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Scholars Should Study Everyday Entrepreneurs, Not Gazelles

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Alongside the business media, academic research on entrepreneurship has been consumed by Silicon Valley mania, caught up for decades in the wild hype over startup “unicorns” and “gazelles.” In an analysis of top entrepreneurship journals, our results show a consistent bias toward high-capitalization businesses and signs that interest in these cases has picked up substantially over the past decade.

Unfortunately, this level of interest doesn’t match the reality of these high-capitalization events. Going public and raising venture capital funding are rare events in the world of entrepreneurship and growing even rarer. In December of 1996, the number of publicly traded companies in the US reached its peak at 8,025. Over the next 20 years, that number dropped 46%. Between 2001 and 2016, just over 100 US firms went public each year. IPOs have suffered waves of setbacks, including those associated with the dot-com bubble, the Great Recession, and the current climate of global uncertainty. In addition, VC deals have been flat since 2001. Even so, the popular and academic infatuation with high-capitalization startups persists.

Historical Roots

The roots of this bias toward a startup elite began in the late 1970s, when the academic field of entrepreneurship grew out of a collective effort to overcome resistance to producing and distributing knowledge. In those early days, a struggle emerged between the established fields of small and family business and the nascent field of entrepreneurship, sparking a debate over what could be considered “real entrepreneurship.”

Around this time, as the US became more concerned about producing and sustaining economic growth, new positions were created within universities (such as appointments oriented toward high-growth enterprises). New data sources also became available (such as the Venture Xpert database), making entrepreneurship research more accessible. In addition, the divestiture movement broke up many large corporations and investment money became available. The market for IPOs grew, and suddenly small firms were no longer on the research back burner.

Scholars and policy makers concerned about job creation and technological change understandably tend to focus on the biggest and fastest growing firms. Trying to understand how to catalyze their creation consumes the research resources of many academics.

A Distorted View

However, this fixation on the Silicon Valley model of entrepreneurship has distorted our view of entrepreneurship. The research has focused disproportionately on three areas:

- **High Growth Firms** -- Most entrepreneurship research has focused on high-growth forms, as distinguished from low-growth, low-return lifestyle businesses. Studies reinforce the idea that entrepreneurship means starting a business with large amounts of funding from outside investors, scaling up, and taking the venture public. But the odds are remarkably small, even for Silicon Valley: Representative samples from the PSED II database put VC-backed firms at only 0.3% of the owners of US businesses.
- **Innovation and Creativity** -- Scholars have argued that entrepreneurship should focus on innovative activity and the process by which innovation leads to new products and markets. However, from an evolutionary point of view, it is quite likely that a high proportion of creative variations are inferior to those that have been previously selected. Thus, they will probably be selected against (Aldrich et al. 2020).
- **Opportunity Recognition** -- Some scholars

have argued that opportunity recognition constitutes the heart of entrepreneurship. This view argues that opportunities for entrepreneurial profits can be discovered and exploited by skillful entrepreneurs, in the way that prospectors search for coal or oil. The perspective seems to endow some entrepreneurs with extraordinary cognitive powers. A more realistic view shifts focus to entrepreneurs planning and bringing a profit opportunity into existence.

But compared against more context-aware, evolutionary approaches, these studies have neglected the wide swath of entrepreneurship that makes up the fabric of both US and global society.

Shifting Focus to What Entrepreneurs Do

Against these three perspectives, other researchers suggest a fourth: focusing on what it is that entrepreneurs are trying to do, which is to create a new organization - regardless of its size. Some studies have emphasized entrepreneurship as a process by which humans are struggling to do the best they can under conditions of uncertainty, making experimental forays and occasionally learning from their mistakes (Foss and Klein 2017). Most of these attempts end in failure and frustration. As Loasby (2007: 1104-1105) noted, “Though entrepreneurship is purposeful, it is an evolutionary process of trial and error; and error is more likely than success.”

We think the field of entrepreneurship research should reflect such turbulence, rather than being skewed by focusing on unicorns, gazelles, and other rare creatures, which also inhabit the most unusual ecosystems (i.e., high-tech agglomerations within advanced industrial countries). We suggest re-framing the issue of emergence by focusing on questions suggested by the fourth perspective, involving entrepreneurial and organizational learning under uncertainty:

- First, through what process do founders construct new organizations? Treating entrepreneurship as the creation of new organizations changes the focus of entrepreneurship research from studying outcomes to studying the initiation of organizing processes that could result in new social entities. We note that researchers using the PSED (Reynolds 2016) have not discovered any simple structure to the organizing process and so much work remains for future scholarship.
- Second, what selection processes affect whether new organizations reproduce or depart from existing organizational forms, routines, and competencies? If we study entrepreneurs only after their organizations have attracted enough public notice to be included in standard sampling frames, we overlook a critical phase in the founding process.

The winnowing process can be illustrated by a pyramid showing a progressive falloff in numbers from bottom to top, which begins with start-ups as an everyday occurrence and ends with the kinds of rare high-capitalization businesses that dominate the pages of entrepreneurship journals and the business media. For a graphical illustration, see the figure “Pyramid of Destruction.”

Takeaways

- Startup success stories report on extremely rare events and this selection bias toward the ventures that have succeeded against all odds overlooks the more mundane yet critically important aspects of entrepreneurship.
- We urge entrepreneurship researchers to pay more attention to the mundane and the ordinary, and to avoid emphasizing the rarefied stratum of new ventures that has caused so much misunderstanding.
- Just as research in the biological sciences has been greatly advanced by studying simple organisms, such as the common fruit fly, entrepreneurship research would benefit from an emphasis on average start-ups rather than creatures that are more exotic (e.g., high-growth gazelles) or even mythical (billion-dollar unicorns).
- An increasing array of tools and datasets are available that offer us insight into entrepreneurial dynamics underlying the pyramid of destruction.
- Correcting the misperception that has been introduced into the literature by selection biases favoring growing and profitable firms will give scholars and policymakers a more accurate and policy-relevant picture of entrepreneurship in the

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21st century.

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