TITLE

HELP OR HINDRANCE?

THE ROLE OF SOCIAL NETWORKS IN THE START-UP AND DEVELOPMENT OF LOW TECHNOLOGY AND LOW CREDIT SMALL BUSINESSES IN PORTUGAL

Mafalda Reis Janela Cardim

London School of Economics and Political Science

PhD in Sociology

ABSTRACT

This thesis evaluates how the social capital embodied in social networks influences the performance of small businesses. Specifically, it assesses whether the use of social networks is beneficial or detrimental to the development of the business. It is based on the analysis of a sample of 42 Portuguese small business partnerships in the furniture and graphic arts industries. To assess the social determinants of failure and success, I sampled a population of businesses according to their performance, and systematically compared their histories. The method of data collection, the narrative interview, focused on the development of businesses from their start-up in 1993 until 2000, when the data were collected. I find that the use of social ties is essential for the start-up and survival of businesses. Once this first stage of business development is overcome, however, there are two negative impacts of social networks. At the second stage of development, the dependence on social networks stifles growth. Ventures that desire to grow have to become independent from their social network, and have to rationalize production. A further negative effect arises from malfeasance within the partnership, which often condemns the business to failure. The thesis concludes that while social networks are essential in the early stages of a business, they later often become detrimental to its development, and can even be the leading cause behind a business's demise.

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PART I

INTRODUCTION

1. THE MOTIVATION FOR THE STUDY

When I interviewed Jorge[1] in 1999, I was far from guessing he would be jailed for drug traffic offences in Spain and the murder of three police officers in Portugal two years afterwards. A son of a furniture maker, Jorge started a business in 1993 with two friends of similar occupational origins. What brought Jorge from a business start up to jail?

Jorge's story highlights the research question in this thesis (and its underlying themes). He was born to an entrepreneurial background. Without much education, he decided to start his own business, separate from his father's. He co-opted his two best friends into the venture. Without any funds, the three young men convinced local wood and machinery dealers to lend them the resources they needed for the start-up. Shortly after they started producing furniture, the three entrepreneurs began to have strong disagreements about the management of the venture. All three treated the business account as their personal resource - a function of their status needs. As a result, after three years, the business went bankrupt and it was closed down. Yet, Jorge went on to start a new business in the same location, with the same machinery and the same suppliers. He re-built his reputation and became a well-known entrepreneur in the area (so much so, that he started two other businesses, a restaurant and a bar).

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[1]The names of all those interviewed and/or associated with the businesses have been changed. See Appendix I for a list of names and businesses.

Jorge's entrepreneurial dealings always serviced the lifestyle and expectations he attached to 'being an entrepreneur'. He made vast use of his social connections, which he operated to fulfil the gaps in his resource portfolio, and ultimately to bring him home to middle-class living. Having waited four hours to interview him, I finally saw him arrive to his rather bleak factory location in a flashy four-wheel drive. The factory had tin roofs, hanging electricity cords, cement walls, and looked unfinished, but it was operational and profitable. As for so many other business people, the flashy car epitomised what it meant to be an entrepreneur – an icon that ultimately justified tin roofs, shady deals, cheating on a friend, and embracing illegality.

During the interview, Jorge - who had been initially reluctant to talk - was very loquacious about his achievements. He saw in me a pair of attentive ears and he engaged easily in a narrative about how he got this and that, who had helped him, and when. As with many other interviewees, he traded his information for my attention to his success. Soon, it became apparent he was a man of the area. He stated repeatedly he knew 'everyone' and later I found 'everyone' knew him. His deep local roots were at work for his business. However, if in some instances, Jorge's use of social networks was highly beneficial to his entrepreneurial activities, in other instances, it was blatantly harmful. Jorge's dependence on his social networks combined with his high lifestyle expectations and his disregard of the possibility of legal punishment, ultimately lead to his arrest. That brings me to the objective of this thesis: To understand when and why the use of social connections can compromise or improve the success and growth of a business.

2. An outline of the thesis

To answer its main question, this thesis focused on the more specific question: 'How did Portuguese entrepreneurs of the furniture and graphic arts industries make use of their social relations to maintain their businesses throughout the period of 1993 to 2000?' Chapter II explains why I chose to focus on businesses in Portugal that are small, are constituted as partnerships, and operate in the low credit and low technology furniture and graphic arts industries. The Chapter also clarifies the methodological framework behind this thesis. The analysis is based on a case controlled study, which sampled on business performance (the dependent variable). The dataset consists of the full narratives of 42 businesses and includes approximately equal amounts of businesses that had already failed, and businesses that were still running at the time of data collection. The data was collected in 2000, seven years after the start of the ventures in the sample. The method of data collection was the narrative interview of at least one of the entrepreneurs, which was used to elicit the stories of the businesses. I will defend these methodological options in Chapter II. Aside from justifying the research strategy I used, Chapter II serves a further purpose: it informs on the validity, appropriateness, and shortcomings of different research techniques, when applied to the process of research behind this thesis.

In the remainder of Chapter I will briefly review the literature and state the research questions and hypotheses, which together with Chapter II outlining the methodology, will form the first part of this thesis. It is intended to set on a firm grounding the theoretical foundations of this research. The second part of the thesis then turns to the analysis of the first stage of the business: its formation.[2]

The second part of the thesis consists of Chapter III. It presents the subject of the thesis: the entrepreneurs. It addresses not just who they are, but also more specifically how it was that they decided to start a business. The act of creating a business and the conditions that surround it are often a crucial determinant of the business's future success. When they started their businesses, the entrepreneurs in my sample had some resources, but lacked many others. In obtaining what they did not have, they used their social networks to find the needed resources and to 'co-opt' these into the venture. This 'co-optation' (Starr and MacMillan 1990) came attached with contracts (explicit or implicit), which moulded the start and development of the business and often conditioned its performance far into its life.

This discussion in Chapter III leads to the first main finding in this thesis: not only is the use of social networks prevalent, but it is also instrumental to the start-up of the business in low credit and low technology conditions. In all of the businesses that I interviewed, social networks were essential both to the start-up and survival of the business in its initial stages. They are the sources of credit, supply relations, clients and even of the partners that own and run the business. The way in which these networks were used, the specific resources that were found through them, and especially the contracts that they entailed, were both very diverse and often surprising.

[2] In this thesis, I refer to two stages of business development. The first is the initial implementation stage that can take up to five years. The second is the stabilization phase. On this issue, see also: Olsen, Bjorn, and Lars Kolvereid. 1994. "Development of new ventures over time: strategy, profitability and growth in new Scandinavian firms." *Entrepreneurship and Regional Development* 6:357-70..

The third part of this thesis, consisting of Chapters IV, V, VI, and VII, examines the performance of the ventures after the initial start-up stage has passed. At the second stage of business development, social networks come to perform different roles. For many companies, the dependence on the social network confines the business to reciprocity exchanges (Portes and Sensenbrenner 1993) or to a gift economy modus operandi (Mauss 1954).[3] Honouring the implicit contracts formed in the start-up of the business implies keeping a mode of production, suppliers, and creditors, which become obstacles to growth. The entrepreneurs, constrained by their set of contracts, choose to put the community's welfare above the profitability of the enterprise. The community in turn keeps the venture alive. Businesses will not fail, but they may not grow either, since the set of obligations and opportunities by which they operate prevents either outcome. Chapter IV describes the companies that make survival their main aim.

Other businesses fail. Most entrepreneurs have a strong desire for upward mobility in starting up their businesses. When the companies reach a standstill that does not produce the great earnings expected, they embrace a suicidal strategy. They opt for reaching the lifestyle they aspired to immediately, borrowing from the future, and taking managerial options that favour present consumption at the expense of future earnings. This invariably quickly leads to malfeasance in the strong ties of the partnership. The entrepreneurs embezzle the company, breaking the trust contract with their partners, and

[3] The concept of gift economy is used here as defined by Marcel Mauss. No gift is a 'free' gift as all gifts are bound to some sort of reciprocity. It is only when the retribution principle is in operation that the true function of the gift - the strengthening of community ties - is being served
Mauss, Marcel. 2002 (1954). *The Gift: The form and reason for exchange in archaic societies (with a foreword by Mary Douglas).* London: Routledge..

inevitably leading to the demise of the venture. These cases of failure are the subject of Chapter V and VI.

Chapter VII deals with the cases of business growth. Most entrepreneurs found that breaking from parts of the set of obligations tied to their social network was the essential step to ensure growth. By operating outside of the bounds of their social network, entrepreneurs could improve the business by rendering it more efficient. This was accomplished by rationalizing the production process, the space in the factory, the timings of production, or the incentives given to workers. These changes led to a reliable path to growth.

Therefore, three different outcomes are the product of three different settings for the social network at this second stage of the business: 1) gift economy leading to survival, 2) malfeasance leading to failure, and 3) independence from the network and rationalization of production leading to growth. Chapters IV to VII present each of these in turn.

Chapter VIII ties the different parts of this thesis together. It shows how the combination of the theoretical framework and the methodology in the first part of the thesis, together with the analysis of the first stage of development in the second part, and the analysis of the second stage of development in the third part, combine to answer the research question. This answer in turn informs many different issues raised throughout the thesis that are brought together in Chapter VIII. In sum, the message that emerges from this thesis is that social networks have a manifold effect on the business – in the beginning, they serve to overcome constraints, but in a later stage, they are often the main source of constraints to the growth of the venture.

CHAPTER I – LITERATURE REVIEW

1. Introduction

The research question that motivates this thesis breaches different literatures both within and outside sociology. Throughout the text, therefore, references abound, as I draw tools from some literatures, compare my findings with those of others, and relate my conclusions to existing debates. In some ways, it is not appropriate to call this a literature review section, for the relation within the literature pervades this entire thesis. Still, this section aims to provide an introduction to the different literatures that provide the background for this thesis.

My research question is directly concerned with the study of entrepreneurship. The first part of this chapter is therefore devoted to discussing the main approaches to the study of entrepreneurship, their features, proponents, strengths, and limitations. I shall begin by defining entrepreneurship, a subject that has a long and fascinating literature with a significant contribution by Joseph Schumpeter (1951). Following Schumpeter's definition (1951) of an entrepreneur, I define a new business as an organisational structure that combines old elements in a new way. But as Steyaert and Katz (2004) argue, entrepreneurship is a sequence of actions linked to the act of starting a business, and a process that is heavily dependent on the entrepreneur's networking skills, as Birley (1998c) suggests. Although a substantial strand of research focuses on the psychology of entrepreneurs, I agree with Schumpeter (1951) and Birley (1998a) in seeing entrepreneurship more as a process of construction of a resource portfolio than as a set of personality traits describing an individual. Consequently, I follow Scase and Goffee (1982) in treating entrepreneurs as people for whom their business is a vehicle for upward mobility towards a middle-class standard of living. As Scase and Goffee report, the social backgrounds of entrepreneurs are an important part of their resource portfolio so part of my research will examine the way this influences the kind of businesses they form and the way they are managed. To my surprise, this will also lead to an analysis of the relationship between small business and crime, a theme that emerged only after I began the fieldwork (Chapter VI).

The process of entrepreneurship consists chiefly of bringing resources into creating a new entity, the business. In the second half of the chapter I review the rapidly growing literature on different forms of capital, starting with Bourdieu's (1986) valuable distinction between four types of capitals: economic, cultural, symbolic, and social.[4]

This thesis is mostly focussed on understanding the role of the fourth capital, social capital, in the process of business creation. The concept of social capital has quickly become a substantial area of research in contemporary sociology and one of the major aims of this thesis is to apply it to the study of entrepreneurship. Coleman (1988: 302) describes social capital as a set of ties that are 'assets that may provide other assets' in the sense of providing information and facilitating actions. But social capital is broader than this - it allows for the exchange of resources between ties ruled by a set of informal regulations that virtually permit the creation of an enterprise in conditions of resource scarcity. Following Aldrich and Cliff (2003) amongst many others, this thesis will use the concept of embeddedness to describe the connectedness of an individual to the social network around him/her. Unlike much of this literature, which exclusively focuses on the

[4] Economic capital refers to material wealth on which there is a market price tag. Cultural capital refers to knowledge, whether this is formal or informal. Symbolic capital in turn is the result of a process of accumulation of experiences by the individual that lead to a set of rights and duties, and a capital of prestige and reputation.

productive side of social capital, this thesis will evaluate the overall contribution of social ties, both in its positives and negatives. In this, I follow a recent literature pointing to some negative sides of embeddedness. Portes and Sensenbrenner (1993) note that over-socialisation may constrain actions, while Granovetter (1985) notes that strong social ties are fertile ground for malfeasance. Uzzi (1996) analyses the consequences of embeddedness, alerting to the existence of a threshold that marks the limits between positive and negative effects of connectedness. He claims excessive connectedness leads to over-embeddedness. This emphasis on positives and negatives is important since, as this thesis will find, social capital plays diametrically opposing roles in the two different stages of business growth defined by Olsen and Kolvereid (1994): the start-up period and the stabilisation period.

A final link between this thesis and the literature is in the characterisation of the process of obtaining the resources that the entrepreneur does not have but which are required for the business. Starr and MacMillan (1991) describe the process of co-optation, by which social capital is used to obtain access to other resources through the elements of the entrepreneur's social network. This thesis will find surprisingly strong links between the entrepreneurs in this study and the archaic societies studied by Mauss (1954). In both cases, there is a system of "gift exchange" in which resources are offered without an explicit payment in return, but with the implicit obligation that the receiver will repay the favour in the future, and the overall function of strengthening community living.

This existing literature identifies, clarifies, and justifies a series of research questions that inform this research. The last section of this chapter formulates these questions and states the central research question that guides this thesis.

2. Entrepreneurship

Over the past 20 years, researchers have come no closer to agreeing what makes a successful entrepreneurial business. In their diverging debates, they have enriched the field of entrepreneurship with a number of research traditions. Birley (1998b), Low and MacMillan (1988), Bull and Willard (1993), and Martinelli (1994) are some of the many good surveys of the literature on entrepreneurship. In this section I will briefly overview the history of this field and the main trends that have structured it, paying particular attention to the contributions that can inform this thesis.

The term 'entrepreneur' is itself one that has many meanings. It was initially coined in France in the XVIth century and it has ever since evolved alongside the evolution of the division of labour. Initially, it referred to "the captain of fortune who hired mercenary soldiers to serve princes or towns for pay" (Martinelli 1994: 476) but, during the course of the XVIIIth century, it started being applied to economic actors. Cantillon and Turgot were the first to develop a theoretical definition of the role of the entrepreneur. They liken it to the willingness to take risks while engaging in economic activities (Martinelli 1994). Say and Stuart Mill refine the concept by alerting to the difference between the entrepreneurial role and the role of the financier (Martinelli 1994).

While the entrepreneur can help finance a business, he/she is always deeply involved in its operation, unlike the possibly hands-off approach that a financier may have.[5]

However, this wide understanding of entrepreneurship has had to evolve into more qualified views of what is an entrepreneur, just as the entrepreneurial function itself has also evolved. Weber (1927) highlighted the instrumental rationality as the main characteristic of the capitalist entrepreneur. He notes that the birth of the capitalist system relies on a change to a rational and systematic pursuit of profit and on exchanges based on credit as opposed to trust. This process of rationalisation transports the entrepreneur from a traditional *modus operandi* to one ruled by *instrumental rationality* and transforms the business unit (and responsibility over its exchanges), traditionally a family endeavour, into a legally certified entity independent of kin.

Recently, the entrepreneur has been seen as someone who has particular characteristics: a maverick capable of an innovation that changes the course of industry, possessing a distinctive personality trait (McClelland 1967), exercising a function that defines him/her, or having a structural position (Gartner 1985) and often as a combination of some or all of the above (Gartner 1985: 699).

Schumpeter has delivered what is the most enduring and influential definition of entrepreneurship. He defines the entrepreneur by his/her ability to innovate, not his/her control of property, or his/her propensity to take risks. This innovation may be transient and specific to the business, or even just to the time of the start-up, but it is this inventiveness that distinguishes the entrepreneur. The entrepreneur is someone who combines resources in a new way, reshuffling existing resources in order to create

[5] No distinction is made as yet between the managerial and the entrepreneurial functions.

something new (Schumpeter 1951; Birley 1998b; Hite 2000). As a result, the entrepreneurial function is set apart from the managerial function or from the financier function. All these functions are often embodied in the actions of someone in charge of a small business. Management and financing are tightly related to entrepreneurship, even if they are distinct. The managerial function can be understood as a routinization of the insights created by the innovative entrepreneurial function, while the financier function is extraneous to the entrepreneurial function albeit essential to business creation.

This is the definition of entrepreneurship that I will rely on. The focus on the ingenuity of the agent echoes in the population that I study. The majority of the entrepreneurs in my sample started their businesses under less than optimal conditions. Yet, they were not deterred. They relied on some insight on how to combine the scarce resources they controlled in some way that allowed them to produce a new venture. They saw an opportunity to combine the resources of those around them; to apply their craft in an area were it was needed; to apply a new technology to their industry (although this happened much less often); or to create a new product. The characteristic that is common to all of them is their ability to combine their existing resources with their social networks towards starting a business. Because Schumpeter's definition emphasises this ability to combine resources in new way, it serves my purpose of focusing on the way in which entrepreneurs use their social networks to arrange and re-arrange a 'portfolio' of resources.

Bruyat and Julien (2000) have also produced a definition of entrepreneurship that informs my research. They look closely at the variants between the condition of the entrepreneur and the manager by examining the interactions between the individual and the organisation: while the individual creates the organisation, it in turn constrains the individual. Similarly, in my sample of very small businesses, the enterprise is often not a distinct entity from the entrepreneur. The entrepreneur is entirely devoted and absorbed by his/her business, which shapes his/her entire life, and is the vehicle of his/her aspiration.

In analysing the implications of the interaction between the individual and the organisation, (Bruyat and Julien 2000: 174) arrive to an interesting definition of different types of entrepreneurship, taking into account Schumpeter's (1951) warning that entrepreneurs do not form a cohesive social group. Assuming entrepreneurship is a function of two axes - how much value is created and how much the individual will be affected by that change – the authors develop a typology of entrepreneurship. 'Entrepreneurial reproduction' is characterised by little new value creation and little change for the individual. 'Entrepreneurial imitation' implies much change for the individual and little value creation. 'Entrepreneurial valorisation' entails much new value creation and little change for the individual. Finally, the 'Entrepreneurial venture' requires much change for the individual and a lot of new value creation. This typology will inform my classification of businesses in Chapters III through VI.

Steyaert and Katz (2004) question the possibility of ever defining what an entrepreneur is. They favour a view of entrepreneurship as an action, or a collection of different actions. According to these authors, researchers should focus more on the act of entrepreneurship, and less on the entity of the entrepreneur. Furthermore, they call attention to the need to reassess the locus of that action, as it is far more widespread than is currently understood in the literature. They want "(...) to move from the narrow view of the entrepreneur as a speciality – a special person, or competency or situation in space or time – and consider entrepreneurship in terms of a type of action that can occur nearly anywhere, at nearly anytime by nearly anyone" (Steyaert and Katz 2004: 190). In this sense, "(…) communities defining entrepreneurship wherever they see efforts to improve processes, meet needs, and profit even in small ways will find themselves awash in entrepreneurial activity" (Steyaert and Katz 2004: 191).

This view of entrepreneurship is quite reasonable. Nevertheless, it is difficult to implement: if acts of entrepreneurship are present in all instants of life, one must observe and analyse the entire life of all agents. Following Steyaert and Katz, this thesis focuses on treating entrepreneurship as an action (and a sequence of actions constituting a process). Nevertheless, I take a more conservative (and more manageable) definition of these actions, by restricting attention to those that were directly linked to the act of starting the business, and were observed within the boundaries of business creation.

The literature on entrepreneurship does not exhaust itself on the definition of the entrepreneurial function. On the contrary, it has proliferated immensely over the course of the past 30 years, so much so, that at first it may seem chaotic and in lack of internal direction. Gartner (1985) proposes a framework of interpretation of business creation that proves particularly useful in understanding the literature and drawing attention to the main research findings on entrepreneurship. Gartner identifies four different perspectives for analysing businesses. These are: firstly, the characteristics of the individuals who start a venture; secondly, the environment surrounding the new venture; thirdly, the organisation that they create; and fourthly, the process by which the new venture is started. I find Gartner's classification valuable because his four main areas clarify what are the origins of the determinants of business creation. These four dimensions - the individual, the environment, the organisation, and the process - belong to different analytical levels that complement each other. The individual is the agent for the action of business creation while the environment is the setting for the endeavour. The organisation is the objective of the action undertaken by the individual and, finally, the process of business creation involves actions taken by the entrepreneur.

These perspectives in turn are closely related to different research traditions, which focus on the individual and his or her personality traits, on the environment (population ecology), on the organisation, and on the process of business creation, corresponding to the four Gartner perspectives (1985). The knowledge that has been accumulated in all of these traditions informs my analysis, even if I will ultimately choose an approach that analyses business creation from the 'process' perspective.

2.1. The entrepreneur, the agent of entrepreneurship

Early studies of entrepreneurship focused on answering the question 'who is an entrepreneur', as it was thought that the attributes of the entrepreneur could explain who became one. This perspective on entrepreneurship concentrates on the individual, the agent of entrepreneurship, and its main objective is to derive which characteristics make an entrepreneur and which characteristics make a successful entrepreneur. Research on the entrepreneur is mainly focused around the cognitive characteristics (Baron 2004; Ward 2004) of the entrepreneur (independence, motivation, skills, goals, and behavioural patterns) or on his/her social characteristics. I discuss each in turn.

2.1.1. Cognitive characteristics of the entrepreneur

Research conducted on the cognitive aspects of entrepreneurship stresses the relevance of personality traits of the entrepreneur for business creation or business success. The most relevant traits that have been considered are: high need for achievement, an internal locus of control (great need for independence), or a high/low risk-taking propensity. This tradition usually favours a psychometric evaluation of the individual; it studies the impact of personality type on business creation and success. It generally claims that the entrepreneur bears distinctive personality traits that set him/her apart from the rest. I will now turn to a short examination of the merits of the main propositions within this research tradition.

McClelland's (1967) book *The Achieving Society* is a classic illustration of a study that focuses on the entrepreneur's high need for achievement. Similarly, McClelland's (1965) "n Ach" model of entrepreneurship attempts to synthesise the characteristics of the entrepreneur (with a particular focus on his/her motivations) to predict the achievement of the business. Liles (1974) emphasised other personality traits such as readiness, restraint, and the desire (or aversion) to take risks by the entrepreneur. However, Begley and Boyd (1987) find only a small difference between entrepreneurs and managers in regards to psychological attributes such as need for achievement, risk taking propensity, and tolerance of ambiguity. Moreover, they find 'few connections between psychological attributes and corporate performance' (Begley and Boyd 1987: 90).

Some researchers, such as Brockhaus Sr. (1982), have borrowed concepts from cognitive psychology and proposed that the entrepreneur has an internal locus of control, that is, that the entrepreneur believes he/she has the ability to influence outcomes through his/her own actions.[6] Mueller and Thomas (2000) explore the hypothesis that some cultures foster entrepreneurship more than others. They find some evidence that cultures that are more 'individualistic' are also more entrepreneurial, more innovative, value self-reliance, avoid low-uncertainty (have a high risk taking propensity), and are more likely to have an internal locus of control. These are opposed to 'collectivistic' cultures. Still within the exploration of the independence traits of the entrepreneur, Collins, Moore and Unwalla (1964) see entrepreneurs as misfits, men/women who cannot function in the traditional roles available to them in society and create a venture to escape.

There has been a substantial amount of literature arguing over whether the entrepreneur has an abnormal risk-taking propensity Brockhaus and Horwitz (1986). Some researchers defend that the entrepreneur has an unusually high risk-taking propensity while others claim the entrepreneur has an exceptionally low risk-taking propensity (Forlani and Mullins 2000). Brockhaus Sr. (1980) struck an important blow to this literature when he found no evidence that the propensity to take risks is consistently a defining feature of the entrepreneurs. However, a number of authors have claimed that the difference between entrepreneurs and non-entrepreneurs may lie on their cognitive processes, rather than on their risk-taking propensity. Palich and Bagby (1995) state that entrepreneurs do not report a different risk-taking propensity but that they have a

[6] In contrast, non-entrepreneurs would believe that their actions are constrained by forces outside of their control that ultimately determine outcomes - they would have an external locus of control.

different risk taking assessment mechanism that allows them to systematically underrate risks when compared to non-entrepreneurs. Baron (1998) also suggests that entrepreneurs may be subject to particular cognitive biases that skew their perception of risk.

2.1.2. Social characteristics of the entrepreneur

Another research tradition has tried to measure the impact of social characteristics on the likelihood of starting a venture or the ability to maintain it afloat. The individual characteristics may be the result of past experiences: beyond explaining who chooses to be an entrepreneur, this research also looks at the social entrepreneur's characteristics as determinants of the evolution and success of the venture. Smith and Miner (1983) and Stanworth and Curran (1976) are examples of this literature. Carland et al. (1984) have an important further paper in this vein emphasising that the lifestyle aspirations of the entrepreneurs crucially affect the type of business they create.

However, Carter et al. (2003) looked at the reasons a group of entrepreneurs presented for the career change before the start-up and compared it with a group of non-entrepreneurs, and found that there were no significant differences between the two groups. Both entrepreneurs and non-entrepreneurs have the same career objectives – self realisation, financial success, innovation, independence - despite of their opposite career options. This tantalising evidence suggests that the myth of the independent, money driven entrepreneur that many researchers have put forward could very well be a post-start-up narrative reflecting the changes the entrepreneurial process brings about on the entrepreneur and his/her discourse.

A further strand of this literature has noted that some points in the life course of individuals seem to tilt the decision to become an entrepreneur. Hinz and Jungbauer-Gans (1999) examine individuals that start a business after they find themselves unemployed. Liles (1974) refers to events such as deteriorating job satisfaction, identifying a new opportunity, or encouragements to start a company, as precipitating factors behind the act of creating a venture. Singh and DeNoble (2003) claim that early retirees seem to feel a particularly strong pull towards self-employment, as I also note in Chapter III. While these defining moments may bring about a re-evaluation of career options that eventually leads to the business start-up, it is still unclear that these are truly decisive factors in the choice to start a business.

These discussions on the social characteristics of entrepreneurs are suggestive but they fail to address a main topic of interest in the relationship between entrepreneurship and the social characteristics of the entrepreneur: the issue of social status and mobility. In a pioneering study of the entrepreneurial middle class in Britain, the sociologists Scase and Goffee (1982) argue that entrepreneurship should be viewed primarily as a process of social mobility, that is, as an attempt to improve the entrepreneur's economic and social position. In addition, they argue that the kind of entrepreneurship undertaken by any individual will be largely influenced by their social origins. Here they distinguish between the *entrepreneurial* and *salaried* components of the middle classes as well as its *established* and *marginal* sectors. The latter distinction is of great importance to this thesis.

They point out that an entrepreneur is all the more firmly rooted in the middle classes if his/her venture is "*structured* upon capital rather than labour" (1982: 186). To be *marginal* to the entrepreneurial middle class implies "high rates of both inter- and intra-generational mobility" (1982:186), as the entrepreneur (and perhaps his/her parents before them) seek to progress from a skilled working class or lower-middle class background. Individuals that become entrepreneurs in order to move up into the middle class typically do so on the basis of *labour* (theirs and other's) and they will have had accumulated little *capital* in order to effect that transition. This description fits the great majority of entrepreneurs in this thesis. Unable to enter the middle classes through the use of credentials (which cannot be acquired overnight), many marginal segments of the middle classes as well as working class members opt for 'proprietorship' as the one available strategy for upward mobility. In the words of Scase and Goffee: "proprietorship has been seen to appeal to various 'subordinate' or 'marginal' groups because it offers an alternative to the experience of deprivation in the labour market. However, these 'escape' routes are more available in some sectors of the economy that others; where production is labour intensive as, for example in the building industry, conditions are particularly favourable for self-employment and small-business formation" (1982: 188). In this respect, the two industries that are the focus of this thesis, namely, the furniture and graphic arts industries, proved to be attractive because they lacked significant barriers to entry (because entry depends on labour as opposed to capital).

Scase and Goffee (1982) further point out that *credentials* are the resource that the *salaried* middle classes build upon. The difference between the marginal and established sectors of the salaried middle classes resides on their relationship to credentials: the established sectors of the salaried middle class have a firm grasp on this set of resources, having a much greater propensity to attend university etc. [7]

Scase and Goffee's analysis raises a number of interesting questions, particularly about access to capital. For instance, why do the marginal sectors of the entrepreneurial middle class find it so hard to accumulate capital? And, how does the failure to accumulate capital affect entrepreneurs seeking upward mobility? Scase and Goffee find that "there are a number of "*social* as well as *financial* and *market* factors that limit capital accumulation" (1982: 189). The main social factor impeding capital accumulation is the relationship the entrepreneur establishes with his or her employees. The authors argue that entrepreneurs tend to struggle as supervisors because they lack the skills to do it properly. A further problem arises in balancing the desire to 'become their own boss' with the loss of autonomy brought about by hiring of employees. Finally, Scase and Goffee argue that the subsequent distrust engendered by the employment relationship prompts many entrepreneurs to curtail their growth, to outsource, or even to replace employees with machines. This insight on the effect of the employment relations on business growth and sustainability will echo throughout this thesis, but it will be particularly relevant to discussion on cultural capital of the entrepreneurs conducted in Chapter III (section 3.2) and to the discussion on the rationalization of production in Chapter VII (section 3).

The focus on the individual as the agent of entrepreneurship is crucial. Yet I am not convinced that the personality traits are a fundamental cause of success. Not only is

[7] In the context of this thesis *credentials* are equivalent to *formal cultural capital.* See section 3.2 of this chapter for a discussion of the concept of cultural capital.

the evidence for this approach ambiguous, but also, following Gartner (1989) and Birley (1998a) among others, asking 'who is the entrepreneur?' is the wrong question. My interest on the individual is instead geared towards his or her construction of a suitable resource portfolio with the help of his/her social ties.

Although the research on the cognitive characteristics of the entrepreneur does not feature in this thesis, my focus on the social characteristics of the entrepreneur follows on Scase and Goffee's research (1982). I will also argue that the way the entrepreneur puts together different resources - economic, cultural, symbolic, and especially social – influences the outcome of the venture, a stance that is different from most others within the literature.

In Chapter III, I will characterise the individual in the analysis of venture creation through a set of variables organised in three distinct groups. In the first group, I will examine some relevant characterisation variables, such as age and gender and social origin. A second group looks at the resource structure of the entrepreneur. This includes the entrepreneur's experience (education, entrepreneurial parents, previous work experience), the amount of money and credit the entrepreneur owns, the entrepreneur's reputation, and the type of social network the entrepreneur had at the start-up (a specialised social network with a predominance of social ties in the area of business of the start-up, a diversified network with ties inside and outside business, etc.). Chapter III also raises the subject of social mobility at several points. It examines the entrepreneur's intentions in starting the business, and considers the possibility that those starting a business perceive entrepreneurship as a strategy for upward mobility (Scase and Goffee 1982).

2.2. The environment

The research that focuses on the personal characteristics of the entrepreneur has been criticised for ignoring the context of business creation and awarding too much weight to the volition of the entrepreneur. A second perspective on entrepreneurship tries to address this criticism and focuses on the environment of business creation. We can trace its intellectual origins to Baumol (1990) who argues that the supply of entrepreneurs and the nature of their activity are determined by the surrounding environment, which he describes as the "rules of the game." Entrepreneurial activities vary widely, ranging from productive to unproductive and destructive. Baumol proposes that it is much easier for policy makers to steer entrepreneurs towards productive activities than it is to increase the total supply of entrepreneurs. The environment, the 'rules of the game' can influence an entrepreneur in pursuit of profit towards either innovation (productive entrepreneurship) or crime (unproductive entrepreneurship).

For instance, Jorge's great eagerness for upward mobility led him to entrepreneurship and, as he came to believe that the authorities were frequently failing to punish criminal activities, he toyed with the idea of pursuing entrepreneurial activities outside the law, such as selling drugs. Indeed this choice between legitimate or illegitimate means in the pursuit of societal goals was an unexpected theme that emerged during the fieldwork. For sociologists, Merton's (1968) classical study of social structure and anomie explains what happens when individuals who strive to towards socially approved ends (e.g. social mobility) find that the socially approved means are not available to them. To put it briefly, they deviate or 'innovate'. In Merton's own words, "First, incentives for success are provided by the established values of the culture and second, the avenues available for moving toward this goal are largely limited by the class structure to those of deviant behaviour. It is the combination of the cultural emphasis and the social structure, which produces intense pressure for deviation" (Merton 1968: 199). This insight will become invaluable to the interpretation of the actions reported in Chapter V where the divorce between cultural goals and the means to achieve these create a split that allows entrepreneurs to pursue a middle class living standard while compromising on middle class living mores.

A growing number of scholars have been focusing attention on the environment in which businesses start, and on how this environment constrains and shapes business creation. There are a number of emerging areas of scholarly endeavour centred on population ecology, the evolutionary approach, and geographical studies. For instance, Hannan and Freeman (1977; 1989) have emphasized the impact of the environment on entrepreneurship through the development of the population ecology perspective on organisations. Taking cue from a biological metaphor, the authors propose that business survival depends on how adapted the business is to the surrounding environment. When looking at a population of firms, the way the population is structured hints at the selection mechanisms that are at work, and, consequently, the way the environment affects business survival and failure. If these early studies where initially criticised for being simplistic and deterministic (Low and MacMillan 1988), population ecology studies of entrepreneurship still bring awareness to the importance of the context in business creation. However, despite recent compelling efforts within this research tradition (for instance, Brittain and Freeman 1980), it requires data that is often not available to researchers.

Another way of looking at the influence of the environment is to look at the resources available in that environment. The context in which a venture is started is endowed with a particular structure of resources: economic, cultural, social, and symbolic. The crossing of these two dimensions - individual and environment - highlights the relative weight of the resource portfolio of the entrepreneur in relation to the context where the business is created. For instance, a given amount of economic capital is only a lot, or a little, in relation to the usual amount of capital an entrepreneur has in the geographical area where the venture is set. The combination of individual and environment gives access to the relative power position of the entrepreneur in relation to the other entrepreneurs in his/her pool. It is, however, a very demanding task to assess the resource structure of every entrepreneur in a given area in order to determine their relative position to each other.

A large body of work has looked at entrepreneurship through the lenses of geography, bearing the assumption that location is a meaningful descriptor of business conditions: "(…) the geographical dimension, where we situate spatial categories in between nations and regions on the one hand and neighbourhoods and circles on the other hand, is about the power to occupy and reterritorialize the earth" (Steyaert and Katz 2004: 182). Environmental variables that are linked to place are 'characteristics that are viewed as relatively fixed conditions imposed on the new venture from without' (Gartner 1985: 700).

One important distinction in this literature is that between space and place (de Certeau 1984). Steyaert and Katz (2004: 191) further develop this distinction: "Place is stable and pre-exists the individual as a coded and territorialized location, as a grid. When space is not structured and over-coded but dynamic instead, 'it is in a sense actuated by the ensemble of movements deployed within it. Space occurs as the effect produced by the operations that orient it, situate it, temporalise it and make it function in a polyvalent unity of conflictual programs or contractual proximities'" (Macgregor Wise in Steyaert, 2004: 191).

Different authors have proposed different sets of such variables associated with spaces that serve as contexts for the study of entrepreneurship. Scholars have assessed the relevance of a business's position within the world economy, national business culture, regional business dynamics, the industrial district, or the local community. Steyaert and Katz add: "the emergence of entrepreneurship, described as geography, has become connected to such spatial concepts as (business) clusters, (inter-firm) networks, (industrial) districts, (research) parks, beside the regions and (v)alleys we pointed out" (Steyaert and Katz 2004: 183).

Many other geographical variables have been used. Indeed, one of the main criticisms of this approach is that there is disagreement on which set of variables best describes the full set of environmental constraints. Some believe that the concept of centre and periphery, in itself a hybrid descriptor of economic position and geographical location, can shed some light on the formation of businesses. For instance, Anderson (2000) examines businesses born in a peripheral position, while Smallbone, North and Kalantaridis (1999) evaluate how businesses in Northern England have adapted to their economic and geographic peripheral position within the country. Others have called attention to the need to establish national comparisons of entrepreneurial culture and performance in order to assess whether there is a unified entrepreneurial culture.

McGrath, MacMillan and Scheinberg (1992) identify national culture as a determining influence in the entrepreneurial decision while others have focused on regional comparisons. For instance, Ritsila (1999) and Todtling and Wanzenbock (2003) examine how the region structures businesses.

An important subfield of this literature has focused on the emergence of industrial districts, areas with a larger that normal concentration of businesses and business start-ups in a particular industry and adjacent activities (Piore and Sabel 1984; Best 1990). For instance, the flexible specialization literature initiated by Piore and Sabel highlighted the role of regionally based clusters of small and medium-sized firms - who act as buyers and suppliers to each others - as well as regional traditions of skilled craftwork, with some skills being passed from fathers to sons. The key feature of such regional and community based clusters, as Dijk and Sverrisson (2003) note, is that they have an eminently social – and not spatial – nature. Frederking (2004) studies entrepreneurship at the neighbourhood level in different countries, while and Johnstone and Lionais (2004) look at depleted communities and the entrepreneurial dynamics that are formed within these.

These issues are addressed in Chapter II of this thesis. I will describe the context in which these entrepreneurs are set, namely the features of the Portuguese society and economy that may shape entrepreneurship in the country. As will also be discussed later, the existence of regional clusters, with many businesses in the same industry and concentrated in the same area is very much a feature of my sample: I can clearly identify at least two industrial districts as defined by Piore and Sabel (1984). I will argue that this is by itself testimony to the influence of social networks: entrepreneurs locate in an area where - like Jorge's account in the introduction emphasised - they know everyone and everyone knows them. Accordingly, one important variable that will emerge in this research is the role of the local community in shaping entrepreneurship. The entrepreneurs in my sample were intimately linked to their communities, and often their decision to start a business arises from a desire for prestige within the community. Their dependence on their community is extreme to the point where it forms an essential part of their existence: although the police was actively searching for him, and he was relatively safe in hiding in Spain, Jorge could not abstain from travelling to his village in Portugal to spend the night with his wife.

Aside from these structural approaches to studying the influence of the environment (population ecology, evolution, and geography), a different line of work seeks to list a series of variables that describe the environment surrounding the business. For instance, Gartner (1985) discusses the availability of venture capital, both in the area of the business and to the entrepreneur personally on the basis of his/her reputation; the presence of experienced entrepreneurs; the existence of a technically skilled labour force; the accessibility of suppliers; the accessibility of customers or new markets; the existence of governmental influences; the proximity of universities; the availability of land or facilities; the accessibility of transportation; the attitude of the area population; the availability of supporting services; and finally the living conditions. Pennings (1982), in turn, points to the degree of occupational and industrial differentiation, the percentage of recent immigrants in the population, the existence of a large industrial base, the size of an urban area, and the availability of financial resources. Finally, Porter (1980) argues that the main environmental influences on an organisation are: barriers to entry, rivalry among existing competitors, pressure from substitute products, and the bargaining power of buyers and suppliers.

While my study of entrepreneurship does not have the emphasis of these authors in devising an exhaustive list of the determinants of entrepreneurship, this literature interacts with this thesis in two ways. First, the lists of variables were informative in alerting me to the role of the different variables within my sample. Second, my findings seek to make a modest contribution to this literature by identifying those variables which did, or did not, affect the entrepreneurs in my sample. For instance, I discovered that the existence of a technically skilled labour force (or lack thereof) was an important factor in determining who started a business and, indeed, the type of the business. On the other hand, there was little venture capital available in the industries that I studied, so this was not a relevant factor.

As with the previous research tradition that focused on the entrepreneur, that focusing on the environment has also been criticised for having a static view of entrepreneurship and for ignoring Schumpeter's (1951) warning that entrepreneurship is essentially about action. As I argued earlier, I take this latter view and focus instead on the *process* of business creation. The impact of the environmental tradition on this thesis is evident in the variables that I will be attentive towards, rather than in providing the framework on which I base my approach. My characterisation of the individual stressing his/her resource portfolio (discussed in the previous section), in turn provides a link between the individual and the environment, principally through the process by which these resources are obtained and accumulated.

2.3. The organization of small ventures

There is a vast literature on the way in which organisations shape entrepreneurship. As most of this research is devoted to the study of complex organisations (see Meyer (1994) I will instead focus in this section on the small new venture creation literature.

Given that this thesis is devoted to business start-ups and their development, it seems wise to define what we mean by a new venture. Following Schumpeter's definition of an entrepreneur (1951), a new business is an organisational structure that combines old elements in a new way.

This broad definition is quite appropriate as some of the ventures I analysed are a 'new take' on an old business, while others are brand new businesses. What is usually called a 'new venture' is a snapshot of a longer entrepreneurial process. For instance, a 'new venture' may be "created" when it is registered by the State, through the tax office, the national institute of statistics, or the legal register of economic organisations. This act of registration occurs in well-defined instances, such as when the business changes its legal status (it becomes a sole trader or a partnership), when there is a new combination of partners, or when there is an increase in the legal value of the business.

As Taylor argues, such new ventures should be seen "as a social artefact of collective agency – the small firm as a networked temporary coalition. It is suggested that for such coalitions of entrepreneurs, legally defined firms are essential but manipulable regulatory structures that do not necessarily match with either the boundaries, the scale or the scope of their activities. Instead, firms are created multiply or serially by one or more ventures as opportunities for personal wealth creation arise from the existing circumstances in other businesses as owners or paid employees" (Taylor 1999: 1).

An entrepreneur starting his very first business in 1993 is as much creating a new venture as an entrepreneur re-starting his business as a partnership to leave it to his children. Both fit into my definition of a new venture. Both are snapshots at the entrepreneurial process that tell a story about the business of entrepreneurship. The typical enterprising process starts with a basic accumulation of resources that leads to a trial start up of an entrepreneur as a sole trader. After this stage, if all goes well, most entrepreneurs evolve to a business partnership formally co-opting a number of other people into the venture (children, wife or husband, friends, acquaintances who are investors).

There are many deviations to this pattern. Some entrepreneurs have had businesses partnerships before in the same, or other, areas of business. Some entrepreneurs change to a partnership to have access to different tax conditions. Every time the business is registered as a new business - regardless of its background - there is an entrepreneurial effort of making a certain combination of resources work out. Hence, all of these changes registered as start-ups are of interest to this research. The following table gives an account of how the businesses in my sample were registered before this start-up.

Table I.1: Distribution of enterprises according to their previous legal register:

	Registered before as...	Total
1st start-up	Never registered	22
Re-start-up	Sole trader	17
Re-start-up	Partnership	03
Total		42

This table also portrays the typical path of the Portuguese enterprising process I described above. Businesses start as either partnerships or sole traders. Those that start as sole traders evolve to partnerships. At some point there is a reformulation of the partner set. The last change is the re-definition of the value of the enterprise legally, which is done by altering its 'capital social'.

The Portuguese Strategic Planning Institute elaborated a set of criteria to define a new organisation: "In order to be classified as new an organisation has to comply with one of the following conditions: it has to be independent from other organisations, it can be a new profit centre in an already existent company with other established businesses, or it can also be a joint venture. In case it is a joint venture, 1 - its founders must acquire expertise in products, process, market, and/or technology; 2 - results are expected beyond the year in which the investment was made; 3 – its competitors consider it a new market entrant; 4 - it is regarded as a new source of supply by its potential customers" (The Strategic Planning institute 1978: 1-2). All 42 ventures in analysis sustain these criteria. The definition set above also recognises the multidimensional aspects of new venture creation: 1 - the expertise of the entrepreneurs; 2 - the new venture as an organisational entity; 3 - its evolution over time (beyond a year); 4 - its co-optation of resources; 5 - its engagement in competition in the marketplace.

2.4. Entrepreneurship as a process

The final dimension of entrepreneurship sees it as a process of business creation. Entrepreneurship is a process rather than an attribute of an individual, an environment, or an organisation. This approach introduces the role of agency analysis in a way that differs from the mostly structural view of entrepreneurship of the previous three approaches. Entrepreneurship is not about attributes, but rather about acts of free will by agents.

The process approach highlights the exchanges by which economic, cultural, symbolic, and social capitals are transferred from the individual or the environment into the emerging venture. In addition, this process relates to the diachronic character of business formation. Time is an essential variable in the analysis of a network. The organisation itself is the result of a process of exchange between the environment and the entrepreneur. "The social dimension [of the space of entrepreneurship] focuses on the social process that constitutes entrepreneurship and shifts the focal point from singular entrepreneurs to the everyday processes where multiple actors and stakeholders are made visible as related to entrepreneurship" (Steyaert and Katz 2004: 182). The portfolio of the entrepreneur at the start-up, the portfolio of the environment where the entrepreneur intends to establish the venture, and the organisation under construction, define the business and the act of entrepreneurship.

This view of entrepreneurship as a process is well expressed in the words of Schumpeter (1951): "(...) Entrepreneurship as a process of gathering resources within an environment, and the research task of understanding both the critical elements of the process and the nature of environments where entrepreneurship is successful."

An individual becomes an entrepreneur as he/she begins a process of gathering resources available either in his/her resource portfolio or co-opted from his/her social network. This definition combines both the will of the entrepreneur, which creates opportunities, with the availability of resources in the social network, which creates constraints. The result of this entrepreneurial effort is the venture - an economic and social unit. The choices the entrepreneur makes over time - about what the future venture needs and how to get it - are the essence of the entrepreneurial process, i.e. a combination of agency and structure. These choices and co-optation of resources create a path dependency that in the end leads to the failure or success of the venture.

Another aspect of the entrepreneurial process emphasised by Schumpeter is the routinization of the entrepreneurial activity after a first effort of combination of resources to place the venture in motion. Entrepreneurship involves "'creating an entire set up at will', an 'an act outside the pale of routine' after which the 'industrialist ... will, in a typical case, settle down to a merely administrative routine'" (Schumpeter 1951). If this routinization never happens, that is, if the entrepreneur never finds equilibrium in a particular routine, it is fair to speculate that the venture will be at risk of failure.

There are many instances of the use of the process approach to entrepreneurship. A particularly significant one is Carter, Gartner and Reynolds (1996), who look at event start sequences in starting businesses. Another example is Kodithuwakku and Rosa (2002) study of the different business processes of successful and unsuccessful entrepreneurship in Sri Lanka. Finally, Van de Ven and Engleman (2004) elaborate on the relative merits of outcome driven and event driven research.

2.5. Entrepreneurship in the context of this thesis

In this thesis, I take a view of the entrepreneur that is close to Schumpeter's. I examine entrepreneurial activity as a process by which the entrepreneur seizes opportunities and gathers resources within an environment. While the entrepreneur is the primary agent in this process, a number of contextual variables constrain or enable his or her action. Among these constraints are the entrepreneur's resource portfolio, the environment around him, and the organisation of the business, as emphasised in the other three research traditions.

I am not directly interested in the psychology of why particular individuals become entrepreneurs but rather in how they fare once the decision to start a business is made given the resources they have, the use they make of those resources, the use they make of their social networks, their expectations about the business, and the outcomes of their choices, constraints and actions. Researching business creation with a focus on the process allows me to better discriminate factors that are environmental (structural) from those that are individual (of agency). It is the most effective way to combine structure and agency in the analysis of entrepreneurship.

In studying human action in a business context it is easy to fall into an under- or over- socialised account of behaviour (Wrong 1961). Under-socialised accounts of action assume it is all about agency - individuals set out to do their deeds in a fit of irreverence. Other accounts of behaviour are over-socialised as they award structure an undue weight in how things move - individuals are overburdened with tradition, crash test dummies of norms, rules, and values. On the one hand, much research focusing on the individual undermines the relevance of the social. On the other hand, research like that of population ecologists sets a heavy stress on how context determines action. In this research, I qualify the individual, the environment, and the organisation, but they are not, as I have stated, my focus. My interest in entrepreneurship derives from how particular exchanges, alliances, and coalitions can benefit or compromise the development of a venture.

A further advantage of viewing business creation as a process is that it simplifies the analysis of the directions of the exchange of the transaction currencies. In creating a venture the entrepreneur searches for and exchanges credit, knowledge, social networks, and reputation. These are the building blocks of the business. These four currencies are equivalent to the four capitals developed by Bourdieu (1986): economic, cultural, symbolic, and social. In order to put a start-up together, the entrepreneur will trade economic capital (or credit), cultural capital (or knowledge), symbolic capital (or reputation), and social capital (his or her social network). The entrepreneur exchanges, preserves or co-opts his or her initial endowment of each of these resources as he or she sees fit to best build the business. This thesis analyses the flow of resources mastered by the entrepreneur from his or her resource portfolio, the environment, and the venture, because it is the structure and transference of capitals between individuals, environments, and organisations that binds the business together. Accordingly, the capitals are an exchange currency between the individual, the environment, and the organisation, and the process reveals the nature and direction of the exchanges between the three entities. A process-oriented approach is therefore the most adequate to study entrepreneurship.

Jorge's words illustrate my case: "You may think it was not like this but it was. We were three friends and we went for dinner. We went for dinner one fine night, a Saturday night. All three of us knew the furniture business well. We were all hard workers. We decided to open a furniture factory. This took a week. After a month, we had an open business."

Jorge expressed sharply how starting a business depends on the entrepreneur's will. To him, it seemed almost too easy, too fast, and too dependent on his volition. He willed it, and after a month he had a business running. Jorge's discourse imprints on us a sense that entrepreneurship is an act of will.

An unadvised reading of this quote would lead us to believe that entrepreneurship is solely dependent on agency. Jorge's account, however, hides the meticulous combination of resources that took years to assemble, and put him in a particularly favourable position to start a business in a month. He was the son of a local furniture maker. He had been managing the transactions with his father's suppliers for years. He had a sound reputation that could grant him many types of credit. The start of Jorge's business was the result not just of his will, but also of the interaction with the factors that surrounded him.

3. Resources and capitals

When an entrepreneur creates a business, he/she brings into it his/her resources. Beyond making the start-up possible in the first place, these initial resources have an important influence on the evolution of the venture. In turn, the development of the business directly affects the evolution of the entrepreneur's resource portfolio. This interaction between the resources of the entrepreneur and his/her business is crucial to this thesis. It lays at the heart of the entrepreneur's use of his/her social network.

In order to analyse if resources are shifted from the entrepreneur's social network into the venture, one needs to identify the different assets that an entrepreneur possesses and is willing to invest. Comparing these with those assets drawn from her/his social network that are to be invested in the venture, one can assess the relative contribution of social networks to the formation of the business. This approach requires a clear definition of what a resource is and how it can be used.

One author that has devoted substantial effort to characterise the resources available to a person is the French sociologist Pierre Bourdieu (1986). He labels these resources as: "...Capital, which can exist in objectified form - in the form of material properties - or, in the case of cultural capital, in an incorporated form, one which can be legally guaranteed, represents power over a field (at a given moment) and, more precisely, over the accumulated product of past labour (and in particular over the set of instruments of production) and thereby over the mechanisms which tend to ensure the production of a particular category of goods and thus over a set of revenues and profits." (Bourdieu 1991: 230).

This definition refers to the concept of a field. Bourdieu (1990; 1991) in turn defines a field to be the area of relationships where the entrepreneurs dwell and compete for positions. The field is an abstract space that is defined and delimited by the capitals that are at stake in it, by the rules that construct it, and by the assemblage of agents that believe in it and are competing for better positions and better capital stakes over time, it is history objectified (Bourdieu 1990). A resource is always used in relation to a specific field of action that defines its quality (economic, cultural, symbolic, and social) in a moment in time. The rules in use in the field to which the resource is referenced, guide its value within the field and its exchangeability value, that is, its transformed value in other fields. The value of a resource in other fields may be different as the rules guiding these fields are all historically and socially constructed.

In the case of entrepreneurs, they are generally integrated in the field of economic production and they constitute a sub-set of this field.[8] The entrepreneur's ability to adapt to the rules of other fields is essential for the entrepreneur to be able to gain a better position in these other fields (which in turn interact to improve his/her position in the economic field). One way to enter a field may be through a credential. If all the entrepreneurs in a given area have a particular credential - or if all the entrepreneurs in a business know a certain person - it is difficult for newcomers to establish themselves without meeting these requirements (to have a credential, to know the influential person).

One important feature of Bourdieu's definition of a capital is that it is intrinsically linked to the logic of investment. An important feature of an asset or a competence that allows it to qualify as a capital resides in it being subject to investments and revenues. Capitals are the result of investment and the subject for further investments. Their existence cannot be separated from this feature, and a capital can only be understood by taking into account this dynamic feature. To understand an entrepreneur's capital requires more than a snapshot of his position at the start of the business, which is the kind of information that could be obtained through a survey. Rather, it requires knowing the history of the entrepreneur and the process by which they came to have their present capital portfolio.

The value and importance of a capital is defined relationally. For instance, to complete high school may be distinctive in a positive way if all other entrepreneurs only have primary schooling, or it may be distinctive in a negative way if all other peers have an undergraduate degree. The more one entrepreneur has of a given type of capital that

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[8] And within that field, they are part of the sub-fields corresponding to their particular industry and geographical location.

another entrepreneur lacks, the more the first entrepreneur has a position of distinction towards the second.

Following Bourdieu, I place the assets and skills that an entrepreneur mobilises and invests in the venture into four main categories. Resources can be economic, cultural (or human), symbolic, or social (Bourdieu 1986; 1990). The quality of a capital (economic, cultural, symbolic, social) establishes a direct reference to a field of action where the capital is the means of exchange, what is at stake, as well as a way to evaluate the relative position of its holder against other holders. Economic capital refers to the economic field, conforming to the rules of the market. Cultural capital is connected to the cultural field (and within it to skills, competences and knowledge). Symbolic capital defines a hierarchy of prestige or honour. Lastly, social capital refers to the whole of relationships that an individual has (Bourdieu 1986; 1990; Coleman 1988).

3.1. Economic Capital

Economic capital refers to money, stocks, shares, property, and any other form of material wealth. Ultimately, it is all that the entrepreneur owns and can be put in the market with a price tag. It can be taxed and materially inherited. In the case of an entrepreneur, it refers to his/her financial assets (money/cash fluidity), the materials to be employed in production, equipment, the site of the plant, the site of the office, etc.

A defining feature of economic capital is precisely that it can be directly exchanged into value in the economic field. The volume of economic capital held by the entrepreneur can be translated into a monetary value, and as such it can be objectified. This objective value exists despite the fact that the value of a good is subject to bargaining between the two contracting parties. The laws and institutions (norms and laws) of the economic system mediate the exchange (along with the bargaining) of the good between the two nodes of a tie. The economic game depends on the principle of profit making and the establishment of impersonal exchanges between actors, and especially it depends on the existence of competition in the market. These are the components of the field that give meaning to economic capital. In turn, they are also what allows for the existence of an "objective" price inside the market.

To that effect, all economic capital is also subject to a second system of rating: its relative value. This refers to the position of an entrepreneur relative to his reference group. An investment of £1,000, on top of its absolute value, may be a lot or a little, compared to what other entrepreneurs invest at the same time. If the economic field sets the standard value of an economic good, the relative value is set in comparison to the immediate community of agents engaged in the same actions, which in this case are the other entrepreneurs in the same business.

The entrepreneur should be especially keen on abiding by the rules of the economic system, as she/he is by definition an economic agent. Still, to use economic exchanges alone to analyse entrepreneurial activity is reductionistic. The entrepreneur is not only an economic entrepreneur but he or she is also, primarily, a social being, working with the rules of the market as well as with the rules of other systems of exchange. In many cases, the rules of other systems of exchange may well become more important in the transactions the entrepreneur engages in, than the rules and norms of the economic sphere.

3.2. Cultural Capital

Cultural capital is "knowledge, skills and other cultural acquisitions, as exemplified by educational or technical qualifications" (Thompson et al. 1991: 14). In the words of Coleman, "Just as physical capital is created by making changes in materials so as to form tools that facilitate production, human capital is created by changing persons so as to give them skills and capabilities that make them able to act in new ways." (Coleman 1990: 304)[9]. This form of capital refers to the field of cultural production. It comprises all display of educational, cultural, and technical competence; it is the capital of knowledge.

There are formal and informal types of cultural capital. Like the absolute value of economic capital, formal cultural capital refers to an objective value. It is recognised and it depends on a legitimate system of classification. School and other recognised credentials are formal ways of defining both positions within a rank and the acquisition of a certain competence.

Informal cultural capital does not usually have institutional recognition. A hobby, a topic about which an agent knows a lot, and a competence used at work are all forms of informal cultural capital. The entrepreneur's knowledge of the workings of a business is an informal competence as long as an institution of knowledge does not legitimise it. Since most industrial skills are learned by apprenticeship, craftsmen are rarely endowed

[9] In this thesis I understand 'cultural capital' to be a broad conceptual umbrella that refers to any cognitive skills an individual accumulates throughout his/her lifetime. This concept includes 'human capital' which is usually understood as skills and competences that pertain to the workplace; it includes 'credentials' which are an objectified form of cultural capital and will be further discussed below; but it also includes '*savoir faire*'.

with formal recognition of their competence. That is why some governments[10] have been especially committed to constructing a system of recognition of expertise to accredit those who learn their skills on the job.

As in the case of economic capital, the value of cultural capital has both an absolute and a relative component. For instance, credentials have an absolute value usually set by the ministry of education, but they also have a relative value set by reference to the community of peers. A 'Licenciatura' (BSc) in Management is equivalent to 16/17 years of formal education in Portugal. Its absolute value is a license to practice in a determined field of study. Its relative value is the way in which the community regards it: as an extremely helpful array of skills or as a waste of time. It can be extremely popular among the entrepreneurial communities or not particularly sought after, and this can depend on a series of factors, from the institution that conferred the degree, to the particular industry's appreciation of the set of skills associated with this degree.

As to its forms of transmission, cultural capital may be passed on if it is informal and it may be inherited in its material forms (like books). In the last case, it is transformed into symbolic capital; it is impossible to pass on a diploma. The cultural field in its intersection with the field of the legitimate classifications (the State) produces credentials. Credentials are certificates of competence in that they are personal and non-transferable. They constitute the sanctioned currency of the cultural field. Still, all the skills learned during graduation may be transmitted informally, by apprenticeship, even if the receptacle of those skills does not receive the formal counterpart.

[10] The Portuguese government, or one of its agencies - INOFOR, has constituted a system of recognition of expertises and skills learned outside of school or on the job.

In itself, cultural capital takes two shapes: material and incorporated. The former encloses tangible manifestations of culture and knowledge of which the ownership of a computer, books, etc. are examples. The latter (incorporated cultural capital) is all the knowledge and skills the entrepreneur possesses that can only be perceived by watching him/her act.

3.3. Symbolic Capital

Symbolic capital is embedded in a structure of a relational "set of commitments and debts of honour, rights and duties accumulated over successive generations, and which can be mobilised in extraordinary circumstances." (Bourdieu 1990: 119). Some of the resources related to symbolic capital are the name of the business, the reputation of the entrepreneur and the employees, the ability to meet deadlines, or the quality of the product.

The economy of symbolic exchanges is alien to the rules of the economic market. Nevertheless, symbolic capital is tightly connected to economic capital in the sense that it is common to have economic gains from a display of symbolic capital. Actions such as paying for an expensive party at a club in the entrepreneur's community may be thought to be economically illogical. The logic of such deed is to present a gift of a symbolic nature on one hand, and to create an illusion of wealth and abundance on the other. The entrepreneur may expect to be seen therein as an even more prestigious business man/woman who is very much in control of his/her finances. In Bourdieu's words, "Economic and symbolic capital are so inextricably intertwined that the display of material and symbolic strength represented by prestigious affines (social ties) is in itself likely to bring in material profits, in a good-faith economy in which good repute constitutes the best, if not the only, economic guarantee" (Bourdieu 1990: 119).

Symbolic capital is convertible to any other capital and again re-convertible back to symbolic capital. It follows a strategy of accumulation. Symbolic capital is constructed over time, and unlike formal cultural capital, it is inherited. Prestige and honour are often enough passed on in the family. They constitute a credit of reputation.

Strong social ties thus best transmit this form of capital. He or she, who bears prestige in a community, confers his or her strongest ties with part of that charisma. If the daughter/son of a renowned entrepreneur starts her/his own venture, he or she will inherit the fame and linkage associated with a reputed name in the business. That charisma is in itself valuable for the business. Similarly, the name of an honourable entrepreneur exerts its influence over the venture.

While symbolic capital tends logically to accumulation and is subject to constant measurements, it is still quite vulnerable to 'slur or innuendo'. Unlike economic capital, symbolic capital lacks a standard unit of count against which it could be measured. Some agents are perceived to have more charisma than others, but there is no detailed classification system. There is no objective monetary system to support a ranking of prestige. Nevertheless, sustaining symbolic capital can be crucial: Delmar and Shane (2004) find that legitimating the activities of the business increases its chances of survival.

3.4. Social Capital

Coleman has characterized social capital in the following manner: "Social capital is defined by its function. It is not a single entity but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate some actions of individuals who are within the structure. Like other forms of capital, social capital is productive, making possible the achievement of certain ends that would not be attainable in its absence" (Coleman 1988: 302). Therefore, social ties are 'assets that may provide other assets' (as suppliers of information on opportunities and of resources). The businessman/woman with the best networking strategies will eventually be granted the highest rates of return on their investments.

One possible way of measuring social capital is through the counting of social ties. In this case, the social tie is the relationship between two individuals. As a result, the 'ownership' of social capital is by definition shared between two. The absolute value of his/her social capital is the assemblage of relationships of the entrepreneur.

The magnitude of social capital is not only measured by the number of ties, but also by the type of ties (their strength and nature) and by the 'importance' of the capital structure of the person the entrepreneur has a tie with. A rich aunt may be more valuable than a poor one. A prestigious grandfather that dealt in the same business the entrepreneur is in provides, together with the family tie, a link to fame and fortune. Not just the number but also the usefulness of social ties determines the value of an entrepreneur's social capital.

Nevertheless, as Portes and Sensenbrenner (1993) point out, Coleman's (1988) definition of social capital forgets an important aspect: the over-socialisation or the constraining side of embeddedness. Social capital can have positive effects, such as resource provision, but it has a flip side of negative consequences, as I will explore in Chapters IV and V. In exploring the concept of social capital, Portes and Sensenbrenner (1993) discriminate four sources that are relevant for economic transactions: value introjection, reciprocity transactions, bounded solidarity, and enforceable trust. The second and the last of these sources (reciprocity transactions and enforceable trust) are of particular interest in the context of this research. Enforceable trust, namely, "is based on the existence of community except that, in this case, it is not sentiments of solidarity based on outward confrontation, but the internal sanctioning capacity of the community itself that plays a central role" (Portes and Sensenbrenner 1993: 1332). This community is built on repeated exchanges with others like themselves and a sense of shared values based on a common socialisation, and "trust exists in the economic transactions precisely because it is enforceable by means that transcend the individuals involved" (Portes and Sensenbrenner 1993: 1332), this is the basis for the explanation of a number of behaviours reported in this thesis that involve communities where onerous goods are exchanged with seemingly little guarantees. Yet, Portes and Sensenbrenner take the argument further and evaluate the negative consequences of the entry to social reciprocity, identifying issues such as the levelling pressures of the community, the problems of free riding on community norms, or restrictions to individual freedom. Likewise, Uzzi assesses the point at which embeddedness, which he understands as an opportunity structure based on the expectation of trust and reciprocity, ceases to have a positive effect and becomes over-embeddedness. In his seminal article, *Economic action and social structure: The problem of embeddedness*, Granovetter (1985) explores the mirror relationship between trust and malfeasance, explaining how increased trust can lead to greater exposure to malfeasance as a result of the let down of screening and monitoring mechanisms. These authors, that explore the dark side of social capital, provide an essential theoretical framework for the explanation of the occurrences related in Chapter V. I in turn hope that my efforts contribute to this literature on the negative effects of social capital.

3.5. The relation between the different types of capitals

These categories are not necessarily exclusive and particular resources can transverse many categories. For instance, consider an asset such as a computer. A computer can be an element of distinction if it is scarce within the industry that the owner is in. In such cases, a computer is representative of a symbolic capital since it gives prestige, differentiating the owner from others. The computer also serves the purpose of showing the ability to use a sophisticated piece of machinery, or at least of possessing basic knowledge of information technology. In this case, it is indicative of a competence that the owner has. Furthermore, if the computer has stored information on how to operate the business, it is also a knowledge resource. In both senses, the computer is an indicator of cultural capital. In turn, this cultural capital might be perceived as prestigious if again it is uncommon. If so, it gives the owner another input of symbolic capital. The computer is also indicative of economic capital. Not just because it is strictly an economic asset since it can be sold, but also, because it is representative of the owner's purchasing power. A last dimension of the computer, in the event of it being connected to the Internet, is the fact that it can be taken as a tool for establishing social relationships. As such, it is a tool of access to a very particular form of social capital.

It must also be taken into account that an agent's capital structure is subject to internal re-organisation and that the objective of any re-organisation in the capital structure of an individual is most likely an upwardly mobile shift to his/her social position. For instance, by investing money in a Masters of business administration an entrepreneur is investing his economic capital in order to have formal cultural capital returns (credentials), as well as practical business skills (informal cultural capital). After finishing the degree, the entrepreneur will have more business management skills and consequently he or she can hope for more returns. Nevertheless, she/he can also receive symbolic returns. If the Masters degree is rare in the community, the entrepreneur can experience an increase in his/her symbolic capital, being seen as having now greater prestige. She/he might be rated as an expert due to this formal recognition of a managerial skill and the distinction may in turn grant him/her some charismatic qualities. Finally, the Masters course can provide a structure for the establishment of social relationships. The entrepreneur leaves the course with a selection of contacts that in the future he/she may choose to use in business situations. In this example, the investment of economic capital (as well as time and effort) generates cultural, symbolic, and social as well as economic capital. If successful, this investment may have altered the relative social position of the entrepreneur, placing him/her in a higher social position within the community.

Of particular interest is the entrepreneur's ability to transform social capital into any of the others to the advantage of the business he/she created; especially as this business is interpreted as a vehicle for upward mobility. As an entrepreneur invests one form of capital into another capital, he or he/she re-negotiates his or her capital structure and may even increase the total volume of capital. Particularly relevant to this thesis is the choice of using social capital to obtain other resources – a strategy referred to as 'co-optation' (Starr and MacMillan 1991) which will be further discussed in Chapter III - and how this determines the path the venture takes; events and structures are determined by past events and structures. The shift of capitals is governed by a set of rules, since each capital is referenced to a different field that produces different rules of exchange. These rules determine how costly, or how much loss does an entrepreneur incur, when transforming one capital into another.

3.6. Application to entrepreneurship

The asset structure that entrepreneurs have can be assessed according to the different qualities of capitals (economic, cultural, symbolic and social), to the volume of each capital (relative to the volume of the capitals of other entrepreneurs), the composition of each capital, and the changes of these properties over time.[11] For the purposes of this research, the structure of capitals of the agent is an assessment of the situation of the entrepreneur in relation to other entrepreneurs and in regards to the venture. It is not an overall evaluation of the position the agent occupies within a social hierarchy.

[11] "...One can construct a space whose three fundamental dimensions are defined by volume of capital, composition of capital, and change in these two properties over time..."
Bourdieu, Pierre. 1979. *Algeria 1960: Essays*. Cambridge: Cambridge University Press.: 114.

To assess the relative position of one entrepreneur to another I look at his or her respective asset structure. This requires the production of a listing of the relevant indicators of every type of capital. Relevance in this case is characterised by all the forms of economic, cultural, symbolic, and social capital that the entrepreneur can use to the benefit of the venture.

Since entrepreneurship is a process, and previous actions influence future actions, it is fundamental that I establish the resource structure of the entrepreneur at the start-up and then analyse the occurrence of transference of capitals from different sources into the venture. Nevertheless, it is difficult for entrepreneurs to establish exactly when an exchange of resources or other type of situation happened. My experience suggests that entrepreneurs can recall fairly well the chain of events, and the order in which things happen, but not when they happened, or even the amount of time that passed between events. Therefore, it makes little sense to analyse transference in time and so I concentrate on transference between situations.

A record identifying the entrepreneur's structure of assets would look like this:

Table I.2: Analysis of resource exchange between two situations:

SITUATION 2 - Capitals -	Composition (e.g.)	Volume (e.g.)	
		Absolute v.	Relative v.
Economic	Money Ownership of land Dinner with football society	£9700 £19000 £1000	Less than peers Good location expansive
			Common Rare Common Common Rare Common Rare
			Rare Rare

SITUATION 1 - Capitals -	Composition (e.g.)	Volume (e.g.)	
		Absolute v.[12]	Relative v.[13]
Economic	Money Ownership of land CAD/CAM course fee	£10000 £20000 £300	Same as peers Good location Cheap
Cultural	BSc in Management Knowledge the business[14] Computer with CAD/CAM[15]	16 years ed. £4000	Common Common Rare
Symbolic	Married with children Credit for honesty President of football society		Common Rare Rare
Social	Friends in business Friends in the tax office Friends in industrial assoc.	7 strong ties 1 weak tie 2 weak; 4 strong	Common Rare Common

The chart records movement of capital between any two situations (in this case situation 1 and situation 2). In the present case, we can see there was investment of economic capital in time 1 on cultural capital (CAD/CAM course fees). Situation 2 will thus feature a lesser amount of economic capital and a greater amount of cultural capital. In turn, if there was to be a situation 3 we could see that the investment in CAD/CAM facilities induced an increase in the production process and therefore a return of economic capital. Likewise, in situation 2, paying for dinner in the football society represents

[12] Set in relation to the field to which the capital belongs.
[13] Set in relation to the other entrepreneurs in the same field.
[14] In time 2 this knowledge of shoe business can be upgraded to knowledge of working with CAD/CAM, after attendance of a specialised course.
[15] CAD/CAM is a computer program for assistance of design and manufacturing.

another investment of economic capital with returns in symbolic capital to be seen in situation 3.

Over time, the structure of capital can change. At a particular moment (e.g. situation 1) in time, an entrepreneur may have a great quantity of economic capital, in comparison to his/her peers. She/he may then choose to invest it in a marketing campaign, or simply invite a number of prestigious individuals of the community for an expensive dinner. The stake is made in economic capital. The revenue is symbolic and consequently economic. As such, after this shift takes place, at 'situation 2' the entrepreneur is found to be a little less rich but more prestigious. Similarly, a well-connected entrepreneur is an entrepreneur that is seen to have valuable social ties. A valued social tie is one that links the entrepreneur with someone that has high economic capital, cultural capital, symbolic capital, social capital, or a combination of these.

4. The Research Questions

The research question in this thesis is: How did Portuguese entrepreneurs of the furniture and graphic arts industries make use of their social relations to maintain their businesses throughout the period of 1993 to 2000?

Many people involved in business, large or small, think it is obvious that 'connections matter'. Once an entrepreneur has the 'right' connections success seems guaranteed. For instance, Jorge thought that his long-standing connection to local wood dealers was sufficient to the success of his new venture. This relationship was so strong that the dealers granted him wood and machinery on credit at the start. As it turned out, other factors - also related to his management of his network - upset this outcome. The path between the right alliance and success is not straightforward. Some businesses with good connections do succeed, but there are also many that fail.

Social ties are prevalent - all firms are embedded within a network of social ties, and most entrepreneurs use these to advance their businesses. Yet, to say connections are universal does not mean that all connections matter in the same way. The social network of an entrepreneur is a valued resource, but it might be poorer or richer, larger or smaller, more or less diverse than that of a neighbouring entrepreneur. In addition, different entrepreneurs may feel differently predisposed to use their social ties - some entrepreneurs rely more on social ties than others. Moreover, embeddedness is double edged - it conveys trust just as it allows malfeasance (Granovetter 1985), and this is the crux of social capital. A stronger tie involves greater trust between two parties and trust allows for safer and faster transactions because it embodies both greater obligation and reliability. As Uzzi shows, "trust acted as the governance mechanism of embedded relationships. It facilitated the exchange of resources and information that are crucial for high performance but are difficult to value and transfer via market ties" (Uzzi 1996: 678). Yet, symmetrically that trust exposes both parties to a greater risk of deception. 'The embeddedness argument stresses instead the role of concrete personal relations and structures (or 'networks') of such relations in generating trust and discouraging malfeasance' (Granovetter 1985). In order to understand how an alliance can be harmful or helpful, I will establish answers to the following questions on the entrepreneurial process: What is the process of business start up?

Do social ties play a part in that process?

If so, what role do they play?

Finally, do social networks play a positive role in business?

I will begin by assessing how entrepreneurs start their businesses. There are four main aspects of business to consider: the entrepreneur, as the agent of entrepreneurship; the environment, as the context of business creation; the organisation, as the structure under creation (the output); and the process of business creation by which all elements come together (Gartner 1985; Gartner, Mitchell and Vesper 1989). The building blocks within this construction are the resources traded in business: money, reputation, contacts, and knowledge. In establishing the way entrepreneurs go about to start a business - what do they value, what steps do they take? - I define if there is room for the use of social networks in a venture.

Second, I assess whether in starting their businesses entrepreneurs use social networks. One of the resources available to the entrepreneur is his social network. Acquaintances are universally available (provided that one lives in society) and they are understood as a useful 'instrument' for good business performance. Before assessing the role of social networks, however, I have to establish the presence of social ties in the business creation process.

Third, for which purposes are social networks used? If entrepreneurs were using their social networks, one would expect that there is a strategy to that use. It seems fair at this stage to suppose that strategy is linked to the process of gathering resources and overcoming problems in the venture. I also examine the different developmental stages of a start up. At these different stages, there can be a greater or smaller need to resort to the use of social ties (and of a particular type). In each stage I analyse which resources are abundant, which are scarce, and which resources require the use of social ties (if social ties are used at all).

Fourth, if I document different uses of connections, and strategies I still have to answer the question: 'does it matter?' Different uses of social ties sustained on different strategies can entail unintended consequences. Perhaps an entrepreneur thought that by creating an alliance with his cousin, who understood a lot about furniture, he was strengthening his business. Yet, maybe his cousin was tied to a number of low profit contractual relationships. In the end, the use of this particular connection could become detrimental to the development of the business. The last task in this process is to evaluate whether the outcome of the use of social networks is beneficial or detrimental to the venture. I conclude whether social networks have an importance (positive, negative or negligible) to the development of small businesses. In investigating these four dimensions, I answer the question structuring this thesis, i.e., 'How does social capital embodied within social networks influence the performance of small businesses?

In sum, this research tries to understand when and why the use of social connections can either improve or inhibit the growth of small businesses.

CHAPTER II - METHODOLOGY

In this Chapter, I will describe the methodology behind this thesis. Specifically, I will present the universe to which the research applies and the context in which it fits in. I will also present the research design that I chose, and justify why this choice was made. Finally, I will explain the process of collecting observations on the businesses, as well as the techniques used in analysing the data.

1. The universe and Context of research

The universe to which this research refers is the group of small business partnerships that start in low credit and low technology conditions in Portugal. I will start by defining each of these terms and, in the following sections, explain how they constrain the scope of the research findings.

1.1. Small business partnerships in low credit and low technology conditions

Following the Portuguese National Institute of Statistics (I.N.E.), I define small businesses as those whose entrepreneurs declare less than 10 employees in service when they are legally registered.[16] Most businesses in Portugal start with few or no employees, so small business are representative of the population of start-ups in the country. In 1993, 77.9% of all existing registered companies had less than 10 employees (IAPMEI 1995: 9), while in 1991, 97.4% of new registered companies were small (Estatistica 1994).

[16] The European agency Eurostat refers to these as 'micro businesses.'

I chose small businesses for two reasons. First, if a business is small, the entrepreneur has to play a very active part in it. In small companies, the owner of the business is usually also the manager. For instance, management and ownership were separated in only 4 of the 42 businesses that I interviewed, and I came across only 6 managers against 85 entrepreneurs. This concentration of power allied with the small size of the venture places the owner not only as a privileged source of information, but also as the dominant source of this information. Since the owner is in charge of all major management decisions, is responsible for managing the business's contacts, and is the chief agent in the development of the business's social network, it is unlikely that whatever happens in the business will slip his or her attention. The entrepreneur is the principal agent of business development and therefore also its natural primary informant. He/she is able to provide all the necessary information about the development of the business, so that most of the data can be obtained by interviewing him/her alone.

The second reason to focus on small businesses is that their social network usually coincides with that of the entrepreneur. I therefore do not need to look beyond the entrepreneur to account for the social ties that provided resources to the business. It is therefore easier to identify the network as well as the flow of resources going through it.

The focus on partnerships in turn is driven mostly by data availability. The Portuguese National Institute of Statistics does not collect data on sole traders with less than 10 employees, so it would be difficult to locate these businesses. In the context of this study, the restriction to partnerships is likely advantageous. Partnerships are especially interesting in the study of social networks in business creation since they necessarily entail the co-optation of at least two sets of resources into the business – those of the partners. Partnerships are a natural subject for a study of social networks in businesses since, from their inception, these businesses appear as an outgrowth of the social tie connecting the partners and their networks.

Finally, the emphasis is put on low credit and low technology businesses. It is desirable to restrict the universe to a group of businesses that are not too different so that the analysis can focus on the different use of social networks as the main determinant of performance. The amount of credit available and the extent of technological sophistication of the industry are two important dimensions over which businesses can greatly differ in ways that affect their dynamics of development, failure, and success. I focus on low credit and low technology businesses since they are the predominant type of business in Portugal. It would be difficult to find (or sample) high credit, high technology businesses. Moreover, by focusing on the predominant small Portuguese businesses, on their misgivings and their potential for development, this thesis can be used to evaluate best practices and develop potential insights for use in policy towards the development of small business. A further reason to focus on low credit, low technology businesses is that a main theoretical concern of this thesis is to understand how people create and find resources in conditions of general scarcity, including scarcity of credit and technological development.

1.2. The geographical setting – Portugal

This research is about business start-ups in Portugal. As such, it is important to describe some of the main features of that country, particularly in terms of their impact on the business creation process.

As Barreto and Preto (1997) note, Portugal was stable politically, socially, and economically for the period in question (1993-2000). Between 1993 and 1995, the country was ruled by the Social-Democratic Party, which gave way to the Socialist Party from 1995 to 2000. In regards to their policies towards small businesses, there were no significant differences between these two Governments. This was also a period of tranquil economic expansion, with a gradual acceleration in economic growth towards a boom in the late 1990s (Lopes 1997).

Following the markedly socialist revolution of 1974, during the 1980s the country gradually moved towards a market economy.[17] This was particularly accentuated during the three sequential social democratic governments of Aníbal Cavaco Silva, from 1985 to 1995. Aside from the economic liberalisation policy that marked the period, there was a clear determination to embrace the core of capitalist values in all possible ways. In particular, the values of individualism and profit (as opposed to values of solidarity and redistribution of wealth of post-revolution Portugal), and upward social mobility (as opposed to the importance of knowing one's own place that structured the social fabric in pre-revolution Portugal), gained a new, highly prized and visible status.

Monica summarises the zeitgeist: "Ambition finally ceased to be considered a fault. The social mobility of recent years is evident. Despite of the lack of research to quantify it, we only need open eyes and attentive ears to take notice of it: housekeepers that want to do plastic surgery, taxi drivers whose children are doing post-graduation degrees, peasants whose offspring speaks foreign languages" (Monica 1997: 229). The

[17] The communist and the socialist parties were the two main political blocks of the immediate post 1974. The communist party had strong connections to the USSR and the Socialist party had links to the United States of America, and paved the way to a change to a market economy.

relative deprivation of the lower strata of Portuguese society became apparent with the revolution of 1974, with the mass geographical migrations and the end of censured media, setting off a desire for upward mobility during the following decades.

The political rhetoric of the time also illustrates the change in values and the confidence in the liberal individualism model. For instance, a Cabinet report in 1987 states: "man relies first on himself and after on a society that in turn relies on men and women like himself" in (Viegas 1998: 135). The opposition derisively names the newly embraced combination of liberalism and search for effectiveness 'the ideology of success.'

The entrepreneurs that started a business in 1993 faced an economic and political environment that had been cherishing the 'entrepreneurial' and 'individualistic' ethos for the last 6 years. The Portugal of 1993 was not opposed to entrepreneurs, as possibly that of 1974 was. There was agreement on the general destiny of the country in a political environment of stabilised democracy. Even when, in the elections of 1995, socialist Antonio Guterres replaced the social democrats in power, the economic policy did not change. Rather, this socialist government maintained (or slightly accelerated) the process of privatisation of the companies that had been nationalised in the immediate years following the 1974 revolution.

The flow of funds that Portugal received from the European Community during this period is particularly relevant to this research. Some of these funds were used to stimulate small businesses, namely by providing venture capital and assisting the development of industry-specific technologies. Notably, Business Innovation Centres were created, and have been central to the public policy towards the development of

Portuguese industry, especially in industrial endeavours that involve cutting-edge technologies.

It is still to be evaluated what impact the European structural funds had in the development of small industrial businesses. Access to these structural funds requires having organised accounts and periodically reporting back on the state of the projects. As I will explain in detail later, one important characteristic of the small businesses analysed in this thesis is that only rarely are they sufficiently organised to satisfy these minimum criteria. Only one company out of the 42 in the sample in this study benefited from any structural funds during the period of analysis.[18]

A characteristic of most Portuguese start-ups, if not most small business start-ups, is that they start with low credit. Banks are unwilling to lend to previously untested entrepreneurs. As Freire (1995) has noted,

"... The gathering of start-up capital necessary to self-employment highlights, once again, the importance of the private sphere and close social ties to the accomplishment of this important step in the professional and family life of the subjects. The three most important sources of capital all came from this sphere [family]: first 'own savings' (56%) – reinforcing the idea of a pre-existing strategy of self-employment; second the 'private loans' and 'other private sources of funding (which include inheritances and weddings)' (each 16%). Only after these three follows the 'bank loan' (9%)..."[19] (Freire 1995: 97-98)

[18] Miguel, the entrepreneur in business G17 took his idea of a new product to the Porto BIC (Business Innovation Centre), which helped him start his business by providing some funding, a template for business start-ups, and expert help like accountants and lawyers.
[19] My translation.

There is also a limited availability of venture capitalists that, in turn, would be mostly interested in businesses that are more technological and promise higher returns. This accepted wisdom was significantly confirmed by the data that I collected. The sums of money involved in the start-ups I interviewed for this project were meagre. As pointed out by Starr and MacMillan (1991), and Freire (1995), among others, given these credit restrictions, the most reliable source of venture capital is the social network of the nascent entrepreneurs. As my data confirm, the entrepreneur is forced to use his/her social network in order to search for credit resources essential for the business start-up from the start.

In terms of social characteristics, one of the more remarkable features of the Portuguese entrepreneurs is their low education. Most have only completed primary schooling - a mirror of the Portuguese educational profile. According to Estanque and Mendes (1997: 57) 41.7% of the Portuguese population has 4 or less years of schooling. Consequently, education or entrepreneurship have been the two major strategies for upward mobility (Almeida, Costa and Machado 1994). Starting a new venture is appealing to many inasmuch as it is an activity open to everyone regardless of education level, especially in a context where the majority of the entrepreneurs have low education. For those with very little schooling, entrepreneurship is the major route to a middle class living standard - they expected the venture to enhance their status and consumption levels. Strangely, the desire for upward social mobility through entrepreneurship has received relatively little attention in the sociological literature.[20] In the words of Scase

[20] The few exceptions include Scase, Richard, and Robert Goffee. 1982. *The Entrepreneurial Middle Class*. London: Croom Helm. and the articles in

and Goffee (1982: 21), "there have been hardly any sociological studies of the processes whereby *actors* can experience upward mobility through the small-scale accumulation of capital."

Furthermore, the qualified labour is typically absorbed by the State: "Another structural characteristic of Portuguese society is the centrality of the State as an element in the incorporation of the workforce. The workers with more credentials and more organizational power are mainly employed by the State. The State has, therefore, a decisive role in the significant weight that the managers, namely the qualified managers, occupy in our workforce[21]" (Estanque and Mendes 1997: 100).

The low education of most entrepreneurs also means that their businesses tend to make limited investment in technology. The entrepreneurs typically learn their craft on the job, gradually evolving from apprentices to craftsmen and finally to entrepreneurs. Their lack of formal education precludes them from directly accessing new sources of technology. Moreover, the businesses rarely have sufficient resources (both in know-how and money) to commit to ambitious projects involving advanced technologies. The low schooling of the entrepreneurs combined with the unavailability of funds for investment hampers any dreams of technological sophistication. Usually, entrepreneurs adopt a production process that they 'learned by doing' in their previous employment.

While a poorly educated entrepreneur with little technological skills has the option of co-opting technical knowledge, like a better-educated partner or employer, in practice this is rarely the case. Most social networks tend to be homogeneous in terms of

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Bechhofer, Frank, and Brian Elliott (Eds.). 1981. *The Petite Bourgeoisie: Comparative Studies of the Uneasy Stratum*. London: The Macmillan Press..

[21] My translation.

qualifications. Thus, the entrepreneur's network does not typically include educated persons, from whom he/she could draw information resources.

In short, setting the research in Portugal restricted its scope to the study of businesses in a stable country whose culture valued entrepreneurial success, though these tend to be run by entrepreneurs with little formal education, who learned their craft on the job, often in the context of a family business, and had little money to assign to the start-up. Finally, they used simple and traditional means of production, with little access to any significant technological innovations.[22]

2. THE RESEARCH DESIGN

2.1. Objectives of the research design

The main aim of the research design is to compare the performance of ventures and assess to what extent this is determined by the use of social ties in business development. In other words, the aim is to assess if variations in business performance can be explained by how entrepreneurs use their social ties.

There is essentially no collected information on the explanatory variable, the social network of entrepreneurs. A secondary aim of this thesis is to collect such information, in this case in the context of business creation.

A further aim of the research design is to assess whether the use of social ties in business development differs across industries. In determining whether social ties are important for business performance, it is important to establish whether the conclusions

[22] These features in turn conditioned the collection of the data. Section 3 of this Chapter will discuss this in detail.

are robust across different industries. One might expect that while social ties may be crucial for a business which depends on the network to obtain its technology, financing, suppliers, and customers, this may not be the case in industries that require less financing, or are subject to more product innovation.

However, some care must be taken in choosing industries that are not too dissimilar. Otherwise, there would be too many different factors aside from the use of social ties that are responsible for the different success of the businesses in different industries. It would then be difficult to isolate the impact of social ties from these other factors. For instance, it is important not to choose an industry in which, as a result of its market conditions, most businesses fail within a couple of years of their creation, and compare it with another industry where most businesses survive the initial period. This would potentially lead to the erroneous inference that the use of social ties is connected with the different success of the businesses in the two industries, when instead it is the characteristics of the market in which they are integrated that explains this difference.

In an attempt to keep a manageable amount of heterogeneity, this thesis will focus on two industries that differ especially across two dimensions: the knowledge of the entrepreneurs, and the technological complexity of the methods of productions. This is informative in addressing a further question of this research: if entrepreneurs use their social network to co-opt resources into the venture, then what resources are obtained in this way? For instance, one might argue that the important determinant of business success is social capital, or instead that knowledge resources are the crucial ones. Kim, Aldrich and Keiser (2003) argue that knowledge resources are more important than economic capital for business start-ups. By focusing on two industries that differ in the knowledge that they require from the entrepreneurs, I hope to assess whether knowledge is indeed an important determinant of business success.

2.2. Comparison between two industries: graphic arts and furniture

Given the stated research objectives, this section explains the criteria used in selecting the two industries of study, namely the furniture and graphic arts.

Within the universe of Portuguese industries, I first decided to restrict the research to manufacturing industries. The Portuguese manufacturing sector differs considerably from the primary sector or the service sector (Lopes 1997). As the previous section explained, it is important to focus on only one of the three main sectors of economic activity, and I chose manufacturing because I was interested in the potential for technological advancement of the small industrial businesses in Portugal.[23]

The second restriction set by the objectives of the research design is to small businesses. According to (Pereira 1996), in the year of 1993, there were 19,699 enterprises with less than 10 employees belonging to the group of manufacturing industries in Portugal, split between 26 different divisions, as defined by the C.A.E.[24]

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[23] By the "manufacturing sector," I mean sector D or 33 in the Portuguese classification of economic activities (C.A.E.).

[24] The C.A.E. is the Classification of Economic Activities. This system provides a structure of classification and identification of all economic activities. Industries, as well as any economic activity, are sorted according to this classification, according to the information provided by the businessman/woman when the enterprise is registered. The C.A.E. was first developed in 1973 and was further updated in 1990. Most data are generated nowadays according to the 1990 revision. Each activity is given a five-digit number for identification. The two first digits stand for the section within the sector of activity (agriculture, industry, and services), which is called the 'division'. Each sector is further divided into general groups, which in turn are divided in classes and (possibly) sub-classes. As an example of the two-digit level of the classification, number 22 represents the editing, printing, and related industries, whereas 36 represents furniture

Table II.1 displays the distribution of the total number of enterprises with 0 to 9 employees per industry division.

and related industries. The categories of the classification of economic activities (as the category of 'micro enterprises') were originally created to build a demography of the enterprises, linked to the process of State monitoring of the economic field. As such, they conform to policy reasoning and do not necessarily have a scientific rationale behind. Still, the advantage of using State-generated data is that it is the most detailed and reliable available in the country.

Table II.1: Number of businesses with 0 to 9 employees per industrial division in 1993

Industry division	Number of enterprises in 1993 per industry division	Percentage of the total
Food	2 223	10.8
Drink	82	0.4
Textile	1 023	5.0
Garment	2 185	10.7
Cork	245	1.2
Shoes	529	2.6
Wood	2 641	12.9
Furniture	2 554	12.5
Paper	141	0.7
Graphic Arts and Publishing	1 109	5.4
Industrial Chemical Products	80	0.4
Other Chemical Products	228	1.1
Oil Refinery	-	-
Rubber	79	0.4
Plastic	194	0.9
China and Clay	232	1.1
Glass and Glass Products	171	0.8
Other Non-metallic Mineral Products	1 067	5.2
Steal and Iron	77	0.4
Non-iron Metals	109	0.5
Metallic Products	3 656	17.8
Non-electric Machines	649	3.2
Electric Machines	289	1.4
Materials For Transportation	180	0.9
Professional Instruments	154	0.7
Other Industries	577	2.8
Total	20 475	99.8%

Source: (IAPMEI 1995)

From the different industries in Table II.1, I started by focusing attention on those that have a modal number of employees between 0 and 9. This way, I selected industries for which small businesses are the representative firm.

I further focused on industries that have a large absolute number of small businesses so that there was a full range of differences between 'failed' and 'still running' businesses in 2000. Concretely, I short-listed industries that represented at least 5% (around 1000 businesses) of the total number of small businesses operating in the year of

1993. This yielded 8 industries: food, textiles, garment, wood, furniture, graphic arts and publishing, metallic products, and other non-metallic mineral products.

Pereira (1996) studied the profile of new start-ups in Portugal over a large number of years and reported that the industries that have a significant number of small businesses in Portugal are: wood and cork, graphic arts, other chemical products, metallic products, and non-electric machines. This set matches quite closely the 8 industries that I selected as accounting for the bulk of small business creation, from the data for 1993. Focusing on this single year does not seem to bias the sample selection process.

Finally, out of this set of industries, I wanted to pick two that provided a contrast in the use of technology and knowledge resources, while being similar in most other regards. Taking this into account, I chose to focus on the following two industries: furniture and graphic arts.[25] Both industries share a small business profile, require little capital at start-up, and face similar markets with few barriers to entry. However, they differ across a number of interesting dimensions for the purpose of this thesis.

2.2.1. The furniture industry

The furniture industry, as defined in the Portuguese C.A.E., comprises all businesses that produce: chairs and seats, office furniture, kitchen furniture, wooden furniture, metallic furniture, furniture made with other materials, and mattresses. The cost of inputs to these businesses has been relatively stable over the past two decades in Portugal, mostly as a result of the reluctance of the entrepreneurs to abandon their

[25] Which are respectively groups 36 and 22 in the 1990 C.A.E.

traditional methods and materials. The price of machines and other raw inputs used in the industry has also changed little, as a result of limited technological progress.[26]

These methods of production require little formal education by the artisans and entrepreneurs. The majority of entrepreneurs in the furniture industry have only completed primary schooling (4 years) and so can only barely read and write (Estanque and Mendes 1997; Guerreiro 1996). The methods of production employed are based on craftsmanship, and have been in place for a long time, with little change. Most entrepreneurs were once apprentices who learned the craft by doing (on the job) and almost all of their knowledge comes from learning on the job. In turn, the working force also has few formal qualifications, and almost no formal training. The more knowledgeable entrepreneurs are usually descendants of other entrepreneurs in the industry, which reflects another feature of the businesses in this industry: they are mostly family units.

Another feature of the Portuguese furniture industry is the strong relationship between the craftsman and each of his/her pieces, with attention paid to detail and (at least in discourse) to quality.[27] In stark contrast with mass production, the entrepreneur dedicates special care to each of the pieces he/she produces, and are engaged in all stages

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[26] The exception has been the evolutions in varnishing, where new chemicals that are more effective and efficient were introduced. These were easy to adopt by the entrepreneurs, both because suppliers heavily marketed them, and because they are easy to implement by following a few simple instructions. This technological innovation did have an impact on the industry in that, before their introduction, polishing companies did most of the varnishing using labour intensive methods. Following the introduction of the chemicals, almost all of these polishing companies were driven out of business. I was able to trace out only one of these businesses, which was included in the sample and was the sole example of the impact of new technology on small businesses.

[27] There are many examples of this discourse on quality in the interviews. One clear example is the statement of the following entrepreneur in the furniture industry: "My products are better. I look at every detail. I do not care for money." M30 (527:543).

of the production process. While the entrepreneurs in my sample were aware of the lack of speed in their methods, they justified their use by the greater quality that they supposedly yield.[28] Also, in their purchase of materials for the business, they prefer traditional materials over industrially processed ones. Another (minority) group of entrepreneurs in the furniture industry use traditional methods with the specific aim of "reinventing traditions,"[29] rebelling against industrial production and explicitly trying to perpetuate traditional production methods.

In terms of geographical distribution, this industry is spread all over Portugal. There is, however, an established industrial district of furniture businesses in the North of Portugal in the counties of 'Paredes' and 'Paços de Ferreira'. Moreover, the furniture businesses tend to be concentrated in rural areas, though usually relatively close to large urban centres. The entrepreneurs in the furniture industry are not very geographically mobile, and often live in relatively closed communities in which everyone knows everyone else. Their family has often been a member of the community for a few generations, and has been involved in producing furniture for a while. The businesses are usually located close to their homes.

A final notable feature of the furniture industry is that it is especially prone to coalitions or cartel formation. Because the entrepreneurs in the different geographical markets are usually concentrated around certain areas, they usually all know each other. They often have tacit non-competition agreements between them, charging very similar

[28] In some cases, this alleged greater quality was used to justify higher prices charged to the consumer, which is for instance the case of M30.

[29] This was clearly the case of M23, a married couple of high school teachers that decided to start a venture for the restoration of antique furniture. In restoration they only used methods and substances of the time when the piece was produced.

prices, and restricting their markets to specific geographical areas so as to not compete directly with one another.

2.2.2. The graphic arts industry

Following again the Portuguese national classification of economic activities, the graphic arts industry comprises businesses in: printing (general), binding, composition and preparation for printing, and activities related to printing. This industry is, by the nature of its product, more technologically developed and demanding. In contrast to the traditional profile of the furniture industry, it is an "innovation industry." While the enterprises are not producers of innovation in the area, in order to survive they must keep up with the latest technological developments. Contrary to furniture, the graphics arts industry must involve some elements of research and development. In the last two decades, there has been moderate technological development, especially associated with information technologies. The graphic arts are nowadays mostly computer-based. Computer-assisted design has greatly improved the efficiency and altered the method of production. Moreover, around 1993, the industry absorbed a sudden influx of inexpensive second hand machinery from Northern European countries. This resulted in a fall in the price of machines, and in their adoption by most businesses.

The graphic arts industry therefore requires more educated entrepreneurs than the furniture industry. As such, one would expect that most entrepreneurs in this area have more formal schooling than their counterparts in furniture. At a minimum, they must at least have some basic knowledge of the English language, and the use of computers. The same is required of its workforce, and the industry suffers from the lack of qualified personnel in Portugal, according to the entrepreneurs.

The evolution from craftsmanship to the division of tasks, following some of the principles espoused by Frederick Taylor and Henry Ford at the beginning of the twentieth century, is already firmly established in the Portuguese graphics industry. Older entrepreneurs in the industry report that a detailed division of tasks had been in place from the late 1950s. In order to become a graphic artist, an apprentice must learn in sequence all of these individual tasks.

Geographically, while there are elements of the graphic arts industry all over Portugal, there is a large concentration centred in the Lisbon and Tagus valley. This is a larger urban area in Portugal, with less prevalence of small community relations. The entrepreneurs in graphics arts tend to be more geographically mobile than their furniture counterparts, and live further away from their workshops.

Finally, graphics arts industries tend to be more exposed to competition than furniture businesses. The fact that many of them compete in the same, large, Lisbon market, and that they do not have such a close-knit connection with each other, implies that they are unable to sustain collusion agreements. The exception is the binding business, which shows clear collusion practices.

To sum up, furniture businesses are: (1) traditional, (2) not inclined to innovate, (3) populated by poorly uneducated entrepreneurs and workers, (4) tend to craft pieces individually using a craft-based process (5) mostly located in the North, (6) in close-knit communities of which the entrepreneur's family has been a member from some time, and (7) prone to anti-competition agreements. The graphic arts industry in contrast: (1)

requires modern technology, (2) has experienced innovations, (3) requires at least some formal training for its staff, (4) although it has a production process characterised by a substantial division of labour, (5) and is located mostly around Lisbon, (6) in larger urban communities often separate from the entrepreneurs' community, (7) being generally more subject to competitive pressure.

To reiterate, the objective was to choose an industry that was more traditional, requiring less use of knowledge resources, and a more technologically developed one. Furniture and graphics arts seem to fit this distinction, which is why I chose them. It should be noted though that both industries are still not very technologically intensive. The differences in creation and use of technology should best be seen as moderate rather than extreme.

2.3. The timing of the research

The observation referred to the period between 1993 and 2000. Since the entrepreneurs were the narrators of the story of the businesses, there was great interest in minimizing the 'memory biases of the entrepreneurs as respondents. In order to do so, I could not allow the period of development of the business to be too large. A seven-year period was not detrimental to the memory of the entrepreneurs and was fundamental to account for liabilities of newness and liabilities of smallness, as well as the shift between the implementation and stabilization phases of business development; according to (Olsen and Kolvereid 1994), this shift occurs approximately five years after the business start-up.

The seven-year period is adequate because the death rate of enterprises created at a given moment tends to decrease with time. Freeman, Carrol and Hannan (1983) and Hannan and Freeman (1989) argue that in a population of organizations, time and death are inversely related. Organizations should be more likely to dissolve when they are new and this likelihood should decrease over time. Bruderl and Schussler (1990) and Bruderl, Preisendorfer and Ziegler (1992) argue instead that the death rate of a population of enterprises in time is best fitted by an inverted U curve. According to these authors, enterprises are susceptible to liabilities of adolescence rather than liabilities of newness. This is because typically an organization can outlive an early period of duress based on the resources collected before the start up.

Both the argument of liabilities of newness and that of liabilities of adolescence uphold that after a given period, the death rate of organizations in a population stabilizes. According to Bruderl and Schussler (1990) and Bruderl, Preisendorfer and Ziegler (1992) a period of 60 months seems to be crucial to observe the decreasing death rates on a population of enterprises. After this period, the death rate is approximately constant.

A further effect on the death rate of ventures - in the case of micro and small enterprises - stems from the existence of liabilities of smallness. A population that is mainly composed of small organizations has an inverted U curve of death rate over time, possibly heavily skewed towards the left (Bruderl and Schussler 1990; Bruderl, Preisendorfer and Ziegler 1992), therefore quite similar to the shape suggested by the argument of liabilities of adolescence. This is an indication that smaller businesses tend to co-opt smaller amounts of resources before the start-up, hence they are less prepared for the demands of the period that follows the start-up, and their likelihood to subsist is lower. Accordingly, the period needed to observe the evolution of the enterprises is smaller because the death rate is faster and thus stabilizes sooner, due to the scarcity of resources with which a small enterprise starts.

Given these arguments, within this research setting, seven years seems to be an appropriate time span to observe the behaviour of the chosen population of enterprises. The data was therefore collected throughout the year of 2000, seven years after the start-up date in 1993.

2.4. Existing data and the method of data collection

To repeat, I wish to assess whether it is possible to account for variations in business performance, the dependent variable, by whether and how much entrepreneurs use their social ties, the explanatory variable.

As a starting point, sampling on the explanatory variable was impossible. There is no existing data that I am aware of on the use of social ties by entrepreneurs in Portugal. Sampling on the dependent variable in turn also faced important data limitations. The Portuguese National Institute of Statistics (INE) collects information on all businesses legally registered in Portugal. From their database, I obtained the enterprise listings, which includes the enterprise name and address. The lists are based on three different pieces of information collected by the state. The first is the national register of collective persons, where the 'social pact' is registered, which provides data on the date of constitution of an enterprise, their dissolution, their position towards the classification of economic activities (CAE), legal status, name (social designation), address, and 'capital social.'[30] Second, the general directorship for taxes and the service directorship for VAT provide data on the volume of sales and situation towards activity. Finally, the ministry of employment adds data on the number of employees. This data file is subjected to a yearly 'batch' actualisation. The INE conducts direct surveys, sampling units in order to validate the file qualitatively.

A clarification is in order regarding the date of constitution of an enterprise. This date does not necessarily refer to the date of creation of an enterprise but in some cases it refers to the date of change of the 'social pact' of the enterprise. If an enterprise wishes to change its status in the national register of collective persons, say by increasing its legal value ('capital social'), or taking in (or out) a partner, it must change the 'social pact.' When it does so, the INE attributes to the business a new constitution date. By selecting all the enterprises in a given year, for instance 1993, one finds both enterprises created in that year and enterprises that changed their 'social pact' that year. Since the changing of the 'social pact' signals in most cases the constitution of a new partnership, it involves putting together a new combination of resources. Thus, all enterprises cropped in a given year - be those 'true' births or re-births - are of interest to this thesis. Taylor elaborates on this point: "business enterprises are, it is proposed, more appropriately conceptualised as temporary expressions of the process of enterprise: legal and operational entities that are temporary coalitions of networked ventures and entrepreneurial endeavour that are crystallised and dissolved as conditions (economic, social and regulatory) change and are modified" (Taylor 1999: 7).

[30] 'Capital social' is an amount declared by the entrepreneur that represents the legal value of the business.

The Portuguese National Institute of Statistics does not collect information on the state and performance of small businesses after their creation. The existing information on these small businesses relevant to this thesis is confined to: the date of their legal creation, the address at which they were based then, the number of employers at service, and their type of economic activity. It is therefore not possible to ex ante sample businesses based on performance (i.e. on the dependent variable).

Given these limitations imposed by the available data, I opted to conduct a "case-controlled" study. This is a method for selection of observations that entails the intentional selection of observations towards generating large variation in the dependent variable. This research design compares two sub-samples of cases with opposite outcomes. Observations are intentionally selected to try to produce as much variation as possible in business performance, in order to give rise to stark contrasts, which clarify the analysis. It has been developed mainly in epidemiology for the study of rare diseases that are difficult to sample in the population (King, Keohane and Verba 1994: 141). A good advantage of a retrospective research design is that it "(...) may help us gain some valuable information about the empirical possibility of a causal inference, since we might well find that high and low values of the dependent variable are associated with high and low values, respectively, of potential explanatory variables." (King, Keohane and Verba 1994: 141-142).

By virtue of its nature, this research design emphasizes the exploratory character of the research, since it leaves the explanatory variables describing the use of social networks undetermined before proceeding to collect the data. "To have uncertainty about causal inferences, we must leave values of the explanatory or dependent variable to be determined by the research situation" (King, Keohane and Verba 1994: 141-142). For the purpose of this thesis, given the uncertainty on how to best measure the extent to which social networks are used in enhancing business performance, the exploratory feature of the case controlled study was particularly attractive.

This exploratory element, in turn, conditions the nature of the generalisations of this research. In *lieu* of empirical generalisations that have to be built on a sound statistical basis, which the "case-controlled" study does not allow for, the generalisations in the thesis assume a theoretical nature. They are the result of the careful analysis of a few cases that are meaningful in the context of the question, and that point out a number of novel theoretical propositions, which should be further researched.

In the case of this thesis, conducting a case-controlled study implied seeking out each business and its entrepreneurs individually, and in the course of the data collection assessing whether the business was successful or not. The observations were selected according to the two basic measures of business performance: failure and success. A failed business is roughly defined as a business which did not exist at the time of the selection of the interviews (7 years after it was registered). A successful business is, by opposition, a business still running after 7 years. Yet, after reviewing the data, it became clear that the 'success' group was not homogeneous. In fact, it would easily benefit from a division into two categories: 'survival' and 'success', a separation that is reflected in the content of Chapters IV and VI. This operation, however, occurred after the data collection and did not affect it.

There are a number of issues concerning the definition of failure that also merit discussion. First, a declaration of failure to the State is not equivalent to a failure taken in a strict sense.[31] For instance, G130 was a spin-off of a larger business that wanted to try out a new service without incurring the costs of a potential failure. After a few years, since the venture was successful, the entrepreneurs closed it and started providing the service within the mother company. Yet, the business was officially declared a failure. It is unclear if the business is truly a failure or not. Legally it is so, but economically it was viable. Another issue that merits discussion is whether there is a selection bias in the group of entrepreneurs with failed businesses. I encountered a large proportion of entrepreneurs with failed businesses that had started new ones, which raises the questions about the failed businesses that cannot be traced, such as those that belonged to entrepreneurs that ran away and did not start other businesses. The following table shows the 7 failed businesses that led to another start-up; the 3 businesses whose entrepreneurs ran away and relocated and did not start a new business; and the 4 businesses whose entrepreneurs did not relocate or re-start a business.

[31] Likewise, opening an enterprise can be different from a start-up.

Table II.2: Evaluation of failed businesses

Failed businesses		
That restarted	That did not restart	
	Whose entrepreneurs relocated	Whose entrepreneurs did not relocate
G26, G38, M51, M61, M65, F66, M73	M44, M69, G85	M23, G55, G65, G130
7 businesses	3 businesses	4 businesses

The failed businesses are thus a heterogeneous category. Failure may mean any one of the following definitions: business that declared failure because they were successful and were incorporated in a larger mother company; businesses that declared failure because their tax system was not compliant to the entrepreneur's habits; businesses that declared failure because the partners within the coalition split due to management issues, trust, or money issues (although one of the partners may go on to start another business that turns out successful with the same machinery and under a different name); businesses that declared failure because there were severe credit problems with the clients and the suppliers; businesses that declared failure because the entrepreneurs were conned by the suppliers, the clients or merging partners; businesses that declared failure because they depended almost exclusively on one client; businesses that declared failure due to the lack of commitment of the entrepreneurs; businesses that declared failure due to the entrepreneur's decision to cease illegal activities; and businesses that declared failure due to bankruptcy. Nonetheless, a failure is a business that, for whatever matter, was not running 7 years after the start-up. The richness of the material on failed businesses will be explored in Chapter V.

The sample was then gradually built up by using these assessments of performance towards the aim of having a final sample that contained sufficient variation in the performance of the businesses.

2.5. The composition and size of the sample

The starting point is the Portuguese National Institute of Statistics (INE) listings of start-ups in 1993 with less than 10 employees at service at the time of creation in the two industries of interest, graphic arts and furniture. This universe comprised 227 businesses, 84 of which in the furniture industry, and 143 in the graphic arts industry. Of these, I interviewed 42 businesses in the course of the year 2000.

My aim was to select an equal share of failed and successful businesses. I chose businesses randomly from the list until I filled up four separate groups, approximately of equal size, splitting the businesses over the two industries, and over whether they had failed or succeeded.[32] The sample was split in this way in order to allow for a comparison between the two industries, as well as to ensure some variation in the performance of the businesses. Further distinctions in performance, especially within the group of successful enterprises, for instance between those that are just surviving and those that are growing, will be further explored in the analysis.[33]

I searched for an approximate amount of failed and successful businesses (in 2000) until the quotas were filled. The complete sample contains 42 businesses and includes the stories of 105 entrepreneurs. Of these 42, half belonged to the furniture industry and the other half to the graphic arts industry. As I expected, it was far harder to track down failed businesses than those still running. This was particularly true in the graphic arts industry, since its entrepreneurs seem to have greater geographical mobility.

[32] Each cell would contain approximately 6 enterprises allowing for a fair dispersal of types of use of social ties.
[33] In particular, this will be done in chapters IV and VI.

Twenty-five of the businesses were still running while seventeen had failed by 2000, of which seven were in the graphics arts industry.

Table II.3 below shows the structure of the sample according to the industry (furniture or graphic arts) and to their status in 2000 (had they failed or were they still running). Each business was awarded a letter - that identifies which industry it belongs to: F for furniture and G for graphic arts – and a number that marks their position in the listing of start-ups.

Table II.3: Sample structure according to the type of industry and the status of the business in 2000

	State of Business in 2000			
	Failure	Still running		
		Survival	Success	Total
Furniture	F23 F51 F54 F61 F65 F66 F69 F30 F44 F73	F02 F22 F63 F32 F46	F11 F18 F55 F33 F43 F80	
Sub-total	10	5	6	21
Graphic Arts	G26 G33 G55 G65 G85 G97 G130	G18 G21 G38 G53 G69 G98	G08 G11 G17 G19 G48 G58 G72 G84	
Sub-total	7	6	8	21
Total	17	11	14	42

Source: My data

2.6. Distribution of 1993 start-ups in Portugal

The geographic distribution of the businesses in my sample is represented in Figure II.1. In turn, Figure II.2 shows the distribution of all start-ups in 1993 in Portugal in 1993. Notably, my sample seems to reflect reasonably well the geographic distribution of start-ups in Portugal.

Figure II.1: Geographic distribution of the businesses in my sample

Figure II.2: Geographic distribution of business start-ups in 1993 of the Furniture and Graphic arts industries in Portugal

There are three main geographic trends to consider in describing the Portuguese population and economic activity: the 'coastal tendency', urbanisation, and the mass abandoning of the interior (Almeida, Costa and Machado 1994; Barreto and Preto 1997; Ferrão 1997).

The 'coastal tendency' of Portugal consists of the concentration of population and economic activity along the western coast, thus leaving the interior economically weak and backward. During the last 25 years, the major (and especially coastal) cities experienced a population boost from migrants formerly living in the interior (East). By contrast to the cities, the countryside is often compared to a human desert, especially in the area of Alentejo (South). The political measures and subsidies to stimulate the fixation of the population in the interior have apparently not been successful. The separation between the East and the West of Portugal can be used as a proxy for the degree of urbanisation and intensity of use of technology in the industry. Notably, most of the business start-ups are located on the West side of this divide, as it is apparent in figure II.2.

Likewise, the North and South divide can be used as a proxy for differences in family structure (Almeida 1986; see Chapter III) and types of social association. While there is no difference between legal institutions in different parts of Portugal, it is a common complaint that the distance to the heavily centralized government bureaucracy in Lisbon affects the access to and use of government programs. Furthermore, the history of the country may have led to cultural differences towards entrepreneurship, as well as in the relation between individuals and the State. As noted by Estanque and Mendes (1997: 178), "in the perception of the Portuguese, the State is the most important medium to achieve a desired solution to a wide range of problems". After having revised my data, I became convinced that there is a geographical divide to this perception: people who live outside of the main urban areas, and especially in the North of the country seem less concerned with the actions of the State, and some times, less aware of the legal implications of their infractions; people in the capital (Lisbon) and other major urban areas, seem to have more information on the existence of Government programs and they seem to be more aware of the consequences of non-compliance with tax and other laws. Perhaps the proximity of the government bureaucracy – which is tightly concentrated around the capital and major urban areas - is responsible for the greater amount of information.

As figure II.2 illustrates, the North and South separation is also very close to the separation between the geographical distribution of the 'furniture' industry (North) and the 'graphic arts' industry (South). The distribution of businesses by performance of business, industry, and geographical location was as follows:

Table II.4: Distribution of interviews by performance of business, industry, and geographical location

		Failure	Survival	Success	Total
Furniture	North	F23 F51 F54 F61 F65 F66 F69	F02 F22 F63	F11 F18 F55	
		7	3	3	13
	South	F30 F44 F73	F32 F46	F33 F43 F80	
		3	2	3	8
	Sub-total	10	5	6	21
Graphic Arts	North	G26 G33	G18 G21 G38	G08 G11 G17 G19	
		2	3	4	9
	South	G55 G65 G85 G97 G130	G53 G69 G98	G48 G58 G72 G84	
		5	3	4	12
	Sub-total	7	6	8	21
	Total	17	11	14	42

More specifically within each region, Paredes and Paços de Ferreira account for a large proportion of the furniture industry, in the same way that the Tagus river valley has an unusually large concentration of graphics arts businesses. These clusters seem to reflect Gartner's (1985) argument on the role of supportive regional environments in fostering strong concentration of businesses in the same industry in a given place.

3. THE DATA COLLECTION TECHNIQUES

To collect data, I chose two qualitative techniques: to conduct in-depth, semi-structured interviews with the entrepreneurs and participant observation. Gartner and Birley (2002) emphasise the importance of qualitative methods for the study of entrepreneurship in addition to the current existing literature using mostly quantitative methods in order to better understand "the development of enterprise and entrepreneurship over time" (Gartner and Birley 2002: 388). In particular, I opted for the narrative interview in order to elicit the story of the different businesses from the perspective of the entrepreneurs (Bauer 1996), the individuals best informed to report the story of the businesses. In some rare instances, the entrepreneurs were not available for interview. In these cases, I interviewed whoever was available that could tell the story of the business. This was true of 6 cases. In F44, I interviewed an accountant since the entrepreneur, David, was hiding from the police in order to avoid legal prosecution after his business had failed. I spoke to the landlord of F51 who was also kin to the partners of this failed business, Helder and Horácio. In the remaining 4 cases I interviewed the manager; these were the only businesses in which there was a separation between ownership and management.

The objective of the interviews was to unveil the story of the creation and development of the enterprise. All of the stories involved some account of how the idea of the business came about, how the business began, and how the enterprise was doing at the time of the interview (or, for failed businesses, at the closure of the business). This provided an account of the performance of the business at different stages, and particularly of the relation between this performance and the actions of the entrepreneur, both in solving but also in creating new problems for the venture. Contrary to the claims of Johannisson (1995: 216),[34] even if I made no mention of social networks during the interviews, they were prevalent in the accounts of the entrepreneurs. To a large extent, the story of the business was a story of the use of social networks by the entrepreneur.

In what follows, I will argue that the narrative interview is the preferred method for data collection given the constraints that I faced, by comparing it to other alternatives and discussing its strengths and weaknesses. I will then describe the details of the interviews in terms of the generative question that started the conversation, the typical course of the dialogue, and the hidden guide that I used to keep track of missing information.

3.1. Alternative approaches to data collection

Why did I not conduct a survey using a structured questionnaire? The main advantage of a survey is that it enables a larger sample, since the respondents do not need to be individually interviewed. With a larger sample come more precise results and an increase in the reliability of the findings. Nevertheless, a postal survey would be impossible to undertake on the population of this study. Most entrepreneurs cannot properly read or write, and would shy away from the postal survey forms, finding them difficult to understand and dismissing them for postal advertisements. A phone survey in turn is also inapplicable. The length of the questionnaire would tire the interviewee, who

[34] "Social ties may be so integrated in the enterprising process and taken for granted that they are not recognised in an interview setting" Johannisson, Begt. 1995. "Paradigms and entrepreneurial networks - some methodological challenges." *Entrepreneurship and Regional Development* 7:215-32.: 216).

would likely halt the interview before all questions were asked. Moreover, I found that Portuguese entrepreneurs were more likely to turn down contacts by phone than in person. I scheduled 10 initial exploratory interviews over the phone, but only one was conducted in the end. The other 9 were postponed so many times that they ended up not taking place. Also, the rate of straight 'no's' was far higher by phone than in person.

The low education of entrepreneurs combined with their tendency to respond negatively to phone contacts ruled out data collection methods that involved written or telephone communications. This forced me to choose a face-to-face method of data collection. Due to the costly nature of face-to-face methods of data collection, I opted for the interview since it yields a greater amount of information in relation to the investment in time and money that it requires.

This choice comes at a cost. It reduces the breadth of the analysis and conclusions because these are based on a small sample. This sacrifice of breadth comes with the benefit of depth. Because so much time is spent with each entrepreneur, the researcher is allowed to probe deeply into the story of the venture, especially if the type of interview in use is semi-structured rather than structured.

A structured interview would be easier to analyse since it is based on an interview guide mainly composed of closed questions, which typically allow for a categorization of the answers. The answers are pre-categorised and the interviewee must choose his/her answer from a well-specified limited menu of options. This is especially valuable in enhancing the comparability of answers across different interviews. It results in a disadvantage though, in that it restricts the role of the interviewee. It reduces the amount of unexpected or new information that the interview can yield, as well as the ability to deepen or expand a particular topic. The absence of collected information on the use of social networks by Portuguese entrepreneurs leads me to prefer an exploratory focus for the data collection. A structured interview is too scripted to allow for exploration: it restricts new information and unexpected answers. Moreover, since the interviews would have to be conducted in person, there would be little to gain in sample size by choosing this form of data collection rather than the alternatives that are more demanding on the interviewer.

A semi-structured interview has a greater amount of open questions. It is less restrictive than either the survey or the structured interview since it gives more freedom to the interviewee to express his/her viewpoint. The interviewer in turn also has more freedom to choose the order in which to ask the questions, which allows him/her to elicit a greater amount of information from the interviewee. This comes at the cost of a higher demand on the ability of the interviewer to conduct the interview, and on the ability of the researcher in comparing different interviews. Moreover, the energy and time required of the interviewer/researcher implies that the sample size must be limited.

Given these trade-offs between the two types of interviews, I chose to opt for the semi-structured interview. The desire to maximise the exploratory nature of the research and allow as much information as possible overwhelmed the other concerns. To serve this purpose, I found two possible options for the format of the semi-structured interview: the ethnographic interview, and the narrative interview.

An ethnographic interview involves the immersion of the researcher in the field of study. The interview can then fluidly take place at any particular time or place, following an open framework that combines the researcher's first-hand knowledge of the field with the circumstances of the moment. What distinguishes it from a regular conversation is the specific request for an interview situation, as well as the focus of the questions on exploring a specific area. It strives to take advantage of the likelihood that the interviewees will feel more open in an informal setting. Ram (1999), among others, highlights the value of ethnographic research to the study of the entrepreneurial process. Nevertheless, this requires an immense amount of effort from the researcher to immerse himself or herself in the field, and greatly restricts the potential sample size. Moreover, the fluidness of the conversation implies that the answer will be very unstructured and difficult to analyse systematically.

The narrative question instead starts from a "generative question," which jump-starts the interview, and then lets the interviewee develop his/her own narrative, with minimal interruptions. When the narrative stops, other generative questions follow designed to clarify details. "How things happened?" and "Why things happened?" are the typical questions at this second stage, which is postponed to the end after all the facts have been laid out by the interviewee. Since these questions are the most intrusive and carry the most assumptions by the researcher, they are left to the end, so that the researcher's opinions will not affect the bulk of the information transmitted by the interviewee.

3.2. The merits and faults of the narrative interview

The narrative interview is generally used as a device for eliciting a story on a significant event of the narrator's life. It is a biographical technique and its main advantage is to produce a personal account of the experience the storyteller had on the event. As such, the interest in the narrative is in the 'meaning structure' it reveals, i.e., an account of the world of the subject by the subject. Another merit of the narrative interview is that since it is composed around the notion of an uninterrupted 'narration', it highlights 'events', 'perspectives on events', 'what happened', and 'who did what and when?' (Bauer 1996).

Relative to the other methods, the narrative interview has a number of advantages. Unlike a written survey, it does not require or assume that the interviewer knows how to read and write. Unlike a phone interview, it involves face-to-face contact with the respondents, which greatly increases the probability that the entrepreneur accepted being interviewed. Unlike a rigidly structured interview, it does not impose a mindset on the interviewee but allows him/her to tell his/her own story of the business, leaving room for unexpected data to emerge, while generating reliable data. Unlike the ethnographic interview in does not depend on an immersion in the field.

The narrative interview has some potential problems though. First, if the interview is too unstructured, there is a fear that it will lead to rambling. When this occurred in my interviews, I tried to intervene to re-direct the interviewee towards the story of the business. This was usually successful. Further, the narrative interview generates a wealth of textual material around mutually exclusive themes. I addressed this by using a method to analyse the data (which will be described in the next section) designed to extract the relevant information from the unstructured raw data.

In some cases, the narrative interview may be too broad to provide useful specific information. As Flick (1998: 99) put it, "... the interest may refer to the informant's life history in general. In this case the generative narrative question is rather unspecified..."

This did not apply to my generative question, since, again following Flick (1998: 99), it aimed "…at a specific, temporal, and topical aspect of the informant's biography, e.g.: a phase of professional reorientation and its consequences."

A third potential problem with this approach to data collection is that some people resist talking about particular issues, especially if they involve painful memories such as disappointing business performance. When it arose, I overcame this problem by resorting to a hidden questionnaire guide composed of non-threatening questions. Factual question on the demographic characterization of the entrepreneur, e.g., age, place of birth, profession of partner, profession of parents, and schooling, served as good ice-breakers without imposing on the subsequent telling of the story. Once the interviewer had gained confidence, I returned to the generative narrative question.

Bauer (1996: 10) notes a further problem with the narrative interview: "the uncontrollable expectations of the informants which put a doubt over the strong claims of the narrative interview being non-directive…" Flick (1998: 103) explains this expectations problem in the following way: "One of the potential problems in conducting narrative interviews is the systematic violation of the role expectations of both participants: first, expectations relating to the situation of an "interview," because (at least for the most part) questions in the usual sense of the word are not asked; and second, expectations linked to the situation of "everyday narration," because the space awarded to the interviewee for the production of his or her narrative is rarely given in everyday life." This issue did not apply in my setting. Because the interviewees were not familiar with the research interview format, they did not have expectations on which to act. Furthermore, most entrepreneurs used their narrative as an opportunity to vent their anxieties, hopes, problems, and how they tried to overcome them. After some initial discomfort, all of them soon became engaged in their story-telling monologue. One reflection of this behaviour is that most interviews told me at the start that they only had 5 minutes to spare, and then ended spending up to 4 hours in the interview.

Another potential problem with the narrative interview is that factual experiences are "coloured" by the interviewee in potentially distorting ways. Indeed, in my interviews, it sometimes happened that when asked about the same issue again in a different verbal context, the interviewee corrected some statements. Precisely for this reason, I had a secret interview guide from where I took questions to probe the interviewee about his/her narrative and confirm the information it contained.

Finally, Bauer (1996: 10) notes that the narrative interview is problematic because of "...the often unrealistic role and rule requirements of its procedures." While this is a difficult problem to resolve, I hope that I have reduced its influence by relaxing some of the rules of the narrative interview. For instance, sometimes it was impossible to start the interview with the generative narrative question. In these cases I preferred to depart from the strict rules, by asking a set of factual non-threatening questions, before returning to the generative narrative question.

As does any other method, the narrative interview has its flaws. Yet, in the context of this thesis, it seems to dominate its alternatives, and I could at least partially address its main faults. I therefore chose this method of data collection.

3.3. The structure of the interview and the generative narrative question

Following Flick (1998: 104) a narrative interview is composed of the following elements:

1 – A main "generative narrative question" which starts the interview;

2 – A "code" by the interviewee signalling the end of the narrative;

3 – The use of other "generative narrative questions," after the "code" to probe the interviewee on the narrative and clarify details. Questions on "how" and "why" are typical of this stage.

The generative narrative question is meant to prompt the interviewee to a long and uninterrupted monologue that focuses on the start-up of his/her business. The question must be sufficiently open to induce the interviewee to wander to the topics he/she feels are relevant, and which might not have been anticipated by the researcher. The interviewer intervenes as little as possible in order to not impose his/her expectations and create as little bias as possible. The question itself should contain as little bias as possible.

I formulated two different questions: one for failed businesses and another for businesses that were still running. It would be strange to ask about a business that had been closed for a long time in the present tense. For successful businesses the narrative question was:

> "I would like you to tell me the story of your business. Maybe you could start with how the enterprise was created and then tell me everything that happened -- good and bad -- that contributed to where the business is today. Please take as much time as you need. I would be very happy if you

could provide me with as much detail as possible. All the information you give me is strictly confidential and will only be used for my research."

For failed businesses the generative narrative question was altered to the following:

"I would like you to tell me the story of your business. Maybe you could start with how the enterprise was created and then tell me everything that happened -- good and bad -- that eventually led to its closure. Please take as much time as you need. I would be very happy if you could provide me with as much detail as possible. All the information you give me is strictly confidential and will only be used for my research."[35]

Note that in the questions I omitted references to social ties. This was important not to bias the interviewee into giving an unduly weight to social ties in the creation of the business. Rather, the aim was to have the interviewee describe the factors that he/she found relevant for the success of the business. Whether social capital was important is the main question this thesis, so it must be kept out of the question to ensure the validity of the data collection. Remarkably, the topic popped out in the interviewee's monologue in all the interviews.

Following the generative narrative question, most interviewees quickly jumped into a narration of their story, and very many of them felt so comfortable with the format of the interview that they produced fairly long reports. The first piece of narration always built an atmosphere of easiness between the interviewee and me. Delving into memories

[35] Both questions were obviously drafted in Portuguese. These are the translations.

produced that atmosphere. Remarkably, the interviews often included topics firmly outside their comfort zone, like the prevalence of crime in business, their particular encounters with crime, and especially tax evasion. Most entrepreneurs were very keen on providing explanations for their success of failure, and in doing so provided much information on their expectations for business ownership (if not always on the true reasons behind the business's success or demise).

There were exceptions though. Some people had difficulty elaborating a story, especially those with low literacy. Schooling was clearly associated with the ability to construct a coherent and flowing narrative. Others were somehow opposed to it for personal reasons. For instance, one man (M22) was very reluctant to tell the story of the failure of a business he had started with his brother. After the closure of the business, both brothers went on to start separate businesses on their own. The man I interviewed seemed to harbour some resentment towards his brother but he would not elaborate on it.

This disparity in story-telling ability led to a disruption of the formal structure of the narrative interview for these cases. The "code" signalling the end of the narration often arrived after a good half an hour or more, but a few times it came after just one sentence, so that the third part of the narrative interview, the probing questions, often arrived much too early. "That is it," or "I have no more to tell you" were the two common "codes." To address this fragmented structure of speech, I developed a narrative interview guide. This was meant to serve solely as a guide for further probing following the narration. Answers were often not sufficiently clear as to produce an assessment of the issue in question, or not sufficiently thorough. Moreover, even if the narrative was clear and comprehensive, it needed to be probed. In the cases where the narration arrived very early, I used the interview guide as a rescue strategy in those cases when the interviewee had a hard time with the narrative. While the narrative interview, and in particular the "generative narrative question," were great starting points, I found that I needed a backup plan.

3.4. The hidden interview guide and typical questions

The hidden guide was structured around four groups of questions with distinct objectives. In order to help the flow of the text I explain the goal of each block of questions in this section, and I placed examples of the questions I asked in Appendix II.

The first group (Appendix II, section 1) aimed to clarify what was the initial endowment of the business, and which resources, among those defined in Chapter I (economic, cultural, symbolic, and social capital) did entrepreneurs use. Because the different resources with which businesses start might affect the performance of the business, it is important to understand what their role is. Resources might differ either because entrepreneurs had different priorities or opinions on what was important, or because they had different abilities to gather resources. For instance, an entrepreneur might find it difficult to enlist knowledge resources (cultural capital) such as the ability to keep accounts in order, because he/she not only does not know how to do it, but he/she also does not know anyone who does.

In order to find what resources entrepreneurs had at start-up, where they found them, and how they valued them, I started by asking (those who had not already clarified this during their narration): "What was the initial endowment of the business?" If the entrepreneurs failed to produce a concrete answer, I broke the question in parts, by asking in turn about economic, cultural, symbolic, and social capital (see Appendix II, sections 1.1., 1.2., 1.3., and 1.4.).

The questions on social capital merit a further note. The aim of the questions was to understand the composition of the social network of the entrepreneur in order to assess which resources did this give him/her access to. Rather than asking about each social tie (which I attempted in the exploratory interviews, and proved to be pointless), I instead asked where each resource in the business had come from (see Appendix II, section 1.4.).

The second group of questions aimed at clarifying what changes occurred that altered the endowment of the business, both in nature and quality, over time. Having identified which resources were important at the start-up stage, it was important to understand which resources became more important as the company matured, and how did the entrepreneur go about finding these resources. Especially, these questions tried to assess how the entrepreneur performed exchanges to obtain these resources in his/her social ties, and under which conditions (see Appendix II, sections 2.1, 2.2, 2.3, and 2.4).

The purpose of the questions in section 2.1 was to follow the path of economic capital coming in and out of the business. I asked identical questions about other forms of economic capital, such as location, supplies, machinery, and transportation.

An extremely important area of the cultural capital of the entrepreneur was his or her familiarity with legal issues. Hence, while asking these questions (section 2.2 of Appendix II), I also tried to uncover how the entrepreneurs wrote contracts, namely with their employees. From the narratives and prior knowledge, I had a suspicion that many employees were not legally contracted. I knew that in many communities there is a high incidence of child labour, understood locally as an apprenticeship period. Moreover, there are some unconventional ways of evading social security taxes. However, these issues do not lend themselves to direct questions, so I tried to uncover them indirectly either by waiting for the interviewee's cue on the subject or through the use of ethnographic sources.

Finally, I began assessing changes in social capital during the exploratory interview by trying to map the social network of the entrepreneur and the changes it went through. The main objective was to pinpoint the areas of the social network that the entrepreneur was more dependent on for different types of help. The changes in these areas over time and the implicit reasons for these changes were of interest. I soon discovered that this effort would be poorly rewarded. The majority of the entrepreneurs had difficulty recalling this type of information. Curiously, there seemed to be a tight relation between higher education and memory: individuals with higher education produced memories more promptly and systematically.

I changed my strategy by asking instead where they found each resource and each person involved with the business. This goal-oriented strategy of retrieving information worked well. It also had the added advantage of not assuming that social networks were always at work (see Appendix II, section 2.4.).

The third group of questions elicited episodes in the story of the business. Namely, crisis or transition moments contribute to the understanding of the conditions in which the business was founded and bring to light the way in which the entrepreneurs solved problems and conducted exchanges. These episodes also show the role that their relations and acquaintances played (see Appendix II, section 3.).

The fourth group contained demographic questions to characterise the entrepreneurs. I collected information on their: age; gender; marital status; profession of the parents; profession of grandparents; history of residency; education; professional history (see Appendix II, section 4.).

Let me conclude this section by reminding you that rarely did I have to ask all of these questions. For the most part, entrepreneurs provided most of the information during their narration following the generative narrative question. However, I had to make sure that all of the relevant issues regarding the research questions were covered. If the eliciting of the story of the enterprising process is necessary to have a chronological understanding of what happened in the venture and why, it is also necessary to gain access to smaller episodes that bring light to details on the exchange habits of the entrepreneur or the critical moments of the venture.

Finally, note that I found that, after an initial short period of suspicion, the entrepreneurs were very open about their experience. They were keen to tell their stories. All but one of the entrepreneurs felt no remorse for that openness. José (F61) however, was keen on pointing out to my great dismay that if I disclosed his name he would send some of his more intimidating friends after me. To validate his threat he asked me the name of my neighbourhood. The curious element about this incident is that in José's mind the name of my neighbourhood would be enough to track me down, which is very telling of his vision of the social world: everyone knows you where you live. He could not fathom the existence of a loosely knit urban community.

4. THE DATA ANALYSIS

As I discussed above, the combination of the research question and the research setting of this thesis led me to choose a qualitative method of data collection. Likewise, the analysis of the data also follows qualitative methods.

The data collection provided a set of interview transcripts, with which this thesis aims to appraise the relationship between entrepreneurs, their social networks, and business development. The best strategy of data analysis of large amounts - in this case over 1,000 pages - of textual data is content analysis. This umbrella term is used to refer to a number of data analysis techniques that range from the counting of concept occurrences in a text to the selection of meaningful textual quotations. The choice of which content analysis technique to use should be based on what best answers the research question and what kind of data is available to the researcher. In this case, a theme-based analysis of the data was the most suitable strategy. To better systematically investigate my data, I opted to use the Atlas.ti software package.

4.1. Grouping concepts and emerging themes

A first priority was to tease out of the text a structure that would indicate what were the relevant issues addressed during the interviews, while at the same time providing quick access to the details of these issues. This requirement was best addressed by using the Atlas.ti tool to group quotations around themes and sub-themes. This software package allows the emergence of concepts that inform the construction of theory, abiding to the precepts of "Grounded Theory" (Denzin and Lincoln 1994).

Some of the themes that emerged reflected the structure of the interview guide. This should be expected, since I explicitly asked questions on the endowment of capitals at the start-up, the changes in the structure of capitals, and episodes in the history of the business. Naturally, a large proportion of the material is devoted to these themes.

However, given the openness of the interview method, other themes emerged, and themes that already existed were explored and expanded in unforeseen ways. For instance, in the theme "accountant", already present in the interview guide, there were a number of sub themes that emerged in the interviews and data analysis: the accountant as a facilitator of tax evasion, the accountant as a business consultant, etc. Some other themes clearly emerged from the content analysis; one of particular relevance is the theme "illegal behaviour" and its code tree.

4.2. The content analysis tree

The second step in the analysis of the data was to structure the concepts in groups around a content analysis tree. Two major structures emerged from the analysis. One provided synchronic information on snapshots where the elements of business making were at play with each other. The other structure provided diachronic information on the evolution of the business and its final status. The description of the composition of each of the structures follows.

4.2.1. Synchronic codes

The group of content analysis codes that provided a synchronic view of business making was easily arranged around 6 major blocks of concepts. All of these themes provide quick snapshots of how a business is conducted. Here, I simply report them; the Chapters that follow in this thesis will show how these different concepts play a role in the life of a small business.

The first block of themes characterises the entrepreneur. Within these, an important sub-group of relevant codes provides a demographic characterisation consisting of age, marital status, and geographical origin. Another important group describes the occupational background of the entrepreneur and included the codes: family's occupation, previous occupation, current occupation, and how central was the business to the entrepreneur (double activity). A third group of themes characterises the sources of knowledge that the entrepreneur used. It was informed by the codes: role models, school, army, sport, and popular sayings. The fourth and final important sub-group refers to the entrepreneur's *habitus*[36]; it was documented by the codes expectations and ethics.

The second block of themes provides information on the social network of the entrepreneur and the business. A first group of codes in this block accounts for the strength of the ties involved in the business, either strong ties (namely family) or weak ties (namely community ties, and work ties). A serendipitous group of codes provides information on the politics of the social network, in particular community politics and family politics. The second large group of codes specifies all the relationships that the

[36] All of the elements in this first block of codes provide information on different aspects of the entrepreneur's *habitus*. The *habitus* is a concept developed by Pierre Bourdieu, Pierre. 1990. *The Logic of Practice*. Cambridge: Polity Press. It highlights the analytical level between structure and agency objectified in the body of the entrepreneur. The *habitus* of an entrepreneur is his/her clothing, acting, way of speaking, way of thinking, aspirations, and ethics – everything that would make a savvy passer-by identify an individual as an *entrepreneur*. It is a mix between the structural locus the agent occupies and the history of his/her choices over time, and these are perhaps best and most eloquently pictured by an agent's code of ethics and aspirations.

entrepreneurs established in the process of business making. These were the relationships with: suppliers (the conditions of the relationship, and particular episodes), clients (report on sales, episodes with clients, and a special client: the State), employees (trust in the employees), experts (accountant, bank, insurance company, landlord, lawyer and law, graphic artists, small business consulting), peers (opinion of peers, a peer as mother business, spin-off start-ups, episodes with peers), and State institutions (tax office, unemployment services, professional training, local council, IAPMEI, INE, the State).

The third block of codes maps all of the information on the resources in and around the business. These include economic capital (credit, supplies, transportation, location and address, machinery), cultural capital (knowledge of product design, knowledge of technology, gift, knowledge episodes), social capital of the partners (number of partners, tie to partners) and the employees (previous occupation of employees, education of employees, using offspring as employees, using spouse as employee), and symbolic capital or reputation (keeping deadlines, quality, having a 'name').

The fourth block of codes maps management practices. It includes: management of accounts, division of functions within the business, management style and management strategy, using advertisement and publicity, and designing the product (choice of product and business, production process, and innovation in production). Included in this block are also codes describing the links form the business to its industry (attendance of fairs and exhibitions, and participation in industrial associations), and the attention given to the security of working conditions.

The block of codes referring to information on how exchanges were conducted can be divided into four groups. The first are codes describing the types of exchange agreements and include agreements based on trust (with the special case of a gift economy) and agreements based on contracts. The second are codes describing monetary exchanges in the context of trading. The third is the setting of prices for exchanges, both with clients and suppliers (of which the landlord is prominent). Finally, the fourth is the payment of exchanges, which include: setting payment conditions, payments from clients (namely setting budgets), payments to suppliers, and payments to employees.

The sixth and final block of codes contains information on breakdowns in business functioning. There are again four main groups within this block. The first is a block of codes relating the breakdown of social ties, which include fallouts with: partners, employees, creditors, clients, suppliers, and family. The second group of codes addresses the nature of the breakdown, which include: break of trust agreements, breakdown due to the management of accounts, disagreements over the ownership of the business, taking legal action, fight between members of the business, one or more business members running away, members of business being worn out, and double activity of partners. The third group of codes describes externally induced breakdowns. It includes: death of a member of the business, divorce of a member of the business, assault on the business, failing health of a business member. The fourth group characterises the range of illegal behaviour. It includes the following codes: tricks of trade, stealing electricity, cheating on clients, tax evasion, illegal factory sites, bribe, embezzlement, theft, and money laundry.

4.2.2. Diachronic codes

Diachronic codes explicitly focus on the evolution of the business. Of special importance are the codes specifying the final condition of the business.

The codes that map the stages of business development are: the pre-start-up (including date of previous employment), the start-up (including reasons for the start-up), being a sole trader (including date of sole trader status), becoming a partnership (including date of partnership), the post-partnership, shutting down (including date of business closure), and the post-shutting-down.

The condition of the business at the time of the interview is described by codes that map: the evolution of the business, business failure (due to bankruptcy, due to lack of profit) and rationale presented for failure, and business success (due to profit, due to quality) and the rationale presented for success.

5. CONCLUSION

This chapter described the methodology behind this thesis. This involved first defining the appropriate universe of businesses to which this research refers. It consists of the set of small partnerships in a setting of low credit and low technology in Portugal. Next, the chapter defined the main research question. It asks: how does the use of social networks by entrepreneurs affect the performance of the business?

The chapter proceeded by explaining how I sampled this population. The first stage in this process consisted in choosing the furniture and graphic arts industries as the focus of this study. The second stage consisted of choosing to interview in the year 2000 businesses that started in 1993, in order to balance memory biases with allowing enough time to observe the development of the businesses. Data on these businesses were obtained from the national institute of statistics. From these businesses, I selected a sample of 42 businesses that included businesses from both sectors that failed and succeeded. This chapter discusses how I selected of businesses and evaluated whether this sample is representative of the population under study.

The next section in this chapter explained how I went about collecting the data. This consisted of seeking each business individually and conducting narrative interviews. This chapter discussed at length the merits and weaknesses of this approach relative to alternative forms of data collection. It argued that the narrative interview was the more appropriate choice, and described the structure of the interviews. Finally, this chapter described how I analysed the large amount of data that had been collected, namely using qualitative methods of theme-oriented analysis.

Having set the foundation for the research, the remainder of this thesis presents its findings and their analysis towards answering the proposed research question.

CHAPTER III - THE ENTREPRENEURS

1. INTRODUCTION

This Chapter discusses the background of the entrepreneurs at the start of the venture, as well as the process through which they become entrepreneurs. The role of the Chapter is to explain who are the entrepreneurs, what resources did they have at the start of the businesses, how did they go about collecting the necessary resources that they did not have, and what consequences did this co-optation of other resources have for the structure of the organisation and for the future commitments of the business?

Gartner (1998) posed two questions about entrepreneurs that help to establish relevant distinctions between entrepreneurs. These are: What is the variation among the entrepreneurs in their work experience, education, and age? How does an individual's background influence the type of activities undertaken to start an organisation?

In the first part of this Chapter, I will answer the first question by describing the entrepreneurs. First, I will characterise them demographically, namely in their age and gender. Then, I will assess the nature of their resource portfolio at the start-up. These resources include several forms of capital. First, I will consider their economic capital, which I examine by assessing the typical amounts of money and credit they had in 1993. Second, I will inspect their cultural capital, by which I mean their knowledge of the business. I will investigate this through their family, their work background, their education, their motivation to start a venture, and their inclination to take on risks. Next, I will examine the social capital of the entrepreneurs, by appraising the type of social ties that were dominant in their network (family, friends, neighbours, co-workers and acquaintances). Finally, the last resource that I will analyse is symbolic capital, by weighing up the entrepreneurs' reputations at the start-up.

The second part of the Chapter addresses the second Gartner (1985) question by examining how the entrepreneurs' resources affected the process of starting a business. First, I will explain how the entrepreneurs obtained the resources that they did not have, from where they obtained these resources, and especially how different social networks affected this ability to co-opt resources. Second, I will infer which type of contracts came attached to the co-optation of resources, both through the law as well as informally.

The framework behind the Chapter is that entrepreneurship is a process. The Chapter tries to analyze that process by analyzing the exchanges that take place when a business is in formation. This process is well exemplified by the story of one of the entrepreneurs, Jorge, in starting his business, F66. Let me therefore tell his story; it will set the tone for the analysis that follows in the rest of the Chapter.

1.1. The formation of a business – the case of F66

F66 started around May of 1993 as a partnership between three friends. Jorge was one of them, and another had been a close friend of Jorge since the age of 10 who was currently married to his sister. The third partner had moved from a neighbouring village and married a local girl. The three were close friends who met often and went out every Saturday evening. On one of these occasions, over dinner, they decided to open a business.

They were all hard workers and knowledgeable about the production of furniture. While they did not know much about business, within one week they had started the process of creating F66. They gave notice to their current employers in a furniture factory, and left within one month. It took just another month to start operating, which is a remarkable achievement. For instance, at the time of the interview, one of Jorge's workers wanted to open a business. While he had been preparing the start-up for two years, there were still no obvious results. Jorge believes that in this case speed was a good indication of knowledge - *he* knew what to do.

One important determinant of the speed with which they started was that a neighbour of Jorge had a warehouse that he was willing to rent and was suitable for the business. He still rents this same factory site today, though now from the descendants of the since then deceased neighbour.

Other important resources were wood and machinery as well as some starting capital. However, the three partners hardly had any money and were already carrying some past debts. They were therefore unable to obtain any bank credit. F66 received wood, machinery, and everything it needed on personal credit. Many people in the business knew Jorge through his father's business with whom he had worked. It was on this basis that the suppliers gave him resources despite having only Jorge's word as guarantee.

Many suppliers offered goods on credit for the start-up. Yet these suppliers usually offer only lower quality wood and overcharge for it. Because the entrepreneur is new and does not have a reputation, the trader raises the price charged to compensate for the fear that he or she will never pay. Because Jorge knew about the business, he was aware of many of these problems and of ways to overcome them. One way to circumvent the overcharge is to avoid asking for wood. After some time in business, the suppliers come to offer wood, at which point the furniture maker is in a better position to bargain over the price. According to Jorge, wood that would be normally quoted at 50 is priced at 65 if the entrepreneur asks the supplier for it, but if it is the supplier that comes offering the wood at 50, the furniture maker can often negotiate that price down to 40. The ability to play the suppliers is an important source of a good profit margin, which may ultimately determine whether the business is profitable.[37]

Buying machinery also involved a considerable financial effort. The business required 7 or 8 big expensive machines as well as a large number of small machines. For instance Jorge currently had 1000 'grampos' in the factory; while each cost only 3,000 Esc. (about £9), in total they represented a large investment.

To buy this machinery as well as for other start-up capital, Jorge and his partners received a lot of money from friends. They would lend amounts of 1,000,000 Esc. (approximately £3,000) at a time. Some would not charge interest, but to these, Jorge gave a bonus regardless of their want. Others set an interest rate upfront, which is common practice in the area. In such cases, the interest rate is identical to that charged by the bank (5% to 10% per year depending on the agreement), but it is paid every month. Many local lenders built their fortune around this system. Jorge borrowed a lot of money through this channel during the life of the business, whenever he found himself running into hardship and when he was about to close an advantageous deal (for instance, the purchase of large quantities of wood) that required a cash payment upfront. He was usually charged a lower interest rate because he was well known and he was notorious for always paying back. Besides, he would pay in one month or even in a shorter period.

[37] Though, Jorge himself also admits that it is hard to beat the suppliers at their own game. He harbours the feeling that at the end of the day, the suppliers always come on top.

Still, F66's debt rose to 36,000,000 Esc. (£109,000) within a short time from the business creation.

A final resource that the partners had to acquire was an accountant, which is required by law to start a business in Portugal. They chose a woman who was their neighbour and she in turn introduced them to a lawyer whom they hired to help with the legal aspects of starting a business.

Five months after the start-up, the business had its first major crisis: one of the partners gave up. It was a tense time, especially because the three partners had many quarrels. They were all hard workers who laboured from Monday to Saturday evening. However, they argued about everything, and especially about management. In particular, they argued about who did what in the factory. One argument would spark because someone did not do something; another would come about because someone did something that was the job of someone else, and so on. There was no clear attribution of management responsibilities.

Once the business was down to two partners there was a great improvement. The business was profitable and a measure of their success is that 19 months after they incurred the £109,000 debt, they had paid it. They were late by 7 months, apparently little given Jorge's pride in describing this feat.

According to Jorge, the main reasons for the success were his knowledge of the business and his reputation. Most people in the business work hard for years without ever reaping a profit. These entrepreneurs usually do not understand how others are so affluent. They say, 'that guy works so hard and the business does not deliver, the other hardly works and life is kind on him'. Jorge believes that, aside from working hard, an essential skill is to be able to assess whether the business is making a profit. There is no use in working to feed a failing business. Jorge knows about management and he is able to evaluate if a business is profitable or not. He can evaluate all the costs that the production of one set of furniture for a bedroom involves, and how much he should charge for it. Jorge believes 90% of the furniture makers are unable to accurately price their products. One skill that is essential is the ability to assess how many meters of wood can be used from a wood plank ('cubicar') in order to minimise waste. Jorge learned how to do this when he was still a child. In 1993, few people knew how to do it even if today it has become common knowledge in the industry.

Jorge believes he was born with a talent for managing people. He first learned the basics of personnel management while he was in his father's business, but it was in F66 that, by trial and error, he became skilled at dealing with employees. Overall, he became a good employer; he has been complimented on his personnel management skills. In the beginning, F66 had 3 employees and by the time of the closure of the business there were 15 people at service. Hiring employees, as Jorge describes it, is a passive process. The first few employees were acquaintances from the area. Once the business took off, workers knocked on Jorge's door. People found out that someone had left the business or that there was need for an extra person by word of mouth. Since the enterprise had a good reputation, workers often came looking for work at Jorge's doorstep – the placement was coveted.

Jorge is harsh to his workers inside the factory, but he is their friend and provider outside work hours. They are all well paid and their efforts are rewarded by Jorge's informal insurance system – if they have a health problem, Jorge will pay for the medical costs. Jorge developed an incentive system; employers are paid by piece of furniture produced. The more a worker produces, the better his or her pay. All the employees are specialised and Jorge says their productivity is high.

Clients came to the business through three channels: Jorge was well known in the area; the clients drove by the factory; or they saw his furniture in a wood polisher and liked it. Because of its location in the joint industrial district of Paredes and Paços de Ferreira, F66 found clients easily. This is where all of the furniture makers are located: to drive through the roads of Paços de Ferreira and Paredes is to stride along a huge shopping mall. Practically every door sells furniture or produces furniture or both. Even before the company started operating, two retailers had guaranteed to buy his product. It is customary for furniture producers to have their products polished in specialised houses. The polisher deals directly with the furniture retailer and provides a showcase of the different producers he or she works for. Often, he or she becomes an intermediary between a retailer and a producer, and Jorge obtained many clients through the polisher.

Initially, F66 produced 5 or 6 furniture sets per week, which served around 50 clients. Once the furniture sets arrived to retailers' show rooms, the clients increased to 150. Jorge believes he could increase his production by 60% and still sell everything. Today, he has 10 to 15 dependable clients who buy furniture every month, but if he is to include occasional clients, he has in total around 100 clients. Jorge prefers to work with 3 or 4 retailers that have big businesses and exhibit what they sell in industrial fairs around the country. Retailers represent 90% of the furniture in the industrial fairs, because they work with the final customer. The limited number of furniture makers who show their product in fairs are those that wish to sell to the consumer or who are interested in exporting their product. Most producers, however, work mainly for the retailers and this is Jorge's case as well.

Jorge is not working with his old clientele anymore; he has had a great turnover in his client portfolio. Jorge has created a number of bedroom furniture styles, but after 3 or 4 years, his clients get tired of those styles and go in search of other producers with different styles. Just as he lost clients who were tired of the styles he produced, could not agree on a price, or were simply upset, he also caught new clients in search of different styles, better prices, or a fresh relationship.

Jorge has been lucky in his relationship with clients; he has hardly had a client who did not pay. Usually, his clients pay when he delivers the furniture. This means he does not have any late payments to receive. Since he knows the area quite well he has been able to distinguish between good and bad clients. Many entrepreneurs complain about late payments. Jorge believes this is a mark of a bad manager. Some businesses are already at odds and the delayed payment becomes a wrongful justification for its problems.

Jorge was also entrepreneurial in his business. While he was satisfied with the wood he bought from the local retailers, Jorge had heard wood retailers comment on how cheap the wood in France was, in particular in the areas of Bordeaux and Brittany. Jorge decided to set off to France to find wood. He did not know how to speak French and he hardly had any Francs in his pocket. Apparently, he starved. Having arrived in Bordeaux, he made contact with local farmers, not with wood retailers. He closed a deal but the wood never made it to Portugal because he was not registered as a wood importer. Unwilling to give up on the operation, he asked some friends who had freight lorries to close the deal with the French farmer, transport the wood, and sell it to him. It was a good opportunity to give business to friends and a good opportunity for Jorge. They started importing wood directly from France and it was cheaper. It was a highly successful enterprise; Jorge bought wood for a third of the price at which it was sold in the North of Portugal. It gave the business a kick-start that Jorge still felt at the time of the interview. After three visits to France though, the word was out, the system became too popular, and prices rose.

Jorge's concern for his reputation is well illustrated by his handling of financial affairs. Due to their lack of experience in business accounting, the partners made bad use of the possibility of delaying payments to suppliers. Suppliers allowed them to postpone payment for as long as 3 months. This mismatch between purchase and payment made them lose track of what they owed. Since they used pre-dated cheques to delay payment, it was not long before they had a number of 'bouncing cheques' because they lost track of how much money was being withdrawn from their account at any particular point in time. As a result, the bank cut their credit. Suppliers instead knew them, saw them every day, and could relate to them, so they never cut their credit. Jorge and his partners felt greater empathy towards the suppliers who were their friends. Despite the 'bouncing cheques' at the banks, Jorge would repay his debts to the suppliers within a week; his reputation was always preserved.

This is central to Jorge's management style - it is vital to preserve a good relationship with the suppliers who are for him the key to a successful business. He has always honoured his relationship with suppliers; in return they have never denied him credit. He says he can purchase overnight up to 60,000,000 Esc. (about £182,000) of material on credit – not having any money to pay it immediately. The salespeople will deliver material to him without requesting even a signature. He will agree verbally to pay the total sum within a certain number of months (for instance, 6 months), and a given amount per month. The traders trust him. As he put it, "I will only stop paying if I die, else I always pay." His choice was to preserve a good name with the suppliers as opposed to the bank.

The main difficulty about this strategy was that it tied Jorge down to the relationship with the suppliers who knew him already. New suppliers were likely to inquire about his credit history at the bank, and the information they received was not positive, owing to the 'bouncing cheques.'

After the first crisis with the departure of the first partner, Jorge and the other partner kept the business for a further 2 years. Notwithstanding the relative success with the payment of the initial debt, the business was running into trouble by then. The second partner left the business to start his own business. Within one year of his departure, Jorge closed the business in 1997.

He now believes that they were all very adventurous. The business was an experience for the three friends and it did not run as they had planned. They lacked experience and underestimated the complexity behind business accounting. This was their downfall. The accounts were in a state of chaos. Jorge learned how to deal with the firm's accounts with time, experience, and hard work. Only that it was too late for F66. In spite of all the commotion, the three partners are still friends.

The business was severely indebted in 1997 and was on the verge of bankruptcy. Yet, Jorge was proud of the name he had built for himself and did not want to stain it with debt by simply closing the door, reneging on his debts and betraying the trust of all the suppliers. Moreover, he had seen this happen to his father's business and believed that there had to be a better way to deal with the problem. Jorge knew the furniture business was profitable so he held on to the factory, the machinery, the employees, his name, and his debts. He changed the system by eliminating the areas of business that were running a loss and he worked until he had paid all his debts. He stayed with the business, he collaborated with the creditors, and he showed resilience. He appealed to everyone's patience, asking some additional time to pay the debts – people understood and accepted the situation. This reinforced the credit and the trust the suppliers always had on him. He had built himself a 'name.'

Eventually, he paid all of his debts and at that point closed the business. He then started in the same location a new business of which he was the sole owner. Jorge came to regret this decision. Closing down a business raises suspicions with tax officers. According to him, it is better for the entrepreneur to leave the business open - without profit or loss - and open a new one on the side. Since he closed the business, the tax officers came years later to inspect his sales tax accounts. They found a number of irregularities and demanded a large payment to the State. Immediately, they confiscated his machines.

When he asked his lawyers for help, it was already too late. Jorge did not oppose the process. All his assets were confiscated and sold in auction by the court. He asked a friend to buy everything and he bought everything back from this friend. He has little faith in the lawyer's ability to solve issues of this importance. Judging from the experience of many people he knows, he believes lawyers postpone problems and years after the entrepreneurs are faced with the same problems again.

Some time before the interview, when Jorge was already on his third furniture business, he still had to pay 4,500,000 Esc. (£13,600) to the tax office concerning tax and interest on the debt he received. He felt he had to pay or else he would be dispossessed of everything he had in the factory. This was knowledge he had acquired from the experience of others in the field. He had insufficient knowledge on how to work the legal and tax system, something he accredited to richer people. Rich people would have their assets under other people's names – children, kin. Jorge had all his property under his name – "I like to hold my head up high," he said. This meant he had to pay if he were to continue in business.

He believes his problem with the tax office was all a terrible injustice - 'it was morally unfair', he said. Until I interviewed him, this was the only problem Jorge had had with the courts. Otherwise, there was the matter of a few minor fines, which he said were connected to him being temperamental.

Jorge had clear intentions to keep working in the furniture business. It did not take him long to start anew: he soon opened a new furniture business in the same location with one of his brothers. Jorge and his brother paid all the debts that F66 had to the creditors because they were his friends and had always trusted him. The business ran well because Jorge's brother helped him a great deal. They worked very hard to rebuild the business. In 1997, one year before the interview, Jorge's brother left and took over their father's business. That business went bankrupt and his brother rebuilt it. Of all the brothers, he is perhaps the one that has the biggest factory today. Jorge re-opened the third version of the factory, this time in partnership with his wife.

When I interviewed him, he repeatedly confessed being tired of the business - he has been working since he was 11 – and the hard work it involved even though it was profitable. Confronted with a question on how lucrative the business was, he answered it was enough to lead a clean life and be extravagant from time to time. However, he remarked that the business was profitable because he knew how to work it and had been fortunate. Many entrepreneurs worked just as hard as him and were either unfortunate or bad managers. As Jorge himself put it, he worked with the mind more than the body. He had embraced the manager position; he constantly searched for faults and ways to fix them. Yet, he felt very tired and almost willing to give up. He thought he had been losing abilities since he was 23. Keeping in mind he was 33 when I interviewed him, I had to wonder what exactly he mean by that.

It seems that when he was younger he had the skill to find a quick solution to the problems the business faced. He responded to the fast pace in which problems were presented to him by being a 'maverick' type of entrepreneur. He was not able to develop a system of business management that precluded a permanent attack to his business's survival. I believe Jorge's problem was his inability to bureaucratise a business, making it independent from him.

In spite of this, Jorge's enterprising process – in its first form as a business of friends, its second form as a partnership of brothers, and its last form as an alliance with his wife – had success. Despite its changing legal identity, the factory survived, mainly due to Jorge's resilience. What held him throughout was the belief the business was lucrative. His biggest setbacks were the flawed relationship with the bank and his problematic relation with the tax office. Both were direct consequences of his inability to keep accounts.

Jorge spoke at length about closing the factory within a year. According to him, the one thing holding him back was the commitments he had bound his word to. He did not want to leave debts behind but he wanted to sell all his businesses. Jorge's insistence on how he wanted to retire and change his life was not too strange to me. After all, it seems to me everyone in Portugal wants to retire regardless of his or her age or how much he or she work. It was only years later that I understood the exact meaning of Jorge's ongoing discourse - he was at the time branching out to illegality.

2. Some characteristics of the entrepreneurs

In this section, I will characterise the entrepreneurs demographically. Age, gender, and geographic mobility are the three variables that I will focus on.

2.1. Age

At what point in their life do entrepreneurs start a business? As I interviewed different entrepreneurs, it became apparent that age is useful to discriminate types of entrepreneurs. The age of the entrepreneur - combined with the entrepreneur's employment situation - provides a good description of the stage of life at which the entrepreneur decides to start a business. Entrepreneurs of different ages have been subject to different environmental influences. For instance, they differ on the age at which they left school. Some individuals had hardly begun their active lives when they set the start up in motion, while others only considered becoming entrepreneurs after they retired. Moreover, age is a good indicator of how long the entrepreneurs were in the industry before they decided to start a business. Finally, different stages in life are connected to different reasons to begin a business and to different resource portfolios.

Since all the businesses I interviewed were partnerships, there were always two or more entrepreneurs per start up. I decided to incorporate in the typology all the entrepreneurs in each business, as opposed to just the ones I interviewed. In doing so, sometimes entrepreneurs that belong to the same business appear in separate categories. This happens because many businesses include entrepreneurs from different generations. Within each partnership, age raises an interesting issue: does the generational gap between individuals in the same business raise issues related to power relations within the firm?

I have identified three different timings for start-up: early starters, mid-career, and retirement entrepreneurs. This typology highlights the fact that age is a good indicator of the motive that led the entrepreneurs to start a business, as well as of the expectations the entrepreneurs have on business performance. Let me discuss each in turn.

2.1.1. The early starters

In this category, I included the entrepreneurs that were less than 30 years old at the time of the start-up. This was true of nine of the entrepreneurs that I interviewed. The main features distinguishing the early starters were the following. The early starters decided to create a business in the beginning of their active life. Before or shortly after their integration in the workforce, they exited from employment with the prospect of 'doing their own thing.' Most of the entrepreneurs in this category have a great need for independence. The question is: where did they acquire the confidence and expertise needed to start a venture? Much of the answer lies in their family background. The early starters were often born to entrepreneurial families. This usually gave them an intuitive understanding of business functioning and the determination to keep trying even when their efforts were not rewarded. Very often, in spite of their relatively low schooling, early starters came up with significant changes in the production process based on the knowledge of business production they acquired while they smelt the wood dust in their families enterprises. These changes were often conducive to increases in efficiency that enabled the growth of the business so that these entrepreneurs were more likely to have the successful businesses that I will describe in Chapter VI.

2.1.2. The mid-career starters

Most of the entrepreneurs I interviewed were mid-career starters. They started the business after they were 30 years of age and before retirement (around age 65). Starting a business mid-career is by far the most popular option in the group of entrepreneurs that I interviewed. The mid-career starters are typically people who learned a craft on the job and decided to start a business in order to improve their life condition. They usually endured a longer trial period as employees. After they secured experience and trust in their own ability to produce a good, they jumped forward to self-employment. They opened a business in order to have more independence and make their own money. They were eager to be their own bosses, and the older they became, the more anxious for independence they were. They wanted to start a business in order to access a set of resources and a life style they imagined entrepreneurs should have. They are more likely to be frustrated when the business does not perform as they expected. Some of these entrepreneurs will take the riskier route to an improvement in lifestyle that will be discussed in Chapter V; they find themselves embezzling funds from the business unbeknownst to their partners.

2.1.3. The post-retirement starters

This group of entrepreneurs decides to begin a venture on their own only after they retired from a long life of employment. The post-retirement starters decided to start a business after retirement to employ the knowledge they acquired throughout their careers and to leave something to the next generation. Usually they see this entrepreneurial effort as an extension of their active life that will result in 'something to leave to the children'. The post-retirement starters have the lowest expectations on how the business will perform. They mainly want the business to act as a supplement to their retirement income or as a legacy to their offspring. As a result, their businesses are likely to belong to the group described in Chapter IV, that is, those that reach a survival equilibrium and are highly dependent on their social networks.

2.2. Gender

There has been much work and progress in the literature on entrepreneurship studying the apparent differences between female and male entrepreneurs. Bowen and Hisrich (1986), among others, built a career model of female and male entrepreneurs. Scase and Goffee have done extensive work on the relationship of the spouses of male entrepreneurs to the business, on women entrepreneurs, and women managers (Goffee and Scase 1982; Goffee and Scase 1983; Scase and Goffee 1990).

In the sample in this thesis, the overwhelming majority of entrepreneurs are male. Out of a total of 121 entrepreneurs that made up the partnerships in analysis, a meagre 28 were women. Even then these 28 women were not, for the most part, actively involved the business.

The majority of women were only involved as signers of the partnership, given that the partnership is understood as an extension of the sharing of responsibilities in their marital partnership. Many helped the entrepreneurial venture – and the effort of upward mobility – by taking some form of steady employment that worked as a stable financial backdrop. In this way they freed their husbands from the responsibility of being the primary breadwinner. This reflects a dominant family strategy of the entrepreneurial population. Women take the role of the stable breadwinners taking stable low-paid jobs. Men instead take risks to achieve upward mobility for the family.

These women played another crucial role of support to their spouses and the ventures: they often acted as lubricators of social interactions between their spouse and other social ties. Many women acted as a bridge between their spouse and the future partner, as foragers of information and resources, or as menders of potential tensions between members of the partnership. They took a mediating role.

A few brave women (12 in total) were either the starting partners of a venture or active members in one. They had a slightly different management style than men. As in the stereotype, I found that women tended to use their role as mothers as a template for their role as managers. Otherwise they seemed to be subject to the same set of forces described in the rest of this thesis.

2.3. Geographic Mobility

Another point for analysis is the choice of business location made by the entrepreneurs. Do entrepreneurs choose to start a business in their communities or do they travel to another community that could have better business opportunities?

The geographic mobility of the entrepreneur seems to be related to a number of other relevant factors. Entrepreneurs that are more mobile are likely to be more educated, since their skills are typically sanctioned by the State in the form of diplomas and so are easier to carry into a new community. Entrepreneurs that are less geographically mobile tend be less educated and to have such strong community ties that they undergo a sense of loss of identity if they move.

A striking feature in my sample is the lack of mobility of most entrepreneurs. They are very linked to their social networks and their territory. They are unable to break free. The community is their skill, and they are very wary of losing it by moving away. In turn, this community tends to be geographically homogeneous, with friends and acquaintances concentrated in a small area.

There are two very striking cases of entrepreneurs that could not endure geographical mobility due to the strength of their ties to the community. In the first case, David from F44 was born, lived, and worked in a small suburban community. He had been a fairly successful entrepreneur up until the point when he re-started the business in order to form a partnership with one of his best friends. The best friend brought with him a precarious financial situation and embezzled a significant amount of funds from the enterprise. This led to the enterprise's demise and the two partners were prosecuted and condemn to jail. David decided to escape imprisonment by running away to Africa. However, shortly after he left Portugal he returned on the pretence that he really could not live away from his town. When I arrived in his town he was living in his apartment, hiding from the police. This was common knowledge in the community, yet no one vented the information to the authorities.

The second example is the dramatic case of Jorge from F66. Two years after I interviewed him, he robbed a money van and participated in the killing of a policeman. He ran away to Spain were he was hiding for a couple of months, after which he developed a commuting routine between Spain and Portugal. He would spend the days in Spain, but would come to Portugal to spend the nights in his family house. Eventually, the police caught him while he was home. Both cases represent tight communities that have a clear geographical correspondence and award a strong sense of identity to their constituents. In a sense the individuals in these communities are overembedded (Granovetter 1985; Portes and Sensenbrenner 1993; Uzzi 1996) to the point of loosing a sense of self when removed from the area.

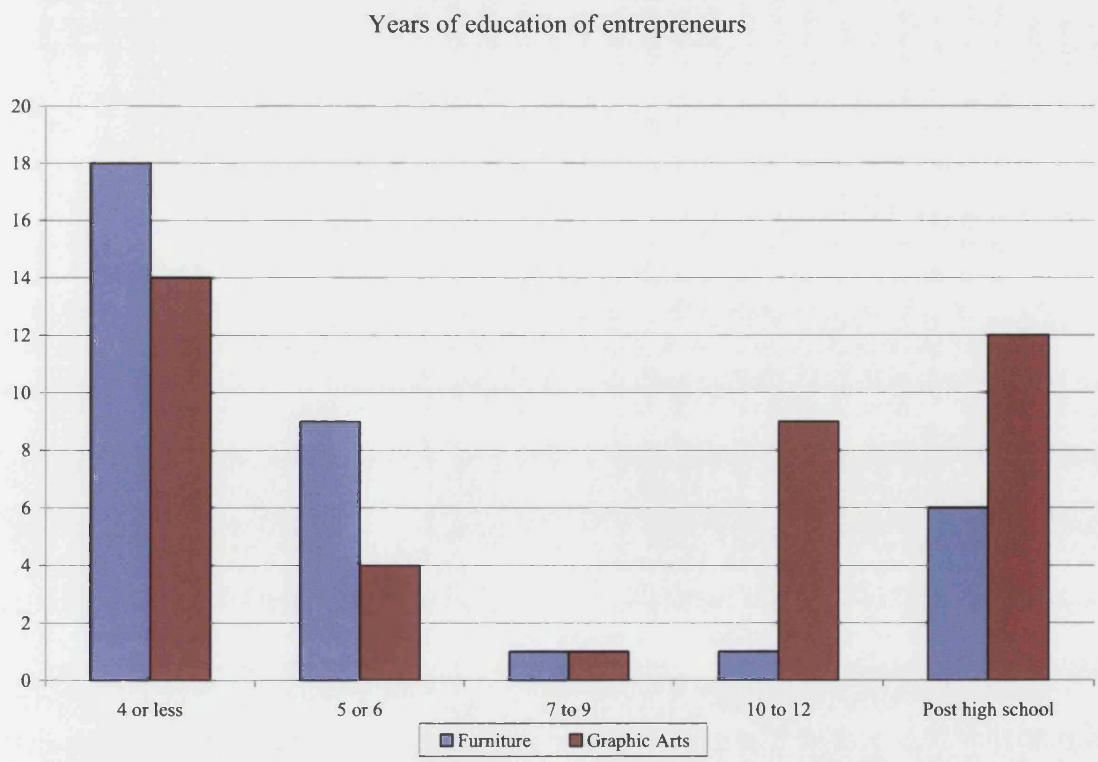
2.4. The social origins of the entrepreneurs

While observing the social origins of the entrepreneurs[38], there is one feature that leaps to the eye. Figure III.1 displays the level of education of the 75 entrepreneurs for

[38] For a full account of the available data on the social origins of the entrepreneurs (level of education, previous occupation and father's occupation) refer to Appendix III.

whom I have this information. It shows clearly that entrepreneurs in the furniture sector typically have very few years of schooling. More than half of them have 4 or less years of formal education. Their academic credentials consist almost solely of knowing how to read, write, and count. In the graphic arts sector, the pattern is somewhat different: there is a pronounced U-shape. While there are still many with little schooling, there are just as many that completed high school and pursued further studies. These data confirm one of the starting points of this thesis: while both industries demand little in skill and as a result have many entrepreneurs with little formal schooling, the graphic arts sector is considerably more technically endowed than the furniture industry and this reflects itself on the education of their entrepreneurs.

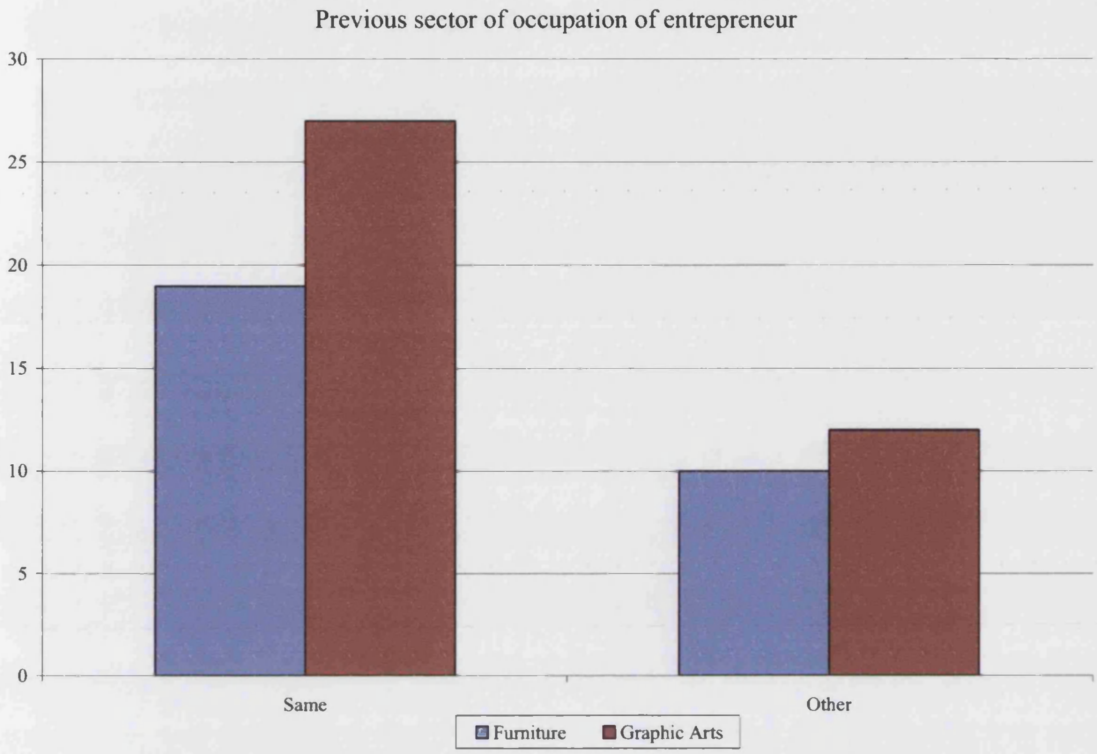
Figure III.1: Level of education of the entrepreneurs



A second feature of the social origins of the entrepreneurs concerns the occupations of their fathers. I only had this information for 28 of the fathers of furniture makers. Out of these, the fathers of 16 worked also in the furniture sector. An additional 6 entrepreneurs had fathers in agriculture. Therefore, 79% of the furniture entrepreneur's came from families in which the occupation of the father was in a traditional semi-skilled sector of the Portuguese economy.

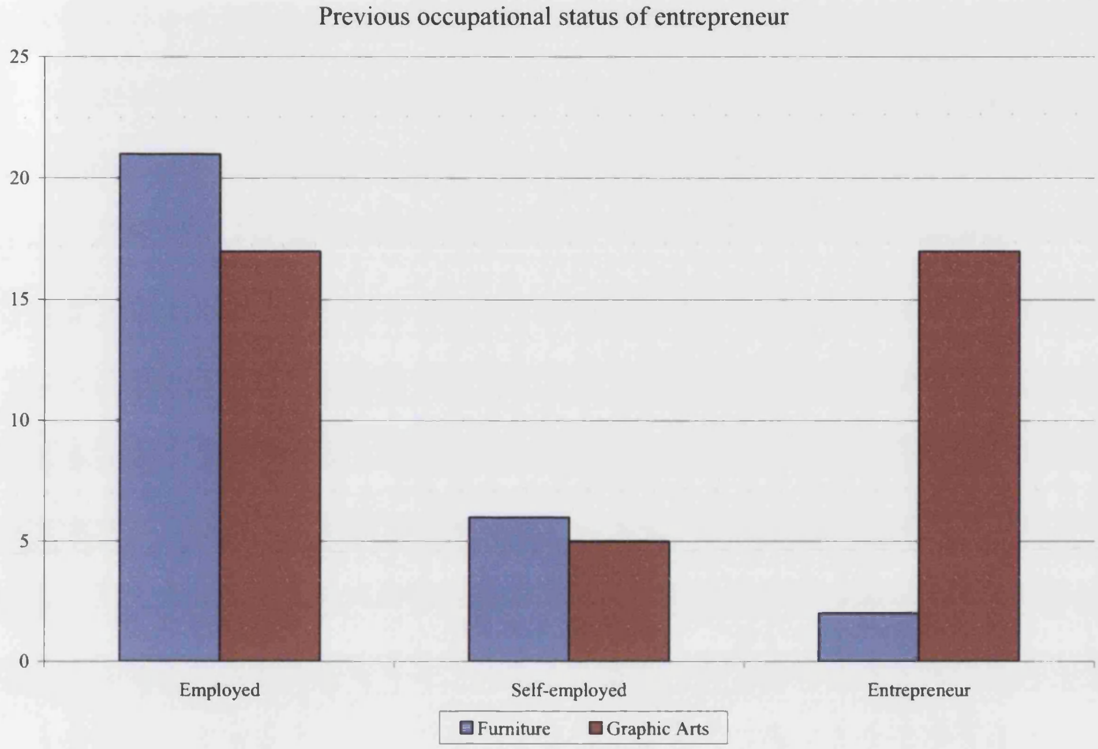
In the graphic arts industry, the pattern is different. Out of a sample of 20 entrepreneurs for whom information on the father's occupation is available, only 5 shared an industry with their father. In the graphic arts, there is a smaller preponderance of entrepreneurs that have stayed in the family's line of work. A further 7 entrepreneurs had fathers who work in the service sector. Just as the entrepreneurs in the furniture sector are descended from traditional family industries, the entrepreneurs in the graphic arts are closer to the modern service economy.

Figure III.2: Social origins of the entrepreneur: Sector



A third characteristic of interest is the occupational origin of the entrepreneurs. Two thirds of entrepreneurs worked in the same sector before they started their business, as Figure III.2 shows. This provides some indication that most individuals recognise the necessity to accumulate cultural capital in the area before they organise the start-up. This applies to both furniture makers and graphic arts entrepreneurs. The two groups differ however when it comes to their entrepreneurial experience. In Figure III.3 we see that while the great majority of furniture entrepreneurs were previously employed, graphic arts business people came either from employment or previous entrepreneurship. This provides significantly different employment role relations experiences for entrepreneurs in the furniture and the graphic arts sectors: the latter start a venture with an idea of what management involves.

Figure III.3: Social origins of the entrepreneur: Occupation



The combination of these data illuminates the differences in social origins of entrepreneurs in the furniture and graphic arts sector. Typically, furniture makers showed low levels of education, had parents in traditional unskilled occupations, and deemed work as an employee sufficient experience for a start-up. Their graphic arts counterparts where comparatively more educated, had parents in more skilled occupations and often had previous business experience. In sum, upward social mobility for entrepreneurs in the two industries does not have the same starting point. Furniture makers have had little or no experience of life in the middle classes; they are strangers to both the *salaried* and the *entrepreneurial* middle classes. Graphic arts entrepreneurs have a slightly different social position. They have experience of the *marginal* sectors of the entrepreneurial and salaried middle classes, and sometimes with the *established* sectors of the salaried middle classes.[39]

3. What the entrepreneurs had at the start-up

This section describes the different resource portfolios of the population of entrepreneurs at the onset of the venture, that is, what kind of resources do entrepreneurs have in their possession when they decide to start the business. This is a good measure of what the entrepreneurs consider essential to start a business, assuming they would not engage in a business start up with less than the bare essentials. As Starr and MacMillan (1991: 168) explain: "Given the uncertainty, resource constraints, and survival challenges inherent in most aspects of new ventures, successful entrepreneurs must seek 'asset parsimony,' deploying the minimum assets needed to achieve the desired business results and securing the resources to do this at minimum cost." Variations in the different capitals at the start-up are also important insofar as they affect the relative performance of the business. I will now look at the variations in economic, cultural, symbolic, and social capital that entrepreneurs have at the start up.

3.1. Economic capital

What economic resources do entrepreneurs have to begin with? From the start, it is important to note that not all indicators of economic capital are relevant to this research. Only those resources that are significant to the entrepreneur's activity in the

[39] On this issue see Scase and Goffee (1982).

business are relevant for the purpose of this thesis. Therefore, I only focus on this sub-set of the entrepreneur's economic capital.

The first set of relevant indicators of economic capital is financial. These include money, credit, and other financial assets (e.g., stocks, shares). Most entrepreneurs have very limited cash when they start a business. What they have usually either comes from the severance payment from their previous jobs (usually the case with early starters), capital accumulated from their previous enterprise experience (more often with mid-career starters), or their retirement settlements or pensions (in the case of retirement starters).

The most important of these financial resources is typically credit. It comes from two sources. First are suppliers, who are usually willing to give considerable trade credit to young entrepreneurs who want to start a venture. There are many suppliers willing to provide both trade and direct credit, especially to people they know, who are known for honesty, and who know about the business. To have access to this initial credit, it is essential to be already in the area's social network. The second source of credit is friends and acquaintances that often have their own businesses. This process was explained in Jorge's story. These local lenders will lend at close to bank interest rates, but will require monthly payments. Again, the entrepreneur's reputation is crucial. It determines whether they have access to these funds as well as the interest rate that is charged. Finally, note that banks are only rarely the sources of credit. The entrepreneurs often have no collateral to offer in guarantee for their loans. Moreover, while they are scrupulous about paying back their friends, paying the bank is often low on the list of payments to make when there is cash available. Consequently, banks are unwilling to lend. Sometimes, though rarely, entrepreneurs resort to small time local investors that are aware of the entrepreneur's reputation as they all belong to the same community, and are willing to lend money at higher interest rates.

A second set of indicators of economic capital owned by the entrepreneur is composed of physical resources, especially factors of production. These include property for the site of plant, raw materials, machinery, and transport vehicles. When they exist in the entrepreneur's resource portfolio, these are usually inherited from a previous business experience. It is common for an entrepreneur to declare a business bankrupt, and then proceed to open a new business in exactly the same location, with the same machinery, the same employees, in the same line of activity. This is sometimes used to evade paying past tax obligations.

The time at which investments are made is also decisive for the definition of who is to be the borrowing partner. The interviews show that in general the entrepreneurs rely for the beginning of the venture on sources of capital socially closer to them (their own savings, their family's money). As time passes and the enterprise establishes itself, entrepreneurs begin to search for bank advice and formal moneylenders (bank, leasing institutions). On a third stage, some try to establish a personal relationship with members of their bank's branch. The fact that they are known by name makes them confident that the bank will be less conservative about their lending facilities.

3.2. Cultural capital

What did entrepreneurs know about business making when they decided to start up? There are many relevant indicators of the sources and type of knowledge of the business accumulated by the entrepreneur before the start of the venture, which affect the performance of the business. These are the resources that I label 'cultural capital'. The relevant resources include: management skills, knowledge of accounting, skills at operating the relevant technology of production, craftsmanship, and general 'knowledge of the business,' of its actors and its rules.

Human capital is a particular form of cultural capital that relates to all kinds of knowledge relevant to the workplace. Aldrich, Kim and Keister (2003) have emphasized that human capital is an important determinant of business performance. They go as far as arguing that credit does not matter for a business start-up but education does. I interpret education more broadly as referring to cultural capital applied to the business.

I find little relation between education before start-up and success, contrary to Aldrich's findings. This is consistent with the observation that in my sample, the entrepreneurs do not need a great amount of formal knowledge investment to set the business, because the areas of business in which this thesis focuses, furniture and graphic arts, require little knowledge before the start-up since they are not very technologically advanced.

Yet, cultural capital consists of both formal education as well as of what was learned by experience, for instance by being a second-generation entrepreneur. Knowledge understood in this broad sense is indeed relevant to business performance. I explain how these two forms of cultural capital impact businesses in the following sections.

3.2.1. Knowledge through education

In this section, I describe the different types of education profiles of the entrepreneurs in the sample. Entrepreneurs are clustered around two stages of schooling: primary education and high school or higher education. I will shortly analyse how the education level of the entrepreneurs can affect their management of the business.

There are two relevant types of formal education and respective institutions that contribute to the entrepreneur's knowledge on how to conduct a business: school diplomas and professional training courses. School diplomas serve the important purpose of providing an assessment of the level of the entrepreneur's abstract skills.[40] These skills have some impact in the ability of the entrepreneur to deal with a number of business problems. School education is measured by the number of years spent in school. Beyond school, some entrepreneurs have attended courses usually in the context of their activity as employees. This has awarded them some specialised qualifications beyond those obtained in school. Some of these courses have become instrumental for business development for some entrepreneurs.

The first comment worthy of note regarding the education of the entrepreneurs I interviewed is the prevalence of entrepreneurs with very low schooling. Out of 55 entrepreneurs, 21 had only achieved primary schooling (four years of school). Half of the entrepreneurs had up to 6 years of school attendance.

These entrepreneurs usually went to work in the business (furniture or graphics arts) directly out of primary school, when they were 10 or 11 years old. They started as employees in a factory, which was often owned by family members. Jorge described this

[40] Reading, writing, and elementary mathematics are some of the basic skills

experience as doing a little of everything, from going to the bank to operating machines on pieces of furniture of all sizes and styles. He describes his initial contact with wood suppliers as also crucial to avoid being swindled in the future. This early contact with the business gives these entrepreneurs a feeling that he knows all there is to know about it. (Jorge told me 'I know about furniture since always' or 'I knew about the business before I knew...'). Nevertheless, this impression is often misguided. Their lack of schooling hindered their ability to keep organised accounts, or to understand the legal obligations they would get themselves into. Often, this contributed to the demise of the business.

While there were some entrepreneurs in the furniture business that had more than primary schooling, this was much more prevalent in the graphic arts industry. The furniture business is populated by many descendents of other furniture makers, most of whom have very little schooling. The children of furniture makers that attained higher education typically left the business, while the few that remained usually became involved with much larger companies, which fall outside the sample of this thesis.[41]

Educated entrepreneurs are rarely born into the business and are mostly in the graphics arts industry. There was only one case of an educated entrepreneur in the graphics arts industry that was born into the business, though this may be due to his very specialized area of work, the binding industry. Educated entrepreneurs usually create a business after having worked as employees in a similar business. For instance Miguel started G17 after he discovered a new technique that allowed for faster printing on fabric while working in a chemical company. In another case, Mariana worked as an editor of a magazine. She became progressively more interested in the creative graphics arts side of

[41] These are the entrepreneurs that have achieved inter-generational upward mobility most likely by overcoming the problems of the employer-employee relation that are crucial to successful capital accumulation (on this note see Scase and Goffee 1982)

magazines and went on to start G72. A third case was that of a surfer who during his college years had a small company selling surfing material. He went to fairs looking for products, and one day saw the demonstration for a machine that printed T-shirts. He thought about printing surf-related T-shirts and opened a business to that effect. The business G69 evolved into a copy centre. A final example is that of Ricardo. He was an undergraduate when his girlfriend became pregnant. He had to abandon his studies to support his new family, and started working in a graphics arts business. In a short period of time, he understood the system of production and left to start his own business, G58, concentrating on an unexplored side of the business. In a few years he had a very large company, and was one of the most successful entrepreneurs that I interviewed.

Entrepreneurs with more education distinguished themselves by putting more emphasis on the consumer. They set up businesses that were more flexible to adapt to the tastes of the consumers. This results in generally more complex businesses, with less rigid organizations. They are more concerned with diversity and quickly adjusting to the demand of the market.

In the graphics arts industries, they concentrate on the creative side of the business and less on the mass production aspect. They want to deal more with the paper rather than with the machinery. They are more comfortable with this side of the business, and dislike the dirty hands feel of the industrial side of graphic arts.

In the furniture business, the few educated entrepreneurs concentrated in restoration of antiques. Their focus was on using traditional ways of producing and restoring furniture. As in the graphics arts businesses, they were less focused on the mass production side of furniture making. Rather, they centred their businesses on the quality of the piece and its aesthetical value. Their education steered them into the intellectual and cultural dimensions of the business.

In both businesses, entrepreneurs with higher education also distinguish themselves by being more averse to risk. They only start a business after being confident that it will be successful. They are cautious and especially reticent to leave employee positions.

These entrepreneurs are better able to handle institutions that require some cultural capital. They are less prone to get in trouble with the tax authorities, or other legal problems. They are better informed and can navigate through State bureaucracy. The few cases in my sample of entrepreneurs that used government grants were educated entrepreneurs. They also had a greater ability to conceptualize the production process. They were more likely to rationalize production and create clusters of efficiency.

Given these differences of education, what could we expect from each of the different types? Namely, do better-educated entrepreneurs have more successful businesses? I found that there was a tendency for educated entrepreneurs to better keep business accounts or mind their legal obligations. Moreover, educated entrepreneurs were more likely to rationalise production, which as will be discussed at length in Chapter VI, is often the key to prosperity. However, these tendencies were only mild at best. The main reason for this is that many uneducated entrepreneurs had access to a form of cultural capital that substituted for formal education: experience.

All in all, educated entrepreneurs seem to have an easier time putting their ventures together and moving them forward, than the majority of the other entrepreneurs in this sample. Their ease to convert their position in the established salaried middle classes (that depends on credentials) into a position in the established entrepreneurial middle classes resonates with the findings reported by Scase and Goffee (1982).

3.2.2. Knowledge through experience

Many of the entrepreneurs in my sample had obtained the knowledge that they used to start the business through previous experience. This involved not only experiences directly related to the activity of the business or to the process of creating businesses, but also other experiences that taught the entrepreneurs how to manage an organisation.

Entrepreneurs acquired their expertise on the area of their business often through prior experiences as employees or even as owners of similar businesses. There were three other important sources of experience: the family, role models and collective organisations such as sports teams and the army. This section goes through these five sources of experience in turn.

A large part of the sample of entrepreneurs had previously worked in the furniture or in the graphics arts industries as employees. This seems to confirm the hypothesis in Aldrich, Kim and Keister (2003) that work experience increases the likelihood of entering entrepreneurship. This experience gave them knowledge on the productive side of the business from the perspective of an employee. They understood what it takes to produce a piece. They had an in depth knowledge of the machinery and of the different stages of the production process.

Nevertheless, these entrepreneurs faced some characteristic difficulties. One of the main problems was a role relation issue. Since they had only experienced the business in the role of an employee, they had difficulty assuming managerial tasks. While they understood the industrial production side of the business, they lacked all of the other skills to be an entrepreneur. They had little understanding of what it takes to manage a group of people. As Scase and Goffee (1982) found, difficulties in the relationship between employer and employee is one of the fundamental obstacles to capital accumulation and to successful upward mobility. Moreover, some of these entrepreneurs did not know how to seek and interact with clients and suppliers.

There is an important distinction between previous work experience in small workshops or in big businesses. The entrepreneur Maria of F73 gives a clear statement of the importance of a small factory for the learning process in the furniture business. In the small workshop, the apprentice has to deal with a little bit of everything and with the general working of things. In a big factory, there is limited access to the 'general picture' or limited freedom to change tasks. As it is the main objective of most apprentices to start their own business, being trained in a small workshop is a better investment.

The potential of employees to in the future set up their businesses is well understood by the current entrepreneurs. The entrepreneur in F55 restrained from displaying information about the factory or the pieces under construction even to his brothers. He did not want others to set up rival businesses.

Some entrepreneurs had previous business experience acquired through the ownership of a previous business that either failed or succeeded. If this previous business was successful, the entrepreneur's new start-up often corresponded to just re-registering this business. This was the case of F55, F44, and F65, for instance. These entrepreneurs decided to re-start their business because they wanted to include their offspring as partners, or wanted to register the business under a different legal status. The desire for a different status was driven by the desire to pay fewer taxes, or because the entrepreneur felt that it would enhance the firm's reputation with its suppliers and its creditors. Some other entrepreneurs acquired experience through a prior failed venture (for instance G21 or F51) and they incorporate their hard learned lessons into the new business.

The entrepreneurs who showed a greater control of the management of the venture were those that, beyond their knowledge of the production side, were either born to the business (the family already operated a business in the same industry) or had completed high school or college degrees. These two latter groups could complement their knowledge of production with knowledge about the organization of production, and of overall business management.

A group of entrepreneurs had knowledge about the business by having been born in a family that was in the business. These kin in the business either worked as craftsmen or had previously owned their own businesses. As Jorge put it, he had "smelled the wood dust" having learned all about furniture since he was a child. The early socialisation of these entrepreneurs into the industry was the vehicle through which knowledge was acquired.

This group is highly concentrated in the North of Portugal and in the furniture industry. The offspring of many entrepreneurs in the North is employed early in the parents' business. They drop out of school and spend their teenage years in the factory - the one place that is recognised to be of service to the child. There, the child learns early in life everything about the factory from the management to all the issues related to production. It is not strange that many of these family apprentices get to their early twenties fully specialised and somewhat prepared to start their own business. This is why so many interviewees were relatively young. Many communities do not view even basic education as a resource that will help the future worker and entrepreneur. They believe 'on the job training' is a legitimate substitute for school. Moreover, they perceive this option as conducive to greater chances of upward social mobility. Since the majority of the small business entrepreneurs only have primary school education, there is not a great pressure on the emergent entrepreneurs to attend school for a longer number of years. In several interviews, it was noticeable the interest the parents who are furniture entrepreneurs have in stimulating their children to learn from an early age not only how to work with the wood but also the tricks of trade. The family was related to or interested in the business and the entrepreneur grew up in the midst of it. For instance, Jorge's father and 5 brothers were all in the furniture business. Jorge was born to the furniture business; his life was the training ground to acquire all the necessary skills to start a venture.

These entrepreneurs were among the best informed that I found on how to run a business. They knew inside out the details of the production process. They also understood well the managerial side of owning a business, having experienced successes and failures in their families. Finally, they were well equipped to start a business having an extended social network to draw resources from, especially using the reputation (symbolic capital) of their family.

How does the business experience that some entrepreneurs attained through their family affect the performance of their businesses? In the early stages of business creation, this experience was quite important. The group of early starters often coincides with those who had family in the business. Moreover, these entrepreneurs were more likely to survive the initial stage of business creation. Nevertheless, these entrepreneurs were also typically more dependent and closely tied to their social networks. Therefore, many had some difficulty breaking free from inefficient ties, when this was required to allow for the growth of the business in a second stage of its development. The entrepreneurs with business experience through their family are among the most successful ones in the first stage of business creation, but they are also a large fraction of the group of businesses that just survive and are unable to grow in a second stage, described in Chapter IV. The entrepreneurs in this group belong to the marginal sectors of the entrepreneurial middle class, and they are trying to secure their position – to become established members of the entrepreneurial middle class (Scase and Goffee 1982). In the remainder of this thesis I will examine which entrepreneurs will be successful in their pursuits and why.

Another relevant source of experience emerges from the ties in the entrepreneur's network, in particular the people he or she knows closely that become role models. Craftsmen or other entrepreneurs in the business can be sources of information, knowledge, and guidance.

Many entrepreneurs in the furniture business speak about the relevance of talking to old craftsmen (e.g., F55 and F23). They exchange experiences and collect advice from these knowledgeable sources. Most refer to these consultations as privileged situations. These older figures are regarded as veterans and serve as role models to the nascent entrepreneurs. They are sources of inspiration for issues related to leadership, and are often sought for advice. They are often experts in specialised techniques, e.g., wood inlays in the furniture business, or binding in graphics arts. This is particularly the case in businesses that rely on tradition the most.

One source of knowledge that I was especially surprised to discover about, but which was important to many entrepreneurs, was their experiences in the army and playing team sports. Entrepreneurs report that these collective activities were significant in teaching them how to structure and manage their businesses. Both seem to award entrepreneurs with organisational skills essential for the successful running of a business.

F80 refers to his increased ability to speak with people within higher ranks of an institutional hierarchy due to his practice of sports. F22 refers to the importance of the military education or the military experience in the managing of an enterprise. Many other entrepreneurs at one point or another refer to these institutions in connection with even specific technical skills that were valuable when they started their businesses.

More specifically, the army and team sports were linked to the development of three main sets of skills. First, they gave the entrepreneurs an intuitive sense of organisation and strategy. The concepts of working in a team and of establishing hierarchies are linked to these organisations. They serve to introduce the entrepreneurs to a structure that they go on to apply to the design of the production system in their start-ups. The entrepreneurs often mention that they first understood the role of planning and the goal of efficiency when playing sports or serving in the army.

Second, in the army and in team sports, the entrepreneur gains a perspective on the existence of different roles and the need for effective leadership. These organisations show the entrepreneur how to deal with people and situations. They socialise him/her outside of the social network that he/she was born into. He or she learns how to manage a system.

Third, the army and sports teams served a role of building a network of friends and acquaintances. A number of entrepreneurs that have played sports or joined the army refer to 'sport buddies' or 'army mates' as people that granted them money to invest, advice, contacts, or expertise.

In conclusion, the necessary knowledge to start a business can be acquired in many ways; higher education is not the only one. Often, experience as an employee or even entrepreneur in the same area of business substitutes for formal knowledge in equipping the entrepreneur with the cultural capital required to start a business. For many entrepreneurs, social reproduction of entrepreneurship (through their family and their community as children) was instead the key vehicle for knowledge. Other social institutions provided the entrepreneurs with models of behaviour (role models, army, and team sports) from where they drew many skills.

The poorest area of expertise in any case was bookkeeping and accounting. The law requires each business to hire a certified accountant to overview book keeping and tax declarations, which does not exempt the business from its own forms of control and regulation. Yet, many businesses had very deficient accounting and their entrepreneurs had little knowledge of elementary bookkeeping. Many entrepreneurs ignored the necessity of the management of venture accounts and found themselves drawing cheques whenever was necessary or taking money out when they needed it for personal reasons, with little regard to the balance of the enterprise's bank account.

3.3. Symbolic capital

What symbolic capital did the entrepreneurs bring to their business? While symbolic capital is somewhat difficult to ascribe to any one particular set of resources, there are many expressions of it that can be identified.

Some of the entrepreneurs started their businesses having already earned prestige within their area of business. For instance, the senior partner in G84 had been working in the binding circles for almost 50 years. He was well known in the area, among clients and suppliers. In binding this is crucial, since it is a small area of business, which mostly caters for a few libraries and State institutes. In this case, the prestige of the entrepreneur guaranteed that the business could draw clients from the limited available pool.

Statue within the local community is also an important source of symbolic capital. Joaquim of F32 had lived in a small community outside Lisbon all of his life. When he decided to start F32 with his children, it was easy to obtain the required resources by simply drawing from these many ties. Obtaining credit, materials or clients was not difficult, since everyone in the area knew him and trusted him.

Even if the entrepreneur lacks prestige in his/her area of business or statue in his/her community, association with a reputed name will often serve as a substitute, since symbolic capital is transitive between very strong ties. A strong social tie carries with it the reputation of the person to whom the entrepreneur is associated. This was evident in the case of Jorge (F66). He was the son of a respected furniture-maker in the area, and used his father's reputation to obtain access to the resources he needed to start his business when he was still young and new to the business.

A reputation for honesty is another form of symbolic capital. This was also clear from Jorge's story, described at the beginning of this chapter. Despite his constant incursions in illegality, he strongly believed that paying his debts to his suppliers was a priority. His name in the business was his most valuable asset, and allowed him to obtain credit at very short notice despite his financial difficulties. This symbolic capital was so important to him that he stated: "I will only stop paying if I die, else I always pay."

3.4. Social capital

As defined in chapter I, the social capital of an entrepreneur refers to the ties he has which serve as suppliers of information on opportunities and resources that can be used in the business. The entrepreneurs bring with them to the business their connections, which are put at the service of the business especially in the co-optation of resources that the entrepreneur does not have access to. This social network is useful not just through the social ties that are directly in the area of business of the start-up, but also in more diverse ties that while apparently unrelated to the business provide information on where to look for the needed resources.

A relevant indicator of the social capital of the entrepreneur is the number of social ties that he has. For some entrepreneurs it is clear from their discourse that they are very well connected. For instance, Jorge knew everyone and everyone knew him. He was able to start his first enterprise exclusively through the use of his social ties, which provided clients, suppliers and employees within the local industry, and with these the needed money, machinery, and wood on credit. Nevertheless, the number of ties was not a useful measure in the research of this thesis. The majority of entrepreneurs, seven years after the fact, rarely remember all or even most of the ties they had at the time of the creation of the business. Assessing the size of an entrepreneur's network by counting the number of ties was infeasible.

As described in chapter II, the way to elicit the use of social networks in the entrepreneurship process was by asking how resources were obtained. Entrepreneurs typically recalled well the key social ties that provided resources, denied them, or gave information on where to obtain them. These were not necessarily the stronger ties in the entrepreneur's network, nor did they give a full account of all of his/her network. Nevertheless, these were the ties that in their content more affected the business. A better indicator of social capital was therefore the content of social ties.

In the data, the content of social ties was remarkably consistent across one dimension: the role expectations of each tie. For instance, spouses were typically associated with either a source of workforce, or as providing financial stability through a stable low-paying job that allowed the entrepreneur to take risks in the business without putting the subsistence of his/her family at stake. Parents, in turn, almost always were a source of economic or symbolic capital, through financing the business and lending their names and reputations. From children was expected labour in the venture, but also that they became educated in the dealings of the business. Siblings were almost always sources of labour or partners, whereas neighbours typically provided information. In very tight communities, neighbours were also often a source of credit. The data shows a remarkable coherence when looked at from the perspective of the typical roles attributed to different relationships.

Weaker ties appear in entrepreneur's account mostly in the form of acquaintances. Their role was typically that of providing information on other connections and resources. Acquaintances transmitted the symbolic capital of people with whom the entrepreneur planned to have a business. For instance, the entrepreneur in charge of F18 described finding three of his employees through weak ties: two were brought by distant connections and the third by one of the two employees. Many entrepreneurs referred having found their lawyers or accountants through the referral of a common acquaintance. As in Granovetter (1973), these weak ties allowed the entrepreneur to conduct a more general search for other resources that were more distant from his close network.

One particularly important group of ties are those that bridge what Burt (1982) labelled structural holes. Sometimes, the entrepreneur can only reach a set of resources through a single tie. This tie then becomes crucial to the start-up of the business. It is important for the business that it does not depend on this tie forever; these relationships of dependence later either trap the business in a steady state of stagnation or precipitate its collapse. The entrepreneurs that were most successful were those able to identify these dependences, and search for alternatives. For instance, Vitor of G08 started his business by obtaining financing from two capitalist partners. As soon as he saw a chance to break with them without jeopardising his access to economic capital, Vitor did so. As a result, his business was able to make it through the initial stages and, as will be discussed in Chapter VI, achieved success and growth.

Family ties are typically a very important component of social capital as Johannisson claims, "entrepreneurs are more dependent upon their family and friends than on business plans to launch their ventures" (Johannisson 1995: 215). But they are also often subject to delicate political balances. For instance, Jorge of F66 preferred to start his own business rather than to take over his father's business. Partially this was due to a row between Jorge and his father, but also Jorge did not want to take over his family's business; too many of his brothers were involved in it and he believed that this was a recipe for disaster. Likewise, the entrepreneurs in F55 and F73 were very concerned with preserving their enterprises as much as possible from the 'politics of families': rows, disputes, diverging opinions, values, etc. At the other extreme, F32 is more than a family business; the enterprise is the family and the family is the enterprise. What the family needs the enterprise provides as long as it does not compromise the enterprise's survival. The relationship is symbiotic (using a metaphor from Biology). In the case of F69, arguments between two families connected by marriage shaped the entire story of the business. Crises were driven by rows within family members, and the eventual demise of the business resulted from embezzlement and cheating between two members of the family.

Finally, note that while this section documented the sources of social capital, it did not do justice to its wide use in the start-up of the businesses. This is because social capital was primarily used to co-opt resources that the entrepreneur did not have into the creation of the business. The resources that were missing, the way in which they were co-opted by the entrepreneur, and the contracts that they gave rise to will be discussed in the remainder of this chapter. Throughout, social ties will be omnipresent as the key resource used to gain access to these other resources.

4. How did entrepreneurs find what they did not have?

"For entrepreneurs the problems of scarcity loom the largest, for they have limited resources to invest. Thus, in order to obtain the goods and services they need for their start-up businesses, they must creatively exchange those resources that they have at their disposal: favours, information, friendship, gumption, enthusiasm, obligations, solutions for problems, their own time, and imagination. In socio-economic marketplaces, entrepreneurs accumulate social assets and spend social resources, using social contracting skills to secure the goods and services they need. In these transactions, emotions and values, rather than logic and rational calculations, often play a primary role" (Starr and MacMillan 1991: 168).

Scarcity of some kind of resource is the most likely scenario in the context of business creation. Assuming that the scarce resource is essential for the venture, a fundamental question arises: how do entrepreneurs collect essential resources into the venture? What strategies do they engage in? In the course of my data analysis, I identified four main strategies of gathering resources for a venture: accumulation, market transaction, institutional help, and co-optation. I will now turn to the exploration of each of these strategies.

4.1.1. Accumulation of capital

The first strategy, accumulation of capital, is the simplest. It implies the amassing of a required capital over time. Examples are saving towards accumulating financial wealth, investing in long term education to increase cultural capital, building and preserving of a good reputation to accumulate symbolic capital, or the assemblage of a large and diverse network of contacts towards assembling social capital. It has the great disadvantage of an absolute dependence on long term planning, which renders it inappropriate for any quick gathering of resources.

4.1.2. Market transactions

The second strategy, market transaction, has a great advantage over the accumulation of capital – it renders itself to very quick exchanges. It implies the exchange of a capital an entrepreneur has in excess for another he or she lacks in a market where prices are clearly set.

The great drawback of market transactions is the great level of formality attached to the exchange of resources that the 'market' considers valuable. Point in case, banks are unwilling to lend to nascent entrepreneurs that - inherent to their status - have no established reputation. From the bank's perspective, there are very few ways of sanctioning the entrepreneur's potential wrongful behaviour.

Another point about market transactions emerged from my interview to José (F61). He described how he found his lawyer by taking down the phone number he constantly saw when he drove past the lawyer's window in the centre of town. The geographical localisation of businesses and experts is important when the entrepreneurs have little knowledge of an area of expertise. In this case, the fact that the expert had an office within the area the entrepreneur worked in helped the contact. The 'market' at this level of business has a physical support. To the 'experts', being close to the 'centre' of the 'market' will help being known.

"Something about the structure of the player's network and the location of the player's contacts in the social structure of the arena provides a competitive advantage in getting higher rates of return on investment. (...) It is a description of the way in which social structure renders competition imperfect by creating entrepreneurial opportunities for certain players and not for others" (Burt 1994).

4.1.3. Institutional help

In an attempt to address the difficulty that entrepreneurs have in gathering highly prized resources such as economic capital or very technological forms of cultural capital, a number of government institutions devote their efforts to the advancement of the competitiveness of businesses. In particular, large sums of structural funds have been assigned in Europe to help the development of small industrial businesses in less competitive environments. These funds aim to stimulating ventures that intend to have a heavy component of innovation in the use of technology, which is rarely the case in the ventures studied in this thesis.

The Business Innovation Centres are notable examples of this policy. These funds have little payback obligations; they only require that the entrepreneurs make an honest attempt at an innovative business. This endeavour is, however, much more complex than expected since most businesses hardly qualify as innovative and, most importantly, the entrepreneurs have a deficient relationship with State institutions, applications, and forms. All things bureaucratic are for most entrepreneurs surrounded by unconquerable complexity. The lack of knowledge of State issues and bureaucracy is so significant that the interviewee of F69 mistook unemployment insurance payments for European funding.

4.1.4. Co-optation

The most popular strategy for gathering any kind of resources is co-optation. All start-ups depend heavily on the ability of the entrepreneur to co-opt resources (Starr and MacMillan 1998), but this is especially true in a setting of credit and technology scarcity. There are two types of origins for the assets invested by the businessman in the venture: the agent himself, and the people the agent knows. The co-optation path provides a picture flow of resources from the people the entrepreneur knows to the entrepreneur him/herself, this is especially important because the Portuguese average entrepreneur has limited resource availability (Almeida et al 1996a; 1996b). Thus, capital structure should be conceived as flexible because it is dependent on the entrepreneur's ability to co-opt resources from his/her social ties.

Stevenson and Jarillo point out that the crucial difference between the entrepreneur and other economic agents (such as a manager/trustee) is their "willingness to pursue opportunity regardless of the resources currently under control. It is typical of the entrepreneur to 'find a way'" (Stevenson et al. 1991: 194). This is best exemplified by the use of co-optation as a strategy to gather resources that seemingly collects where nothing apparently existed. The advantages of this perspective are that entrepreneurship is seen as a process rather than a trait of personality. As an activity, it engages the management of existent resources and the co-optation, the capitalisation, and the gathering of resources beyond the immediate scope of the entrepreneur. The definition becomes 'situational'. The agent may or may not engage in an entrepreneurial situation over time.

But what is co-optation? It is strategy whereby the entrepreneur convinces a social tie to award a resource to the business without the formalisation of a legal contract, or other such mechanism (Starr and MacMillan 1991). It is the flexible and easiest strategy to gather resources, which explains its popularity. In effect, section 3 of this chapter contained many examples of co-optation strategies, from parents that lend substantial sums of money for the start of the business without charging interest, to children that are brought into the venture, to family members who put a good word about the entrepreneur at a supplier store, to friends that put the entrepreneur in contact with other friends that know about legal issues.

The reliance on social relations as a provider is a way to decrease risk: "entrepreneurs compensate for (...) "liabilities of newness" by building ventures that use intensely co-operative strategies" (Starr and MacMillan 1991: 168). If social networks are providers of resources then they are tightly linked with the perception that each agent has of risk. If the entrepreneur can pull many resources from the network, then he/she will be willing to take on greater risks. The strength and cohesion of the network can shape a different conception of risk taking. The more a network binds the entrepreneur, the more he or she feels secure about taking risks. Yet, too much binding can provoke risk aversion. Nevertheless, the trust in the network produces a reality effect over the capacity to control risk. Yet, is co-optation after all such a weightless strategy?

5. What contracts are attached to co-optation?

Co-optation involves obtaining resources from others. As such, it requires that an exchange relationship is established between at least two parties who agree to trade their resources. There are three key ingredients underlying this exchange: the resources being traded, the principles of exchange, and the contracts underlying the exchange.

Exchanges take place because agents which to trade their resources. The interest in resources and the control over resources is part of the glue that connects agents to each other. Even if there are many resources in the social environment surrounding the entrepreneur it is still up to him/her to use them or not, and whether to trade them. Bourdieu draws a link between the proximity between two individuals and the likelihood and nature of a resources exchange between them: "The closer the individuals and groups are in genealogy, the easier it is to reach agreements (and therefore the more frequent they are) and the more they are entrusted to good faith. Conversely, as the relationship becomes more impersonal, that is, as one moves out from the relation between brothers to that between virtual strangers (people from different villages), so a transaction is less and less likely to be established at all but it can, and increasingly does, become more purely 'economic'" (Bourdieu 1990: 115).

Resources have different statuses when they are traded. They vary according to their performance and cost. For instance, some resources may be exchangeable only within the context of strong ties (Birley 1985). This is the case of economic resources; most notably money. If an entrepreneur wants to borrow money outside the context of a strong tie, he/she has to find a reputed referee. Jorge of F66 provides a very good account of the working of private loans. According to him, knowledge about the reputation of the borrower, its name on the market, and the fact that the lender is personally acquainted with him/her, makes the lender lower the interest rate on money lend. Entrepreneurs find it easier to draw resources from strong social tie relationships than from weak tie relationships.

There are two principles of exchange in social networks that carry consequences to the development of small businesses: reciprocity and reliance on trust. The principle of reciprocity (Grabher 1993) that frames gift economy relationships (Mauss 1990) allows the start-up to survive, as the intervention of the social network will prevent its failure. The social network of the entrepreneur becomes a support network; hence the crises in the venture are managed and resolved (whether or not in a last instance) by the entrepreneur's community. Nevertheless, the entrepreneur is tacitly expected to do the same for those in his/her network. That is the rule of the implicit social contract between the entrepreneur and his/her social support network. In a sense, this unwritten bond testifies that the community is the economic unit as opposed to the enterprise. It is to the general economic and social welfare of the community that the rule of reciprocity caters.

The second principle of exchange in social networks is the reliance on trust. The use of trust relationships though puts ventures at the risk of failure when there is malfeasance in the relationship. To some extent, this can be attenuated by the use of formal contracts.

A contract can be defined as a set of obligations and enforcement mechanisms and sanctions. The implications of that contract might compromise the outcome of the venture. The type of contract established between two nodes is an indicator of the degree of necessity the pair has in formalising the link. The necessity to formalise the exchange depends on the amount of trust present in the tie and the type of capital being exchanged. For instance, the borrowing contract is the strongest tie the venture has, aside from the tie between the entrepreneur and the venture.

If both parties have great trust in each other, they may feel confident enough to keep only a loose verbal contract, or even a tacit one. If by any means one or both parties lacks trust, it is likelier that the contract is formalised.[42] Trust will enable entrepreneurs to act in a risky environment. Yet, if there is not enough trust, the contracting parties may feel the need to refer to the legal system. The importance of the capital in exchange will also play a part in the settlement of the contract. The more a resource or an opportunity is valued the more the parties will tend to formalise the agreement on exchange. Different contracts will therefore arise due to different understandings of the level of trust involved in the relationship.

[42] The contract might be legally formalised if either or both partners want to invoke a formal system of sanctions.

The legal contract is an example of a highly formalised agreement where the sanctions are not loose and there is little space for misunderstandings. Still, Macaulay argues that "Even where parties have a detailed and carefully planned agreement which indicates what is to happen if, say, the seller fails to deliver on time, often they will never refer to the agreement but will negotiate a solution when the problem arises as if there never had been any original contract" (Granovetter 1985: 497). At the other extreme, the non-use of a social tie is the utmost example of an agreement that has not been formalised, i.e. it is a tacit non-use.

The strength and nature of ties bound these loose 'social contracts'. They establish what kind of 'payment' mode the entrepreneur has with her/his social ties. In many situations, the price to pay within the network is not economic but symbolic. In some conditions, the risk that the tie will not secure the agreement is so high (as the level of trust is so low), that communities find alternative ways to enforce the bond. Gambetta (1998) argues that the Mafia acts exactly as an entrepreneurial agency for the enforcement of deals set under conditions of great uncertainty. Due to a prevalent perception of risk, arrangements in Sicily have to be fixed with high sanctions, such as death, in view of the high risk. In most communities, however, the issue is not so dramatic. The legal system acts as a standard and a referee for the settlement of exchange agreements, if the parties are not confident with an informal agreement.

A sparse regional network where a tacit light sanctioned agreement takes place is prone to have a higher degree of risk. Information circulates at a slower pace within the network and the sanctions are not great. As a result, the entrepreneur will have greater incentives to break an agreement or 'burn a bridge' if the profit stakes of doing so are very high.

By contrast, a dense social network with heavy sanctions can create risk adverse entrepreneurs and overembeddedness (Uzzi 1996). The sanctions are higher and more overwhelming and the pace of information circulation is faster. Due to this, the entrepreneur might not only feel constrained to break arrangements but he/she will possibly be less adventurous.

In short, contracts are tacit or explicit, informal or formal, heavily or lightly sanctioned. Table III.1 illustrates this classification with a few examples.

Table III.1: Examples of agreements according to the formality of the tie and to the strength of the sanction

	Informal	Formal
Light on sanction	Agreement with family members	Agreements under defective legal systems
Heavy on sanction	Agreement with the 'Mafia'	Agreement with the bank

Finally, the most important contract in the business is that between the partners. What is the nature of partnerships as contracts? Partnership in a business venture involves a high trust relationship, because there is a high amount of risk involved. Therefore, entrepreneurs are more prone to engage in partnerships with individuals with whom they have strong tie relationships. The entrepreneur's network serves the role of the supplier of business partners. Within the entrepreneur's network there can be other individuals willing to start a business.

There are two main reasons why partnerships are established in my sample. Some individuals engage in a business partnership to increase the amount of resources ascribed to the business. The partnership represents a rejoinder of efforts. Alternatively, other individuals engage in a business partnership to eliminate competition by coalition. This is particularly noticeable in some of the more specialised sub-fields of the furniture and graphic arts business, where the market can only sustain handful of rims.

6. CONCLUSION

This Chapter presented the events surrounding the first stage of the businesses: the start-up. I started by telling the story of Jorge and F66 – it typified many of the elements that were later shown to be more general. Next, I described their entrepreneurs characterising them in terms of their age, gender, and geographic mobility. Then, I described the resources that the entrepreneurs had at the start of the business, in terms of the framework composed of economic, cultural, symbolic, and social capital described in Chapter II. Together, these pieces of information provided a complete picture of the background of the entrepreneur. The picture that emerged is the following: while entrepreneurs vary in age, they are mostly male and are very little mobile geographically living in closely knit communities. They typically have little economic or cultural capital, though some have substantial symbolic capital in their local community or in their industry as a result of having worked in the industry for many years, or being a member of a family that has. What all of the entrepreneurs had plenty was social capital. They typically had very large social networks, which they were not shy to use.

The next part of this Chapter described the process by which the entrepreneurs used their background to start their businesses. The first question is: how did they obtain the resources that they lacked? The predominant answer was: through their social network. The entrepreneurs co-opted resources from different social ties, effectively trading social capital for economic, cultural and symbolic capital.

The second question is: what contracts came with these co-opted resources? The answer was that it depends on the type of resource being traded, the principle of the exchange and the contract being used. The status of the resource, its importance, and the proximity between the two individuals trading will all affect the terms of the contract. An important element of exchange is typically the principle of reciprocity. In some cases, this was extreme, in which case the entrepreneur obtained the desired resource without having to give anything away immediately, and without any formal contract binding his /her actions. The type of contracts also varied in whether they were tacit or explicit, in whether they were informal and based on trust or formal and backed up by the law, and on the sanctions that they had in place to ensure compliance (light or heavy)

How does the analysis in this Chapter answer the proposed research question: How did Portuguese entrepreneurs of the 'furniture' and 'graphic arts' industries make use of their social relations to maintain their businesses throughout the period of 1993 to 2000? At the start-up stage, social relations were clearly essential to start the business. They had a preponderant role in the entrepreneur's accounts and served a crucial role in co-opting the resources that were necessary to start the business. The businesses that better used their social networks were among the most successful in overcoming the initial period of difficulties.

PART II

CHAPTER IV - SURVIVAL

1. INTRODUCTION

Within the group of businesses that survived the start-up stage, there are two distinct types. On the one hand, are those businesses that are growing and seem to have the potential, and certainly the desire, for future growth. These are the focus of Chapter VI. On the other hand, some businesses settle with the less ambitious aim of simply surviving. This Chapter deals with the businesses that settle in a stationary state and devote all their energy to simply staying afloat.

There exists a literature that has already identified this group of businesses that strive for survival. Freire (1995) and Guerreiro (1996) have analysed these in the Portuguese context. These are typically small businesses using a system of production that relies on craftsmanship. One family typically owns these businesses, which has most of its members employed in the business. The goal of the venture is then to ensure the survival of this family and its modest life-style.

While this type of behaviour has already been identified, it has not been satisfactorily explained. As Chapter III showed, all of the entrepreneurs started their businesses with great aspirations. They wanted to move socially upwards to middle class living and to reach economic wealth. Many also mentioned explicitly their desire to gain independence, in the sense of being able to decide on their actions and future, rather than taking orders from an employer. It is puzzling then that, in the end, they chose to solely survive – if that was their ultimate goal, they could achieve it by remaining as employees.

Even their desire for independence is not fulfilled in these businesses, since the entrepreneurs are dependent on a large tie of obligations from which they cannot break free.

The data in this thesis does not support the hypothesis that from their inception, these businesses aimed at solely surviving. My findings are consistent with the literature in that the entrepreneurs of surviving businesses also justify survival as all that they want. Yet, once I probed the entrepreneurs further, it became clear that these were post-hoc justifications. Almost without exception, all of the entrepreneurs in this study started their businesses with greater ambitions.

Why then would an entrepreneur who started his/her business to achieve independence and prosperity, so often settle for only surviving? The basic explanation given in this Chapter is as follows. At the start-up, the entrepreneur struggles to obtain the resources that he/she needs. The only way to obtain these resources is to obtain favours from others, but this in turn leads to the establishment of a set of informal obligations. Once the business is past its start-up, these obligations must be repaid, which induces the economy to enter a gift economy modus operandi. The business is unable to break free, since it enters a stationary state in which most of its actions are directed to repaying gifts often involving obtaining new gifts in a self-sustaining cycle. The community ensures that the business will not fail, but in turn, it does not allow it to break free from the community, which makes further growth all but impossible. The company in is a *survival trap*. The dependence on the local social network prevents both failure and growth, because it is a dependence on a localized network of strong or weak ties bound by reciprocity obligations. It is a matter of honour, or else a matter of the continued lubricating of the community support, that the entrepreneur should return a favour without being asked for it. A complementary factor preventing growth is that the business maintains craftsmanship method of production without ever rationalising its operating procedures.

The remainder of this Chapter will explain the different elements of this explanation. Section 2 starts by briefly describing the concept of a gift economy, which will serve to structure the discussion that follows. Section 3 explains in detail the process by which a business reaches the state at which survival is the only aim. Section 4 emphasizes the difficulty that entrepreneurs have in breaking free from their set of obligations, so that survival becomes a trap. Section 5 discusses the mode of production adopted by these businesses and how it interacts with their social network. Section 6 concludes.

2. THE GIFT ECONOMY

Marcel Mauss (1954) studied the social interactions among the natives in Papua New Guinea. He found that there was a form of symbolic currency mediating these interactions. People would exchange favours, with the implicit obligation that the person currently receiving the favour would in the near future retribute with a present that was at least as large. These gifts had a physical form in seashells, which were exchanged in return for nothing but the promise of receiving a bigger and better shell in the future.

An important feature of these gifts is that they were free. There was no explicit agreement that repayment would have to take place. In some rare instances, indeed there was no retribution. However, on average, people adhered to the tacit agreement to reciprocate. Ultimately, this served to tighten the community, as this symbolic commitment between the different people kept them together.

Mauss labelled this a "gift economy." The relations between the different agents were not governed by a system of property, as is the case with currency and private property, nor were they mediated through extensive legal contracts. Rather, the different members of the small village economies studied by Mauss interacted through the exchange of gifts. There was no formal system of accounting, but informally, there was a record of the outstanding obligations of the different member.

This type of behaviour has also been identified in other locations in which this system of informal accounting is more explicit. For instance, in certain regions of China, people keep extensive ledgers of the amounts that they have given and of what they have received. This becomes especially visible in the wedding gifts exchanged between families. Again, gifts come with the tacit agreement that they will be matched in the future, and social norms are used to enforce good behaviour.

While Mauss's concept applied to a primitive, self-enclosed society, in which it was possible to clearly identify the exchanges between people, the concept of a gift economy can be transposed into larger, more complex, societies. The businesses that I study are completely emerged into modern economic markets, in which money is exchanged and legal contracts are at least partially enforced. The economic units are supposed to operate under the rules of economic efficiency, and have available to them the mechanism of the economic sphere. However, they choose to step outside of it into the symbolic sphere.

The actions of the businesses within this symbolic sphere are well captured in Mauss's gift economy metaphor. The same attitudes towards reciprocity apply, and the same system of tacit obligations mediates exchanges. Moreover, again there is a strong sense of community and the sense of responsibility to support the survival of the community.

It is more surprising that these businesses decide to act in this way. In Mauss's economies, the natives did not have an operating formal economic for legal system, and they were geographically bound to their community. The businesses in my sample not only have the economic and legal mechanisms available to mediate their exchanges, but also, by the virtue of being in modern societies, have ample opportunities to simply re-locate away from this community. The fact that they choose not to re-locate, but rather to remain within this community, even when they have accumulated a significant number of tacit debts, is fascinating. While Mauss's metaphor provides an important structure to read the data, one must go beyond it to understand what drives businesses into these actions.

(Portes and Sensenbrenner 1993) take an important step in relating Mauss's gift economy to a modern industrial setting. They introduce the concept of enforceable trust. "The fourth source of social capital is also based on the existence of community except that, in this case, it is not sentiments of solidarity based on outward confrontation, but the internal sanctioning capacity of the community itself that plays a central role" (Portes and Sensenbrenner 1993: 1332). The community replaces the State in enforcing good behaviour such that gifts are repaid. Portes and Sensenbrenner (1993) put forward three preconditions to the existence of enforceable trust in a community: "blockage of outside social and economic opportunities", "availability of in-group economic resources", and "community monitoring and sanctioning capacity". All of these are clearly applicable to the majority of the businesses studies in this thesis.

Taylor (1999: 17) further expanded on this point "it can be suggested that networked temporary coalitions in western economies are dependent just as much as 'gift economies' (guanxi) on: 'the skilful mobilization of moral and cultural imperatives such as obligation and reciprocity in pursuit of both diffusive social ends and calculated instrumental ends' (Yang 1989: 35); opportunism; diversification to spread risk though not necessarily for greatest efficiency; and information exchange that is place-based and dependent on tacit knowledge." The society in which my entrepreneurs lived had elements of gift economy despite its apparent progress.

An important innovation in Portes and Sensenbrenner (1993) is that they evaluated the impact of this community on the business overall, considering both positive and negative influences. When enforceable trust is at work in a community, three positive outcomes can be reaped: the reduction of formal contracts and reliance on trust lowers the costs associated with contracting (.e.g., the cost in legal fees), a privileged access to some economic resources that can only be obtained through this community, and reliable expectations concerning the protection from the effects of malfeasance. On the negative side, Portes and Sensenbrenner (1993) emphasize that the gift economy arrangements are very prone to free riding on community bonds/norms. This is particularly relevant to the research in this thesis, as we shall soon see.

3. Reaching the Survival Trap

I identified 11 businesses whose outcome is described by a stationary state of survival. Six of them are in the graphic arts industry, while five are in the furniture industry. They are listed in Appendix I.

The ideal type in these businesses is described in the following way. The entrepreneurs were usually craftsmen, working as employees in the industry for a long time. They owned a skill within the industry, and believed that this was all that is necessary to start a business. Desiring independence from their employers, and wishing to keep the profits from their activity, these entrepreneurs decided to start their own businesses.

Nevertheless, they lacked the necessary resources, especially financial and managerial, to start their business. Because they had worked in this area for a long time though, they had established relations that they could draw resources from. They use their social network, and especially their community, to obtain the resources that they lacked at the start-up stage. This involved obtaining money to start the business, finding lawyers and accountants, obtaining contracts from clients, and especially obtaining materials from suppliers. At this stage, the entrepreneur could not pick the best possible deals; they had to go with whatever they could get, since the survival of the business was at stake.

Scase and Goffee (1982: 78) express this state as follows: "… since the market is characterised by uncertainties, one of the major problems confronting them is the need to develop strategies which allow some protection. The most usual way is to establish a 'book' of regular customers. Thus, social obligations are created which cement the *economic* relationship between craftsmen and customers." In the initial stages of the business, the entrepreneurs fight to establish themselves in the business and ensure a steady supply of materials and a steady inflow of customer orders.

The entrepreneur has little to give back in return for thee resources he/she obtains at the start-up stage. He/she receives them in the form of favours or gifts, both economic and otherwise. The links established in this way lead the business to enter a gift economy system, of the type described in the previous section. Eventually, they are asked to repay these gifts. One popular form of repayment to the supplier that helped in the beginning is to exclusively buy from this supplier, even when cheaper alternatives are available. Another is to, from time to time, financially help a member of the community, either because their business needs it, or even for personal family reasons.

As in Mauss's metaphor, there is no explicit contract between the business and its community. Nevertheless, the expectation of being a respected member of the community, who repays favours when he/she is asked to, leads the entrepreneur to act in goodwill. It is a matter of honour to respect your commitments. These entrepreneurs often live in small communities, where all know each other, reputations are easily traced and social obligations easily enforced.

Using Uzzi's (1996) terminology, the entrepreneur and his/her business are over-embedded. They are too tightly linked to their community, and unable to see beyond it. The business is therefore bound to an often large set of implicit contracts that prevent it from maximising profits and efficiency. These tacit agreements trap the business away from growth. They require that the business puts the welfare of the community above profit and growth.

In turn, the community ensures that the business survives. Even though the business is not maximizing profits, it is always above water. In times of crisis, the community bails the business out, and in return, the business sacrifices itself for the community whenever is necessary. The welfare of the community is placed above the welfare of any one individual member. The business reaches a stationary equilibrium, from which it is difficult to break free. While it prevents failure, it also prevents growth: the business simply survives.

The business in F32 was close to this ideal type. Joaquim had owned a sole trader business in furniture making for a long time, and had lives in a very small community outside of Lisbon for even longer. He produced fitted furniture on order. By the late 1980s, his children were adults, and were having difficulties finding a job. Their father employed them in his business, and they gradually became involved in the affairs of the business. In 1993, Joaquim decided to create F32 as partnership, in which he and his son were the main equity holders, while his daughter had a smaller participation. Joaquim's connections ensured that they received many resources from their nearby community as well as from wood suppliers

F32 was a well-run company. The accounts were in order, the partners collaborated, and they had no difficulty in finding clients. Nevertheless, the business was so tied to its obligations, that the partners just took enough form it to feed the family. For instance, according to Joaquim, it was common for him to produce furniture and sell it for zero profit, in order to repay some favour. The community's welfare was above that of the business, and this prevented the business from reaching any healthy profit. He summarised it beautifully: "What am I going to do? I am part of the community!"

Confirming the description of this state of affairs as a stationary equilibrium was Joaquim's attitude towards the State. Most of the entrepreneurs that I interviewed either did not feel the State as a presence, or when they did, saw the State as an obstacle to their businesses. Joaquim, instead, saw the State as potential saviour. He realised that his business had entered a trap from which it was hard to escape. The only way to break free would be for some outside force to disturb the system. The businesses that are caught in the survival trap, and Joaquim especially, look at the State as this possible outside intervention that could bail them out. The entrepreneurs feel that they cannot change the status of their business; in their minds, the State could.

The story of G69 is similar, though now in the graphic arts industry. Francisco traded surf material under his name as a sole trader. One day, in a sports material fair, he saw a T-shirt printing machine. He bought the machine and brought it to Portugal where he toured funfairs for a couple of months. The T-shirt printing machine needs a colour-photocopying machine as a support. To access a colour-photocopying machine, Francisco got in touch with the owner of a photocopying shop in the (at the time) biggest shopping centre in Lisbon. He arranged to use a small space in the shop to print the T-shirts and split the profits with the photocopying man. This lasted one year.

In 1993, acknowledging the lack of interest that the owner of the photocopying shop had in the business, he offered to buy the rights to explore the site and the machines. He started a partnership G69 with his mother and a distant aunt. He was the managing partner and the two women the capitalist partners. Francisco has some formal knowledge of running a business, having attended (but never completed) a management undergraduate degree.

In the case of G69, the main ties binding the business were his mother and aunt. To protect their investment, they intervened in the company. They did not allow Pedro to look for other sources of capital or to grow. They were very averse to risk, and preferred to keep the business small, even against Pedro's wishes.

At the time of the interview, Pedro was trying to break free. He decided to buy out his aunt's share in the partnership and to buy new machinery to expand. To obtain the necessary capital, he got a loan from the bank. This has brought much hardship though, as Pedro has been struggling to pay the bank back. As a consequence of breaking free from his ties, G69 was at the time of the interview, going through a difficult and risky stage, akin to when it first started. While businesses can break free, this often comes with risking the survival of the business.

G98 in turn was bound to a different set of ties. Urbano worked all of his life in the graphic arts department of a well-known large Portuguese company. When he retired, he decided to start a business with his son. He found a very small storage room around the corner from his home and used his retirement to buy a very old printing machine and a cutting machine. An old friend, who is also retired, helped him with the production.

His business was small and barely survived. He catered mainly for small clients, and had a hard time assessing production costs. He complained bitterly about clients that leave debts and of competitors that drop the prices beyond reasonability. When I finished the interview the old friend accompanied me outside to show me the site of another neighbouring enterprise that interested me. He told me that Urbano is one of the main culprits for the price wars, since his difficulty in assessing the real costs of a printing jobs means that he sets unreasonable prices. Over the years he had managed to maintain the enterprise open, but only taking out a modest profit.

Urbano was bound in many ways to his community. He obtained ink and paper free from other companies. (It was not clear from the interview whether these were voluntary gifts, or at times, just robberies.) His retired fiend provided assistance with the production, without which Urbano would not be able to operate. Urbano's main goal in creating G98 was to create a job for his unemployed son. However, Urbano had to remain heavily involved in the management of the business, since his son did not have the skills to manage the company by himself.

For the most part, G98 lives on the scraps form other businesses. It will never be able to grow. Nevertheless, Urbano must keep the business open to provide employment for his family and his retired workmate.

The story of F02 instead illustrates that, for some entrepreneurs, the fear of entering a gift exchange modus operandi, leads them to ex ante, maintain their businesses small. Aderito and Julio were two friends who used to share a rented roof, where both ran their sole trader upholstery business. Even as sole partners they worked on clients' orders together, one sowing and the other assembling. In 1993 they decided that the partnership legal form with suit better their line of work because they could include rent, electricity, water and related expenses in the companies expenses. As they worked together for very long before the partnership their business, they had an established set of clients and a smoothly functioning production process.

F02 had a reputation for quality, and their clients kept on asking them to expand. Yet, they preferred not to grow. The reason was that they were very averse to having to draw resources from outside the partnership, both for funding and especially for employees. To grow would require obtaining favours, and with these entering the gift economy that the partners wished to avoid at all costs. In their case, the fear of entering the gift economy led them to settle for survival alone.

4. WHY IS IT SO DIFFICULT TO BREAK FREE?

Unlike Mauss's natives, the entrepreneurs in my sample were integrated in a well-functioning economic and legal market. Why then, did they find it so difficult to break free from the obligations that bind the growth of their businesses? That is, what mechanism ensured that the gift economy survives, when each of its members had the option to simply renege on its commitments to the community?

This Chapter has already provided most of the answer to these questions. Because they are so important to understand why survival becomes a trap, this section collects these arguments.

The first important mechanism keeping businesses loyal to their commitments is the fact that many are located in small closely-knit communities. Especially in the case of the furniture businesses in the North of Portugal, they are typically located in small villages where people have lived for all their lives, and all know each other. Bad behaviour can therefore be quickly identified and, if necessary, punished. This is especially noticeable in the relationship that the entrepreneurs have with the State and their community. Almost all of the businesses are actively involved in petty crime, especially against the State.[43] However, while the entrepreneurs have no qualms about

[43] Chapter VI describes in detail the instances of crime in business.

stealing from the State, they only very rarely engage in crimes against their community. The State may be unable to enforce its sanctions and respect for its rules, but the community is extremely effective.

A second and related mechanism is the culture of people in these small communities. Keeping to their duties toward their community is seen as almost as important as keeping to one's duties towards one's family. It is a matter of honour to help those that helped you the past, even if this leads to a trap.

A third mechanism is the threat of being excluded form future interactions. In both the graphic arts and furniture businesses, suppliers, producers, and large clients all form a tight network where news travels fast. Many of the entrepreneurs were afraid that if they did not help their community, they would be seen as disrespecting their commitments, and would be excluded from the networks on which the industry supports itself. This would condemn the business to certain death.

A fourth mechanism is the over-embeddedness of the entrepreneurs in their community (Uzzi 1996). In many instances in their interviews, it was surprising the difficulty with which the entrepreneurs were able to look beyond their community. Even though sometimes, only a few miles away there were other communities, the entrepreneurs were limited by the connections that they had always had. They perceive their feasible ray of action as extremely limited. The distance in kilometres can be small, but in terms of entrepreneurs' perceptions, it can be very large. "Overembeddedness can also stifle economic action if the social aspects of exchange supersede the economic imperatives. Feelings of obligation and friendship may be so great that a firm becomes a 'relief organization' for the other firms in the network" (Uzzi 1996).

A fifth mechanism that keeps entrepreneurs tied to their network is the risk that breaking free entails. Once the entrepreneur refuses to help someone in the community, he can no longer count on their help. The business loses the support network that has kept it afloat. While this may be a pre-requisite for growth, it also involves the business taking great risks, comparable to the ones it goes through at the start-up stage.

The final mechanism has to do with the fact that the gift economy exchanges transverse the business, and apply to the entire family of the entrepreneur. There is little distinction between the welfare of the family and that of the business itself. If the entrepreneur takes his business away from the gift economy, he is also taking his family away. This implies for instance, that in case of a serious illness, the entrepreneur can no longer count on the community for help. The costs of exclusion and the risk that it entails are greatly magnified by involving not just the business, but also the family.

All of these factors combine to keep the business tied to its gift economy.

5. The Method of Production

Aside from their gift economy modus operandi, another feature shared by all of the businesses that settle for survival, is that they keep to traditional methods of production. The entrepreneurs typically learned their skills as employees and replicate these lessons in their businesses. They reproduce what they know, with little scope for technical progress, or even rationalisation of production.

Their lack of management skills reinforces this reliance on craftsmanship. C. Wright Mills explains this condition admirably: "Craftsmanship as a fully idealised model of work gratification involves six major features: there is no ulterior motive in work other than the product being made and the processes of its creation. The details of daily work are meaningful because they are not detached in the worker's mind from the product of the work. The worker is free to control his own working action. The craftsman is thus able to learn from his work; and to use and develop his capacities and skills in its prosecution. There is no split of work and play, or work and culture. The craftsman's way of livelihood determines and infuses his entire mode of living" (Mills 1951).

The entrepreneurs typically believed that their technical skills were all that was necessary to open a business. They do not realise the need for effective management until their businesses are running and they are confronted by their limitations. They are unable to grow because they are unable to manage organisations that are even of a modest size.

This inability to optimise production is intimately linked to their gift economy modus operandi, and each mutually reinforces the other. As Birley (1998: 15) notes, "in using only his business contacts and family, the entrepreneur is likely to re-create the elements of previous employment." The fact that the gift economy keeps the entrepreneur's horizons limited, leads naturally to their inability to innovate.

In turn, while they keep to traditional methods of production, the entrepreneurs relay on the traditional supply networks. Moreover, these methods of production imply that the business is prone to periodic crises. The traditional methods of production therefore enhance the benefits from the gift economy, and the dependence of the business on its network.

6. CONCLUSION

Most businesses survived by keeping to a traditional form of organizing production and by using the social support of their network. The businesses that became dependent on social networks survived but did not grow. They established relationships of interdependence with contractual partners (suppliers and clients) and resource providers (extra money lenders). Yet, given the tacit principles of a gift economy - what you did for me, I do for you (whereby a favour is not collected but freely returned) - the relationships were mutually supportive but inefficient. The dependence on contractual partners prevented the failure of inefficient ventures, but stifled growth because entrepreneurs failed to look for more efficient partners, or contracts with better conditions. The dependence on resource providers prevented failure, as there was an influx of capital at decisive moments (the network was subsidizing the economic unit), but put the enterprise in the position of being the provider of others at risk in identical situations. The dependence on the local social network prevented both failure and growth. "The result is to turn promising enterprises into welfare hotels, checking their economic expansion" (Portes and Sensenbrenner 1993).

The entrepreneurs in these businesses were similar to the traditional craftsmen (or artisans) described by Woo, Cooper et al. (1991), Stanworth and Curran (1976) or Lafuente and Salas (1989). They have low education, a blue-collar background and a preference for production tasks above administrative and managerial ones. As a function of their inability to operate a break with their network and their unwillingness to reconfigure the production process, they procure survival as opposed to the expansion of the business.

CHAPTER V - FAILURE

1. WHY DO BUSINESSES FAIL?

Most small businesses fail within a few years of their start, and (as I point out in Chapter I) much time and effort has been devoted in the literature to explaining the causes of their failure. In this chapter, I focus on the 17 businesses in my sample that failed. My aim is to assess whether there are any characteristics that these failures share that could shed some light into the causes of failure for businesses that operate with low credit and low technology, such as the ones in my sample, and if these causes relate to any claims made in the literature. As in the rest of this thesis, I am particularly interested in the role of social networks, either in reducing or in enhancing the probability of failure. Identifying the causes of failure is not an easy task. In my sample, the reasons why business failed vary widely. As should be expected, businesses differ in the process that led to failure. They differ in the timing at which failure arrived. They also differ in the proximate causes that immediately led to closing the business. The apparent disparity of business failure histories masks the structural similarities that these businesses bear; the task here is to assess and uncover those underlying proximities.

Interestingly, economic difficulties were not usually linked to failure in my sample. There was one case of a business driven out by technological developments in the industry – a very small example of the impact of new technology on small businesses.

There were some businesses that failed while earning a healthy profit, for instance due to disagreements between the partners. Moreover, in some other businesses, while the business as a whole was profitable, one of the partners extracted so much money from the venture to sustain his/her ideal lifestyle, that the business was unable to survive (notably the case of F44 and F61). Even more common, in some businesses there was a clear economic potential but deficiencies in management and organisation led to bankruptcy (e.g. F51).

The use of strong social ties does not show any type of unequivocal connection to failure. The main reason is that, as Chapter III documented, the use of social networks was prevalent across all of the businesses. Strong social ties were a pre-requisite to start the business. The ability by the partners to even start a business already implied the existence of strong social tie within the enterprise.

A group of businesses endured false failures, as the businesses were closed and re-opened in the same site and under the same management but with a new legal status. In such cases, what led to failure was typically the advice of the business accountant that a change in the 'social pact' (the legal constitution) of the business would improve tax evasion strategies. This is the case of F02, F30 or G98. All of these entrepreneurs performed a legal killing of their businesses in order to change their tax status.

One common feature of the businesses that failed was the presence of malfeasance. I define malfeasance as the breaking of a trust relationship between two parties to the disadvantage of one of the parties (Granovetter 1985). Besides its sociological meaning, malfeasance is also a legal term. This term is now commonly used in the context of economic activity, and in particular of misconduct within an enterprise. In the great majority of businesses that truly failed there were clear instances of malfeasance between the partners of the business.

The remainder of this Chapter will be devoted to reporting the stories of four businesses that are representative of the interplay between malfeasance and business performance. Each story highlights a theme that contributes to explaining the presence of malfeasance in business. Moreover, they progressively reinforce the case for a link between malfeasance and failure. The next Chapter will more systematically build the case for this link.

Before I proceed though, there is one important clarification to make regarding the terms that I use.

1.1 Malfeasance and crime

So far, I have intentionally used the word malfeasance, but not the word crime. While the two are intimately related, there is an important distinction between them. It is worth taking a small detour to explain this distinction.

As I mentioned earlier, I define malfeasance as the breaking of a trust relationship between two parties to the disadvantage of one of the parties (Granovetter 1985). If malfeasance is to be present, all that is required is that two parties commit their trust to a common relationship.

Crime on the other hand is an institutionalised concept. Crime exists if the law is broken. But the law only applies to a sub-set of the relationships that take place in society. Because of the danger of malfeasance, in some relationships the State has had the need to intervene by instituting penalties to punish occurrences of malfeasance, mediated by the legal system. The concept of malfeasance is therefore broader than the concept of crime, and because of this, it is more interesting to this thesis. I will now tell you with the help of some four crucial business stories why I think malfeasance is so central to the argument of this thesis.

2. Business stories

This section tells the story of four enterprises that were afflicted by malfeasance and failed. These businesses challenge one's perception of how business and crime interact; furthermore, their stories illustrate in detail many relevant deviance themes. The first, José, is a dramatic case of embezzlement: his naiveté was exploited by his partner's malfeasance to the point of him losing his livelihood. One day, he discovered that the business he owned was not in fact his, after years of strenuous work and some minor illegal incursions conducted for the sake of the enterprise.

The second, David, was a shrewder businessman, with a history of business success. Yet, he did not resist a merger with his best friend's enterprise. His friend defrauded him leading him to bankruptcy. David chose to flee to Africa rather than face his creditors.

Both José and David had similar small-sized businesses, with a similar type of organisation, in which everything went by the partners' hands. The third story, of Octávio, shows that organisation per se does not guarantee success. Octávio's business changed its mode of organisation and management several times. The venture was still unable to resist a long saga of deceit and embezzlement.

Finally, the fourth story is that of Jorge (whom the reader already knows from the very beginning of this thesis). His story shows that, even if the entrepreneur has a clear criminal inclination, in the absence of malfeasance within the partnership, this need not lead to failure. Jorge was a criminal: he had a disco that was believed to operate as a drug-trafficking and money laundering scheme; he murdered two police officers in a bank robbery; and he is now in prison. Nevertheless, his businesses were successful with the exception of F66. At the start of F66, all three friends undermined the importance of keeping accounts and often took funds from the business unbeknownst to each other, thus creating an environment of mutual suspicion. I will now relate these stories in detail.

2.1. José's story - Cutting corners

José was born in 1962 and was 28 years old when he first decided to start a venture. His partner, Isidoro, was one year older. Both partners where born and lived in the furniture district of Paredes and Paços de Ferreira. José's father also worked in the furniture industry – he was an employee for a factory that produced 'm.d.f.'. Isidoro's father had an enterprise that sold eucalyptus trees.

José completed 6 years of school, the compulsory primary education. When he left school at the age of twelve, he started working in a furniture factory. Starting at such an early age had a cost: soon after starting work, the child lost his index finger while working with a machine[44].

In the factory where José worked, there were many conversations between the employees about business start-ups. José, like his colleagues, was firmly convinced the furniture business is profitable. He believed that all it took was money to invest and hard work. While José had low formal qualifications, by 28 he had accumulated a wide experience in the furniture business, as an employee.

One of José's colleagues, Rogério, was insistent on starting a furniture business. He lured José with the idea of starting their own enterprise and reaping large profits. The

[44] This incident is alarmingly common across many that started working in the furniture business when they were very young.

talks between the two men grew serious. After they secured one client, they set the process of starting their business in motion. However, at the last moment, the client withdrew his deal. Rogério became wary of the risks involved and decided to abandon the project, resorting back to his employee position. By now though, José was set on starting a business. He did not have enough capital to do it by himself though, so he looked for another partner. José approached Narciso, another colleague from the furniture enterprise, and after some effort, persuaded him to go into business.

Their aim was to produce chairs. They found a factory site advertised in the local newspaper by its landlord. After visiting the location, they were disappointed with the conditions. It was a bleak warehouse with no direct electrical connection. There were some furniture-making machines included in the deal, but these were too old and unsuitable for putting chairs together. Moreover, the landlord asked for a very high monthly rent (about £120). José and Narciso tried to bargain the price down, but they settled for a verbal authorization to refurbish the site extensively at their will.

Next, they contacted a local machinery supplier for whom José had occasionally worked. In total, the machinery would cost them approximately £9,000. Their plan was to buy the machines partially on credit. They had a total of £9,600 to invest into the business to buy machines, materials, and all the other initial supplies. Each would enter equal amounts of capital (£4,800) into the venture.

Having secured the factory site and the machinery, José and Narciso planned to resign their jobs. They would work for their employer for one more month, and then they would be on their own. However, at the last minute, Narciso backed out. He claimed he was afraid of the outcome - apparently, his wife disapproved the idea and he had no means of transport. José tried to reassure him, pointing out that in case things did not work out there were plenty of jobs available. Narciso was adamant though, and José lost another partner.

By now, José had already told his employer that he would be quitting. At first, he decided to start the business on his own. He reasserted to the landlord his interest on the premises, who nevertheless, growing suspicious of the venture, asked for a two-month deposit. He told his wife, Carla, about his decision.

Carla worked in a textile factory and at work she often discussed her husband's situation with her colleagues. One of her colleagues, also a neighbour, told Carla that her husband – Isidoro - was also looking to start his own furniture business, because he had problems with his boss. The two women agreed that José and Isidoro could start a business together. José did not know this man well, unlike his previous potential partners. Since his own wife recommended Isidoro though, he assented. Isidoro just had to comply with the choice of the factory site, and to match José's investment in the business.

Towards the end of 1990, Isidoro and José started up their enterprise. Aside from the factory they had just rented, they had nothing else. The conditions in the factory were far from ideal. Soon after moving in, they realised that they were renting a clandestine site in the back of another furniture enterprise. There was no electricity connection. They improvised by illegally making a connection to the electricity box in the front warehouse.

While they had no clients or suppliers, this did not worry them. The area where José and Isidoro set the business is the Portuguese furniture industrial district. There were a great variety of suppliers to choose from, and retailers and consumers head to that area when they want to buy. José and Isidoro had been members of the community for a long time and had many acquaintances.

The choice of a bank was somewhat more limited – there were only two options in the area. The partners chose the most popular bank. From the beginning, José trusted both insurance and the accounting to a local company that provided services to businesses. One of the owners of this company was José's neighbour. When the partners needed a lawyer to take care of the official paperwork at the start of the business, they went to a local lawyer that had a window sign so visible José always stared at it as he drove by.

The men decided to register as a sole trader in José's name since a partnership would involve a greater capital investment. In 1991, a year after the start up, they finally signed a paper confirming their co-ownership of the firm. José took charge of the paperwork: he dealt with the bank, and kept the accounting.

Little by little, they bought all the necessary machinery and vehicles. They relied on the production of chairs, which were easier to sell, as a lure to get clients and sell them their furniture styles. As the business developed, they finally hired five workers, and experimented with furniture styles in order to find the most popular ones. They also printed business cards as a means of publicity, though it rendered few clients.

After some time, the partners reassessed the price they were paying for the site. The £120 was a high price to pay for the small and scanty conditions. They discussed with the landlord a potential annexation of the front warehouse that had better conditions and reminded him of the big investments they made in refurbishing the back warehouse, namely the installation of a floor. The landlord proposed a rent of £300 for the whole site.

Isidoro and José agreed and incorporated the main grounds of the factory into their business.

In 1993, José and Isidoro finally became a formal partnership. This is when F61 was formally founded. At that point, the business was blooming and they had some 15 employees at work. José hired two of his brothers – one stayed with him for the duration of the enterprise and the other left shortly after he was hired due to a dispute with José. The rest of the employees were men that knew either José or Isidoro and that dropped by the factory to ask for work. They bought special machinery geared to increase production. José felt adventurous and even designed his own furniture style, which had some success.

Isidoro and José worked mostly for wholesaler and retail furniture shops that often took the furniture to exhibitions and fairs. However, they wanted to expand the business and, in an ambitious move, contacted businesses in Spain and France. They contracted for a while with a French furniture grosser, but gave up shortly because cashing the French cheques was too confusing for their accounting. They had comfortable profits and paid their debts.

Once they became accustomed to profit, however, they relaxed the accounting. José would check and recheck the bills and still would not have a great sense of where the money was going to. In addition, Isidoro stopped bringing receipts for the purchases that he made. At points, Jorge found out that Isidoro was inflating the prices that he quoted for the purchases he made on the enterprise's behalf. In turn, Isidoro threatened to sell his part of the share. The two partners were increasingly suspicious of each other. Their word of honour was not enough to hold the partnership. Yet, in order to untie the partnership they needed to formalise it first; this was how they became an official partnership in 1993.

In 1994, the landlord proposed to sell them the whole factory site for £45,500. While the company had some outstanding debts from purchasing machinery, they were in an apparently stable financial situation. The partners thought the site was a good investment. Nevertheless, they did not have the money to buy it and the bank would not give them a loan. As a result, the landlord started searching for other potential buyers. José and Isidoro stalled him, by stating they would refuse to leave as tenants without compensation, as required by law. The landlord offered them £6,000 to leave, which they rejected by colourfully saying that the proposed sum would buy them a plastic cover to work under in the middle of the woods.

After almost one year of negotiations, in 1995 they bought the site. Because they could not get a bank loan, they agreed to pay the landlord in instalments, but in return had to find someone who would endorse them. Isidoro proposed his father: he was wealthy and could bail them out. In a business meeting, Isidoro's father urged José to buy the site arguing it was good for the enterprise, and to confide in him as an endorser of the transaction. José was suspicious but in the end accepted. Isidoro and José signed a legal document awarding trustee powers to Isidoro's father. Henceforth, Isidoro's father managed the legal and financial details of the transaction: the loan, the mortgage, and the registration of the property. José and Isidoro would make payments to Isidoro's father and Isidoro's father would deal directly with the landlord.

This purchase had a negative effect on the partnership in many ways. From this point onwards, Isidoro felt less constrained to take funds from the enterprise. At a point, he opened the enterprise's safe and took £1,200 with no justification. He bought a motorcycle for his wife for £1,500 using the enterprise's reserves. He crashed the company's car and the company paid £2,700 to repair it (this cheque bounced as José found out later).

The future of the venture in turn was looking grim. Sales had dropped dramatically and his partner had seemingly lost sense of the business. The firm had lost its good reputation. José would draw cheques to pay suppliers convinced the business account had credit and the bank would not cash the cheques because in the meantime Isidoro had made withdrawals from the account without informing José. After a number of cases of cheques without provision, the bank cut their credit.

It was also around this time that José learned at the local café where he had lunch everyday that his partner had recently endorsed and cashed a cheque of £330. The owner of the café confronted José because the bank had refused the cheque. In his view, the partnership owed him that money – Isidoro had told him he needed to cash the cheque in order to pay salaries. Yet, José did not know about the existence of this cheque and was surprised to learn about Isidoro's actions. The café owner confronted Isidoro and José finally made up his mind about the need to end the partnership.

On the 14th of February of 1995, José ended the partnership, after two years of much grief. He paid Isidoro £9,000 in cash for his share in the business, and they made the deal official in the presence of José's lawyer. After the split, José found about £27,000 of debts that Isidoro had incurred in the company's name. Nevertheless, he was not immediately concerned as he now owned the factory site – if worse came to worse he could always sell it, he thought.

The company was at the time going through a difficult moment. José was having problems selling the furniture. At a point, his inventory grew to 50 complete furniture sets (mainly bedrooms sets of matching bed, night tables, chest of drawers, wardrobe, and mirror) and 500 doors. This happened during the months of January and February, which are the two slowest months in the year in the furniture trade. That year the downturn hit José especially hard, given the amount of problems he was already facing. Many retail furniture sellers – José's clients - take advantage of these business crises in order to make a profit. Eventually, José had to sell his goods for a lower price and as a result lost a considerable amount of money. He managed to keep some of his relationships with suppliers intact, honoured his debts by paying for supplies with furniture in exchange for continued credit.

One month after the partnership split, José was called to court. When he arrived to the court, he found that he was being accused of unlawful occupation of the factory site. It was only then, in the courthouse, that José discovered that the factory site was not his. It belonged to Isidoro's father. José was so enraged that he went out looking for Isidoro's father with the intent of killing him. Luckily, his family dissuaded him.

As he calmed down and looked back, he reasoned on what had happened. Isidoro's father had bought the property for himself. The monthly payments that Isidoro and José made towards the mortgage were in fact payments to the account of Isidoro's father. By then, José and Isidoro had paid roughly more than half (£18,000) of the total value of the property (£45,500).

José hired a lawyer to defend himself in court. Isidoro's father demanded his eviction and a monetary compensation. The trial was complicated, especially since the legal property of the site was a conundrum: it was still under the name of its first owner, who had sold it to José's former landlord, who had sold it to Isidoro's father, who had bought it on José and Isidoro's behalf but in the end kept it for himself. To complicate matters further, the first owner had died and no one could find the title of the property. In 2002, after five years, the trial still had not reached its conclusion.

In the process, José's debts kept growing, and at a point, he owed £48,500. In order to meet these payments, José borrowed money from two different family members: one lent £18,000 and the other £12,000. The rest of the debt he paid and was still paying with the proceeds from his work.

Given that money was scarce, José warned his employees there was a great likelihood he would fail to pay their salaries shortly. Many of them had already left the enterprise given the problems it was facing, but there were still eight men working for José. After José's warning, three of them chose to quit their employment at the venture immediately. Two other men left later on. When I met José he had only three people working in the business.

These events induced José to change his production system. When the enterprise was at its peak in 1993, the fifteen employees were working in a production line using set designs. Once most of the employees left the business, José had to reconfigure production and resort to more traditional manufacturing methods. This allowed only the fabrication of customised kitchens.

The new system was not free of problem. Occasionally, the measurements were wrong and he only discovered the difference when installing the kitchen. José had to adapt the existing frame to the kitchen's real dimensions at his own expense. I asked if he could not check the measurements himself in order to bypass the problem. He was not prepared to do so, since many of the clients lived very far away, which made the measurement cumbersome.

The clientele changed – due to this shift in product - but kept on coming. Clients were generally satisfied with José's products. According to his description, his products were imaginative and well adapted to the taste of the clients he catered for – especially when he shifted production to kitchens. Moreover, José had developed an ability to reproduce kitchens and furniture based on pictures the clients brought along. However, he was afraid of the smooth invasion of Italian and Spanish kitchens in the Portuguese market. He saw it as unfair competition, but was confident that the Portuguese product could fight back because of its better quality; the Portuguese still use wood in the fabrication of furniture while the foreigners only work with m.d.f. and similar materials. According to José, these wood products are unstable and can swell up in humid environments.

This was a harsh time in José's life. He felt he failed as a provider for his family. They had little food. Surprisingly, however, his wife – whom I met during the interview – was covered with gold jewellery, perhaps a sign that their new consumption habits had not caught up with the increasing financial difficulties.

In 2002, José was still working in the same location. Since he could not work with the partnership's name or under his own name, he started a sole trader business under his wife's name. He had always enjoyed working with wood and was not ready to give up. He had a gruelling working routine in order to pay the debts he incurred as result of the partnership he had with Isidoro, but he managed to regain some credit with both suppliers and the bank. In the process, he changed bank and did not accept payment in instalments - a method that is very popular in the business – because he still did not have enough cash fluidity to do so.

. . . .

The predominant theme in this account of José's story is malfeasance. Both partners were equally prone to engage in criminal activities. Throughout the life of the business, both engaged in malfeasance against others, whether it was in establishing an illegal electricity line, not paying suppliers, or writing cheques without funds. All of these did not seem to necessarily get in the way of the business's performance.

This was no longer the case though when the malfeasance occurred within the partnership. José was a victim of his partner Isidoro, who after a point in the life of the business did not feel shy about embezzling funds, which ultimately led to the demise of the business. The last push was given by the most blatant case of malfeasance: José swindled by his partner and his partner's father into believing he owned the factory site.

Therefore, while there were different instances of malfeasance in José's story, there was also an important tension between a self-serving partner who acted as a "villain in the business" and José who was a "villain for the business." José was willing to steal and swindle - to cut corners - if that was to determine the success of the venture. Isidoro, on the other hand, put his personal well-being above that of the business. He was willing to steal and swindle his partner and the business to support his lifestyle, even if that meant the demise of the venture.

Even if José's account of the story is undoubtedly one-sided, there is no denying that embezzlement and double-crossing summarise the gist of the relationship. The reader might also wonder though whether José was as much a victim of malfeasance, as simply a victim of his own naiveté. After all, José's careless accounting and improper handling of the purchase of the factory site were as much responsible as Isidoro and his father. It can be argued that Isidoro's malfeasance led to the failure of the business. However, there is also room to argue that there were many instances of bad management in this business history and chiefly of careless supervision and loose monitoring practices. The next story, David's, illustrates the effects of malfeasance even when there is no clear naiveté on the part of the entrepreneur.

2.2. David's story - The weakness of strong ties

When I arrived in David's small town in the suburbs of Lisbon, I first met and interviewed his neighbour, Antonio.[45] David's workshop was next door to Antonio's. Their business careers shared a number of common characteristics: they were both sole traders for a period; they rented identical workshops next to each other; and in 1993 they both re-started as partnerships on the advice of the accountant they also shared. Moreover, David, Antonio and their accountant had all lived in the same community for more than thirty years. Antonio was an entrepreneur in the customised furniture business practically ever since he started working.

David began working in the upholstery business as an employee for a big hotel in Lisbon. In 1988, confident of his set of skills, he decided to start his own business. He set himself up as a sole trader, and had as clients not only the big hotel where he used to

[45] Antonio is the owner of F43.

work but also other hotels in the area. The transition required little effort since upholstering needs little machinery and thus little capital investment.

Shortly after David started, his accountant - who until then also worked as an employee in an accounting firm – established his own practice. David was one of his first customers. I interviewed Antonio but I never met David in spite of the fact that he was in town at the time of my visit. To understand what happened to David's business I spoke with both the accountant and Antonio.

According to both his business neighbour and his accountant, David had the ideal business. He was a very good upholster. He worked for the best hotels of Lisbon and Porto from his little rented shop in the suburbs of Lisbon. The hotels gave him the fabrics and the frames, so that he was paid (and well) just to produce the final output. "In his case… he had work… he could work night and day and was always safe. He had excellent clients" (F44: 15, 17). In 1992, he moved his business to a new workshop, just as Antonio was moving next door.

David's accounts were always in order. He did not incur in the usual pitfall of small businesses: to spend above earnings. As the accountant put it, management makes or breaks a business and David knew how to manage his.

In 1993, David's accountant suggested he should change his legal status from sole trader to a partnership. He thought the change to partnership would give David (and his neighbour Antonio) fiscal benefits and would increase their reputation. "I advised them to change for a simple reason. Since they were sole traders and they had their accounts in order, an enterprise [partnership] sounds better. The name has a better resonance for the market, isn't it?" (F44: 57, 60). The greater tax cuts the entrepreneurs could attain as a partnership were also most likely considered in the change of legal status.

Figuring he had nothing to lose, David started a partnership with his wife, who already worked for him as a seamstress. The first years of the partnership went well - sales increased substantially every year. The business was only limited in its size because David had a difficult temper and so preferred to never hire workers. According to the accountant, it was hard to see how David's business could go wrong: he had steady sales with a reliable set of suppliers, good organisation and internal management, and very few expenses.

Everything went smoothly until one of David's friends, who had a furniture retail shop, proposed to join their businesses in order to make a larger one. David and this friend had moved to this new small neighbourhood in 1966, before it was even a proper community. Antonio and the accountant for instance only moved there later, which they felt still put them at a social distance to the core of early movers. The two friends practically grew up together and were so close they thought of each other as family. This was a close community, within which David and his friend were even closer - and that was the cement of their relationship.

Although the accountant, amongst other people, warned David of the financial instability of his friend he still went through with the merger. This friend had a reputation for lavish spending and for dishonesty. When David merged his business with his friend's business, he inherited all of its outstanding debts. Soon after the merger, he discovered that these amounted to £121,200.

While David's business was successful, this was a very tall order. David did not have enough money to clear all of these debts. Moreover, he had bought an apartment that he was still paying. To further complicate matters, the wife of David's friend ran away with a portion of the money.

This is what, according to David's accountant, doomed the business. Shortly afterwards – that is, in 1997 – the company went bankrupt and David and his wife fled to Mozambique to escape their creditors.

Friends, neighbours and the accountant warned David about the dangers of the business merger. Apparently, everyone in the community was aware of the bad reputation of David's future partner. I asked David's neighbour: "[Interviewer] It was not due to lack of warning?... [David's neighbour] No, no. Not due to lack of warning. They had to run away. The two of them had to run away. They went to Africa! Of course, they had no other chance! There were so many creditors around that they would not be able to do anything. Now the place is closed... it is closed and it did not go down because it is still somewhat illegal..." (F44: 43, 49).

At the time of the interview, David spent his time between Africa and Portugal. While in Portugal, he risked being caught by the police, but he still came regularly to see his family and friends. He refused to let me interview him though. He also worked as an upholster in the United Kingdom after the Christmas of 1999, a job he found through a friend who was working there at the time. The accountant thought it was unlikely that David could re-start his life as a businessman in Portugal. The creditors would follow him everywhere. He had destroyed his reputation with the suppliers and the bank.

David's failure is a clear case of undue trust. As in the case of José's story, he was a victim to his partner's malfeasance. Unlike José though, David was anything but naïve. He had a very successful business, mostly due to his shrewdness and hard work. He was dedicated to his business. He had reasonable expectations: to have a profitable small upholstering workshop freed from the inconveniences of either suppliers or employees. He had perfect control of his accounts, and was well aware of possible dangers.

Nevertheless, he did not resist trusting his long-time friend. He knew about the problems the merger would bring, but he either chose to ignore them, or undermined the size of the issues and their potential effect on his livelihood, or maybe he believed he could carefully monitor his friend. In the end, the problems were much larger than he thought, and led to the failure of his business. The failure was so extreme that he had to reinvent his social identity, fleeing his native country with his family. David's story shows that even the best-run small businesses can fail, if they are exposed to malfeasance within the business. In this case, guided by his inherent trust on a long esteemed strong tie, a shrewd entrepreneur neglected his monitoring skills.

One may wonder whether the form in which the business was organised drove the failure. The next story sheds light on this issue.

2.3. Octávio's story - Embezzlement

F69 was a business that was sold many times over between different parties of two connected families. The venture went through many stages during its six turbulent years of existence. It therefore provides a good test of whether the way in which a business is organised is a good predictor of failure.

Octávio told me the story of this business. His connection to the venture began before the start-up. First, he was promised a job in the company, if it was to start. Then, he became an employee of the business. At a third stage, he was the manager of the business. Lastly, when the business failed in 1999, he bought the machinery and started a new company of his own. Although he was not a partner in the firm, his position gave him privileged access to all the information I needed.

Briefly, the other characters involved in the story relate to each other as follows: Nunes senior had two children - Marília and Nunes; Marília was married to Pereira and Nunes was married to Eulália's sister; Eulália in turn was married to Azevinho. The first partnership was between Nunes and his sister in law Eulália. Nunes constituted the second partnership with his father and his sister Marília. The third group of partners were Nunes senior, his daughter Marília, and his son-in-law Pereira. In a fourth stage, the business failed, and Octávio took over.

Table V.1.: Individuals that constituted each partnership and relationships between these individuals[46]

Partnerships	Pereira (Marília's husband)	Marília (Nune's daughter	Nunes senior (Marília's and Nunes' father)	Nunes (Marília's brother)	Eulália's sister (Nunes's wife)	Eulália	Azevinho (Eulália's husband)	Octávio (employee, interviewee)
First				X		X		
Second		X	X	X				
Third	X	X	X					
Fourth								X

F69 started in 1993 as a partnership between Nunes and his sister in law Eulália. The business produced metal furniture (chairs). Each owned exactly 50% of the company. Eulália's husband, Azevinho did not have a share in the equity of the business

[46] Each 'X' stands for an element participating in a partnership.

but was involved in the management, the paperwork, and especially the financing of the business. He did not take a legal stance in the business because he was already involved with a larger one.

This larger business financed F69 substantially. Azevinho also found the first client for F69, incidentally a customer of his own enterprise. Eulália's role was to take legal responsibility for the business. Octávio described Azevinho as a good man. Yet, he could not control his spending - typically, he spent more than he earned: "If he earned 10 he would spend 20" (F69: 31, 33).

Octávio, who had been unemployed for one year (due to an injury he suffered as a result of a fight while he was playing football), heard from his brother that a metal furniture business was about to start and the partners needed employees. He started work on the first Monday after Easter Sunday in 1993.

The plant was in bad condition, and Octávio got heavily involved in the refurbishment of the site. He made the gates, the roof, the ceiling, the internal walls, the extension, the garden, and even painted - all in collaboration with the other few employees, and with limited supervision from an engineer.

The first problems with the business arose from severe disagreements within the family. One of those involved (Azevinho) apparently was addicted to drugs, and this eventually led to the break up of the marriage between Eulália and Azevinho. This unsettled the power relations within the partnership, as the relationship between the two brothers in law, Eulália and Nunes, deteriorated. These problems reflected on the performance of the business. Debts accumulated while the management did not channel the earnings to repay any of the liabilities. "If the business was about to be given 1000 [the partners] were ready to spend 2000. That was their problem. They did not take into account what they had to pay. They assessed what they were about to receive so they could spend" (F69: 97, 102).

After much arguing, the partners understood they could not manage the company together. The business was viable – it was fully running and there was more than enough work - but the disagreements on money issues between the partners were recurrent. Eulália and Azevinho had other sources of income, whereas Nunes had left a previous job to exclusively devote himself to start the business. Hence, Nunes decided to stay with the company, while Eulália and Azevinho left just two years after the start-up.

Azevinho – on his wife's behalf – designed the following deal, which everyone signed: he would not receive any compensation in money for his wife's share in the business, but he would also not be liable for any of the debts. He left the business free from problems: "He left by the front door with his head held up high. He did not take money or nuisances" (M69: 107, 111).

Nunes found two new potential partners: his father and his sister Marília. The new partners bought Eulália's share and, as previously agreed, that money helped pay existing debts. In October of 1995, the business was running at full potential.

In order to finance the business, the new partners applied for, and received a loan from the employment institute.[47] They applied for £27,000 and received £18,000, which

[47] The employment institute (Instituto de Emprego e Formação Profissional) manages a big proportion of the European structural funds in Portugal. It was difficult to discern the exact nature of this transaction because Octávio initially confused unemployment benefits with the employment institute and the European structural funds. This made me suspicious of his understanding of the nature of the institution behind the transaction, and consequently of his account of the institution. However, I trust him in

they did not need to pay back, and an extra £9,000 that they would have to pay at the end of a stipulated period (one and a half to three years, Octávio was unsure). They accepted the arrangement, and used the money to buy shares in the company amongst other things. Yet, they did not return the £9,000, nor did they give any account of it to the lending institution. For a number of years, the lending institution could not trace down the money.

Concurrently, the accounting of the business was increasingly flawed. The accountant serving the company had an office relatively far from the business site. One of the partners would take the paperwork to him, but the accountant never managed to file the tax forms on time. As a result, the business was permanently paying fines. The accountant also embraced a strategy of declaring no profit to the tax agency in order to pay no taxes. This eventually raised suspicions with the tax authorities. Tax officers picked F69 as one of the cases in a survey on businesses that systematically declared very low profits.

Nunes and Marília's father served an important role in the partnership. He imposed some respect on his son and daughter, who would not argue when their father was present. He was generally responsible and took the management and organisation of the business seriously, so that whenever he was present, the business ran smoothly. Nevertheless, he lived in a different village, away from the site of the factory. This meant that he was rarely present for more than a day every fortnight. This was too little surveillance and he failed to enforce it in his absence. His visits became taxing, since he would always find the business accounts in disarray. He would have to solve the pending

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the details of the transaction because he was later involved in settling the problem it created.

issues and reprimand everyone on their laxity. It wasn't long before he wanted to leave the business.

By 1996, Nunes was actively deceiving his sister and father. Nunes' father had an intermittent presence, and Nunes' sister was, in Octávio's words, 'a woman'; by this he meant that she had little ability or experience on how to run a business. Nunes outwitted her using his own business experience. On August of 1996, the employees went on holidays without their paycheques. By then, Octávio was effectively managing the business, and he became very vocal about the unfairness of the situation. Nunes was absent, so he could only complain to Marília and her husband.

As the holidays ended and everyone returned to work, Octávio and Marília discovered Nunes had spent £2,500 of the enterprise's money, which he took in the period of May to August of 1996. Nunes bragged about the embezzlement to someone and eventually this reached the ears of Octávio and Marília. Apparently, he had spent the money to no good avail. This incident caused great commotion in the enterprise. Once Nunes returned to the factory, employees and partners confronted him. He ran away.

The community was closely knit and information about the embezzlement of funds by Nunes travelled from the enterprise to the community and from the community back to the enterprise. Information generally circulated quickly. Likewise, everyone knew where the fugitive went. He was hiding in a neighbouring village. Yet, neither his family nor the employees searched for him. Everyone in the factory was, however, afraid of what he would do next and Marília ordered Octávio to change the locks.

At this point, there was a robbery. Over the weekend, the thieves stole materials, a small machine, and vandalised some heavy machinery. Only insiders knew where the small machine was kept, and the office of the factory was untouched. When Marília and the workers arrived at the factory on Monday, they were unable to work. On Tuesday, other items disappeared, while the small machine that was stolen over the weekend reappeared inside an old bathroom. Slowly everyone reached the same conclusion; it was an 'inside job'. Suspicions fell heavily on Nunes.

One day, Octávio casually met Nunes in a coffee shop in the village. Nunes was very vocal about the changing of the factory's locks, arguing it had been done without his consent, and that he was still formally the partner in charge of management. Octávio urged Nunes to continue the discussion in the factory, with his partner (and sister) Marília. Nunes took him up on that proposition and came to the enterprise to confront his sister on the changing of the locks. In the heat of the argument, he accused the employees of wrongdoing and Octávio menaced to beat him up if he did not go away. Nunes left but he returned some hours later carrying with him his daughter – who was at the time a toddler. He re-ignited the argument with his sister and she urged him to leave. The argument proceeded in the factory's exhibition room. Suddenly, Marília slapped her brother in the face, and as a response, Nunes hit Marília. Octávio, shocked to see a woman being struck, intervened and forced Nunes out of the building. Nunes exited calling out for the landlord, who lived nearby, to witness his eviction.

Later that day, Nunes returned with his child, this time to accuse Octávio of the robbery. Octávio lost his temper and grabbed him by the collar, putting him on top of a table, and scolding him for carrying the child around in an unpleasant environment and for accusing him of such an offence. He refrained from hitting Nunes with a child looking, who was crying helplessly. Octávio kicked Nunes out of the factory again, and this time he never returned. Soon after, Nunes divorced his wife and disappeared for a long time.

Meanwhile, Marília had taken leave from her job due to health issues, and was managing the business. While she was in charge, everything ran smoothly. She delivered payments on time, the accounting was in good shape, and she managed production in close communication with Octávio.

A new stage started when Marília's husband, Pereira, was fired from the bank he worked at. He began managing the business replacing Marília, who returned to her previous job in the local health services. He proved to be somewhat less careful with business accounting though. In fact, he actively encouraged increasing spending. Moreover, he would arrange family weekend trips - with his wife, daughters and parents – with the hotel expenses paid by the business.

In the Christmas of 1996, Marília, Pereira and Octávio found out where Nunes was. He had been hiding in his father's house after spending a fortnight in the hospital. He had been chased and attacked following a quarrel with some locals about women.

At this point, Pereira decided to approach Nunes. He did not legally own a share of it but was eager to keep the 50% that belonged to his brother in law. This would allow him to keep the business between himself, his wife, and his father in law. Pereira proposed the following deal: Nunes would to give Pereira his 50% share in exchange for the lorry that belonged to the business and £750 in cash.

However, Octávio had also developed an interest in Nunes' share. Octávio concluded: in spite of all the problems, "... the business was obviously profitable. When someone wants to be in charge of a business and makes an offer, it is because the business has potential, or else there would be no offer." Octávio contacted Nunes offering to buy his share. Nunes replied by offering instead to buy out his father and sister's shares in the business and dividing the equity between himself (75%) and Octávio (25%). Octávio was suspicious of this deal – he was wary of partnerships in general and of one with Nunes even more.

In the end, Nunes accepted Pereira's deal. The temptation of a lorry to go about was too much for him. Pereira received the shares from Nunes but never legally registered the transaction. This meant that Pereira did not legally own the shares. "How does Pereira let that happen? He let it happen because… we respected him, since he was very close, he was Marília's husband, and he was also the boss. Marília told us 'what my man does, it's done'. So it was…" (F69: 242, 251). Two years after the partnership between Marília, Nunes and their father, the company had started another stage in its life.

At this point, the relationship between Octávio and Pereira was under some strain. After the contest for the business, Octávio wanted to resign. Pereira wanted to keep him though, and even promised him a salary raise.

In the August of 1997, the company again did not have enough money to pay the employees' salaries. August and December were always the troublesome months, since the firm had in effect to pay two salaries to the employees, who were due their summer and Christmas holiday bonuses (compulsory by law in Portugal). The day that all the employees went on their summer holiday, Pereira ran away without paying them. As Octávio returned from holidays, Marília informed him her husband had run away with the company's van.

A week later, Pereira returned to face the employee's rage – they believed he had gone alone on a holiday with their wages. Nevertheless, Pereira returned with a plan: he wanted to offer a partnership in the company to Octávio. The plan was for Octávio to hold 20% of the shares, which was equivalent to £3,000. Since Pereira owed Octávio £1,200 in late wages, he would be prepared to receive only £1,800 in exchange for the 20% of shares. Octávio declined.

The company continued operating, but a few weeks after, in the beginning of the September of 1998, Pereira fled with all of the money that was available at the time. Some of it included money that was due to suppliers, and the rest was owed to employees. He left a letter to his wife behind stating she could keep his share in the partnership. From September to December of that year, Octávio took over managing the business alone in a continuous effort to settle all the debts the firm had incurred.

By the end of the year, Octávio decided he had had enough, so he resigned. Before he left, he made an offer: he would take up control of the business on the premise that he would pay nothing for it but he would take on all of the outstanding debts. Marília and Nunes senior rejected.

During the course of the year that followed, Nunes senior tried to co-opt a number of people, including one of his friends, to become a partner in the business. He thought the influx of money would help to clear up the existing debts. Even though the potential partner agreed to put up £24,000 in cash for a share in the business, somehow the deal never came through. At that point, Nunes senior gave up. He ended up turning to Octávio and proposed to do what he had rejected before: sell the business to him. In his words: "If I had it my way I would give you the business for free. I only want the £1,500 I initially invested in the firm" (F69: 337, 339). Octávio had great respect for Nunes senior; he thought the old man was the only partner that ever tried to keep the business accounting straight.

Octávio accepted and they contacted the lawyer – who incidentally was in charge of Marília and Pereira's divorce - to make the deal official. Octávio, who had managed the production side of company for some time was convinced of the business's viability. It seemed to always return a good profit. It was the financial management that had been below par. To insure a good start, he made Nunes senior pay all the suppliers before the business was passed on to him. Octávio believed that a business is worth little without a good relationship with the suppliers. After negotiations with the lawyer, Octávio paid £12,000 for the business. In his view, the machinery was worth much more than that sum of money so the deal was auspicious.

Nevertheless, despite all this care, Octávio was unaware of the deal with the employment institute and the respective £9,000 debt. In a casual conversation with the friend of Nunes senior that had been pointed as a potential partner, Octávio learned the exact state of the business's finances. He did not know he was about to inherit that debt, which would compromise the financial existence of the business. As a result, he left the business, abandoned the factory site, and established himself elsewhere. On top of these debts, he still had to pay £2,000 in fines on late VAT. Neither him nor the old partners formally closed the business or informed the tax office of their intents.

Due to the numerous connections he had in the neighbourhood, people could easily trace Octávio down to his new factory site. This is how I – and old creditors of the business - found him. In spite of the fact that he bought the business, Octávio denies any involvement with it to the local authorities. According to him, he bought the business's machinery in order to start his own venture.

Octávio believes that the downfall of the enterprise was a result of the partner's willingness to embezzle funds, and their disagreements on the best financial strategy. If a partner took a salary because he was managing the business, the non-managing partner felt entitled to take an identical sum, instead of waiting for the redistribution of the profits. This modus operandi created distrust in the partnership, as well as an environment of looting.

Moreover, in Octávio's opinion, with the exception of Nunes senior, all of the partners associated owning a business with little work and some indulgence, such as the financial support of vacations. They did not understand the true value of work or the functioning of the business. Pereira, in particular, thought that any money that the business received was profit. As a result, cheques usually bounced and he often forgot payments to suppliers and associates. "He [Pereira] sold three houses in Celorico de Bastos for £23,000 each. During a year, he spent the money. He sold a fourth one (...) it was all to pay the enterprises debts and the enterprise would come out clean. But he caught it all and went his merry way" (F69: 508, 511).

From 1993 to 1999, F69 went through successive cycles of bad management and embezzlement. The embezzlement had two dimensions. First, someone swindled someone else – there was malfeasance within the trust relationship. Second, all the entrepreneurs did not recognise the enterprise as an entity but as an extension of themselves. All of them saw the company as a means to reach the lifestyle that they aimed for. Whereas in José's and David's account, one of the partners was a victim of another, in F69's case, it was the business that was the victim of its owners. All of the entrepreneurs that were part of the venture (to the exception of elder Nunes), were at one point or other the 'villains in the business.' They were ultimately interested in serving their needs at the expense of the business's future.

Another point drawn from this story is that the failure was not associated with a specific form of running the company. The organization shifted its form; the managerial practices changed; the people involved were different; the legal ownership structure of the business changed; yet, the end result was always the same. The story of F69 reinforces the case for malfeasance as the ultimate cause of failure. The only common factor across the different stages of the business was that the partners never respected the trust relationships they had between themselves. Whatever the form or shape of the business, all of its partners were always actively engaging in malfeasance.

Having crossed out bad management, few entrepreneurial skills, and the shape of the organisation as rival explanations of business failure, the case for malfeasance as an explanation gets stronger. Still, there is always the possibility that there is something else, innate to the partners in these businesses, which could account for the failure. For instance, one might believe that it was the partners' criminal behaviour that ultimately led to failure.

The next and final story rejects this possibility. It is the story of an entrepreneur who engaged above all others in criminal activities. Yet, while he managed his businesses by himself, it was successful. Failure came only in the instance where he entered business with a partner and the tie was saturated with malfeasance.

2.4. Jorge's story - The entrepreneurial spirit

When I first drove to Jorge's factory I met his Cuban foreman; the entrepreneur himself was away. Jorge favoured an erratic daily schedule between his furniture factory and his many other businesses. Diligently, the Cuban foreman suggested I stopped by Jorge's Cuban restaurant since he had lunch there almost everyday. In the restaurant, I met another Cuban who managed the affairs, and was Jorge's partner in the eatery. It was very surprising to find so many cultural references to Cuba in the interior North of Portugal. Jorge's habits proved again capricious and he never showed up for lunch. However, he called the restaurant and I finally arranged a meeting with him back at the furniture factory. As I (again) waited there, the Cuban foreman told me about Jorge's Cuban nightclub. In fact, aside from managing the furniture factory, the foreman was also the doorman at the club. By now, I had already realised Jorge's entrepreneurial skills spread through many businesses: a furniture factory, a Cuban restaurant, and a Cuban nightclub.

The furniture factory started as a partnership between three best friends. All their fathers and siblings owned or worked in furniture businesses despite their humble backgrounds. The three friends preferred starting a business on their own to taking up the parents' businesses. Like his partners, Jorge had completed primary school and had worked since he was eleven in his father's business.

However, soon after the start-up, the three friends had strong disagreements about the enterprise. They underestimated the complexity of the accounting, which they eventually learned by doing, but by that time, they had accumulated debt and inappropriate tax declarations. "At the time we were overburdened and we lacked experience. We wanted to be taken seriously, but we did not want to pay" (F66: 207, 208). They engaged in a common local practice, to pay with pre-dated cheques, but they did not keep track of the cashed cheques. Soon enough, they did not know how much they owed, and there was not enough money in the bank. Many cheques bounced and they had problems with the bank, which cut their credit. However, they never lost credit with the suppliers – one way or another, they covered all the payments. Jorge and his partners gave great importance to the relationship with the suppliers – whom Jorge described as friends - and as a result he had almost unlimited credit; he proudly stated he could buy £200,000 of material overnight on his name.

The partnership broke up leaving behind huge debts to suppliers. They did not declare bankruptcy but just closed the business; this procedure raised suspicions in the tax office. Nevertheless, Jorge decided to keep the factory site and bought the machines from his ex-partners. He used his name to avail more wood from the (same) suppliers into his new partnership, this time with his wife, and eventually paid all his old creditors. Most entrepreneurs confronted with identical situations change location and re-start the business under the name of a family member in order to avoid expropriation, but Jorge stayed in the same place and continued using his name. For him, it was a matter of pride, but it also made it easier for the tax office to track him.

A few years later, the tax office presented him with extensive fines amounting to £13,500 on VAT that concerned the late partnership. As they split up, the partners still had to collect £21,000 from clients. They received the money and innocently assumed the tax office would not tax them on this amount, as the business did not exist anymore.

Jorge chose to keep the site, machinery, suppliers, and clients of F66, and he kept whatever property existed on his name. Hence, the tax office confronted him on the tax issue some years later. He understood that if he did not pay, the tax office would confiscate everything he had. He did not search for the help of his lawyer soon enough and the business was auctioned publicly, as it is usually the procedure. F66 reached its end, at least legally.

A friend of Jorge bought all the property and sold it back to him. "I think this was morally unfair. Yet, by law, I had to pay and I was forced to pay. Otherwise, I never had problems with the courts. I have paid traffic fines and so. I am a bit hasty and sometimes I get in trouble with people", (F66: 573, 579). Overall, Jorge felt this was for the better. He had witnessed similar occurrences with other businesses settled by lawyers, and he felt the resolution dragged endlessly and became more expensive.

Jorge was an adventurer, and he described himself as one. His frequent trips to Cuba were not the only mark of his spirit. When he started the furniture business, he felt constrained by the prices the local wood retailers charged. In nearby coffee shops he heard the other men talk about how most good wood came from Bretagne in France. Even though he did not speak a word of French, he decided to beat the suppliers at their game and drove to France alone on his truck. Dramatically, he recalled how he even starved while in France because he did not know how to speak the language. Yet, as he recounts with pride, he subsisted. He bought the wood at a very good rate – one fourth of the price suppliers practiced in Portugal - and came back victorious. This accomplishment became the greatest strength of Jorge's furniture venture. Jorge took risks.

My acquaintance with Jorge's wider career of crime took place some time after the interview. One of my informers lived next to Jorge's village and attended the local pub frequently, where everyone knew Jorge. My informer told me Jorge was perhaps more than just a furniture entrepreneur: he was involved in a three-act story of violent crime.

After I met Jorge, the pubs in the neighbourhood came under the attention of an organised group of thieves. Every now and then, a substantial group of men would enter a pub bullying the security guard and they would call the owner asking for money. Usually they would settle for whatever sum was kept in the register, but would then proceed to ask the clients to give them the money in their wallets. If the clients or the owner happened to have little or no money, they would take them to a cash-point and force them to withdraw money (the withdrawal limit allowed by the cash-point was around £150). They based the whole system of extortion on coercion: firstly, through the direct threat of physical force over those present; secondly, through the threat over the well being of the families of those present. This particular group of communities has suffered little geographical mobility over time and has remained in relative isolation if compared to adjacent communities.[48] These factors are likely to have contributed to a sense of closed

[48] Note that the Vale do Ave area is clearly divided in two regions that have fairly different socio-economic profiles. The difference is attributed to the construction of the railway track in the beginning of the twentieth century, which crosses the length of the south of the region. The railway was meant to connect different regions and stimulate economic development. However, it brought the southern part of the region closer to the metropolitan area of Porto and turned the area into a source commuting labour. The northern part of the region remained relatively isolated; socially and economically distant from Porto (without railway or a workable road system). Initially poorer than the south, the northern area of the region grew on what was available: wood and an abundant unskilled work force. Over the century the area developed into a furniture

community and togetherness. In essence, network density is extremely high; everyone's family has at some point or other interacted socially or economically with everyone else's family so that any given individual has had either a direct rapport with another individual or with one of his or her strong ties. As a result, everyone (victims and villains) involved in the extortion scheme knew each other and each other's families; the mutual knowledge made the threats credible. This was not a simple robbery, but perhaps the first steps of a shadier organisation.

Some years before I conducted the interviews there was a fatal incident of arson in a nightclub of seedy reputation. A large amount of people died in that incident, unable to escape through the fire exits. The case was highly publicised in the newspapers. The police followed clues pointing to gun traffic and settling of accounts, but the investigation remained inconclusive. My informer told me there were rumours this event was connected to the extortion group. The exact nature of the connection between the extortion group and the arson case is unknown to me.

A third and most relevant incident happened some time after the interview. It involved a group of five men, who worked in the furniture business, one of whom was Jorge. This group intercepted a money security van travelling at the break of dawn from a local bank on its way to a central vault. They studied the trajectory of this van for months. It was particularly vulnerable as it crossed the depths of the furniture industrial district. It followed a long road swirling between the trees with only a few furniture factories and almost no houses in sight - certainly deserted in the early hours. The five men carried machine guns, heavy firepower by Portuguese standards. They stopped the money van

industrial district strongly tied to the economy of the north of Portugal and beyond. Yet, despite the recent highways, the sense of isolation endures, especially socially.

and stole the money. As they were about to run away, the police – who had been tipped on the possibility of an armed robbery – arrived. In their escape, the men fired over the police mortally wounding one connect police officer and ran their car over another one, causing a second death. In the chase, the police lost their trail; the five men split and ran away to different locations.

They were not very ingenuous in choosing where to run to though; all except one went to each other's houses and factory sites, where (as could be expected) the police was waiting. They were all caught, except for Jorge. Contrary to his partners in crime, he did not go to any known location and thus managed to avoid police attention. He became clandestine.

In his new underground identity, Jorge started to commute between Spain and Portugal. By night, he was at his family's side in Portugal, by day he was trafficking drugs in Spain. In one of his iterations between countries, he was caught by the Spanish police and is now serving time for drug traffic offences in Spain. I believe he has not yet been trialled for the armed robbery to the money van, which involved the murder of the two Portuguese police officers. In short, Jorge was engaged in drug traffic; he ambushed and robbed a money van, causing the death of two police officers; and he was a part of an extortion group, which in turn was reportedly connected to an arson affair.

During the interview, Jorge talked extensively about retiring. I asked him if the business was facing difficulties. He answered: "No. All has been good. If next year is as good as this one, and I manage to settle all my appointments, I will sell the business. I will not put it up for sale with debts, but if I manage to straighten out everything, and I am confident I will, I will sell it. I will sell it because I have the nightclub and the restaurant… but maybe I will even sell the nightclub and the restaurant…" (F66: 195, 200). He reasoned he had been working since he was eleven years old in the furniture business. It is a hard but profitable business for those who know how to work it, as he did. Yet, he felt worn-out. He stressed he had reached saturation point, and wanted to give up. He was emphatic about this – "… now I feel tired of all this, and I am going to quit. I will quit, but… in principle, that is my idea. Then again, maybe I will stay the same. Now, I am tired, really very tired, very tired." (F66: 43, 46). I thought it very surprising that anyone would be so insistent on retirement at the young age of thirty. The sequence of actions I reported most likely matched the plans Jorge had at the time of the interview for an early retirement.

Jorge displayed an unrelenting drive for entrepreneurial activities, regardless of where they stood in relation to the law. To my knowledge, he was engaged in three legal ventures and three illegal ones within ten years. He was as much engaged in entrepreneurship as in criminal entrepreneurship. His activities were considerably energetic especially when compared with other entrepreneurs with the same experience, in the same business, and in the same life-cycle stage. Jorge's entrepreneurial spirit was nevertheless unrestricted by the boundaries of impending sanctions. Eventually, he met with the course of justice and is now imprisoned.

Yet, note that his only instance of business failure occurred with the furniture business that he started in partnership with his friends. With regards to most people, Jorge behaved criminally, including his local community whom he robbed and extorted money from. However, he never stole from his partnership, nor did he compromise its future by damaging its relations with its suppliers. Instead, the failure of the business was due to minor instances of malfeasance within the partnership. The partners each used the company's account for their own expenses, and had no control over the accounting of the business. The business was profitable – for it to succeed all it took was the extinction of the malignant partnership. Moreover, Jorge and his friends do not hold any grudges between themselves. They see the demise of their joint venture as an inevitable consequence of inexperience and of being in a partnership. Malfeasance is seen as inevitable.

The fact that the business performed very well as soon as the legal status changed to Jorge's sole ownership shows that there was nothing in either the business or Jorge that inherently led to failure. Even Jorge's criminal life did not seem to be an obstacle to the success of the business. It was malfeasance between the partners of F66 that brought the company down.

CHAPTER VI – CRIME IN SMALL BUSINESSES

1. INTRODUCTION

The previous Chapter made a case for a link between malfeasance and failure. The vivid stories of the four businesses strongly suggest that such a link exists. This Chapter investigates this claim more systematically.

Section 2 assesses whether malfeasance necessarily leads to failure, by looking for cases of malfeasance within successful businesses. More broadly, this section deals with the crossing between legal and illegal activities as a strategy to increase earnings and with the consequences of these actions. To this effect, I will build a typology of crime in business according to the intention of the perpetrator of the crime. There is petty crime intended to favour the business, crimes intended to benefit the businessperson, and there are businesses that operate as a cover for crime. This functional division in turn emphasizes what is the central concern in the business: the business itself, the entrepreneur, or criminal entrepreneurship.

Section 3 introduces a conceptual framework to understand the interplay between malfeasance and failure, which was used to account for the stories in both this and the previous Chapter. This section also concludes by collecting the lessons from Chapters V and VI, and especially it shows the role of social networks in small business performance when there is malfeasance within the business.

2. Crime in small business

Does malfeasance necessarily lead to failure? The previous section showed evidence that across different stories of failure, malfeasance was the common cause. Malfeasance seems to be a necessary condition to lead to business failure.

This immediately raises the question of whether malfeasance is also a sufficient condition for failure. That is, when we find malfeasance, should we expect to also always find failure? The only way to answer this question is by looking at instances of malfeasance across my entire sample including both successful and failed businesses. This is the purpose of the next section.

2.1. The prevalence of crime

All societies are fraught with crime. Whichever the country, whatever the point in time, we can find crime ranging from murders to simple jaywalking or its equivalents. Crime, in its broader sense, could be defined as a break of the social contract stipulated by a country's legal system - as a breach of an agreement between any two parties that is regulated by the law. Businesses that have to engage in multiple contractual relationships in the course of their operations are especially prone to encounter instances of illegality.

I was therefore not surprised to find criminal activities in the businesses in my sample. Rather, what was surprising was the frequency and intensity of crime. All of the businesses that I interviewed routinely violated the law; many had their entire existence subordinated to criminal activities.

The main reason impelling entrepreneurs towards criminal activities is that businesses often perform below the expectations of the owners. In finding their prospects limited by the web of constraints of their social support system, the entrepreneurs are left to trade on middle class morality. To advance their businesses, entrepreneurs do not pay respect to the norms and rules of 'upright' living. The getting by of this petit bourgeoisie is, as Pardo recounts in regards to Italy, "(...) based on the blurring of boundaries, found in various degrees throughout Italy, between the categories of the modern organisation of labour - between the formal and the informal, the legal and the illegal, and the material and the non-material" (Pardo 1996: 19).

Crime in the context of business is a dynamic endeavour - almost everyone alternates between the role of victim and culprit. Most entrepreneurs in this study fall victims of suppliers or clients and, in turn, swindle suppliers and clients. In order to bring light into the apparently muddled pool of deviant behaviour, I felt the need to create a typology of criminal activities by entrepreneurs in small business. I divide criminal activities into four groups of crimes according to who is the culprit or the victim.

In the first case, (i) the entrepreneur is a villain helping the business, cutting corners by stealing and swindling associates, suppliers and clients in order to establish a profitable business (section 3.2). Others develop instead a reckless strategy, helping themselves to whatever funds are available in order to support the lifestyle they hoped to lead - they compensate the lack of business performance by taking advantage of their partners. These are (ii) the entrepreneurs that act as a villain in the business (section 3.3). The first two types of entrepreneurs discussed here refer to entrepreneurs that expected their businesses to perform better than they actually do. A third type of entrepreneur resulting from the cross of business and crime is (iii) the entrepreneur who is a villain and the business is his/her cover. In such cases, the business of graphic arts or furniture making is a *façade* for the real criminal vocation of the venture, such as money laundering or drug trafficking (section 3.4).

In the first three groups, the entrepreneur is the agent: first, an agent that engages in deviant business practices in order to save a business or make it grow; second, an agent that operates as a *saboteur* of his or her own business; third, an agent that uses the business as a *façade* for other activities. In the fourth group (iv), the entrepreneur is the victim of someone else's criminal business strategy (section 3.5).

Some of these crimes are more common, some are quite rare – this is suggestive of the diverse structure of incentives and sanctions for each different crime. The remainder of this Chapter describes my sample in the light of this typology. Crime in business is possible because it sometimes pays and goes unsanctioned. At the end of the chapter, I provide a brief account of the system of sanctions for illicit behaviour that applies to the entrepreneurs in my sample.

2.2. Committing crimes to help the business

While managing his/her business, the entrepreneur deals mostly with 'small' problems. In many occasions, the solutions that he or she finds cross the boundary of the legal or ethical. Mostly, entrepreneurs that engage in deviant practices see their actions as 'cutting corners' – something that will help the business, but which is not fundamentally wrong. One key trait of this type of petty crime is that the business itself is the centre of attention; it serves as a moral justification for the entrepreneur. Crime is a means to an end. Creating and maintaining a successful business – a greater aim – justifies the criminal actions in which the entrepreneur occasionally engages in.

The instances of illegal behaviour designed to improve the performance of a business can be grouped into four categories. First, there are crimes against the State. Illegitimate behaviour in business ventures often arises from the tension between the businessperson and the State. These lead to crimes such as: operating without a license or without being legally registered, working in an illegal site, breaking protectionist trade laws or anti-collusion regulations, and bribing government officials. In these situations, the breaking of the law does not hurt a contractual partner in particular but the collective person of the State.

The second group of crimes also refers to a crime against the State. They are so prevalent though that they merit of category of their one. These are the crimes related to tax evasion. Almost all of the entrepreneurs in my sample admitted to actively evading taxes, whether these are: sales taxes, payroll and social security taxes, or taxes on profits. The entrepreneur that acts as a villain for the business will tend to relax the relationship with the law and consider a crime such as tax evasion as a justified infraction.

The third type of crimes is committed against the workforce. These involve: using children as employees in the business, swindling employees, hiring illegal workers, and relaxing the security of working conditions.

A fourth way to 'cut corners' is the theft of supplies. In the case of the graphic arts industry, entrepreneurs steal ink and paper, and in the furniture industry, there are thefts of wood. In both industries, some entrepreneurs steal some resources like electricity and water. Most often, the entrepreneur seeks greater profits by swindling peers whose opinions do not have a great impact on the reputation of the venture. Sometimes, entrepreneurs go as far as risking breaking trust relationships with suppliers, or clients, or the bank, etc., when they believe that its benefit to the business exceed this risk. I will report the instances of crime in these four categories in turn.

2.2.1. Crimes against the State

Judging from what I learned from the entrepreneurs I interviewed, engaging in petty crimes against the State is the least cumbersome of crimes on the entrepreneur's conscience. Lapsing entrepreneurs hardly feel the sanctions imposed by law.

The first typical crime in this category is operating a business without a license. The majority of industrial enterprises in my sample did not have the proper licenses. Rather than being driven by intentional malfeasance, this type of crime is usually the result of the lack of knowledge the law and proper legal procedures by most entrepreneurs. Among those who knew about them, many were discouraged to enter the cumbersome and expensive process associated with licensing and going through the haziness of the State's bureaucracy.

For instance, I found instances of businesses that paid taxes and social security contributions, while at the same time lacking some legally required credentials. One such business was owned by Ernesto (F55), who battled for years to get the proper licence[49] to operate his furniture business from the coordinating body of Northern Portugal[50] on behalf of the Ministry of the Economy. His business started and was legally registered in 1993, and since then successfully earned profits and paid taxes. Only by December of 1999, and after a great deal of effort on Ernesto part, did it finally obtain its license.

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[49] "Licenciamento de estabelecimento industrial".

[50] Certidão da Comissão de Coordenação da Região Norte

While less prevalent, some entrepreneurs also operated their businesses without ever formally registering them. In their attempt to put together a venture, some nascent entrepreneurs bypassed the lawful regulations of business start-ups. These businesses were outside my sample, since I focused on the list of registered businesses that the INE offices provided. Yet this did not prevent me from finding unregistered businesses.

Urbano, an old graphic arts officer with extensive knowledge about the graphic arts are of Lisbon, told me that in his area of business (the outskirts of Lisbon) it is quite common to operate without ever registering the business. A few doors away from Urbano's workshop, I found a business that had been operating illegally for years. In the graphic arts, it is easy to put together a business and still avoid registration, taxation, and other legal matters. It is simple to operate a small printing machine from a restricted space (perhaps a garage) using stolen paper and ink supplies. With the advent of the widespread use of computers this has become even easier. Moreover, it is customary for clients to ask to pay for a job without a receipt or a formal record, in order to evade sales taxes. In short, it is effortless – albeit not always desirable - to operate an informal economy business

Another case of businesses that operate illegally are those that are officially closed after declaring bankruptcy, but continue operating. This was the case, for instance, of José's business, as highlighted earlier in this Chapter. By legally closing the business, the entrepreneur terminated its obligations towards creditors. This becomes a worthwhile option when these debts are very large because the business turned out terribly wrong. The entrepreneur wishes to continue working and to give his venture a 'fresh start' and legally closing the business while illegally continuing production allows for this new beginning.

The second common type of crime against the State is to operate a business in an illegal factory site. In their attempt to put together a business using the resources available, some entrepreneurs use their own land, their houses, or property that was build for other purposes. Whether the law allows this is rarely a concern.

Maria (F73), for instance, owned a warehouse that was built to house cattle. Stating this purpose, she was able to arrange for an electricity connection to be established. Her intentions had by then changed and she already planned to open a furniture factory on the site. Yet, she was well aware that the conditions to have an electricity connection to an industrial property are much more stringent and can take much longer in order to be approved. By declaring that the site was a rural property, she intentionally, but illegally, speeded up the process of opening her factory.

Maria also had to do some construction in order to adapt the building so that it could accommodate a furniture factory. This required having a construction license – again Maria did not obtain this. Finally, once the building had been converted into a factory, it required proper legal registration with the local authorities, which she once more did not attain. "I wanted to legalise it, but the State puts such difficulty on things. I have set things in motion, but before you register… [it takes so much time], and after that we don't know if they [State officials] will authorise us to stay here. We keep going; there are so many people working like this [under the same conditions]. They [State officials] let us start as we want and *then* they put barriers. They are not going to close [the factory], or else they would have to close hundreds of other factories around" (F73: 166, 180).

As referred earlier, José also worked in an illegal factory site. In a first instance, he was renting the location. Afterwards, he attempted to buy it with the help of his partner's father. However, the site was illegal on several accounts: it was not fit for industrial use, it had no electrical facilities, and the landlord had not registered it legally.

Maria and José's cases, far from being exceptions, are the rule of what happens in industrial factory sites. The staggering majority of the factories I visited had very bad working conditions and lacked proper licenses. The factory that Daniel (G97) bought was an illegal construction in an area that resembled a slum city. Urbano (G98) worked in a very small storeroom with only one door to the street. There were no windows and the room was so humid that he had a permanent cold that had developed into a lung disease. Hugo (G55) started his partnership from a storeroom in the attic of his building – a space intended for the storage of family items. He crammed two computers, two printers and a desk into a 2 m^2 room with a slanted ceiling.

Nevertheless, the condition of the factories seemed to be independent from how well the businesses were doing. In José's case, as in the case of most other businesses, the lack of registration for either the business or the site did not seem to pose an obstacle to the operation of production. Even as the courts were trying to assert whom the property belonged to, José kept working illegally on the grounds. Likewise, Vitor (G08) had a successful business, and in spite of the fact that he felt constrained for space – so much so that I interviewed him seating in a chair in a passageway in front of the door of the factory – he was quite conservative about the prospect of investing in enlargements. Jorge had very successful businesses and still had a factory site that looked permanently temporary with its dirt floor and tin foil roof; he had no plans to refurbish it.

Two features were evident in the majority of the locations I visited. First, the spaces were mostly provisional and clumsily adapted to fit an office, a workshop, or a factory. Second, the entrepreneurs did not take seriously the laws and regulations on industrial sites, when they knew about their existence. Moreover, many businesses break some regulation on industrial property without calling on the attention of State officials.

While illegal, some of this behaviour on the part of entrepreneurs had some justification. Legalising a business or a site was often a process filled with expenses, delays and peril. Nuno, his father, and sister (G84) started their business in a small room of Nuno's father house. Soon the place became too small for the binding business and they moved to the garage. They attempted to resolve the continuing space problems by extending the garage. Yet, the municipality authorities deemed the construction illegal and halted it. They sidestepped the law and this decision by building a removable metal structure adjacent to the garage in 1995. "Since it [the metal structure] is removable, well, we went around the law and finished it. But the space, which used to be so much, is beginning to feel too small and we are thinking of moving elsewhere" (G84: 26, 28).

This case illustrates one common feature of the enforcement of the law on illegal factory sites. If the factory site is an area designated by the government or the local authorities for industrial use, surveillance is higher. For instance, F11 started legally in 1993, and bought a site in a designated industrial area. This led to a number of problems with the property and the building. The area was still under construction, which meant that basic infrastructures such as roads, electricity connections and water supply were still missing. In addition, the factory building's project took a long time to be approved by the local authorities. By the time it was approved, the partners in F11 had changed their plans for the business and altered the project. As a result, the local authorities ordered the interruption of works in the building. The partners had to submit a new project for approval, starting another lengthy process. Only 5 years after the legal start up did the business actually start production. Locating a business in an industrial site meant further problems; because it was constantly inspected by the local authorities to make sure it abided to all the proper regulations. The story of F11 stands in great contrast with the experience of all of the other businesses that I interviewed and which operated at the margin of the law without any problems or interference by the State. It seems that the surveillance of the State is restricted to businesses operating in designated industrial areas.

A third type of crime against the State was less prevalent but still significant. It consisted of breaking government trade laws. For a product to bear the label "made in the EU," a substantial fraction of its parts and their assembly must occur within the European Union. Some entrepreneurs find a business niche exactly in bypassing these protectionist laws. Raul (F80) was one of these entrepreneurs. He had a metal furniture business but he also made dishes for scales. One of Raul's clients imported scales from another business in Taiwan. In order to sell these under the 'made in EU' label, and to avoid the tariffs on the imported product, he needed part of the machine to be produced in Portugal. He subcontracted Raul to manufacture the dishes. As Raul explained, "it [the scale] comes from Taiwan and so... The scales come and we make the dishes according to the type of scales, according to the number of kilograms, and all that. So we make the dishes for those scales" (F80: 545, 547).

The fourth type of crime against the State consisted of bribing funding agencies. It is common knowledge in Portugal that Portuguese enterprises are poorly developed in terms of their use of technology. As a result, there are a number of European initiatives that aim to improve the use of technological in business, many of which are organised and managed by IAPMEI.[51]

Very few of the entrepreneurs I interviewed knew of the availability of government and European funds. One interesting pattern is that those businesses that operated closer to Lisbon were more exposed to and aware of information about government and national affairs. The businesses that did know about the existence of funds had a defeatist attitude towards them. For instance, Joaquim thought that regardless of what 'they' say ('they' was understood as government, State officials, or institutes dependent on the State) the funds inevitably went to large enterprises: "These [funds] never touch the small; they always go to the large. We keep hoping for a miracle to happen one day and for things to get on their way" (F32: 565, 567). He was infused with the view that help depended on connections and bribes, despite of the fact that he had not had such an experience himself. As a guiding principle, he thought the growth of an enterprise made it vulnerable and dependent on 'help' that he could not get – given his lack of connections and means. As a result, he appreciated keeping the business small.

[51] The Instituto de Apoio à Pequena e Média Empresa (IAPMEI) is a State institute that aims to support small and medium industrial ventures.

The generalised perception, whether true or false, that help from the State and State agencies is dependent on bribes and connections (the infamous 'cunha') operates as a technique of neutralisation of guilt towards deviant behaviour (Sykes and Matza, 1957). That is, if the State does not behave according to its laws, the entrepreneur feels excused to stride away from laws that apply to him/her, especially if he/she deems them inconvenient for business.

Contrary to the other cases, I did not find any entrepreneur openly confessing to bribing government officials. Nevertheless, many entrepreneurs echoed Joaquim's words: there was a widespread belief that corruption is rife. Moreover, the entrepreneurs did not so much condemn the existence of corruption, as they regretted not being able to effectively use this to their advantage.

2.2.2. Crimes against the State: tax evasion

A very popular crime against the State is tax evasion. It is in fact the most prevalent form of crime. Unlike some other crimes committed against the State – like operating a business without a license – in the case of tax evasion, the entrepreneurs are aware of their actions. Some dislike tax evasion but still do it because they think the welfare of the business depends on it; others are prompted by their accountant to tax evade; and some others gleefully engage in it without much consideration for the common good as they feel their actions are justified by the government's misconduct. Regardless of the reason, almost all do it. The wealth of references to tax evasion in my data confirms this beyond what I expected. A massive 203 quotations related directly or indirectly to tax evasion under the codes 'illegal behaviour: tax evasion', 'relationship with the tax office', and 'relationship with the accountant'. The first code refers directly to instances of tax evasion. The other two quotes also unexpectedly refer to tax evasion: because the relationship with the tax office is almost always negative and a product of the entrepreneur's transgressions, and because the accountant plays such a significant role in encouraging tax evasion.

The role of the accountant was preponderant in the entrepreneurs' accounts of tax evasion. Every business is required by law to have its accounts reviewed by a certified accountant, and the accountant usually also performs the role of a consultant on business matters. In some cases, the accountant tries to enforce some organisation and good management in the company and its accounts. This often runs into great resistance from the entrepreneur.

In F55's story, there was a curious incident of this type. A regular client asked Ernesto for a very small wooden piece to solve a problem he had with a furniture set. Ernesto assented, and produced the piece. The charge was small: less than £1. When he informed his accountant of the sale, the accountant asked for a receipt; Ernesto has a history of disorganised accounts, and the accountant was trying to impose some discipline. Ernesto was outraged that he would need a receipt for such a small amount. From then on, he decided he would just not tell the accountant about some transactions.

With regards to tax evasion, surprisingly, it is often the accountant who promotes its benefits to the entrepreneur. He or she often stimulates tax evasion and is responsible for the covering up in the accounts of the business. For instance, in F65 the accountant had a particularly important role. This company started as a sole trader ran by Adelino. In 1993 though, Adelino's accountant advised him to change the business legal status to a partnership with his wife instead. With this legal status, there was a wider scope for evading taxes, especially sales taxes. About a year afterwards, the company fired this accountant. In Adelino's wife's words "he was a thief, a cheater, and deceived us." The accountant's strategy was to put other people's receipts in the company's accounts in order to inflate the expenses of the business and lower profits. As a consequence, every year, the business just broke even, and did not pay taxes on profits. Adelino disapproved of this strategy sternly. He thought that if he had an enterprise, it should have profit formally or it would not be worth keeping. Furthermore, he was afraid that the tax office would sooner or later get suspicious. After some arguments, Adelino fired the accountant.

Entrepreneurs mainly evade three types of taxes: sales taxes (V.A.T.), social security taxes, and taxes on profits. The avoidance of sales taxes often comes at the request of the suppliers or clients involved. If a sale is made without a receipt and without being declared to the State, then no sales tax is paid. The binding business G84 prided itself on operating according to the law, but could not impose these principles on the other economic agents with whom it interacted. For instance, there are only two or three gold leaf suppliers in the Lisbon area. They refuse to issue receipts, and since G84 depended on their supplies, it was forced to tolerate it.

Avoiding sales taxes is also often the result of dealing with companies that are not legally registered. They cannot issue or take receipts since they do not have a legal existence. According to Ernesto (F55), to ask for receipts to some suppliers is an impossible task, since their businesses were ran by old people who prefer to be at the margin of the system, working from their home without ever reporting their activity to the State.

Old and retired people were also prominent in determining the evasion of social security taxes. Especially in the furniture industry, many artisans with specific skills have reached their retirement age and are collecting their pension from the State. There is still demand for their services though, so many work for the businesses that I interviewed, without declaring their employment so as to keep their pension.

Likewise, evasion of payroll taxes seemed to occur with the consent of employer and employee, who preferred not to not declare the employment contract, and divide between themselves the amount that would be paid to the State. The manager of G69 felt this was a necessity: "if we declare all the wages, that's another 34.5% [of expenses with labour]..." In his assessment, there would be nothing left in profits if he paid all the taxes that he should.

Finally, evading profit taxes usually takes the form of taking in personal expense receipts from acquaintances and declaring them as business expenses, which get deducted from profits in tax calculations. I already described this above, in the relation between Amaro and his accountant.

A final note on the relationship with the tax office - while tax evasion was widespread, it certainly is not risk free. Occasionally, the failure of the business was precipitated by tax inspections discovering irregularities with the business. This was the case of José that I described earlier. Octávio of F69 also recalled inspections by the tax authorities, who had become suspicious after many years of declaring of zero profits.

2.2.3. Crimes that involve the workforce

In this group of crimes, the entrepreneur sees the business as an abstract entity that must succeed. He or she opts for the well being of the business at the employees' expense. The first most frequent instance of crime against the workforce is hiring workers without a legal employment contract. While this allows evading social security taxes, it also implies that the worker does not benefit from social security, in case he/she becomes ill or suffers a work accident. Especially in the furniture industry, where accidents are common, it is frequent to have workers that are severely injured in their workplace and are then left without a form of compensation from their employer or the State. The second main crime against the workforce is the lack of conditions in most factory sites that I have already documented. This is likely one of the main contributing factors behind the high frequency of work-related accidents.

Swindling employees is also frequent, especially at crucial times of the business's life, such as when it changes its legal status, or when the business is shut down. In both cases, the end of the legal life of the business implies that its contracts with employers are terminated. While the law requires that layoff settlements be paid, this rarely happens. For instance, F51 obtained most of its employees from a competitor, who declared bankruptcy and did not pay anything to its workforce, even if the actual business continued operating in the same site. The employees are also an easy target of employer's malfeasance. When the business has cash problems, the first to suffer are the employees who do not receive their wages or bonuses. We already saw this in Octávio's case, where the employers frequently ran away with the employees' salaries.

Finally, another crime committed against the workforce involves the use of child labour. Joaquim of F32 was conscious of the problem, but he could not decide how to feel about it. When his son Cesar was a young boy, he often helped in the workshop. To Joaquim (F32) the paradox was clear; he did not see it as child labour, but he understood how it could be viewed as such: "You could say 'Oh, you exploited your children: that is child labour".

Other entrepreneurs were less attuned to the hazards of keeping children as employees. They found it natural that the children would help with the business. Some argued that having the children around was equivalent to teaching them a craft. Maria of F73 went as far as arguing that keeping her boys in the factory was far better then sending them off to school, were they could go astray or even become drug addicts. In addition, many entrepreneurs I interviewed, especially in the furniture business had worked as young children in their parents factories. Jorge told me his father used to take him to the wood suppliers to choose wood trunks and eventually he went alone. Eduardo of F55 recounted how his father would drag him to the workshop in his spare time claming "If you are not at school, I do not want you playing in the streets; you will come to the factory even if only to smell the wood dust". Smelling the wood dust was an activity that most wood entrepreneurs endured as young children. They could not see how the perpetuation of this practice could be harmful.

2.2.4. Crimes that involve the suppliers and clients

Aside from the theft of electricity that I reported in José's story (that is not at all uncommon) entrepreneurs refer to the theft of a variety of supplies. Some interviewees have referred to the habit by many micro entrepreneurs in the Lisbon area of 'borrowing' ink and paper. Apparently, these very small producers use their connections within the graphic arts to borrow and sometimes steal small quantities of ink and paper and thus decrease their production costs.

Yet, the most interesting case of crime against suppliers and clients is that of business G84. In explaining the functioning of the binding industry in Portugal, Nuno told me that there were only a very small number of book binders in the country, and that they all knew each other from apprenticeships with an even smaller set of binding masters. Nuno's father was among that small set of teachers that structured the sociability of this smallest of graphic arts fields. This tight social network of craftsman in turn worked mostly for government institutions such as libraries that typically run a public competition for the best offer on the up taking of a project. Unbeknownst to the institutions however, these craftsmen systematically collude to provide a good offer and a bad offer, and decided between themselves who was to propose what, rendering all competitions rigged.

2.3. The entrepreneur is a villain in the business

As was thoroughly documented by the business histories in the previous Chapter, for some entrepreneurs, the business's real vocation is not the production of furniture or running graphic arts facilities. Their business histories are rife with accounts of embezzlement, which is closely related to the issue of life style. The majority of the entrepreneurs consider that owning a business should award direct access to a number of privileges. If the business does not perform according to their expectation, they soon start embezzling the company's funds.

2.4. The business as cover for crime

One of the businesses in my sample deserves a special mention in this Chapter. This is the business of Manuel (G26). He started in 1993 a business of gift printing, i.e., printing firms' names on pens, stickers, etc., as a form of advertising. The enterprise was situated on the great furniture industrial area of Paredes and Paços de Ferreira. The partnership was made between Manuel and his wife. Soon after the start up, he employed a clerk to take care of the firm's bureaucracy. The clerk was heavily involved in the management of the business and was very well informed on its history.

According to Manuel, after a few years, he understood the business was lagging behind because of the door-to-door salespeople he had employed. He depended on them as a source of new clients, but had little control over their actions. They would go away for the whole day in the company cars, spend a lot of gas and always came back without significant commissions. Manuel was unhappy with the performance of the venture and before the business crashed, he put a stop to it. After this experience, he started a furniture business that is still running.

Manuel's report on his business tells only half his story. Having spoken to my local informer about this business, she told me a second story on the entrepreneur. Apparently, his gift printing business was a cover up for his and others' money lending activities. The firm was a legal facade for an illegal 'popular' banking business. Manuel was in fact running a money-lending scheme, and used the legal existence of G26 to launder money.

That may explain how easy it was for Manuel to discard the failing printing business and start the furniture company. Manuel quoted problems with salesmen – who where notoriously unproductive – as a key motive in the decision to close the business. Yet, as my informer later told me, his decision was primarily related to developments in the money lending and the money laundering schemes.

Manuel managed his illegal incursions in light of their potential sanctions, and he is still an entrepreneur. He is representative of a small, but very different, group of businesses. These ventures were so intimately connected with criminal activities that it was hard to understand where business stopped and crime began. These ventures did not have an independent existence, but rather existed solely as a function of other criminal enterprises. Manuel's business represents an extreme in its links with crime: these were so deep, that the business itself existed only as a dependent of a criminal organisation.

2.5. The entrepreneur is the victim

Section 2 presented many instances in which the entrepreneur was the victim of malfeasance from his/her partners. The other main source of malfeasance towards the entrepreneur is the people that the business contracts with. Suppliers are especially keen on increasing their profits at the expense of the business.

In the furniture business, the entrepreneur is a victim especially of the suppliers of wood. There are several tricks of the trade that the buyer must be aware of; even when he is, it is difficult not to be cheated. The first main trick relates to measurement. In the hands of the wood suppliers, the metric system ceases to be exact. Suppliers of wood purposefully use old metric strips from which the numbers have almost been erased. Even if the wood is measured in front of the buyer, there is an element of discretion that the seller always exploits. Moreover, since the trunk will be cut into wood planks, the correct measurement of the diameter of a tree is the minimum measurement over the entire length of the trunk. Yet the suppliers of wood often try to measure the tree as close to its bottom as possible. The trunk is wider here, and this results in measuring a much greater quantity of wood, and so charging the buyer for more wood than what is actually sold. A few centimetres of difference in the measured diameter can have a dramatic implication for the number of planks that can be extracted from a trunk. The buyer can lose a great deal if he is not aware of this trick. According to José (F66) "a couple of years ago the great enemy of the furniture industry was this trick of the lumberyards."

The buyer can always opt to buy the wood in planks instead. Typically though, this is considerably more expensive. The basic trade-off is that it compensates to buy a tree trunk as opposed to wood planks, but the wood trunk is more susceptible to deceit. Moreover, according to Jorge, "you cannot count the planks because the measurement is in metres." The supplier again has wide discretion to cheat the buyer.

Another set of tricks applies to the quality of the wood. This is important since wood of bad quality may turn to dust when cut, or it may expand, crack, or have diseases. The buyer of wood must be experienced to look for signs of any of these possible faults with the wood. Even then, after the buyer agrees with to buy a trunk, there is still the risk that the supplier exchanges the trunk for another before cutting the wood. If the buyer has agreed to receive the wood in planks, it is difficult to uncover whether there has been a switch or not.

One important factor in determining the intensity with which buyers are tricked is related with whether they buy the wood on credit or not. Suppliers do not charge interest, but during the bargaining process over the conditions of the wood, they will use the buyer's outstanding credit as a powerful tool for intimidation. In Jorge's vivid description, "having the furniture maker buy on credit compensates the lumberyards. It compensates because the seller says: 'the log has x many metres'. The buyer insists: 'I would like to measure it', but the seller reacts: 'It has so many metres. I do not have time to measure it, if you want to take it that is it'. Since the people buying on credit really need the wood, they end up complying with the deal." Similarly, if the furniture business is in a hurry to satisfy an urgent order, the wood suppliers will take advantage of this to further cheat on the measurements.

Buying wood is therefore a risky business. People that are new to the business are often swindled. "The buyer is trusting. Many buyers do not understand, they think it is all right but it is not", says Jorge. According to the entrepreneurs that I interviewed, only experience allows you to get better at this bargaining game. Even the most successful entrepreneurs felt they had been cheated many times. Each time this happened though, they learned and became better at their own expense.

Other entrepreneurs found that buying wood in smaller quantities lowered the incidence of deception. In a large wood order, it is easier for a supplier to include a rotten trunk, or to cheat on the measurements. Small orders come at the cost of not being able to reap economies of scale. It limits the size of the business. But the entrepreneurs feel that it is necessary to do so to remain profitable.

Clients often cheat businesses as well. This type of crime is less diverse - it invariably involves not paying. Whereas the furniture business was more susceptible to be cheated by suppliers, when it comes to clients and their late payments, the graphic arts industry was more affected. It is difficult to understand what is behind these different paying habits, aside from culture and tradition within the industry. This reflects itself in the practice of sales on credit, which is common in the graphic arts industry, but much less so in the furniture industry.

The most common form of escaping payment involves simply avoiding the entrepreneur. This was one case in which the entrepreneurs clamoured for more State intervention: they felt that the courts were slow and ineffective in enforcing payments, leaving them with few arguments when requesting payment. In some instances, clients forged cheques. Fernando of F33 told me: "I have a pile of them [false cheques] here." Even when this was the case, the businesses found it very difficult to use the courts. Often, they simply never received the due payment.

2.6. The system of sanctions

Entrepreneurs perceive the benefits and costs of crime differently, and give a different weight to the sanctions on crime. The development of sanctions arises from the need to avoid deception at the interpersonal, community, or State levels. Some of these sanctions, however, have poor results or are weakly enforced.

State sanctions were only weakly enforced in my sample. With the exception of very extreme behaviour (e.g., Jorge's murders and robberies), all of the instances of crime that I found seemed to go unnoticed and unpunished by the legal authorities. The State was a faint presence, especially considering that it has the monopoly over violence. With the exception of the incursions of the tax office, which caused some apprehension, the entrepreneurs did not feel the presence of the State as limiting them in their actions. The State was not a strong presence in the entrepreneurs' speech, and the threat of the State's sanctions was vague. The entrepreneurs lived their lives hardly crossing paths with the State, especially as an enforcer of the order.

More effective were interpersonal and community sanctions. In most instances in which crime was sanctioned, it was done either through explicit personal violence or threats (of which we have seen many instances already in this Chapter), or through the threat to the person's reputation within his/her community. Most of the entrepreneurs felt very dependent on their community. They drew most of their resources from the community, and were usually willing to give back to it. Only rarely did they swindle this close-knit community, even when they frequently behaved illicitly with others. When I asked entrepreneurs about the ability of their community to enforce sanctions, they were generally supportive.

One reason for this strong role of the community is likely the weak role of the State. Moreover, in the northern industrial districts, people all know ach other very well. A number of popular small pubs served as meeting points to sections of this community. Even as the district increases in size, the nature of social relationships remained the same due to the lack of geographical mobility. Even moving to a neighbouring village is seen as a cumbersome change. Moreover, there is a dense network of people in the region. The combination the characteristics of the community - the lack of mobility, great density of network, casual and popular meeting points – with the feeling of having an absent State are create the pre-conditions for a system in which the community enforces sanctions.

3. CONCLUSION: WHEN DOES MALFEASANCE LEAD TO CRIME?

The underlying cause behind breaking the law by businesses is invariably that entrepreneurs have expectations of what a venture should be and how it should perform, which are not met by reality. Malfeasance is then seen as an alternative avenue through which to fulfil these expectations. Even though the entrepreneurs started their businesses with the ambition of rising to middle class living, when this proves harder than they expected, they do not hesitate to engage in unlawful activities, running against middle class morality.[52]

This Chapter has put forward the following argument to explain failure: among the businesses that fail, a predominant feature is the existence of malfeasance within the business. I have shown that when malfeasance exists within the strong ties that sustain a business, namely between the partners, this invariably leads to failure. Whether the entrepreneur is well-intentioned and honest (José); whether he/she is shrewd, organised and successful in running his business (Octávio); regardless of the organisation of the firm's management, the structure of its shareholding, or its legal form (Octávio); and independently of the entrepreneur's skills for entrepreneurship demonstrated by other

[52] Hobbs, Dick. 1988. *Doing The Business: Entrepreneurship, the Working Class, and Detectives in the East End of London.* Oxford: Clarendon Press. also found this contradictory behaviour in the actions of East End entrepreneurs in London.

successful stories (Jorge); still, malfeasance between partners inevitably leads to the demise of the venture.

Malfeasance per se does not imply failure nevertheless. This assertion is easily proven: in all of the businesses in my sample there were instances of crime, without a single exception. The crimes were diverse and far-reaching. In some cases, the entrepreneur committed crimes in the interest of the business, whether these crimes were perpetrated against the State, of which the most predominant was tax evasion, against the workforce, or against suppliers by stealing materials. In other cases, the business was the victim of malfeasance by its suppliers. In one way or another, all of the businesses in this study dwelled in crime of one form or another. This did not seem to impair the ability to survive and be successful shown by more than half of the sample of businesses.

The overarching presence of petty crime merits a note. How do entrepreneurs justify to themselves or others the overwhelming amount of unlawful behaviour that they engage in? Sykes and Matza's (1957) study of techniques of neutralization of guilt over delinquent behaviour sheds some light on this behaviour. For instance the technique of neutralization that Sykes and Matza (1957) call 'denial of responsibility' aptly describes the attitudes of many entrepreneurs' towards their accountants. Fairly often I heard entrepreneurs' state that their tax evasion was really the responsibility of their accountants, who seemingly forced the entrepreneur's hand. Responsibility was, as a result, misplaced from the entrepreneur to the accountant making the act of tax evasion more acceptable in their views.

Similarly many entrepreneurs indulged in assuming that their petty crimes actually did not affect others (Sykes and Matza's 'denial of injury'). Tax evading or stealing electricity from the national electricity provider are crimes against institutions that are very big. Entrepreneurs believe their actions hardly affect the welfare of these institutions. After all, how could the actions of a tiny agent such as an entrepreneur affect national accounts? Furthermore, tax evasion provides ample room to deny the existence of a victim ('denial of the victim') since it is unclear who will really be affected by it. In the entrepreneur's mind there is no apparent connection between the obligation to pay taxes and the government's potential measures to cut back on welfare programs. There is also a sense of entitlement, a conviction that the State should help the 'little people', a suspicion that the government is not doing enough, and as a result the prerogative to correct matters with one's own actions.

Nevertheless, to lead to failure, malfeasance typically comes associated with another feature. Failure is the result of malfeasance that is *internal* to the business; this malfeasance attacks the core of the business, namely the strong ties connecting the different partners. Once these ties are struck, it seems to be only a matter of time before the business will fail. As discussed by Granovetter (1985), it is within the relationships that yield greater trust that there is a greater opportunity for malfeasance: "The more complete the trust, the greater the potential for malfeasance" (Gartner 1985; Granovetter 1985: 491). When they try to embezzle each other, the entrepreneurs undermine the foundation of the business itself. Malfeasance leads to failure when the entrepreneur is the perpetrator and the business is the victim. The entrepreneurs are villains inside the business.

There were 17 businesses that failed in my sample of 42 ventures. They can be divided into three groups. In the first group are the businesses that failed due to malfeasance internal to the business. This accounts for 14 of the 17 businesses. The stories of most of these have been told in this and the previous Chapters. The fact that internal malfeasance is behind 82% of the businesses that failed provides strong validation for the thesis that I put forward.

In the second group are the businesses that failed due to dual activity of their owners. The entrepreneurs besides having a business were also employed elsewhere. The failure of the business is driven by an option for their job instead of the business. Finally, the remaining business to fail is G26. This is a peculiar case since the business served as a *façade* for illegal activities (money lending and money laundering) and failed when it stopped serving its cover-up role effectively. These three businesses are the exception to the rule proposed by this Chapter: that internal malfeasance is at the root of business failure.

CHAPTER VII – GROWTH

1. Introduction

This chapter is devoted to the businesses that survived the start-up stage and grew. Whereas Chapter IV described the businesses that survived but remained small and are in a constant struggle for survival, this chapter focuses on the success stories in the sample.

These businesses were successful across many dimensions. They earned healthy profits, and were able to provide a sustainable income flow to their entrepreneurs. This allowed for the upward social movement that these entrepreneurs aspired to at the start-up. None of these entrepreneurs became extremely wealthy; however, they all reached comfortable living standards through the income provided by their businesses. The businesses were solvent and, absent unexpected events, the risk of financial difficulties in the near future seems limited.

While these businesses, like all the others in this study, started very small, they grew significantly. This growth can be appreciated across three dimensions: the size of their factories, the number of employees, and especially the wealth of their earnings. The entrepreneurs also reported having larger production and sales.

There were 14 businesses in these conditions, 6 in furniture industry and 8 in the graphic arts industry. The question hat this chapter tries to answer is: what was special about these businesses? How did they manage to reach the goal that eluded so many other entrepreneurs?

This Chapter will identify two key features that are present across these success stories. The first is the ability to break free from a subset of the social relations constraining the business. Chapter IV showed that these initial ties can hold the business into a stationary state of survival to which the business is tied to. Breaking free from these ties is the first step in leaving this stationary state towards success and growth. The second key feature is the ability to rationalise production. This is essential for the business to increase in size without sacrificing productivity and profitability. The next two sections explain each of these two features in detail, illustrating them with the narratives from the businesses to which they apply. The fourth section of the Chapter concludes.

2. BREAKING FREE FROM GIFT ECONOMY EXCHANGES

All of the businesses studied in this thesis enter a large set of obligations at the start-up stage virtue of the set of exchange relationships they endorse in order to properly furnish the business with the necessary capitals. The affiliation to this set of obligations is inevitable. The entrepreneurs start their businesses with a very limited portfolio of resources, described in Chapter III. In order to make the start-up possible, they are forced to look for the many resources that they lack. As Chapter III found, the entrepreneurs' preferentially use co-optation as a strategy to assemble resources due to its flexibility and seemingly weightlessness. Social networks become the primary sources of the needed financial, symbolic, or cultural resources that all businesses need.

Nevertheless, as Chapter IV explained, in return for the resources that it obtains, the business becomes indebted to these social ties, as the exchanges are not regulated by the principles of the market but they are ruled by the principles of trust and reciprocity. While there are no formal debts, there is a strong system of gift exchange in which a gift today is expected to be repaid with a gift tomorrow. As Merton (1968), Portes and Sensenbrenner (1993), and Granovetter (1985) point out this structure is held in place by a strong socialisation into the system, and a long history of exchanges within the community, and it is the cohesion and welfare of the community that the gift exchange system serves.

The social ties that the entrepreneur uses in the start up then often become barriers for future business growth, as the convenient embeddedness of the business in a set of network relationships becomes so cumbersome that it turns into overembeddedness. In effect, the two most common ways in which this happens are in the common requests for 'emergency' help and in the relations of exclusivity. The initial ties require frequent assistance from the entrepreneur to assist them in their troubles. This draws energy and resources from the business preventing it from focussing on its activity, as it concentrates on the welfare of the community.

Moreover, the obligations that come attached with the resources obtained in the start-up stage from suppliers and some clients often take the form of 'compulsory' relationships with these suppliers and clients. Even though better alternatives are available, either in the form of cheaper and more reliable suppliers, or better paying clients, the entrepreneur is bound to maintain these inefficient and unprofitable business relations. The businesses in Chapter IV were entrapped in this network of obligations, and this led them to survive but stagnate.

The successful businesses in this Chapter instead were able to break the dependence from the links that they establish at the start-up. They were able to sever some of these links, and search for cheaper and more reliable suppliers, and for better-paying clients. This change in venture strategy, which I identify as a break with at least some part of the network, may correspond to what Dubini and Aldrich (1991) label an increase in network density and diversity. What is crucial is the liberation from the principles of gift economy.

How are entrepreneurs able to break free? One of the secrets behind the entrepreneurs' success is their ability to break free with only selected parts of their network. As Chapter V discussed, one of the difficulties with having the business break free from its ties is that these ties are rarely confined solely to the business, but also involve the entrepreneur and his/her family directly. The same support network that straddles the business is also the network in which the entrepreneur and his/her family move on and rely on for support – that is the meaning of embeddedness. Breaking free completely from this network is close to impossible, and not even desirable. This would involve the entrepreneur and his/her family breaking free with most of the people that they have ever known and with the community in which they have always lived, a kind of social death.

The entrepreneurs that are able to break free are those that are able to select one part of their network with which they can dispense, while at the same time keeping the other parts. The business G08 is a good example of this. G08 was formed in 1993 by three partners, two of which provided financing while the third, Vitor, was the manager. Vitor was a long-time friend of one of the capitalist partners, and had met the other at a parent's school association. One year after starting the business, Vitor had a serious argument with this last partner over the direction of the parent's school association they were both involved in. He bought his share of the business with money that he borrowed from his family and the bank, as well as from a new partner that was already involved in the graphic arts industry. Thus, as he broke with one tie, he brought in resources form different social connections, allowing for a smoother transition.

In the meantime, Vitor invested much time becoming known in the industry. He seemed to know everyone in the region, and I heard about him from two other entrepreneurs in the sample also from the Porto area. Two years ago, there was another important event in the life of the business. Vitor wanted to grow further, and this involved hiring more employees and becoming more productive. The other active partner, who had recently joined, was afraid of the expansion, and especially disagreed with Vitor's inclination to hire members of his family. In return, Vitor questioned the partner's involvement in the business, arguing that he was not devoting enough attention to the enterprise. By then, Vitor had accumulated enough money to buy out the share held by the active partner, and in the process buy out the capitalist partner as well. He still owed some money to his family and to a leasing company that he used to buy more machinery, but he was confident that he would be able to repay fairly soon, as the venture had been quite successful. Again, he broke only with a part of his ties, and only when he had accumulated enough resources to allow him to dispense with these connections. He used the progress of the business to gradually gain independence from the social networks from which he had drawn economic capital.

Another distinguishing feature of Vitor's management style is that he always used his social network to the advantage of the business. This detachment from his ties was particularly visible in a subtle element of his speech: he described the story of the business in the first person regardless of the contribution of several partners to "his business." He used his partners at an early stage to establish the business, but once he was established, he was not afraid to break free from these ties.

He remained very connected to his family though, most of whom he employed. Moreover, he used his network to access supplier and clients and as an information search device to settle client's debts and find bad creditors. These exchanges often took the form of gift exchanges as reported in Chapter IV, creating partial obligations to exchange with some ties. Nevertheless, Vitor's use of the networks was mostly exogenous to the business structure. This prevented the business from becoming stuck in gift economy survival traps. Rather than having a generalised use of the gift economy modus operandi in all areas of the business, like he businesses in Chapter IV, Vitor used gift economy exchanges only in search of clients and information, and took great care to never depend too extensively on any one tie. When he sensed danger, he waited for an opportunity and broke with the ties that were potential hindrances.

Another circumstance that makes is easier for the entrepreneur to break free from his/her connections is if his/her social status imply that he/she was never very dependent on his/her network. For instance, the entrepreneur Mariana of G72 is distinct from many of the entrepreneurs in this study. She lived in Lisbon, had an undergraduate degree in Sociology, and was a member of the higher middle classes. Her family's financial well being was autonomous from the success of her business, and she had many social connections beyond those related to her business.

G72 started in 1993 as a result of Mariana's dissatisfaction with her employment situation. She worked in the production of a magazine and had a troubled relationship with her employers. She craved for some creativity space. In 1993 she started her own business with a friend who worked in creative graphic arts composition. Their idea was to develop a "creative workshop," in which they would develop logos, magazine's layouts, and brand presentation. Mariana was the capitalist and managing partner, drawing the funds from her job's parting settlement and borrowing some from her mother and husband. Her partner dealt with the creativity and with the handling of the graphic arts computer software.

The company initially struggled as money and clients were scarce. They eventually overcame these initial difficulties during the first two years, and afterwards, the enterprise started running smoothly. However, around the fourth year of the enterprise, Mariana became dissatisfied with her partner's disengagement from the business. The partner had other professional commitments and had been spending less and less time in the business, behaving much more as an employee than a partner. Mariana decided to buy her partner's share and include her two eldest sons in the venture as partners.

Mariana was in many ways as dependent on her social network as were the other entrepreneurs in this thesis. As did the others, she also drew most of the resources that she needed from her network. However, this network was formed of separate components: family, partner, friends in the industry, etc., between which there were few connections. Therefore, it was relatively easy to break free from one of these components without harming the relations with the other components.

A further, often crucial, determinant of the ability of the entrepreneur to break free from his/her connections, is the occurrence of some extraordinary event. In some cases, the entrepreneur and his/her business take advantage of some outside shock to break free from their ties. Take the example of F55. Ernesto's father had been working in the furniture business since 1950, and had recently specialised in high market style furniture. He became ill with cancer in the early 1990s, and decided to start a partnership with his children, to ensure they would inherit the business.

Ernesto's father operated the business from his backyard and was very involved in the local network of furniture makers. The business was mostly unsuccessful: it was heavily indebted, its accounts and production system were in disarray, and Ernesto and his father fought often so this strong tie in the business was under some strain (which, as we saw in Chapter V, almost inevitably led to the failure of the business). In 1996 though, the father passed away, and Ernesto took over the business. The death of his father allowed him to break away from many of his old ties, and gave Ernesto a good excuse to re-organise the entire enterprise, and achieve some symbolic capital and thus managing power over his brothers (who were also partners in the firm). After three years, the business was now working almost exclusively for one client, and earning very high profits.

A similar story describes G11. Luís started as a sole trader in 1944. The story behind his start-up is a curious one: Luís was working in the graphic arts department of a newspaper and while watching a printing machine work, he read a little plate with the machine identity. The plate (as well as the machine) was made in Germany. He thought to himself, 'I can't believe these little plates have to come all the way from Germany'. That gave him the idea of starting a led plate printing business.

Luís was an extreme perfectionist. He often re-did his jobs several times to ensure that his clients received a perfect plate, even if at a loss. The business was stable but it never earned a very large profit. Luís was very secretive regarding the affairs of the business, so no one knew whether the business was doing well or not, or what the state of its finances was. Luís did not keep written records of his business accounts so there was little an outsider could do to evaluate the state of the business.

In 1993, Luís was quite old, and his family expected his death soon. With his consent, they changed the status of the enterprise from a sole trader to a partnership between Mr Luís, his wife and their daughter. Two very loyal employees had been running the business for quite some time already, and after Luís's death in late 1993, the family put these employees in the managing position and offered them part in the annual profits. Since then, the business started growing. The employees organised the finances, as well as the production to allow for some expansion and rationalisation of production.

An important point to note is that preventing the negative consequences of social ties did not in all cases involve breaking with these ties. The potential danger of a given tie was in a few cases minimised instead by creating control mechanisms to prevent malfeasance. For instance, in F18 (its history will be laid out in the next section), the control mechanism consisted of keeping only very close family members involved. The entrepreneur that I interviewed, Alvaro, regarded the business as property of the family and in particular of the joint coalition of himself, his father, and his brother-in-law. Noticeably, while Vitor of G08 used the singular to describe 'his business', Alvaro always used the plural when addressing actions taking place in the venture.

In all of the cases recounted in this section, breaking free with existing ties was a key condition to ensure future growth. This was possible because the entrepreneur broke his/her ties with only some selected part of his/her network, because he/she was not overly dependent on the network, or because he/she used an external event, such as the death of one of the key persons in the business, to renege on previous commitments. More generally, what distinguished the entrepreneurs in this chapter from those in Chapter IV (which dealt with businesses that survived) was that, while these entrepreneurs were embedded in their social networks, they at all times prevented over-embeddedness. This means they used their social network, and in particular their families, as a source of resources. Yet, they managed their network making sure they were not overwhelmed by the implicit contracts drawn every time they borrowed from a member of their network. Their ties were strong, but not strong enough to prevent them from breaking free from their network (or parts of it) when this was necessary for the venture's future growth. As a result, their social network did not become a constraint to growth.

3. RATIONALIZING PRODUCTION

The second important determinant of growth is the ability to rationalise production. The businesses analysed in this thesis were very small at the start-up. Together with the low credit and low technology conditions in which they appeared, this implied that most of them used a method of production based on craftsmanship; on the age-old techniques they most likely learned on the job. Eventually though, if a business is to grow, it must organise its system of production differently, evolving from a reverence to the 'piece' to a realisation of the benefits of the partition of production in tasks, and the allocation of these tasks to the most efficient workers in order to optimise time and factory space. These basic principles date back to Ford and Taylor. However, many entrepreneurs are still unable to implement them. Those that are able are the ones that experience fast and significant growth.

The re-organisation of production can occur over a range of dimensions. It requires looking at the whole production process, and being able optimise it, its timings, its incentives, its space or its division into small tasks.

Nuno, his sister and his father started G84 to sell binding services. Starting the business was easy since the father was very well known in the binding circles, which are very small, and within which everyone knows each other. They mostly cater for libraries and State institutes, but they also have the occasional literate that wants to bind books to make a private library.

Expanding through sales was almost impossible in this business, since the clientele of the business was limited. Yet, all of the few people in the industry were bound by strong ties, as I reported in Chapter V. The binders were all connected to a very small set of masters that taught everyone in the field, and some of them were actually kin. In the many conversations of the many encounters of the group the idea emerged that the security of all within the network could be guaranteed if they quietly rigged the competitions they systematically participated in for jobs in libraries, institutes, etc. Henceforth was born the idea to actively collude to divide demand between themselves: when a commission was advertised, they decided privately who would get it, and all of the other businesses made more expensive or worse proposals to ensure that the business they decided would win the competition. One enterprise once broke this rule and was shunned from the group for the longest time.

The only other possibility of increasing profits is to lower costs. Nuno had done so by organising production. He increased productivity by dividing the binding into different tasks and shifting the personnel around the tasks. He mechanised the enterprise, and he planned to include more machines in the production line inclusively dreaming about visiting to a Scottish enterprise that he thought had the production methods he wanted to implement. This was not easy: his clients preferred traditional methods of production not so much because of their quality, but because of the symbolic capital attached to have a book bound by one knowledgeable craftsman. However, Nuno persevered in his plans for modernisation and started producing at much lower costs, so his earnings were substantial.

This systematisation of production allowed the entrepreneur to allocate labour across tasks, as well as realise when it is possible (and profitable) to replace machines for workers. Labour and tasks must be allocated across three important dimensions: space, time, and incentives.

Let me first elaborate on the optimisation of space. The organisation of space was an important step in the success of F18. This kitchen furniture business started as a partnership between a father, his son, and his son-in-law. The father had been working in the area for a while as a sole trader, while the son-in-law was a salesman for a kitchen furniture company, and the son had barely any experience. Initially, they were located in the garage of the father's house. Two years after the start-up, the partners realised that they needed a larger space, not just to expand production, but especially to be able to organise it more efficiently. They moved to a different site that was twice as large. Two years on, they moved again to a pavilion that again doubled their space. The business was very successful and the partners were very proud of the installations. They had separated the production process in parts, where the tasks were divided and their allocation in the floor of the factory flowed in a way that required the product and worker to walk as little as possible between stations. While still at a small scale, the entrepreneurs were able to mass-produce. Instead of using craftsmanship as is usual, they imported parts from Italy, and had organised the storage room as efficiently as the factory floor in order to speed production and minimise the time spend by employees looking for the right components.

The organisation of time was especially remarkable in the case of Augusto and F55, whose business history I already discussed in the previous section. Augusto was unhappy about the performance of his workers (who were not only his brothers but also his partners). Remembering the insights he learned from his days as a hockey player and the lessons of his hockey team manager, he applied himself to the reorganisation of his workforce. With a clock in hand and the belief that not everyone is good at the same tasks, Augusto timed all of his workers at each of the tasks in the production process that he had carefully partitioned. He then allocated each employee to the task at which he was at the same time faster and more perfect, and decided to buy some machinery, based on where he felt there would be larger time improvements. The spatial distribution of the employees in the factory was also designed so as to save the most amount of time.

The third dimension across which production was rationalised concerns the incentives given to workers. This is typically achieved by linking the salary of the worker to his performance either in terms of the number of pieces he/she completes, or the time that he takes in his/her tasks. Ricardo of G58 is a good example of this behaviour.

Ricardo was the son of a former great businessman from Mozambique. When he was 18, his girlfriend became pregnant. His father was a stern believer of the need to take responsibility over one's own actions, so despite his great wealth he chose not to support his son and future daughter-in-law. Ricardo was invited to make a living on his own. Ricardo married the girl and left school to get a job as a receptionist at a cheap hotel. He moved from there to being a delivery boy for a graphic arts company, and rose inside the company to become a salesman working on commission. In 1991, he tried his luck as a sole trader with the clients he had acquired, but was soon seduced by an attractive offer at another graphic arts company; he had the reputation for being an extremely efficient worker. Finally, in 1993, after he accumulated life experience and a divorce he started G58 using his savings, and in partnership with his second wife.

Ricardo ran the company with a steel hand, always inspired by the teachings of his own father and proud of being a self made man. He gave strong incentives to his workers, and was quick to fire those who did not perform. Moreover, he only hired workers that would follow instructions. He employed mostly young people because he believed that they learn faster and especially because he thought they better responded to incentives. In his words, "young workers have fewer work vices," that is, they are more willing to do things the way Ricardo wanted them to be done. At the same time, Ricardo planed to mechanise his business to make it as independent as possible of human or employee error. His aim was to steadily liberate the business from the dependence of the workforce.

One important component of rationalising production is a change in the entrepreneur's approach to his/her business. To be able to organise the production process efficiently, the entrepreneur must put him/herself in the role of a manager who looks objectively at production. This is often not easy since it involves the entrepreneurs breaking free from the craftsmanship modus operandi that they are often used to.

Another important required change of attitude concerns separating the business from the entrepreneur. The entrepreneurs that succeed are able to objectify the business, not seeing it just as an extension of themselves. The business becomes an end in itself, rather than just a means for upward mobility, and the entrepreneur is willing to re-invest the profits in the business. For instance, the couple that founded G48 saw the business as an entity in itself. The company started with some savings of the husband, and initially they were the only two workers, the husband working in the production line, and the wife dealing with the bureaucratic and legal aspects of the business. They started in a garage, but had re-invested the profits in the business allowing it to grow. After a while, they bought a piece of land where they slowly built the headquarters of the enterprise, and bought machines. The enterprise grew steadily.

There are some features of entrepreneurs that seem to increase the likelihood of breaking free of over-embeddedness and rationalizing production. It is not easy for the entrepreneurs to see the business as an object and an end in itself, and generally have an understanding of how organisations operate. For some entrepreneurs, this knowledge comes from their higher education. I already discussed the case of Mariana and G72. For other entrepreneurs, some organisations provided this knowledge. Chapter III already explained how the army and sports give entrepreneurs a template on how to organise and manage a group of people towards a common objective. Finally, a third source of knowledge on managing a business comes from growing up in the business. Several of the entrepreneurs were the children of entrepreneurs in the same industry. They were socialised into the business, reaching adulthood having "smelled the wood dust."

Finally, before concluding this section, I must mention one business that is unique within my sample. G17 is the only business that started with the help of State institutions. Miguel was working in a chemical products company and he came across a new product: a type of ink that made some stages of printing on fabric easier. He did not have enough capital to start a business though. He approached a 'business innovation centre,' which uses European Union and local government funds to gives loans and assistance to new small and medium enterprises that are engaged in the development of new technologies. Miguel presented his project and obtained provisional installations, guaranteed a loan from a bank that formed part of the start-up capital, and provided financial, commercial, and management advise. Miguel started the business in a partnership with his wife. The business plan included financial targets that the firm had met successfully over the years.

4. Conclusion

This chapter described the businesses that not just succeeded but also entered a path of growth. What distinguished these businesses from the others in the sample was their ability to undertake two key actions.

First was the ability to break free from the gift economy relations in which most businesses become entrapped as result of the co-optation of resources at the start of the venture. It is not easy to break free, and the previous chapters presented the several mechanisms by which entrepreneurs are bound to their network. This chapter found that breaking free typically involves breaking with only one select part of the social network, while maintaining strong links to the other parts. Moreover, breaking free is often only possible in response to a large external shock to the business, which disrupts "business as usual," and allows changes to be made. The ability of the entrepreneur to distance him/herself from his/her network, and see it as an exogenous entity to be used always for the enterprise's advantage is an ability that few entrepreneurs possessed – those that did, often succeeded.

The second important action was the ability to rationalise production. This required the ability to separate the production process in tasks, and allocate these among workers and machines. The aim of profit and economic efficiency dominated the allocation of space and time in the production process. The managers of successful business strived to provide adequate incentives to their workers, so that they would produce efficiently.

Behind these actions was typically an important attitude of the entrepreneur towards the business. The ventures that grew were those that had entrepreneurs that looked at the business as capitalists rather than as craftsmen. They were able to separate themselves form their businesses, and to treat the business as an entity in itself – an organisation in its own right, rather than as a means to an end.

These successful entrepreneurs were progressing within the ranks of the middle classes, following either one of two paths: they were moving from the salaried established sectors of the middle classes onto an established position in the entrepreneurial sector of the middle class; or they were affirming their position in the entrepreneurial middle class, thus moving from its marginal sector to its established sector. In the first case, entrepreneurs used their 'credentials' as the main source of cultural capital that pivoted their understanding of the rationalisation of production and the need to keep some social ties at arms' length. In the second case, they used accumulated informal cultural capital such as the experience gathered as offspring of 'marginal' entrepreneurs (or experience gained in institutions like the army or a sports team) in their attempt to secure their position in the established entrepreneurial middle classes.[53]

[53] See Scase and Goffee (1982) for the debate on the different fractions of the middle class and their relationship to capital accumulation.

CHAPTER VIII - CONCLUSION

1. INTRODUCTION

The aim of this thesis was to understand how entrepreneurs use their social networks to start their businesses, and especially when and why this use can compromise or improve the success and growth of a small venture. In other words, this thesis investigated how is it that the social capital embodied within social networks influences the performance of small businesses. Having confirmed that small businesses use their social connections to draw resources and to explore opportunities, the thesis examined how the informal contracts implicit within these transactions affected the business.

More specifically, this thesis addressed a number of questions. First, who starts small, low credit, low technology businesses? What are the entrepreneurs' ambitions? Why is entrepreneurship the major form of social advancement for these individuals? Where do they obtain the resources that they need? And in co-opting resources, what contracts and obligations come with them? Previous research in other contexts has found that the entrepreneurs' social capital is an important source of resources.[54] Is this the case for the population of this thesis? More generally, what is the role of social networks not just as a source of resources but also in the overall process of business formation? In particular, what

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[54] On the issue of the importance of social capital for business development see Starr, Jennifer A., and Ian C. MacMillan. 1990. "Resource Cooptation Via Social Contracting: Resource Acquisition Strategies for New Ventures." *Strategic Management Journal* 11:79-92. For a wider debate see Light, Ivan. 2005. "The Ethnic Economy." Pp. 650-677 in *The Handbook of Economic Sociology*, edited by Neil J. Smelser and Richard Swedberg. Princeton: Princeton University Press. Light traces and documents the origins of the idea of the importance of social and cultural capital in the context of businesses development to the debates on ethnic entrepreneurship.

role do families and spouses play? Moving further in time away from the start-up stage, what conditions make a business fail, survive, or succeed? Does the use of social networks have a positive or a negative impact on the business and elsewhere? Can it have both depending on the situation, and if so, what determines these situations? One particularly interesting, if unexpected, finding in this research was the prevalence of crime in the businesses. This leads to another set of questions, such as: when and how does criminal activity arise within a business? Does it lead to or is it a consequence of the social marginality of the entrepreneur?

These (and more) are the questions that this thesis tried to answer. The remainder of this Chapter gives the answers that I found. Following the structure of the thesis, I start by describing the research design and the subjects of the analysis. I then describe the process of business creation and the performance of businesses in a first stage of business development. Finally, I evaluate the performance of businesses past the start-up stage separately for each of the three groups of businesses: those that failed, those that just survived, and those that grew. In the process, this Chapter summarises the approach followed to answer the questions and collects the main results of the research.

2. The Research Design

In order to address the main question of this thesis, I focused on the group of small business partnerships that started with low credit and low technology conditions in the furniture and graphic arts industries in Portugal. Partnerships were especially interesting in the context of this thesis since they entail the co-optation of another set of resources – the partner. Small businesses had the advantage of being relevant, since they constitute the majority of businesses; interesting, since they enhance the need to draw resources form outside the organization; and more suitable for study, since it is easier to account for the histories of the businesses. Low credit and low technology conditions are important for similar reasons: they are predominant, require resources, and were amenable for study. I selected two industries, graphic arts and furniture, in order to produce a contrast in the use of technology. While they are both limited in their usage of technology, the graphic arts industry is considerably more technologically advanced than the furniture industry. This study was set in Portugal. The most relevant characteristic of the Portuguese entrepreneurs is their low level of education. Moreover, education was one of only two strategies for upward mobility. For those with very little schooling, entrepreneurship is the other alternative to achieve a middle class living standard - they expect the future venture to initiate an upwardly mobile shift in their status and consumption levels, a desire that has been notably documented by Mills (1951), Scase and Goffee (1982) and the articles in Bechhofer and Elliott (1981), among others.

In order to assess the influence of social networks on the performance of the business, it was necessary to have a sample that contained businesses with different performances. In particular, it was important to compare businesses that were still running and businesses that had failed at the time of data collection and - by teasing out their differences - arrive at a framework for understanding their different outcomes. Nevertheless, there was no information on the state of small businesses after their creation in Portugal. Hence, the best strategy was to conduct a case controlled study sampling on the dependent variable (business performance). The information available - the list of businesses and their addresses that started in 1993 with less than 10 employees at service in the graphic arts and furniture businesses – allowed me to search for a sample of 42 cases. Of these, 25 were still running and 17 had failed by 2000. Of the 42 businesses, half belonged to the furniture industry and half to the graphic arts industry.

The data was collected throughout the year of 2000, seven years after the start-up date in 1993, and it referred to the full period. An observation window of seven years was important, since after this period the death rate of a business tends to stabilize (Hannan and Freeman 1989, Bruderl and Schussler 1990, and Bruderl, Preisendorfer and Ziegler 1992). The use of qualitative data and data analysis was the best option given the research question, which is an exploratory question, and the research setting, which lacked readily available datasets. The method of data collection was the narrative interview of at least one of the entrepreneurs, used to elicit the stories of the businesses. Most entrepreneurs were not proficient beyond the basics of reading and writing, which rendered a written survey unfeasible. Even if I made no mention of social networks during the interviews, these were prevalent in the accounts the entrepreneurs gave. The interviews were complemented with participant observation. The more than a thousand pages of interview transcripts were used to create a content analysis grid highlighting the development of each business (with the help of the Atlas.ti software package).

The advantages of this research design should not be understated. Allowing the subjects of this study to freely elaborate on their business stories for as long as they saw fit created a wealth and richness of data that reaches beyond the scope of this thesis. It also confirmed that one of the greatest strengths of qualitative research is its permeability to important material that the researcher had not taken into account. For instance, in the context of this thesis, the material on crime was completely unexpected. Had I pursued a research design that sacrificed depth over breath, I would have not stumbled upon the evidence that lays at the foundation of Chapters V and VI. These two chapters make a contribution to the incidence and nature of crime in business, which as Barlow (1993) points out, is a direly under-researched topic.

If this research design allowed for serendipity and a depth of analysis that would otherwise be amiss, it sacrificed breadth. The more than one thousand pages of transcription derived from the 42 interviews were certainly an overwhelming mass on which to conduct data analysis. Yet, they remain a sharp angle over a small sample. For the purposes of representativeness and generalization, a larger sample would be needed to confirm the insights in this thesis. Henceforth, the findings of this thesis have to remain indicative since they do not completely settle all of the issues involved in a way that only a research design aimed for breadth would be able to achieve.

In future research, there are a number of issues that should be further explored. There is a clear need for a closer observation of the social network of entrepreneurs, for more research on social network processes over time, and in particular for network analysis of these processes. There is also need for more in depth accounts of these processes. This would entail the obvious benefits of understanding how widespread are the exchanges documented in this thesis.

This type of analysis was not conducted on the data in this thesis for a number of reasons that future research may be able to overcome. Since data collection was done seven years after the official start of the venture, the memory of the entrepreneurs was still clear enough to recount the people that had helped them starting the venture but it was not clear enough to recount the full social network at the time of start up (or at least both the relevant and irrelevant members of their network at that time), which is a requirement for the construction of a full ego network when conducting formal social network analysis. Moreover, it would have been difficult to elicit information on the full social networks of these entrepreneurs even if I had interviewed them at the time of start-up. It seemed to me that there was a clear connection between education and the ability to remember details systematically. Entrepreneurs with less schooling – the great majority of those interviewed - seemed to be less able to remember details at will, or to recount details in an organised fashion. I am unsure they would be able to respond satisfactorily if asked to give a full account of their social network. They were however able to recall very significant people and marking events, which sufficed in the context of this thesis.

3. The process of business creation and the first stage of development

The entrepreneurs in this thesis have unique and distinctive social origins. They typically have few years of schooling, start their business in a sector in which they have worked for many years, and were born into the industry through their parents' occupation. They wish to rise to the middle classes and their businesses are the principal vehicle for advancement.

Behind this general picture, there are some interesting differences between the social origins of the entrepreneurs in the two industries that I study. The furniture entrepreneurs typically had parents that worked in traditional unskilled sectors, had 4 or less years of formal schooling, and their previous work experience was as employees in the sector. The graphic arts entrepreneurs, per contra, had parents that worked in areas closer to services. While there are many of them who have few years of schooling, there are almost as many that at least completed high-school. Finally, graphic arts entrepreneurs often had a previous business experience starting another venture. As a result of these differences, while furniture makers have little or no experience with life in the middle class, entrepreneurs in the graphic arts have often brushed at least the marginal fringes of the middle class.

Very few people in this sample were crossing over from the *established* sectors of the salaried middle class to start a business. The predominant source of entrepreneurs comes from outside of the middle classes and is trying out life within its boundaries, mostly in the *marginal* sectors of the entrepreneurial middle class. The other source of entrepreneurs comes from the *marginal* sectors of the entrepreneurial middle class and is actively engaged in the effort to accumulate capital and establish its position. However, it is easier for the marginal sectors of the middle class to hold their position than it is for incoming elements to remain inside the middle class. The issue of social marginality has been explored by Scase and Goffee (1982) and Bechhofer and Elliot (1981; 1985). In this thesis, I looked at the entrepreneur's effort of accumulation of different resources in order to understand the attempt to transition to the middle classes.

At the start of a business, the entrepreneur is almost entirely engaged in gathering the necessary resources to build an organization. All start-ups depend heavily on the ability of the entrepreneur to co-opt resources (Starr and MacMillan 1990), and this is especially true in a setting of credit and technology scarcity (Kodithuwakku and Rosa 2002). Since entrepreneurs decide to start businesses with modest amounts of resources, they use the social network to fill in the gaps within the resource portfolio.

This thesis finds that all entrepreneurs utilized their social networks in order to start the businesses. The use of social networks was prevalent and instrumental in allowing the business to start despite its low credit and technology conditions. Social networks are essential to the survival of the business in its initial stages, especially in facilitating access to credit, knowledge, reputation, and partners. I now look at each of these in turn.

3.1. Credit

Most Portuguese start-ups, if not most small business start-ups, start with low credit. Banks are unwilling to lend to previously untested entrepreneurs that - inherent to their status - have no established reputation (Starr and MacMillan 1990). Venture capitalists are mostly interested in businesses that are more technologically intense and promise higher returns than the ones studied in this thesis. Other existing sources of funding, such as European structural funds for the development of small industrial businesses, aim at stimulating ventures that have a heavy component of innovation by providing venture capital and assisting the development of industry specific technologies, which is rarely the case for the ventures in this thesis.

Given these credit restrictions, the only reliable sources of capital to start the business were the entrepreneurs' own savings and his/her social network. From the beginning, the entrepreneurs were forced to use their network to search for credit resources essential for the start-up. The most frequent source of credit was strong ties. Within these, the most predominant source was family ties. The trust in the bond and the desire to keep the family network solvent made these preferred ties for co-optation of resources that are hard to transfer, such as credit. Sometimes, though rarely, entrepreneurs resorted to small local investors that were well aware of the entrepreneur's reputation, as they belonged to the same community, and relied on that reputation as a warranty of good conduct.

Curiously, when a loan did occur, the parties involved almost never used written contracts. Rather, the transaction was kept fundamentally informal, with trust rather than the judicial system being used to guarantee the terms of the loan. This distrust of common legal mechanisms is related to the low education and cultural level of the entrepreneurs. They rarely knew any lawyers and most believed that hiring one to write a loan contract was too expensive. Moreover, entrepreneurs had little information on legal procedures, and judged them generally unreliable. Stronger social ties, like close family and very close friends, were preferred sources in money matters for their dependability.

The terms of the loan contract characteristically fell into one of three cases when using strong ties. In some (but very few) cases, an interest rate was set usually well below the going market rate. More common was an arrangement that required repayment in periodic instalments, but without any interest charged on the loan. In most instances, however, the money was lent and no repayment was required, so that strictly speaking, it was not a loan but rather a gift. This seemingly philanthropic act however carries with it entry to a tacit obligation system, whereby a gift today in a time of need is matched by the borrower with a gift tomorrow towards someone else in similar conditions (on this issue see also Stack, 1970). The objective is the relative well being of all in the inner network. A small minority of entrepreneurs however - perhaps weary of the trappings of the gift economy - chose not to borrow from their close social ties. Instead, they borrowed money from local loan sharks, who charged (higher) interest rates.

Common to all the credit transactions, regardless of their origin, was their geographical tightness. All took place within tight communities, so that the creditor either knew the entrepreneur very well, or had easy access to extensive information on him/her through someone who knew both and bridged the structural hole (Burt 1992). After the loan was given, the small community ensured that new information on the debtor travelled fast, allowing the creditor to keep track of the standing of his/her loan.

Following this issue, a further note should be added on the role of the women in entrepreneurship. Out of the 121 entrepreneurs in this sample, only 28 were women. The majority of these women had no apparent active role in the management of the business they belonged to. Yet, the wives of the overwhelming majority of male entrepreneurs – who sometimes did not even belong to the partnership - seemed to be playing two important a roles in the business: they were often the only social connection between the active partners in the business (they were a bridge over a structural hole, see Burt 1982), and they were actively engaged in the financial welfare of the family, which indirectly helped the financing of the ventures.

The path to a successful business is fraught with tribulations, especially when the businessman does not have basic knowledge on accounting, as was often the case of these entrepreneurs. In order to retain some basic degree of financial security, many entrepreneurial families devised a strategy relying on a safety net provided by having one member of the family, typically the woman, employed in a steady - even if low paying - job. That sparsest of 'outside' salaries had two main benefits: it brought home the very basic bacon, and it could not be touched by the legal authorities in case the assets of the enterprise where seized as a result of financial meltdown (a possible and frequent event). In the effort to catapult the family to a new living status, the women took the role of keeping a steady foot in the old status (of unqualified employee), in case everything else fell through.

I found, however, a few businesses where females played a more significant part. A small group of three businesses were created by a female entrepreneur. Another small group of four businesses had the spouses or daughters actively helping with the management of the venture. This was the case of G48, where the wife of the entrepreneur worked aside him in the enterprise, and had responsibility over the accounting, marketing and personnel management of the business. As I will point out in the section 3.2 of this Chapter, this level of separation of organizational tasks and control over the accounting was uncommon and it was shared by a minute number of enterprises in the sample. I would have expected to find more wives in partial or total control of the enterprise's finances, especially as the boundaries between the family and the enterprise blur, which is the case of most enterprises in my sample, but this was not the case.

It is all the more surprising if I take Almeida's (1985) argument on the management of household finances in Portugal. She claims that women traditionally take care of household finances, especially in depleted environments, even when they are illiterate and are not employed.

Goffee and Scase (1982) note how the wives of the entrepreneurs can be instrumental aids in the organisation of the ventures finances, often foregoing their roles in the management of the household or their role as employees for their roles of 'unpaid' labour within the business. This, however, already requires a certain degree of organizational differentiation - or at least an intention towards that aim. For the most part, the businesses in this thesis did not master that differentiation.

The aim of this research project did not enclose an evaluation of the gender differences in entrepreneurship and social network management. The very limited insights collected on this topic show that the relationship of women to businesses (as entrepreneurs, managers, or unpaid help) is a promising and relevant research avenue, as Scase and Goffee have noted in the past (Goffee and Scase 1982; Goffee and Scase 1983; Scase and Goffee 1990). It would be interesting to assess in future research how significant, within a larger population of small businesses in Portugal, are the roles of women as entrepreneurs, versus their roles as co-managers, as bridges of structural holes, or as employees outside the business (as a strategy for the financial safety of the family).

3.2. Knowledge

The businesses under examination in this thesis were low in technology, partly because most entrepreneurs had little formal education and learned their craft on the job. Starting a new venture was appealing to them inasmuch as it is an activity open to everyone regardless of education level, especially in a context where the majority of the entrepreneurs have low education. While in principle a low educated entrepreneur with little technological skills has the option to co-opt knowledge resources, like a better-educated partner or employer, in practice this is rarely the case. Most social networks tend to be homogeneous in terms of qualifications. Thus, the entrepreneurs' networks did not often include these knowledge resources.

The relevant types of knowledge to be gathered were those that relate to the functioning of the business - for instance, knowledge about production, financial management, legal issues, and managerial knowledge at large. The entrepreneurs often underestimated the importance of knowledge resources, in particular knowledge about finances and management. Most entrepreneurs had a previous period of employment when they learned the skills of the job, and judged this training sufficient for the good running of a business. Yet, most management skills were lacking, since the learning by doing was undertaken in an employee position.

Many entrepreneurs believed starting a venture involved reproducing their task as employees to perfection; they misjudged the importance of the managerial function. Thus, they equated the start of the venture to the beginning of production - once chairs, drawers, or printed papers were going out the door, all was fine. However, this blunt understanding of what is a venture quickly became a problem. These entrepreneurs found themselves with excess of chairs in front of their doors and no one to sell them to, ultimately having to pay suppliers with the goods produced.

Others were unable to delegate functions, with the conviction that they alone knew the production process and the way to quality. This was the case of many craftsmen turned entrepreneurs who ultimately believed quality was dependent on their hands, and thus demanded a direct personal involvement in many, if not all, parts of the production process. The resulting inefficiency in production led to costs exceeding the prices charged by competitors. Rather than realizing their inefficiency, entrepreneurs resented the clients' lack of judgment over their quality.

The entrepreneurs who showed a greater control of the management of the venture were those that, beyond their knowledge of the production side, were either born to the business (the family already operated a business in the same industry) or had completed high school or achieved college degrees. These two groups were able to complement their knowledge of production with knowledge about the organization of production, and of overall business management.

The poorest area of expertise in any case was bookkeeping and accounting. The law requires each business to hire a certified accountant to overview bookkeeping and tax declarations, which does not exempt the business from its own forms of control and regulation. However, many businesses had very deficient accounting practices since their entrepreneurs had little knowledge of elementary bookkeeping, and no one else performed this task within the business. As I point out in the prior section (section 3.1) Goffee and Scase (1982) have found that wives often perform this task. Yet, this was not the case in the majority of businesses in this sample. Perhaps the wives engagement in an employee position outside the enterprise combined with household management tasks leaves them little time to get further involved in the business.

Many entrepreneurs ignored the necessity of the management of venture accounts and found themselves drawing cheques whenever it was necessary or taking money out when they needed it for personal reasons, with little regard to the balance of the enterprise's bank account.

Moreover, the great majority of entrepreneurs paid suppliers in instalments that spread over periods of up to 90 days. Combined with the deficiencies in accounting, this led to terrible cash flow management, with little sense of when money was due, leading to periodic financial difficulties - given the lack of cash on hand - and eventually 'bouncing' cheques and reputation problems with the bank. The disarray in business accounts had another sombre effect - it enabled some partners to cheat other partners who were unaware of the real financial situation of the business.

3.3. Reputation

Another resource derived from social ties is reputation. In the absence of their own reputation - often the case with nascent entrepreneurs - entrepreneurs called upon themselves the good reputation of ties closely linked to them, like a parent who was also an entrepreneur in the community. This was used, for instance, to receive credit from suppliers on someone else's good name at the start of the venture.

The business in turn served the purpose of enhancing the reputation of the entrepreneur. Often, a business will fail, but shortly after, the same entrepreneur will start a new venture in the same line of business. In the process, the entrepreneur accumulates reputation within the industry. This can be so valuable that entrepreneurs will sometimes prefer to enhance their reputation even if it puts their current business at risk.

Reputation, like credit, creates a safety net for risky situations. Entrepreneurs often used their reputation to take the business out of difficult situations. They enlisted the cooperation of creditors and suppliers solely with their good name to back their obligations. Since all businesses seem to go through moments of crisis, the maintenance of a good reputation, by the lubrication of relevant social ties, is essential to guarantee the survival of the business.

3.4. Partners

The ultimate co-optation of resources was the joining of efforts and resources with a partner. In doing so, an entrepreneur brought into the venture someone else's social network and access to their whole resource portfolio. A further consequence of partnerships was the elimination of competition by coalition - if the partner had started his/her own business, he/she would have been a competitor. This potential threat proved more damaging for entrepreneurs in the graphic arts industry, who were in general under greater competition.

Once the partner is brought into the venture, he/she becomes an ally. This alliance, however, was often only sealed with trust, and the role, responsibilities, obligations, and benefits of all partners were at best loosely, if not tacitly, defined. Hence, strong ties were the best and most popular choice as partners since the trust inherent to a strong tie acted as an assurance, allowing the entrepreneurs to bypass writing a contract. When there was no strong tie between the partners in the venture, there was almost always a very strong referral from a strong tie within the entrepreneurs' network. Typically this tie was the entrepreneur's wife. Females often found themselves connecting potential entrepreneurs into partnerships. They emerged as trustworthy voices and as bridges between unconnected or loosely connected potential entrepreneurs – bridges over structural holes (Burt, 1982). Yet, on a general note, females (wives, mothers, daughters) seem for the most part to have no formal attachment to the venture or its running, despite their close involvement in the business especially by means of the management of social contacts - a role that is informal but pivotal to business development. Given the informality of their position, these women occupy and even more marginal position than the position that female entrepreneurs occupy in relation to a male-dominated economy (see Goffee and Scase 1983, for a discussion of women's subjugation in business).

3.5. The Principles of Exchange

There are two principles of exchange in social networks that carry consequences to the development of small businesses: reciprocity and reliance on trust.

The principle of reciprocity (Portes 1993; Grabher 1993) structures gift economy relationships. In these relationships, no gift is a 'free' gift as all are bound to some form of retribution. It is only when the retribution principle is in operation that the true function of the gift - the strengthening of community ties - is being served (Mauss 1954). The gift economy relationship allowed the start-ups to survive, as the intervention of the social network prevented failure. The social network of the entrepreneur became a support network; the crises in the venture were managed and resolved (whether or not in a last instance) by the entrepreneur's community. In turn, the entrepreneur was tacitly expected to do the same for those in his/her network. That was the rule of the implicit social contract between the entrepreneur and his/her social support network. In a sense, this unwritten bond testifies that the community is the economic unit as opposed to the enterprise. It is to the general economic and social welfare of the community that the rule of reciprocity caters.

The second principle of exchange in social networks is the reliance on trust. Trust is used as a facilitator of exchanges. To the entrepreneurs it appears to be faster and easier to handle than its substitutes, for instance contracts, or any other system that regulates seamless trading. In lieu of the written detail of a contract (and the legal system as a deterrent of offence), trust is based on repeated positive experiences and familiarity. A trustworthy element of an exchange is a not a threatening element. As I will review below, in the case of failed businesses, the use of trust in place of contracts put ventures at greater risk of failure when there was malfeasance in the relationship.

4. The Outcome – Failure, Survival, and Success

Once the start-up surpasses the initial period of resource co-optation, the business enters a second stage of development. Survival and future growth are now at stake. The actions of the entrepreneur and the relationship established with the social network will determine which businesses survive, succeed or fail.

While there was great diversity in the outcomes of businesses, they can be grouped into three relevant clusters. Businesses either failed or succeeded, and among the latter, some stayed small while others grew. The use of social networks was critical in shaping all three. Businesses failed mostly because of malfeasance in the trust relationships that constituted the partnerships. Those businesses that remained small typically depended heavily on gift economy relationships for their survival. The businesses that grew underwent both a process of rationalisation of some area of production and a breaking away from the entrepreneur's social network. A key determinant of the outcome of the business was the particular social contract that the entrepreneur established with its chosen ties at the initial stage of the business, when it had to draw resources from these ties.

4.1. Survival

Most businesses survived by keeping to a traditional form of organizing production and by using the social support of their network. As Birley (1998: 15) notes, "in using only his business contacts and family, the entrepreneur is likely to re-create the elements of previous employment".

The businesses that became dependent on social networks survived but did not grow. They established relationships of interdependence with contractual partners (suppliers and clients) and resource providers (extra money lenders), but given the principles of reciprocity - whereby a favour is not collected but freely returned - the relationships were mutually supportive but inefficient.

The dependence on contractual partners prevented the failure of inefficient ventures, but stifled growth because entrepreneurs failed to look for more efficient partners, or for contracts with better conditions. The dependence on resource providers prevented failure, as there was an influx of capital at decisive moments (since the network was subsidizing the economic unit), but put the enterprise in the position of being the provider to others at risk in identical situations.

The dependence on the local social network prevented both failure and growth, because it is a dependence on a localized network of strong or weak ties bound by reciprocity obligations. The entrepreneur receives help at the start-up and when at risk, but it is a matter of honour, or else a matter of the continued lubricating of the community support, that the entrepreneur should return the favour without being asked for it.

These entrepreneurs bear similarities to the traditional craftsmen (or artisans) described by Scase and Goffee (1982), Stanworth and Curran (1976), Lafuente and Salas (1989), or Woo, Cooper and Dunkelberg (1991). They have low education, a blue-collar background and a preference for production tasks above administrative and managerial ones. As a function of their inability to sever their ties and their unwillingness to reconfigure the production process, they seek survival as opposed to the expansion of the business.

The solution many entrepreneurs found to the inability to grow was to engage in multiple forms of petty crime. Barlow (1993) called attention to the prevalence of petty crime in small businesses. They did so in order to make the business perform as it was expected and in conformity with their desired aim of upward mobility.

The ideal and least socially sanctioned target was the State, especially when embodied in the tax office. Evading taxes was by far the most common strategy used to boost profits, and it was widely understood in these entrepreneurial communities that it is somewhat acceptable (even if wrong) to take from the State. The State and in particular the tax office, in its social distance to the common entrepreneur, sat far on the other side of the imaginary line that divides who can be a victim and who should not be a victim. The State was "fair game", as Sykes and Matza (1957) put it on their discussion of techniques of neutralization of delinquent behaviour.

This prevalence of petty crime is especially interesting in its inherent contradiction: at the same time that the entrepreneurs enter into business to rise to the middle class, their actions run against middle class morality as they engage in unlawful activities.[55] This tension created by treading on the limits of a social group and its position in the overall social structure puts these entrepreneurs in a position of social marginality: part insiders, part outsiders and ready to gamble on the incongruity of their position.

The extensive literature on ethnic communities and in particular ethnic entrepreneurship also deals with a similar structural tension since ethnic entrepreneurial groups cross the fine line between being insiders and outsiders to the larger population. This

[55] Hobbs, Dick. 1988. *Doing The Business: Entrepreneurship, the Working Class, and Detectives in the East End of London.* Oxford: Clarendon Press. also found this contradictory behaviour in the actions of East End entrepreneurs in London.

thesis has not dealt with entrepreneurship in ethnic communities per se, and there are several ethnic communities of varying sizes in Portugal, which are either remnant of a time when Portugal had colonial ambitions, or a consequence of Portuguese integration to the European Union.[56] Both groups of communities are entrepreneurial. Yet, their businesses typically do not involve graphic arts or furniture. So far, ethnic businesses have been visible in restricted areas of business: restaurants, ethnic clothes shops, grocery stores, or even supply services of ethnic goods. In this way they provide the local economy with goods that are seemingly absent from the host community.[57] When they open these and other businesses they are likely to do so in Lisbon and its adjacent cities, since the Lisbon metropolitan area has been par excellence the area that has absorbed the overwhelming majority of incoming immigrants.

At least for the time being, the ethnic communities residing in Portugal are more interested in all types of business that relate them to their countries of origin, staying away from the types of businesses covered in this thesis. Nevertheless, the lessons learned from the literature on ethnic entrepreneurship bear relevance to this thesis, mainly because the great majority of the communities where these businesses started are very tight (Light 2005). Despite having started their businesses in an ethnically homogeneous country, the entrepreneurs in this thesis show behavioural traits close to those of a closed ethnic community. The tightness of the social bonds between those in small town communities was most eloquently exemplified by Jorge's story. In Chapter V, I described how Jorge, after his involvement in the assault to a money van, kept a nightly commute from Spain (his hiding

[56] The first group of communities are typically from Goa (India), Cape Vert, Brasil, Angola and Mozambique among other origins. The second group of communities comes from Eastern European countries such as Romania, Moldova, and Ukraine among others.
[57] Antonio Barreto and Clara Valadas Preto (1997) address this issue in "Três décadas de mudança social." in *A situação social em Portugal, 1960-1995.*

place) to his place of birth. Severing ties with the community seems to bring about a loss of identity akin to that experienced by outcasts of an ethnic community in a foreign country. That loss of identity seems to be the heavier sanction to misconduct that entrepreneurs can experience.

Moreover, the debates on ethnic entrepreneurship clear the path to understand and accept the importance of cultural capital and social capital to business development (Light 2005). Much like in closed ethnic entrepreneurial communities, the entrepreneurs in this thesis relied on strong ties for credit and weaker ties for information. This perhaps indicates that what is special about both communities (the ethnic communities and those portrayed in this thesis) is the existence of trust and solidarity ties combined with a perception of being socially marginal to the larger social group.

Similarly, trust and solidarity ties seem to be the special cement families are made of. Stack (1970) and Newman (2003), among others, document how families support the burden of stray individuals at the cost of their own upward mobility. Instead of holding on to resources and making those resources available only to members of the nuclear family – a type of behaviour that is typical of the middle class – families opt to share resources with family members that need support but are outside the nuclear family as a result preventing these members from disgrace, squalor, or downward mobility. An analogous mechanism appears to be at play here. In fact, it is evident from the discussion of the stories of the businesses in this thesis that the great majority of them could easily be considered family businesses. Furthermore, as Goffee (1996) points out, 'most family businesses, though relatively small in scale, involve highly complex interrelationships between two analytically separate but inextricably linked social systems: the family and the business' (Goffee 1996: 36). In a nutshell, the relationship between family and business is one of interdependence. Due to their proximity, the structures and tensions of one easily carry into the other. Yet, because the family is usually formed before the business, it is often used to model power and management relationships within the business.[58]

4.2. Failure

The conditions of failure were by and large linked to the use of social ties. In industrial environments that are not strongly competitive, like those that combine low investments in technology and credit, and where social networks play a crucial part in the maintenance of the business, failure is not driven by competition. Instead, it often arises from within as a result of malfeasance within the partnership.

As discussed by Granovetter (1985), it is within the relationships that yield greater trust that there is a greater opportunity for malfeasance. The relationship between partners, which was typically uncharted by legal contracts, was bound by great trust and a strong connection that disabled suspicion. Despite this, malfeasance in the partnership occurred. "In the business world, certain crimes, such as embezzling, are simply impossible for those who have not built up relationships of trust that permit the opportunity to manipulate accounts. The more complete the trust, the greater the potential for malfeasance" (Gartner 1985: 491).

Since the entrepreneurs perceived the venture as a vehicle for upward social mobility and regarded the business's money as legitimately theirs, they often used the

[58] Goffee, Robert (1996) in "Understanding family businesses: issues for further research" provides a thorough account of the relations between family and business.

company's money to support their private expenses. When businesses were performing below expectations, this embezzlement was often fatal. It led to inevitable confrontations between the partners and, when in large scale, directly to bankruptcy. Trust, the glue that held the partnership together, was lost and with it so was the business. Failure arose from the breaking of a strong tie in the partnership.

This role that internal malfeasance (to the business) takes in precipitating failure is best captured by the stories of the businesses in which it occurred. You may recall David (Chapter V), who worked in upholstery. He reformatted his well-designed and thriving business to include his childhood best friend Eduardo who worked in furniture sales. They both lived in the same small, tight community and David was profusely warned that his friend Eduardo was in great financial difficulties. Yet, with his friend's reassurance that everything would be fine, he went through with the merger. He almost immediately incurred bankruptcy. Eduardo had expected that David's relative affluence would solve his financial problems, but Eduardo's wife ran away with the money David invested in the new company leaving Eduardo to face David and David to face the creditors. Ultimately, David ran away to Africa.

Eulália, whose story I describe in detail in Chapter V, started a business with her brother-in-law Nunes, who deceived her and stole money from the venture. Eulália left and Nunes went on to co-opt his father and sister to become partners. He stole from both and ran away. The sister, Marília, took the venture in her hands and rearranged the partnership to include her husband and exclude her brother. The husband, Pereira, became the manager and after a while, he took a lump sum from the venture and left his wife and business behind. Marília then sold the venture and the assets to an employee

Octávio. He had witnessed, as an employee, the constant cheating between the partners of a family business, and only reluctantly accepted to take over. Soon, he discovered the business had a massive debt to the tax office. He closed the business and denies ever having bought it.

4.3. Growth

If reliance on social networks prevented failure but suppressed growth, then which businesses achieved growth? The answer is: the businesses that established areas of independence from social networks. For instance, entrepreneurs that ceased to contract exclusively with friends and acquaintances, but rather searched for better prices for products were able to boost profits. As Chapter VI established, it is crucial to become independent from social ties.

For a business that has always counted on its social network, this is often not easy. For example, one of the entrepreneurs in the furniture industry in this study decided to go by himself with a truck to France as he had heard that cheaper wood could be obtained there. He did not speak French and had no clear idea of where to find the lumber mills; he even went through brief periods of starvation during the journey. Yet, he managed to come back with the desired wood, which allowed him for years to charge lower prices than the competition and earn a healthy profit.

To break with social networks may be a condition for business development, but it has to be matched with the rationalization of production. Most entrepreneurs limited themselves to the reproduction of the production systems they learned as employees, or even simplified versions of it. A few, however, regarded the production system as a process in need of improvement. Based on an intuitive grasp of the system of production - either because they were born to the business or because of their attendance of higher degrees - they reconfigured the production system in order to maximize efficiency. The main principle was the understanding of production as an objectified system that combines tasks that are clearly defined and can be performed by anyone, as opposed to a traditional system whereby the craftsman embodies the knowledge about production and attends to the product from beginning to end.

This process of rationalizing production – an insight of instrumental rationality – took place in four dimensions: the rationalization of production, space, time, and incentives. 1) The rationalizing of production consists of the division of production in sets and tasks. For instance, one of the entrepreneurs (F55) studied the production process carefully and divided the process in smaller actions until he had the smallest partitions possible. He observed the employers executing each of the small tasks and finally allotted them to the tasks they performed best. 2) The rationalization of time demands the timing of tasks, and subsequently assigning workers to the task they perform faster. The same entrepreneur mentioned above decided to allot employees to different tasks based on the time they took to perform each task. After having timed everyone, he established a 'perfect' time for every task and allocated employees according to their times. 3) Rationalizing the space requires the reorganizing the space so that production is distributed logically and the shift between tasks is less time consuming. Another entrepreneur (F18) redesigned the production flow - and the factory floor - based on the logical sequence of production tasks. In the end, he saved time in production as employees had less ground to cover when they changed the product from one machine to the next. 4) Rationalizing incentives entails establishing monetary incentives to fast and perfect production. Yet another entrepreneur (G58) maximized production by changing the employee incentive structure. Employees were paid according to how much they produced and the entrepreneur established extra goals supported with bonuses. The implementation of any one of the four principles or a combination of several of them may appear to be a small step (in fact, a re-enactment of Taylorist and Fordist principles), but it is a great insight that had vast effects in efficiency, profits, and ultimately in business growth. It rendered the businesses more stable and more competitive.

These entrepreneurs are similar to the entrepreneurs that Scase and Goffee (1982), Stanworth and Curran (1976), Lafuente and Salas (1989), Woo, Cooper and Dunkelberg (1991) describe. They are "opportunists", committed to the construction of the business as an organization with a vocation for profit, who put the profit of the business above their personal benefit.

The change in strategy towards the social network as the business evolves from a start-up phase to a stabilization phase is in accordance with Olsen and Kolvereid (1994). They find that changes in strategy as the business enters a stage of stabilization have an impact on profitability. Likewise, Raffa, Zollo and Caponi (1996) note that businesses require a different combination of resources at each stage of business development. The change between stages, which I identify as a break with the network, may correspond to what Dubini and Aldrich (1991) label an increase in network density and diversity. What is crucial is the release from the principles of gift economy.

5. The Conclusion

It is part of folk wisdom that to run a business "it is not what you know, but who you know". Many see having connections as a pre-requisite to starting and managing a business. These ought to be the source of suppliers, clients or financing, or all of them together. This thesis examined this received wisdom. It provided an analysis of the process of starting a venture from the perspective of the use of social networks and analyzed the impact of these social ties on the outcomes of the ventures. I investigated how the interconnection of managerial choices, use of networks, and positive and negative episodes produces the demise, survival, or expansion of the businesses.

In particular, the thesis examined the use of social networks by entrepreneurs in small businesses in a low credit and low technology setting in Portugal. It was in this context that I evaluated whether the use of social networks was ultimately helpful or a hindrance to the business.

In the start-up of the venture, the use of both strong and weak ties in the co-optation of resources is a necessary condition for the start-up of a business. Credit, knowledge, reputation, and partners are all resources the entrepreneur must seek for in his/her social network - without them there would be no business. In this sense social networks play a crucial positive role for they serve as search mechanisms to fulfil the gaps in the entrepreneurs' resource portfolio.

In a second stage, after the start-up, the entrepreneurs that continue using the social network find themselves bound by a set of reciprocal obligations and favours. While these ensure business survival, they also block further growth. As Uzzi (1997) points out, exclusive and intense social networks lead to "overembeddedness". In order to allow the business to grow two necessary conditions must be present: the ability of the entrepreneur to break from the set of obligations ascribed to the social network, and the ability of the entrepreneur to rationalize production.

A second effect of the use of social networks in this second stage of business development is the break-up of strong ties in the partnership due to the existence of malfeasance internal to the business. This is a sufficient condition for business failure. The abuse of trust relationships (with embezzlement) is justified by the desire for a better life of consumption and all things middle class. The result however is the demise of the venture.

The businesses that succeed in this second stage are those that are able to break free from the set of obligations that binds them to their social network. Combined with rationalization of production, this leads to the growth of the venture.

This thesis therefore concludes that social networks have a manifold effect on the business. In the beginning, they serve to overcome constraints. In a later stage, they may be the main source of constraints to the growth of the venture, and they are often at the heart of the business's downfall.

In one sense, this confirms folk wisdom – there is strong evidence that social networks are essential to the start-up of a business. In another sense though, it raises an important qualification - at a later stage of business development, the dependence on social networks becomes one of the main factors hampering further growth, and often was the main cause behind the business's demise.

While the findings in this thesis answer many questions, they also lead to a new set of interesting issues for future research. First, this thesis has uncovered a specific model of how entrepreneurship arises and takes place. One of the key findings was that social networks can play a dual role, first supporting but later hindering the success of the business. A natural question is then: how does the social network of entrepreneurs evolve over time? While the literature thus far has mostly used the entrepreneur's social network as an exogenous fixed structure, once one realises that there are both costs and benefits associated with a network, it is likely the entrepreneurial agent will respond to these by adapting his or her network to suit the interests of the business. Given the barriers that social networks pose to the growth of a business, it is important to understand how they dynamically evolve and adapt. This issue points to the need for studies that follow entrepreneurs for a longer period of time than is usual so as to track the evolution of their network over time.

A second set of questions that this thesis suggests is: how widely applicable are its results? As mentioned earlier, in this research I opted for depth at the expense of breadth. Picking up from the findings of this thesis, and the identification of what is important and what is not, one could proceed with a research design that reached a larger part of the Portuguese population of small-business entrepreneurs to test the hypotheses put forward here. Moreover, it would be interesting to test these hypotheses in other samples, either in different countries, or in different groups of the population in Portugal.

A third area for future research would be on the interaction between communities and businesses. This thesis found that small businesses are extremely well-integrated in their communities and are both a vehicle and an expression of the close ties that bind communities together. The perspective of this thesis was that of the business. But one could look at the findings from the perspective of the community. In order to better understand the role of businesses within communities it would be interesting to fully map exchanges between businesses and individuals within a given community. Does the predominance and type of businesses within a community signal different types of communities? How do communities use businesses as they grow? These are a few of the questions that this thesis suggests.

Fourth and last, this thesis found a surprising degree of crime, both petty and large, within businesses. Is this incidence typical of all businesses or was it specific to the group that I focussed on? Are there differences in the types of crimes that different populations engage in? Is the prevalence of crime associated with a perceived absence of the State from its role as the enforcer of social order? In order to address these issues it would be interesting to focus on Portuguese emigrant communities in other countries and appraise what kinds of relationships entrepreneurs establish with their communities. In particular, it would be fundamental to assess if emigrant entrepreneurs of Portuguese origin have the same relationship with petty crime while under the vigilance of a different State.

This thesis gave a glimpse at the answer to all of these questions. Fully addressing these and many others is left as an exciting challenge for future research.

APPENDIX I

LIST OF ENTERPRISES

	Business code name	Entrepreneur's fake name	State of Business in 2000	Geographical location	Industry
01	F02	Aderito Julio	Survival	North	
02	F22	Américo Américo's brother	Survival	North	
03	F63	Martins Martins' wife Martins' eldest son Martins' youngest son	Survival	North	
04	F32	Joaquim César (Joaquim's son) Joaquim's daughter	Survival	South	
05	F46	Sofia Sofia's daughter Friend of Sofia's daughter	Survival	South	
06	F11	Orlando Casimiro Guerreiro	Growth	North	
07	F18	Alvaro Ruben (Alvaro's father) Gilberto (Ruben's son-in-law)	Growth	North	
08	F55	Ernesto Cipriano Arménio Cândido Osvaldo (all brothers)	Growth	North	
09	F33	Fernando Fernando's partner	Growth	South	
10	F43	António António's wife	Growth	South	Furniture
11	F80	Raul Sérgio (partner and neighbour)	Growth	South	
12	F23	Carlos Susana	Failure	North	
13	F51	Helder Horácio Hélio Herberto	Failure	North	
14	F54	Ernesto's (of F55) father Ernesto's brother in law	Failure	North	
15	F61	José Rogério (1st potential partner) Narciso (2nd potential partner) Isidoro (3rd partner) Carla (José's wife)	Failure	North	
16	F65	Adelino	Failure	North	

		Fatima			
17	F66	Jorge Abilio Paulino Jorge's brother	Failure	North	
18	F69	Octávio Azevinho Eulália Eulália's sister Nunes Pereira Marília	Failure	North	
19	F30	Armando Armando's wife	Failure	South	
20	F44	David Eduardo	Failure	South	
21	F73	Maria Maria's nephew Maria's son	Failure	South	
22	G18	Leonardo Humberto Leonardo's wife Humberto's wife	Survival	North	Graphic Arts
23	G21	Paulo Marcelo Gregório	Survival	North	
24	G38	Filipe Gonçalo Machado (interviewee)	Survival	North	
25	G53	Mário (interviewee) Cassiano Cassiano's wife Cassiano's daughter	Survival	South	
26	G69	Francisco Francisco's mother Francisco's aunt	Survival	South	
27	G98	Urbano Urbano's son	Survival	South	
28	G08	Vitor Cabral Melo	Growth	North	
29	G11	Luís Luís's son-in-law Luís's daughter Luís's wife Celso (employee interviewed)	Growth	North	
30	G17	Miguel Miguel's wife	Growth	North	
31	G19	Xavier Mauro Patricia	Growth	North	
32	G48	Elisa Pedro	Growth	South	
33	G58	Ricardo	Growth	South	

34	G72	Mariana Rosa	Growth	South	
35	G84	Nuno Nuno's father Nuno's sister	Growth	South	
36	G26	Manuel	Failure	North	
37	G33	Andre Luísa	Failure	North	
38	G55	Hugo Serafim	Failure	South	
39	G65	Rui Inácio	Failure	South	
40	G85	João Salvador Tiago Tomás	Failure	South	
41	G97	Daniel Agostinho	Failure	South	
42	G130	Roberto Rodrigo Ramiro Albano (employee interviewed)	Failure	South	

APPENDIX II

INTERVIEW GUIDE

This Appendix includes detailed examples of the questions that I included in the hidden interview guide as a backup to check that no major themes were missing from the interview. The questions are divided into four major blocks of topics.

1. The first group of questions targets what was the initial endowment of the business, and which resources, among those defined in Chapter I (economic, cultural, symbolic, and social capital) did entrepreneurs use.

1.1. In regards to economic capital, some of the questions that I used were:

- What were the initial sources of funding of the business?
- How much money did you put together before the start-up?
- How did you find transportation / location / machinery / supplies?
- How difficult was it to get transportation / location / machinery / supplies?

1.2. As for cultural capital, the typical questions were:

- Briefly describe your employment history.
- What did you / your partner / each of your employees, do before you started the business?
- What did you / your partner / each of your employees, know about production / management / accounting / legal issues / etc, before you started the business?

1.3. To uncover the use of symbolic capital, I asked:

- Were you / your family members / your close friends, already known in the business?

- Were you / your family members / your close friends, known by potential suppliers / creditors / people in the business?

- Did you / your family members / your close friends, have a good or bad reputation?

- What kind of reputation did you / your family members / your close friends, have?

- Were you / your family members / your close friends, known as someone who

- always paid their debts	;	was in debt
- was business savvy	;	did not know how to do business
- was a good person	;	was not a good person
- knew a lot about production	;	did not know much about production
- had family in the business	;	was a stranger to the business

1.4. Regarding social capital, I asked where each resource in the business had come from, e.g.:

- The money that you invested in the company; where did it come from?

- The machinery used for production; where did you get it?

- The location for the industry; how did you find it?

- The supplies for production; where did you get them?

- Your employees; how did you meet them?

- Your partner: how did you come to know him /her?

- Your clients; where did you find them?

- Your accountant / lawyer / bank; how did you choose them?

- Who taught you about production?

- Who taught you about accounting?

- Where did you learn how to manage people?

2. The second group of questions aimed at clarifying what changes occurred that altered the endowment of the business, both in nature and quality, over time.

2.1. To uncover changes in economic capital, I asked the following questions to the interviewees that had not yet addressed these issues in their narration:

- Has the business made any profit since the start-up?

- When did the business start making a profit?

- How have profits evolved since then?

- What have you personally earned since the start-up?

- Have you repaid the loans you contracted in order to start the business?

- Have you invested money in the business since the start-up?

- Where did that money come from?

- How did you apply it?

2.2. In order to assess changes in cultural capital coming into or out of the venture, I asked questions like:

- What kind of skills have you learnt since the start of the business?

- Tell me how you acquired these new skills, focusing on who taught you and why?

- Tell me about the people who work at the enterprise. Describe what each person does, what skills they bring to the venture, how did you come into contact with them, and what have they learned since they arrived.

- What are the qualifications of each of the members of your enterprise?

2.3. Regarding symbolic capital, I asked the following questions in order to evaluate changes in the reputations of the entrepreneur and the firm:

- How do you evaluate the credit given to your name / the enterprise's name, since the start up in 1993? I would like you to think and tell me about your reputation in the following areas in particular: knowledge of the business, financial management, and overall popularity as an entrepreneur.

- How have clients received your work?

- Are you connected to industrial associations, exhibitions or contests?

- Do you usually pay employees / suppliers, on time?

- Do your clients pay you on time?[59]

- What does it mean to be a good professional in your line of work?

- Do you think you are a good professional?

[59] The timeliness of payments is a good indicator of a good reputation as well as of good financial management.

2.4. Amongst others, the questions I asked regarding social capital were:

- Who do you know that works in the: bank; tax office; estate agent; industrial association; etc.?

- When did you meet each of these people?

- How close is each of these people to you?

- Have these people become closer to you with time? Why?

Regarding clients:

- Who are your clients?

- Did you post ads to find clients in: newspapers; magazines; yellow pages; industrial association bulletins; local institutions; other?

- Were you satisfied or not with the results of these ads? Why?

- Can you briefly describe your relationship with your clients?

- Which proportion of your clients is local, national, or international?

Regarding suppliers:

- Who are your suppliers?

- Where and when did you find them?

- What function does each of your suppliers play in your business?

- Can you briefly describe your relationship with each of your suppliers?

Regarding how well integrated the entrepreneur is in the business community he /she belongs to:

- Who do you know in this business?

- How did you meet each of these people?

- Do you go to fairs, exhibitions and/or industrial association meetings?

- If yes, what are the benefits of participating in these events?

Regarding the relationship of the entrepreneur with State related institutions:

- Do you, your partners, or your workers know people within any of the following institutions: ministry of finance, tax office, local council, bank, industrial association, etc.?

- If yes, how did you meet them?

- What role does each of these people perform in the institution they work for?

- Has the business, at any point in time, benefited form these contacts?

Regarding the partnership itself:

- What is the legal status of the enterprise?

- What is the reason behind the choice of this legal status?

- Has the business changed its legal status since its formation in 1993?

- If so, why?

- Who is/are your partner(s)?

- How did you meet him/her/them?

- Why did each of the partners decide to start a business in the first place?

- In your opinion, what does each of the partners bring to the venture?

- What business experience does each of the partners have?

- What is the work experience of each of the partners?

- What are the qualifications of each of the partners?

3. The third group of questions elicited episodes in the story of the business. Some of these questions were developed to directly elicit information on the process of starting the business:

- When did you start making arrangements towards creating the business?

- What were these?

- What time elapsed between each of the following steps of business creation: the decisions to start the business; the registration of the business; the beginning of production; the first order from a client?

Another set of questions was developed to elicit information on crisis and transition episodes:

- What were the decisive moments or turning points faced by the business?

- Can you describe these episodes?

- Were you able to solve these problems? How?

A last set of questions evaluated the state of the business 7 years after the start-up:

- What is the situation of the business today?

- What do you think are the reasons for the success / failure of the business?

4. The fourth group of questions contained demographic questions to characterise the entrepreneurs. The information included: age; gender; marital status; profession of the parents; profession of grandparents; history of residency; education; professional history.

APPENDIX III

SOCIAL ORIGINS OF ENTREPRENEURS

	Business code name	Entrepreneur's fake name	Level of Education[1]	Previous Occupation[2]	Father's Occupation[2]
01	F02	Adérito Julio	6 6	Em Fur Em Fur	Em/SE Agr Em Ind
02	F22	Américo Américo's brother	5	Em State	Em/SE Agr
03	F63	Martins Martins' wife Martins' eldest son Martins' youngest son	4 4	SE Fur	Em/SE Fur
04	F32	Joaquim César (Joaquim's son) Joaquim's daughter	4 6	Em/SE Fur	Em/SE Agr SE/Ent Fur
05	F46	Sofia Sofia's daughter Friend of Sofia's daughter	12 + Prof 12 + Prof 12 + Prof	Em Serv Em Serv Em Serv	SE Serv
06	F11	Orlando Casimiro Guerreiro	4	Em Fur	Em/SE Fur
07	F18	Álvaro Ruben (Álvaro's father) Gilberto (Ruben's son-in-law)	6 4 7		
08	F55	Ernesto Cipriano Arménio Cândido Osvaldo (all brothers)	12	Em Sports	SE/Ent Fur
09	F33	Fernando Fernando's partner	6	Em/SE Fur Em/SE Fur	Em Serv
10	F43	António António's wife	4	Em/SE Fur	Em/SE Agr
11	F80	Raul Sérgio (partn. and neighbour)	12 + Prof	Em State Em Safe Em/Ent Fur	Em Safe
12	F23	Carlos Susana	UG UG	Em State Em State	Em/SE Agr Em Safe
13	F51	Helder Horácio Hélio Herberto	4 4 4 4		Em Fur Em Fur Em Fur Em Fur
14	F54	Ernesto's (of F55) father Ernesto's brother in law		Em/SE/Ent Fur	
15	F61	José Isidoro Carla (José's wife)	6	Em Fur Em Fur	Em Fur Ent Fur
16	F65	Adelino Fátima	4 4	Em Fur Em Ind	 Em Ind

17	F66	Jorge Abílio Paulino Jorge's brother	4 4 4 4	Em Fur Em Fur Em Fur Em Fur	Ent Fur Ent Fur Ent Fur Ent Fur
18	F69	Octávio Azevinho Eulália Eulália's sister Nunes Pereira Marília		Em Fur Em Serv	
19	F30	Armando Armando's wife	6 4	Em/SE Fur	Em/SE Fur Em/SE Agr
20	F44	David Eduardo			
21	F73	Maria Maria's nephew Maria's son	3 6	Em	SE/Ent Fur
22	G18	Leonardo Humberto Leonardo's wife Humberto's wife	4 4 4 4	Em/SE GA Em GA	Em Ind
23	G21	Paulo Marcelo Gregório	4 4 4	Ent GA Ent GA Ent GA	
24	G38	Filipe Gonçalo Machado (interviewee)	UG UG + Prof	Em Serv Em Serv Em State	SE Serv Em Safe
25	G53	Mário (interviewee) Cassiano Cassiano's wife Cassiano's daughter		 SE/Ent GA	
26	G69	Francisco Francisco's mother Francisco's aunt	UG-Inc	Ent Serv	Ent Serv
27	G98	Urbano Urbano's son	Prof 12	Em GA Em Serv	Em Ind
28	G08	Vitor Cabral Melo	4	Em Serv/GA	Em GA
29	G11	Luís Luís's son-in-law Luís's daughter Luís's wife Celso (employee interviewed)	4	Em/SE GA	
30	G17	Miguel Miguel's wife	12	Em GA	Ent Serv
31	G19	Xavier Patrícia (Xavier's wife) Mauro (Patrícia's brother)	12 11 UG	Ent GA Ent GA	Em Fur Ent Serv Ent Serv
32	G48	Elisa Pedro	4 4	Em Ind Em/Ent GA	Em/SE Agr Em/SE Agr
33	G58	Ricardo	11	Em/SE/Ent GA	Ent

34	G72	Mariana Rosa	UG UG	Em Serv Em GA	Em Serv
35	G84	Nuno Nuno's father Nuno's sister	12 Prof UG - Inc	Em GA Em/SE GA	Em/SE GA Em/SE GA
36	G26	Manuel	6	Em GA Em/Ent Fur	Em Fur
37	G33	André Luísa	6 6	Ent GA	Ent GA
38	G55	Hugo Serafim	9	Em GA Ent GA	
39	G65	Rui Inácio	12 + Prof 12	Em State Em State	Em Serv Ent
40	G85	João Salvador Tiago Tomás	12 + Prof 12 + Prof UG UG	Em GA Em GA SE Serv SE Serv	
41	G97	Daniel Agostinho	6	Ent GA Ent GA	
42	G130	Roberto Rodrigo Ramiro Albano (employee interviewed)	4 4 4	Em/Ent GA Em/Ent GA Em/Ent GA	Em GA Em Ind

LEGEND

1 – Level of education of entrepreneur:

"1, 2, 3, ... , 12" – years of pre undergraduate schooling
"Prof" – technical training equivalent to high school
"12 + Prof" – technical training after high school
"UG - Inc" – incomplete undergraduate studies
"UG" – undergraduate studies

2 – Meaning of occupational codes of entrepreneur and their father

"Em Fur" – employed in the furniture sector
"SE Fur" – self-employed in the furniture sector
"Ent Fur" – entrepreneur in the furniture sector
"Em GA" – employed in the graphic arts sector
"SE GA" – self-employed in the graphic arts sector
"Ent GA" – entrepreneur in the graphic arts sector
"Em Serv" – employed in services
"SE Serv" – self-employed in services
"Ent Serv" – entrepreneur in services
"Em/SE Agr" – employed or self-employed in agriculture
"Em State" – employed by the State
"Em Sports" – professional athlete
"Em Safe" – employed in public safety (police and army)
"Em Ind" – employed in industry
"Em" – employed in unknown activity

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