

From Boom to Bust: A Comparison of Organizational Emergence During Unusual Business Cycles
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We examine the implications of external environmental events as a critical component of organizational evolution. We use a case study approach to compare two examples of firms founded during periods of contrasting economic events – in particular, the “boom and bust” internet period that occurred between 1999 and 2002. Because the two organizations we study have contrasting competitive markets, we also seek to understand the implications for organizational emergence, when impacted by macro-economic factors, for firms that vary in terms of their institutional forces, high tech culture, and institutional aesthetic culture.

Introduction

Because organizations both emerge from and reflect a multiplicity of environments, their complexity has been attributed to a variety of factors. Scholars have previously studied the difficulties of adapting to new technologies, products or services, the ‘liability of newness’, access to needed resources, gatekeepers of diverse inputs such as capital or markets, as well as immature institutional environments and the lack of legitimacy (Aldrich and Fiol 1994; Stinchcombe 1965). Thus, the external environment is a critical factor in determining the characteristics, as well as the survivability of organizations emerging into any field (Aldrich 1979;McKelvey 1982). It stands to reason that environmental jolts, including economic, social, and political

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upheavals, will play an important role in determining the organizational structures, practices, routines and culture that emergent organizations develop and maintain (Peterson and Berger 1971; Morgeson and DeRue 2006). In particular, disruptive events constrain the ability of existing organizations to successfully anticipate or adjust to rapid environmental changes (Christensen 1997), providing some advantages to new organizations that don't carry extensive strategic plans, suggesting a liability of adolescence that provides some initial buffering (Fichman and Levinthal 1991).

How new organization emerge continues to be an important theme in the study of organization research. Considerable scholarship examines the process of organizational founding within the framework of an organization's life cycle and the changes incurred between and within the stages of the business development (Greiner 1972; Kazanjian 1988; Quinn and Cameron 1983). Relevant factors found related to the emergence stage include the importance of initial capital, organizational structure, centralization, risk-taking by leaders as well as the need to learn how to manage innovation (Van de Ven 1986). Furthermore, each stage represents certain characteristics and resources that reflect the organization's congruence with its business objectives, including the ability to adjust to the conditions in the environment and to establish a competitive position vis-à-vis its competitors (Porter 1980). The transformation from one stage to another frequently results from upheaval, such as a crisis of leadership during the start-up period (Greiner 1972; Van de Ven and Poole 1995). Critical events disrupt team activities, impacting their ability to accomplish tasks and objectives (Morgeson and DeRue 2006). Thus, the relationship between organizational leadership

However, while much scholarship examines the comparative impact of industry and market events on the life-cycle of a firm, less attention has been paid to the implications and impact of seminal events that exist or occur outside the industry or market, but otherwise impact the course of organizational development. In particular, despite the fact that organizations emerge in widely varying economic environments, the study of organizational births, growth, and death, rarely considers the implications of unusual market oriented events occurring in the broader socio-economic context. Yet, it is reasonable to expect that seminal events have a profound impact on the organizational identity of founding teams, much as they do for individual actors. This oversight can

most probably be attributed to both the difficulty in identifying seminal environmental and economic events while they are occurring, as well as the near impossibility of constructing ex anti a systematic comparative study at any one point in time. In order to understand the impact of seminal events, either researchers must contend with retrospective study (and all of its accompanying limitations), or be fortunate enough to have collected data during relevant periods. In this paper, we were provided with a unique opportunity to explore the latter utilizing two rich case studies, with the objective of helping to bridge an important gap in the literature.

The dynamics of the new venture life-cycle have been viewed from a variety of perspectives. Life cycle theory maintains that organizations pass through stages as a consequence of their age, experience, or product development cycles (Van de Ven and Poole 1995; Adler 1995). Gartner (1985), emphasizing the process of entrepreneurship as an interaction between the individual entrepreneur and her behavior, the organizational context, strategy, and the business environment. As a firm advancing through its life-cycle, the risk of failure decreases, the liability of newness is gradually eliminated, and the new venture enhances its learning capacity, developing links with relevant stakeholders. Routines that are appropriate at the birth of the organization, such as appealing to venture capital, become less relevant as the organization matures (Galunic and Weeks 2002). Even though the emergence process may be subject to unpredicted twists and turns, the entrepreneur's reaction tends to reflect her accumulated experience and learning (e.g Aldrich and Ruef 2006). This, in turn, determines the decision-making process, hence influencing the future direction of the new venture.

The Ecological approach maintains that the circumstances and context of the environment at time of founding have a direct impact on the enduring characteristics of the organizations' structure and operation (Hannan and Carroll 2000). On the face of it, such an assertion implies that survival is dependent on successful adaptation through selection of the individual organizations. Entrepreneurs have to judge factors such as structure, practices, competencies, resources and knowledge, which reflect on the venture's ability to initiate various alternative options for business development. Thus, although we know that both external and internal factors may affect the prospects of emergence and life prospects of a new firm, we don't have a theory of how actors within

the firm shape their course of action, and consequently the fate of their organization. We help bridge this theoretical gap by studying the life cycles of two firms, from their initial founding, claiming that the founder's choice of strategy is shaped by external macro-economic events that determine the course of the life-cycle of the organization well after its founding.

Because the incidence of founding increases during economic boom periods, and decreases during economic busts, few would argue that the overall economic environment is not an important element of a firm's subsequent evolution. However, scholars are essentially constrained to observing the seemingly random cycles of economic waves retrospectively, often as an unanticipated research event that may be viewed either as an opportunity or a nuisance. Yet, because organizational emergence occurs during periods of both booms and busts, there is reason to surmise that long range attributes associated with foundational qualities are reinforced as a result of macro-economic forces. Firms founded during periods of constraint and retrenchment may develop organizational cultures that exploit conservation, efficiency, and low cost activities (Porter 1980), while those founded during periods of expansion and vitality may develop cultural expertise focusing on innovation and the pursuit of high quality (and high margin) strategies. For example, Morgan Stanley, Allstate, Krispy Kreme, and Knoll were founded during the depression, and Genentech, Microsoft, and southwest Southwest Airlines were founded during recessions (Kedrosky 2008). Other companies founded during relative "boom times", include path breakers such as Ebay, Yahoo, and Google (Porter 2001; Cassidy 2003).

Thus, given our knowledge of the importance of path dependent processes, as well as the critical nature of a founding organization's organizational culture (Baron and Hannan 2005), the implications of the overall external economic environment may be an as yet unrecognized, yet critical, component of organizational evolution. To help bridge this gap in scholarly research, our case study seeks to compare two examples of firms founded during periods of contrasting economic events – in particular, the "boom and bust" internet period that occurred between 1999 and 2002. In framing these two case studies, we seek to provide some insight into a number of critical and hitherto unexamined questions of organizational evolution. For example, we seek to understand

“What is the differential impact of seminal macro-market events on the organizational evolution of emergent firms?” Further, we explore the question of how seminal events influence the competitive context on one hand, and institutional factors on the other, such as their regulative, normative, socially normative, and cognitive characteristics (Scott. 1995). We thus examine the ability of actors to employ strategies of action in line with their prevailing environments (Leca et al. 2008). Because the two organizations we study have contrasting competitive markets, we also seek to understand the implications for organizational emergence, when impacted by macro-economic factors, for firms that vary in terms of their institutional forces, high tech culture, and institutional aesthetic culture.

Organizational Identity and seminal events

Organizational identity includes an organization’s culture, core values, and distinguishing attributes (Elsbach and Kramer 1996). Recent scholarship holds that organizational identity is rather flexible and dynamic, reacting to both the external and internal environments (Gioia, Schultz and Corley 2000). Both environmental changes and technological changes have been shown to radically alter organizational identity, yielding considerable consequences in terms of organizational efficiency and performance (Barley,1986;Dutton and Dkerich 1991). Not only does change affect performance through altered identity, but routines established to manage change also affect organizational sensemaking. Sensemaking consists of the struggle to interpret the environment, so radical change and seminal events are likely to impact organizational outcomes. Studying the role of organizational resources during change, Feldman (2004) demonstrated that practices such as routines affect the creation of resources and correspondingly schemas and structure. Elsbach and Kramer (1996) found that cognitive distress caused by challenges to organizational status brought about selective affirmation and sensemaking processes, whereby actors altered their prominent field of interest to adjust to the external changing environment. Thus, the impact of change in the external environment may not only affect the resources available to an organization directly, but also indirectly through alterations in sensemaking that transform conceptions of organizational identity on the part of its members. Further, external events may trigger changes in external identity by altering the

way outsiders view the organization (Gioia, Schults and Corley 2000). Dutton and Dukerich (1991) show how a Newsweek article portraying homelessness on 42nd street altered the mission and identity of port authority employees and board members. A contemporary extreme example is the number of Ponzi schemes uncovered by the recent global economic collapse as outsiders take a closer and more critical view of the internal operations of many hedge and investment funds. However, identity changes are also apparent in the workings of well established corporate firms, including leading banks and industrial firms, whose diminishing public trust is exemplified by reduced bond ratings and falling share prices.

Thus, seminal environmental events are predicted to play an important role in the development and trajectory of organizational identity. By examining the organizational emergence and developing identity of two different firms, one a high technology firm, the other an artistic firm, both subjected to a seminal economic event (the dot-com boom and bust), we help bridge a gap in the literature that offers explanations regarding the impact and durability of seminal events on a firm's subsequent trajectory.

Method

Data Collection

The main method of collecting empirical material during the field work period for two different comparative case studies was ethnographic participant observation. Participant-observations focused on holistic empirical material collected by participating in the organization's activities and routines, as well as in professional and social events. This enabled the recording of a vivid narrative, as well as learning about both firms from the inside.

For "Avatar", we conducted participant observation and periodic visits and meetings that took place between 1995-1997, followed by a period of less intensive observation that occurred between 1998-2000. During the first period, the focus consisted mainly of observing graphic artists and programmers at their workstations in an attempt a) to understand Avatar's technology and products, and, b) to detect work habits and coordinating activities, including mutual interactions and contacts within the company. During this time we identified key informants. These individuals, both graphic artists and programmers, were the main source for recording and understanding Avatar's unique culture and the intricacies of the Internet boom, at

large. Participant observation in this period also entailed participation in daily staff meetings addressing technical and content details and documenting the process and implications of the organizational decisions taken during these meetings. Furthermore, weekly meetings with the founder became an established fieldwork practice. These meetings provided a unique opportunity to develop close relations with the founder. This, in turn, facilitated the researcher's acquaintance with the entrepreneur's worldview and values underlining his managerial and decision making style. During the second period, although marked by less extensive empirical material collection, we maintained a clear stake in the company's fate and benefited from ongoing empirical material collection. The research assistant, who actively participated in field empirical material collection during the first period, became a full participant taking up in 1998, the position of Avatar's Human Resources Manager (VPHR). The VP HR, having both an academic viewpoint and a managerial position in Avatar, provided valuable information and insights about the company during its entire life course.

For Connect, we engaged in periodical visits during the first 3 months of 2003. We interviewed the TMT, as well as 15 members who were with the company since its inception. For Avitar, these sessions, conducted over a period of 4 years, involved 146 interviews with 44 different members of the organization. We also interviewed visitors to the company, primarily clients such as two multimedia art directors of the companies that sub-contracting, three representative of VCs and graphic artists and programmers who explored job opportunities at Avatar. All interviews were tape-recorded and transcribed verbatim. Out of the 146 interviews, 45 interviews were repeated. They included all of the VPs and those who belonged to the founding team, which later assumed various management roles, and the key programmers and graphic artists within the various technological and content teams. A total of 12 interviews were conducted with the founder on issues ranging from practical and purposeful to more conceptual in nature. In addition, we conducted nine interviews with Avitar's external stakeholder; two with VC managers who led the first and second round of financing, and seven with ex-employees. The questions focused on issues such as Avitar's founding processes, the evolution of its special artistic and technological trademarks, current strategy, practices and routines, indications regarding its culture

and perceptions of the founder's vision, and his leadership and the prospects of the internet, at large. As the field research progressed, various other themes emerged such as internal conflicts and frictions or the viability of the business models.

Documentation. In addition to participant-observations and interviews, our studies of archival empirical material included the analyses of documents and minutes of meetings, as well as various publications such as pamphlets, public relations memos and company profiles. For example, we studied both business plans produced by the two firms, as well as public promotional material available both from the firms directly, as well as through the internet.

Empirical material Analysis

The empirical material analysis, by and large, followed a grounded theory approach (Strauss & Corbin, 1990). However, our interest in seeking to understand issues of internal and external legitimacy and their association with creativity stems from two interrelated processes. The first entailed a review of the initial conceptualization of the entire empirical material, as well as coding it into categories. Second, we followed 'template coding', which, in contrast to grounded theory, is based on 'open coding' (Strauss and Corbin, 1990) referring to the procedures of analysis which is grounded in a predetermined conceptual framework.

We began by coding each of the empirical material sources according to a chronological order which followed the life cycle of both Avitar and Connect, compiling five different empirical material files. The division was based on reviewing the memos attached to the daily notes, which provided details regarding events and comments hinted at during critical change in the life of each company. For example, we studied a memo indicating Avitar's founder's declaration during a company meeting that he decided to scrap the multimedia projects and focus, instead, on the internet. This decision was backed by planned organizational changes .

At the subsequent stage, we further divided our empirical material into preliminary categorization and conceptualization, along the life-cycle of the organization. This was carried out by sifting through our empirical material, engaging in the following tasks: identifying the preliminary categories and attaching relevant descriptive accounts

in the form of selected quotes and excerpts, including attaching memos which conceptualized their meaning (Miles and Huberman 1994).

Two case studies of organizational emergence

As we previously implied, it is difficult, if not impossible, to arrange a systematic comparative examination of the impact of booms and busts on the organizational evolution of any firm. Scholars are left to either impute, or exploit, opportunities that fortuitously present themselves in the course of ongoing research tangential to the overall macro-economic environment. In providing this comparison of organizational emergence, we acknowledge the relative randomness of the macro-environmental events that framed our two studies, but none-the-less provide us with a unique opportunity to compare and contrast organizational evolution in widely varying environments (Yin, 1984). In short, we were fortunate in having collected longitudinal data for two firms during contrasting periods booms and busts, characterized now as the “internet dot.com boom”, that occurred between 1999-2002, and the subsequent “bust”, that occurred between 2002-2003. Our resultant analysis conducted while these two firms were emerging allows us to examine evolutionary changes that occurred in relation to macro-economic forces, as well as observing to what extent they were similar, despite differing environments.

Case study 1: the economic boom:

“Avatar”, a firm that emerged into the boom environment as an emergent Dotcom, a major benefactor of the munificent environment provided by the dot-com boom of 2001. Avitar was founded by a group of graphic artists with the aim of pioneering a movement for a new computer graphic art form. Later in its life cycle, Avitar became a multimedia company, producing mainly CD titles. With the emergence of the Internet, Avitar soon aligned its artistic creativity and focused on developing 3D technology for the production and distribution of avatars, interactive media objects with built-in viral marketing capabilities. The company conceived itself “as a cutting edge, visual, digital arts Internet company that would bridge technology and art and revolutionize the way people and companies communicate on the net” (Company presentation for VCs, 1996).

Case study #2: the economic bust:

“Connect” was founded by two engineers who served together in one of the elite, technical military units in the Israeli Defense Forces (IDF). The company develops core technology for broadband fiber access systems. Connect was founded in 2001, during the peak of the Internet bust. From its inception, Connect was organized in three work teams: hardware, software and integration. It was headed by the two founding Co-CEOs, one was responsible for product technology and development, while the other was responsible for marketing. From the company's early days, marketing was located in the US. Connect's initial financing was based on private investors who were part of the founders' social network and later benefited from investment by Intel and a few VCs. In its early days, Connect's business strategy was based on selling its electro-optic components to generate income and becoming a "money machine, so they would be attractive to a larger company (Interview with the Co-Founder, 2003). In 2005 the company's sales reach \$30M, employing 150 people in Israel, US, Japan, China and Korea. In 2006. Connect was acquired by a Japanese chip maker for \$300M.

During the initial period of founding all the employees of the company were recruited from the founders' military-technological unit. The founder claimed that he deliberately decided to work only with his former peers "because we automatically understand each other and in the founding period I needed people like me, fully committed to the task in hand "(Interview, 2003). Following the raising of institutional capital, Connect accelerated both its product development and marketing activities. The basic work organization based on teams remained, although more teams with diverse tasks were created. Furthermore, the growth of the company following the raising of capital brought about the institutionalization of more a formal organization structure, mainly in adding headquarters functions, such as: HR, Finance and Operation. The new recruits were more diverse in terms of their professional skills and background. As the founder contended: "At the beginning we were 15 guys who just left the [army] 'unit' last week, now we are growing and bringing in new people and building an identity that reflects this new reality.

Although Connect was founded during the bust, its product and technological strategy was based on capturing a specific segment of the broad band niche, and opened up a unique business opportunity. During the bust period, mainly 2001-2003, the company was able to recruit the necessary resources to consolidate its structure, identity, operation and product development. Thus, during the first years of the bust, Connect was able to develop the necessary infrastructure and business strategy which enabled the company to take full advantage of the growth of the communication sector since 2004.

Findings

Avatar

Avatar began as a primarily artistic endeavor. As stated by the founder: As stated by the founder:

“When I started working, I set the rules to work- everything I did had to follow those rules: creativity and innovation. Every project had to be something new; the final touch on everything I did had to be of the highest standard. We never compromised creativity for business considerations. Even if the client wanted a simple presentation, we provided the best, and suffered the economic consequences. In the early days, we thought of Avatar as a group of artists who set themselves up to develop a new art form. Clients and projects were not a part of our consideration regarding what to do and what not to do” (Interview, June 1996).

During the boom, the transition from multimedia into an Internet-service business forced Avatar's founder to address a new set of technological and business-related demands. The tight coupling between Avatar's artistic vision and business pursuits during the firm's early days was diffused, as Internet industry developments called for more flexible and diverse developments beyond those related to artistic concerns. In particular, creative values ceased to be the central aim and no longer served as the ideological core of the organization's vision. The new thrust was to “bring life to the Internet” by developing a special new technology. Entering into the Internet service market required expanding the

scope of Avatar beyond the ideology of artistic values, to include business strategies. Survival in the Internet sphere would require constant change and competitive efforts to remain abreast of new Internet business developments to ensure that the organization retained its status as a “player”. Avatar’s adaptation to the Internet environment involved a complete termination of its multimedia and computer-game activities, while employing organizational “logic,” which was explained by the founder:

“We changed our priorities, working with new guidelines abruptly handed to us [by our contractor] that stated, in fact, that art and creativity were not enough. We suddenly realized that there were many things we didn’t know; our weaknesses were exposed. Eventually the visual results were not what we expected, not up to our standards, and it happened to an experienced and qualified team.” (Fieldwork, 1996).

Thus, the internet boom required the organization to make a concession and an identity change resulting in it no longer able to count on being an industry leader, as perceived during its multimedia days. During the Internet boom, a time of rapid change characterized by ambiguity and relentless searches for effective technological and business innovation, Avatar's founder employed strategies of action which addressed his perceived need to maintain the company’s relative advantage, its artistic values. However, this task proved to be detrimental to the company’s ability to survive. He channeled his managerial resources towards a continual effort to maintain the value of creativity, which became merely symbolic, thus providing 'ambiguous' signals for Avatar’s diverse workforce. Second, the founder failed in his attempt to streamline the company’s internal contradictions and conflicts. As described by Ronit, one of Avatar’s employees:

“There’s a feeling that Elan is surrounded by his own clique, mostly his old guard and the internet team, which keep him apart from everyone else. The company has an informal hierarchy. Elan is at the top; the men want to be like him and the women want to sleep with him.”

Meanwhile, the essence of Art’s traditional family-like culture, which had emphasized individuality, social cohesion and egalitarianism, gave way to the

formalization of working procedures and a more goal-oriented culture. the dot com boom represented an emergent industry and a seminal event. This required a comprehensive change in both the organizational norms and procedures, along with a resultant change in perceived identity. As Avatar's founder contended:

“It was an irony because you had to behave like other companies around you, to keep up a strong and appealing face to your clients and to the work force, and at the same time you are making all the mistakes that will lead to your death. We were spending money on company vacations, traveling around the US to try and get clients, moving to new offices, hiring a lot of people (some of them not complying with the high standards we set in the past), participating in shows and conferences, and so on. The feeling was that we had to do those things to succeed. You have to look strong and ambitious like your competitors.”

The company's homogeneity broke apart as distinctions were drawn along two lines: the first between the center (the Internet team, comprising both programmers and a few veteran graphic artists) and the periphery (the multimedia team); and the second, between graphic artists and programmers. Demarcations between the core and the periphery set off power struggles between rival cliques which vied for the founder's favors. These internal frictions eventually diverted critical managerial resources needed for integrating Avatar into the Internet business realm.

Thus, Avatar's creative values lost force on two accounts: firstly, by allowing an overly wide range of interpretations to be taken by different groups (especially divergent between designers and the programmers), and secondly, by becoming too abstract and detached from the everyday realities of the Internet business environment. In response, the founder attempted to develop and popularize a more functional version of Avatar's artistic path, but this proved to be alienating to many of its artists who preferred *pure artistic* –rather than strategic or functional artistic values. Thus, internal friction stemming from the legacy of founding, and compromised by the dot com bust, limited Avatar's ability to exploit the Dot-com cycle, resulting in the firm's demise:

“It was frustrating to see how we tried to speak with contacts we had in lots of companies and, one by one, many of our key contacts left

their companies. The Internet market collapsed entirely and big companies were shutting down everywhere. It was clear that the business model would not bring Art success; companies and consumers are not investing money in Internet applications.” Art's HR manager

Connect

The legacy of Connect is associated with two major aspects. The first, technological excellence, and the second, the homogenous background of its founding team. Being engineers in their formal education and training and members of an elite army technological unit equipped the founding team with the technological skills and superb knowledge of their intended technology. Furthermore, being attuned to the state of art of their industry (wireless internet chips), Connect's founders accurately identified specific 'empty' niche—optical network chips—and focused all their developing efforts to cater to this market segment. Second, being affiliated with the same army unit implies a unique cultural and human advantage during the early days of founding. The founding groups worked together, and were 'imprinted' with the strong values of total commitment to their task and to each other. Thus, the common past experience facilitated the creation of organizational culture which embodied norms and practices associated with the task in hand, quick and effective development of new technology and collective values of solidarity and commitment. In addition, from its inception, the founders emphasized a pragmatic strategy which focused explicitly on defining short term technological and marketing objectives bounded by strict deadlines and specific market demands. Such a strategy proved effective as it enabled the founders to harness Connect's limited resources during its first period of founding towards completing its technological development. The successful development of its technology enabled Connect to secure further capital and eventually faster growth, despite the inhospitable environment that persisted between 2001-2003, during the hey days of the internet bust.

Discussion and conclusion

The founding process of Avatar and Connect demonstrates how they reflected their environment. The study shows how each firm aligned its strategy, technology, structure and identity as a way to adapt to its changing environment. The companies' position in terms of their ability to survive was shaped by the genesis and founding events which, in turn, configured certain strategic and identity trajectory. The founding process and trajectory thus serve as bedrock for continual selection processes in which the managers of the respective organizations were active actors (Leca et al. 2008). They engaged in intentional actions of knowledgeable social actors aimed at pursuing their strategy in the varied contexts of the changing environments. Thus, both Avatar and Connect's strategies were based on a repertoire of actions which eventually portrayed both different selection mechanisms and adaptation mechanisms to varied environmental events. This heterogeneity in strategic action within diverse environments provides us with an explanation as to why environments associated with a bust may provide resilience and fit, as observed with Connect, contrasted with that of a boom environment, which led Avatar to its eventual demise.

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Table 1

Date	Stage in Life-Cycle	Methods of collecting data	Involvement
1993-1995	Founding	Interviews with the founder and the founding team. Company documents	Reconstruction
1995-1996	Multi-Media and Computer Games	Participant observation Interviews Internal documents, emails, memos, press releases	Researcher also provide consulting services on culture and structure change
1996-2000	The Internet	Participant observation (part time) Schedule interviews Company's documents and reports	Researcher and Art HR manager worked in cooperation
2000-2003	The Internet (decline and death)	Occasional interview Company documents and reports, press releases	Art's HR manager has provided continuing information including written reports Periodical update meeting with the researcher

Table 2

Date	Stage in Life-Cycle	Methods of collecting data	Involvement
2003	Founding	Interviews with the founder and the founding team. Company documents	
2004-2006		Participant observation Interviews Internal documents, emails, memos, press releases	