Surviving or Thriving: Community Embeddedness and Startup Performance

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"Shareholder" View



Milton Friedman

"There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception and fraud."





Arie de Geus



Source: Strategy+Business, 4/1/2001

"I think the conflict between shareholders and community members in a living company is very real. The shareholder says, legally, 'I have a right on the bottom line.' The members of the work community are beginning to say, 'Hey, there is no bottom line without our talent and our capacity for joint learning, and our production of superior intellectual output. So what about our remuneration?'



This Paper

Investigates the effect of local community on managerial choices and performance outcomes of entrepreneurial firms

Distinguishes between urban and nonurban locales in their influence

Examines these issues in the context of Japanese entrepreneurship

Central Hypotheses

Firms with stronger ties to the local community will employ more employees than firms with weaker ties. Effect more pronounced in rural areas.

Firms with stronger ties to the local community will survive longer than firms with weaker ties. Effect more pronounced in rural areas.

Firms with stronger ties to the local community will experience lower growth than firms with weaker ties. Effect more pronounced in rural areas.

Comments and Questions

greater local

More community ties employment?

Tautological?

Argument underpinning hypothesis that rural firms will employ more people than urban firms seems to confuse:

Individuals' incentives with firms' incentives

Social benefits vs. private benefits

Comments and Questions

Rural firms will survive longer than urban firms

How to reconcile this with literature on benefits of being in robust urban clusters (e.g., Saxenian 1994)?

Concern that would need to control for relocation

Could you look at firms that can't realistically move (e.g., utilities)?

Comments and Questions

Rural/more embedded firms will grow more slowly than urban firms

Reconcile with seemingly opposite hypotheses regarding survival?

Summary

Takes the role of employees and communities and their effects on firms seriously

Great start!

Need to take alternative explanations into account

Tighten theoretical arguments