The Pennsylvania State University

The Graduate School

College of the Liberal Arts

# THREE PAPERS ON ENTREPRENEURSHIP, RISK, AND THE ECONOMY

A Dissertation in

Sociology

by

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Submitted in Partial Fulfillment
of the Requirements
for the Degree of

Doctor of Philosophy

May 2012

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## Abstract

What follows are three papers related to the topic of entrepreneurship. Each makes use of data from interviews with self-employed entrepreneurs from Peoria, Illinois; Harrisburg, Pennsylvania; and Johnstown, Pennsylvania. The first paper addresses the question of whether entrepreneurs are more prone to risk-taking than are their non-entrepreneuring counterparts. The analysis suggests that while this may be the case, it is likely that it their strong senses of self-efficacy is what drives this relationship. The second paper investigates the relationship between entrepreneurs' decisions to enter self-employment and tumult in the broader employment environment and economy. The analysis suggests that an awareness of those conditions plays a role in decisions to enter self-employment and, further, that such an awareness on a broader scale may play a role in driving up rates of self-employments. The final paper considers the role entrepreneurship plays as an ideological touchstone in the economy in the United States. Entrepreneurship provides a means for individuals to assert themselves and an outlet for their displeasure with their employment status which furthers capitalism.

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## INTRODUCTION

This dissertation has been prepared as three papers, each intended to stand as an independent piece, in accordance with the “three paper option” specified by the Department of Sociology. Each paper, referred to as chapters for purposes of presentation as a whole dissertation, is related to the others in that they are all on the subject of entrepreneurship and that each makes use of data from interviews conducted by the author with 49 self-employed entrepreneurs and 8 community leaders. Relevant portions of this methodology are discussed in each of the three pieces, and it is discussed at length in the appendix.

I started this process reading about risk and financial markets, which lead to reading about employment, and then to self-employment and entrepreneurship. I noticed some gaps in the literature which I hoped to contribute to bridging with qualitative data, which has seldom been applied in these areas, to the particular topics under study. I had the bases of Chapters One and Two in mind when planning my research. Chapter Three came about as a result of attending two entrepreneurship-related conferences in the spring of 2009, which I explain in greater detail in those pages.

The first of these papers, presented here as Chapter Two, is a response to a problem in the existing literature on the risk-tolerance of entrepreneurs. Many researchers had inquired into the link between risk-tolerance and the likelihood of a person becoming an entrepreneur, with mixed and problematic results. Others had looked instead for a link between self-efficacy and entrepreneurship. This latter approach seemed more logical to me, because it seemed that a particularly confident person may think of themselves as more capable of managing a risk and its consequences, and that it is this confidence, rather than risk-tolerance, that sets entrepreneurs apart. Further, the continued appearance of publications looking for the elusive link between risk-tolerance and entrepreneurship, despite the strength of the results of recent inquires into self-efficacy, seemed to call for further investigation into the merits of one approach over the other.

All of the studies conducted in the area have made use of survey responses to multiple-choice questions. Interviewing entrepreneurs face-to-face, in a format allowing for open-ended responses, allowed for a more detailed exploration of the relationship between self-efficacy, risk-tolerance, and entrepreneurial activity. In short, an analysis of my interview data reveals that most entrepreneurs, of those interviewed, do not think of themselves as risk-takers. They describe their confidence in themselves and their business plans, but few said that they think of themselves as risk-takers. Those that did tended to operate the most innovative and growth-focused companies of those in my sample, which is consistent with some previous findings.

The second paper, presented as Chapter Three, is also a response to something I saw as a problem in the existing literature. Rates of self-employment had been increasing for several years, and the reasons given for this in that literature included contextual factors such as the unemployment rate or the greater ease of starting a business due to resources available on and business opportunities available through the internet. However, there was no major mention of the potential relationship between the ever-less-secure employment environment and rates of self-employment. As this seems to be such a widely-acknowledged new "fact of life" among the general public, it seemed to me that this feeling of insecurity was operating as an independent and additional cause of increasing self-employment.

Interviews with self-employed entrepreneurs allowed for exploration of this possibility. An analysis of this data shows that while this is not a factor for all entrepreneurs, it absolutely played a role in some entrepreneurs' decisions to seek to make a job for themselves, rather than to seek dependent employment. I see this paper as a way to crack the door a bit in research about entrepreneurship and the broader economy, as a step in furthering understanding of how people will support themselves and how their thinking about their working lives changes as the economy and employment environment change.

The third paper, presented as Chapter Four, contains my analysis of the role of entrepreneurship in the economy, particularly as an ideological force. Schumpeter wrote of the role of entrepreneurship in the evolution of capitalism, and Weber wrote about the importance of cultural beliefs to economic systems. More recent authors have written of the importance of creativity and knowledge in the economy, but not much has been said about the importance of the entrepreneur as an idol and entrepreneurship as an outlet for what could, otherwise, manifest as discontent with capitalism. I argue that entrepreneurship gives individuals who are looking for something different and who may be frustrated with their employment prospects a place to put that energy—a place which supports, rather than confronts, capitalism.

## WHAT MAKES ENTREPRENEURS SPECIAL?:

## SELF-EFFICACY TRUMPS RISK TOLERANCE

In the course of conducting research for this project, I asked a Johnstown, Pennsylvania man who owns a specialty retail business with his wife, both of over 35 years, whether he considered himself to be a risk-taker. His business is well-established, but they had recently moved from a rented location to a much larger free-standing building that had been built for their needs. He replied, "Absolutely! We re-mortgaged the house and drained our retirement [savings] to build this place! And we were in our fifties!" He was clearly proud of the leap of faith that they had taken, but he had also just-previously explained to me why they had decided to move and greatly expand the size of their business. His explanation included a market analysis which was thorough, if not exactly professional in a statistics and Power Point sort of way. I asked him, given this, if the capital-intensive expansion was really such a risk after all. He smiled and responded, "Well, no. I guess I knew it'd work. What I didn't know was how *well* it would work!" (He had expected a fifty-percent increase in sales over the next year or two. Sales had instead doubled within a year and were still increasing.) He had good reason to be proud of he and his wife's successes, but he exemplifies what has complicated the conversation about entrepreneurship and risk-tolerance. Draining one's savings to completely renovate and expand a business at a late stage in one's career seems like a risky thing to do, but given this couple's previous successes, solid finances, and in-depth knowledge of their market and industry, this scenario does not seem like much of a risk. These were two confident, knowledgeable people who were pretty certain what they would encounter as they turned a new corner.

This calls to mind a commercial seen on television within the past year which showed flat, humanesque figures-- like those tacked to public restroom doors-- being cranked, as if on a conveyor belt, into their nondescript workplace. Suddenly one of them grows wings and flies off on his own. This, a voice tells us, is an entrepreneur. The sequence plays on the notion that entrepreneurs are “special” in some way. That advertisers believe this to be an effective marketing tool suggests that this is a popular notion, and it is one that pervades academic literature as well: What is it that sets entrepreneurs apart from their non-entrepreneuring peers? Why do they sprout wings and fly away from the conveyor belt? Perhaps they’re risk-takers, as a pile of research papers asks. Or, possibly, is it something else?

The purpose, then, of this paper is not to question the notion that there *is* something that sets entrepreneurs apart, but rather to consider together questions of risk-taking and self-efficacy. I consider these concepts in light of each other, with the aim of providing a more complete picture of the role of these concepts in the make-up of an entrepreneur. More specifically, the following analysis suggests that a strong sense of self-efficacy leads entrepreneurs to believe that they can handle the tasks required to start a business venturing, including taking some calculated risks. While they may still express a greater tolerance for risk than non-entrepreneurs, it is not this tolerance which drives their entrepreneurial behavior. Rather, the belief that they are capable of executing certain tasks allows them to pursue entrepreneurship. This is consistent with what has been argued by Chen, Greene, and Crick (1998), but the continued appearance of studies researching the link between risk-tolerance and entrepreneurship suggests that additional inquiry is required.

This paper proceeds by reviewing the literature on risk-propensity and self-efficacy of entrepreneurs. Next, I introduce data from interviews with self-employed entrepreneurs which shows that few of them think of themselves as risk-takers. Rather, to the extent that they take risks, they do so in the course of executing plans which they believe themselves *highly capable* of undertaking. It is this strong sense of self-efficacy which sets them apart. While they may, if given a questionnaire from a risk-tolerance assessment scale, give answers which make them look more comfortable with risk than most people, this, I argue, is a side-effect of their high levels of self-efficacy. First, though, I turn to a review of that literature to which I hope to contribute some clarity.

## **Risk-Propensity**

The element of risk in entrepreneurship has long been emphasized and long disagreed upon. Frank Knight (1965 [1921].) referred to entrepreneurs as “risk-bearers” decades ago. Knight’s entrepreneur is faced with uncertainty and must judge whether or not to take some course of action; that element of risk is central to being an entrepreneur in this conceptualization. Joseph Schumpeter (Schumpeter 1947)**,** on the other hand, specifically removed risk from the hands of entrepreneurs, instead envisioning them as pure innovators and placing the risk with their investors. (Knight and Schumpeter were not specifically and directly disagreeing with each other; rather, their conceptualizations of entrepreneurs played roles in discussions of very different subjects. Knight was writing about the nature of profit in business and Schumpeter was theorizing the role of entrepreneurship in capitalism.)

In the years since Knight and Schumpeter raised these questions in their grand and broad works, a number of other studies have specifically addressed the related and narrower questions of whether entrepreneurs are more risk-seeking or less risk-averse than their non-entrepreneuring counterparts. There is disagreement in this area, with the argument being over whether there is no such difference between these groups or that entrepreneurs are less risk-averse. (No one argues that entrepreneurs are *less* inclined to take risks, though it is sometimes noted in business circles that entrepreneurs need to be able to *manage* risk to be successful (eg: Carlson 2009; Tozzi 2009). Many studies on the subject do find a difference, with entrepreneurs being more risk-prone. Their results, however, tend to be laden with limitations.

In a theoretical model developed by Kihlstrom and Laffont (1979), risk-averse individuals self-select into traditional employment while those with higher levels of risk tolerance become entrepreneurs. This was just a proposed model, with no data applied, but this paper, along with Knight (Knight 1965 [1921].), tends to be a touchstone for research conducted on the subject since the time of its publication. The results of a recent survey-based study of Germans mostly support this idea, finding that self-employed individuals are more likely to express a higher degree of risk tolerance, though this is true only for those entering entrepreneurship from a position of paid employment; those who were previously unemployed exhibit no greater tolerance for risk than traditionally-employed individuals (Caliendo, Fossen, and Kritikos 2009). This could be interpreted within the framework of Kihlstrom and Laffont's proposed model, as those leaving a job to start a business could be assumed to be doing so more completely voluntarily, while those who start a business while otherwise unemployed are possibly doing so as a last resort for obtaining an income[1]. It may be reasonable to expect that personal risk preference would play a greater role for those not pushed into entrepreneurship by circumstances of necessity**.**

Data from a Dutch survey were made use of by two studies, with overlapping authors, both of which also lend support to the idea that entrepreneurs are less risk-averse, though that support is limited in important ways by the measures used. Cramer et al. (2002) purport that entrepreneurs are more comfortable with risk than are non-entrepreneurs, though they note that their analysis is troubled by the association of respondents' wealth with their risk measure, which was the amount of money an individual was willing to spend on a lottery ticket. They find, though, that individuals who had at some time been self-employed, were willing to spend more. Some of these same authors note in another paper, which reports on an analysis using the same data, that entrepreneurs are less risk-averse than non-entrepreneurs, though their reservations about the relevant measure's close relationship with wealth seem to be missing from this paper (Van Praag and Cramer 2001). This would seem to be a major concern which, without further exploration, severely limits the credence one can give to the idea that entrepreneurs are less risk-averse than non-entrepreneurs, at least as discussed by these two papers.

The results of papers discussed so far are less than convincing on the point that entrepreneurs are bigger risk-takers than are non-entrepreneurs, but some researchers

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[1] I have argued elsewhere that unemployed individuals sometimes purposely choose self-employment over dependent employment, but I have no quibble with the idea that some unemployed people do go into business for themselves out of necessity. This is explained in detail in Chapter Two.

have taken more complex approaches, with fruitful results. For example, Stewart et al. (1999) make use of data from responses to questions from the widely-used Jackson Personality Inventory (Jackson). These authors split the larger category of "entrepreneurs" into two sub-categories: entrepreneurs and small-business owners. The former are focused on growth, strategy, and profit, while the latter are focused on family income and needs. In comparison with managers, as the third group, both types of entrepreneurs exhibit higher proclivities for risk than do managers. However, the difference between small-business owners and managers is slight, while innovation-focused entrepreneurs exhibit a much higher proclivity for risk. These results were similar to those found by Carland, et al. (1995) who split their sample in the same manner, but who actually found no significant difference between managers and small business owners (but did find a difference between entrepreneurs and managers, with entrepreneurs being less risk-averse). This is important in the light of the others' inquiries into the subject, as it could help to explain the unclear findings of others. Lumping together all types of entrepreneurs could have the effect of both masking the high risk-tolerance of innovation-focused entrepreneurs and making small-business owners look more inclined to take risks than is perhaps the case.

Not all inquiries into the differences in risk tolerance between entrepreneurs and non-entrepreneurs have found any such difference. Brockhaus (1980) made use data from non-entrepreneurs' and entrepreneurs' responses to a variety of "risky" scenarios presented to them, and found no difference. Masters and Meier (1988) replicated these results in a similar study. Neither of these studies split entrepreneurs by type (into small business owners and innovation-focused entrepreneurs), which could, as suggested above, have masked any such difference. In a set of dueling meta-analyses, conducted by experienced researchers in the field, one pair of authors finds evidence confirming a greater tolerance for risk (Stewart Jr. and Roth 2001; Stewart Jr. and Roth 2004) and the other pair finds, rather, that entrepreneurs are highly risk-*avoidant* (Miner and Raju 2004). The disagreement, then, rolls on.

More recently, in comparing the responses of entrepreneurs and non-entrepreneurs, as well as prospective entrepreneurs (students who had taken an entrepreneurship course), to a wide range of presented "risky" scenarios, Macko and Tyszka (2009) find that entrepreneurs show a greater willingness to take risks than do non-entrepreneurs in business-related situations. In non-business-related scenarios, however, they found no difference between these groups. This study does another important thing; it also includes a component focusing on the self-efficacy of entrepreneurs versus non-entrepreneurs. They find that, of the groups studied, entrepreneurs display the highest levels of self-efficacy. This is generally consistent with the findings of other researchers who have investigated the connections between self-efficacy and entrepreneurship ( which are discussed below). The concepts of risk-tolerance and self-efficacy have only more recently been studied together. I would like to suggest that this is a promising path of research which will lead to the conclusion that, in the search for the intrapersonal qualities that set entrepreneurs apart, self-efficacy is vastly more important than risk-tolerance, with greater levels of risk-tolerance operating as a byproduct of higher degrees of self-efficacy.

Studies emphasizing entrepreneurs' personal risk-aversion or risk-propensity seem to imply that taking risks is what entrepreneurs are, in the fore of their own minds, concentrating on doing. It is as though, for those studies investigating degrees of risk-propensity among entrepreneurs, the assumption is that when a person thinks, "Ah, I think I shall start a business of my own…," the subtext for that thought process is, "I shall take a risk!", and that this thirst for, or at the very least, lack of fear of risk is in the driver's seat, guiding individuals down the path of entrepreneurship.

There is something appealing about this line of thinking. If one imagines the decision to start a business--if one dreams for a moment about a company one would start in an alternate life-- there's a certain feeling of exhilaration that comes with it, a particular verve. The image of a person about to put his ideas into action feels romantic and uncertain and brave, like a nineteenth-cenutry pioneer staring west over the Mississippi River, with eyes to unknown territory. How, then, can the question of entrepreneurs' risk-propensity not be the right one to ask? I think the relationship it supposes is a spurious one. It may certainly be the case that entrepreneurs are more comfortable with risk than are others. However, that propensity for or comfort with risk may be beside the point. It may instead be individuals' self-efficacy beliefs driving that relationship.

## Self-Efficacy

Self-efficacy has been defined in different ways by various scholars, though sociologists often cite Albert Bandura (e.g. 1977) working with the concept. He defines it as "an individual's belief in one's capability to organize and execute the courses of action required to produce given attainments" (Bandura 1977, p. 3). Bandura's conceptualization varies from others in that it differentiates efficacy expectations and outcome expectations. The former has to do with a person's belief in his or her ability to successfully execute an action. The latter concerns a person's belief that the execution of an action will then have a particular effect. Thus, this conceptualization accounts for both an individual's beliefs about his or her own capabilities as well as beliefs about his or her environment. This provides the link between the individual and society that sociologists are often seeking and may be one reason that Bandura's conceptualization came to be the preferred basis for and citation given for work using the concept of self-efficacy[2]. There are other definitions and similar formulations given similar names but, generally, the term self-efficacy "refers to people's assessments of their effectiveness, competence, and causal agency" (Gecas 1989, p.292). According to Bandura's (1977) seminal work on the concept, a person with high-levels of self-efficacy will view challenges as tasks to be mastered and will bounce back quickly from set-backs. These would seem to be useful traits for would-be entrepreneurs, and inquiries into links between self-efficacy and entrepreneurship have found such relationships.

Chen, Greene, and Crick (1998) constructed a measure of what they termed entrepreneurial self-efficacy, based on tasks required to found a business. They found strong evidence that entrepreneurs' beliefs of their own competence in these areas them apart from managers. Further, one part of their measure accounted for subjects' risk-tolerance, and their results confirmed a link between risk-tolerance and self-efficacy. Barbosa, et al. (2007) found something similar, as part of a larger analysis. They, too, found a positive relationship between risk-tolerance and self-efficacy, though in their analysis, risk-tolerance is treated as an antecedent to self-efficacy, which serves their

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[2] See Gecas (1989) for a more thorough review of the self-efficacy literature.

particular broader purpose, but which they acknowledge could be problematic in other research contexts.

Published research into the link between self-efficacy and entrepreneurship is sparse in comparison to the number of inquiries into risk-tolerance and entrepreneurship, which is troubling given the potential real-world implications of self-efficacy research. To expound, if it were true that a high tolerance for risk is an important part of what makes an entrepreneur an entrepreneur, it is difficult to imagine how that could be useful in fostering entrepreneurship. How, exactly, would one go about making people more tolerant of risk? However, if it is instead the case that a strong sense of self-efficacy leads one to believe that one is capable of performing tasks entailed in entrepreneurship (including taking and managing a risk), which in turn leads one to be more likely than someone with a lesser sense of self-efficacy to become an entrepreneur, this could be more useful. As noted by Chen et al. (1998), education and skill development can improve individuals' self-efficacy beliefs in given areas, which would seem to indicate that entrepreneurship can be encouraged through related educational programs.

Of course, one cannot simply say that something must be true because that would be more useful than some alternative. One cannot just say that self-efficacy must be the driver, rather than risk-tolerance, because it would be easier to tinker with if we wanted to make more entrepreneurs. There must, of course, be evidence for this. Chen et al. (1998) and Barbosa et al. (2007) provided some evidence of the link between self-efficacy and risk-tolerance, marking self-efficacy as a point in the relationship between risk-tolerance and entrepreneurship. In designing the present study, and having reviewed the just-discussed literature, I considered it to be entirely possible that entrepreneurs are more particularly with risk and that those authors who found support, however limited, for this notion, are on to something. However, it also seemed to me that entrepreneurs may be unusually confident people, and that any greater tolerance for risk may be explained by this confidence.

In order to investigate this possibility, I interviewed 49 entrepreneurs in person, in a semi-structured format. Below, I discuss my methods in greater detail and then discuss the results of those interviews. In general, these results lend support to interpreting the relationship between entrepreneurship, self-efficacy, and risk-tolerance in this manner: Entrepreneurs believe themselves to be generally competent people who are willing to try new things, but they are willing to do so not because they like taking risks, but because they think they are capable of managing the risk and its consequences. In short, they have got piles of self-efficacy, and they are not afraid to use it.

## Sample and Methods

Forty-nine entrepreneurs have been interviewed in three cities: Peoria, Illinois; Johnstown, Pennsylvania; and Harrisburg, Pennsylvania. Specifically, the entrepreneurs interviewed are individuals who were instrumental in the founding of the company which they now operate, the operation of which they consider to be their primary occupation. Interviews averaged about 70 minutes in length and were conducted in a semi-structured format allowing for open-ended responses. Interview subjects all resided in or near one of three cities: Harrisburg, Pennsylvania; Peoria, Illinois; and Johnstown, Pennsylvania. These cities were chosen for their location in the Rust Belt, and interviews were clustered around cities rather than scattered across the region, points important for other parts of a larger project. These interviews were conducted from July 2009 through May 2010.

Subject Recruitment. For the purposes of this research, “entrepreneur” refers to an individual who operates a business for which he or she was also instrumental in the founding of. The sample was not restricted by type of business. Interview subjects were recruited by a mix of mail and email, and some snowball sampling was used. Names of entrepreneurs were collected by several methods. Some were culled from lists of businesses housed in business incubators. Others were culled from the membership lists of organizations such as local chambers of commerce. Some individuals interviewed have suggested to me other business owners in their area. In order to cast a wide net, I’ve also culled business names from the yellow pages of phone books and have simply written down names and addresses of businesses spotted from the street.

The Resultant Sample. The sample that resulted included 49 interview subjects, 19 of whom were women, or about 39 percent of the sample, which is greater than the approximately 28 percent of non-farm businesses owned by women and is likely due to either or both the small sample size or women’s higher response rates generally (Small Business Administration 2007). I interviewed 8 non-white entrepreneurs, about 14 percent of the sample, which is lower than the approximate national rate of 21 percent of business which are owned by minorities (Small Business Administration 2007). Interviews averages just over an hour in length. Most were conducted at the individuals’ place of business, though one-quarter took place at off-site locations such as cafes. The mean age of interviewees was 42, from a range of 22 to 66. The mean time a business had been in existence was 7 years, from a range of still-under-construction (in the case of a serial entrepreneur’s latest venture) to 35 years (mean, excluding this upper-limit outlier, is just over 5 years).

The following are some of the industries in which interviewees operate businesses: household services, human resources, accounting, real estate, high-end and/or specialty retail, entertainment, green technology, internet commerce, business-to-business services, manufacturing, biotechnology, defense, retail food outlets, and others. The sample included both types of entrepreneurs, as categorized by Stewart et al. (1999): innovation-focused entrepreneurs and small-business owners. Some of the individuals interviewed had grand plans for the future of their businesses; they planned to (or already do) employ many people and have plans which could (or have) alter(ed) the landscape of their industries. Others would have been classified as small-business owners. They did not plan to expand their business in size or scope. Generally, these businesses would have looked very similar ten or twenty years ago and probably will look very similar ten years from now.

It's difficult to figure out exactly how many interviewees would have fallen into each category, because so many of them seem to be somewhere in between. They often do have plans to expand their businesses, maybe by adding a location or hiring a few more people, and many have already grown in meaningful ways. These business owners often plan to keep growing. Even if their businesses will never make them rich or alter their industry in a significant way, it seems inaccurate to *not* give these people the label "entrepreneur". I have broken my sample into three rough categories. The first is *innovation-focused entrepreneurs*, as I will call them, in order to maintain some consistency, as I have defined this group in a way similar to Stewart et al. (1999). These are business owners who have grand designs of making a major impact on their industry, even if it is just a niche industry, with a relatively major innovation. Their businesses either do or have the potential to employ dozens or hundreds of people, and are of the sort that could attract interest from venture capitalists. The second group, also following Stewart et al. (1999), I will call *small-business owners*. These people sometimes employ only themselves or just a few others. Their businesses have not changed substantially since the time of founding, nor do they have plans to expand in the future. The third group includes those who, as discussed, fall in-between. These people's businesses have changed and grown in meaningful ways. They have, for example, opened additional locations, added services, and started selling franchise rights. The goods and services they provide are not revolutionary, but the people who own these businesses tend to be on the lookout for ways to expand. They are, in a sense, a smaller-scale version of the innovation-focused entrepreneur, so I will refer to them as *small-scale entrepreneurs*.

I am organizing my sample into these categories because it will allow my results to be interpreted in terms of the more carefully-designed of the previous investigations into risk and entrepreneurship. When I categorize my sample of 49 as such, my categories consist of the following: 10 (approx. 20%) innovation-focused entrepreneurs, 18 (approx. 37%) small-scale entrepreneurs, and 21 (approx 43%) small-business owners.

## Results and Discussion

With the usual caveats about small sample sizes in mind, what an analysis of data from these interviews reveals is this: The only interviewees who thought of themselves as risk-takers fell into the category of innovation-focused entrepreneurs. It is worth noting that I coded interviewees as one of the three types of entrepreneur before going through my notes and transcriptions to look for their comments on the subject at hand. There was no cherry-picking involved. Exactly *zero* interviewees not classified as innovation-focused entrepreneurs think of themselves as risk-takers. They, do, however, give answers alluding to their strong feelings of self-efficacy. They think of themselves as capable of handling negative outcomes. They think of themselves as willing to step outside the box and try new things. They will admit to having taken some risks, or can see how other people would think that what they are doing is risky, but their risk-tolerance is not, in their own minds, what sets them apart. Below, I have included some of their responses which illustrate this thinking. I have grouped the responses according to type of entrepreneur, to make any contrasts more obvious.

Innovation-focused entrepreneurs. As I said, the only interviewees in my sample who admitted or claimed to think of themselves as risk-takers fell into this group. Two of these clearly stated that they were, and two more said that they supposed that they were, but that they did not feel that this was important. The interviewee who was the quickest of my respondents to call himself a risk-taker, was also the youngest person in my sample. While I sat, he stood for the duration of the interview, bouncing around and checking his email on his phone. He and his team (which he led) had won his college's business-plan contest with a plan for an internet-based business. At age 22, he is already a serial entrepreneur, and has experienced some failure along the way. His current project is continually expanding its reach and he has plans for it to become a major player in its industry. Of risk-taking, he said, "Yes, sure. You have to take some risks. Not everybody can do this, you know. I'm always thinking of things, looking for ideas. I'm young, you know? I don't exactly have much to lose." When the interview was over, he asked me to let him know if I ever heard of any good opportunities; he was willing to try anything, he said.

While that young man may not have had much to lose, and in fact had invested relatively little, other than time, into his business, because of the business plan contest prizes, another man, whose business is young but growing, had a lot to lose. He and his wife had piles of money invested in an idea and a location that lots of people told them was less-than-advisable. The location he chose for his business was away from the shipping channels and hotbeds of educated science professionals that would help him to be successful. He, however, denied being inclined to risk. This was a Johnstown man in his fifties, who owns a high-technology manufacturing business, he gave slow, thoughtful answers to many questions, including whether he thinks of himself as a risk-taker. His business offers products and services that have changed the way other businesses in their industry operate, and their operations have not stopped expanding since their doors opened. To whether he thinks of himself as a risk-taker, he said, after some thought:

> Well, I know that some of what we [he and his wife, also his business partner] have done is, I suppose, risky. But, it was what we wanted to do, and certain things, to do them the way we wanted to, were possibly more risky than if we had taken the advice we were offered. But we knew that. But whether we are risk-takers…[long pause]… that's not what we set out to do. We are dedicated to this community and we think it will work out.  It will take time, but our investments will be worth it.

Even though he could lose his shirt if this business goes under, though it is growing and has been successful thus far, goes under, he is as relaxed as one could be under the circumstances. He has plans and he is confident in his ability to see them through.

Only four people in my sample of 49 stated that they would agree that were risk-takers, and two of those hedged their comments. A 39 year-old woman who owns a science-related business in Harrisburg said: “I guess I am [a risk-taker], because you would have to be in order to do this. But I don’t feel that I am. I do not feel that way.” A man in his sixties who had been in business for nearly twenty years said something similar, that he knew he had taken some risks, and that he thought you had to be a risk-taker to be an entrepreneur, but that he was just a very competent person who had always done his research.

For the two interviewees that did agree most clearly to being and feeling like risk-takers, the potential rewards of their businesses seemed to play a role. These were two young businesses which, if they grew according to my interviewees’ plans, have the potential to be known around the country, if not farther, and could make their operators quite wealthy. The young man quoted at the top of this section got very excited when he talked about a possible outcome of his company’s potential success[3]. The following is a brief exchange following his description of the five-year plan for his company:

Him: “…Maybe there’s an IPO or a check from Facebook in our future.”

Me: “That sounds like it could be a lot of money.”

Him: “Oh yes! Oh yes.” He was grinning ear-to-ear.

A man with a fast-growing green technology business talked less about potential financial rewards, though he acknowledged they could be substantial. This was the other individual to agree that he was a risk-taker. He said:

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[3] Readers may be wondering about these young businesses. I have followed up on their progress, and it is impressive. They are still operating and have grown according to plan.

> Well, we [he and his business partner and long-time friend] certainly knew this was risky, and we knew we were trying something that could certainly not turn out well. And we felt like risk-takers, when we decided to "take the plunge" [his air quotes, translated]. But we had to attempt this. We felt that this idea needed to be out there and available to people, and…[long pause]…we felt like if we were able to find success, it would be a really big deal.

What is interesting about this pair of bold risk-takers, as they stand out among the rest of the sample, is that what sets their businesses apart is the potentially high ceiling of rewards. There were others in the sample who did not have much to lose, like the young internet entrepreneur, but there were few businesses whose plans seemed capable of putting as many digits into a bank account as did these two. If they felt like risk-takers, then, it was possibly because due to the size of the reward they might not get, rather than the size of what they already had that they stood to lose.

This group of innovation-focused entrepreneurs included ten people. Even here, in the group designed to be similar to those which revealed a uniquely high degree of comfort with risk in other studies, only four people agreed that they were risk takers. What emerged more-or-less across the board, however, was a picture of confidence and individuals' belief in their own competence.

<u>Small-scale entrepreneurs</u>. A picture of competence, confidence, and a strong sense of self-efficacy emerges from the second group as well. Absent from this group, though, was an acknowledgement of being risk-takers. They saw themselves as thoughtful planners and good business people, but they did not see themselves as rolling any dice. One man I spoke with, the owner of a small, but growing, retail food outlet and

associated production facility had no experience in the food or restaurant industry before starting up such a business. He said, repeating my question and pausing:

> Do I think of myself as a risk-taker? Hm… I suppose I have taken some risks, but, uh, actually, we were really conservative in how we opened and set up this business. And I was just looking to try something new. I was sick of the job I had before this, and then some things happened, and this was sort of a dream I had for a later-in-life business… Like I was telling you before, with the expansion on the other side of the river [additional locations and production facilities], I guess we could take a loss on that, but I really don't think so. It's a pretty low investment with some just-about-guaranteed business.

This idea of wanting to "step outside of the box" as several interviewees put it, or just trying do something or "doing something different", came up again and again in interviews. It was generally followed up with a statement of their belief in themselves or of a comfort with failure. Along these lines, A Johnstown man in his 40s, with a young business in industrial technology said, to the question of whether he is a risk-taker,

> Uh, no. I just think that I'm more open to, well, my wife and I don't really think a lot about keeping up with the Joneses or whatever. Or whoever, I guess. We've done some things differently, like renovated this old barn that we live I, and we just do our own thing… [we] don't worry too much about other people.

And about this business more specifically, he said, "Well, I figure if this doesn't work out, with my experience and my field, it won't be hard to find another job." He had no doubt he could handle a negative outcome.

A woman in her forties who owns a successful consulting firm, which has hired additional people and is developing new services had one of the "riskiest" start-up stores of any of my interviewees, having offered her house as collateral for a small-business loan (in the mid-1990s, when that sort of thing was possible) directly following a divorce, while raising young children. She said about this:

> In hindsight, I guess it was pretty risky. I guess I could have lost the house, but I don't think I ever considered that that would happen to me. I just had my plan. was so focused. I knew what I wanted to do. I didn't see how I wouldn't be successful… You just have to believe that you can do it, that you can put the plan into motion.

Sticking to a plan was important to a man with an established real estate-related business outside Harrisburg, who said, when asked if he was a risk-taker:

> No, no. When I do something, I know it might not work out. It might lose money or fail, I suppose. I always know that is a possibility. But I always have a pretty good idea about what I'm getting into. I always have several things going, and you just have to accept that some of them won't be moneymakers.

I followed up by asking him if in knowing something could fail and doing it anyway, wasn't he taking a risk? He said to this, "Not really. Not if it's part of the long term plan. You have to build in some room for failure. It's going to happen!" For this group of entrepreneurs, then, risk may come into play. They may take some risks as they expand their businesses, but for them, strong feelings of self-efficacy enable them to execute a plan and to be less concerned about potential negative outcomes.

Small business owners. The operators of the smallest businesses in my sample tended to be the quickest to deny being risk-takers. While some small-scale entrepreneurs talked about how some things they had done might be seen as risky, they followed up by explaining why they did not think of those things that way. Small business owners, however, tended to more flatly denied being risk takers. They also generally described having taken the fewest risks. These businesses are a way for their owners to provide a living for their family in a way that suits them; growth is not the object.

A 30 year-old man who owns a small retail food-outlet in Peoria laughed when I asked him if he thought he was being a risk-taker in opening his business. He said:

> No, [laughs] this is just, well this was the way I raised…always an option. I worked in my uncle's shop in high school, and my dad [a landlord] has his own thing with the rentals, and I started a business mowing lawns when I was in junior high. I knew I would eventually have my own business. I just had to get things figured out first. Get some money saved up and talk to some people. I got a loan from my cousin who's a doctor to open this place. It's just what I grew up with.

Another man, who is in his early fifties, started his own marketing business had spent considerable time working with entrepreneurs throughout his career. Thus, he had some perspective on the topic. Did he think of himself as a risk-taker, having started a business as his kids reached college-going, tuition-requiring age?

> No, and I guess people think that about entrepreneurs… that it's risk. But it's not really. It's got a lot more to do with stepping outside the box and doing something, and that's why I left where I was before, but it's not like I'm looking to roll the dice.

I asked a woman who owns a small art gallery several times, in different ways, if she thought she was a risk-taker, but the question seemed to fail to resonate, possibly because it was so distant from how she sees herself. The closest answer she gave was,

> Well, the reason that I'm just now opening this business [actually, she had opened two years prior to the interview, but it clearly still felt new to her] is that we wanted to wait till we knew we were okay financially. My husband has… well, he has a good job, and he put up the money for this. He did have to put his retirement off a few years, though, so I could do this, but it's okay if it takes a few years to turn a profit.

An interviewee who had owned a few businesses, as well as worked in some high-profile jobs as a dependent employee told me that a good entrepreneur does *not* take risks. He had invested a lot of his own and his friends' money into building a business from the ground up, but, as he told me, the land he purchased to build it upon was in one of the most accessible, most high-traffic areas in town, and with additional new development happening down the street, if the business should go under, he could still make money just from the land itself.

If small business people such as these are who is being studied when researchers look into risk-taking, it is no wonder that the sum total of their results is a bit confusing. For this group in particular, starting a business was really not about taking a risk. These people did, however, each exhibit a belief in their "capability to organize and execute the courses of action require to produce given attainments" ((Bandura 1977, p. 3) One of my first interviewees was a 27 year-old woman who had left a job in finance to start a café. She said bluntly, "I've pretty much been the best at every job I've ever had." To say that before age 30, when one cannot have had too great a number of jobs, requires a certain opinion of oneself. That belief in one's capabilities is what this group has in common among themselves as well as with the other entrepreneurs interviewed.

## **Conclusion**

These findings do not negate previous findings that entrepreneurs express higher degrees of risk-propensity than do non-entrepreneurs. A few (four) of my respondents did agree that they are risk-takers. For the majority of the individuals in my sample, though, this does not seem to be the driving force. What many of them do express, however, is a strong sense of self-efficacy, sometimes in words that fit the definition surprisingly well. Like one young woman neatly put it, "I'm reasonably intelligent. I'm good with people… It won't be the end of the world if business slows down and I have to close up shop—I'll find something else, then. But I don't think that it will." For her, as for so many others, the fact that she may be more comfortable with risk than the average non-entrepreneur is beside the point. That comfort comes from high levels of self-efficacy.

My aim, with this paper, has been to lend a depth of understanding to a complex problem which has generated similarly complex results in previous literature. I realize that my method has not been as precise as a well-used scale. Giving respondents the free reign that comes in a semi-structured interview format results in responses that are less comparable to each other and to previous research. However, when a problem in the literature seems to be one of measurement and proper interpretation, it can be useful to give respondents some room for explanation, and I hope that having done so has lent some clarity to the question of the role of risk-propensity and self-efficacy in entrepreneurship.

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# MAKING THEIR OWN WAY: SELF-EMPLOYED ENTREPRENEURS AND THE INSECURITY OF EMPLOYMENT

Entrepreneurs are supposed to be risk-takers. At least that's what conventional wisdom would hold to be true. Knowing this, and wanting to know more about risk, I set about studying entrepreneurs. In doing so it became apparent that the story of how businesses come to be started in the United States is also a story about the broader economy. This seems obvious—well, yes, business and economy, these things go together—but there are actual humans that have to jump through a lot of hoops to start these things. They've put a lot of thought into the process and what many of their stories reveal is how thinking about employment is affected by the employment environment. Dependent employment[4] is no safe haven, and self-employment, for many of the entrepreneurs interviewed for this project, seemed like a better route.

Social scientists know that that incomes are not growing for most Americans, and we know that savings rates are down, and that there is no guarantee that future generations will live as well as their grandparents or parents did (e.g., Guidolin and La Jeunesse 2007; Sawhill and Morton 2008). But what do people do about that, not just reactively, but in order to gain some kind of advantage? Think of trying to argue for global-warming with a skeptic.  Just as one might wonder how on earth so much carbon and muck could be pumped into the air and there *not* be consequences, we cannot expect that upheaval in the economy and in employment would not be felt in some significant way. The purpose of this paper, then, is to suggest one path which some are pursuing.

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[4] Dependent employment refers to positions in which one's employment position is through a firm owned and operated by an entity other than the individual (i.e. one is an employee of someone else).

To set the stage, then, consider C. Wright Mills' comments from the middle of the last century: "it is to this white-collar world that one must look for much that is characteristic of twentieth-century existence. By their rise to numerical importance, the white-collar people have upset the nineteenth-century expectation that society would be divided between entrepreneurs and wage workers" ([1951] 2002: ix). He was noting the novel growth of a robust class which was neither bourgeoisie nor proletariat. These people comprised a true middle class, and were able to afford the trappings of a comfortable life, and were comfortable, too, in the security of their financial futures. Since those words were written, workers' productivity has soared, while incomes for the vast majority of Americans have flat-lined. Since 1979, the top one-percent of earners has seen their post-tax income grow by 176 percent, while the income of the lowest fifth of earners has grown just 9 percent (Sawhill and Morton 2008).

Turning to another aspect of employment, rates of self-employment in the United States have slowly ticked upward since bottoming out in the 1970s. This rise, though slight and slow, has now continued relatively steadily for several decades. In 1948, about 12 percent of the U.S. population (not employed in agriculture) was self-employed, but by the early 1970s, that number had fallen to less than 7 percent. Currently, and for two decades now, at least ten percent of the U.S. population (not employed in agriculture) has been self-employed[5] (Hipple 2004). Previous studies, to be discussed below, have

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[5] A brief word about the terms *self-employed* and *entrepreneur*: This paper will make use of the words interchangeably. Uses of the word entrepreneur vary, generally depending upon the purpose and context of the usage. Schumpeter emphasized innovation in his utilization of the term, and considered individuals developing new products, production techniques, or markets to be entrepreneurs (Schumpeter [1950] 1976). Some more

suggested relationships between macro-level trends and self-employment but have not considered long-term degradation in employment security as part of this relationship. This paper investigates these interactions with data collected through interviews with entrepreneurs in the Rust Belt region of the United States. Specifically, this paper addresses whether and how the employment environment affects thinking about employment and, more specifically, how that might figure in to decisions to enter self-employment.

There has been a massive increase in the amount of research published on entrepreneurship in recent years, with much of it coming from scholars of business (Swedberg 2000). Sociologists and other social scientists have a long history of fruitful studies of entrepreneurship, however. Schumpeter ([1950] 1976) included it in his classic work as the vital part of the process of "creative destruction" in processes of economic growth, and Weber ([1930] 2006) recognized widespread entrepreneurship as a key element in the development of a particular kind of society. It has more recently been the

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colloquial usages of the term coincide with this emphasis, such as in references to the internet entrepreneurs of the 1990s, while in other cases the term refers to business owners generally. For the purposes of this research, "entrepreneur" refers to an individual who operates (either solely or jointly) a business for which he or she was also responsible for the founding of. In these cases, an individual has created a job for themselves, and possibly for others, which would not have otherwise existed. They have done the work of creating a business entity where there was none, even if that entity is similar to others (i.e. a restaurant owner is still an entrepreneur, even though there is another restaurant down the street.). For the purposes of complete and specific accuracy, I should really always use the phrase "self-employed entrepreneur," but that would be cumbersome and aesthetically offensive.

focus of studies of ethnic enclaves, as it forms the backbone of those economies (e.g. Light 1972, Portes 1987). Others have focused on the role of resource availability in firm foundation (e.g. Romanelli 1989, Freeman 1986).

In her review of this varied literature, Thornton (1999) divides it into work on the demand side of entrepreneurship (which translates roughly to macro-level work on organizations and markets) and supply-side research (which is generally about individual-level characteristics).The research being presented here takes steps toward fulfilling Thornton's call for research contextualizing the founding of new firms. Some previous research has focused on how a particular macro-level change (such as a higher rate of unemployment) can lead more people into self-employment. What has not been considered with regard to entrepreneurship is how the sum total of major shifts in the economy and employment patterns might create an environment which encourages entrepreneurship, independent of fluctuations in factors such as the unemployment rate.; the present research takes a step towards doing so by asking entrepreneurs directly about their feelings of financial security as entrepreneurs, especially compared to their perceived job security in any previous employment situation. Data from these interviews show how the way people think about employment is changing, and how those changes are reflected in the actions and motivations of self-employed Americans.

## **Connections to the Economy**

The self-employed entrepreneurs interviewed for this study have not, of course, made the decision to undertake entrepreneurial activities in a vacuum. Rather, they have done so in an insecure employment environment. In each of the interviews conducted, connections between that person's actions and broader trends— those intersections of biography and history—are evident to varying degrees. In many cases, broader economic trends have plainly played an important role. Below, I describe these trends, as they forms an important part of the backdrop against which individuals play out their working lives. I then describe the prevalence and nature of the influence of these trends in the decisions of self-employed entrepreneurs.

**Less Stable, Less Secure Employment**

Research regarding whether or not employment has become less secure and less stable in recent decades has yielded mixed results. Though there is disagreement in the relevant existing literature, some of which is discussed below, the sum total of those conclusions seems to indicate some degree of decreasing security, notably for educated, white-collar workers. The picture has not improved for less-educated workers, but when the degrees that were supposed to keep one floating above the volatility of the secondary labor market are ever-less-capable of doing so, one has to wonder not only why that may be the case, but also how people will react. Before delving into these questions, though, I review the relevant existing literature, which reveals—besides the facts of the findings—the difficulty social scientists have had in describing and comprehending the changing landscape of Americans' working lives.

Research on the employment environment centers on two separate and distinct concepts: job security and job stability. Some researchers have investigated possible decreases in job insecurity, which would, for example, be indicated by higher rates of involuntary job loss (as in the case of layoffs). Others have studied job stability, which generally refers to job tenure, which is the length of time a person is employed by the same firm. Changes of either type would not necessarily indicate the same thing. For example, during an economic downturn, employment may become both less stable and less secure as workers are laid off by suffering firms, thus shortening average job tenures and increasing rates of involuntary job loss. In a time of rapid economic expansion, however, job stability may suffer not because workers are being laid off but rather because they are voluntarily leaving for greener pastures. The two concepts, then, are neither mutually exclusive nor inclusive. Inquiry into both is worthwhile for a discussion of changes in the nature of the employment environment, but they are not interchangeable concepts. Researchers of these questions, however, tend to refer to trends in both areas, which can lend additional complexity to a body of literature characterized by conflicting results and conclusions. The argument, given the most recent and updated results, seems to be over the magnitude of the change rather than its veracity; most results show at least some evidence of a shift to less stable or secure employment, and results of the more finely-grained analyses show more remarkable shifts.

Stability. Findings described in a volume which brings together several well-known researchers serve as an excellent example of these mixed results (Newman 2008). The authors of two of the chapters offer competing conclusions regarding changes in employment stability over recent decades.  Ann Huff Stevens (2008) finds employment by the same firm for most of one's working life still to be a common feature of the labor market; those retiring in the next few years will have an average of twenty years with a single employer. She acknowledges that the small changes she does observe seem to have occurred fairly recently. This suggests that an analysis of younger workers may show more significant change.

Later in the same volume, another author finds just that: In an analysis of data from the Current Population Surveys, Henry Farber observes that workers under thirty have become increasingly likely to have been in a current job for less than a year, though he notes though this could be a reflection of additional years spent in school (2008). He also finds, however, that for men in the private sector the average job tenure at a given age has dropped over time. This holds true even for those 40 and older, and even when education is held constant (notable because the population-level increase in average years of education could otherwise have been expected to contribute to such a finding). Farber concludes that young workers today should *not* expect the near-lifelong employment that their parents may have enjoyed.

Others have examined job tenure over time and presented findings that vary in additional ways. This pattern of complexity has not gone unnoticed, and the fruits of an effort to resolve these conflicts are presented in a volume compiled and edited by David Neumark (2000b). The volume is the product of a meeting of social scientists who work in this area and who, having recognized the complexities of job stability and security, took it upon themselves to actively engage with the results of prior research and to discuss this as a group in hopes of arriving at more definitive conclusions. The effort is admirable, but the conclusions regarding job stability are much less than definitive. The authors use a wide variety of data sets and methods and come to an equally wide variety of conclusions. For example, Jaeger and Stevens (2000) find no increase of men with short-term jobs since 1983, but do find fewer men with at least ten years on a single job during the late 1980s and early 1990s. In their analysis of data from the Panel Study of Income Dynamics, Gottschalk and Moffitt (2000) find no evidence of a shift to shorter job tenures in the 1980s and 90s[6]. Notably, the pattern of disagreement among results seems to be whether there has been no change or a decrease in stability; there is no suggestion that stability has increased.

In trying to puzzle through the contradictory findings, I found Farber's (2008) approach helpful. His method included dividing the data into meaningful segments. His analysis has a long range (1973-2006) and is based on a single, clear variable in the CPS (Current Population Studies)—how long a respondent has been working at his or her current job. He also separates respondents by gender and employment sector (public or private). This is important because lumping them all together could mask changes in job stability. More and more people work in the public sector, which remains more stable than private-sector employment due to its insulation from the competitive environment of the private sector. Women have become more likely to remain in the workforce after marriage or the birth of children, thereby complicating that population's patterns of average job tenure. While including these groups in an examination of job stability yields a more accurate representation of the employment experience of an entire nation, it also yields a reverse case of a figure of speech: an inability to see the trees for the forest. The finding of that analysis, then, that there have been real decreases in job stability for men in the private sector, may seem like a limited one, as it points to such a specific segment of the population (Farber 2008). However, were there any change to find, this is the sector where it would be found, due to the insulation of the public sector from competition and the changing work patterns of women.

[6] The introduction to that volume includes an excellent overview of its contents and Farber (2008) discusses them as well, so here I only briefly review a few key findings in order to illustrate the nature of the discord.

There is real churning in a significant portion of the labor market: the employment relationship between for-profit firms and male workers (whose historical attachment to paid employment has been less complicated by social patterns than has that of women, thus making them more useful in discussions of job stability) has changed to become less stable. As previously noted, job stability is not the whole story. Shorter job tenures do not necessarily indicate that employers are more fickle toward their workers; the opposite could be the case as well. A look at job security, however, which refers to involuntary job loss, shows the former to be true.

Security. A review of existing literature on employment security reveals a picture in which involuntary job loss is ever-more common. The results of previous research in this area are more consistent than those regarding stability. They also paint the part of the employment environment backdrop most relevant for the purposes of the present study, and confirm what millions of Americans seem to already know. In an analysis focusing on the perception rather than the reality of job security, Elisabeth Jacobs and Katherine Newman (2008) analyze Americans' views on job security over thirty years using data from the General Social Survey. They find that while workers with low education have always felt that their employment situation is insecure, college-educated, white-collar workers feel that way much more now than used to be the case. Jacobs and Newman show that as the premium earned by those with college degrees over those without has increased, this has also meant that when more-educated workers lose their jobs and find another, they lose a greater proportion of their previous income than do less-educated workers[7]. They hypothesize that these greater proportional losses are part of the reason for these workers' heightened feelings of anxiety. Earlier research, though, suggests that the authors are being overly conservative with that hedge; In an examination of workers' periods of employment and unemployment, Smith and Rubin find that "even highly educated and skilled workers find themselves as tenuously tied to employment opportunities as were secondary labor market workers in an earlier era" (1997: 306). They describe this new environment for workers, in which human capital is no longer a ticket to job security, as "hyperexploitablity".

Farber (2008) and Stevens' (2008) differing conclusions, discussed earlier, point to the recency of a shift to less stable employment, a point echoed by Boisjoly, Duncan, and Smeeding (1998), who find that 1980 was a turning point for job security. Rates of involuntary job loss before 1980--including two economic downturns--were fairly stable, and rates after 1980--also including two downturns-- were stable, but compared to each other, the two periods look very different. This particular paper has been criticized by other researchers on the grounds that the results were driven by changes leading up to the 1980s rather than after (see, for example, Neumark 2000a). However, a close examination of Boisjoly et al.'s (1998) assertions bears them out. In one portion of their analysis, for example, the proportion of men who suffered an involuntary job loss in a given year was presented by age group and educational levels each of several years immediately before, during, or after 1980. Every segment of the sample, no matter age or educational level, was more likely to have suffered an involuntary job loss during or after

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[7] This is not to say that workers with low levels of education who go from one low-paying job to another are doing well, but when considering reasons for the heightened anxiety of college-educated workers, this point is important.

1980 than before. While this latter period does include the year of what was by far the highest rate of involuntary job loss (1982), this year was not solely responsible for pulling up that average: Seven of the ten worst years (with the highest rates) for involuntary job losses occur after 1980, while eight of the ten best years occur before 1980. Overall, and especially when considered alongside others' findings, it seems possible to, if not conclude, then, strongly suggest that there has been a structural shift to less secure employment after 1980.

**The Employers' Side of the Story**

In his recent work, *The Culture of the New Capitalism* (2006), Richard Sennett describes the experience of workers in a business context increasingly characterized by flexibility.  This flexibilization is characterized by a flattened, less hierarchical structure and casualization of the workforce (casual, meaning heavier reliance on temporary and contract workers—not blue jeans on Fridays) designed to be more project-based, rather than job-role and position-based.  Sennett also details a phenomena he calls the "specter of uselessness", which is basically the result of an emphasis on talent and potential over specific and currently-possessed skills. Employees are expected to be able to perform a wide range of jobs rather than to perform a specific job well.  This suits the project-based and frequently-reorganized structure of firms.  Employees who fail to ensure that they can meet such a demand, through the updating of knowledge and credentials, risk becoming obsolete.

Such descriptions are useful, as they describe what is happening where the rubber meets the road. As described in the previous section, various sources of large-scale data regarding individuals' employment histories have been analyzed in myriad ways, and the compiled results of those analyses tentatively suggest that there has indeed been a shift to less secure employment in recent years. There is other, bolstering, evidence to consider however, which comes directly from employers. Not only do data from individuals generally indicate less secure employment; Employers are backing this up. Raw numbers collected by the Bureau of Labor Statistics suggest layoffs are increasing slightly. While the numbers peak in recessions, they also show an overall steady climb just since 1995 (United States Department of Labor 2010). A survey by the American Management Association found that 39 percent of the 1000 firms surveyed downsized between July 1988 and June 1989 (Greenberg 1989). Only 43 percent of firms which laid off workers stated that they did so in response to or anticipation of an economic downturn.

In 1995, Michael Morley, who was then Director of Human Resources at Eastman Kodak Co., spoke during a hearing of the Congressional Budget Committee about his firm's use of downsizing and restructuring practices[8]. He said to the Congressmen present:

> …we [at Eastman Kodak] are finding that it is very important for us as we move forward to have a performance-based culture. Some people would argue, that in the past, our culture has been one more based on entitlement. Having grown up in Rochester and worked at Eastman Kodak out of high school, back lots of years ago I might add, but when I joined Eastman Kodak you came into the company with the idea that you would be there for life, and that the company would take care of you on into your retirement. It was a real cradle-to-grave mentality. We

[8] This hearing was held not because the federal government had grown concerned about mass layoffs by large corporations, but rather because the government was looking for advice about how to slim down its own bureaucracies.

> are trying to change that culture to be much more performance-based. We believe that it is important to us to be competitive in a global environment and so as we have gone through these restructurings and some downsizings, we have also looked at the culture component of it and said, what do we need to put in place in order to help change the culture? (Corporate 1995)

Statements such as this not only provide additional evidence for the destabilization of employment; Rather, they also provide hints to the reasons employers have for employing practices such as reorganization and mass layoffs and can act as a meso-level piece of the explanatory chain between the broadest conception of the economy and the employment experiences of individual workers. Consider changes in corporate strategy as described by Frank Doyle, then Executive Vice President and CEO of General Electric Co. (GE) during that same hearing:

> In the early 1980s when we started [reorganizing and downsizing]—we have been at it rather longer than most—we had over 435,000 employees and $30 billion of revenue. Today, we have 200,000 employees and over $65 billion of revenue. So there has been a dramatic shift. Fewer people was not our objective, it was the consequence of necessary huge increases in organizational productivity. And I cannot claim that we were any smarter than anyone else, but we had an early warning system that was based on the fact that we had a lot of businesses and very early in the game we found out we could lose because our costs were too high. We lost in the consumer electronics to the Japanese because they were producing quality products at costs well below ours. And so we got an early warning and that warning we quickly applied to appliances, lighting, and even to the large

> equipment, aircraft engines, power systems, and our leasing businesses. We got an early warning and we started acting on it in the early 1980s. It was driven, I think, by two major forces. One is that the days of proprietary advantage, the times when you could have something that no one else could have—natural resources, financial resources, a patent—some way of protecting and resting while being noncompetitive on the cost base are over. Now, you have the diffusion of technology that is so rapid that unless you are, in fact, committed to being a low-cost producer in the world market, you are not going to be alive. The second thing that happened is that information technology gives every consumer in the world almost real-time knowledge of what is the best buy, the best quality, and the lowest price. And unless you are there you are going to lose out. So those two factors, loss of proprietary advantage, and secondly, rapid diffusion of knowledge of cost and price and quality said to anyone who was in business you have to have the low-cost position. And if you are going to run a large institution you better not be there with cumbersome, overburdened bureaucracies. We began downsizing by taking out layers and we moved at it very, very aggressively. (Corporate1995).

In the course of his comments, Doyle refers to two needs that come up over and over in explanations of corporations' increasing reliance on downsizing and restructuring: the need to maintain the lowest possible costs of operation in order to be competitive in a global business environment and the need to be nimble enough to respond quickly to changing markets, technology, and knowledge.

Doyle ought to know what he's talking about, as CEO of GE. He would be aware of trends in corporate strategies, especially as he claims that GE was among the first to implement them. Some may wonder if it is possible that practices such as mass layoffs are not so common among most, smaller firms, but the prevalence of these strategies is confirmed by academic researchers. Neumark and Reed (2004) find evidence of increased use of contingent employment relationships in cities defined by high-tech industries and in the fast-growing service sector. Specifically, they find that workers in these cities are 25 percent more likely to be employed through a contingent arrangement, though it should be noted that the numbers making up that different are small in absolute terms.

The reasons cited so far for corporations' reliance on downsizing and restructuring are fairly generous to those firms: They need to cut costs wherever possible in order to remain competitive with firms operating around the globe and they need to nimble enough to respond quickly to changing markets, technology, and knowledge. There are, however, other reasons for the use of these practices. Stockholders expect to make a profit and corporate executives expect to be paid well—very well. Investors behave differently than they once did, as they hold on to stocks for much shorter periods than in the past: The average holding period for a stock traded on the New York Stock Exchange remained above three years, and averaged between five to ten years between 1935 and 1980. In 2005, however, the average holding period for a stock was only about ten months (Maranjian 2007; van Rijn 2006). This trend, in which investors act more like speculators, means that firms have to take action to make themselves attractive to investors. This includes practices such as "reorganizing" even in times of profitability. Firms do this partly so that it appears to investors that they are doing something to actively pursue the greatest possible profits, and CEOs do it because they are, in a way, paid to do it. In 2009, the CEOs of the fifty firms which laid off the most workers during the recession that began in the fall of 2008 were paid 42 percent more than the average of the Standard & Poor's 500 (Malone 2010). As explained in a volume produced by the publishing division of the American Management Association,

> Structural flaws in the economy, brought about by an emphasis on performance-based compensation, had produced a new type of corporate leader, obsessed with short horizons and stock value and with an incentive to show "profits," no matter how questionably they were measured. CEOs could no longer take years to rebuild a company—or to build one—but rather had to show instant returns. (Schweikart and Doti 2010: 437-8)

Evidence from the effects of layoff announcements on stock prices do not support the idea that layoffs will be seen by investors as an encouraging sign. A study of 141 layoff announcements and their effects on stock prices show that all layoff announcements are followed by a drop in stock prices (Lee 1997).The results also show, however, that investors know the difference between layoffs implemented during times of crisis and layoffs made proactively, and that stock prices drop much more severely after announcements of reactive layoffs.

That same study offers a potential explanation for the use of layoffs despite their negative effect on stock prices. While it could be, of course, that firms lay off workers because they need to in order to survive, a number of sources indicate that this is not the case, and that firms often restructure and downsize in times of profitability (see for example Cascio 2002). Recall the ever-briefer holding times for stocks cited above. Lee (1997) provides further evidence that American investors are impatient. American investors reacted much more severely to layoff announcement than did Japanese investors, who are much more patient. Japanese investors only became worried enough to cause a drop in stock prices when repeated layoff announcements were made. They see this as a sign that a firm is truly in trouble. It could be the case, then, that firms feel the need to take some action—even one that may well not lead to stock-price increases—because they believe that if they wait too  long to take such an action and do begin to suffer seriously that their stock prices will take an even more serious hit. The answer could be much simpler, though, with CEOs needing to appear to their boards to be taking decisive action. This seems entirely possible given the cited benefits for a CEO taking such an action.

**Why Entrepreneurs Start Their Own Businesses**

All of this information about a tumultuous and globally competitive business environment, and a similarly less secure employment environment, forms the backdrop against which individuals carve out a career and a living. While all of that data tells us a lot about macro-level changes in the economy and labor market, it only hints at what that has meant for individuals. The rich, human depths of the story have been missed. “Times were hard” will be a way for this generation to start a story for their grandkids in future decades, but it’s not really sociologically satisfying as a story about the state of employment. “Times were hard and this is what some people did about it…” is a much more useful story. It can provide hints about future social change and point to stultifying challenges people face and to the resources they have available. Self-employment is a great place to start looking for this kind of data in a country which defines itself by pulled-upon boot straps and heroic rags-to-riches tales.

The existing literature on, and tangentially related to, the relationship between new entrepreneurs and the economy only gets at bits and pieces of the larger picture. For example, it has been observed that a high level of unemployment tends to be followed by a surge in self-employment (Evans and Leighton 1989; Thurik et al. 2008). This tendency has been termed the “refugee effect”, and it likely captures the decisions of individuals to go into business for themselves because they are unemployed and in need of a new way to earn an income; During a recession, the rate of start-up creation is highest toward the end, when unemployment is at its highest (Tozzi 2010).

Additionally, several large-scale surveys have asked American entrepreneurs whether they hung a shingle of their own because they had no better options for employment or because they were pursuing a business opportunity. The question is intended to determine whether or not an individual started a business out of necessity. Reynolds and Curtin (2008) describe the sum results of responses to these questions from the years 2003-2005. They note that there is little variation over this (brief) span of time, with about 12 percent of entrepreneurs reporting that they started a business because they had no better options for employment. That may not be a huge number, but when the only other option for an answer is that one was “pursuing an opportunity”, it’s possible that the question underestimates that aspect of the influence of the economy on nascent entrepreneurialism; some workers might have preferred to say that they were chasing a star rather than that they were backed into a corner. Additionally, and as I will show, the story of how and why a business was started can be much more complex than either of these two choices.

While the refugee effect and the ratio of dream-chasers to no-other-choicers are informative to some extent, neither takes into account the broader context of these facts. The refugee effect focuses only on changes in rates of unemployment, and assumes that the action of starting a business is taken because of job loss. As noted, other previous research has documented that workers are increasingly anxious about losing their jobs. This feeling of insecurity and the constant threat of job loss, looming in the background, may be significant enough to help motivate workers to pursue self-employment. This potentially powerful motivator is excluded by the survey question that inquires whether a business was started out of necessity or in pursuit of an opportunity. Clearly, neither the survey question nor the idea of the refugee effect were designed to be broad descriptors of the state of employment generally or as whole explanations of entrepreneurs' motivations; these are certainly complex issues. However, when laid over the backdrop of a labor market experienced by workers as increasingly insecure, they do point to a path of action for individuals seeking more secure futures. In the following pages, I make use of data from interviews with 49 entrepreneurs from across the Rust Belt to show how not only personal experience, but also an awareness of the broader employment environment, influence individual's decisions to enter self-employment. While the data offered here are insufficient to confirm this, it may also point to a partial explanation for the increase in the self-employment rate.

## Data and Methods

These changes in the economy and labor market, and decisions to start a business have yet to be adequately studied in relation to one another. Doing so could take a step toward fulfilling Thornton's(1999) call for research contextualizing the founding of firms and could potentially provide insight into one path individuals can take as the labor market changes. I have brought these concepts together by conducting semi-structured interviews with 49 entrepreneurs in three Rust Belt cities (Harrisburg and Johnstown, Pennsylvania and Peoria, Illinois), and the results of these interviews do speak to each of these points.

The term “Rust Belt” refers to a region of the United States stretching across the Great Lakes which was historically a manufacturing hub, but which has lost jobs and population in recent decades. Thus, this economic history makes it an ideal region in which to conduct this research since workers have been contending with the destabilizing consequences of economic changes for several decades. Pennsylvania, where two of the cities included in this study are located, lost 39 percent of its manufacturing jobs between 1970 and 1995, while the rest of the country lost just 2 percent during the same period (Herzenberg 1999). Similarly, Illinois (home to the other included city) lost 37 percent of its manufacturing jobs between 1978 and 1993 (Sevener 1995).

The entrepreneurs interviewed are individuals who were instrumental in the founding of the company which they now operate, the operation of which they consider to be their primary occupation. Interviews averaged about 70 minutes in length and were conducted in a semi-structured format allowing for open-ended responses.

*Interview Sites*

Each city selected as an interview site lies within the geographic area of the Rust Belt. The histories of these cities vary, but they have in common what many communities in this region of the country share—they have struggled economically in recent decades. Conducting interviews in three cities with different demographic and historical profiles will yield a sample of respondents more likely to be representative of the whole region, while concentrating on specific cities rather than conducting interviews in locations scattered across the Rust Belt offers advantages for other aspects of another, community-focused part of project. I will provide a brief profile of each city, though, so the reader has a picture of the setting of this research.

*Harrisburg, Pennsylvania.* Harrisburg lies at the eastern boundary of the Rust Belt, 90 miles west of Philadelphia. It is the capitol of Pennsylvania and a large National Guard base is nearby. The population of the Metropolitan Statistical Area (MSA) which includes the city is approximately 530,000 (United States Census Bureau 2008b). The median family income in Harrisburg proper is about $36,600 (U.S. median is about $60,000), and the city of Harrisburg's population is 13 percent Hispanic, 33 percent white, and 56 percent black (United States Census Bureau). Harrisburg thus has the largest minority population of the cities to be included. Harrisburg's recent unemployment rate was 7.7 percent[9] is low while the national rate was 9.4 percent (United States Department of Labor 2010). This may be due to the relative stability of the area's largest employer, which is the government (United States Census Bureau 2008a).

*Peoria, Illinois.* Peoria is the western-most city included in this study. It lies 130 miles south of Chicago. The population of the MSA is about 370,000 (United States Census Bureau 2008b). The median family income in the city of Peoria is about $55,000, and the population is 66 percent white and 26 percent black (United States Census

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[9] Unemployment rates given are for July 2009. More recent numbers are available but have not been seasonally adjusted. As they were from the holiday-hiring season, I have chosen to use these older numbers until less seasonally-sensitive numbers become available.

Bureau). The largest employer in the area has long been Caterpillar, Inc., a construction equipment manufacturer listed by *Fortune* as the 44$^{th}$ largest corporation in the United States (Fortune 2009). It is home to three hospitals and a U.S. Department of Agriculture research laboratory. Peoria has recently suffered the highest rate of unemployment of the selected cities at 12.3 percent (Bureau of Labor Statistics 2009). It also has the highest concentration of the three cities of jobs in the manufacturing sector, at 18 percent, though health and education is the city's largest employment sector (United States Census Bureau 2008a).

*Johnstown, Pennsylvania.* Johnstown is located in Pennsylvania's historical steel country, 60 miles east of Pittsburgh and 110 miles west of Harrisburg. About 144,000 people reside in the MSA containing Johnstown (United States Census Bureau 2008b). The city of Johnstown's population is mostly white (86 percent), and the median family income is quite low, at about $33,500 (United States Census Bureau). Johnstown was established and once flourished as a "steel town", but the struggles of that industry in the mid-twentieth century led steel manufacturing to all but vanish from the area (Henderson 2004). In 1992, it was declared by the Commonwealth of Pennsylvania to be one of about two-dozen "Economically Distressed Municipalities", and it still holds that designation (Commonwealth of Pennsylvania 2009). The recent unemployment rate in Johnstown was 9.4 percent (United States Census Bureau). Nearly one-quarter of the area's jobs are in health and education (Bureau of Labor Statistics 2009).

*Subject Recruitment*

For the purposes of this research, "entrepreneur" refers to an individual who operates a business for which he or she was also responsible for the founding. The sample was not restricted by type of business; Operators of everything from entertainment companies to biotech firms to retail food outlets were interviewed. While some businesses have more potential for job creation—a key reason for the importance of entrepreneurship—diverse economies fare better in the long run, and all self-employed entrepreneurs have at least created a job for themselves.

Interview subjects were recruited by a mix of mail and email, and some snowball sampling was used. Names of entrepreneurs were collected by several methods. Some were culled from lists of businesses housed in business incubators. Others were culled from the membership lists of organizations such as chambers of commerce. Some individuals interviewed have suggested to me other business owners in their area. In order to cast a wide net, I've also culled business names from the yellow pages of phone books and have simply written down names and addresses of businesses spotted from the street.

These interviews were conducted from July 2009 through May 2010. The sample that resulted included 49 interview subjects, 19 of whom were women, or about 39 percent of the sample, which is greater than the approximately 28 percent of non-farm businesses owned by women and likely due to either or both the small sample size or women's higher response rates generally (Small Business Administration 2007). I interviewed 8 non-white entrepreneurs, about 14 percent of the sample, which is lower than the approximate national rate of 21 percent of business which are owned by minorities (Small Business Administration 2007). Interviews averages just over an hour in length. Most were conducted at the individuals' place of business, though one-quarter took place at off-site locations such as cafes. The mean age of interviewees was 42, from a range of 22 to 66. The mean time a business had been in existence was 7 years, from a range of still-under-construction (in the case of a serial entrepreneur's latest venture) to 35 years (mean excluding this upper-limit outlier is just over 5 years). Twenty of the individuals were recruited from Peoria and another 20 were from Harrisburg. Only nine of the interviewees were recruited from Johnstown. This is not for lack of trying, however; Interestingly, more than one interviewee spontaneously suggested that it would not be surprising if I had trouble finding subjects in Johnstown. As one person in Peoria (hundreds of miles away) put it, "Johnstown is in a deep valley and it's sort of like those valley walls exist in their minds as well." I cannot say with exactly what this trouble reflects, but Johnstown does have a reputation as troubled area, and perhaps this somehow makes speaking to an unknown academic from another city seem unappealing for potential subjects.

**Potential Sample Biases.** This sample and the data emerging it from it do suffer from the usual weakness of a small, non-random sample. It does not accurately represent the whole population of self-employed entrepreneurs and it may be troubled with selection bias. I could only interview people who were willing to be interviewed, and it is possible, of course, that these individuals differed from those who said no or who were not contacted in the first place. First of all, I had to be able to find them in order to try and recruit them. This may select a bit for business success, as it means that they have been around long enough and shown the initiative to make it into the yellow pages, build a web site, hang a sign, or join a business organization. Also, it is possible that individuals who are willing to do something as strange as sign a consent form and chat with a stranger about personal experiences for no significant personal gain are unusual in some way.

The sample is also not perfectly representative of all self-employed entrepreneurs. Defining self-employed workers is complicated, as contingent, contract-based work has come to the fore. My sample did not include any such workers, but an examination of BLS data shows that, even if contingent work is becoming more common, it is still a small slice of the employment pie. A supplementary portion to one CPS survey found only about five percent of workers (not including unpaid family workers) to be in contingent employment situations. The impact of those workers on the self-employment data would be minimal as well, as only about six percent of contingent workers would also be classified as self-employed (Bureau of Labor Statistics 2005).

My sample, then, is not unusual in the sense that none of them are contingent workers. It *is* notable, though, that my sample consists mostly of middle-class, college-educated individuals. Not included are individuals such as those who work on a cash-only basis, mowing lawns or running hair salons from their kitchen table. These kinds of workers have been termed “survivalist entrepreneurs” (Light and Rosenstein 1995). While the individuals in my sample may well start a business in order to fill a need for income, their experiences have taken place in the primary labor market, and their resources are comparably greater than those working in the realm of the secondary labor market, as would generally be the case for survivalist entrepreneurs. Having recognized these limitations, though, I maintain that this sample is diverse enough to provide data which are capable of being, at the very least, indicative of trends and adequate for the exploration of complex issues. As noted above, the sample includes individuals exhibiting a wide variety of demographic characteristics and businesses of a variety of types.

**<u>Results and Discussion</u>**

The interviews with self-employed entrepreneurs conducted for this study have revealed a number of points of interaction between macro- and micro-level phenomena. A number of interview subjects told fairly traditional stories about how they came to own their own businesses. One young woman left a financial firm to follow her dream of owning a coffee house. An architect left his firm to start one of his own because he could no longer handle working with his boss. In a number of cases, however, people recounted trails to entrepreneurship that were tinged with characteristics of a destabilized employment market. They were looking to seize control, not just of their day-to-day duties, but of their future career prospects. They often expressed, unprompted, that they trusted themselves for a job—even acknowledging that a lot of new businesses fail—more than they trusted a bigger business. As several people put it, in nearly identical words, “It’s not like I’m going to lay myself off.”

In all, of the 49 self-employed entrepreneurs interviewed for this study, 24 told stories of starting a business that included an element related to the destabilization of the broader employment environment. As with any small interview-based study, the numbers of respondents which fall into any given category are really only useful for basic, illustrative purposes. With the limitations of a small, non-representative sample in mind, recall a previously-noted number: in large-scale surveys that have asked entrepreneurs whether they started a business because they had no other option for employment or because they were pursuing an opportunity, only about 12 percent chose the former. In contrast, nearly half of the entrepreneurs interviewed for this study cited some economy- or labor-market-related reason for starting a business, and it was never as simple as “well, I didn’t have any other choice.” The complex responses they gave and the stories they told enrich our understanding of individuals’ thinking about work and decisions to enter self-employment, and they may suggest a partial cause of the slow rise in rates of self-employment.

More specifically, the stories told to me by self-employed entrepreneurs illustrate how the transition from unemployment is not necessarily as simple as a person going into business for him or herself because there is no other option. What many of those interviewed emphasized, and what I in turn think is important to note, is that it was very often the case that they *could have found* another job; they actively chose self-employment over dependent employment. Not one person told me that he or she had started a business because there was no other option for employment. The previously-discussed “refugee effect” describes the tendency for rates of self-employment to rise following an increase in rates of unemployment (Evans and Leighton 1989; Thurik et al. 2008), implying that unemployed individuals are turning to self-employment because they cannot earn an income as a dependent employee. Surely these people exist, but as my interview data suggest, many of the individuals leaping from unemployment to self-employment are doing so of their own will. That will, however, and their motivations have been colored by destabilized employment environment that has lasted long enough and reached high enough up the socioeconomic ladder to reach even those who might thought their degrees and skills would keep them out of the pool of pink slips.

Thus, while the concept of the "refugee effect" is not necessarily invalid, it papers over the complexity and the context of moving from employee to business owner. Data from interviews reveal, first, that individuals can be prompted to start a business by a lay-off or an employment experience otherwise related to economic instability and insecurity. For the other side of the coin, they show just how explicit a role that negative experience played in prompting decisions to pursue self-employment.  As the dire picture of employment painted in the preceding pages attests, jobs are anything but secure. These entrepreneurs tell, then, one way in which people are reacting to those conditions.

*From Employed to Unemployed to Self-Employed, and Related Tales*

When I started this project, I was interested in risk and entrepreneurship, but I had been thinking of the risks entrepreneurs take *as* entrepreneurs. Only as the project developed did I realize the importance of the risk of self-employment compared to that of dependent employment. I heard stories from interviewees about how they got into business in the first place, and it often involved a lay-off or other negative experience as an employee, and the importance of the context in which this initial decision is made became apparent. More upheaval in employment can mean more jumping off points for would-be or might-want-to-be entrepreneurs. Consider the stories of some interviewees: A 31 year-old man with a background in software programming said of his former job, "It took about a week, but they fired[10] all of us. So we started working in his [business partner's] basement on something…". That basement project now provides full-time jobs for a half-dozen people near Harrisburg. Just across the river, the African-American

[10] These were downsizing lay-offs related to a change in management and company finances; these were not performance-related terminations.

owner of a now-successful household services company started his business after being unexpectedly laid off from a new job. This individual had been an accountant, and lost his job in a reasonably good economic climate so he likely could have found another job, but instead he consciously decided to start his own business rather than once again place his employment and income prospects in someone else's hands.

Sometimes these disruptions in employment grease the wheels for something that may have happened anyway; corporate upheaval helped to take a business from idea and desire into actuality. One 51-year old man in Peoria, for example, was laid off from a sales firm and decided to start a similar firm in a different geographic area, a desire he'd harbored for a long time and was prompted by the layoff to finally act upon. In another instance, an engineer and his current business partner had worked together at a Fortune 500 company for a decade, and they had spent evenings during the last few years of that period in his basement, tinkering with an idea of their own. The two are now on the verge of refitting a shuttered factory to begin mass production of their product. While the interviewee believes they would have left the company eventually anyway, they were both prompted to do so suddenly when their employer offered optional buyouts to employees. He said,

> We ended up being lucky… with the economic downturn. We were kind of on our way out, but then the company offered a buyout, and we took the buyout, and it worked out nicely for us. But even with the buyout…you know, when you've always worked for a big company and you're well-respected and especially when you know your job is fairly unique and secure… so it was a big thing about, well, do we leave this and jump into something…?

Though he was not forced out of his job, he jumped at the chance to leave with money in hand, which would ease his transition to self-employment. His basement tinkering turned into a business, which is now about to hire dozens of people, largely because a big company needed to trim its workforce.

Another engineer was also helped by his former employer, though somewhat more indirectly, to start his own business. He and a few friends had been working on a pet project, doing patent and market research, while still working as employees. As that project developed he began thinking about leaving that employer, but found that his position was terminated before he could come to that conclusion on his own. He now said of that transition, sounding a bit triumphant, “If that’s what you guys [former employer] wanna do, go ahead. I was ready to leave anyway. So it made the decision easy.” He was able to parlay his past employment into a consulting-type business, doing the same kind of work on his own while he finished preparing the other project. That project is now an established and growing enterprise in Peoria, with four full-time employees and a few energetic interns that were buzzing about during this interview.

While most of the entrepreneurs interviewed were previously-employed by the private sector, one interviewee in particular illustrated how some of the extra-economic forces that have shaken the business world have tightened government budgets as well. A government scientist-turned-biotech entrepreneur from said, “I got a post-doc at the [federal government] lab here. I got the idea for this during that time, and, well, I started there during July of 2001 and, uh, September 11th happened and their budget was just cut every year after that. So, the research wing was wanting to hire me on, but the budget just wouldn't allow it, so I had to leave and I started this. It was an easy decision; It was either start this or move again and start another job. So I decided to give it a go."

For one young man, recently graduated from college, just his experience at disappointing job fairs was enough to encourage him to start a marketing company with a friend. As he put it, "I went to some job fairs, and it was just, you know, depressing. So we [he and business partner] had been joking before classes, like, hey man, we should start something. And then we got serious about it." The pair have moved the business out of a living room and into a space of its own.

None of these cases runs against the grain of the refugee effect, but each illustrates the complexity lying behind those simple trend lines. The recent college graduate didn't need more than a taste of the poor job market (he graduated in the height of the recession) to know that he might do better on his own. He never even applied for a job. Other interviewees could probably have gotten another job if they had so desired. The accountant-turned-business owner was laid off in a relatively rosy time and almost surely could have. In fact, many of these individuals have degrees and skills in high-demand areas, but they turned to self-employment completely voluntarily, sick of upheaval as a dependent employee. These people are less refugees than they are voluntary migrants. They may have had the *résumés* to find success in the dependent employment market, but they've hopped off that rocky boat for what they hope will be steadier footing as business owners.

*The Relativity of Risk, or Rethinking Self- Versus Dependent Employment*

Starting a business is hardly a sure-fire path to financial stability. According to the Small Business Administration, only about half of new firms survive their first five years

(Small Business Administration). Accordingly, many of the individuals interviewed had put a lot of thought into the riskiness of being self-employed, and their thoughts were often framed in terms of self- versus dependent-employment. One man whose layoff by a large firm immediately preceded his decision to found his own waste and recycling business had this to say: "Self-employment is a hell of a lot less risky… Shoot, working for some company that gets bought up and then the next day half the workers are laid off. Thanks for your twenty years! Good-bye!" His views on the risks of self- versus dependent-employment are obviously shaped by his experience being laid-off, but as this has become more common, it's likely that many individuals, having either experienced something similar themselves or having known or even just known of someone in such a situation, would alter their perceptions of the risks of various types of employment accordingly. Asked if he thought of being self-employed as risky, a middle-aged man whose own business is to provide valuations of small businesses replied:

> I've had lots of jobs during my lifetime and I've been fired a few times and I really don't think jobs are as secure as people think they are—if they even think that anymore. So, to me, I would rather risk being in business for myself, that relies on me and my activities and skills and whatever rather than putting my faith in a supervisor or boss or the politics or bureaucracy of wherever you work. I'd rather rely on myself than that. I think there are a lot of small business people and entrepreneurs that probably feel the same way. I remember reading once, and it struck me because… I don't play the lottery because I think it's a waste of money, but I was reading an article somewhere by somebody who was talking about being an entrepreneur and he made this statement, kind of tongue-in-cheek, but it

> said entrepreneurs don't play the lottery. Because they realize that they would rather take that money and invest it in themselves and not invest in some long shot, you know, that's based on randomness.

He clearly feels more comfortable relying on himself, rather than a firm, for employment. A Johnstown woman with an award-winning business-to-business services firm recognized the risk of self-employment, but put it this way: "I know it was risky, or is risky. But I'd already been laid off. Working for someone else didn't work out so great either."

This shift in sentiment regarding risk, caused by the destabilization of employment, made it an easier decision to seize a layoff as an opportunity to start a business rather than to search for a new dependent employment position. Consider the statement of the owner of an entertainment industry services firm owner: "He [fiancé and co-owner] was in corporate America. He worked for a company for a long time, but they shut their plant down, so he got laid off with a great severance package and we just kind of decided, it's now or never. At this point, the economy is only going to get better. It *can't* get that much worse." Her statement indicates that she and her partner are fully aware of how risky business ownership can be but that his layoff created what they saw as an opportunity rather than a set-back. A man with years of marketing experience as an employee describes at length how his long career, marked by bad experiences with employers, really prepared him go out on his own:

> I worked for another company, no longer in business, and I worked there for about five years and I left there to work for another company, and I did well there and was there for twenty years and then, through a series of events… well, it was

> hard to find new accounts that other reps didn't already have in this market, and I had looked around for a position every once and awhile, and after twenty years another company north of here made me an offer, the same as what I was doing, but they were going to pay more of my expenses. I worked for them for a year and during that year I was supposed to open up this new territory for them and found out that their prices were just too high for the new market. I hadn't known that and then they had a management change… lawyers got involved…I was laid off and I took that opportunity to look around a little bit for jobs, but couldn't find much of what I wanted. In the mean time, I was still selling some and within a few months had set up this business and I went at it full time as a company of my own.

He had learned to be picky about employers and found that he preferred himself as a boss. Those bad experiences as an employee made the decision to start a business that much easier. Even business owners who had secure jobs prior to starting a business did not feel that what they were doing, in trying to make a job for themselves, was particularly risky in comparison to dependent employment. A coffee shop owner said, "People come in all the time now, since Big Local Employer has been making people take time off without pay. They're like, 'Well, I'm on furlough. Guess I'll relax and get some coffee.' I think they're just glad they haven't been laid off."

## Conclusion

Rubin and Brody (2005) find that workplace insecurity leads to lower levels of commitment from employees. Additionally, they find that workers born after 1965 are generally less committed to their workplaces, possibly because they came of age in a working environment which has always been defined by such practices. “The core of that contradiction [for employers] is the simultaneous need for intense work effort and the loss of conditions that support the social contract that generates the motivation to engage in that effort” (Rubin and Brody 2005: 844). Changes in the employment relationship have clearly altered the way workers view their careers. Just as their firms are less attached to them, they are now less loyal to their firms.

As the described interviews have shown, some workers have taken their employment prospects into their own hands. Many of the entrepreneurs interviewed expressed that they knew self-employment to be risky and that the likelihood of failure is high, but that given the increasingly tumultuous nature of dependent employment and having often experienced some taste of it first-hand, they failed to see how what they were doing was exceptionally risky. They appreciated the control they gained by being their own boss. One contribution I hope this research makes is to an understanding of the reasons for which individuals enter self-employment which is richer than that which can be gained through large-scale surveys. I think this is also a step toward understanding how workers’ thinking and behavior will change in the face of a changing employment environment.

Thinking beyond the stricter limits of what can be concluded with a small, cross-sectional sample, the experiences and decisions of those interviewed may signal that the cumulative effects of a destabilized employment environment have created a critical mass of disaffected workers who no longer see long-term stability as a potential benefit of dependent employment. This would significantly alter the balance sheet of pros and cons of dependent- versus self-employment for individuals considering striking out on their own. The increase in numbers of involuntary job losses and rising use of downsizing and reorganizing practices by firms also creates additional points at which these disaffected employees could experience a "wake-up call" and decide to go into business for themselves. The combination of these forces could help explain the steadiness of the increase in self-employment, on the rise after decades of decline.

The employment environment has changed since 1980. This paper shows one way by which people are adapting and reacting to those changes. Future research might explore the potential implications of widely available affordable healthcare, not tied to employment, for self-employment. Also, as Americans have been, since de Tocqueville's time, noted for their drive to succeed as individuals, an exploration of the role of this culture in reactions to changes in employment and the economy could prove fruitful.

But what of these entrepreneurs and the future? This author thinks it is likely that we will continue to see slowly rising rates of self-employment. Individuals should be better able to start a business if they have the knowledge and resources to develop a unique service or product as well as the financial resources to fund startup costs and/or go for some time without a salary. As more and more technical and knowledge workers find themselves among the unemployed, there may be, according to the findings of the present research, more individuals in the position to try and start businesses of their own. Also, as entrepreneurship programs on college campuses grow in number, so too will the number of degree-holders who have been exposed to the notion of thinking of themselves as entrepreneurs.

Changes in the economy have wrought havoc on the American middle and working classes, but I would like to encourage sociologists to think beyond the immediate consequences of those changes and to look instead for potential paths of change and action. People won't go down without a fight, but we have to keep open minds about just what form that fight may take.

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## ENTREPRENEURSHIP: CREATIVE DESTRUCTION AND THE STATUS QUO

Social scientists like to try and name things, to come up with some formulation or description of a phenomenon so that we can give it a face and can touch it and work with it, try to figure it out, and pass it on to others. Since the last third or so of the twentieth century, a number of theorists have tried to put a name to exactly what it is that is different about the economy. It certainly felt different. Assembly lines and life-long employment were less and less the norm, and suddenly, *x* on one side of the world affected *y* on the other side of the world, much more so than previously had seemed to be the case. In the quest to put a name to the changed face of society, these phenomena and their consequences have been bound and named in various ways. They have been called—among other things— the knowledge society, the risk society, and the creative economy. The particularities and implications of these theories vary, but each has a hand on a different part of the same elephant. If we view them as a whole, though, and take a step back, one thing is clear: Capitalism is still sharpening its claws and developing, and we are still working to get better at playing along with it.

Consider the growing emphasis on entrepreneurship, an important factor in the creation of wealth. The number of entrepreneurship programs at universities has grown from 16 in 1970 to over 2000 currently (Proctor 2010). SCORE, an organization which seeks to advise small businesses, has over 350 chapters across the United States and, in 2010 alone, helped entrepreneurs start over 50,000 new business (SCORE 2011). In 2004, the United States Chamber of Commerce hosted its first Small Business Summit (U.S. Chamber 2011). Anecdotally, it seems impossible to read a paper or watch the news for long without hearing a triumphant story of an entrepreneur gone from unemployment-line, having been separated from a cubicle by a pink slip, to middle-class security (true rags to riches tales are too rare or un-relatable, perhaps). A quick inquiry via Google Trends shows significant growth in news-media references to “entrepreneurship” since 2004, with most of the increase coming in 2008 (the year the Great Recession began) (Google 2011).

Entrepreneurship, then, is the focus of this paper, in the course of which I hope to make two points. First, entrepreneurship is important to the economy in ways that have not been fully recognized in recent years by social science. It helps to sustain the economy not only by opening new markets for it to exploit, but by providing individuals with a socially-acceptable means to exercise personal agency and to “step out of the box,” which is still in line with the goals of capitalism. This extends to the level of communities and states, as these entities seek to attract entrepreneurs in hopes of growing their local economies. They do these things in response to the troubled economic and employment conditions of the last few decades. The ideological power of entrepreneurship is visible, too, in its use by explicitly capitalist institutions as a way to appeal to the masses as institutions conforming to American ideals of innovation and honor in business success rather than as greedy fat-cats. What this demonstration will also show is how capitalism is managing to rationalize and bureaucratize even entrepreneurship—something which seems like such an individual and creative act.

The second, related point I will make is that focusing on this question of the role played by entrepreneurship tells us something about the nature of our particular historical moment, when it comes to the economy and the development of capitalism. Classical sociological theory has much to say about capitalism and its evolution. This discussion will show that we are very much still in the thick of what some of these thinkers described. I think there has been a tendency on the part of contemporary theorists to look for *new* answers (rather than dredge classic works) about the present and future of capitalism, and that these attempts have fallen short. While those attempts, some of which can be summed up by terms such as “risk society”, “knowledge society”, and “creative economy”, each have their uses and strengths, they are limited by their own attempts at innovation. Each is talking about something related, both to each other and to entrepreneurship, and the connections become clearer if critiqued through the lens of older writings.

Entrepreneurship is a particularly useful concept for thinking about where capitalism stands now because it is a concept which embodies an opportunity for individual action, holds a normative position as part of an ideology, and serves a purpose for the market as well. Ultimately, what I think this examination tells us about this particular point in the development of capitalism is that what we’re living is only a new stage (and maybe that is even too strong a phrase) of capitalism’s perfection of itself. It is not requiring of men not only wage labor, but also wage creativity. What’s new about this is that that creativity is being rationalized, a seeming oxymoron if there ever was one, through wealth-seeking attempts to encourage it.

I have organized this paper into two large parts. In the first of these, I will demonstrate how entrepreneurship operates today, using data from interviews with entrepreneurs and community leaders, along with a variety of other sources. In the second part, I briefly discuss some foundational and classic theorizing related to the subject at hand, and then turn to the contemporary theories named above: the knowledge society, risk society, and creative economy. I will discuss how they relate to each other and how entrepreneurship figures into each of these lines of thinking and outline some of the societal and economic changes to which these theorists are responding.

**Recent Economic Change**

First, a brief description of current economic change in the United States. Income inequality has worsened, and secure, well-paying jobs are more scarce. Since 1979, the top one-percent of earners has seen their post-tax income grow by 176 percent, while the income of the lowest fifth of earners has grown just 9 percent (Sawhill and Morton 2008). Boisjoly, Duncan, and Smeeding (1998) find that 1980 was a turning point for job security. Rates of involuntary job loss before 1980--including two economic downturns--were fairly stable, and rates after 1980--also including two downturns-- were stable, but compared to each other, the two periods look very different: Seven of the ten worst years (with the highest rates) for involuntary job losses occur after 1980, while eight of the ten best years occur before 1980.

Much of this had to do with changes in the manufacturing sector. For example, Pennsylvania lost 39 percent of its manufacturing jobs between 1970 and 1995 (Herzenberg 1999). Similarly, Illinois lost 37 percent of its manufacturing jobs between 1978 and 1993 (Sevener 1995). In place of these manufacturing jobs grew poorer-paying service sector jobs (many sources available. see for example, Berman 2005). A good summary indicator, the gini coefficient[11] of income inequality indicates a sharp increase in inequality for the United States in recent decades: The coefficient was .415 in 1979, .463 in 1999, and was up slightly to .469 in 2009 (United States Census Bureau 2010;

[11] Higher numbers indicate greater inequality.

United States Census Bureau). (Countries with similar gini coefficients include Jamaica, Iran, and Uganda. (Central Intelligence Agency 2011))

In other words, capitalism has not been kind to many citizens of the U.S. in recent years, yet there is no great outcry for systemic change. Instead, people are looking for ways to do better for themselves within that system, and entrepreneurship offers one important such pathway.

## The Role of Entrepreneurship

### Entrepreneurial Culture in the United States.

The United States is a shining example of entrepreneurialism. This is not built just upon folklore, as a recent report from *The Economist* noted, "the EU commissioner for science and research, points out that only 5% of European companies created from scratch since 1980 have made it into the list of the 1,000 biggest EU companies by market capitalisation. The equivalent figure for America is 22%" (2009). American entrepreneurs, it would seem, are good at what they do.

The U.S. boasts a history and culture that support these feats. As the same *Economist* report succinctly explains,

> [The U.S.] was founded and then settled by innovators and risk-takers who were willing to sacrifice old certainties for new opportunities. American schoolchildren are raised on stories about inventors such as Benjamin Franklin and Thomas Edison. Entrepreneurs such as Andrew Carnegie and Henry Ford are celebrated in monuments all over the place. One of the country's most popular television programmes, currently being recycled as a film, features the *USS Enterprise* boldly going where no man had gone before. (2009)

The values of innovation and striving long have been part of the personality of the U.S. The historian Scott Sandage quotes a letter from 1839, written by an American who moved abroad. Joseph Ropes wrote to his grandfather,

> I confess I do not think myself to be particularly well fitted to be useful in America now…. I have not enough of the *go-ahead* principle to Keep up with them there, while here I can perhaps even keep *ahead of them*. (as quoted in Sandage 2005: 26)

To describe this attitude of constant forward motion, which the letter-writer felt he was unusual for lacking, as it manifested itself in entrepreneurial men of industry and commerce, the term "business man" came into use in the first half of the nineteenth century. As Sandage tells it, "A rising 'business man' embodied true selfhood and citizenship: the man in motion, the driving-wheel, never idle, never content" (Sandage 2005: 72). Entrepreneurship, then, has always been a part of the cultural "toolkit", to borrow Ann Swidler's term, for Americans. It is a familiar instrument which is, as the letter quoted above shows, not only available, but of which it is expected one will be make use (Swidler 1986). Make use of it, Americans have and do. Individuals, government entities, and other organizations see entrepreneurship as a way forward in times of economic difficulty. Below, I show briefly just how this happens for various entities.

<u>Nations, Regions, and Communities.</u>

As well-paying manufacturing jobs have moved to developing countries and wages have been stagnant for much of the U.S. population, cities and states have become interested in promoting entrepreneurship as a means to "grow" jobs within their borders.

Business incubators have played an important role in this. Incubators are organizations (and often physical places) which offer support in the form of advice or financially-related resources, or both, for budding entrepreneurs. The first of these opened in Batavia, New York in 1959. Interest in them grew through the 1980s and 90s, and currently there are over 1100 operating in the United States (National Business Incubation Association 2009). A number of states have created initiatives of their own. Pennsylvania has one of the largest and oldest such programs, called Ben Franklin Technology Partners, which provides assistance to companies with a technology focus (Ben Franklin Technology Partners 2011).

Other nations around the world are interested in promoting entrepreneurship as well. The past five years have seen a flurry of activity in the European Union, directed at understanding and encouraging entrepreneurs there. The European Commission has produced a number of reports and recommendations along these lines (European Commission 2011). There are also an estimated 6000 incubators operating outside of the United States (National Business Incubation Association 2009).

Why should it be interesting that various government entities encourage entrepreneurship as a means of job creation? Governments, particularly at the national level, are one institution that has the potential capability to rearranging the economy in a meaningful way. However, when the going got tough, rather than seek an alternative to capitalism as an economic system, these entities instead looked for ways to get better at it. Of course, there are a lot of reasons for this and drastic change would be incredibly difficult. That governments are interested in entrepreneurship, though, points to the overall increasing emphasis on it. In the course of conducting research for this project, I interviewed eight individuals who work for local organizations or governments interested in economic development[12]. Data from these interviews reveal the importance placed on entrepreneurship and job creation by these individuals and their organizations as well as the general discontent with the current state of the economy.

For example, the president of a minorities-in-business organization said to me of his organization's role in that community:

> There are a lot of people that know about the minority contracts with the federal government, and they say, 'yeah, I'm going to get me one of them.' And I tell them, no. Huh-uh. Those are hard to get. So what I want to do is help people who want to get serious about it [starting a small business]. Nobody's going to hand you anything like that. Not just for, uh, black people, either. Anybody, anymore, is better off trying to make something happen for themselves…. and this town has had it rough, so the more of that we can make happen, the better.

[12] Two of these, though not quoted in this paper, were also interviewed as entrepreneurs. These individuals were recruited by mailed and emailed letters. I tried contacting current and former mayors, officers of chambers of commerce, and directors of economic development offices in the three cities detailed in a previous section. I had more difficulty than expected recruiting such individuals for interviews. Possibly, their communications are filtered by secretaries or, possibly, they are wary of interviews due to contact with journalists. It is also possible that they are booked till eternity with meetings and did not see the use of adding another one to their schedules. Based on a reading of newspaper interviews with some of the individuals I was not able to speak with in person, I do not think this tiny sample is unique in any detrimental way, as far as the type of information I got from my interviewees is concerned.

In this excerpt, this man's perception is that recent times had not been kind to his community, and that he and his organization see small business ownership and entrepreneurship as a way to a better economic future.

The director of one city's economic development organization (funded by the city), had encountered plenty of opposition from the public to projects perceived as wasteful or unlikely to succeed or have much effect. Individuals in this community realize that the area used to boast a wealth of good-paying jobs, specifically in manufacturing. There is some nostalgia for that era, and it is in this context that city leaders are looking to draw or "grow" jobs in new fields. The director said of this:

> People will say to me sometimes, 'Bring back the factory jobs. Where'd those jobs go? They were good jobs. Union jobs.' But then I'll ask them what they want their son or daughter to do for a living, and nobody ever wants their child to be working on the [factory] floor. So why would we want those jobs back? We have to try something new, and part of what my office does is try to get those kinds of [new, non-factory] jobs here.

Again, nostalgia for the prosperity of decades past creates a sense that things could be "better", but the city's answer to that is to do its best to contribute to the furthering of capitalism. Again, for the purposes of this paper, what is significant about this is the role being played by and emphasis being placed upon entrepreneurship.

In the spring of 2009, I attended a conference on the campus of Penn State University, the purpose of which was to bring together entrepreneurs, venture capitalists, and governmental organizations which have an interest in aiding the creation of new businesses within their jurisdictions. A major theme of the panel's conversations and the questions asked was the tension between business people out to make money for themselves and government officials hoping to create decent-paying jobs in their districts. At one point, a venture capitalist and serial entrepreneur with years of experience was railing about why there is not more venture capital investment in Pennsylvania, particularly outside of Philadelphia, and the myriad ways he thought the state government (represented that day by a woman who oversees job-creation initiatives in the state) could do more to help. Finally, the woman responded, "What you do not seem to understand is that my job is not to help you make ten million dollars in a business deal that you can take back to Boston. My job is to try and help create a few dozen or a few hundred $60,000 jobs in Williamsport." What this reveals is partly yet another instance of how rough times caused by the forward march of capitalism is met with a response not of "what other system is there?", but instead of "how can we get better at this?", and also the complexity of the role of entrepreneurship in this economy. It is still a way for individuals to get extremely wealthy and bring new products to market, as that venture capitalist does. It also, though, is a means for entities to seek a path (back) to prosperity.

I have hoped to show, in this brief section, how entrepreneurship is important for government entities. They focus on it in hopes of spurring job creation and greater wealth, and the hope it offers directs the response to economic hardship to become "How can we get better at capitalism?" rather than "Isn't there some other way this whole economy could work?". What entrepreneurship offers is possibility. In the United States, possibility is vitally important. As far as this culture is concerned, to not pursue a possibility would be lazy or incompetent.

<u>Capitalist Institutions</u>.

When it comes to businesses, the purpose of entrepreneurship would seem to be obvious. It is the process through which they were created in the first place, and intraorganizational entrepreneurship is vital for growth and prosperity. However, in a society which so highly values the individualism and innovation inherent in entrepreneurship, this can serve an additional, "public relations" purpose as well. I offer here two examples of how entrepreneurship can be worn, like a cloak, by organizations in order to increase their public appear.

First, consider the United State Chamber of Commerce, a prominent business lobbying organization. In May 2009, I attended the U.S. Chamber of Commerce Small Business Summit in Washington, D.C. This annual event for small business serves multiple purposes. It is a major networking event, but it is also a major lobbying event. The final day of the summit is set aside for small business people to meet with their Congressional representatives. The Chamber helps them to set up these meetings, provides transportation to and from Capitol Hill, and, importantly, provides plenty of coaching on what to do in these meetings. Nearly every speaker I heard during this event said, and many did so multiple times, "Be sure to let your representatives know about that!" or "And this is what you should tell your Congressman…!" Often, what they were referring to had very little to do with the operations of small businesses. More often, it had to do with the kinds of regulations, sometimes about health care or international trade, that much larger companies would be much more affected by. I have included these stories not just for entertainment purposes, but because they illustrate, once again, the power of the image of the entrepreneur or, in this case, small business-owner. It is one thing for the Chamber to lobby on behalf of the likes of AT&T or Wal-Mart, but to send an army of moms and pops and other small business owners marching on Capitol Hill puts a different face on the Chamber. Who, after all, wants to say no to mom & pop? The Chamber clearly understands how unassailable the entrepreneur is as a cultural figure. While it *is* true that most of their members are small businesses, much of their funding comes from much bigger businesses[13], so their incentives to represent all of their members equally are perverse.

Consider, as a second example of "entrepreneurship" as a public relations tool, Google. A well-known fact about this company is that it allows and encourages innovation and creativity on the part of its employees. A famed example of this culture is Google's "Twenty-Percent Time." This is a policy which allows Google engineers to spend as much as twenty-percent of their working hours on pet projects (Google). This absolutely has profit benefits for Google, but it is also an important part of their public image. It says to investors that the company is looking for new ways to make money, and it says to potential employees that Google values them as individuals and respects their need to try new things. Recently, Google has been airing commercials for their web browser featuring small business owners who supposedly make use of the tools offered by the software in order to build and operate their business. "By entrepreneurs, for entrepreneurs", the message seems to be. Thus, the U.S. Chamber recognizes the public

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[13] In 2008, the U.S. Chamber received 21 donations of $1 million or more. Whiles names of donors are kept confidential, the *New York Times* was able to figure out that Dow Chemical, Goldman Sachs, Chevron Texaco, and Aegoen (a Dutch insurance company) had donated about $10 million in recent years. (Lipton, McIntire, and Van Natta 2010)

relations benefits of entrepreneurship, as does Google, which makes double use of the idea as profit-generator and image-perpetuator. My point here, is that entrepreneurship has such a powerful hold on the American imagination that the role it plays as a cultural touchstone is just as important as the role it plays as a producer of wealth. Both aspects contribute to the furtherance of capitalism.

Individuals

In trying to create jobs and put on a friendly, entrepreneurial face, corporations and communities are both trying to please the same thing: masses of individuals. And those masses of individuals have suffered plenty at the hands of capitalism. While there has always been an afflicted lower or underclass, the middle class as it was known in the middle of the twentieth century increasingly finds itself much nearer the bottom of the continuum than the top. As incomes have stagnated and employment has become less secure, individuals turn to entrepreneurship as a way to make a living. As I have argued elsewhere, an awareness of the instability of the employment environment is helping to push people into self-employment in increasing numbers. A recent article in the *New York Times* wrote of young college graduates,

> The lesson may be that entrepreneurship can be a viable career path, not a renegade choice — especially since the promise of 'Go to college, get good grades and then get a job,' isn't working the way it once did. The new reality has forced a whole generation to redefine what a stable job is. (Seligson 2010)

Indeed, in the course of interviewing self-employed entrepreneurs for this project, I came across a young man who did not even apply for a job upon his recent graduation from college. He knew the job market was terrible, and he and a friend started a business of their own instead. They could have used that energy and creativity in another way. In Spain, where youth unemployment is over 40%, young people have taken to the streets, demanding that something be done (Rainsford 2011).

The state of the Spanish economy is much worse than that of the United States, but it is also the case in the United States, optimism and boot straps waiting to be pulled upon are in abundant supply. A woman who had been laid off before starting a home services company told me, rosily, “Well, I figured I had to make lemonade with those lemons.” Another individual who also started a business of his own following his receipt of a pink slip seemed to have an if-you-can’t-join-them-then-beat-them attitude. Even six years after being laid off, with a now-successful company, he was resentful, saying, “Fine then! I don’t need ‘em. I’ll do it myself.”

I interviewed 49 entrepreneurs, about half of whom had entered self-employment following some unsettling experience with dependent employment. Obviously, if one speaks with entrepreneurs, then one is going to hear stories of how individuals used entrepreneurship in some positive manner for themselves. None of my interviewees expressed a desire for massive societal change. What these individuals are indicative of, though, is just how mentally available the path of entrepreneurship is for Americans. It is a viable option and a respected option. Entrepreneurs are unassailable cultural touchstones in the United States, and entrepreneurship represents a path of change and self-realization for individuals which helps to detract from potential demands for drastic social change.

**Foundational Theories**

In the previous sections, I have attempted to show how entrepreneurship is used by various entities not only to generate jobs, wealth, or new products, but also as a life-line in times of economic difficulty. This, in itself, is an interesting story about how individuals cope with economic difficulty, the interaction of culture and economy, and a reminder of just how good capitalism is at keeping itself going. It is not a new story, though. Alexis de Tocqueville, the astute observer of American character, wrote of this,

> Moreover, whatever a man's calling and whatever type of property he owns, one characteristic is common to all. No one is fully satisfied with his present fortune, and all are constantly trying a thousand various ways to improve it. Consider any individual at any period of his life, and you will always find him preoccupied with fresh plans to increase his comfort. Do not talk to him about the interests and rights of the human race; that little private business of his for the moment absorbs all his thoughts, and he hopes that public disturbances can be put off to some other time. This not only prevents them from causing revolutions, but prevents them from wanting them. (de Tocqueville 1969 (1966): 637)

That entrepreneurship is an excellent distraction, then, has been previously observed. If one has his eyes on the Joneses and is busy trying to keep up with them, he is less likely to ask why he is bothering in the first place. I turn now, then, to the second part of this paper, in which I show that viewing the role of entrepreneurship through the lens of classic and contemporary social theory reminds us of the sociohistorical context of the current state of capitalism and raises, or perhaps resurrects, questions about the future of the development of capitalism.

Below, then, I briefly outline the work of famous writers of yesteryear on entrepreneurship and closely-related subjects. Then I discuss some contemporary thinking about socioeconomic developments and the relationship of this thought to classic thinking.

Schumpeter. I mention Schumpeter first, because he is often associated with a particular and relevant term, as he famously referred to entrepreneurship as part of the process of *creative destruction*, his own aesthetically-wonderful term. He wrote of this:

> Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action… The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transpiration, the new markets, the new forms of industrial organization that capitalist enterprise creates. (Schumpeter 1947, pp. 82-3)

Further down the page, he continues:

> The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism

> consists and what every capitalist concern has got to live in. (emphasis from the original) (Schumpeter 1947, p. 83)

Capitalism is constantly evolving, aiding in the destruction of older, existing institutions through the appearance of newer ones. While individual institutions may be mowed down through this process, the sum total of these additions and subtractions from the economy is that capitalism lives on. (As will be detailed below, the concept of creative destruction originates in the work of Marx.) Schumpeter gives entrepreneurs a premier role in this process:

> We have seen that the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing and old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on. (Schumpeter 1947, p. 132)

Thus, he places with entrepreneurs the role of producing the means of creative destruction. A few dozen pages later, though, he removes from entrepreneurs' hands this heavy power, writing:

> This social function [innovation by entrepreneurs] is already losing importance and is bound to lose it at an accelerating rate in the future even if the economic process itself of which entrepreneurship was the prime mover went on unabated. For, on the one hand, it is much easier now than it has been in the past to do things that lie outside familiar routine—innovation itself is being reduced to routine. (Schumpeter 1947, p. 132)

Schumpeter thought that the innovation for which entrepreneurs are responsible would become so commonplace that entrepreneurs would no longer be special. This sets up an interesting question: At what point does that happen? Schumpeter wrote that it was already beginning to happen, but, if that was true in the first place, the trend has either ceased or abated. Instead, as capitalism has chugged on in the decades since Schumpeter wrote, entrepreneurs have become prized for the exact reasons that Schumpeter gave at first. As he writes between the quotes given above:

> To act with confidence beyond the range of familiar beacons and to overcome that resistance [from fear of the new, lack of financing, etc.] requires aptitudes that are present in only a small fraction of the population and that define the entrepreneurial type as well as the entrepreneurial function. (Schumpeter 1947, p. 132)

As capitalism has continued on, it still needs new ideas. Brilliant (and highly profitable) ideas are scarce, and the similarly rare individuals who dream them up are showered with venture capital and have Oscar-nominated films written about their tales (ie, *The Social Network*), and the companies (or new divisions of companies) organized to bring these ideas to market are sought after by cities and states all over the world.

As some of the contemporary theorists to be noted below have argued, these innovative ideas have become increasingly vital to the economy. I am no better teller of the future than was Schumpeter, certainly I am worse; perhaps sometime in the future entrepreneurship will become so passé that it loses the individual, human aspect— the individual entrepreneur— to which the term has ties, and we will refer only to innovation. However, in the meantime, another social function of entrepreneurs, not named by

Schumpeter, helps to conserve their importance and the capitalist system. Not to be unfair to the whole discipline of economics, but Schumpeter is perhaps showing that side of himself here, by discounting too heavily the importance of human qualities to the continuation of capitalism, because, besides dreaming up new ways to make money, entrepreneurs and entrepreneurship also have an important ideological role to play. Über-successful entrepreneurs, of the Bill Gates and Sam Walton variety, serve as cultural icons and heroes, and their stories serve as aspirational touchstones. In a more abstract sense, "the entrepreneur" still plays a role related to that placed with him by Schumpeter; it provides a way for individuals to have an impact in an impersonal system. It gives them a meaningful role to play and a way to exercise some personal agency. By combining these roles, of economic catalyst and ideological icon, we can see that "entrepreneurship" as a pathway provides a worthy means (deemed so by the heralded position of aforementioned über-successful individuals in tandem with the doctrine of work and success famously described by Weber) to put their own minds and ideas and creative energy to work.

Marx. Schumpeter knew his Marx. A whole portion of his *Capitalism, Socialism, and Democracy* reflects on Marx's work. To borrow Schumpeter's phrasing, he interprets Marx as a describer of *evolutionary* rather than *revolutionary* processes. Where others, then, have picked up on the critical (in the leftist sense of the word) themes in Marx, Schumpeter does not retain this edge, and this is visible in the differences between their takes on "creative destruction." I have described Schumpeter's version already, and it is he who is known for this phrase. Marx's take on the process of creative destruction is very nearly the same, but the emphasis is different. His ideas on the process evolved over time, and are a running theme over the years of his work. For Marx, creative destruction is, as for Schumpeter, part of the process of renewal which keeps capitalism running. This is how it finds new markets to exploit and how it stays one step ahead of the proletariat. He puts the idea succinctly as such: “the violent destruction of capital not by relations external to it, but rather as a condition of its self-preservation” (Marx 1993 [1939], pp.749-50). Marx’s version includes the notion of the necessity of *control* of the society’s persons where Schumpeter does not. This is more evident in an earlier description of the process. Here, Marx explains why capitalism occasionally arrives at moments of intense crises:

> Because there is too much civilization, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. (Marx and Engels 2002 [1888], p. 226)

Marx, here, is ultimately concerned with the fate of the worker; no role appears for an individual such as Schumpeter’s entrepreneur. Where Schumpeter includes an explicit role for individuals in the continuation of capitalism, Marx does not. Where

Schumpeter fails to recognize the importance of ideology, Marx includes ideology, but as a coercive element, writing, "Religion is only the illusory sun about which man revolves so long as he does not revolve about himself" (Marx 1978: 54). For Marx, religion, as an ideology, kept society's classes from understanding the nature of their social relationships to each other and recognizing that one is being exploited by the other. I would not argue that the ideological role of entrepreneurship that I am suggesting is counter to Marx's claim, but I am less sure of is how that is helpful in understanding how, specifically, it operates. For that, I would turn to Weber.

Weber. Max Weber's most famous point about capitalism is so well-known that it is tempting to just write "The Protestant Ethic" in boldface and move on to something else. Briefly, though: Weber argued that the ideal of success, held by Calvinist doctrine to be an indicator of divine approval, led to the development of an emphasis on work and effort and worldly goods that greased the wheels for the development of capitalism. He argued that this was the reason that capitalism had developed further in Protestant countries than in Catholic ones, and in the West rather than in China or India (Weber 1968 [1951]; 1991 [1958]; 2006 [1930]). (This notion has been debated for decades, perhaps to an odd degree, as the debates seems to ignore Weber's mastery of the qualification of arguments.) For my purposes here, what was important about Weber's work was the idea that compatible ideologies and socioeconomic systems tend to go together and to serve each other. Taking this further, as part of the ideology supporting capitalism, entrepreneurship provides a way for individuals to step outside of the box while not stepping outside of the iron cage. That is, for those who want to make a mark of their own, entrepreneurship is a way for them to do that while not disrupting the economic system. Rather, they can help to further capitalism by providing a new means of profit.

Return, for a moment, to the “iron cage”. The term was introduced in Talcott Parsons’s translation of Weber’s work, and has since come under scrutiny. “Shell as hard has steel” may be a more accurate translation (Baehr 2001). The idea of the iron cage (returning to the better-known phrase, despite its inaccuracy) is important, because it provides a way to link what Schumpeter thought would happen to the social role of entrepreneurship—that is, that it would lose its uniqueness and become normalized—with Weber’s ideas about ongoing rationalization. For all the importance he placed with the Protestant work ethic, Weber thought that as capitalism developed, it would cease to need the support of this particular ideology. The economy would continue to develop, hand-in-hand with processes of rationalization. Eventually, those processes would become self-sustaining and durable—like a shell as hard as steel. Thinking of Schumpeter’s notion of the normalization of entrepreneurship, then, rationalization would be the means by which that occurred, as capitalism seeks new means of wealth-creation and attempts are made to routinize the generation of the ideas for those means.

<u>Summary</u>. In sum, then, we are left by these thinkers several key points: From Schumpeter, that entrepreneurs as individuals have an important role to play in the economy (if we hold, for a moment, on the notion that the further development of capitalism which may, according to him, lead to the normalizing of this role). From Weber, we have the importance of a well-matched ideology to the operation of capitalism, despite the fact that he did not theorize about entrepreneurship, in explicit terms, at great length. From Marx, we have ideology operates to separate men from the

truth of their social condition. These, then, are three very smart men whose ideas bump into each other, sometimes talking past each other, and sometimes just not agreeing. What if, though, we put these ideas into the context of America as Toqueville knew it, all grown up? What if, rather than capitalism chugging on in the context of an ideology of the downtrodden, it happens in a context of an ideology that says that with some effort anyone can be successful? Instead of torches and pitchforks and ousted politics, we have a widely accepted and, really, vaunted path of entrepreneurship that provides a way, within the system of capitalism, for people to seek to improve their condition.

## Related Contemporary Theories

Theorizing about the economy and society did not cease since the classic works discussed above were published, of course. In the meantime, C.W. Mills, David Riesman, Herbert Marcuse, and others wrote brilliantly on conditions in the middle of the twentieth century, a period embodied in company men, shiny new appliances, and shinier new automobiles, needed to navigate the new suburban sprawl. More recent thinkers have tried to work out, in a way, what exactly has gone wrong since that brief era. (I am, there, playing a bit loosely with the work of contemporary theorists, but I think it hits roughly the right note.) Notable about this more recent work, for my purposes here, are two things. First, that they each seem to be discussing highly related phenomena and that each speaks about aspects of entrepreneurship, if not in so many words. Second, each of these theorists, even if they couched their work historically, is trying to come up with something new, rather than engaging more directly with classic texts. Of course, I realize that theorists living today cannot make a career of rehashing old thinking, and that social theory gain little from such an enterprise. In this case, though, I think that dragging some of this new thinking through older texts yields some benefits.

I shall discuss three contemporary lines of thought in the order which the major work in each area first appeared in English. This arrangement happens to work reasonably well in terms of logic, as well. While these three lines of thinking have had varying levels of influence, particularly in the United States, and have drawn criticism in heaps of diverse sizes as well, they do all, as I have said, have a hand on the same elephant.

<u>Risk Society</u>. One of the keys to understanding theories of the risk society is that the emphasis is on the changed nature of risk rather than on the changed quantity; the risks society faces now are largely of society's own making rather than acts of nature. This is the basis for one meaning of the term "reflexive modernization", especially as used by Ulrich Beck (1992). This concept can be defined as modernity thrown back upon itself, or modernity confronting itself, but what is meant by the term is that, first, it describes the shift from an initial phase of modernization to "late modernity", and second, it involves some entity (depending on the context, either individuals or society more generally) having to reckon with the consequences (either actual or potential) of decisions in which it played a role in the first place. Everything involves thinking and decision-making.

Anthony Giddens' (1990) use of the term reflexive modernity most often refers to the individual level. Key to the meaning of reflexive modernity for individuals is the idea of a self-built biography. Put simply, this is the idea that as norms have changed and choices have opened up, there are fewer predetermined paths for individuals to follow (or that they must follow) and more choices to be made. (This echoes Schumpeter's reason for entrepreneurship becoming less special: Entrepreneurs are an oddity and as oddities become less odd, entrepreneurship becomes normal.) Types of relationships, sexualities, career paths, and families have all multiplied. There are new choices to be made here. In the realm of employment, workers have to constantly update their skills and seek new credentials, as they plan for whatever the future may hold.

The idea of the risk society, then, describes socioeconomic conditions as "reflexive modernity" and sums up individuals' reactions as individualization. Individualization means, roughly, that people are on their own—both because they can and because they have to be. The consequence for individuals is that they can and must write their own biographies. Beck and Giddens disagree over the role of risk as an organizing principle in society. Beck holds that older class structures are diminished in importance as all individuals are increasingly exposed to risks. Giddens contends that those older aspects of class enable better-off individuals to better deal with those risks and to better realize the biographies they desire for themselves.

Theories of the risk society tie into the economy, and the present discussion, in two ways. First, the way that a risk society comes about is through the continued development of capitalism. New risks are posed as capitalism seeks new means of profit through market and technological innovations. In terms of employment, individuals are treated ever-more as disposable cogs in the wheel as processes of rationalization develop means of greater market efficiency. In turn, individuals must rely on themselves for careers and work, and entrepreneurship is a way to do that which is already available within both the culture and the economy.

Knowledge Society. Nico Stehr (1994) conceived of the knowledge society both broadly and narrowly. Broadly, in the sense that he adds “knowledge” to labor and property as a third major principle in the make-up of society, but narrowly, as he recognizes that many of the most important changes caused by this transformation occur more specifically in the sphere of the economy, and he thus expends the most words in this area. He argues for the importance of knowledge, writing:

> The structural changes of the economy and its dynamics increasingly reflect the fact that *knowledge* is emerging as the leading dimension in the productive process, the primary condition for its expansion and for a change to limits to economic growth in the developed world (emphasis from original) (Stehr 2001, p. 501)

He also argues for knowledge as a basis for power. Stehr wishes to define knowledge as the capacity for action (recalling, for this author, the “Knowledge is Power” television campaign of the 1990s). His reasoning for this is that major institutions lose legitimacy as they lose the capability to inflict their will, in the face of the battering ram of complex forces not unlike those described as part of Beck’s risk society. As this happens, in tandem with the spread of knowledge to individuals through broad education, individuals are thus empowered, relative to those institutions. For Stehr, individuals are granted power by the coming of the knowledge society, which they can wield to affect change in society’s weakened institutions. This could, perhaps, even be an answer to fill in the blank, where Weber left some room for individuals to act upon the iron cage (or steel shell, it does not matter here), but Stehr does not explain it in these terms.

In terms of the economy, though, I think entrepreneurship works to prevent major change. The importance of knowledge in the operation of the economy may well have increased, and more individuals may have more of that knowledge, but, if capitalism is still doling out socioeconomic rewards for feeding it some of that knowledge in the form of new goods and services, it seems difficult to imagine many individuals using that knowledge to reform the economic system rather than to feed it. Here, entrepreneurship plays an important role in the furtherance of capitalism by providing an avenue for individuals to utilize tools which could potentially reform, critique, or tear down capitalism in order to instead further it.

The knowledge society comes about through similar means as the risk society—through the further development of capitalism and technology. Where the risk society emphasizes individualization, the knowledge society emphasizes the importance of knowledge. This can work within the concept of the risk society, as the importance of knowledge is enhanced by individuals' need to rely and themselves (including whatever knowledge they possess) in order to succeed in their individualized life projects and manage risks. Knowledge plays a big role in entrepreneurship, of course, as technological knowledge and creativity lead to the kinds of innovation that entrepreneurs need to be successful.

<u>Creative Economy</u>. That I first encountered Richard Florida's work in college, not through sociology, but instead through a friend who was reading it for a business course might say a lot about the ire many social scientists feel toward it. The enterprise has turned into something of a "how-to" manual for cities looking to generate economic growth, and it has been criticized for lacking a critical component. Also, of the three lines

of thought summarized in this section, this is by far the least influential in sociology. I do not mean to set it up as a straw man or give it more weight than it perhaps deserves, given its light influence in the field, but I instead include it because of its commonalities with Stehr's work and because it does an excellent job, if an uncritical one, of describing the importance of ideas to the economy today. What I find interesting about Florida's work is that he is basically saying that what Schumpeter wrote about innovation becoming de rigueur and routine is, in fact, happening. However, where Schumpeter foresees this normalization spelling the end of the importance of entrepreneurs as individuals, Florida seems to think that they are becoming only more prized, as he writes:

> Thus creativity has come to be the most highly prized commodity in our economy--and yet it is not a "commodity." Creativity comes from people. And while people can be hired and fired, their creative capacity cannot be bought and sold, or turned on and off at will. This is why, for instance, we see the emergence of a new order in the workplace... Creativity must be motivated and nurtured in a multitude of ways, by employers, by people themselves and by the communities where they locate. Small wonder that we find the creative ethos bleeding out from the sphere of work to infuse every corner of our lives. At the same time, entirely new forms of economic infrastructure, such as systematic spending on research and development, the high-tech startup company and an extensive system of venture finance, have evolved to support creativity and mobilize creative people around promising ideas and products. Capitalism has also expanded its reach to capture the talents of heretofore excluded groups of eccentrics and nonconformists. In doing so, it has pulled of yet another astonishing mutation:

> taking people who would once have been viewed as bizarre mavericks operating at the bohemian fringe and setting them at the very heart of the process of innovation... (Florida 2002, pp. 5-6)

This reasonably sums up the heart of Florida's work, which is to point out the importance of creativity to the economy. Reflecting upon the earlier discussion of the interest of cities and states in promoting entrepreneurship, Florida has much to say here as well. According to Florida, the key to future prosperity for communities is for them to successfully draw creative individuals. These individuals have the knowledge and capabilities for innovation that are necessary to create jobs and to draw forward-looking, growing companies that will themselves be prosperous in the future (Florida 2005).

Knowledge takes on a slightly different role in the creative economy. In the risk society, it is important for fending off risks, but individuals remain largely at the mercy of the world around them. In the knowledge society, knowledge is vitally important, as a basis for power and action. In the creative economy, knowledge is important explicitly for the continuation of capitalism—though Florida does not put it in these terms.

## Where Does that Leave Us?

Where notions of the risk society, the knowledge society, and the creative economy fall short is in not giving full credence to these developments as just the latest thing in the history of capitalism. Knowledge is increasingly important. Individuals and society more generally are buffeted by the consequences of being exposed to risks. Individuals have to be on their toes and rely on themselves to build singular lives and careers. Creativity and knowledge is what drives the economy, now more than ever. Theorists of these lines of thought have argued convincingly on all of those points.

However, all of these ideas are also evidence of the path capitalism has taken since Marx, Weber, and Schumpeter wrote.

As manufacturing has become more efficient, that has opened time and space for capitalism to make even more stuff, and there is a need for more ideas about stuff to make. The need for ideas is driven by individuals as well, as they need to come up with profit-generating ideas in order to fill the need for income left by the (un)employment consequences of increasing efficiency. This brings us to a point where I have to flatly disagree with Florida: Ideas, and the people that think of them, *are* a kind of commodity. As they become more highly valued, we come up with ways to (hopefully) create more of them. Incubators and programs like SCORE have come into existence in order to help entrepreneurs flourish. Business plan competitions have cropped up in universities and economic development offices across the country, to help encourage ideas to come into existence in the first place. University programs in and corporate training in entrepreneurship goes one step further, hoping to teach people how to come up with more numerous, more successful ideas.

Where Marx wrote of the separation of a man from his work through wage labor, we have now reached a point where ways are being sought to bring creativity itself into the market. Capitalism has dug one step deeper, and gone from creating goods and services for profit to creating the means of creating those goods and services in order to increase profits further. It reaches not only forward, in the search for new markets to exploit, but backwards as well, for new means of production as well.

Marx thought ideologies were effective in keeping the proletariat in their place, and as we have seen, entrepreneurship works effectively as part of a capitalist ideology. It offers promise and the possibility of success through individual ingenuity and work. Weber saw rationalization continuing and petrifying. It is the lesser-known of these three theorists, though, that raises the question left by this analysis. Schumpeter thought that entrepreneurship would lose its social role because the uniqueness inherent in it would cease to be so unique. Thus far, it seems that the scarcity of profit-generating ideas and creativity and the cultural approval and encouragement of entrepreneurship has kept that from happening; If anything, entrepreneurs are more vaunted than ever. At the same time though, communities, government, and business are seeking ways to routinize entrepreneurship. One wonders if this routinization has the potential to rob entrepreneurship of its status, as Schumpeter thought (though not in exactly the same way). The question that remains, though: At some point, will capitalism have so thoroughly exploited the creativity and innovation entailed in entrepreneurship that this path will cease to be an effective means for the exercise of individuality and agency? If so, what then? This remains, as some version of it has since Marx, the million-dollar question, and I have not hoped to answer it in the bounds of this paper. I do hope, though, that I have effectively asked it.

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# APPENDIX: METHODOLOGY

## Choice of Method

This research utilized qualitative methods. More specifically, I interviewed subjects in a semi-structured format. I had a simple reason for choosing this method of research: I thought it would be the best way to get the kind of information I was seeking. Almost all of the literature I reviewed in preparation for this project utilized quantitative methods, often with data from responses to large-scale surveys. As some of the questions raised by that literature were sometimes problems of data interpretation, it seemed wise to utilize a method which allows for deeper explanation on the part of respondents with regard to what they mean by a particular response and which can obtain the full context of an answer.

In this appendix, I discuss the recruitment and resulting samples for the two groups interviewed: self-employed entrepreneurs and community leaders. I then describe the process of data collection and analysis. I also discuss various problems encountered and lessons learned along the way.

These interviews were conducted from July 2009 through May 2010. I received funding in the form of a Dissertation Support Grant from the Penn State College of Liberal Arts Research Grant and Support Office and a Dissertation Enhancement Award, also from the College of Liberal Arts. This plans for this research was reviewed by Penn State's Human Subjects Research review board (IRB # 31250).

## Geographic Location of Interviews

The interviews for this project were all conducted within the Rust Belt. One reason for this is feasibility. Johnstown and Harrisburg are both within a few hours' drive of State College, and Peoria, IL is where my family is located. Thus, I had a place to stay during research trips. The term “Rust Belt” refers to a region of the United States stretching across the Great Lakes which was historically a manufacturing hub, but which has lost jobs and population in recent decades. This economic history makes it an ideal region in which to conduct this research since workers have been contending with the destabilizing consequences of economic changes for several decades. Pennsylvania, where two of the cities included in this study are located, lost 39 percent of its manufacturing jobs between 1970 and 1995, while the rest of the country lost just 2 percent during the same period (Herzenberg 1999). Similarly, Illinois (home to the other included city) lost 37 percent of its manufacturing jobs between 1978 and 1993 (Sevener 1995).

*Interview Sites*

Each city selected as an interview site lies within the geographic area of the Rust Belt. The histories of these cities vary, but they have in common what many communities in this region of the country share—they have struggled economically in recent decades. Conducting interviews in three cities with different demographic and historical profiles will yield a sample of respondents more likely to be representative of the whole region, while concentrating on specific cities rather than conducting interviews in locations scattered across the Rust Belt offers advantages for other aspects of another, community-focused part of project. I will provide a brief profile of each city, though, so the reader has a picture of the setting of this research.

*Harrisburg, Pennsylvania.* Harrisburg lies at the eastern boundary of the Rust Belt, 90 miles west of Philadelphia. It is the capitol of Pennsylvania and a large National

Guard base is nearby. The population of the Metropolitan Statistical Area (MSA) which includes the city is approximately 530,000 (United States Census Bureau 2008b). The median family income in Harrisburg proper is about $36,600 (U.S. median is about $60,000), and the city of Harrisburg's population is 13 percent Hispanic, 33 percent white, and 56 percent black (United States Census Bureau ). Harrisburg thus has the largest minority population of the cities to be included. Harrisburg's recent unemployment rate was 7.7 percent[14] is low while the national rate was 9.4 percent (United States Department of Labor 2010). This may be due to the relative stability of the area's largest employer, which is the government (United States Census Bureau 2008a).

*Peoria, Illinois.* Peoria is the western-most city included in this study. It lies 130 miles south of Chicago. The population of the MSA is about 370,000 (United States Census Bureau 2008b). The median family income in the city of Peoria is about $55,000, and the population is 66 percent white and 26 percent black (United States Census Bureau ). The largest employer in the area has long been Caterpillar, Inc., a construction equipment manufacturer listed by *Fortune* as the 44th largest corporation in the United States (Fortune 2009). It is home to three hospitals and a U.S. Department of Agriculture research laboratory. Peoria has recently suffered the highest rate of unemployment of the selected cities at 12.3 percent (Bureau of Labor Statistics 2009). It also has the highest concentration of the three cities of jobs in the manufacturing sector, at 18 percent, though

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[14] Unemployment rates given are for July 2009. More recent numbers are available but have not been seasonally adjusted. As they were from the holiday-hiring season, I have chosen to use these older numbers until less seasonally-sensitive numbers become available.

health and education is the city's largest employment sector (United States Census Bureau 2008a).

*Johnstown, Pennsylvania.* Johnstown is located in Pennsylvania's historical steel country, 60 miles east of Pittsburgh and 110 miles west of Harrisburg. About 144,000 people reside in the MSA containing Johnstown (United States Census Bureau 2008b). The city of Johnstown's population is mostly white (86 percent), and the median family income is quite low, at about $33,500 (United States Census Bureau ). Johnstown was established and once flourished as a "steel town", but the struggles of that industry in the mid-twentieth century led steel manufacturing to all but vanish from the area (Henderson 2004). In 1992, it was declared by the Commonwealth of Pennsylvania to be one of about two-dozen "Economically Distressed Municipalities", and it still holds that designation (Commonwealth of Pennsylvania 2009). The recent unemployment rate in Johnstown was 9.4 percent (United States Census Bureau ). Nearly one-quarter of the area's jobs are in health and education (Bureau of Labor Statistics 2009).

## Self-Employed Entrepreneurs

### Recruitment

For the purposes of this research, "entrepreneur" refers to an individual who operates a business for which he or she was also responsible for the founding. The sample was not restricted by type of business; Operators of everything from entertainment companies to biotech firms to retail food outlets were interviewed. While some businesses have more potential for job creation—a key reason for the importance of entrepreneurship—diverse economies fare better in the long run, and all self-employed entrepreneurs have at least created a job for themselves.

Interview subjects were recruited by a mix of mail and email, and some snowball sampling was used. Names of entrepreneurs were collected by several methods. Some were culled from lists of businesses housed in business incubators. Others were culled from the membership lists of organizations such as chambers of commerce. Some individuals interviewed have suggested to me other business owners in their area. In order to cast a wide net, I've also culled business names from the yellow pages of phone books and have simply written down names and addresses of businesses spotted from the street.

**The Sample**

Before presenting the details of my sample, I would like to note that a number of my subjects were particularly concerned about confidentiality. They had a variety of reasons for this, mostly having to do with the off chance that a party concerned with a comment they were making would see it, figure out who they were, and take offense. While the chances of such a party finding this research and reading it to begin with may be quite slim, I will be as concerned about confidentiality as my subjects would like me to be. In any case, I do not see how making these individuals any more identifiable would improve this research.

<u>Characteristics</u>

The sample that resulted included 49 interview subjects, 19 of whom were women, or about 39 percent of the sample, which is greater than the approximately 28 percent of non-farm businesses owned by women and is likely due to either or both the small sample size or women's higher response rates generally (Small Business Administration 2007). I interviewed 8 non-white entrepreneurs, about 14 percent of the sample, which is lower than the approximate national rate of 21 percent of business which are owned by minorities (Small Business Administration 2007). Interviews averaged just over an hour in length. Most were conducted at the individuals' place of business, though one-quarter took place at off-site locations such as cafes or nearby buildings' lobbies. The mean age of interviewees was 42, from a range of 22 to 66. The mean time a business had been in existence was 7 years, from a range of still-under-construction (in the case of a serial entrepreneur's latest venture) to 35 years (the mean, excluding this upper-limit outlier, is just over 5 years).

Twenty of the individuals were recruited from Peoria and another 20 were from Harrisburg. Only nine of the interviewees were recruited from Johnstown. This is not for lack of trying, however; Interestingly, more than one interviewee spontaneously suggested that it would not be surprising if I had trouble finding subjects in Johnstown. As one person in Peoria (hundreds of miles away) put it, "Johnstown is in a deep valley and it's sort of like those valley walls exist in their minds as well." I cannot say with exactly what this trouble reflects, but Johnstown does have a reputation as troubled area, and perhaps this somehow makes speaking to an unknown academic from another city seem unappealing for potential subjects.

## Types of Businesses

The following is a list of the types of businesses operated by the individuals in my sample. As I have named them broadly, in many cases more than one of a type of business is included.

**Table 1. Types of Businesses Operated by Interview Subjects**

| Number | Type of Business |
|---|---|
| 7 | Specialty Retail |
| 5 | Retail Food Outlet |
| 4 | Marketing |
| 4 | Home Services |
| 4 | Bio-Technology |
| 4 | Event Services |
| 3 | Real Estate |
| 2 | Industrial Manufacturing |
| 2 | Consulting |
| 2 | Accounting |
| 2 | Green Technology |
| 2 | Software and Data Services |
| 2 | Personal Services |
| 1 | Architecture |
| 1 | Landscaping |
| 1 | Internet Commerce |
| 1 | Entertainment Industry |
| 1 | Defense |
| 1 | Hospitality |

## Potential Sample Bias

This sample and the data emerging it from it suffer from the usual weaknesses of a small, non-random sample. The sample does not accurately represent the whole population of self-employed entrepreneurs and it may be troubled by selection bias. I could only interview people who were willing to be interviewed, and it is possible, of course, that these individuals differed from those who said no or who were not contacted by me in the first place. First of all, I had to be able to find them in order to try and recruit them. This may select a bit for business success, as it means that they have been around long enough and shown the initiative to make it into the yellow pages, build a web site, hang a sign, or join a business organization. Also, it is possible that individuals who are willing to do something as strange as sign a consent form and chat with a stranger about personal experiences for no significant personal gain are unusual in some way. They may be more confident, friendly, and willing to try something new than the average person.

The sample is also not perfectly representative of all self-employed entrepreneurs. Defining self-employed workers is complicated, as contingent, contract-based work has come to the fore. My sample did not include any such workers, but an examination of data from the Bureau of Labor Statistics shows that, even if contingent work is becoming more common, it is still a small slice of the employment pie. A supplementary portion to one Current Population Studies survey found only about five percent of workers (not including unpaid family workers) to be in contingent employment situations. The impact of those workers on the self-employment data would be minimal as well, as only about six percent of contingent workers would also be classified as self-employed (Bureau of Labor Statistics 2005).

My sample, then, is not unusual in the sense that none of them are contingent workers. It *is* notable, though, that my sample consists mostly of middle-class, college-educated individuals. Not included are individuals such as those who work on a cash-only basis, mowing lawns or running hair salons from their kitchen table. These kinds of workers have been termed “survivalist entrepreneurs” (Light and Rosenstein 1995). While the individuals in my sample may well have started a business in order to fill a need for income, their experiences have taken place in the primary labor market, and their resources are comparably greater than those working in the realm of the secondary labor market, as would generally be the case for survivalist entrepreneurs. Having recognized these limitations, though, I maintain that this sample is diverse enough to provide data which are capable of being, at the very least, indicative of trends and adequate for the exploration of complex issues. As noted above, the sample includes individuals exhibiting a wide variety of demographic characteristics and businesses of a variety of types.

Interview Schedule

Interviews were conducted in a semi-structured format. I asked different questions of individuals, based upon other answers to previous questions, and I may have worded questions differently. My aim was to ascertain certain types of information rather than to make sure that the answers of each interviewee were perfectly comparable to each other. In general, though, the questions asked were as follows, in varying orders:

1. How did it come about that you went into business for yourself?
    a. What does your business do?
    b. What is it about self-employment that attracted you to it?
    c. Did you start wanting to turn a specific idea into a business or with knowing that you wanted to go into business for yourself, whatever the product might be?
    d. Is this the only business you've ever started?
    e. How old were you when you started this business?

2. Had you worked as someone else's employee before?
    a. What other sorts of jobs had you held?
    b. Why did you leave those jobs?
    c. How did experiences you had at those jobs affect your decision to start your own business?

3. What resources, whether they be people, financial, education, or something else, did you possess or have available that have made your venture(s) go more smoothly?
    a. Did your parents own their own business?
    b. Are/were you affiliated with a business incubator?
        i. What sort of assistance have you received from them?
    c. Did/do you have another source of income?

4. How dependent were you and your family on the income from this business when you first getting started?

5. How concerned are/were you that your venture would/will fail?

6. Was there a time when you were first starting out that you experienced a moment of regret or panic- about the risk you'd taken or the reality of the challenge?
    a. As you were first starting the business, what do you think was more difficult—financial worries or the mental challenge to create a business and get it running?

7. Do you think of yourself, in trying to creating employment and income for yourself, as doing something particularly risky?
    a. Do you think of it as somehow creating security for yourself?

8. Do you have any employees?
    a. (If so) Does this change the way you make decisions or think about the business risks you take?
    b. Do you think about the sort of work environment you would like to provide for your employees? Can you describe it?

9. Have you given any thought to how what you are doing, in starting your own business, is different from what most people do, by being someone else's employee?
    a. Do you think there is a different level of financial risk involved?
    b. How do you think it changes your general lifestyle?

10. Do you have health insurance?
    a. Is it through this business or through a spouse's insurance?

11. Do you own a home?
    a. Have you taken any steps to protect yourself from losing assets such as that in the event that the business failed?

12. Are you married?

13. Do you have any children?

14. Most people don't run their own business, but you do—do you think there are other aspects of life that you approach differently than most people?

15. Would you consider yourself a risk-taking person?

16. Do you consider this business to be successful now?

**Community Leaders**

I wanted to interview community leaders in order to form a more complete picture of the business community in each city. I did not complete a great number of these interviews, mostly because it became apparent that I was not learning much from them that I could not ascertain from the newspaper articles and websites I was researching before conducting each interview. I was hoping to have more luck getting responses about efforts organizations and cities had made to assist small businesses or entrepreneurs that had *not* worked out, but it proved difficult to get these public figures, even when speaking confidentially, to say anything other than what was publicly available information. I was able to use these data, to a certain extent, in the third chapter, but mostly these interviews were useful as a lesson in attempting to gather information from public figures.

These interviews were shorter, on average, than the interviews with entrepreneurs. They averaged about 45 minutes in length. Two of the eight individuals in this category were primarily recruited and interviewed as entrepreneurs. I have not counted their interviews toward either average, though they were both about 90 minutes in length. This also explains how I arrived at a total of 56 interviews: I interviewed 49 entrepreneurs and 8 community leaders, but 2 from the latter category are also counted in the former.

<u>Recruitment</u>

These interview subjects were identified through web searches for current and former public office holders, chamber of commerce officers, and employees of economic development organizations. They were recruited by mail and email. If I received no response to the mailed letter, I would follow up with an email, if an address could be located. In all, I contacted twenty individuals, and received six responses. I am not counting the two individuals who were both entrepreneurs and community leaders, because they were recruited primarily as entrepreneurs. My response rate for this portion, then, was thirty percent.

Characteristics

My final sample included eight community leaders. Examples of such individuals would be directors of economic development groups or former public office holders. Four of these individuals are located in and around Harrisburg, PA, and four are from Peoria, IL. Despite my best efforts, I could not convince anyone from Johnstown to speak with me. This may have something to do with the previously-noted problems recruiting in Johnstown, as well as the fact that as a smaller town, Johnstown does not have as many individuals who work full time in such positions. These roles may play a smaller part in their day-to-day lives. Seven of the eight individuals are men, and one is a woman. All were over the age of fifty, except for one, who was thirty-two years old. All were white.

Interview Schedule

I had a very short list of questions to be asked of these individuals. I was looking for a lot of information about a few general subjects.

1. Has your organization/city developed any programs or made any special efforts to try and assist small business owners or entrepreneurs?
    a. Have they been successful?
    b. Do you have any plans for additional efforts?

2. What challenges does this are face when it comes to economic growth?

3. What resources or advantages does this area have that could be helpful for future economic growth?

**Data Collection and Analysis**

My intent at the beginning of this project was to record and transcribe every word of every interview. For a variety of reasons, that is not how things went. In the end, of fifty-five interviews, I recorded thirty-seven. I recorded all of my first ten interviews. During the eleventh, I realized about halfway into the interview that I had not pressed record when I thought that I had. I did not want to interrupt the interview to mess with technology, so I started quietly taking more prodigious notes when the interviewee said something particularly relevant or something I wanted to remember verbatim. After the interview was over, I sat in my car, took out a copy of my interview schedule and wrote down all of the relevant information I could think of. It so happened that I had two interviews scheduled that day, and, upon meeting the second interviewee, it became apparent that he was a little uneasy and uncertain about speaking with me. I decided that taking out the recorder, even though it is tiny and silent, would only cause him to clam up, so I left it in my bag. I took notes during and immediately after the interview, as I had for the previous interview. What I learned from this is that I could do without recordings if needed.

For future interviews, I used a number of criteria to decide if I needed to record it, keeping in mind that I would like to record all of the interviews. The first of these was my impression of the interviewee upon meeting him or her. If he or she was chatty and seemed at ease, I would not hesitate to get out the recorder. On a number of occasions, though, subjects seemed a little nervous about speaking with me or immediately expressed concern about confidentiality, and in those cases, I left the recorder in my bag and took notes. I would have thought that taking notes would make the shier interviewees feel strange, like they were in a therapy session, but as long as I left my pad on the table and didn’t try to hide what I was writing, this did not seem to bother anybody.

In cases where it was a borderline decision as to whether to record, then my own abilities that day became part of the decision. If I had just driven in from State College, gotten stuck in construction traffic, and had not had time for lunch, then I would be more likely to record the interview. I would need to pay more attention to being friendly and inquisitive, and trying to take notes at the same time would be more than I could trust myself to handle. In two cases, the environment did not allow for recording. For individuals with home-based businesses, interviews were conducted at a neutral site, for my safety and their comfort. There was a particular coffee shop at which two interviews were conducted which was very loud and very noisy, to the extent that not even my high-tech, brand-new recorder could pick up the sounds very well. In those cases, I took notes.

For purposes of data analysis, I made use of the software The Ethnograph. This is a simple program that allows a researcher to tag parts of text with code words so that instances of a topic can be counted or so that something can be found easily at a later time. For those interviews for which I had recordings, I ambitiously began by faithfully transcribing every word. I can speak faster than I can type, so I did this by listening to the recordings on headphones bit-by-bit, pressing pause, and then speaking into a microphone, through which voice-recognition software would then transcribe my words. It was difficult at first, but as I could transcribe an hour-long interview in about 2.5 hours, it seemed much faster than typing, which is said to take five to seven hours per hour of recording. After doing this for the first ten interviews, it became clear that much of what I was transcribing was not going to be useful. Some people gave very long, wandering answers or tell a lot of stories, and there did not seem to be a purpose to transcribing every moment faithfully. Also, I had notes about each interview and could always listen to recordings later on if I decided I may have missed something.

What I did, then, for those remaining interviews for which I had recordings was transcribe just the most relevant parts of the interview, and I made notes about the time during the interview the comment was made, so I could return to the recording for additional context if I needed to. For those interviews for which I had notes and no recording, I generally typed the information into the software, so that I could find it the same way as the verbatim information. I did have some exact quotes from these interviews, and I entered those verbatim. As it happens, deciding who to record based largely on the ease of the interviewee turned out to have been a good tactic, because shier or more uneasy subjects also generally had less to say or that they were willing to say. They tended to be less “quotable” individuals. I do not, having completed this project, feel that I lost much by not recording and transcribing every word. If I had multiple interviewers conducting interviews on the same project or perhaps a different subject matter, I would be more likely to want this kind of information, but I think found a good balance for my purposes here.

I went through several rounds of coding as I analyzed this data and wrote various part of the project. I scanned data for and coded phrases which indicated for whether someone thought of themselves as a risk-taker, whether they received various types of assistance from their community, demographic characteristics, their plans for their business, and events leading up to their decision to open a business.

**Miscellaneous Lessons in Qualitative Research**

My attendance at the U.S. Chamber of Commerce Small Business Summit offered an important lesson in conducting research in public settings with lots of people present. I had hoped to use meal times, shuttle rides, and receptions to speak with some business owners or local chamber of commerce officials. I was not hoping to conduct any formal interviews, but I thought this would be a good place to "triangulate" my findings with a crowd that differed, potentially, from those I was able to recruit through mail and email. Getting anyone to speak to me for more a minute proved exceedingly difficult. As I found out, business people go to these things to swap business cards and "network". I knew that going in, but I was surprised by the restrictive extent of it. They had no interest in speaking with a graduate student researcher. It probably also did not help that I was closer in age to the interns running chairs and microphones around the presentation rooms than I was to anyone else. At one point, I approached a man whose nametag revealed that he hailed from a town near where I grew up, whose business I had actually heard of, hoping that this would somehow give me an "in" to talk to him. I got a handshake and an introduction, and then, when another man in a suit approached, I was more or less made to excuse myself. This was typical for the weekend. If I were to do this over again, or something similar in the future, I think I would take someone with me. It would have been unethical to pretend to be anything but a researcher, and there is only so much I can do to make myself look like the crowd I am in, but at an event where most people are moving in groups, an individual looks out of place. I probably seemed like and was acting like a journalist, hanging around the periphery, eavesdropping, scribbling notes, and watching everything. Having somebody with me may have made people more comfortable speaking to me and I could have gotten more out of the experience.

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## TEACHING EXPERIENCE

Visiting Instructor, Introduction to Sociology, Bucknell University, Spring 2012
Grading Assistant, Sociology and Criminal Justice Student Internships, Fall 2011
Teaching Assistant, Sociology of Gender, Penn State University, Fall 2011
Instructor, Introduction to Sociology, Penn State University, Summer 2007
Teaching Assistant, Senior Research Seminar, Penn State University, Spring 2006
Teaching Assistant, Introduction to Sociology, 2005-06

## RELATED EXPERIENCE

Research Assistant to Professor Alan Sica, 2011-
Assistant Editor, *Contemporary Sociology: A Journal of Reviews*, the book-reviewing publication of the American Sociological Association, 2008-11
Research Assistant to Professor Alan Sica, 2006-08
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## RESEARCH FUNDING

Densberger, Kathryn. 2009. Dissertation Support Grant. The Pennsylvania State University Research and Grant Support Office. ($2000)
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## PROFESSIONAL AFFILIATIONS

American Sociological Association
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