

AFTER THE HARVEST: ENTREPRENEURSHIP AND INEQUALITY

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ABSTRACT

Entrepreneurs comprise the majority of the world's richest people. Their venture exits, or harvests, often represent the events through which they accrue this wealth, potentially exacerbating inequality. However, entrepreneurs make critical decisions following harvests that can alleviate inequality. Through content analysis of *The Giving Pledge* letters and interviews with entrepreneurs, we explore how and why entrepreneurs elect to redistribute resources following harvests. We identify four mechanisms—intrinsic motivation, identification, personal power, and stewardship norms—that guide entrepreneurs to redistribute their resources and act as stewards of others. In doing so, we extend stewardship theory and further highlight how entrepreneurship can reduce inequality.

INTRODUCTION

Claire and I never believed that the wealth we accumulated was truly ours. From the beginning we believed that we were only lifetime stewards of our good fortune and were charged with redeploying it for useful societal purpose. Leonard Tow, The Giving Pledge

Entrepreneurship represents a driving force behind social and economic inequality. On the one hand, entrepreneurship can create jobs, promote self-sufficiency, spur innovation, enhance the knowledge and skills of the workforce, improve qualities of life, and foster wealth creation (Bruton et al., 2013; Hitt et al., 2011). At the same time, entrepreneurship, if successful, can generate extraordinary wealth for a single founder, or a small number of founders, thereby exacerbating income inequality (Shane, 2014). Thus, entrepreneurship has an important, double-edged influence on inequality—potentially enhancing social and economic well-being while also potentially contributing to inequality through the disproportionate gains it offers.

Although successful entrepreneurs can amass wealth over the lifetime of their ventures, there is often a single point in time in which entrepreneurs “harvest” significant value from their ventures (e.g. the sale of the business or an IPO) (Wennberg & DeTienne, 2014). In other words, a single harvest event can create millionaires and billionaires—or the disproportionately wealthy individuals who often comprise traditional notions of inequality. Following these harvest events, entrepreneurs must make critical decisions about the resources afforded them. For example, entrepreneurs might retain their wealth within their family, spend it lavishly on themselves, invest in new business ventures, donate money to charitable causes, or expend their resources on a combination of these, or potentially other, avenues.

Although scholars have examined how entrepreneurs formulate and deploy exit (i.e., harvest) strategies (cf. DeTienne, 2010), research remains silent on how entrepreneurs make decisions following a venture exit, particularly a harvest. If entrepreneurs comprise the majority of the richest people in the world (Mankiw, 2013) and harvests are frequently the events through which entrepreneurs amass this wealth, then harvest could be thought of as an activity that contributes to inequality. However, by looking at the decision-making processes of entrepreneurs following

harvests, we explore how harvests can also serve as a trigger for stewardship behaviors that can ultimately alleviate inequality. Specifically, we address the following question: *how and why do entrepreneurs redistribute their resources following harvest events?*”

This research makes three important contributions. First, we contribute to stewardship theory. Whereas stewardship theory research focuses on how employees act as stewards of their organization, we extend stewardship theory into a new realm by explaining how harvests trigger entrepreneurs to act as stewards of their communities. We focus particularly on the call to examine “the antecedents that facilitate and explain the emergence of stewardship behaviors” (Hernandez, 2012, p. 173). Second, we examine how entrepreneurs’ decisions can help diminish inequality. Specifically, we reveal the mechanisms influencing entrepreneurs’ decisions regarding the redistribution of their resources. Third, we extend the existing literature on entrepreneurial exit to include post-exit, or post-harvest, actions. Together, we answer Bruton’s (2010) call for greater research dedicated to understanding the role of entrepreneurship in addressing the world’s poverty and inequality issues by exploring the impact of entrepreneurs’ harvest decisions on inequality.

STEWARDSHIP THEORY AND ENTREPRENEURIAL HARVEST

Organizational scholarship has both economic and social roots. The majority of this research, however, has focused on the economic side (Jones et al., 2016). It is not surprising then that agency theory, with its focus on the economic model of man, is one of the most widely used organizational theories (Arthurs & Busenitz, 2003; Wasserman, 2006). This economic focus of agency theory neglects to consider the humanistic model of man and the social roots of organizational scholarship. Introduced two decades after agency theory, stewardship theory considers this humanistic side, portraying individuals as stewards, intrinsically motivated to put the interests of the organization and stakeholders ahead of self-serving interests (Davis et al., 1997). Stewardship behavior is described as collectivistic, cooperative, and other-serving. As a result, the economic and social objectives of the organization are likely to be realized when employees act as stewards of the organization.

Because of these other-serving and social elements, stewardship theory, rather than agency theory, informs and grounds our research. Formally defined, stewardship is “the extent to which an individual willingly subjugates his or her personal interests to act in protection of others’ long-term welfare” (Hernandez, 2012, p. 174). Stewardship, therefore, represents a choice, and when individuals choose stewardship, they are choosing to serve the interests of the principal (Davis et al., 1997). Theory suggests that three critical psychological factors—*intrinsic motivation, high levels of identification, and personal power*—steer the behavioral choice to stewardship, which ultimately leads to beneficial outcomes for the principal (Davis et al., 1997; Zahra et al., 2008).

Stewardship theory describes the relationship between the principal and another party (the steward manager; Davis et al., 1997). Unlike agency theory (e.g. Block, 2010), the principal-steward relationship has not yet expanded outside the scope of employment. Recent research, describes the principal-steward relationship as a “social contract” that “represents a moral commitment and binds both parties to work toward a common goal” (Hernandez, 2012, p. 173). Explicit in this assumption is that the common goal is the pursuit of social and communal welfare (Hernandez, 2012). Accordingly, and aligning with the advances in agency theory relationships, we relax the contextual employment relationship assumption by defining the principal as society (e.g., Block, 2010) and the steward manager as the entrepreneur.

The theorized outcome of stewardship theory is enhanced organizational performance (Davis et al., 1997). Although performance can take on a variety of meanings, for the purposes of our research, we define successful performance as the achievement of the common goal that the principal and steward pursue. More specifically, we focus on the alleviation of inequality as the desired outcome. Successful performance is theorized to result when both parties in the principal-manager relationship choose stewardship (Davis et al., 1997). In our study, we assume that the principal (i.e., society) has chosen stewardship because of the other-serving characteristics that define it (i.e., protecting and promoting the welfare of its communal members). Based on that fixed assumption, if the entrepreneur also chooses stewardship, theory suggests successful performance would result (i.e., social and economic *equality*). If, however, the entrepreneur does not choose stewardship (i.e., chooses self-serving agent behavior), theory suggests negative consequences to performance (i.e., *inequality*).

METHODS

We leveraged two entrepreneurial samples to inductively explore our research question. Taking an interpretive approach, we content analyzed pledge letters from wealthy entrepreneurs who have joined *The Giving Pledge*—a campaign to help address society’s most pressing problems by inviting the world’s wealthiest individuals to commit more than half their wealth to philanthropy or charitable causes. This left us with a sample of commitment letters from 99 entrepreneurs. On average, these entrepreneurs were 67 years old at the time of pledging and have a net worth of \$6.6 billion. We then complemented this data with in-depth interviews among two groups of founders—those who have experienced a harvest event and those who were considering a future harvest event. On average, these entrepreneurs were 55 years old at the time of the interview and (when harvested) their companies’ sale price or IPO value ranged from \$200,000 to \$850 million.

RESULTS

The data from this research revealed that many of the mechanisms that influence the covenantal relationship between employees and their organizations, often resulting in stewardship behaviors, similarly impacted entrepreneurs. Four themes emerged from our inductive process: intrinsic motivation, strong identification with a cause, the influence of personal power with an orientation toward long-term welfare, and stewardship norms.

Intrinsically motivated by philanthropy. As their former entrepreneurial activities dissipated or ceased following harvests, and particularly exits, many entrepreneurs were left with a void in their life and an important question: “*What do I do now?*”

In 2005, after we sold Celtel, I had to face the big question—“Now what? Where to go from here...?” Mo Ibrahim, Giving Pledge

As such, entrepreneurs searched for new meaning in their lives and new meaningful work. Accordingly, many realized that they had more than enough wealth for themselves, and began to explore new avenues to derive purpose and a sense of achievement. By doing so, many discovered new meaning through philanthropic activities. This was particularly evident among the interviewed entrepreneurs, who frequently donated their time in addition to their financial resources to charitable causes.

It comes to a point where you’ve got everything you want. You can get anything you want. So what else do you really need? What’s the next stop? ...It [creating an adoption center]

is meaningful work. How can you, at 45, not have meaningful work? Construction, Interview

Identifying with philanthropy. A central tenet of stewardship theory is that organizational identification—sharing the goals, values, and identity of an organization (Ashforth & Mael, 1989)—can lead employees to act as stewards of their organizations. Similarly, we found that entrepreneurs frequently identified with the community of philanthropists as well as the collective causes to which they were giving. Thus, entrepreneurs acted as stewards of others and contributed to inequality efforts because it reflected who they were. In fact, many cited that philanthropy, and helping others, had long been part of their identity.

I always thought if I were lucky enough to be in a position to help others, I would. The vast majority of Americans are this way. This is who we are. And while separate acts of generosity are generally not remarkable, taken as a whole it defines us. I never imagined not doing my part. Jonathan Nelson, Giving Pledge

Philanthropy has always been very important...its a part of me. Pipe Coating, Interview

Entrepreneurs referenced that their upbringing and personal values contributed to their concern for others, and that philanthropy was imbued in their identity, referring to it as part of their “DNA” and “ethos.” Accordingly, these entrepreneurs indicated that major stewardship acts following a harvest (e.g., pledging 99% of their wealth to philanthropy) did not represent a new activity, nor did they anticipate that others would find their actions surprising. Instead, from their point of view, these actions were consistent with who they were, and that the harvest merely served as a stimulus to further enact their philanthropic, other-focused identity.

My philanthropic DNA was inherited from my mother who dedicated her life to the service of others. While she did not have a lot of treasure, she contributed her time and worked tirelessly serving those in need. She infused in me the virtue of philanthropy. John Jordan, Giving Pledge

It's [charitable giving] always been part of what I was interested in doing, and who I was. I mean, it's grown because of ability to grow. No real change though. Just more resources. No real change in attitude. Chemical Equipment, Interview

Personal power and investing in the future. An orientation toward the future has been long-associated with stewardship theory and a concern for the collective benefits of others (Hernandez, 2012). With median ages near seventy (Giving Pledge) and sixty (interviews), the entrepreneurs in our sample realized that they likely would not live to see the full impact of their philanthropy on society. This did not deter their efforts. For years, these entrepreneurs had focused on growing and developing their respective businesses, and consequently, they had significantly grown their net worth. Yet, entrepreneurs set aside their personal goals of greater wealth accumulation to dedicate their resources to the long-term well-being of others. Thus, although *wealth accumulation* had been a primary goal for these entrepreneurs throughout their lives, *wealth distribution* with an eye for the future became a critical goal.

I had been relatively tunnel-visioned in trying to build the firm, and spent little time on philanthropic matters until I turned 54...with luck, some of them [charity efforts] may actually have transformative benefits—hopefully during my lifetime. David Rubenstein, Giving Pledge

Consideration for the long-term impact their giving would have on future generations was central to this goal. This long-term orientation not only impacted whether entrepreneurs gave but it also influenced the causes to which they contributed. In essence, entrepreneurs wanted assurance that their resources would have a positive and long-lasting impact.

Before I commit to something, I love to see what future effect it might have in the community, if it's a worthwhile project. Law Firm, Interview

Stewardship Norms. In addition to the three psychological factors—*intrinsic motivation, identification, and personal power*—firmly established in the *stewardship literature*, we also observed an additional factor that influenced entrepreneurs' choice of *stewardship*—which we label *stewardship norms*. Under these norms, particularly the norms of *reciprocity and generosity*, entrepreneurs felt bound to society and/or their respective communities, and upon harvesting their ventures, perceived a sense of obligation to give back to them.

It is the duty of successful people to give back to the society from which their success was derived. Jeff Skoll, Giving Pledge

The norm of reciprocity within our context reflects the idea that entrepreneurs address social and economic inequality in order to pay back, or return, the wealth they have received to specific communities, organizations, or individuals that helped them achieve their success. Thus, under the norms of reciprocity, a feeling of gratitude and indebtedness to a specific entity influenced entrepreneurs' decisions, leading them to act as stewards of others. For many, this indebtedness was nested at a collective, or community, level. Accordingly, entrepreneurs saw their venture success as directly attributable to the communities in which their businesses were located. They therefore focused their efforts on helping to improve those communities.

One of the admirable qualities of our great country is the history and culture of helping those less fortunate. In America giving is not unusual; it is mainstream. Jonathan Nelson, Giving Pledge

Upon generating significant wealth from their ventures, entrepreneurs began to feel a growing responsibility to be generous with their wealth. Although entrepreneurs—both in the letters and interviews—seemed genuine in their desire to do good, they also used language suggesting that wealth carried “a responsibility,” “a duty,” “a moral obligation,” and “great expectations.” Entrepreneurs' efforts to address inequality, therefore, often originated from a belief that amassing wealth carried cultural and societal expectations to be generous with those resources.

I had a guy that I worked for at [redacted] that laid a scripture on me somewhere during my work and tenure there, and it has never left. It is Luke 12:48. “To those who much is given much is expected.” He used to beat me over the head with it. That seed was planted a long time ago by that guy. Digital Imaging, Interview

DISCUSSION & IMPLICATIONS

Stewardship Theory

This research provides meaningful insights and extensions for stewardship theory. First, we examine stewardship theory in the entrepreneurial context. Stewardship theory has been successfully applied as a governance topic in management research and as an increasingly important theory in family firms (Madison et al., 2016), but has seen limited use in entrepreneurship research. In applying

stewardship theory to entrepreneurial harvest, we transcend the principal-steward relationship to a higher level by defining new players in the relationship—entrepreneurs and society. Second, we add to the theoretical factors that foster steward behavior. We provide support that the theorized psychological factors of intrinsic motivation, high identification, and personal power influence the stewardship choice. In addition, we add stewardship norms, comprised of reciprocity and generosity, as a catalyst to stewardship behavior. This reveals that stewardship can also be triggered out of a sense of obligation or expectation, representing a new and institutionally relevant perspective of stewardship theory. Third, and importantly, rather than focusing on organizational performance, which is typical of stewardship theory research, we consider the alleviation of inequality to represent an important goal of societies worldwide. Thus, we open new outcomes with regard to stewardship theory.

Inequality

To date, research on entrepreneurship as a contributing factor to inequality suggests that successful entrepreneurship creates disproportionately wealthy individuals; whereas, research on entrepreneurship as a solution to inequality has explored the role of entrepreneurship: 1) as a means for individuals to achieve economic self-sufficiency by becoming entrepreneurs (Khavul et al., 2013), or 2) as a means to improve the lives of others through wealth creation (McMillan & Woodruff, 2003), human capital development (Bradley et al., 2012) and innovation (Khavul & Bruton, 2013). We explore both sides of the equation. We find that while successful entrepreneurship does lead some entrepreneurs to amass large amounts of wealth, thereby exacerbating inequality, these same entrepreneurs can also serve as part of the solution by becoming stewards of their communities, thereby reducing inequality. Thus, our research differs from extant explanations by highlighting a new means by which entrepreneurship can offer solutions to inequality. So long as post-harvest entrepreneurs become committed to stewardship, then it is possible that the prosperity of the entrepreneur will lead to community stewardship behaviors that alleviate inequality. Simply, our research demonstrates that the act *following* entrepreneurship might be as important to addressing inequality as the act *of* entrepreneurship.

Entrepreneurial Exit

Decisions surrounding exit have been of much importance to entrepreneurship scholars (cf. DeTienne, 2010). However, scholars have largely focused on the actions occurring *before* exit, such as the motivations (Justo et al., 2015), routes (Dehlen et al., 2014), and strategies (DeTienne et al., 2015) to achieve exit. Our research explores new ground by exploring what happens *after* exit, or harvest. We found that in many instances entrepreneurs' philanthropic endeavors served as a source of meaningful work that became more salient than their venture-related activities, and thus, factored into their exit decisions as well as their actions following exit. Alternatively, sometimes exit left a perceived void in entrepreneurs' lives—leading them to reflect on life, evaluate their contribution to society, and discover philanthropy as a way to achieve meaning.

Conclusion

Inequality represents a major societal concern. Although inequality can be derived through entrepreneurial success, entrepreneurs also have the unique ability to serve as part of the solution to inequality through the redistribution of their resources. We found that through motivation, identification, personal power, and norms, a growing number of entrepreneurs have become committed to acting as stewards of others, and accordingly, emphasized wealth redistribution over wealth retention. These entrepreneurs hold great promise for improving issues of inequality.

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