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RESEARCH ARTICLE

Entrepreneurial governance and the nature of the entrepreneurial firm

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Abstract Everyone uses—but no one defines—the term "entrepreneurial firm." Nobel laureate Oliver Williamson described the entrepreneurial firm as "a special challenge" to the theory of the firm. Organization scholars struggle with the "evergreen problem" of whether "entrepreneurial organizations are distinct from established organizations." Building on a rarely used distinction in early transaction cost economics between "capitalist," "entrepreneurial," and "collective" enterprises, an entrepreneurial governance mode is here dimensionalized and distinguished from other modes of governing an enterprise. The critical dimension is the allocation of property rights, whereby entrepreneurial governance can be characterized as a hybrid between capital governance and labor governance. This notion is then used to derive the conditions that other relevant legal and organizational traits of the entrepreneurial firm should satisfy to be compatible with this hybrid character. The conclusions indicate three main trails for a new research agenda in a structural view of entrepreneurship: new organizational dimensions and forms; the design of ownership structures; and entrepreneurship and law.

Plain English Summary This paper addresses the evergreen question of whether entrepreneurial firms and their organization are characterized by any distinctive traits. The key notion is identified in an "entrepreneurial governance" mode, hybrid between "capitalist" and "collective" governance modes. A research agenda is proposed indicating how this notion might broaden theory and inspire research: it calls for a theory of the firm that encompasses firms governed in different ways, suggests some key structural (economic, organizational, and legal) dimensions for the study of entrepreneurial firm organization that are not usually considered, and identifies concentric and polycentric hybrid forms of internal organizational as specifically fit to entrepreneurial firms.

Keywords Entrepreneurship · Governance · Property rights · Human capital · Theory of the firm · Law and economics

JEL Classification L26 · M23 · D23 · J24

1 Introduction

What is an entrepreneurial firm? Entrepreneurship is gaining more and more centrality in theory and practice, and while the term entrepreneurial firm is used very often, it is surprisingly never clearly defined (Audretsch, 2012). A second related question is whether there are any distinctive traits whereby "entrepreneurial organizations are distinct from

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established organizations" (Burton et al., 2019, p. 249; Alvarez & Barney, 2005).Those eminent authors in the field define this question as "an evergreen challenge" or even conclude their analysis with the puzzle that no classic organizational model seems to fit.

The argument presented here is that a focus on alternative forms of governing an enterprise can lead to a notion of "entrepreneurial governance" that is distinct from other modes of governing an enterprise—no matter whether the enterprise is "new" or "established," and offers "new" or already "existing" products or services. This approach helps in going beyond some imprecise notions used in the field that can be seen as obstacles in understanding the nature of entrepreneurial firms. One of these is a reduction of the notion of entrepreneurial firms to young or new enterprises, contrasted with "established" firms, which is subject to a number of counterexamples, anomalies, and puzzling questions (Klein, 2008), such as why exactly can a firm that becomes established not remain entrepreneurial. Another is to almost equate entrepreneurship with innovation (e.g., Drucker, 1985; Shane, 2003), while a vast number of innovative projects and activities, leading to offering new products and services, are carried out in any type of enterprise. Conversely, why precisely should enterprises conducting "traditional" activities, such as farms or restaurants, not be considered entrepreneurial? In theory, entrepreneurial ventures can be established not only to explore new activities and Schumpeterian opportunities, but also to exploit Kirznerian opportunities (e.g., linking the supply and demand of known products) (Casson, 2003; Plummer et al., 2007). Hence, it seems that a "behavioral view" of entrepreneurship and entrepreneurial firms based only on the type of action undertaken is partial and needs be complemented by a "structural view" (Audretsch et al., 2015; Foss & Grandori, 2020).[1] The analysis proposed in this article contributes to it, expanding previous work focused on structural traits, and connected to the theory of the firm (Alvarez & Barney, 2007; Foss & Klein, 2005, 2012). In fact, these studies have mostly addressed the question of "why an entrepreneur needs a firm," rather than whether and in what ways the firm they establish differs from other types of firms. Some of these authors have even concluded that there is no such difference: there can be no theory of the entrepreneurial firm, but only an entrepreneurial theory of the firm (Langlois, 2007), stating that the entrepreneurial undertaking of an economic initiative, under conditions of uncertainty and specificity of actions and transactions, can justify the constitution of a firm.

That the nature of the entrepreneurial firm is a recalcitrant problem was in fact recognized in the theory of the firm by one of its fathers, Oliver Williamson, stating "Entrepreneurial firms are a special challenge. In terms of theoretical analysis, another generation of economists is going to have to come up with the answers" (Williamson, 2007, p. 376). Resolving this theoretical gap, beyond a scientific taste for precision and the recommended epistemic practice of addressing theoretical "anomalies" for making knowledge grow, would also open up a new research agenda, allowing to answer open and puzzling questions about the organization of entrepreneurial firms. For example: Why do actors with minor financial investments typically obtain the majority of shares (a widely observed regularity in entrepreneurial firms) (Clarysse et al., 2007; Kaplan & Strömberg, 2003)? Is there any efficiency rationale behind the "propensity" to grow more by increasing the number of partners or by hiring employees (Colombo et al., 2011)? How should property rights be allocated within the entrepreneurial team itself in the presence of team production and uncertainty? A signal that the tools for responding are lacking is that even major authors, such as Alvarez and Barney (2005), conclude that where uncertainty is particularly strong, in the absence of better criteria, "residual claims and decision rights may follow the relative charisma of the parties"(!). The predictions and explanations presented in this paper therefore also link to the discourse and growing interest in (but incomplete understanding of) the relation between entrepreneurship and ownership (Audretsch et al., 2015; Parker, 2009). Actually, to put it provocatively, the analysis goes as

[1] Perspectives focused on the personal traits of the entrepreneur rather than on the structural traits of the organization can also be classified among "behavioral" approaches (Audretsch et al., 2015), and are even further from an interest in and a possible contribution to understanding what an entrepreneurial firm is. As Gartner (1988) noted, among entrepreneurs, as in any large population of individuals, there are all kinds of personalities, as well as plenty of examples of successful entrepreneurs who do not correspond to the frequently hypothesized risk-taking and opportunity-seeking stereotype, for example, entrepreneurs "by necessity" in economic downturns or developing economies (e.g., Block et al., 2015).

far as to state that there is no entrepreneurship without ownership or, less boldly, that it seems necessary to refer to property rights to define an entrepreneurial firm with some precision.

Seminal cues indicating that it would be fruitful to look at the allocation of property rights were provided by giants such as Knight and Williamson. From Knight, we can draw an initial specification of the governance mechanisms that might be considered to characterize entrepreneurship. Williamson took a step further in the direction of asking whether such traits differ in entrepreneurial firms with respect to other firms. Nevertheless, both Knight's and Williamson's analyses are "unfinished" in terms of characterizing the entrepreneurial firm, and the analysis offered here aims to take a step toward completing them, according to the following lines.

In Knight (1921), the entrepreneur is a figure deciding which project to pursue under uncertainty about the prospects of success, *organizing and paying* the relevant inputs (capital, work, land, equipment), assuming *uninsurable risk* and *being rewarded out of the residual results.* In other words, a figure who not only judges and decides how to combine resources, but also pays for their inputs, assumes risk, and therefore is a residual claimant. The first observation is that all *these traits are structural*, as they refer to governance mechanisms. None has to do with the personal traits of the entrepreneur (e.g., more or less confident and innovative) nor with the identity of this figure (e.g., whether a professional team, a family, an individual).[2] However, this definition seems to fall short of distinguishing the entrepreneur from other figures and could be applied to any firm. For example, is there a difference between an entrepreneur and a manager who also judges and decides which projects to pursue and organizes inputs, and who may be rewarded in part by the residual through contingent pay that transfers risk to him/her in agency contracts? Where does the assumption of uninsurable risk come from if the entrepreneur does not invest significant financial resources, as is often the case today? Aren't the Knightian traits describing the firm as such, rather than a particular type of firm?

Williamson (1980) provided another cue more directly pertinent to the question of distinguishing *different modes of governing an enterprise*, also *attacking the problem by looking at property rights*. He made a rare, if not unique, attempt to distinguish entrepreneurial firms from other types, which he defined "capitalist" and "collective" enterprises, specified in terms of the allocation of property rights and the main coordination mechanisms employed within the firm: financial investors' ownership and hierarchy in the former, workers' ownership and committees in the latter. The specification of the entrepreneurial mode of governance remained unfinished though. He defined it as a form in which different firms own different production stages coordinated through particular forms of obligational and relational contracting ("putting out" and "federated" forms were in fact given as examples of entrepreneurial modes of governance). Hence, when addressing entrepreneurial governance, he shifted from a mode of internal firm governance to a mode of coordination among firms, in his own parlance, a hybrid between market and hierarchy. While this elaboration was eventually abandoned in Williamson's later work (Klein, 2020), the argument can and should be recouped, amended, and pushed further to reach, if possible, a characterization of entrepreneurial governance as an internal arrangement.

The next two sections respond to the questions that arise from Knight's and Williamson's premises. In particular, the Knightian definition is refined by arguing that the entrepreneur assumes risk as a principal, not as an agent, which distinguishes the figure from that of a manager. Williamson's distinction between "capitalist," "entrepreneurial," and "labor" governed enterprises is refined by arguing that what entitles the entrepreneur to be a principal is investment and that the distinctive type of capital invested is human capital, which distinguishes the figure from that of a financial capital investor.

This latter extension requires, and provides an occasion for, revising a rarely questioned but far reaching assumption in the theory of the firm, namely

[2] Another demarcation of the analysis conducted here is that it is not concerned with the *identity* of owners. In particular, family firms are sometimes considered "close" to entrepreneurial firms, but enterprises controlled by families range from collective labor-based cooperative enterprises to large capitalist corporations. If wishing to define entrepreneurial firms, we should find structural criteria other than the identity of the owners. Once defined, it can be asked to what extent and why entrepreneurial firms and family firms overlap, i.e., whether entrepreneurial governance is more likely if the governing actors belong to a family.

that firms cannot own human capital (Blair, 2003; Hart & Moore, 1990; Rajan & Zingales, 2000), in turn resting on a common equation between human capital and people. Criticizable also for other reasons, that equation can be viewed as a major stumbling block, a main reason why the governance of human capital-based enterprises has been considered a "puzzle" (Rajan & Zingales, 2000) and a "special challenge" for the theory of the firm (Williamson, 2007).

Therefore, the next two sections are dedicated to the following: (a) Revise the assumption that human capital (*HC hereafter*) cannot be partitioned from people, and admit the possibility of HC investments "into" firms (Section 2); and (b) Explore whether an entrepreneurial firm (*EF hereafter*) can be defined using the same property rights (*PR hereafter*) dimensions—who invest and own what—typically used to characterize alternative types of enterprises, such as capitalist and collective (Section 3). Section 4 derives some answers to the "evergreen challenge to clearly delineate when, how, and why entrepreneurial organizations are distinct from established organizations" (Burton et al., 2019, p. 249). Finally, Section 5 presents a research agenda based on the above structural view of entrepreneurship, including some lessons for the theory of the firm and the governance of enterprises more generally.

2 Investments of human capital into firms

Contracts establishing new firms are explicit when different actors are involved (Grandori, 2010). The typical resulting governance profile includes a discriminating allocation of PRs to different actors, such as a majority of shares and the CEO position to entrepreneurs, preferred stock to financial investors, and board positions to all investors. Typically, there are also mechanisms to protect financial investors from entrepreneurial exit (e.g., a vesting period for entrepreneurial shares) and entrepreneurs from being forced out or expropriated (e.g., severance packages and anti-dilution clauses).

How can we explain and predict this kind of evidence? Why do entrepreneurs, even if they mainly provide technical competence and business ideas, obtain and retain the majority of shares and board positions (i.e., the majority of the residual reward and decision rights that constitute the PR bundle)?

An answer to these questions can be found by challenging the assumption of the inseparability of people and the human assets they have built and hold. What if we admit that today HC has become to a large extent separable from people and therefore investible? I say "has become" because HC includes many components whose weights have changed. Karl Marx was probably the first thinker to distinguish between labor as a service and "labor power" as a stock of resources embedded in the physical person of a worker from which marketable services derive. To the extent that physical energy and personal skills were the principal human resources economically employed, the human resources producing labor services were in fact inseparable from the person, and in the absence of slavery, largely inalienable; hence, their property cannot be transferred to an entity.

This assumption has been perpetuated. HC formation is still mostly seen as an investment in people formation and education (Becker, 1964; Wößmann, 2003). While it has been acknowledged that the investments made by people *in their HC* may be firm-specific, there has been no recognition that people can invest *their HC into firms*, on the basis of the assumption that "firms cannot own HC" (Blair, 2003). The impossibility of "locking in" HC has been the basis of the view of the firm as a "pool of technical assets" (Hart & Moore, 1990). In management, while the components of HC expanded to include "intellectual" and "social" capital (Nahapiet & Ghoshal, 1998; Petty & Guthrie, 2000) and "knowledge assets" (Boisot, 1998), no consequences for the theory of the firm or revision of the assumption of the inalienability of HC have been derived.

The necessary change, I submit, is that if intellectual, social, and knowledge assets are an important part of human assets, then the person and the resources they possess can be separated. PR on knowledge—including ideas and projects, know-who (contacts), and know-how (if not intrinsically tacit)—can actually be defined and transferred. The upsurge in importance of "intellectual property rights" is a signal. In particular, *residual rights to "decision and control" over the use of these types of assets, and to the "reward" from such use (economic results as profit and ROI) – the two main categories of PR according to property rights theory – can be transferred to a firm in exchange for shares*; i.e., they can be invested "into" the firm entity (Grandori, 2013).

Investments of HC into firms are therefore strictly defined here as transfers of PRs over knowledge assets to the firm. Hence, the notion does not generically refer to knowledge-intensive work, "critical employees," and knowledge sharing within the firm (Grant, 1996), nor can it be reduced to the widespread recognition of the "importance" of HC in EFs (see, among many others, Gimeno et al., 1997; Alvarez & Barney, 2007; Santarelli & Tran, 2013; Marvel et al., 2016). In fact, in the contemporary "knowledge economy," HC is rather ubiquitously important, and knowledge-intensive work is often present in all types of enterprises (and actually also in entities that are not enterprises, from universities to hospitals to public agencies). Hence, the "importance" of HC per se is not a special trait of EFs.

Rather, the "investment" of HC does have some special features. First, HC cannot be disinvested in the same form in which it was invested: ideas and know-how can be locked into the firm because the firm owns the assets, and because once information has been diffused, it is not even possible to withdraw it (Arrow, 1962). What can be disinvested is the stock (with attached residual reward rights) recognized to the investor of knowledge assets. Second, even when a business idea and the underlying knowledge assets become firm assets, they require time, assistance, and complementary know-how to be developed. These circumstances create a special bond between the individuals providing them and the firm in which they are invested. At the very least, the entrepreneur should work on the development of the project, and do so for a sufficiently long period of time.

The fact that some components of HC can become property of the firm, while others such as tacit knowledge and social networks remain with the entrepreneur, helps explain the specific blend of governance mechanisms seen in firms commonly defined as start-ups. The entrepreneur should have the incentive to invest his/her human capital, hence should be entitled to full residual reward and control rights in the firm, i.e., to PRs. In fact, the entrepreneur is typically assigned a relatively large share of decision rights to be able to direct the firm—the CEO position and extensive representation on the board—and a relatively large share of equity or stock to be able to realize the value of his/her investment. The entrepreneur should also have the incentive to stay for all the time in which his/her non-investible complementary HC is critical. In fact, the financial investors, if different from the entrepreneur, will demand that the shares held by the human capital providers are not immediately available for sale but subject to a vesting period, and will demand (and are usually granted) preferred stock—with preferential treatment in case of failure of the entrepreneurial idea and liquidation.

The investibility of HC also helps define what the distinctive trait of entrepreneurial governance may be.

3 Entrepreneurial governance

Based on the above, an entrepreneur can be defined as a figure who *is both an investor, at least of human capital, and a worker*, providing *at least some complementary co-essential work.*

This definition completes and refines Williamson's (1980) tripartite classification of the modes of governing enterprises. In that contribution, capitalist and collective modes are characterized in terms of who has PRs: in the capitalist mode, financial investors hold PRs and labor is hired; the collective mode is intended as the opposite configuration in which workers are residual claimants and capital is eventually hired. Thus, entrepreneurial governance, if characterized as proposed here, finds its place between the two as an "internal hybrid": *The entrepreneurial governance of a firm is an internal hybrid governance form, intermediate between capitalist and worker governance modes, characterized by mixed features—the same actor(s) invest at least human assets and eventually also technical and financial assets, and provide complementary work.*

This definition has many advantages, beyond making Williamson's typology of firm governance modes more consistent. First, it holds for both traditional and innovative entrepreneurial firms. In fact, in traditional sectors, becoming an entrepreneur has often simply meant, and still means, investing know-how and eventually buying technical assets to set up an independent firm and "work for no boss"—no matter what the nature of this work and the innovativeness of the business idea. In these cases, the entrepreneur is still both an investor and a worker. However, if an activity can be governed in either a capitalist or an entrepreneurial mode, we should admit that the two arrangements can be equifunctional—as in fact, Marshall taught us some time ago

Table 1 Entrepreneurial governance as an internal hybrid

Governance modes	Capitalist	Entrepreneurial	Collective
Property rights holders	Financial investors	Investors of HC and providers of complementary work, investors of other assets	Human capital holders and work providers
Type and investibility of critical assets	Financial and technical assets critical and investible	Human or both human and other asset critical; HC partially investible	Human and social assets critical and poorly investible

when examining the industrial district phenomenon. It is no coincidence, however, that this equifunctionality is typically observed in traditional sectors, where the knowledge and technical assets required, as well as the nature of complementary work, are clear. In other words, the organization of activities in an *entrepreneurial firm is possible but not necessary in traditional sectors of activities and known project*s. *For knowledge intensive innovative firms, instead, it can be argued that the combination of being an investor and being a worker is necessary*. The rationale behind this condition is that *the non-transferable component of HC embodied in people, but specific to the project, should never be zero* (otherwise there would not be need for investors to also be workers), *but the investible component of human capital should also not be zero* (otherwise it would not be necessary for workers to also be investors).

This argument also seems to explain well the relationship between entrepreneurs and financial investors when they are different actors. In fact, entrepreneurs in traditional/mature sectors where the product or service is clear can obtain financial resources through debt, and indeed, traditional EFs are often efficiently financed by local banks. This is not the case for innovative EFs where the standard capital market fails, as potential financial investors need to understand the sector and have enough specific knowledge to evaluate the project and the entrepreneurial team (Clarysse et al., 2007). At the outset, the uncertainty and lack of knowledge about these elements is so high that the entrepreneur(s), whether an individual or a team, are likely to be investors of all types of assets—the famous 3F configuration. At this stage, a firm proper is not always even necessary, and in fact, where the financial investment is minimal, the new activity often starts simply as self-employed professional work.

Table 1 summarizes the ownership and governance structure traits identified as distinctly "entrepreneurial" with respect to the structural alternatives of "capitalist" and "collective" ownership and governance. It highlights that the hybrid nature of entrepreneurial governance resides in the allocation of PRs to actors who are both "asset investors" and "work providers," and derives from conditions of partial investibility of human and social assets. The resulting and distinctive EF trait is that ownership may not be homogeneous: while capitalist and collective governance modes are defined by homogeneous ownership by either financial investors or workers (Hansmann, 1996; Williamson, 1980), in entrepreneurial governance, PRs follow the investment of both financial/technical and human/social assets. When the investors of these different types of capital are different actors, the ownership structure is characterized by heterogeneous owners.

4 Expected legal and organizational attributes of entrepreneurial firms

A basic way to check the construct validity of a typology is to ask whether it predicts the covariation of other traits. And indeed, there are important traits of EFs that await explanation and prediction, including whether there are any special organizational traits or forms that fit EFs. The defining features of entrepreneurial governance developed above do yield some predictions for other EFs traits, if we reason in terms of constraints and compatibility rather than of univocal and deterministic fit. The features of ownership and the mode of governance may set limits on the possible variations of other traits, excluding some of them from the compatible set; but they can hardly go so far as to determine one single fit form. In particular, it is well known that effective organizational

forms can vary widely, even when the ownership structure is held constant, in response to other factors. Uncertainty and the innovativeness of activities has long been recognized to be a major predictor of "bureaucratic failures" and the adoption of a variety of alternative "organic," horizontal and networked forms, originally identified in the context of classic firms, and observable also in EFs (Alvarez & Barney, 2005; Foss et al., 2015): such as differentiated and integrated "ambidextrous" structures or "clanistic" and communitarian organizational forms. Another important contingency variable for any organizational structure is of course entity size, which has also been shown to be important in explaining organizational heterogeneity among EFs (Audretsch & Lehmann, 2014). Therefore, it can be argued that one reason why the search for special organizational traits of EFs has led to poor results and remained "evergreen" is the lack of distinction between some common necessary traits resulting from a firm being entrepreneurial, and the large variance in arrangements resulting from other factors, such as size and uncertainty/innovativeness.

Therefore, in what follows, I attempt to respond to the question: what *limits entrepreneurial governance*, as clarified above, *places on the possible variation of other features of EFs?* The answer should be useful for future studies on the heterogeneity of EF organization by indicating which traits are likely to vary and which are not. A first indication provided by the above characterization of entrepreneurial governance is that EF-specific traits may lie not only among organizational features but also among (hitherto neglected) legal traits, as they directly relate to the dimension of separability between assets and investors. Hence, the next two paragraphs are respectively dedicated to develop hypotheses on the expected co-variation in both the legal and organizational traits of EFs.

Entrepreneurial governance and legal forms A structural trait of the enterprise that is rarely considered in entrepreneurship studies, but is highly visible with the lenses offered here, is the legal form adopted. In fact, the differences across legal forms are strongly related to a dimension that is central here to characterizing the EF, namely the separability of investors and invested assets. One prominent legal form is of course the corporate form, but this category is very broad. Scholars of law and economics who study the corporate form (e.g., Armour et al., 2009) usually refer to a complex "asset-based" configuration in which assets can be fully "partitioned and shielded" from investors, with freely tradeable shares as one of the distinctive features. In civil law, this form of corporation is in fact distinguished from others and called "Aktiengesellschaft," "Società per Azioni," "Société Anonyme," etc. Given its traits, this form is congruent with situations in which the assets invested can be completely separated from people, and the identity of the investors no longer matters—hence, the configuration defined as capitalist in the typology used here. An alternative legal form, with somewhat opposite features, is the worker cooperative—often adopted in collective enterprises where the associating physical persons are the principals—which fits situations where the separability between people and human capital is lowest and human capital is critical (Hart & Moore, 1990).

Is there any legal form that distinctly fits the EF? In practice, most EFs adopt a lighter and weaker form of corporation, variously defined Limited Liability Company (LLC) in common law jurisdictions, Società a Responsabilità Limitata/Gesellschaft mit beschränkter Haftung/etc. in civil law jurisdictions, or Pty Ltd in other jurisdictions such as Australia, India, and South Africa. A common key feature of these limited forms of corporation is that they have some traits of fully-fledged corporations, notably limited liability, but lack others, namely freely tradeable shares. In fact, on the one hand, as in the case of full stock-based corporations, the firm, not the partners, owns the invested assets, and the investors are granted limited liability. On the other hand, the identity of the partners matters and is expressed, for example, in the required consent of existing partners to requests of admission of new prospective partners, and in the right of partners to intervene directly in management without limits, as in partnerships. Hence, the limited liability company is itself a *legal hybrid* between the purely "asset-based" corporate form and purely "people-based" legal forms, such as professional partnerships and worker cooperatives. Thus, the widespread adoption of this legal form can be explained by the notion of EF as an internal hybrid. The first row in Table 2 indicates the expected association between the governance mode and the legal form of the enterprise.

Table 2 Expected complementary legal and organizational traits

Governance modes	Capitalist	Entrepreneurial	Collective
Distinctively complementary legal form	Asset-based full corporate form (Aktiengesellschaft)	Hybrid limited liability companies (LLC; GmbH—Gesellschaft mit beschränkter Haftung)	People-based societies (Worker cooperatives; professional partnerships)
Compatible degrees of hierarchy (range)	Higher (from centralized authority-based to decentralized agency-based hierarchies)	Intermediate (from monocentric to polycentric hybrid organization forms)	Lower (from representative hierarchy to one head-one vote direct democracy)

Entrepreneurial governance and organizational forms Table 2 also includes implications for some internal organizational traits that can be derived from the hybrid nature of entrepreneurial governance. A conjecture, already advanced in Williamson (1980), is that one such trait is the "degree of hierarchy" of the adoptable organizational forms, more precisely, not "a" degree of hierarchy, but its possible *range of variation under the different governance modes*. He distinguished two salient organizational forms that are typically observed in the context of each of the three main modes of governing enterprises: "putting-out" and "federated" for entrepreneurial modes; "peer groups" and "communal-emh" for collective modes, and "authority relation" and "inside contracting" for capitalist modes. He then characterized these six forms according to the degree of hierarchy of their decision-making and contracting arrangements. The result is that the two entrepreneurial modes are placed in an intermediate position with respect to collective (lower) and capitalist (higher) possible degrees of hierarchy.

In the rest of this section, Williamson's analysis is refined in two ways. First, the exercise is replicated, replacing Williamson's "entrepreneurial" arrangements (which, as already observed, are actually inter-firm arrangements) with salient *internal* organizational arrangements observable in EFs. The result is that the intermediate positioning in terms of possible degrees of hierarchy still holds, although the forms differ. Second, it is argued that such intermediate positioning of EF organization can be predicted theoretically as stemming from the hybrid nature of entrepreneurial governance.

As to the organizational forms empirically observable in EFs, it commonly acknowledged that "at the beginning …there are founders": relevant resources are concentrated and contributed by some central core actor (Alvarez & Barney, 2005). A frequent further step, as activities expand, is to expand employment relations around that "center." Entrepreneurs often define their organization as "circular" rather than hierarchical and empirical research does confirm that the incidence of teamwork and autonomy, hence the converse of the degree of hierarchy, is rather ubiquitously higher in EFs if compared with classic corporations (Grandori & Gaillard, 2011). Those features are roughly consistent with the notion of circular organization identified in organization theory: a hybrid structure preserving (residual) hierarchical fiat but embedding it in communitarian, even "democratic" processes, thereby blending horizontal and vertical elements (Ackoff, 1989). However, as recognized in those early contributions, the degree of participation, or conversely of hierarchy, can vary to a large extent. To the extent HC is concentrated in the founders and in the absence of formal representation, the "voice" of employees may remain comparatively weak, even in the presence of horizontal relations and autonomy. On the other side, the nature of EF clarified here provides a conceptual reason why the degree of hierarchy of those concentric arrangements in EFs may be ranked as lower than in classic authority relations: the lower division of labor between central actors who decide and other agents who execute, the role of central actors as both principals and agents, and their status of both employers and employees. Furthermore, the worker role of entrepreneurs is also likely to generate more converging interests and mindsets with other workers, infusing communitarian elements, and lowering the degree of hierarchy.

Such a circular EF organization, while less hierarchical than a classic authority relation, is

"mono-centric." Hence, it should be ranked higher in degree of hierarchy as compared to highly decentralized managerial hierarchies often observed in (large) corporations, typically based on agency rather than authority relations. Still, other forms, more horizontal than a delegated managerial hierarchy, are frequently observed in EFs but rarely under classic capitalist governance. Mirroring the ownership structure and the type of contracts among different investors illustrated in the first part of this paper, the composition and boundaries of the main organizational units are often clustered around the providers of heterogeneous resources, who hold wide and often residual decision and reward rights. The relations among them are horizontal and negotiated, not based on authority nor on agency relations. In other terms, the governance and organization structure is "polycentric" (Ostrom, 2010). Indeed, albeit originated from studying interfirm governance, such an arrangement is attracting increasing interest as a possible form of internal firm organization, where different critical resources, especially knowledge assets, are pooled (Frischmann et al., 2014). As an example, at its inception (and until it was acquired by Google), Skype had a distinctly polycentric governance and organization structure: a constellation of highly autonomous groups and entities contributing different types of resources and operating in different parts of the world, with the legal headquarters in Luxembourg, the sales and marketing office in London, and a third of Skype's global workforce in the Estonian capital, matched with an ownership structure in which, in addition to the Swedish founders Niklas Zennstrom and Dane Janus Friis, multiple venture capitalists were represented almost from the outset.

Theoretically, both "monocentric" and "polycentric" forms, between which EF organization empirically varies, can be explained and predicted by the notion of entrepreneurial governance as an internal hybrid. In fact, both of them can be interpreted as organizational hybrids—blending hierarchy with community and democracy in different doses. In fact, in the case of collective enterprises, the organization can be horizontal up to the point of being a pure "peer group" democracy, where all labor providers are critical and participate as principals. In contrast, when the separation between the ownership of the means of production and work is complete, the organization can be vertical up to a pure authority-based hierarchy (Williamson, 1980). The distinctive hybrid trait of the entrepreneurial ownership structure sets some limits to the adoption of these pure forms and extreme values of centralization and decentralization.

In sum, we can theoretically derive the prediction that the degrees of hierarchy compatible with entrepreneurial governance are intermediate with respect to those compatible with the two alternative governance modes, as summarized in Table 2.

5 A new research agenda in a structural view of entrepreneurship

The characterization of entrepreneurial governance as an internal hybrid outlined in this paper provides an explanation for many regularities already observed in empirical studies on EFs, and supports the formulation of new questions for future research. In this concluding section, these are grouped into three main research lines: (1) new organizational dimensions and forms for entrepreneurial organization design; (2) the design of PRs allocation; (3) entrepreneurship and law.

New organizational dimensions and forms The specification of the distinctive allocation of PRs qualifying entrepreneurial governance paves the way to respond to the "evergreen challenge" of what is specific about the organization of EFs. A distinctive contribution offered here is to distinguish what limits are imposed on organizational solutions by the hybrid features of entrepreneurial governance. Rather than searching for the holy grail of a single-fit organization form, a methodological approach originally devised by Williamson himself is here valorized and developed: identifying salient configurations and ranking them according to theoretically relevant dimensions, such as the degree of hierarchy. Following this path, it has been possible to advance and theoretically justify the proposition that the organizational forms compatible with entrepreneurial governance range between two hybrids—a monocentric circular form, blended with communitarian elements; and a polycentric form intermediate between central coordination and representative democracy.

Therefore, in terms of *organizational forms*, to capture the specificity of EF organization, it may be

advisable to go beyond those considered in both the classic organization theory and organizational economics repertoires, as they are typically not adjusted (yet) to include internal hybrids, and still looks for one best fit form. For example, if it is asked which is the "best fit" form among classic alternatives such as hierarchical, clanistic, differentiated, and integrated/ambidextrous, the discourse may end up in "no form fits" puzzles (Alvarez & Barney, 2005). According to the argument developed here, the prediction is that the specificity lies precisely in the blending of classic structural alternatives and in a higher incidence of *internal organizational hybrids* as circular and polycentric forms. This prediction squares well with the empirical observation that the organization of EFs looks "bimodal": *both* centralized and decentralized, formal and informal, stable and changing, and uniform and diverse (Baharami, 1992)—in other words, why it looks hybrid.

Relatedly, in terms of relevant *organizational dimensions*, it is likewise not surprising that not many specificities for EFs are found if the organizational profile of EFs is assessed along the classic linear variables. For example, it has been shown that EFs organization can vary on the degree of formalization, centralization, standardization (Colombo & Rossi-Lamastra, 2013; Foss et al., 2015), on the degree of professionalization and specialization of tasks within entrepreneurial teams (Burton et al., 2019), on the degree of diversity in the composition of top teams (Xing et al., 2020), or the degree of ownership concentration (Lai et al., 2022), on the degree of "pro-activeness" and "competitive aggressiveness and autonomy" (Lampe et al. (2020)—but any organization can. Not only these dimensions can be combined, but they are not derived from any specific trait of the EF, so they are unlikely to be highly specific to it. According to the argument developed here, the prediction is that the specificities lie elsewhere: in a higher *degree of heterogeneity of owners*, and in the *degree of polycentrism* in board composition and the definition of the main organizational units; and in a higher *incidence of partnership vs employment contracts* regulating the relation between the organization and its participants.

For example, the hybrid traits of entrepreneurial ownership are able to explain and predict some relevant documented regularities, such as why the survival and growth of startups are positively related to the high involvement of founders in the research and development of new products or services (Haeussler et al., 2019) and why the number of owners who are also managers (with respect to the number of non-managing financial investors) is positively and significantly related to total factor productivity in high-tech EFs (Colombo et al., 2014).

The design of property rights allocations The analysis conducted here provides criteria for answering the open question of how PRs *should* be allocated in EFs (Alvarez & Barney, 2005). Where do ownership shares come from? And is it only a matter of shares? If they are assumed to follow the value of investments of different types of capital, a criterion of proportionality of investment is a classic fair division procedure. In practice, these relative values are actually negotiated in an attempt to estimate the relative value of investments (Grandori & Gaillard, 2011). Thus, the suggestion for future research is that proportionality to investment would be a good predictor of the observed shares. I submit that such an approach would yield better predictions and prescriptions than the existing (rare) approaches to the matter, such as contrasting a "calculative" approach with a "fairness" approach that supposedly leads to equal shares (Hellman & Wasserman, 2017)—which are in fact rare out of very initial stages in which parties' contribution may be unsizable. This approach can therefore help answer organizational design questions, such as: When are ownership and governance structures efficient and fair arrangements among right holders, rather than the outcome of historical imprinting (Baron & Kreps, 1999) or power-seeking strategies (Audretsch & Fiedler, 2023)?[3]

Moreover, the equilibrium between investors in different types of assets is not just distributive bargaining over shares. When heterogeneous investors are involved, different preferences for different rights are likely. If so, superior agreements are likely to

[3] A further point on the agenda, on PR issues, is to explore the relation between the identity of residual claimants and the governance mode. In particular, it can shed new light on (and provide an explanation for) the correlation between the distinctive entrepreneurial trait of investor-workers governance and the presence of family ties among them. In addition, the framework can indicate whether this association is efficient, i.e., whether the PR allocation follows the presence of critical HC investments, or is just the result of a shadow of the past or of a control syndrome.

demand a differentiated allocation of different classes of PRs to the investors most interested in them. For example, financial investors are typically more interested in residual reward rights, whereas HC investors are more interested in residual decision rights (Grandori & Gaillard, 2011). The ownership structure typically responds to these different interests by, for example, giving preferred shares to the financial investors but the majority of board positions (and the CEO position) to the entrepreneurs (Kaplan & Strömberg, 2003). These regularities highlight that EFs studied in this way also offer some lessons for the *renewal of property rights theory*—not only the assumption that HC is never investible into a firm, but also that PRs are "unbundable" (Hansmann, 1996). The idea that ownership should go to a homogeneous class of actors—either financial investors, workers, consumers, or the state—is sharply and empirically contradicted by the ownership structure of EFs, and the theoretical characterization of EFs offered in the present analysis explains why owner heterogeneity is often efficient.

The argument advanced here about the investibility of HC also provides a demarcation criterion as to when human capital holders should be recognized PRs. In practical terms, who should be offered a partnership or an employment contract? Should the growth of the firm be achieved by expanding partnerships or employment? At present, the study of this problem is mainly descriptive (Colombo et al., 2011). The prescriptive criterion offered here is whether HC is invested or remains with the worker, who can then be paid for the labor service provided. In practice, in the absence of any criterion, entrepreneurs often make mistakes about the type of contract for new entrants, offering a standard employment contract to actors who should actually be partners (because they provide key assets that become the property of the firm), or a partnership contract to actors who provide only services and should be employees. In a sense, then, the framework proposed here could also be used as a normative theory of *who should be the entrepreneurs in an entrepreneurial firm*.

In addition, the proposed characterization of EFs as entities in which human capital investors are among the residual claimants can also provide a lesson for the governance of all types of enterprises. It suggests that a key research question, relevant to any enterprise pursing sustainable innovation, is how to identify, adequately incentivize, and compensate HC investments. These investments are highly visible in EFs, and are typically regulated by explicit contracts when the actors investing human and financial capital are different. But how many knowledge investments are made in an unnoticed and unrecognized way in any enterprise? If they were recognized, as they are in EFs, *the diffusion of property rights in any firm should be generally higher than is currently observed*. In other words, we can conceive the three modes of governing an enterprise as a continuum, a matter of degree: *elements of entrepreneurial governance may be infused in capitalist and collective enterprise*. This implication could provide some refreshing inputs to contemporary discourses such as the shareholder/stakeholder corporate governance debate. In the stakeholder view, both in entrepreneurial (e.g., Li et al., 2020) and capitalist firms (e.g., Freeman et al., 2007), it is commonly assumed that shareholders are by default financial capital investors and all other relevant actors are "stakeholders." EFs teach us that the investors of any type of capital, including the investors of human and social capital, should be shareholders, and that the equation between shareholders and financial investors needs to be revised.

Entrepreneurship and law In search for a definition of EF, this analysis has applied a combination of economics, law, and organization, leading to explore aspects of the relationship between entrepreneurship and law (Parker, 2007) not usually considered. I observed that one of the features distinguishing legal forms of enterprise is the extent to which they partition assets from investors, which explains why most EFs adopt the hybrid legal form of a limited liability corporation.

Other aspects to which the present framework draws attention for future research are labor law and employment contract provisions. To the extent that the entrepreneur has the status of both investor and worker, an implication of the present analysis is that the law should consider protecting and regulating the employment aspect of the relationship between the entrepreneur and the firm, not treating this figure as a mere financial investor on one hand, and not reducing the relation to mere self-employment on the other.

The relationship examined here between the mode of governance and the legal form of the enterprise also helps to clarify the ambiguous term *corporate*

entrepreneurship and move beyond the imprecise opposition between "entrepreneurial" and "established" firms.

In the field of corporate entrepreneurship, the problem to be addressed is usually formulated as how to infuse innovative behavior into "established" enterprises, and a set of organizational techniques (such as teamwork, project organization, knowledge sharing devices, and the like) are usually recommended to sustain innovation and initiative in large enterprises (Zahra et al., 2016). The term "corporate" seems to evoke only a large established enterprise, and the term "entrepreneurship" seems to be used mainly to mean innovation. This frame drives the attention toward organizational practices drawn from the management of innovation. The characterization of entrepreneurs as owner-workers who have the incentive to invest HC implies something more. Infusing entrepreneurial governance in an organization means instituting these incentives through the diffusion of PRs, up to creating units with the status of entrepreneurial quasi-firms in larger corporations. For example, the governance and organizational arrangements adopted in big tech, such as Acer or TCG, described and baptized as a "cellular form" by Miles et al. (1997), well represent this "quasi-entrepreneurial" governance mode: their organizational units are themselves EFs, in which an overarching classic corporation has ownership stakes.

On that basis, enterprises that are "established" or "incorporated" can still be said to be entrepreneurially governed, if certain conditions are met. An enterprise adopting a fully share-based corporate form can still be an EF (i.e., governed in an entrepreneurial mode) if human capital investors are present in the governance structure, are residual claimants, and provide complementary work. For example, Google or Microsoft, even if they started as EFs and even if they are still innovative, can hardly be considered still entrepreneurial because they are basically owned by investment funds (the first 10 shareholders are financial institutions). As Zahra (1996, p. 1713) documents, the allocation of PRs is in fact a key issue for corporate entrepreneurship, "executive stock ownership and long-term institutional ownership are positively associated with such entrepreneurship. Conversely, short-term institutional ownership is negatively associated with it, as is a high ratio of outside directors on a company's board."

These new trails in a structural view of entrepreneurship should contribute to orient future research toward organizational and governance traits that are likely to be specific to EFs. A more general implication for future theorizing is that, for understanding the nature of the EF and addressing the "special challenge" it poses to the theory of the firm, the way is not to create a special "theory of the entrepreneurial firm," but to extend the theory of the firm itself.

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