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Essays on Individuals and Organizations

By

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ABSTRACT

This dissertation focuses on the dynamics of innovative industries; specifically how individual choices and actions impact the performance, founding, and death of firms. While most research examining these outcomes focuses on the role of organizational factors – such as strategy, capabilities, or resources – firms ultimately consist of individuals with different preferences, abilities, and approaches to entrepreneurship and organizing. This work attempts to expand our understanding of firm and industry dynamics by looking to the role of the individuals who make up firms. As the performance of a growing number of firms and entrepreneurial ventures comes to depend on human capital, knowledge and creative work, there is increasing need to understand how these differences between individuals influences firms and industries. This dissertation consists of three essays exploring these relationships.

The first essay, "People and Process, Suits and Innovators: Individuals and Firm Performance," empirically untangles the contributions of organizations and individuals to firm performance. The results indicate that variation among individuals matters far more in organizational performance than is generally assumed. Surprisingly, the analysis also demonstrates that middle managers, rather than innovators, have a particularly large impact on firm performance. The second essay, "The Firm as a Potemkin Village," uses qualitative research on firm founders in the computer game industry, as well as the theoretical implications of the previous papers, to examine the role of firms in industries where individuals are primarily responsible for firm performance. I suggest that firms are often created for reasons of legitimacy, rather than for performance alone. My third paper, "Not in Our Stars, But in Ourselves" examines the tension between socially-embedded and individual factors in the performance of new ventures. Through an examination of over 8,100 career spells and 167 new firms, I find significant effects from both genealogical and individual explanations of new venture performance.

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Essays on Individuals and Organizations

Ethan Mollick

My dissertation*, Essays on Individuals and Organizations* focuses on the dynamics of innovative industries; specifically how individual choices and actions impact the performance, founding, and death of firms. Prior researchers have paid attention to the organizational factors that lead to firm success – such as strategy, capabilities, or resources – but firms ultimately consist of individuals with different preferences, abilities, and approaches to entrepreneurship and organizing. My work attempts to expand our understanding of how firms and industries operate by looking to the role of the individuals who make up firms. As the performance of a growing number of firms and entrepreneurial ventures comes to depend on human capital, knowledge and creative work, there is increasing need to understand how these differences between individuals influences firms and industries. For managers, my work illuminates the role of individual employees in organizational success.

In *Essays on Individuals and Organizations*, I focus on the role individuals play in the dynamics of innovative industries. While the organizational and strategy literature focuses largely on the systems, strategies, and processes that shape how industries and firms operate, much less attention has been paid to the ways in which individual differences shape firm-level outcomes. Scholars have examined some specific contexts in which individuals play a role, demonstrating that entrepreneurs have a persistent impact on the performance and culture of firms and that top managers directly affected a firm's strategic choices and decisions. Yet the broader impact of individuals on firms remains largely unexplored. I hope to shed new light on the dynamics of firms and industries by comparing them to the underlying movement and choices of individual actors. To that end, the two empirical papers of my dissertation examine the role of individuals in firm performance, founding, and exit.

People and Process, Suits and Innovators: Individuals and Firm Performance

The first paper, "People and Process, Suits and Innovators: Individuals and Firm Performance," empirically untangles the contributions of organizations and individuals to firm performance. Secondly, the paper disaggregates the impact of various roles on performance, specifically looking at the relative contributions of "suits" (middle managers) and "innovators" (creative managers). Using a unique dataset empirical analysis of over 1,500 products across 602 firms in the computer game industry and drawing from a rich set of covariates, the paper provides one of the first thorough attempts to adjudicate the role of individuals in firm performance.

The results indicate that variation among individuals matters far more in organizational performance than is generally assumed. Surprisingly, the analysis also demonstrates that middle managers, rather than innovators, have a particularly large impact on firm performance. In total, the individuals in just these two roles accounted for 25% of the variation in revenues and 19% of the variation in critical rating for the products for which they were responsible. Additionally, the individuals with the managerial role of producer explained more of the variation in performance than the individuals who filled the innovative role of designer.

These results exceed by a large margin the threshold of the performance derived from individuals that we would expect to see from traditional views of the firm where organizational and environmental, rather than compositional, factors that drive performance. Especially when the potential for the over-inflation of firm-level effects are taken into account, it is unclear how significant firm-level processes actually are in explaining performance, but they are, at most, on the same scale as the role played by just two individuals within the product team. Far from being interchangeable, individuals uniquely contribute to the success or failure of a firm.

Additionally, the relative contribution of the two roles to firm-level variation is also unexpected. Even in a young industry that rewards creative and innovative products, innovative roles explain far less variation in firm performance than do managers. This is surprising for two reasons. First, we would expect that individual variation in innovative roles would be greater than that of more standardized managerial roles. Second, given the research tradition on the importance of organizational factors to facilitate the success of middle managers, the finding that individual managers account for more variation in performance than firm-level factors in some occasions is particularly intriguing. These two results – that individuals explain much of the performance difference between firms and that managerial roles have more impact on performance than innovative ones – challenge long-held assumptions about firm performance.

While these findings may vary across industries, and even within industries, they suggest that scholars should pay more attention to the individual makeup of organizations, rather than focusing solely on organizational-level characteristics. Additionally, this study also challenges the assumption that firms are formed solely for reasons of performance, instead suggesting that firms may sometimes serve social, as well as productive, functions. Finally, this paper underlines the importance of middle managers, who are critical to firm performance even in highly innovative industries, and suggests the need for further research into the mechanisms by which middle managers influence firm performance.

The Firm as a Potemkin Village

The second essay, "The Firm as a Potemkin Village," uses qualitative research on firm founders in the computer game industry, as well as the theoretical implications of the previous papers, to examine the role of firms in industries where individuals are primarily responsible for firm performance. This creates an interesting dilemma, since theories of the firm expect that firms are more than the sum of their parts, and that firms thus serve a clear performance-related purpose.

This paper employs two methods to look at the role of firms. The first, drawing on the previous paper "People and Process, Suits and Innovators" uses an empirical analysis of over 1,500 products across 602 companies to decompose performance variation to the level of individuals and suggest that the assumption that organizational factors are responsible for variations in performance is often incorrect. The second method uses a survey of 2,700 individuals in the game industry to examine individual choices in firm formation and membership. The results raise the question about why people operate within firms at all. I suggest that an unrecognized implication of new institutional and ecological theory leads entrepreneurs establish firms as a Potemkin Village to allow them to act in industries with existing firm populations. Firms are therefore often set up to give the appearance of a productive organization in much the way that General Grigorii Potemkin set up the pasteboard facades of towns in newly conquered lands to give the visiting Catherine the Great the illusion of a thriving local economy. I therefore argue that firms are often established by entrepreneurs because they are socially necessary to facilitate and enable individual action, rather than because they are productive.

Not in Our Stars, But in Ourselves

My third paper, "Not in Our Stars, But in Ourselves" examines the tension between socially-embedded and individual factors in the performance of new ventures. It compares the explanatory power of various theories of how entrepreneurs influence firm performance, and contrasts these theories and ability-driven explanations of performance. It also broadens the scope of inquiry to include initial team members, not just firm founders. Through an examination of over 112,000 career spells and 708 new firms, I find significant effects from genealogical and individual explanations of new venture performance, but no significant results from learning or team-based theories.

Specifically, the paper demonstrates that the qualities of the initial hires brought into a new organization can, in some cases, have a larger effect on future firm performance than the founders themselves. Future efforts to examine the impact of individuals in entrepreneurship should consider expanding their scope to include these critical first hires. Additionally, though a substantial amount of research shows that the career histories of entrepreneurs can have an impact on new venture performance, the extent to which underlying ability explains much of this influence has been unclear. This paper demonstrates that past ability of initial team members is a good predictor of future success, though the past ability of entrepreneurs themselves is less predictive. Generally, this paper supports the view that new venture performance is not purely fated "in the stars" based on past affiliations, but that it can be much more a result of proven past ability. An expanded view of who has an impact on new ventures is called for, as is more attention to ability, as well as history.

Conclusion

The three essays in this dissertation represent attempts to "bring the individual back in" to discussions about organizations. In them, I have argued that individual differences explain significant amounts of performance differences, that organizations are sometimes designed to conceal the role of individual activity, and that a wider view of individuals and their ability contribute to understanding entrepreneurship. None of this displaces the importance of the social structures and environmental conditions in which individuals are embedded, but it does suggest that individual action is not so constrained in organizations that it can be ignored.

The great advances in organizational forms at the turn of the 20th century allowed for organizations that were more than the sum of their parts, especially in manufacturing and other heavy industries (Chandler, 1977). Individuals became replaceable parts within the machines of these hierarchical, structured organizations. But, with new technologies and the increasing prevalence of knowledge work, where creativity and specific knowledge trump the assembly line, new ways of organizing are possible (Lakhani, Jeppesen, & Lohse, 2008; Malone, 2004). With these changes, the role of individual differences in explaining differences in performance, strategy, and organizational outcomes is therefore only likely to grow. This dissertation suggests that individual differences already play a large role in explaining how firms succeed or fail, and, I hope, helps lay some groundwork for understanding how organizations might enable individual achievement, as well as constrain and channel it.