberg 1985; Dore 1983)
- Purpose of gov't development efforts is employment (METI 2014)

1: Locally embedded ventures will employ more than similar firms not embedded





Prediction 2 - Survival

Local communities provide resources for survival of local firms

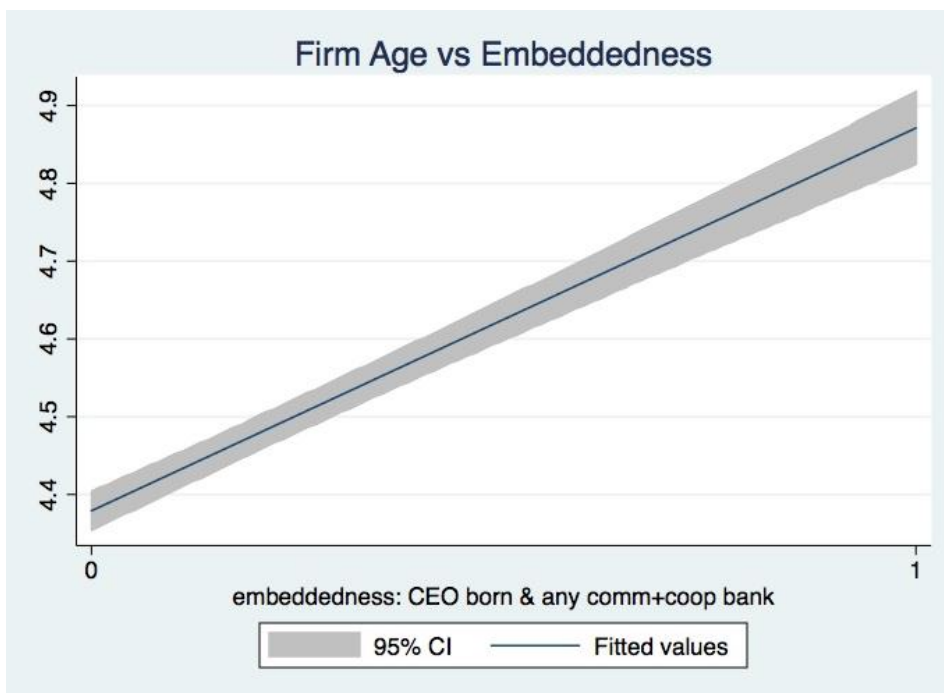
- to maintain employment and employment stability
- to maintain or increase local tax base

Close ties and trust facilitate access to network resources (Haveman & Rao, 1997; Najita, 2009)

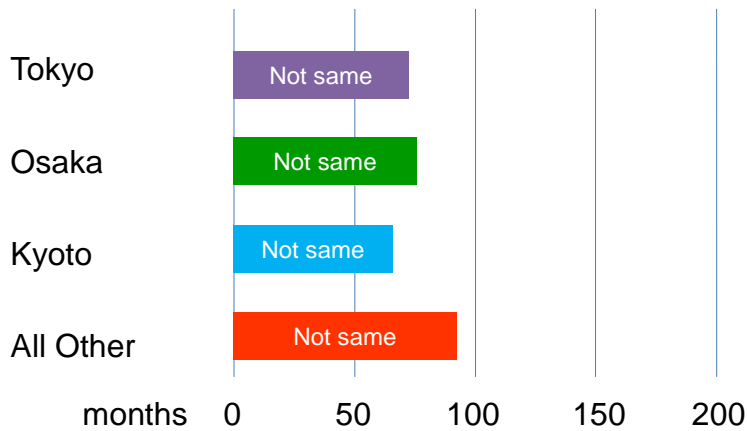
- Local firm managers are typically community leaders and galvanize local support, subsidy, provide linkages
- Local firms' employees are part of the community and facilitate trust and reciprocity (DeClercq, Lim and Oh, 2011; Florin, Lubatkin and Schulze, 2003)
- Community – firm linkages increase survival (Baum and Oliver 1991)

Ventures formed away from these networks will not be able to leverage local, trust-based ties.

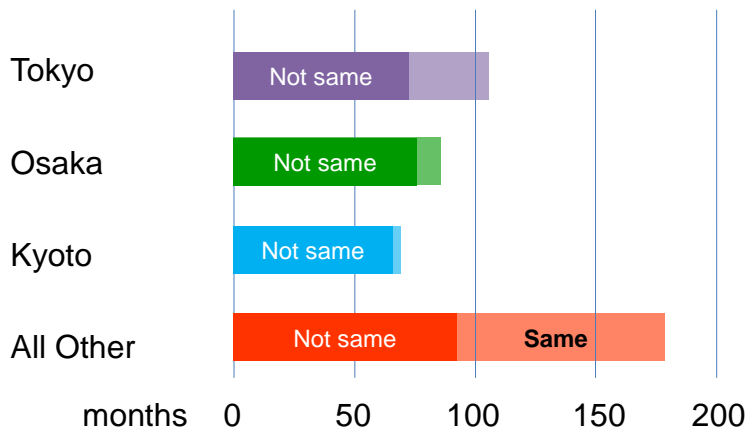
2: Locally embedded ventures will survive longer than similar firms not embedded



Survival increases when firm is founded in same city that CEO is born



Survival increases when firm is founded in same city that CEO is born



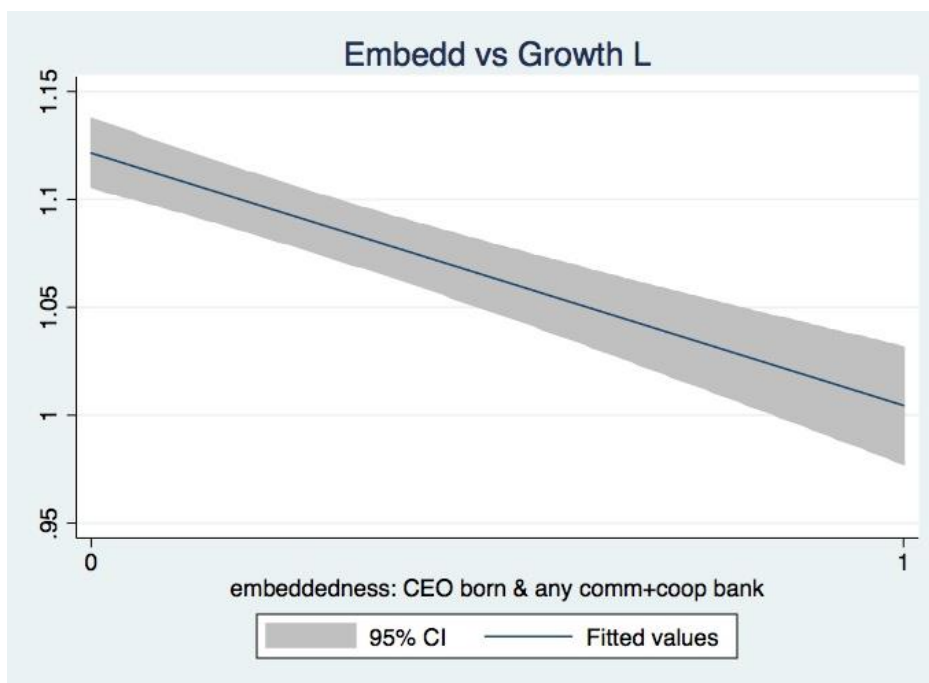
Prediction 3 - Growth

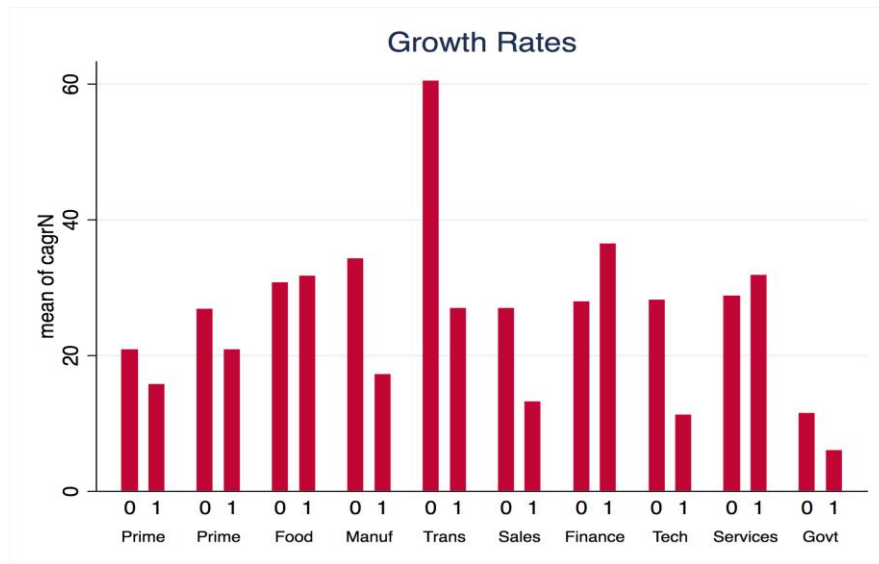
Ventures not locally embedded are constrained to satisfy financial stakeholders to whom they are indebted

Because there are more choices for financial stakeholders, higher performance aspirations and higher performance become part of a firm's objectives (Arora & Nandkumar, 2011)

Starting 'where the action is' can lead to higher firm performance (review: McCann & Folta, 2008; Stuart & Sorenson, 2003).

- 3: Locally embedded ventures will grow slower than similar firms not embedded**





Separating Performance From Survival

	Less embed	Deep embed
Depend s	Employees as Inputs: <ul style="list-style-type: none"> • Growth • to satisfy investors Yet: <ul style="list-style-type: none"> • Lower survival 	Employees as Outputs: <ul style="list-style-type: none"> • Survival • to foster employment Yet: <ul style="list-style-type: none"> • Slower growth

- The DV selected to measure venture performance depends on objectives
- Objectives depend on local embedding
- Thus, survival and growth are not equivalent
- Conclusion: Researchers should explicitly account for this when selecting a variable in venture studies

Contributions

1. Brings social context to the fore in venture studies
2. Finds that local embedding *frames employment differently* => *affecting the objectives* of a firm
 - from economic to communitarian objectives
 - explains convex shape of social embedding on performance
 - resource deprivation suggests venture resources and networks are immobile, with our idea, resources are free to conform to new ideas of mobility through the internet
3. Separates survival from performance in venture studies
 - Taking the context into account affects the selection and appropriate specification of the DV