Entrepreneurship and Routines: An odd couple?
Business conceptions and organizational routines in the development of entrepreneurial firms

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1. Introduction

Recent evolutionary economic research has argued that a good starting point for tackling the question how cognitive regularities and behavioural regularities relate to each other would be to take agency more seriously and identify precisely how agency influences the implementation (as well as the evolution) of rules. One form of agency that is relatively neglected in evolutionary economics, but is central in understanding the growth of firms and economies in general, is entrepreneurship.

Entrepreneurship is not a strange bedfellow to evolutionary economics. One of the forefathers of evolutionary economics – Joseph A. Schumpeter – is a ‘must-cite’ in books and articles on entrepreneurship. However, entrepreneurship has mostly been at the background in the field of evolutionary economics, regarded most important in its role as an explanatory factor of economic development. Until recently, neo-Schumpeterian theoretical developments have paid little attention to the key actor in Schumpeter’s writings. Evolutionary accounts seem to have focused more on routines (Nelson and Winter, 1982) and on abstract variation and selection mechanisms than on the role of human agency. Nelson (1995, p.68) states that in evolutionary economics:

firms are the key actors, not individual human beings. Of course (implicitly) firms must provide sufficient inducements to attract and hold the individuals that staff them. But within these models, individuals are viewed as interchangeable and their actions determined by the firms they are in.

The entrepreneur – whose role in shaping and reorganizing is crucial for understanding individual firms – is left out of the ‘equation’. Entrepreneurship and routines seem an odd couple in evolutionary economics1 (cf. Beckert, 1999; Thomas, 1987) but is this justified, especially when the emergence of firm-specific competence and governance modes in entrepreneurial firms are analysed? The objects of research in this paper are fast-growing entrepreneurial firms: founder(s)-led firms that have grown to a substantial size. These firms are certainly not of declining or of minor relevance, which would justify a focus on large, bureaucratic organizations like in Nelson and Winter

1 Cf. the distinction between the “entrepreneurial school” (Schumpeter) and the “learning school” (Nelson and Winter in Mintzberg et al. (1998).
(1982). These firms are highly relevant for several reasons. First, these firms are responsible for the lion’s share of job creation in capitalist economies (Kirchhoff 1994; Storey 1997). Second, these firms successfully commercialise new ideas that are not recognized or deemed viable by incumbents. Third, these firms are interesting in itself in the sense that they emerge from almost nothing and develop into a completely new firm entity, and may even become industry leaders. However, these type of firms also face major problems during their life course, which is an important reason that many entrepreneurs with growth intentions never realize the ‘creation’ of a multi-person organization. One of the dominant problems here is the ‘management’ of labour: “everyday employees have to be persuaded, encouraged, supervised and sometimes sanctioned, to ensure they achieve what employers see as an adequate performance” (Curran and Blackburn 2001, p.117). Even more entrepreneurs never expand to employ others because the owners want to avoid what they see as the problems of managing employees. The latter type of businesses may perhaps better be classified as self-employed and not as firms proper2 (i.e. multi-person business organisations).

The aim of this paper is to improve insight into the role of entrepreneurs in the emergence and change of organizational routines in the context of (fast-growing) entrepreneurial firms. In this paper we will analyse the role of routines in fast-growing entrepreneurial firms regarding two critical issues. The first central question is: How does entrepreneurial leadership affect the emergence and change of organizational routines? We will use the theory of cognitive leadership (Witt, 1998; 2002) to analyse the way in which entrepreneurs devise organizational routines. In this theory the entrepreneurial business conception is the essential cognitive frame (cognitive regularity) that guides the behaviour (behavioural regularity) of firm members. We have executed several case studies of fast-growing entrepreneurial firms, with a focus on critical points in the growth paths to discover when and how the governance regime changes during the life course of these firms.

Another important aspect of growth, which often is a major barrier to the diffusion of organizational routines, is the spatial expansion of the firm organisation. The second question then arises: how does the spatial organization of a firm affect the emergence and change of routines. This aspect is important for two reasons. First, it is assumed that the creation and diffusion of routines – which are largely made up of tacit knowledge – necessitates the spatial proximity of the actors involved. Second, fast-growing firms often grow with expanding their organization outside their region of origin, which makes day-to-day monitoring and motivating of employees problematic. Therefore, we focus on the role of spatial proximity in the creation and retention of organizational routines. For example, a firm that becomes multilocational may reveal changes in the interaction patterns between firm members. Initially, the leadership of the founder-entrepreneur functions as a mechanism by which the business conception motivates the firm members intrinsically by achieving a commonly shared understanding of the company’s goals and procedures. This will enable a sufficient degree of cognitive coherence and ultimately successfully coordinate the behaviour of the firm members. However, when the firm increases in size and becomes multilocational, an alternative governance regime may be needed. Implementing an alternative way of organizing may involve redefining and changing the hitherto organizational routines.

For example, an entrepreneur-led firm based on commitment may shift toward a firm with routines relying on instructions, incentives, and monitoring mechanisms. This way, the spatial organization and growth processes have a decisive impact on the emergence and change of specific routines.

2 Cf. Hodgson’s (1999, p.241) conceptual distinction between firms and non-firms, in which self-employed producers even lie outside the domain of organizations (which includes firms)
This paper provides new insights in the role of entrepreneurship in the emergence and evolution of organizational routines, and the interaction of these organizational routines with the development of the entrepreneurial firm.

2. Routines, entrepreneurship and firm development

Routines, innovation, and entrepreneurship

In the early works of Schumpeter (1934) innovation and the entrepreneurial role are often used interchangeably: entrepreneurs are the individuals whose function it is to carry out new combinations (innovations) (Schumpeter 1934, p.74). Schumpeter (1934) distinguished managers from entrepreneurs: managers control, guarantee, discipline, and introduce order, while entrepreneurship is regarded as a special case of leadership related to the carrying out of innovations with the creation of a new firm.

Nelson and Winter (1982, p.128-133) have characterized innovation in terms of a change in routines and as new combinations of existing routines, and innovative activity as "routine". Innovation is regarded as a dominant determinant of new firm entry and incumbent firm growth (Mansfield 1962; Nelson and Winter 1982, chapter 13; Storey 1997) and innovation is seen as a result of search by incumbents and the entry of new firms following new routines (Nelson and Winter 1982, p.142). The implication is that firms with ‘better’ routines (organizational processes, strategies) are more successful innovators, which are rewarded with supranormal profits (via the selection mechanism), leading to relatively fast growth. However, organizational routines vary in the extent that they constrain or enable innovation. Banks et al. (2003, p.125) suggest that there is indeed a tension between control (with organizational routines) and innovation, as “where managerial approaches and firm-specific routines reflected increased control they dissipated those capabilities that might be considered particularly important in enabling the small firm to be competitive”.

Nelson and Winter (1982) characterise the intra-organizational interactions as based on behavioural routines, rules of thumb, and regular interaction patterns; the majority of activities follow rule bound behavior. They describe these routines in general as regular and predictable behavioral patterns of firms3 (Nelson and Winter 1982, p.14-15). Next to the interpretation of routines as behavioural regularities, there are also interpretations of routines as cognitive regularities and as propensities (Becker 2004). According to Cohendet and Llerena (2003, p.272) routines can be viewed as “a condensed way to remember by doing why to do (motivation-incentive), and how to do things (cognition and co-ordination).” In short, they argue that routines have three specific dimensions: cognitive, co-ordination, and motivational. The cognitive dimension refers to the organizational memory. The motivational dimension is associated with the level of the firm members’ commitment toward the company’s business activities. High commitment tend to facilitate the control of intra-organizational conflicts. Routines may also take the role of a co-ordination mechanism, e.g. in the form of a norm or target (vision??!).

Routines can be regarded as the building blocks of organizational capabilities. These capabilities are created, learned and enhanced through experience and repetition and developing ‘organizational routines’ (Grant 1998; Nelson and Winter 1982).

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3 A more general definition is given by Levitt and March (1988, p.320), who include “the forms, rules, procedures, conventions, strategies, and technologies around which organizations are constructed and through which they operate” within the routines concept.
In general terms, entrepreneurship is seen as action that challenges or even disrupts cultural routines (cf. Beckert 199x; Aldrich and Martinez 2003): entrepreneurship is about the individual “swimming against the stream” and continuing “[w]here the boundaries of the routine stop” (Schumpeter 1934, p.79-80). The successful Schumpeterian entrepreneur is characterized by the innate unlearned ‘acts of insight’ he or she uses in carrying out innovations. This entrepreneurial, nonroutine behavior, contrasts with the routine, learned behavior of other members of firms such as managers, engineers and technicians (Schumpeter 1934; cf. Thomas 1987). These qualifications of entrepreneurship and the entrepreneur make us indeed believe that entrepreneurship and routines are an odd couple. But perhaps this is ‘just’ a paradox.

Currently, entrepreneurship is defined as the process by which individuals identify opportunities (entrepreneurial alertness (Kirzner 1997), entrepreneurial judgement (Ghoshal et al. 2002; Casson 2003) ) and mobilize resources to create, deliver and capture new value on a market (Teece 2004). Entrepreneurship is most often related to new firms and growing young firms in which the entrepreneur (founder-owner) has a dominant role. In these firms, the closeness (personal links) between the entrepreneur and employees makes that the entrepreneur’s vision and influence on the coordination and motivation of the firm is often greater than in larger firms that make collective decisions and communicate via a hierarchy (Williamson 1985?). These relatively small entrepreneurial firms also often have a more unified culture and a stronger collective identity, which makes it easier to communicate internally and share understandings of firm-specific routines (Yu 2001; Monteverde 1997).

Table xx. Entrepreneurship and routines: contrasts

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<tr>
<td>Solo (entrepreneur)</td>
<td>Collective (routine)</td>
</tr>
<tr>
<td>Creativity, rule-breaking</td>
<td>Rule following</td>
</tr>
<tr>
<td>Non-routine behavior</td>
<td>Routine, learned behavior</td>
</tr>
<tr>
<td>disruption</td>
<td>Inertia</td>
</tr>
<tr>
<td>Small firms</td>
<td>Large firms (S II)</td>
</tr>
<tr>
<td>Multi-person innovative owner-manager led firm entity</td>
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</table>

Our objects of research are fast growing entrepreneurial firms. Specifically, we focus on the link between entrepreneurship and organizational routines. While the routines literature struggles to make sense of the Schumpeterian-like entrepreneur, the literature on entrepreneurship hardly considers behavioral patterns occurring through the interactions among firm members. Although behavioral patterns are crucially important to understand the coordination, innovative activities or the development of a company, entrepreneurship research pays little attention to them. In this paper, we investigate how specific organizational practices emerge from interactions between the entrepreneur(s) and employees.

**Leadership and firm development**

The definition of an entrepreneur has substantial overlap with that of a leader (Cogliser and Brigham 2004). A leader is “a group member whose influence on group attitudes, performance, or decision making greatly exceeds that of the average member of the group” (Simonton, in House et al. 2002, p.5). Organizational leadership is defined as “the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members” (House et al. 2002, p.5).
Visionary leadership is said to be an important driver of new firm growth (Baum et al. 1998; Ensley et al. 2003). Vision is defined as “the means by the leader’s goals are communicated in an inspirational fashion to followers, and the leader takes various actions intended to implement the vision (which provides a sensemaking component for followers)” (Cogliser and Brigham 2004, p.778).

Leadership is especially important in entrepreneurial firms, as in comparison to large established firms, leaders are less constrained by organizational systems and structures, are more likely to be influential, and more easily narrow the firm’s planning, core knowledge, and environmental scanning processes in entrepreneurial firms (Daily et al. 2002, p.391). The theory of cognitive leadership (TCL: Witt 1998; 2000; 2001) provides an explanation for the effect of leadership on the performance of (entrepreneurial) firms. It explains how the performance of (entrepreneurial) firm organizations depends on the entrepreneurial capacity to resolve the closely intertwined organizational problems of cognitive coordination and work motivation (Witt 2001, p.2). A central element in TCL is the “business conception”. A business conception is defined as “the entrepreneur’s image of mission of a firm organization; i.e. of what business to do, and how to do it, with the staff hired for to pursue that mission” (Witt 2001, p.11). This business conception initially depends on the personal preferences, interpretations, skills, and experience of the entrepreneur, not on some kind of higher-order routine. Business conceptions drive changes in organizational routines, similar to the way in which ‘problemistic search’ (Cyert and March 1963) is assumed to drive changes in organizational routines (Nelson and Winter 1982). However, business conceptions are more properly identified as “opportunity-driven” search (cf. entrepreneurial alertness; Kirzner 1997) in contrast to reactive “problemistic search”.

In an entrepreneurial firm, vision not only clarifies goals, but also inspires employees confidence in an uncertain future as well as marshalling (human) resources at a discount (Bryant, in Cogliser and Brigham 2004). Entrepreneurs convince potential employees to switch from known (often higher paid) contractual futures to uncertain (and often initially lower paid) futures.

However, the growth of the entrepreneurial firm in employment size is likely to constrain the ability of the entrepreneur to exert leadership. The entrepreneur will be less and less able to personally communicate with all the firm members, due to time constraints related to the number and remoteness (when the firm also expands spatially) of employees. After a critical size of staff is exceeded (contingent on the characteristics of the entrepreneur(ial team) and employees), governance problems are likely to occur. Two types of reorganizations may solve these problems (Witt 2001). First, the fading regime of cognitive leadership may be substituted by a monitoring regime. This monitoring regime means a tight control and regulation of the firm members (cf. Alchian and Demsetz 1972). Such a monitoring regime might however have negative implications like a decline in individual creativity (e.g. creation of new business opportunities) and intrinsic motivation (demanding higher financial rewards), and perhaps even the increase of opportunism (cf. Williamson 1975). The second type of reorganization is the subdivision of entrepreneurship by creating organizational divisions with own result responsibility. However, this still necessitates an overarching business conception for the entire corporation by cognitive leadership on part of the primary entrepreneur. This type of reorganisation may lead to spin-offs, as entrepreneurial employees see more advantage in starting their own firm. Despite of the possible drawbacks of these reorganizations, the growing firm may increasingly attain economies of scale and/or scope (Chandler 1990) with its increasing size.
The described developmental approach (cf. Garnsey 1998; Penrose 1995; Rathe and Witt 2001) is based on an analogy to ontogenetic processes, as the development of firms is conceptualised as transitions between morphologically distinct stages.

Geographic dispersion, governance, and organizational learning

During their growth, firms face a choice in the organization of production (Audia et al. 2001). By concentrating production at one site, they can enjoy economies of scale and facilitate intra-organizational learning. Or, by dispersing production across multiple locations, firms can lower transportation costs, reduce risks, and forbear competition (in product markets and labour markets). This unilocational-multilocational trade-off also involves the effectiveness of organizational routines. There is still a debate whether multi-unit structures retard or improve organizational learning. On the one hand, multi-unit firms may have more opportunities for learning than single unit firms, as is well known in the literature on multinational firms (Argote 1999; Audia et al. 2001). Multilocational firms have less problems to adapt to different local circumstances than unilocational firms that do not have a local representative in multiple regions. Firms may even need to be in spatial proximity to certain alliance partners in order to facilitate the transfer of tacit knowledge (Amin and Thrift 1994; Storper 1997). On the other hand, multi-unit firms – especially when spatially dispersed – may have more problems with effective communication between firm members in different locations. Firms that have their employees concentrated at one site may change their practices at a faster rate than firms that have their employees dispersed over several sites. This may make multi-locational firms less flexible and adaptive.

The implication for the emergence and change of organizational routines or practices is that the practices of spatially separated units may drift apart more easily than spatially concentrated units. This drifting apart of practices may be appropriate for serving different markets, or sourcing different inputs, but if this tendency is excessive it may lead to severe constraints on inter-unit learning. Routines may even loose their function as organizational memory, as it is primarily organizational units that now accumulate knowledge over time, learning predominantly from firm members in the particular organizational unit.

Given the physical separation of business units in multilocational firms, there is no immediate supervision of the entrepreneur. This physical separation makes coordination and motivation of employees more problematic in multilocational than in unilocational firms. The transition to a multilocational organization structure may have several implications for the coordination and motivation of employees. First, more formalized organizational procedures may be needed as an organizational substitute of leadership in one location. Second, employees may have to be rewarded in other ways: instead of being inspired by the entrepreneur which discounts the price of human resources (see Bryant, in Cogliser and Brigham 2004, p.778), the employees now have to be provided with more financial incentives (e.g. in salary or promotion; or as a minority shareholder). Third, the employees in spatially separate units are probable to perceive (and acquire…) a higher level of autonomy and control. However, not all employees possess the skill to manage themselves; i.e. handle this higher level of autonomy and control, and/or not all employees seek autonomy because they do not prefer the correlated increased responsibility.

3. Research design
We engaged in the analysis of nine longitudinal case studies (see table XX). A first set comprises three historical firm cases: Southwest Airlines, Arthur Andersen & Co., and Siemens. In these studies, we primarily investigated how entrepreneurs came to grips with their business conception, and how they developed and set up the specific organizational practices ensuring effective coordination of their venture. In particular, the analysis aimed to understand to which extent entrepreneurs influence the behavioural patterns within the firm. Further, we investigated why the established practices became increasingly ineffective as a firm grew.

Siemens was founded in 1847, Andersen began service 1913, and Southwest Airlines took off in 1971. Although times of founding were largely different, the firms commonly share having entrepreneurs with highly innovative business conceptions. High levels of innovation require an entrepreneur’s intensive endeavour to induce the new ideas within the firm organization. The exaggerated effort to instil commitment among firm members allowed us to study entrepreneurship as it shapes the organizational practices.

The second set of firm cases contains six contemporary longitudinal studies of fast-growing young firms in professional services. Four companies have been struggling with becoming multilocalional contrasted with two similar cases that successfully dispersed their activities without becoming multilocalional; i.e. governing a virtual organization (firms K and J) => these firms are owner-managed and (still) highly dependent on the founders [<-> ‘archetypal’ Nelson&Winter (1982, p.97) firm] => not (yet) IPO

While we focused in the historical firm studies mainly on the entrepreneurs establishing firm-specific organizational practices, we investigated the contemporary cases regarding the challenges for the organizational practices as the firms grow. All six fast-growing firms intended to grow either spatially or virtually shortly after their foundation. Having data of the first six to ten years allowed us to examine three aspects of the early development. First, we analyzed the effect of spatial and virtual growth on the firm members’ motivational commitment toward the company and their behavioural patterns. Then, we studied the impact that this effect had on the organizational practices. Finally, we sorted out in which way and how the entrepreneurs attempted to sustain the organizational practices; or altered them to match with a growing organization. Exploring the nine case studies, we were able to investigate the role of entrepreneurship for building and sustaining organizational practices, and to examine the evolution of the organizational practices as firms grow.

Table XX

<table>
<thead>
<tr>
<th>Case:</th>
<th>Researched period:</th>
<th>Activities:</th>
<th>Maximum size (employees):</th>
<th>Locations: (closed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Siemens</td>
<td>First 20 years</td>
<td>Telegraphy and electrical equipment</td>
<td>672</td>
</tr>
<tr>
<td></td>
<td>Arthur Andersen &amp; Co.</td>
<td>First 33 years</td>
<td>Accounting</td>
<td>848</td>
</tr>
<tr>
<td></td>
<td>Southwest Airlines</td>
<td>First 32 years</td>
<td>Airline industry</td>
<td>32000</td>
</tr>
<tr>
<td>II</td>
<td>K</td>
<td>First 8 (11) years</td>
<td>Software development for process management, software services</td>
<td>42 (80)</td>
</tr>
<tr>
<td></td>
<td>J</td>
<td>First 6 years</td>
<td>Government labour services</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>First 10 years</td>
<td>Education, coaching and business advice projects</td>
<td>60</td>
</tr>
</tbody>
</table>

4 Most of these firms are suggested to be outside the domain of the evolutionary approach of Nelson and Winter (1982, p.97): “… organizations that are involved in the production or management of economic change as their principal function – organizations such as R&D laboratories and consulting firms – do not fit neatly into the routine operation mold” (cf. Costello 2000).

5 The issue of geographic location is largely ignored in Nelson and Winter (1982, p.97 fn 1).
The historical case studies base on firm chronicles, archival material, letters of the founders, newspaper articles, monographs, and other materials. The primary source of the Southwest Airlines case is the recent book by Gittell (2003). Further, we used a report by U.S. Department of Transportation. Studying the Andersen case, we considered a firm chronicle (Arthur Andersen & Co. 1974), and several speeches by Arthur Andersen and his successors (Arthur Andersen & Co. 1970; Arthur Andersen & Co. 1969; Arthur Andersen & Co. 1973). Further sources were interviews in newspapers with Leonard Spacek and Harvey Kapnick, an Harvard Business School case study, and the recent book by Squires, Smith, McDougall and Yeack (2003). In 1985, Leonard Spacek’s (1985) video-taped memoirs were published which provide numerous insights into the development of the firm. The Siemens case bases on firm chronicles (Weiher and Goetzeler 1984), biographies and historical studies about the founder and the company (Kocka 1969; Feldenkichen 1996; Feldenkichen 1997), and Werner Siemens’ memoirs and letters (Siemens 1889/1956; Heintzenberg 1953). Primary data for the contemporary case studies were conducted during several waves of interviews with the founders and employees in all six firms in 2000-2001. During the site visits, we were able to collect data via interviews with the founder-entrepreneurs. Secondary data were obtained from the media, i.e. primarily from newspaper articles, professional journals, and from firm-internal business documents. Additional data on the growth of the firms were provided by the Chambers of Commerce.

4. Case studies

4.1 Historical case studies

The Southwest Airline case

It is a considerable achievement of being profitable for 31 consecutive years. That is even more remarkable when a firm operates in its 32nd year in an industry regularly shattered by turbulences with all companies facing substantial crises once in a while. A recent assessment reports that the company has taken over a large market share from conventional companies in this industry. Southwest Airlines began service as a regional operator 1971. Since then, the Texas based company has grown to one of the most successful airlines in the United States. Southwest Airlines flew more than 194,000 passengers the day in 2004. This makes it the third largest carrier. In terms of the number of flights per day, Southwest is actually the largest airline. Further, it has the highest market capitalization in the US airline industry.

Southwest Airlines aims to provide reliable low-cost air travel to customers. When this strategy was implemented, it differed largely from those of conventional carrier suppliers; and it was highly successful. Reducing fares yields increasing passenger traffic (Gittell 2003, pp. 7). This way, less frequently served flight connections became profitable. According to a report by the Office of Aviation Analysis, U.S. Department of Transportation, Southwest Airlines’ involvement into a new market reduced the fares by an average of 65 percent (Bennett and Craun 1993 Gittell 2003). At the same time, the passenger traffic increased between 30 percent and up to 500 percent. Some markets multiplied in size within weeks after Southwest’s entrance. Critical for exploiting this demand-price effect, however, is to compete cost-effectively with other airlines (cf. Gittell 2003, ch. 2). This is not trivial to achieve.
because Southwest Airlines operates numerous short-haul flights which are considerably more expensive than serving long distances. Operators serving short distances have lower aircraft and labor productivity. Long-haul flights generate higher revenues by having their aircrafts longer in the air. Further, Southwest Airlines depends by and large on point-to-point routes. This is an additional productivity disadvantage compared to operators relying on a hub-and-spoke network. The latter one allows airlines to exploit economies of scale. They result from centralizing maintenance facilities and serving the hub-spoke-connections with higher frequencies (Melconian and Clarke 2001). Tackling these issues, a company has to establish procedures operating at a competitive cost level.

Southwest Airlines addresses the productivity disadvantages by facilitating the turnaround process (Gittell 2003, pp. 20). Getting the planes back in the air after landing was one of the main concerns. Thus, the airline’s operations focused on speeding up the non-revenue-generating time on ground. Southwest implemented several means to achieve quick turnarounds (Gittell 2003, p. 22). For instance, the company used a single aircraft type and less frequented airports, cut off services such as offering meals or transferring luggage to other airlines, and introduced open seating with passengers placing themselves. Southwest’s strategy had a remarkable effect on the airline industry. Traditional operators answered by establishing low-fare city connections. New entrants took off to enter the short-haul point-to-point market. But not all inspired by Southwest’s success operated profitably (Gittell 2003, ch. 16). Several operators failed, although they had introduced cost-saving elements as mentioned above. This leads to the conclusion that the operations leading to a quick turnaround seem to be crucially important to understand why the airline had been successful with its low-fare strategy.

In her study, Gittell (2003) argues that effective working relationships among firm members are crucially important to achieve high performance. Empowered relations are particularly essential when the core process generating the firm’s competitive advantage involves 12 distinct functional groups (Gittell 2003, p. 22). Accomplishing quick turnaround operations requires smoothly running relations among all involved parties, i.e. pilots, ramp and baggage transfer agents, cargo agents, mechanics, fuelers, aircraft cleaners and caterers, ticketing and gate agents, flight attendants, and operations agents. Coordinating these diverse functions, Southwest Airlines facilitates building and sustaining relationships characterized by shared goals, shared knowledge and mutual respect (Gittell 2003, p. 12 and ch. 3). Called relational coordination, this is the core organizational feature that the entrepreneurs employed to meet the challenge of low-fare services. By strengthening the relationships between employees, Southwest Airlines aims to overcome the productivity disadvantage deriving from short-haul point-to-point operations.

The primary goals shared among Southwest’s employees are on-time performance and customer satisfaction. Conducting interviews at different Southwest sites, Gittell (2003, p. 6, p. 20 and p. 30) found that the firm members are highly aware that the company’s low-fare strategy translates into the clear-cut objective of getting the plane back into the air as quick as possible. It is common sense within Southwest that meeting this goal is critical for the success of the airline. The employees recognize the fact that the time the aircrafts spends on the ground does not generate any revenue. Further, Southwest Airlines’ employees have a pronounced understanding of the overall operation processes (Gittell 2003, pp. 31). Their knowledge about the organizational procedures exceeds the one that they need for accomplishing their own tasks. In addition, they have a detailed understanding about the jobs performed by their colleagues. This way, shared knowledge tends to reduce conflicts, which may occur through misunderstandings between different functional units during the work process. Therefore, shared knowledge enhances running effective operations. A similar effect has Southwest’s effort to encourage mutual respect between the diverse functional groups.
(Gittell 2003, pp. 32). Since status boundaries dominate a many interaction in the airline industry, mutual respect for another functional group hardly occur. This hampers effective coordination. Southwest Airlines therefore endeavor to overcome these barriers. Building and sustaining shared goals, shared knowledge and mutual respect relate closely to communication (Gittell 2003, ch. 3). Indeed, fostering strong relationships and communication are interdependent processes. Open communication practices within Southwest Airlines support creating strong relationships among firm members. In turn, shared goals, shared knowledge and mutual respect facilitate constructive communication. Thus, coordinating the business operations through intensive communication and strong relationships enables Southwest to provide reliable low-fare travel. This relational coordination approach appears to have met the challenges posed by the productivity disadvantages successfully. In her analysis of Southwest Airlines, Gittell (2003) identified numerous organizational practices supporting the relational coordination approach. The entrepreneurs, for instance, were actively involved in building strong relationships within the company, cared about the employees’ well-being, and were able inspiring trust among Southwest’s workforce (Gittell 2003, ch. 5). Other practices comprised specific investments in the frontline staff (ch. 6), careful hiring procedures and intensive training of new firm members (ch. 7), mentoring and constructive approaches to conflict management (ch. 8), and support for bridging work and family (ch. 9). Gittell (2003, ch. 15) also shows that different practices reinforce others. They seem to form a consistent set of organizational practices supporting the relational coordination approach not only individually but also in their overall interplay. Statistical results reveal, indeed, a significant positive impact of relational coordination on the company’s performance (Gittell 2003, ch. 3). The question arises how the relational coordination exactly influences Southwest’s performance. How did relational coordination help the company to accomplish the daily procedures? What advantages did relational coordination have for meeting unexpected challenges? These questions are tackled in the following.

One important reason for Southwest Airlines high performance is the efficient interaction between the twelve functional groups. Employees know when and whom (of the other firm members) to get involved in a particular process. So, they are able to distribute all necessary information effectively resulting in a better utilization of staff and gate time (Gittell 2003, p. 38). This is particularly true when unexpected events occur. For responding appropriately, such cases often require to rapidly collect and process new information. With employees understanding the entire work process, these challenges may be addressed more accurate and faster. Different organizational practices support this. For instance, employees learn about the jobs interfacing the work of their own functional group (Gittell 2003, pp. 87). Southwest Airlines encourages employees to work a day in another group. The company also facilitates strong intra-group relations (Gittell 2003, pp. 73). Southwest understands supervising the frontline staff as coaching and counseling rather than instructing and monitoring. Frontline supervisors are regular members of their functional group. By and large they accomplish the same work as the frontline staff. Therefore, the hierarchical gap tends to remain relatively low, and constructive communication is likely to occur. Despite Southwest’s strong focus on building and sustaining close inter- and intra-group ties, conflicts happen sometimes. They may result from misunderstandings or misinterpretations as many individuals are involved in coordinating a complex operation under time pressure. Southwest implemented a mentoring system aiming to solve conflicts in a constructive way (Gittell 2003, pp. 101). Conflict resolution contributes to improve the relationships among firm members and therefore affects positively the performance of the firm.

Sharing the same goals, knowing how ones own and the colleagues’ tasks interact in the overall work process, and relations based on constructive communication enables to achieve a
highly complex operation within a very short time. Relational coordination allows Southwest Airlines to turn planes just under 23 minutes. These are the results of studying two Southwest sites (Gittell 2003, pp. 39 and p. 270). Investigating seven sites of other airlines finds that their turnaround time ranges from 32.6 to 88.5 minutes with an average of 59.6 minutes. Other performance indicators show similar results. A statistical analysis reveals that relational coordination significantly lowers turnaround time, staff time per passenger, customer complaints, the number of lost bags, and late arrivals (Gittell 2003, p. 271). In sum, relational coordination enables Southwest Airlines to proceed very quick turnarounds. Shortening the time an aircraft spends on the ground increases the company’s aircraft and employee productivity. This way, Southwest turns the competitive disadvantages of short-haul point-to-point flights into a steady stream of revenues by meeting the demand for reliable low-fare services. 

So far, it has been shown that relational coordination enables Southwest Airlines to achieve the daily operations successfully. This focus on the firm, however, is not answering how relational coordination may help Southwest tackling the issues that are not directly related to the daily operational procedures. For instance, changing demand patterns, increasing competition, and expanding into new markets are irregularly occurring events. If a firm fails to address these challenges appropriately, they may cause a severe crisis. Taking a longitudinal perspective, we identify three critical events that – though it sounds contradicting – occur due to Southwest’s enduring success. Specifically, Southwest was running into trouble when the firm aimed for new markets. Establishing the successful business strategy outside Texas became a serious threat to the company in the early 1990s. As Southwest started expanding to Southern California, the company struggled with the rapidly growing site in Los Angeles (Gittell 2003, pp. 90). Particularly, the airline failed to process its corporate hiring and training procedures. Hence, one of the firm’s core organizational practices was not functioning at the Los Angeles station. Lacking this important feature, it became increasingly difficult to ensure the consistency of Southwest’s relational coordination approach. Consequently, it endangered providing low-fare services. Southwest Airlines’ top management responded in assigning additional personnel resource from other sites to Los Angeles. Only then, this site had fully implemented the corporate practices and followed the relational coordination approach. Similar in Baltimore, Southwest Airlines faced serious problems in hiring employees as it was expanding rapidly (Gittell 2003, pp. 233). This situation forced employees to work overtime causing higher stress levels, and therefore potentially undermining strong relationships and constructive communication. Again, the top management addressed this problem by bringing in personnel from other sites temporarily (Gittell 2003, p. 91). In the following, Baltimore developed to one of the largest sites within the Southwest network. As Southwest grew (cf. figure XX), another critical event affecting the conflict resolution practice occurred (Gittell 2003, pp. 110). Since around 1990, conflict reports went from employees to supervisors on to the CEO. With an increasing number of employees, the top management could simply not anymore deal with all cases individually. This practice had to be revised. Gittell (2003, p. 111) cites Colleen Barrett, Southwest’s current president, saying the management received so many reports that they had to change the forms. Consequently, the top management introduced a procedure encouraging conflict resolution within the departments. The change was virtually minor in its extent. In addition to the previously used form, the conflict parties had to answer but one other question. That is, whether they have discussed the issue with the other employee involved (Gittell 2003, p. 111). The change had a considerable organizational impact. Forcing employees to answer this question, the responsibility for conflict resolution was shifted toward a lower hierarchical level. Now, those organizational units were primarily responsible for addressing the issue where it had occurred.
Moreover, the management aimed to facilitate more constructive communication among the functional groups. The new organizational practice was a major change and emerged not incidentally at the time when Southwest were extensively expanding into new markets outside Texas. Indeed, the top management induced the new form to deal with an enlarging firm organization.

Figure XX – Southwest Airlines’ growth after founding

Discussion of the Southwest Airlines case
How does the Southwest Airlines case provide a better understanding of the relationship between entrepreneurship and organizational activity? Beginning service more than 30 years ago, it is difficult to answer whether Southwest’s business conception results from the founders identifying a concrete demand for low-fare air travel, or having a vision about new ways of traveling short distances. Translating their business conception into a firm organization, however, is genuinely an entrepreneurial act. The Southwest Airlines case reveals how the implemented organizational practices closely relate to the founders’ business conception. It is primarily the founders who determine which organizational features are developed and set up for coordinating and running the business. This way, they ensure that the firm operates in line with their business conception. Specifically, Southwest Airlines aimed to provide low-cost flights. To reduce the competitive disadvantage inherent in short-haul point-to-point services, there were several ways to cut costs. But only one work process, namely the quick turnaround of an aircraft on the ground, could potentially generate a competitive advantage. Finding a workable solution for reorganizing the turnaround process produced the key competitive advantage for Southwest Airlines. Relational coordination, i.e. building the firm’s operations on strong relationships and constructive communication, was the entrepreneurs’ answer to provide reliable low-fare operations.

In determining the specific organizational practices, e.g. the management’s active involvement in building relationships, careful hiring and training procedures, and the conflict resolution practices, Southwest’s top executives shaped the emergence of particular communicative and behavioral patterns within the firm. As a result, the interactions among firm members base on shared goals, shared knowledge and mutual respect. Encouraging strong relationships between the employees enhances effective coordination. This, in turn, allows the company to accomplish a highly complex operation in significantly shorter time as other airlines. Hence, Southwest Airlines achieves a high performance. In sum, the founders carried out a business conception by developing and implementing organizational practices that primarily bases on highly empowered relations between the members. Enforcing strong relationships among employees, the entrepreneurs shaped intentionally the behavioral patterns of Southwest Airlines. In this sense, entrepreneurship influences decisively the emerging interaction and working patterns in a firm.

The Southwest case reveals another important insight. Success breeds problems. After Southwest had successfully delivered low-fare services, the company began to expand its operations outside Texas. As Southwest grew, however, it began to face various issues. The growth produced several hurdles for effectively coordinating the turnaround process at the new sites. This undermined the functioning of some core elements of Southwest’s organizational practices. Consequently, strong relationships and constructive communication were less likely to emerge. As a result, the behavioral pattern among the firm members happened to change. The basis of Southwest’s success, namely relational coordination, deteriorated. The main point to make here is that it was not the organizational practices or the
established behavioral patterns that helped to overcome these hurdles, as the firm grew. They themselves were under threat. The organizational practices – e.g. the conflict resolution approach and hiring procedures – were about to become obsolete in contributing to effective coordination. In all three critical events described above, managerial interventions reinforced the functioning of the organizational practices in the new sites. The management’s actions were unconventional in the sense that they employed unusual means to address the crises. In sum, firm growth challenged Southwest’s interaction and working patterns in various ways. Then, the management intervened in a non-routine way to ensure Southwest’s operations. In this sense, the firm’s growth produced several internal problems; and the management’s unconventional entrepreneurial-like activities restored the organizational practices. As behavioral patterns and organizational practices come apparently under threat in growing firms, the following case study investigates this phenomenon further. We are particularly interested whether similar patterns occur in the early development even if high commitment and strongly established practices characterize the relationships in the firm.

The Arthur Andersen case

Some days after Arthur E. Andersen had died in January 1947, two men met secretly in Chicago. It was one of the cold winter nights, when they entered the funeral home. Arthur Andersen lay in an open casket before them. The two men well-known to the decedent came to pay their final respects to the founder and former head of the accounting firm Arthur Andersen & Co.. One of them was Leonard Spacek. He joined the firm’s Chicago office in 1928 and became a partner in 1940. Spacek was a protégé of Arthur E. Andersen and had found in him not only an employer but also his mentor. The second was Walter H. Andersen, the younger brother of Arthur Andersen. He joined the firm in 1916, became in charge of the Chicago office in 1919 and was accepted as partner in 1922 (Arthur Andersen & Co. 1974, pp. 10). After a grave fight between the siblings, Walter Andersen had resigned from the firm in anger (Squires, Smith, McDougall and Yeack 2003, pp. 35). Until Arthur Andersen’s death, the two brothers have never talked to each other again. The rift between the two had been so deep that Emma Andersen, Arthur’s widow, did not wish Walter Andersen to be brought to the mortuary seeing his brother for a last time. She never forgave Spacek that he arranged this secret midnight visit.

Shortly after his death, the 25 partners of the firm released the following statement: “Mr. Andersen has left us a heritage for which we shall be eternally grateful. We will show our gratitude by carrying forward with a united sprit …” (Arthur Andersen & Co. 1974, p. 32). Despite of this statement, however, the partners were far from being united (Squires, Smith, McDougall and Yeack 2003, pp. 41). High tensions had occurred between the partners and particular between the Chicago and New York factions. According to Leonard Spacek, Harvey Kapnick, the chairman through the 1970s, and George Catlett, who joined the firm in 1940 and became partner in 1952, the partners strongly argued about the question of how continuing to run the firm (Wartzman 2002). The disagreements rose so intense that the partners voted to liquidate the company in 1947.

The two conflicts portrait Arthur Andersen and the firm in a light as it is not representative for the firm during its early years. This picture falls short of reflecting the company’s achievement of being a unified organization. Indeed, the founders managed to run a cohesively operating firm in the first years. When Arthur E. Andersen and Clarence M. DeLany founded the accounting firm in 1913, they built both the accounting practice and the relationships among the firm members on strong principles (Squires, Smith, McDougall and Yeack 2003, ch. 2). First, integrity and honesty were key values for ensuring the accomplishment of professional accounting services, and establishing the reputation of the firm (ibid., p. 38). The values found its expressions in the slogan “Think straight, talk
straight”. Second, the founders pursued the unity of the firm. They aimed to create an organization that presents itself as one voice to the outside world. Any partner office should reveal identical professionalism and quality of service, and apply the same high accounting standards developed by Arthur E. Andersen. The one firm policy served internally to achieve a cooperative work environment. By facilitating firm members’ sensibility for the one voice approach, Andersen and DeLany ensured that the firm values could be maintained (ibid.). Finally, the founders promoted the implementation of high standards for the accounting practice both within the firm and the accounting industry. As a result, the firm could base their business activities on a workforce that was uniformly trained and shared a common method. In doing all this, the firm grew continuously and successfully. Nevertheless, the aforementioned conflicts occurred. And they mark important milestones in the company’s history. As it will turn out, the controversial midnight visit and the dispute between the partners result from challenges emerging as the firm grew.

Founding the firm, Arthur E. Andersen had a very clear vision what a successful accounting business should look like. Besides preparing periodical audits for companies and certifying financial statements, his business conception included a strong willingness to push forward the accounting field by developing and introducing innovative auditing systems. When Arthur E. Andersen and Clarence M. DeLany opened their accounting practice in 1913, being in this profession was seen as low-level bookkeeping work. Arthur E. Andersen challenged this understanding. In their opening announcement, Andersen and DeLany stated that the new partnership would engage in “the designing and installing of new systems of financial and cost accounting and organization, or the modernizing of existing systems” (Arthur Andersen & Co. 1974, p. 3). Since accounting was a largely unvalued job, this understanding was highly innovative. Although “Andersen, DeLany & Co.” was neither the first accounting firm nor a main player in those years, their business vision comprised more than just being another bookkeeping company. Indeed, they had an innovative business conception and met an increasing demand due to the emergence of larger corporations asking for professional accounting services.

Some other factors indicate that the company followed new ideas and offered innovative services. Before starting the company, Arthur E. Andersen had held an assistant professor position at the Northwestern University’s business school since 1912 teaching accounting. Later he became the Head of the Accounting Department and was appointed as full professor by 1915. Being offered a professorship and appointed as faculty member is an indicator that he was endowed with the capabilities to drive the field. His ideas were at the cutting edge of the accounting profession. Moreover, he published several books on accounting standards and a systematic of its methods. That shows Arthur E. Andersen contributed to the development of the profession. As for what all this brings to their accounting firm, Arthur E. Andersen and Clarence M. DeLany’s business concept was based on providing accounting or accounting related services of high quality using newly developed methods.

How did Andersen and DeLany translate the business vision into an organizational structure that could serve the new ideas? Specifically, how did they coordinate the business activities and workforce to make their vision successfully working? Arthur E. Andersen and Clarence M. DeLany applied different strategies assuring that their accountants share the company’s business conception, i.e. applying innovative accounting methods, performing high quality standards, and speaking with one voice. The hiring policy was one strategy to ensure the quality of the workforce. Although there existed a certified public accountant exam, the standards were not high enough for Andersen and DeLany. They insisted that accountants should have an undergraduate degree. It was “the first accounting firm to formally recruit college students” (Squires, Smith, McDougall and Yeack 2003, p. 34). Coming from rural Illinois, Arthur E. Andersen preferably hired young men graduated from colleague with the
same small-town or farming background and a strong Midwestern work ethic like himself. A second strategy intended to create a shared understanding of the business conception. It was based on an intensive communication process between the entrepreneurs and the newly hired staff. The recruits went through an apprenticeship either directly with Arthur E. Andersen or with one of the senior staff members. Thus, hiring and training ensured a workforce following Andersen and DeLany’s business vision. In particular, being apprenticed under Arthur E. Andersen himself or one of the senior accountants had a particular function. It did not only serve for conveying knowledge to the recruits about the new methods and accounting tools, or for growing accountants that could be trusted to follow the accounting standards that Arthur E. Andersen had developed. Similarly important, the close apprenticeship built the basis to bring up accountants that internalize the founders’ vision. That is providing professionalized accounting services of a high quality by sticking to integrity and honesty. During the first years, Andersen, DeLany & Co. grew rapidly.

With more accountants entering, Andersen as a firm experienced several events questioning its business conception and therefore, the cohesion of the company. In 1918, disagreements occurred between the two founding partners Arthur E. Andersen and Clarence M. DeLany. DeLany resigned as a partner. Arthur E. Andersen continued and dominated the company’s policy in the following years. Not much is known about the relationship between both founding partners. According to Leonard Spacek, DeLany and Andersen had different business visions. While Clarence M. DeLany represented more the traditional style of being a bookkeeper, Arthur E. Andersen represented a new generation of accountants willing to extend the business and building a larger cooperation guided by professional principles ensuring the quality of the service. One might ask if the understanding of two accountants about their accounting profession can grow so different that one partner resigned from a joint business after five years, or if there were personal reasons between the both that might explain much better the departure of DeLany.

It cannot be said for sure what the true reason was for him resigning. However, the disagreement about their visions of the further business activities is very likely a strong candidate. There are some good reasons in favor of this argument. First, the two men’s understandings of how to do the accounting business were not just two different ideas. Arthur E. Andersen’s ideas were based on a new paradigm. He strongly believed that high quality service could be provided through a professional trained workforce applying sophisticated accounting methods and guided by strongly established principles such as integrity and honesty. This was fundamentally different from the traditional understanding of the accounting profession upon which DeLany relied. Second, by the time DeLany resigned the company had grown tremendously. Hence, it must have become increasingly obvious to Clarence M. DeLany that Arthur E. Andersen imagined something different than an accounting company with an organizational structure of traditional bookkeeping firms. Similarly, the dispute between Arthur E. Andersen and his brother Walter are likely to trace back to differences regarding the business operations, though there is barely anything known about the particulars (Wartzman 2002).

Arthur Andersen & Co. as the firm was called after DeLany resigned faced a second crisis with Arthur E. Andersen’s death in 1947. Similar to the discrepancy between the founders, this crisis was also rooted in different understandings about the business concept. In particular, the partners of the firm disputed about the organization’s decision structure. Though they were highly independent in running their local offices, they were not regarding the general policy of the company under the dominating leadership of Arthur E. Andersen. According to George Catlett and Harvey Kapnick, the main dispute after Arthur E. Andersen’s death turned around the question who is going to manage the firm (Wartzman 2002). This was so important because this position would have accumulated a significant
amount of decision making competence in one hand if it continued with the existing organizational structure. That would have implied that the upcoming management is able to determine the firm’s policies even against a majority of its owners, i.e. the partners. Since an individual partner could only depart by paying a high penalty, the partners were bound to the firm. Partners feared to be compelled as they follow a firm strategy not being in their favor. The only alternative would have been to break up the partnership completely. Thus, behind the question of who runs the firm was the more general question of which business approach they should follow – the New York or Chicago office’s one. That was either to keep the authority and control over the firm in one hand, or to involve the partners to a larger extent in determining the firm’s policy. The debate diverged the partners. By voting to break up the firm, the partners reached the climax of their dispute. Only after they agreed to reverse this decision one day later, the organization was given a new chance to stay in the accounting business as partnership speaking with one voice. Specifically, the same night of the break up voting, a group of partners crafted a plan aiming to hold together the company. This arrangement contained some significant changes of the organizational structure. As central point, it comprised the transfer of decision-making responsibility to the other partners. The partners got more real authority. The structure changed from being dominated by a single entrepreneur (Arthur E. Andersen held more than 50% of the votes) to an organization with equally divided responsibilities regarding the firm policy. Each partner got one vote. Further, they agreed to keep the one voice policy. But what the one voice meant was now dependent on the majority wishes of the partners and not on the idea of a single person. Decisions about the firm policy would be based on the principle of “one partner, one vote” (Squires, Smith, McDougall and Yeack 2003, p. 42). The partners accepted this arrangement the next day. This change did not only prevent Arthur Andersen & Co. from breaking up, but rather built the basis for further growth. In the following years, “Arthur Andersen & Co.” went through an enormous growth (see figure 1).

![Arthur Andersen 1913](image)

**Figure 1 – Arthur Andersen’s growth after founding**

*Discussion of the Arthur Andersen case*

Founding a firm is an entrepreneurial act. The founder has a business conception in mind and is convinced of being able to set it up successfully. The business conception basically comprises two aspects. First, there is a product or service new to a certain market environment. It is expected to meet or raise sufficient demand. Second, the entrepreneur imagines a certain way how to run and coordinate the business operations. Developing an idea about a firm’s coordination is as important for entrepreneurship as having a vision about the
products and services. Hence, an important issue is how an entrepreneur influences the business conception to the firm members. The founding process of Andersen, DeLany & Co. reveals these two crucial aspects in a firm’s early stage. Arthur E. Andersen and Clarence M. DeLany had a clear business vision in mind comprehending a number of highly innovative features. And they created an organizational setting ensuring that the workforce shares their understanding of the business vision. Andersen and DeLany developed an appropriate strategy to match their business vision with a supporting organizational structure. Hiring processes and training were designed to instill a commonly shared understanding about the new accounting methods and professional standards developed by Arthur E. Andersen. The aim of this strategy was to enable the firm’s accountants to meet their professional responsibility by following these methods and standards. Thus, Andersen’s entrepreneurial contribution does not only comprise the innovation of accounting methods but setting up and running a firm organization that successfully applied the new developments. In particular, the founding process intended carefully creating coherence in the understanding of the business concept between the entrepreneurs and the employees. Building coherence in a venture means for the entrepreneur to assure that the co-founders, managers, or employees perceive the business conception and the related procedures and rules in the same way. Otherwise, unintended misinterpretations in the meanings tend to undermine the founding process and therefore a successful takeoff. Andersen and DeLany did so by matching their new ideas about accounting with an organizational concept including particular hiring procedures, training and apprenticeship. This close relation with the new staff comprised intensive daily communication that facilitated the emergence of organizational coherence. Creating a coherent perception among the firm members about the business concept appears to have been a key endeavor of the two entrepreneurs during founding.

Entrepreneurial concern arose as diverging ideas regarding the business concept occurred within the company. In some cases, different views may stimulate specific modifications necessary due to changes in the business environment. Then the entrepreneurial activity focuses on the adaptation to those market challenges. However, different views also may undermine the actual business concept. In this case, diverging ideas are likely to erode the established coherence of the firm organization. The entrepreneur’s reaction aims then to dispose the violating source. Different strategies are observable in firms to do so: lay off a person, isolate a person, reduce a person’s influence, convince a person, or restructure the company.

In a growing organization the coherent understanding about the appropriate business conception declines. Alternative concepts emerge. This situation demands a solution. In the case of the firm Andersen, DeLany & Co., the resignation of the partner with the less innovative and more traditional business conception solved this conflict. The firm was then named Arthur Andersen & Co.. In sum, during the first few years, the two founders led the growing firm. With continuing growth, it became obvious that the increasing size of the workforce could not be coordinated in the traditional style. In other words, it was only Arthur E. Andersen’s new business concept with its strong principles and mature accounting methods that opened new perspectives for organizing an accounting business allowing the firm to grow. Any attempt to stick with the old style of bookkeeping hindered the growth from an office firm to a corporation. Thus, only DeLany’s resignation made it possible to grow further in the same pace. This example shows how a disagreement about the firm’s business concept hampers the company’s growth. It becomes clear from the Andersen case that it is not only the concept itself that affects the successful development of a firm. The level of agreement about the concept has a crucial impact too.

Similarly in 1947, the conflict after Arthur E. Andersen’s death revealed one major source of the conflicts. This were the controversies about the right strategy of the firm. A conflict
occurred between the partners. These events questioned the unity of the business operation and therefore jeopardized the cohesion of the company. The second crisis shows that the growth of the firm had led to a stark decline in the shared agreement about the company’s organizational concept. It became obvious with the founder’s death and the successor discussion. This crisis illustrates very clearly that the organizational change was the decisive point for further growth. Otherwise the company would have broken up. The example is unique in the sense that the decision to split the company, which would have meant a decline in size, was already made. It was the leadership of some few partners to provide a solution that reestablished the company’s unity. The key reason for the general commitment to the new arrangement was the fact that the plan determined crucial changes that reflected the size of the firm and the needs of the partners. The plan was an arrangement on which all partners could agree. Hence, it regained the commonly shared agreement about Arthur Andersen & Co.’s business concept. Interestingly, the new concept did not compromise Arthur E. Andersen’s initial business vision. It only changed the organizational setting to realize the vision under the conditions of a grown company.

Concluding this case, the early development of the firm Arthur Andersen reveals crucial insights of the processes a company faces as it grows. First, the results show that conveying a business vision is a central part of the entrepreneur or management’s endeavor in coordinating the firm. This kind of coordination is a neglected dimension in the economics literature on organizations that predominantly focuses on incentive structures. The Andersen case, however, exposes that entrepreneurs get actively involved in shaping the workforce’s perceptions regarding the business concept. Arthur E. Andersen and Clarence M. DeLany introduced some few organizational practices that decisively shaped the behavioral patterns of the accountants working for the company. Arthur E. Andersen had developed a set of principles to ensure a firm-wide high standard of professional services. The two founders required any new entrant to run through a firm internal apprenticeship program guided by one of the partners. The founders did not only instruct the professional accounting practices but also instill the key values of the firm such as integrity and honesty, and promoted the company’s one voice approach. This way, Andersen and DeLany induced their business conception. They ensured that the newly hired accountants learn how to achieve Arthur Andersen’s high standards of professional accounting services. Similar to the Southwest Airlines case, the entrepreneurs are extensively involved in influencing the firm members’ interaction and working patterns.

Second, the Andersen case reveals the existence of a development process with different organizational stages. The driving force behind this process appears to be the coordination of the increasing workforce. The growth in turn increases the probability that competing business conceptions emerge such as the differences between Arthur E. Andersen and Clarence M. DeLany. They were solved by DeLany’s resignation. The conflict can be interpreted as one example of Arthur E. Andersen’s struggle for keeping coherence about the business concept within the firm organization. He succeeded. The organizational structure did not change. The firm continued to grow what would have been less likely if DeLany’s traditional concept of doing the bookkeeping business had dominated. Thus, the attempt to create a commonly shared understanding about the firm’s business conception facilitates growth. But it became increasingly harder to instill a shared understanding. Alternative business conceptions occurred. Consequently, discussions among the partners about the appropriate strategy emerged. Disagreements became increasingly intense. This finding is also in line with the results of the first case study.

In sum, the firm’s organizational structure was closely connected to the coordination problem that the management faced. As long as the company had not reached a certain size, Arthur E. Andersen’s concept dominated the firm. His dominance was so strong that it even suppressed
some alternative ideas of how to run the firm. After the firm went through a considerable period of growth, the diverging business concepts were about to split the firm. A crucial change of the organizational structure overcame the conflicting understandings between the partners.

**The Siemens case**

Assessing the development of other companies reveals remarkable similarities to Arthur Andersen & Co. regarding the obstacles firms meet during the founding process and as they grow. To better understand the occurrence of conflicts, it may be worth to scrutinize more closely the relationship between the main protagonists of a venture. Of particular interest is the question of whether the conflicts between the entrepreneurs relate systematically to the business activities. We analyze this issue by considering the establishment and early development of the firm Siemens. However, the main focus in studying Siemens is on understanding how a business conception emerges, and on the processes through which an entrepreneur runs till the idea finds its expression in an organizational form. Then, we investigate why conflicts occur even though the founders had carefully established the firm’s organizational approach.

Werner Siemens, Johann Georg Halske and Johann Georg Siemens founded the “Telegraphen-Bau-Anstalt von Siemens & Halske” in 1847 (Weiher and Goetzeler 1984, pp. 10). The decision for jointly establishing a firm came a long way. It followed a number of critical insights Werner Siemens had gained during the years preceding setting off this venture. His reflections comprised the technological field in which to get involved, and the appropriate organizational framework to carry out such an entrepreneurial project. It took him several years conceptualizing about an organizational form that fits best for systematically developing and successfully exploiting his technological inventions. Alone to come up with a decision about the technological field in which he wanted to get involved took several years. The following analysis focuses particularly on how specific events shaped decisively Werner Siemens’s vision about both the appropriate technological field and the organizational form of an enterprise.

After his studies of engineering and science at the Military Academy in Berlin from 1835 through 1838, Werner Siemens enthusiastically conducted a number of technical experiments in various fields (Feldenkirchen 1996, pp. 50). He was obsessed with the idea to invent new technologies with potentially high selling prospects. But it was not before 1844 that he considered doing research in a systematic way would arise the chances for successful discoveries. In the summer of this year, Werner Siemens visited his brother Wilhelm in London (Siemens 1889/1956, pp. 36; Feldenkirchen 1996, p. 52). During the several-week stay, the two brothers intensively worked on different projects. But instead of following a systematic research approach, their activities could be better described as invention hunting (Siemens 1889/1956, p. 38; Heintzenberg 1953, p. 26). As Werner Siemens was traveling back via Paris visiting the French Industrial Exhibition of the year 1844 in Paris, he realized that conducting systematic research in one field is more promising than selectively getting involved into various technological areas and experiments (Siemens 1889/1956, p. 37; Feldenkirchen 1996, p. 52). It must have been under the impression of both the rather unsuccessful weeks in London on the one hand, and the large assortment of high-tech exhibits in Paris on the other hand that changed his perception of how to achieve technological developments leading to lucrative products.

Back in Berlin, Werner Siemens immediately (Siemens 1889/1956, p. 38) started to redefine his strategy. In a letter to his brother Wilhelm Siemens he noted on April 2, 1845: “I could

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6 Werner Siemens continued to actively serve as officer in the Prussian army until 1849.
notify you about a number of new … ideas that I partly learnt from others, partly discovered myself … Yet, I think, we have taken up enough so far, and should go through with one thing for now.”7 This reflects the decision to concentrate on specific rather than different unconnected technological developments. In doing so, Werner Siemens intensified pursuing physical studies and electrical experiments (Siemens 1889/1956, p. 38; Feldenkirchen 1996, p. 53). As a result of his endeavor, he got increasingly interested in the research in one particular field; that is electrical telegraphy. Werner Siemens also actively participated in discussion meetings of the Berlin Physical Society, that he had co-founded in 1842, and of the Polytechnic Society (Kocka 1969, p. 56). There, he gave lectures on his research and produced a number of publications. This way, he became closely connected to the technological (manufacturing) business and academic community in Berlin (Siemens 1889/1956, p. 40). Werner Siemens gained an overall insight into the actual developments in science and technology (Siemens 1889/1956, p. 40). This helped him to intensify his engagement in research on electrical telegraphy.

The relevance of electrical telegraphy for the future of the communication infrastructure became increasingly apparent. Major breakthroughs in the 1840s had improved the applicability of electrical telegraphy and its reliability in transferring information (Feldenkirchen 1996, p. 62). Therefore, the new communication technologies have developed into an important factor for the rapid industrialization and economic growth since the mid 19th century (cf. Kocka 1969, pp. 44; Kocka 2001, pp. 44). However, the driving forces for the dynamic developments in the telegraphy industry do not solely base on the economic upswing in these years. Independent of the demand of the private sector, Prussian’s military administration had a strong interest in the new technology, particularly after it got to know some innovative developments in 1844 which had the potential to replace the optical telegraphy system that was in use till then (Kocka 1969, p. 48). As a result the military administration facilitated the research for applicable and fast communication technologies. Similarly, the new communication technologies drew also the attention of the railway administration (Kocka 1969, pp. 48). This strong interest of governmental organizations was by no means a Prussian phenomenon. The administrative bodies in numerous countries began to build state telegraph networks in the 1840s. These developments produced a rapidly growing demand for electrical telegraphy equipment which was to a large extent decoupled from business cycles and market instabilities, and provided therefore a potentially stable source of income.

Recognizing the promising future of the emerging telegraph industry, Werner Siemens incessantly worked on a number of improvements in telegraphy. In 1846 he succeeded with a groundbreaking improvement of the pointer telegraph (Siemens 1889/1956, p. 42; Feldenkirchen 1996, p. 62; Feldenkirchen 1997, p. 25). He asked Johann Georg Halske, master and co-owner of a company in precision mechanics, Boetticher & Halske, to assist him in developing the innovation into a marketable product (Kocka 1969, pp. 56). Werner Siemens placed a contract with Halske’s firm in early 1847. He notes in a letter, dated January 4, 1847, to his brother Wilhelm: “With the mechanics Boetticher and Halske, two inspiring and well-trained men, I sorted things out regarding the telegraph yesterday. I authorize them to produce the [telegraphs].”8 As Werner Siemens mentioned in the same letter, it was his intention to arouse interest in Halske and Boetticher for his developments (Heintzenberg

7 Original: “Ich könnte Dir mehrere neue … Sachen mitteilen, die ich teils von anderen erfahren, teils selbst gefunden habe … Doch ich denke, wir haben für jetzt genug angefangen und müssen erst mal was zu Ende bringen.” (Heintzenberg 1953, pp. 19).
Therefore, the contract with them was designed so openly that it leaves both sides large freedom to withdraw from the project when they felt uncomfortable with the progress.

Indeed, Siemens and Halske shared a common enthusiasm for the technological and scientific discoveries of their time (Siemens 1889/1956, p. 42). They enjoyed fostering the development of innovative technical solutions. Halske and Siemens met for the first time in 1845 (Weiher 1966, p. 572). The two belonged to the Berlin Physical Society (Physikalische Gesellschaft zu Berlin). When Werner Siemens made his major invention in telegraphy, he could persuade Johann Georg Halske to start off a new entrepreneurial venture. Halske must have felt largely convinced about this new project as he broke up the co-ownership in his current firm to get fully involved with the company “Siemens & Halske”. Even as Siemens decided not to depart immediately from his military positions, Halske take over to coordinate alone the work at the shop floor.

The company Siemens & Halske was a fast growing company (see figure XX). They broaden their range of products dramatically during the following years. That includes the installation of large telegraph networks through Europe and later from Europe to North America and India. Siemens & Halske was doing research in the field of electricity generating machines and improving its applicability over the years. Enormous technical improvements generated rapidly growing markets with increasing sales of electrical equipment both for private users and industrial purposes as well as for public investments.

The management and organizational structure in the early years of the enterprise were determined by the founders’ personal characteristics. Werner Siemens was a driving entrepreneur permanently seeking for new technical discoveries and new markets. Although he seemed to represent a somewhat patron-oriented style of leadership (Weiher and Goetzeler 1984, p. 20), he was nevertheless willing to delegate responsibilities (ibid., p. 8). He assigned his younger brother Carl Siemens with the management of the Russian business (ibid., p. 12). When this venture turned out to be successful, he handed over the full responsibility of the Siemens & Halske subsidiary in St. Petersburg to Carl Siemens. Similarly, the brother William (former Wilhelm) Siemens was put in charge for the London agency. Johann Georg Halske in turn favored a kind of traditional master-employee relationship on the workshop basis where the master nurtures the skills and supervises the outcome of the individual workers (ibid., p. 17). Halske was an entrepreneur in the sense of permanently looking for innovative technical solutions, but not in overtaking high risks for large new ventures. Insofar Werner Siemens and Johann Georg Halske relied on two different approaches about how to lead a firm. However, both conceptions were rather complementary than contradictory during the first years. Johann Georg Halske was developing the marketable technical solutions for those discoveries Werner Siemens came up with.

In the following years, Halske’s and Siemens’ business conceptions lost more and more its complementarities. Rather they became increasingly contradicting. The company represented a typical example for the crucial transformation processes which took place when an enterprise faces enormous growth. The changes of the organizational structure in the firm Siemens & Halske started in the second half of the 1860s. When the British subsidiary went almost bankruptcy due to two failures in laying submarine telegraph cables through the Mediterranean, Werner Siemens spent private capital for saving the venture while Johann Georg Halske resigned from the management of this subsidiary in 1865 (Weiher and Goetzeler 1984, pp. 14). In 1867 Halske withdrew fully from the Siemens & Halske company (ibid., p. 17). Appreciating to organize work by the principles of master craftsmanship with a high level of individual skills and precision in a workshop environment, Halske was dissatisfied to see how this approach was replaced by the introduction of piecework and mass production in risky ventures. The shift from a system of master craftsmanship to a company
based on technical engineers was a fundamental transformation. The system of workshop staff supervising masters changed toward an organizational approach of engineers with an academic apprenticeship and managerial capabilities. They were searching for industrial innovations and developing new fields of technology. These engineers constituted also the newly established group of middle management who were acting between the directors and the increasing number of employees (ibid., p. 17). In fact, this transformation means that Werner Siemens’ vision of the enterprise succeeded. A crucial point of this case study is the asserting of one business conception. As long as there were two competing business conceptions, the company’s growth was moderate. The internal coherence was lacking. Only after one organizational concept succeeded, the company grew further. This is shown in Figure 1. The growth rate increased with Halske withdrawing from the firm.

Weiher and Goetzeler (1984, p. 20) note that Werner Siemens was a patriarchal entrepreneur, although this kind of attitudes seemed to disappear more and more since 1871. However, he was willing to transform the growing organization into a divisional company. Key responsibilities were delegated to the adequate departments. Remarkably, a lot of crucial breakthroughs took place after this organizational restructuring. Even if the successful growth depended on the firm’s capacities in R&D and marketing, on the external developments, and on the ability to build up scale effects using plants, the firm Siemens & Halske could primarily exploit those opportunities due to the willingness of its owners to change the organizational structure. As seen above, this transformation process based on the assertion of a certain organizational concept. The fact that both founders Johann Georg Halske and Johann Georg Siemens withdraw in a non-conflicting way from the company shows that the entrepreneur Werner Siemens seems to manage the firm predominantly by convincing people of his ideas.

Figure XX – Siemens’ growth after founding

Discussion of the Siemens case
The Siemens case provides an important insight in the way an entrepreneur comes to grips with a business conception. In the beginning of his entrepreneurial activities, Werner Siemens were primarily involved in invention hunting. As he became clear that this strategy would not turn out to be successful, his entrepreneurial activities were focused on one field. He got involved in electrical telegraphy which was a promising technology at that time. Inventing telegraphic devises, developing applications and finding partners for manufacturing the innovations, Werner Siemens became a main player in this industry. Despite all of this, it took him a very long time deciding to set up an own company. This case reveals that translating a business conception into a workable organizational approach is a time-consuming process. After long reflections and different involvements in partnerships, Werner Siemens created finally an organizational structure that allowed him to carry out his business conception effectively.

Although Werner Siemens took off his venture after intensively reflecting about its prospects, assessing other options, and after carefully crafting the organizational practices, the firm could not escape from challenges as it started to grow. Similarly as in the other two cases, differences about the appropriate business concept occurred among the founders. As a result, the organizational practices changed following Werner Siemens approach of coordinating the business. Johann Georg Halske resigned. This way, the firm’s organizational practices changed to effectively cope with the expanding operations. In sum, the three case studies present the central impact that an entrepreneur’s concept has for the emergence of particular organizational features shaping the behavioral patterns. The effectiveness of the procedures is
based on the workforce’s commitment toward the procedures. The procedures may change as internal forces or market developments challenge their effective functioning. To effectively change the procedures it is crucial that the entrepreneur reestablish a common understanding among the workforce regarding the redefined procedures.

### 4.2 Contemporary case studies

Organizational routines may emerge when self-employed business entities transform into multi-person firms. In this paper we focus on the role of entrepreneurial leadership in this emergence of organizational routines, and the subsequent evolution of these routines. We especially focus on how one particular aspect of firm growth, spatial expansion of the firm, affects the intra-firm diffusion or perhaps even creation and evolution of organizational routines.

We have analysed the life course of six young fast-growing firms (see figure X with their growth paths) in order to uncover this particular role of entrepreneurial leadership. The analysis revealed that during the early growth of firms there is a lack of formal structures and procedures, which can be substituted/compensated (in a governance sense) by strong cognitive leadership (informal structures, routines). Such an entrepreneurial regime, in which employees are predominantly intrinsically motivated and the organizational routines are reinforced by cognitive leadership of the entrepreneur is liable when the firm organization continues to expand, especially when the firm organization becomes spatially dispersed.

Figure X. Growth paths of the young fast-growing firms

In some cases the cognitive leadership continues to remain a powerful way to coordinate and motivate the employees of the firm. There seem to be two mechanisms/ways in which this cognitive leadership is effective: first, a distinctive business conception and effective communication to and between employees which enables collective learning and innovation
in the firm organization; and second, a distinctive vision of the entrepreneur and strong rhetorical power by which employees are attracted to and retained by the firm.

The first mechanism facilitates a firm organization in which the employees are involved in a collective learning process. Cognitive leadership substitutes for face-to-face control in central location; i.e. enables successful virtual organization of the firm (employees working at home, at customer, and possibly/occasionally at firm location) MOTIVATION. This is also possible with two organizational layers: divided entrepreneurship; in which the founder-entrepreneurs motivate the ‘unit-entrepreneurs’. However, cognitive leadership does of course not substitute for the necessary (face-to-face) transfer of tacit knowledge in product development, but advanced information and communication technology (e.g. intranets, teleconferencing) may facilitate (long distance) knowledge exchange and collaboration.

CONFLICT BETWEEN MEMBERS OF ENTREPRENEURIAL TEAM!??

The second mechanism facilitates the attraction (, absorption?) and retention of human resources to the evolving firm. This mechanism does not lead to innovation by groups of firm members: innovation is more likely to be initiated by the entrepreneur(ial team)). With the activation of this latter mechanism, the cognitive leadership of the entrepreneur may become less important for the coordination of the firm, as more formal structures and routines are designed and implemented in order to improve the firm-internal organization processes of the firm. The cases in which this mechanism tend to dominate, the leading firm members were more and more motivated by financial incentives (higher salaries and shareholdership) instead of just intrinsic motives.

Lack of cognitive leadership constrains the effective coordination (and intrinsic motivation) of new (greenfield and acquired) branches (on a long distance)

TO BE COMPLETED

5. Discussion

TO BE COMPLETED

6. Conclusions

TO BE COMPLETED

References:

TO BE COMPLETED


