

The Social Science View of Entrepreneurship: Introduction and Practical Applications

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The basic argument of this introduction—as well as the rationale for this whole reader—is that the social sciences have a very important contribution to make, not only to the theoretical understanding of entrepreneurship but also to entrepreneurship as a practical enterprise.¹ This viewpoint has tended to get lost in the surge of studies in this field, which has characterized the development during the last ten to fifteen years within the business school community. The social sciences, I argue, can provide new and fresh ideas about the theory and practice of entrepreneurship, by looking at innovative business behaviour in other times, in other societies, and in other cultures—and also by looking at entrepreneurship from novel angles and from the perspective of a much wider range of actors than is commonly done. It should be emphasized that quite a few of the insights that the social sciences have already generated can also be more or less directly translated into do's and don't's for the entrepreneur-to-be. And when this is still the case, it is not often possible to establish what the practical implications of a particular social science analysis might be. Indeed, the very process of trying to figure out how to extract practical knowledge about entrepreneurship from existing social science literature represents a useful exercise for the student of entrepreneurship. How this can be done will be illustrated in the rest of this introductory essay as well as in the introductions to the different parts of the reader.

'Entrepreneurial fervor in the 1980s', a historian of the entrepreneurial movement writes, 'became a worldwide movement, spreading across countries, regardless of their level of development or even of their basic mentality or

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value orientation towards business activities' (Alvarez 1996:192; cf. Alvarez 1991). Exactly why this movement came into being and is still going strong is not clear, but may well be due to a number of interacting causes. There is, for one thing, the revival of small businesses, seen for more than a decade in Europe as well as in the United States. The change in the ruling economic-political ideology that took place with the coming to power in 1979–80 of Thatcher and Reagan—from Keynesianism to a radical pro-market ideology—has probably also been important. There is, furthermore, the deep concern with unemployment and the general insight that only the creation of new businesses can provide jobs on a sufficient scale in a society with a shrinking industrial labour force. For any business to survive in a global economy, it is also increasingly realized, constant change and innovations are simply a necessity (e.g. Kanter 1995). As *The Economist* (1999) recently put it, 'Innovation has become the industrial religion of the late 20th century'.

People in and around the business-school community—not social scientists—have been leading the way in the current surge in studies of entrepreneurship. It is they who have given the topic of entrepreneurship a new legitimacy in the eyes of the public. They have also helped to institute new chairs in entrepreneurship and they have started up a number of important publications, such as *Frontiers of Entrepreneurship* (1981–), *Journal of Business Venturing* (1985–), and *Entrepreneurship and Regional Development* (1989–). Research on innovation in the business school community has been encouraged and has resulted in a number of high-quality studies which are far ahead of what has been accomplished in the social sciences (see for example the literature referred to by Kanter in 'When a Thousand flowers Bloom: Structural, Collective, and Social Conditions for Innovation in Organization'). Practically all business schools have by now at least one course in entrepreneurship, and it is increasingly being realized that today's managers and businessmen need not only *managerial skills* but *entrepreneurial skills* as well (e.g. Drucker [1985] 1993). A number of prominent members of the business school community have also argued that the time has come to demystify entrepreneurship and transform it into a skill that can be routinely taught to the average MBA student.

The minor role that social scientists have played in renewing the study of entrepreneurship during this period has led some people in the business-school community to question the value of social science for developing entrepreneurial skills. Social science may be good for whatever it wants to accomplish, the general sentiment seems to be, but it is not useful in courses where the aim is to teach entrepreneurship to future business leaders. A typical example of this type of attitude can be found in an important article by two influential

teachers of entrepreneurship which appeared some years ago in *Strategic Management Journal*. In 'A Paradigm of Entrepreneurship: Entrepreneurial Management', Carlos Jarillo and Howard Stevenson argue that while the social sciences can help to explain the causes of entrepreneurship ('Why?') and its effects ('What?'), they have nothing to contribute to the understanding of entrepreneurial behaviour ('How?'). It is, however, this last question—'What do entrepreneurs do when they are entrepreneurial?'—that the business schools should focus on, according to Jarillo and Stevenson. The authors provide a definition of entrepreneurship which is tailored to the 'how' question: 'entrepreneurship is a process by which individuals—either on their own or inside organizations—pursue opportunities without regard to the resources they currently control' (Jarillo and Stevenson 1990: 23). They also advance several suggestions for how to turn an ordinary corporation, managed in a routine manner, into an entrepreneurial organization. It is, for example, possible according to the authors to train the people in an organization to detect opportunities; one can also reward them for pursuing opportunities; and one can lessen the consequences of failing.

While the Jarillo–Stevenson article contains a number of suggestive proposals, its view of the social sciences and the contribution that these can make to the study of entrepreneurship is partly mistaken. First, the social sciences look as often at what entrepreneurs do ('How?'), as they look at the causes of entrepreneurship ('Why?') and its cumulative effects ('What?'). And second, although practical use is not what exclusively drives the social sciences, quite a bit of what these have to say about entrepreneurship *does* have practical consequences; and these insights are well worth being taught in today's business schools. Jarillo and Stevenson are in my opinion on target when they argue that business schools should concentrate on the 'how'—but their view of the social sciences, and the contribution that these can make to the study of entrepreneurship, needs to be corrected.

While it is clear that the Jarillo–Stevenson type of sceptical attitude towards the social sciences deserves to be criticized, something should also be said about its origin since this is part of the story. The fact is that much of what the social sciences have produced insofar as the economy is concerned, has been of a very abstract nature and out of touch with economic realities. This is particularly true of economic theory, while the empirically oriented social sciences—such as sociology, psychology, and economic history—are less prone to this. The non-economic social sciences also lack the kind of unitary theory that mainstream economics has; and this makes it easier for them to relate to the practical knowledge of business people.

A particularly useful critique of the tendency in economic theory to underestimate the importance of concrete, practical knowledge for economic activities, and thereby exclude large parts of the relevant reality from science, had already been made in the 1940s in a famous article by Friedrich von Hayek, entitled 'The Use of Knowledge in Society'; and since its main thesis fits the current situation in studies of entrepreneurship very well, it is worth repeating. The type of knowledge that has come to be known as 'scientific knowledge' in economics, Hayek argues, has distanced itself far too much from 'practical knowledge', which it views with a mixture of distrust and contempt. Practical knowledge (which Hayek defines as 'knowledge of the practical circumstances of time and place' and which is an integral part of what anthropologists call 'local knowledge') is, however, crucial to successful entrepreneurship; and knowledge that may seem trivial to the theoretical economist can be absolutely necessary for a business venture (Geertz 1983). Hayek writes:

To know of and put to use a machine not fully employed, or somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques. The shipper who earns his living from using otherwise empty or half-filled journeys of tramp-steamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the *arbitrageur* who gains from local differences of commodity prices—are all performing eminently useful functions based on special knowledge of circumstances and the fleeting moment not known to others (Hayek [1945] 1972: 80).

One conclusion that can be drawn from Hayek's argument is that economics, as well as the other social sciences, need to incorporate some of this 'practical knowledge' into their analyses. By this is not meant that the social sciences should become a depository for all empirical facts that have ever played a role in successful business ventures—this would clearly be absurd and also make it impossible to produce any science. What it does mean, however, is that *if the social sciences are to get a better handle on entrepreneurship, they will have to learn to pay more attention to the concrete ways in which entrepreneurs locate and exploit opportunities*. This type of knowledge has a certain degree of generality to it; and it is precisely this generality which makes it relevant to the social sciences.

Hayek's purpose in 'The Use of Knowledge in Society' can be described in more general terms as an attempt to improve scientific knowledge by drawing it closer to 'practical knowledge', and also to make it clear that if social scientists are ever to truly understand economic behaviour they will have to change their attitudes toward this type of knowledge. This introductory essay is inspired by a similar purpose, and in the coming pages I shall try to show how practical

guidelines for opportunity spotting and creative economic behaviour, can either be directly derived from social science work on entrepreneurship or are implicit in it.

1. The Social Science Literature on Entrepreneurship (Part 1): The Contribution of the Economists

The word 'entrepreneur' comes from the French word 'entreprendre', which means 'to do something', and it was originally used in the Middle Ages in the sense of 'a person who is active, who gets things done' (Hoselitz 1951). The first economic theory of entrepreneurship is to be found in a work entitled *Essay on the Nature of Commerce in General* (circa 1730), written by a Paris banker of Irish extraction who had a real flair for economic analysis, Richard Cantillon (circa 1680–1734). The term 'entrepreneur' was given general currency among English economists by John Stuart Mill in the mid-nineteenth century (Schumpeter 1954: 556). Since the turn of the century studies of entrepreneurship have been carried out within a number of other social science disciplines than economics—such as sociology, psychology, economic history (including business history), and economic anthropology—but no competent survey which covers all of these exists. It is also difficult to find surveys of what has been accomplished in the individual social sciences, except for economics. That there, none the less, is a huge and interesting social science literature on entrepreneurship 'out there' is however not to be doubted.

Most people who are not economists would probably expect the economics literature to be full of analyses of entrepreneurship, since economics after all is the social science that deals most directly with contemporary economic reality. This, however, is not the case, and the economics literature has relatively little to say about entrepreneurship. The reason for this is primarily that mainstream economics has had great difficulty in fitting entrepreneurship into its theory, and as a result has tended to ignore the entrepreneur. Economic models, which have proved very useful for other purposes, have turned out to be resistant to the phenomenon of entrepreneurship. Economists who have done work on entrepreneurship have therefore tended to be in a minority, and they have either had to invent some way of fitting the entrepreneur into a conventional model or they have had to develop an alternative model for how the economy works.

Among those economists who have tried to develop an economic theory

centred around the entrepreneur, Joseph Schumpeter is by far the most important; and the first half of this section on entrepreneurship and economic theory has been devoted to his work. In the second half, the mainstream position on entrepreneurship is presented and discussed, and a few words are also said about the texts by economists which have been included in this reader. I will argue that the various attempts that have been made to theoretically integrate entrepreneurship into mainstream economic theory are of little practical interest to the entrepreneur-to-be; and that these mainly raise theoretical questions. The situation is, however, somewhat different with the basic notions of what constitutes entrepreneurship, according to economic theorists; and here it can be quite interesting to try to figure out what the implicit (practical) consequences of some theoretical approach are.

1.1. Joseph Schumpeter's Contribution

One obvious reason for devoting quite a bit of space in this introductory essay to Joseph A. Schumpeter (1883–1950) is that he is *the* main figure in the literature on entrepreneurship. Another is that practically nowhere in the literature, either on entrepreneurship or on economic theory, can one find a well-rounded picture of Schumpeter's theory of the entrepreneur. What is rarely, if ever mentioned, is that Schumpeter's theory of entrepreneurship is part of an attempt to construct a whole new type of economic theory, which was to complement Walras' theory of a static (and stationary) economy; that Schumpeter's ideas about how to best study entrepreneurship changed considerably over time; and that his approach is interdisciplinary in nature or, more precisely, that Schumpeter looked at different aspects of entrepreneurship during different periods of his life, and that he used a variety of approaches in doing so, including economic theory, psychology, sociology, and economic history. To this can be added—and also this is rarely, if ever, mentioned—that Schumpeter produced the first competent history of entrepreneurship in economic theory. Schumpeter's approach to this topic has deeply influenced the history of economic thought, and is still the dominant one.

Despite his versatility and multi-disciplinary approach, Schumpeter never produced concrete guidelines for how the entrepreneur should behave, of the type that today's business schools are trying to develop. Whether this was due to a lack of imagination on his part or to the fact that he did not believe that such guidelines could be produced is not clear; it is most likely that this type

of task never occurred to him. Schumpeter did, however, repeatedly point out that while ordinary economic behaviour is more or less automatic in nature, the entrepreneur always has to think very carefully about what action to take since he or she is involved in doing something that is fundamentally *new*—and this is perhaps an insight also worth considering today. Whenever you do something new, you do not know how to proceed—and are in extra need of practical guidelines.

To complete the picture of Schumpeter and practical entrepreneurship, it can be mentioned that he came from an entrepreneurial family (see Swedberg 1991). Schumpeter was born in 1883 in a little town on the outskirts of the Austrian Hungarian Empire called Triesch (today in Slovakia), and the first textile mill in this place had been founded by Schumpeter's great grandfather. His grandfather, as well as his father, also ran the mill; the former introduced new machinery and methods, while we have no information about the activities of Schumpeter's father. Since Schumpeter's father died when Schumpeter was four years old and his mother moved away from Triesch with her little son and remarried, the issue of whether Schumpeter should take over the textile factory was never raised.

It is true that during a few years in the early 1920s Schumpeter did try to make a living as an investor or venture capitalist. The whole thing, however, ended badly, and Schumpeter lost all his investments and quite a bit of borrowed money as well. While the main lines of Schumpeter's financial ventures are known—he had invested in a couple of local industries as well as in a bank—few concrete details are available (see Stolper 1994: 307–25; cf. Allen 1991: 184–9). The general impression one gets, however, is that Schumpeter had far too little concrete knowledge about what was going on in the companies where he had invested his money to be on top of things. The unstable political and economic situation of Austria in the 1920s no doubt added to Schumpeter's difficulties.

Schumpeter's writings on entrepreneurship fall naturally into two periods, both from a chronological viewpoint and in terms of their emphasis. Until *circa* 1940 Schumpeter was mainly interested in developing his own ideas about entrepreneurship and to integrate these into a novel system of economic theory, which was centred around economic change or development. During his last decade—Schumpeter died in 1950—he mainly looked at the sociological aspects of entrepreneurship and also tried to sketch a research programme in entrepreneurship for economic history. Both periods, as we soon shall see, are also of some interest for an understanding of entrepreneurship in more practical terms.

Schumpeter started his career as an economic theorist with a dissertation

very much in the spirit of the great mathematical economist Léon Walras; and at this point in his life he thought that all problems in economic theory could be solved with the help of equilibrium theory, applied to a stationary economy. Soon, however, he began to feel that Walras had left something essential out of his analysis and also had a rather restrictive view of economics. Walras, Schumpeter now began to feel, viewed the economy as a system which only reacted to impulses from *outside* the economy, such as population increases, new inventions, discoveries of gold, and so on. These outside impulses, Walras argued, set off an adaptive response or change in the economic system, which after a while reached a new equilibrium; and it was *this* process, from one equilibrium to another, that economists should study. Schumpeter even contacted Walras to ask him if this was indeed how he viewed the task of economics, and the answer was affirmative. Schumpeter was later to describe his reaction to Walras' answer in the following manner:

I felt very strongly that this was wrong, and that there was a source of energy within the economic system which would of itself disrupt any equilibrium that might be attained. If this is so, then there must be a purely economic theory of economic change which does not merely rely on external factors propelling the economic system from one equilibrium to another. It is such a theory that I have tried to build (Schumpeter [1937] 1989: 166).

Schumpeter made a first attempt to develop such a theory in a book entitled *The Theory of Economic Development* (1911), which bears all the signs of youthful enthusiasm. It is in this work, it should be noted, that Schumpeter's famous theory of the entrepreneur is to be found. He clearly tried to develop a totally new economic theory and relied very little on what earlier economists had accomplished. His general argument was that all truly important changes in the economy are set off by the entrepreneur, and that these changes then slowly work themselves through the economic system, in the form of a business cycle. Schumpeter also suggested that his idea of internally generated change, as opposed to change induced from the outside, was not only applicable to economic phenomena, but to *all* social phenomena. Art, politics, and so on could all be conceptualized as consisting of two types of activities; on the one hand, there were creative and innovative activities and, on the other hand, repetitive and mechanical activities.

The second edition of *The Theory of Economic Development* (1926)—produced more than a dozen years later, and the edition that is read today—is considerably less ambitious. Schumpeter now tightened up his argument, systematized it, and eliminated its broader implications. In 1939 Schumpeter published a work

entitled *Business Cycles*, which carried this process even further; and while entrepreneurship had been described in terms of creativity and intuition in the first edition of *The Theory of Economic Development* (1911), Schumpeter now spoke of entrepreneurship in a considerably more technical and dispassionate manner. Innovation, which the young Schumpeter in 1911 had described in a nearly dionysian manner, had now become more apollonian in nature, and is simply defined in *Business Cycles* as 'the setting up of a new production function' (Schumpeter 1939: 87).

It is consequently in the second edition of *The Theory of Economic Development* (1926)—or more precisely in the translated version (1934) of the second German edition—that we can find what most people mean when they refer to 'Schumpeter's theory of the entrepreneur'. When they speak of this theory, it should also be noted, they have exclusively in mind the famous second chapter in the English translation from 1934, partly included in this volume as *Entrepreneurship as Innovation*. And this is indeed the place where Schumpeter speaks most directly of the entrepreneur, even if it deserves to be mentioned that the main bulk of the book consists of an attempt to develop a number of new economic theories—of interest, capital, credit, profit, and the business cycle—by relating them to the theory of entrepreneurship. What we have, in other words, is a whole new economic theory, centred around the entrepreneur, rather than just a theory of the entrepreneur.

The main reason why very few people discuss anything but chapter 2 in *The Theory of Economic Development* is that what Schumpeter says in the rest of the book has failed to make any impact on economics whatsoever. Also from a practical viewpoint, it may be added, it is less interesting to look at these parts of Schumpeter's work, since they basically only raise questions that are relevant to economic theory. It is furthermore in chapter 2 that we can find most of Schumpeter's well-known statements about entrepreneurship. This is where he says that entrepreneurship can be defined as the making of a 'new combination' of already existing materials and forces; that entrepreneurship consists of making innovations, as opposed to inventions; and that no one is an entrepreneur for ever, only when he or she is actually doing the innovative activity.

Schumpeter presents three key typologies in chapter 2 of *The Theory of Economic Development*, and all of these are of practical interest to the student of entrepreneurship (see also the introduction to Part I of this reader). The first of these typologies is very famous and has to do with the main types of entrepreneurial behaviour. These are the following five: (1) the introduction of a new good; (2) the introduction of a new method of production; (3) the

opening of a new market; (4) the conquest of a new source of supply of raw material; and (5) the creation of a new organization of an industry.

One practical implication of Schumpeter's typology of entrepreneurial behaviour has to do with the very concept of *combination*; and a useful exercise for a student of practical entrepreneurship might be to train himself/herself in thinking up new combinations, using case studies. Another exercise could be to try to add to (or subtract from) Schumpeter's typology. Would it, for example, be possible also to speak of financial innovations (so why does Schumpeter not do so?); and how should this type of innovation be defined? Are venture capitalists entrepreneurs or do they just help entrepreneurs? Schumpeter does not speak of innovations in the organizational structure of firms, but only of innovations in the organizational structure of industries. What would some examples of the former be, and do this type of innovations translate into higher profits?

Also Schumpeter's second typology, which has to do with the motivation of the entrepreneur, is famous. What drives the entrepreneur, Schumpeter says, are primarily three things: (1) 'the dream and the will to found a private kingdom'; (2) 'the will to conquer'; and (3) 'the joy of creating' (Schumpeter [1934] 1961: 93). We can translate Schumpeter's formulations into modern language as: (1) the desire for power and independence; (2) the will to succeed; and (3) the satisfaction of getting things done. It should be pointed out that money *per se* is not what ultimately motivates the entrepreneur, according to Schumpeter. 'Entrepreneurs', as he says elsewhere, 'are certainly not economic men in the theoretical sense' (Schumpeter [1946] 1991:408). He adds, in *The Theory of Economic Development*, that his idea about the motivation of the entrepreneur falls within the field of psychology and has therefore no place in economic theory. Again, it can be noticed, we are in the presence of a case where the practical implications of Schumpeter's ideas are much easier to spot, when he distances himself from the higher regions of economic theory. To ferret out the practical implications of Schumpeter's typology one might ask questions like, how do you design incentives to promote entrepreneurship? and, how do you spot people who are likely to become good entrepreneurs?

During the last decade of his life the emphasis in Schumpeter's writings on entrepreneurship shifted from economic theory to sociology and economic history. *Capitalism, Socialism and Democracy* (1942) is mainly a sociological work, in the sense that it focuses on the institutional structure of society; and what Schumpeter has to say about the entrepreneur in this book is primarily of a sociological character. The thrust of his ideas is clear from the title of its most important section on entrepreneurship—'The Obsolescence of the

Entrepreneurial Function' (some interesting observations on this topic can also be found in 'The Process of Creative Destruction'; see Schumpeter [1950] 1976: 81–6, 131–4). A number of institutional factors, Schumpeter here argues, are weakening entrepreneurship and contributing to the stagnation of capitalism as a social system. People, for example, are getting increasingly used to change, and there is consequently less opposition to entrepreneurship—something which makes for less strong headed and original entrepreneurs. The big corporations are also beginning to develop innovative technologies in a routine fashion by putting together teams of specialists. Finally, capitalism has a general tendency to rationalize and demystify everything in society, including entrepreneurship.

During the 1940s Schumpeter also got involved with the Research Center in Entrepreneurial History at Harvard University and wrote a few articles under its influence. These articles constitute some of the best that Schumpeter ever wrote on entrepreneurship and contain many new ideas as well as some interesting reformulations of old ideas (see especially Schumpeter [1947] 1989, [1949] 1989). For one thing, Schumpeter now made clear that the entrepreneur does not have to be a single person but can equally well be an organization, either a political or an economic one. What matters is the behaviour, not the actor. He also encouraged the writing of 'a comprehensive history of entrepreneurship', which he envisioned as including a history of the various ways that entrepreneurship has been financed throughout the ages as well as a discussion of the different types of entrepreneurs that have existed (industrial entrepreneurs, financial entrepreneurs, aristocratic entrepreneurs, and so on; cf. Schumpeter [1949] 1989: 264ff). Schumpeter furthermore argued that the theory of entrepreneurship should be based on 'the actual activity of the entrepreneur', as opposed to preconceived notions by economic theorists (including those that could be found in his own work; *ibid.*). The key to a future understanding of entrepreneurship, he repeatedly emphasized, was to draw economic history and economic theory much closer to one another. Doing this, we may add today, will probably also make it easier to develop practical guidelines for the entrepreneur-to-be.

It is often said that Schumpeter glorifies the entrepreneur and portrays him as a kind of aristocratic hero who has little in common with the businessman in the real world. To some extent this is true; Schumpeter had a taste for what is dashing and bold, and this rubbed off on his theory of the entrepreneur. Still, it is also clear that Schumpeter's work on entrepreneurship is much richer than is commonly thought; and it is furthermore my distinct impression that a thorough study of Schumpeter's work, from the viewpoint of practical

entrepreneurship, would pay off. Schumpeter once noted that what made him especially proud of his work was that behind it all was 'a living piece of reality' (Schumpeter 1943). He also pointed out that it was exactly this that made his work so refractory to mathematical formulation. One wonders, however, if it is not precisely this quality that still makes Schumpeter's work on the entrepreneur seem so relevant and alive.

It should finally also be mentioned that quite a bit of contemporary research on innovation has been inspired by Schumpeter's ideas. People from a variety of fields—organizational economics, evolutionary economics and so on—have picked up one or another idea from Schumpeter's work and incorporated it into their own analyses. Much of the emphasis in this type of literature has been on technological innovations, rather than on organizational innovations, but this may well be changing (for an overview of research on innovations in the Schumpeterian tradition, see Kamien and Schwartz 1982; see also the annual volumes based on the conferences of the International Joseph A. Schumpeter Society, e.g. Scherer and Perlman 1992).

1.2. *The Contribution of Mainstream Economics*

For a long time it has been realized that mainstream economics has very little to say about entrepreneurship. In 1968 well-known economist William Baumol published what was soon to become a famous article on this theme, stating that the entrepreneur had 'virtually disappeared' from mainstream economics, and that the whole thing was a little like a performance of *Hamlet* with the Danish prince missing (Baumol 1968: 64). Summing up the situation many years later, a well-known historian of economic thought noted that the situation was more or less the same, adding that it constituted a 'scandal' that students of economics were taught so little about entrepreneurship (Blaug 1986: 229: '*Entrepreneurship Before and After Schumpeter*').

But even if mainstream economics on the whole has ignored entrepreneurship, it does contain some material on the topic. The way economists have discussed (or avoided) entrepreneurship before *circa* 1930 has been discussed by Schumpeter and, as already mentioned, his account is still the dominant one in the history of economic thought (see Schumpeter 1928, [1949] 1989, 1954). Modern accounts of entrepreneurship usually add a section on Schumpeter's theory (Schumpeter never discussed his own theories); they typically also contain a discussion of the works of a few other individuals, such as

Israel Kirzner and Mark Casson. More complete versions add something about the works of the two founders of neo-Austrian economics, Friedrich von Hayek and Ludwig von Mises, and also mention the work of William Baumol (see Baumol 1993).

How are the theories of entrepreneurship, which have been developed by mainstream economists, to be read and interpreted by those who are mainly interested in entrepreneurship from a practical viewpoint? Before suggesting an answer to this question, I would like to quickly summarize the most important landmarks in the mainstream history of entrepreneurship. The first two economists to write in an original manner on the entrepreneur were both active in France: Richard Cantillon (*circa* 1680–1734) and Jean-Baptiste Say (1776–1832). The former defined entrepreneurs as those who are willing ‘to buy at a certain price and sell at an uncertain price’ (cited in Blaug 1986: 220). Say, who had read Cantillon, suggested another definition: entrepreneurship consists of combining the factors of production into an organism.

The British economists, from Adam Smith and onwards, confused the capitalist with the entrepreneur and had a tendency to view economic progress as something automatic. The latter attitude was particularly pronounced in the works of Ricardo and Marx, according to Blaug. German economist Johann Heinrich von Thünen (1783–1850) distinguished, however, in a clear manner between the interest on capital, wages to the manager, and the insurance rate for all that could be insured in the business venture; and suggested that entrepreneurial profit consisted of what was left over, once these three items had been paid. Another German economist from about the same time period, Hans von Mangoldt (1824–68), proposed that entrepreneurial profit could be conceptualized as rent of ability.

What is today known as neo-classical economics emerged around the turn of the century and was ushered in by such people as Alfred Marshall and Léon Walras. Marshall (1842–1924) viewed entrepreneurship as synonymous with business management and suggested, similar to Mangoldt, that payment for this function could be seen as rent on ability. In the system of the great theoretician of general equilibrium, Léon Walras (1834–1910), the entrepreneur plays virtually no role. In a well-known formulation, Walras states that in an equilibrium situation the entrepreneur ‘neither makes [money] nor loses’ (cited by Schumpeter 1954: 893). An attempt to square neo-classical thought with a theory of entrepreneurship, which is much admired by other economists, can finally be found in *Risk, Uncertainty, and Profit* (1921) by Frank Knight. The objective probability of ‘risk’, it is here argued, can be calculated, while ‘uncertainty’ can never be known. Knight’s view of entrepreneurial profit as

gain resulting handling uncertainty, it is often noted, is fully compatible with the theories of perfect competition and of equilibrium in the long run.

Since Schumpeter's theory of the entrepreneur has already been discussed in the preceding section, I shall pass it over here. A few words need, however, to be said about the works of Israel Kirzner and Mark Casson. The latter has a somewhat eclectic view of entrepreneurship, and defines the entrepreneur as a person who specializes in making decisions about how to coordinate scarce resources (Casson 1983: 23). Kirzner's position, which has evolved over a period of several decades, can be summarized in the following manner: entrepreneurship means alertness towards profit opportunities (Kirzner 1997; cf. 1973). The entrepreneur essentially tries to discover profit opportunities and helps to restore equilibrium in the market by acting on these. Kirzner's view of the entrepreneur as someone who restores equilibrium is often contrasted to that of Schumpeter, who sees the entrepreneur as someone who breaks an equilibrium through an innovation.

While Kirzner himself has always stated that his theory draws heavily on the works of Ludwig von Mises and Friedrich von Hayek, this is more seldom realized in conventional histories of entrepreneurship and should therefore be stressed. Friedrich von Hayek (1899–1992) is primarily important in this context for his analysis of knowledge and entrepreneurship or, more precisely, for his suggestion that lack of knowledge is constitutive for the very existence of entrepreneurship. The role that detailed and concrete knowledge about local events plays in entrepreneurship ('practical knowledge') has already been mentioned. To this should now be added that entrepreneurship, according to Hayek, does not so much mean that already existing information is diagnosed as lacking, and then acquired, but that new and unknown knowledge is being *created* through the process of entrepreneurship. To be an entrepreneur implies a 'discovery process', to use one of Hayek's well-known formulations.

As opposed to Hayek, Ludwig von Mises (1881–1973) developed a full theory of entrepreneurship. Mises starts out from the idea that when the economy is in a stable and repetitive equilibrium cycle, there is no place for entrepreneurship. His argument on this point (but not his terminology) is very similar to that of Schumpeter in the latter's discussion of 'the circular flow'. Mises, however, differs from Schumpeter by defining entrepreneurship as anticipations of uncertain events, and not as innovations. Entrepreneurship is in his view always geared to the 'uncertainty of future constellations of demand and supply' (Mises 1963: 293; cf. [1951] 1978). The entrepreneur is exclusively driven by a desire to make money; and he or she makes profits by figuring out what the consumer wants. The better the entrepreneur is at this, the more profit he

or she will make. But just as the entrepreneur can make money, he or she can also lose money; and Mises is one of the few theoreticians of entrepreneurship who stresses the role of 'entrepreneurial errors'.

In my opinion, also those who are mainly interested in the practical dimensions of entrepreneurship can learn quite a bit from the theories that have been developed by economists. One of the items on the agenda of practical entrepreneurship today should, in my mind, be to carefully go through this literature and try to establish what is useful in it and what can be discarded. That the result of doing so will differ quite a bit from what mainstream economists have gotten out of this literature is to be expected.

One of the items, it seems to me, that is of minimal interest to those who are concerned with developing practical entrepreneurship is whether an individual economist's argument can easily be fitted into the theoretical system of mainstream economics or not. While Frank Knight's argument about risk versus uncertainty, for example, may be suggestive in itself, much of the praise that has been heaped on Knight is for his success in squaring this idea with neo-classical thought. Besides, Knight's distinction may well have to be seen in a different light today, especially after the introduction of successful trade in options in the 1970s. Similarly, it is totally uninteresting, from the perspective of practical entrepreneurship, whether the activities of the entrepreneur should be understood as restoring an equilibrium (Kirzner) or as disturbing an equilibrium (Schumpeter). To conceptualize entrepreneurial profit as rent on ability, as Mangoldt and Marshall do, is also of minimal interest from a practical perspective. What is much more relevant is to figure out what this 'ability' consists of, how to develop it, and how to spot it.

What about the recent discussion in economics which attempts to determine exactly how the entrepreneur is made to disappear from mainstream economics—is it only of academic interest or is it of some value to those who primarily view entrepreneurship from a practical perspective? There are, for example, some economists who accomplish this vanishing act by assuming that economic progress is automatic or that economies will advance without the help of an entrepreneur. Others claim that there is simply no place for the entrepreneur in an equilibrium system; and finally there are those who state that input and output in the firm have to be determined as well as be identical for the theory to work—even though this unfortunately means that the entrepreneur is eliminated. My own answer is that this type of discussion may often seem irrelevant, but none the less has some positive qualities to it since its main goal, after all, is to restore a place to the entrepreneur in economic theory; and that it is therefore also of some interest to the practitioner.

But there do exist some very fine insights into the nature of entrepreneurship in the economics literature, and the problem here is more of how to locate these and to dig them out, than to determine whether they are of interest or not from a practical perspective. Some comments on how to do this are in place. First of all, to find these insights one definitely has to look at a much broader range of works than those which are today discussed in mainstream economics. Second, this whole literature needs to be sifted through for practical statements about entrepreneurship, including statements about the experience that economists themselves have had of engaging in business ventures. And third, there are different ways in which the economists have conceptualized the very idea of entrepreneurship, and these have some practical implications. I shall say something about each of these three topics.

First, that the literature on entrepreneurship which has been produced by economists is much larger than the one that is usually being discussed, is clear to anyone who has done research on the history of economic thought. There is, for example, the work on entrepreneurship which was carried out within the German Historical School and which is practically unexplored. The modern institutionalist tradition, including evolutionary economics, is also relevant in this context (e.g. Nelson 1993). Those who want some references to start with may, for example, consult Hébert and Link's *The Entrepreneur: Mainstream Views and Radical Critiques* (1982). But it should also be pointed out that the mainstream tradition itself is much richer than it is usually given credit for. That this is the case is well illustrated by the text of Kenneth Arrow, which has been included in this reader ('Innovation in Large and Small Firms'), and also by the work of William Baumol (1990). In the latter it is, for example, argued that entrepreneurship can be found in many societies throughout history, but while it is productive in some, it is unproductive and even destructive in others. Arrow's article contains an interesting attempt to explain what kind of innovations large firms are good at, as opposed to small firms. (For other important research on small firms and entrepreneurship, see e.g. Acs 1996; Acs *et al.* 1998; the practical implications of Arrow's "Innovation in Large and Small Firms" are discussed in the introduction to Part II.)

When going through the literature by economists on entrepreneurship it can, to reiterate, be profitable to look for explicitly practical statements. A related research task would be to investigate the relationship between *writing* about entrepreneurship and *being* an entrepreneur; and as we know, several of the most important theoreticians of entrepreneurship also had some business experience, such as Cantillon, Say, and Schumpeter. In discussing the work of Say, Schumpeter (1954: 492–3) notes that Say drew on his own

experience as a businessman, and adds that 'intellectuals who know business only from newspapers are in the habit of congratulating themselves on their detachment; but obviously there is another side to the matter'. Another case of an economic theorist, who was also a skilful investor, is that of Keynes, and what he has to say about 'animal spirits' is of course applicable in this context. Due to human nature we all have some 'animal spirits', Keynes says, and display an 'innate urge to act' as well as 'spontaneous optimism'; and this has important consequences for the way the market operates (Keynes [1936] 1960: 161–3). An entrepreneur, from this perspective, can perhaps be characterized as someone who combines some vigorous animal spirits with skill and resources in building up and leading an enterprise. Spontaneous optimism may also act as a kind of shield for the entrepreneur, according to another economist. Many businessmen, Albert O. Hirschman says, would never have started up their businesses in the first place, if they had known in advance how difficult it was going to be (Hirschman 1967: 9–34; see also Sawyer 1951–2).

And, finally, one should also try to ferret out the practical implications of the economic theories of entrepreneurship. A few examples of how this can be done have already been given in the section on Schumpeter. The neo-Austrian school of entrepreneurship also seems promising in this respect. It deserves to be pointed out that one of the most suggestive theories of entrepreneurship that has emerged within the business school community—Howard Stevenson's notion that entrepreneurship consists of a relentless pursuit of opportunities, regardless of resources—has its roots in Ludwig von Mises's work and what Israel Kirzner has added to this. Both Mises and Kirzner also talk about 'entrepreneurial errors', a notion which clearly deserves to be more developed in the current discussion of practical entrepreneurship (Gratzer, forthcoming). To Mises as well as Kirzner, one entrepreneur's error basically creates another entrepreneur's opportunity. To this can be added that an entrepreneur can also learn quite a bit from his or her own mistakes; and that the entrepreneur benefits from being imbued with a spirit of not giving up after the first attempt. Many entrepreneurial feats have furthermore become possible in the first place just because they have been preceded by a number of what one may call 'innovative errors' (see e.g. Bailyn 1955). Hayek's ideas about entrepreneurship and knowledge similarly have some interesting practical implications. How, for example, do you learn to sort out relevant practical knowledge from irrelevant practical knowledge? And when, in the attempt to develop a new innovation, can you expect to discover the new entrepreneurial information that Hayek talks about?

In concluding this section it should be emphasized that it is utopian to believe that practical entrepreneurship and the economic theory of entrepreneurship one day will merge. As I note towards the end of this introduction, this is not even desirable. What can be accomplished—and also wished for—is, however, that the two get considerably closer than they currently are. For economic theorists this would mean that they would have to rethink the relationship of economic theory to economic practice. And for those interested in practical entrepreneurship, it would mean being more sensitive to—and curious about—the practical implications of economic theory.

2. The Social Science Literature on Entrepreneurship (Part 2): The Contribution of Social Scientists Other than Economists

Many fascinating analyses of entrepreneurship can be found in the enormous body of work that has been produced over the years by social scientists other than economists. The sciences I am talking about are, first and foremost, the following ones: sociology, psychology, anthropology, and economic history. But there also exist other sciences which are important in this context, as *'The Origins and Dynamics of Production Networks in Silicon Valley'* by regional planner AnnaLee Saxenian illustrates. Work by sociologists, psychologists, and so on, it also deserves to be emphasized, differs from that of the economists in several respects. It is, for one thing, much more descriptive in nature, and the theoretical part is more directly shaped by empirical research. In none of the non-economic social sciences, it should furthermore be noted, does there exist such a cohesive theoretical doctrine as in mainstream economics.

All of this makes for a very lively and multifaceted literature on entrepreneurship, which is much closer to practical reality than the writing which can be found in mainstream economics. It, unfortunately, also makes for a very sprawling literature and one that is hard to survey. Only a few, rather incomplete inventories of what has been produced about entrepreneurship in the individual social sciences exist (for economic history, see Soltow 1968 and Mathias 1983; for anthropology, see Owens 1978; for psychology, see Chell, Haworth, and Brearley, 1991; and for sociology, see Martinelli 1994). This

naturally makes the task of presenting the main accomplishments of the non-economic social science literature more difficult, and I will therefore do this in a somewhat impressionistic way.

2.1. The Contribution of Max Weber

Some of the most brilliant ideas on entrepreneurship within the social sciences can be traced back to the work of Max Weber (1864–1920). This alone is a good reason for devoting a separate section to his contribution; another is that what Weber says on entrepreneurship nearly always gets garbled, due to the complexity of his thought. Adding to the difficulty of getting a handle on Weber's ideas on entrepreneurship, it should also be added, is that these were never summarized in one single text but are scattered throughout his work (and hence no reading of Weber has been included in this volume).

Weber is usually thought of as a sociologist, and during the last period of his life he indeed spent about a decade trying to develop a sociological type of analysis, including an economic sociology (see Swedberg 1998). He was, however, primarily trained as a legal historian, and the field in which he may well have been the most proficient was the history of law. For a couple of years he also taught economics at the universities of Freiburg and Heidelberg, mainly a mixture of historical economics and marginal utility economics. Most of his life, however, was spent as a private scholar, and during this time Weber did work in the philosophy of the social sciences, economic history, political science and a few other fields as well.

Weber's view of entrepreneurship is often identified with his theory of charisma; and, according to this interpretation, his main contribution is to be found in his analysis of that special type of human being—the charismatic person—who makes other people want to follow him or her, simply by virtue of his or her extraordinary personality. This view, however, is largely mistaken. According to Weber, charisma has only functioned as an important motor of change during the early stages of mankind; and it is much less important in capitalist society, where economic change is mainly due to enterprises being geared to profit opportunities in the market. Also, the general trend towards rationalization in human society—especially the replacement of myth and religion by science and methodical, calculable thought—has limited the place for charisma in the modern world.

According to Weber, the entrepreneur can (1) only be found in an exchange

economy, and (2) entrepreneurship has much more to do with the direction of economic action in the form of enterprises than with the economic operations of a single individual. An early definition of entrepreneurship that can be found in his work reads as follows: 'Entrepreneurship means the taking over and organization of some part of an economy, in which people's needs are satisfied through exchange, for the sake of making a profit and at one's own economic risk' (Weber [1898] 1990: 57).

There also are those who identify Weber's theory of the entrepreneur exclusively with his famous study *The Protestant Ethic and the Spirit of Capitalism* (1904–5; see Weber 1988); and it is indeed true that this work is central to what Weber has to say on the entrepreneur. More precisely, Weber makes two important contributions to the understanding of entrepreneurship in this study. First, he looks at the decisive change in attitude towards entrepreneurship that took place some time after the Reformation in the Western world, from being one of hostility and alienation to being one of acceptance and active promotion. And second, Weber analyses the way that a certain form of religion—what he called ascetic Protestantism (basically Calvinism, Pietism, Methodism, and Baptism)—helped to develop a positive attitude towards moneymaking and work, something which facilitated the more general change in attitude towards the entrepreneur.

Until some time after the Reformation, Weber argues in *The Protestant Ethic* (1988), moneylending, commerce, and entrepreneurship had always been looked down upon by the dominant ideology (religion) all over the world; and these activities were at best tolerated, never embraced. A certain form of Calvinism and some ascetic Christian sects in the sixteenth and seventeenth centuries, however, set off a reaction within Christianity which, inadvertently, changed the attitude to business and industry, first among the believers and later in society at large. Once society's attitude to entrepreneurship had become positive, the grip of religion began to loosen, and soon religious ideas had lost most of their power to regulate the economy. Entrepreneurship or 'the vocation to make money' had been set free.

But the ascetic Protestants, according to Weber, did not only—inadvertently!—help to change society's attitude to business from negative to positive, they also infused the economy itself with a new spirit. While greed had always existed among businessmen and other people, Weber notes, a methodical and quasi-ascetic attitude to work had not. This methodical character, however, was typical of the attitude to religion that existed among the ascetic Protestants; and from them it spread to the whole economy. The first to develop this new economic ethic were merchants who belonged to the ascetic Protestant-

ism sects. These now became considerably more methodical—and effective—than their traditional counterparts. Soon, however, the new economic ethic would lose its original religious content and become thoroughly secular.

Weber also made a contribution to entrepreneurship in his later work, more precisely in his sociological and political writings from the 1910s (see e.g. Weber 1978: 90–100, 956–1005, 1292–6; 1994: 159–61, 272–303). As in his earlier work, the emphasis is much more on entrepreneurship as the skilful direction of enterprises, which respond to opportunities in the market economy, than on the personality of the individual entrepreneur. What is particularly interesting in the work from this period is the way that Weber counterposes the entrepreneur to the bureaucrat. As society becomes more rationalized, Weber argues, bureaucracy becomes ever more important, both within the enterprises and within the state. If the political bureaucracy succeeds in taking over all of the economy, say through a socialist revolution, economic progress will grind to a halt and political democracy will be replaced by dictatorship. In a capitalist society, in other words, the economic sector operates as a counterbalance to the political sector.

But the economy can also be stifled from within, Weber argues, and this is what happens if the bureaucratic tendencies within the individual enterprises are allowed to take over. If this happens—and it was Weber's personal fear that it indeed would happen—rent would replace profit, the economy would slow down, and a repressive, political climate would soon emerge. The entrepreneur, in Weber's opinion, is the only person in the economy who can keep the bureaucracy in its place. The entrepreneur is used to taking his or her own decisions and to assuming responsibility for a whole organization—not to obeying orders and yielding, as is the bureaucrat. Only the entrepreneur, Weber adds, has better knowledge of a firm than the bureaucrats.

What then are the practical implications of Weber's theories about entrepreneurship? I have to admit that in trying to give an answer to this question I feel a bit like Freud, who when someone drew his attention to the psychoanalytical significance of smoking cigars (Freud loved cigars), meekly answered: 'There are times when a cigar is only a cigar'. In other words, Weber's ideas are surely innovative and brilliant—but they do not seem to have any obvious practical implications. They are just good social science. Still, with a bit of good will it can be shown that it is possible also to use Weber's work as a point of departure for an interesting discussion about practical entrepreneurship. Weber's early definition of entrepreneurship may, for example, help us to put Schumpeter's individualistic entrepreneur into perspective. For entrepreneurship to exist, according to Weber, you first and foremost need a modern enterprise

or organization that is capable of successfully and methodically exploiting profit opportunities; a creative personality with lots of good ideas is not enough. Such notions in *The Protestant Ethic* as methodical work and 'moneymaking as a vocation' also raise a number of questions. First of all, what precisely is meant by methodical work and moneymaking as a vocation and how exactly do they relate to entrepreneurship? Do these two types of behaviour thrive in post-industrial society or do they belong to an earlier epoch? Can they be taught and, if so, how? To compare, contrast, and otherwise explore the differences between the entrepreneur and the bureaucrat on a number of practical issues may also be a useful exercise for the entrepreneur-to-be. Indeed, Howard Stevenson and David Gumpert have tried to do exactly this in their well-known article called 'The Heart of Entrepreneurship' (1992). A final question that it may be interesting to discuss is whether the current attempt in the business school community to turn entrepreneurship into a teachable skill is not itself an example of rationalization and disenchantment. Is it perhaps true that the mythical entrepreneur is on his way out, about to be replaced by a score of methodical and innovative MBA students? Can entrepreneurship really be taught?

2.2. *The Contributions of Sociologists, Anthropologists, Psychologists, and Economic Historians*

The topic of entrepreneurship has never been particularly popular in *sociology* but a number of studies, some of which are of high quality, have none the less been produced over the years (for a survey, see Martinelli 1994; for a general introduction to economic sociology, see Smelser and Swedberg 1994). It should also be noted that there exist a number of general theories of change and innovation in sociology, which are of interest in this context. While Weber's theory of charisma may not be identical to his theory of entrepreneurship, the concept of charisma can none the less be used to elucidate certain aspects of entrepreneurship, as a well-known study by Nicole Woolsey Biggart—*Charismatic Capitalism: Direct Selling Organizations in America* (1989)—illustrates.

Emile Durkheim's notion that new institutions and new values appear in situations of 'collective effervescence'—when the intensity of social interaction reaches such a pitch that it practically boils over—is another interesting theory of innovation (Durkheim [1912] 1965: 240–55). Examples of such moments in history, according to Durkheim, include the Renaissance and the French

Revolution. Examples from the economy would perhaps be the early stages of the Industrial Revolution in England, the time around the turn of the century in the United States—or the more recent history of Silicon Valley (for the last example, see “The Origins and Dynamics of Production Networks in Silicon Valley” by AnnaLee Saxenian).

Robert K. Merton’s idea that many discoveries are made by accident (‘serendipity’) is also evocative in this context (Merton 1968: 157ff). In one of his most famous articles Merton has furthermore suggested that there may exist an inadvertent link between entrepreneurship and crime. In cultures where there is a very strong emphasis on what people should strive for (such as economic success in the United States), but where there also exist few means through which the average person can reach this goal, the result is often an attempt to find a new way to succeed—innovative behaviour for businessmen, but sometimes also deviance and crime for those without access to legitimate means (Merton 1968: 181–214). Some sociologists have also suggested that entrepreneurship can be conceptualized as a social movement; and that there exist entrepreneurs in other spheres of society than the economy. Concepts such as moral entrepreneurs, political entrepreneurs, and so on have as a result become quite common (see e.g. Becker 1963: 147–83, Jenkins 1983, Weber 1994: 338–47).

Sociologists, as opposed to economists, often apply a comparative perspective on entrepreneurship, and S. M. Lipset’s article “Values and Entrepreneurship in the Americas” is a fine example of this. Lipset argues that cultural values deeply affect entrepreneurship and the level of economic development, and to show this he contrasts Latin America to North America. While the former was deeply influenced by early Iberian culture, with its tendency to downgrade manual labour as well as commerce and industry, Puritan values with their emphasis on work and moneymaking, as a vocation in God’s honour, predominated in many parts of the United States. While landed property became the mark of success in Latin America, it was fortunes made in business in the United States. The educational ideals have also differed, with humanist education being popular in Latin America, as opposed to engineering and science in the United States (cf. Cardoso 1967).

One topic that has nearly become a growth industry in contemporary sociology is that of entrepreneurship and ethnicity (e.g. Aldrich and Waldinger 1990; Waldinger, Aldrich, and Ward 1990; “Ethnic Entrepreneurs”). It has been well established, for example, that ethnic groups have a natural market for certain commodities among their own members, but also that this market cannot grow beyond a certain size. Ethnic minorities tend to favour family

businesses, and these are often kept alive through self-exploitation. It can be added that some interesting insights about entrepreneurship in developing countries have also emerged within the framework of ethnic entrepreneurship. In discussing some particular ethnic group, this type of study usually also says something about the economic (and entrepreneurial) conditions in the country from where the members of the ethnic group originate. It is furthermore common that the ethnic group which is being studied operates in a developing country—with its own attitudes to entrepreneurship and business.

What Mark Granovetter has to say about the emergence of the firm is also of relevance for an understanding of entrepreneurship in developing countries (“The Economic Sociology of Firms and Entrepreneurs”). He points out, for example, that extended kin ties and family solidarity can constitute an obstacle for a businessman if the latter is obliged to care for distant kin members; but that the same strong family feelings can turn into an advantage once the businessman has emigrated—as long as the distant kin members stay behind. Granovetter also discusses another important element in many entrepreneurial ventures, namely *trust*. In social groups and societies where people are isolated from each other, he argues, it may be difficult to develop the kind of confidence that is absolutely necessary to start a firm or otherwise cooperate in economic matters.

Sociologists have also looked at aspects of modern entrepreneurship other than ethnicity. One method that has been used in some of their studies is that of networks, as illustrated in this volume by Ronald Burt’s article on ‘structural holes’, (“The Network Entrepreneur”). According to Burt, entrepreneurial opportunities exist in a person’s network if this is structured in a special way. More precisely, person A’s network contains entrepreneurial opportunities (or structural holes) to the extent that it contains groups of people who want to do business with each other and who have no other way of communicating than via person A. Sociologists have also shown that it is possible to relate entrepreneurship to the rise and decline of organizational populations. This means that an entrepreneur’s chance of succeeding is to some extent dependent on when he or she starts the business—at the same time, before or later than other people (see in this context “Entrepreneurial Strategies in New Organizational Populations” by Howard Aldrich). The reader should also be aware that there is a rather complex process, which has been little studied, which takes place *before* a firm is founded (Aldrich 1999).

As illustrated by another text in this reader, the study of entrepreneurship within large firms has also attracted some attention among sociologists. According to Rosabeth Moss Kanter, a well-known sociologist at the Harvard

Business School, innovations within firms (intrapreneurship) can be consciously cultivated with excellent results (“When a Thousand Flowers Bloom: Structural, Collective, and Social Conditions for Innovation in Organization”; cf. Kanter 1983, 1997). ‘Innovations’, she argues, ‘can grow wild, springing up weed-like despite unfavorable circumstances, but they can also be cultivated, blossoming in greater abundance under favorable conditions’ (Kanter 1988: 170). You have, first of all, to create a corporate environment that is positive to the generation of ideas; then put resources at the disposal of the idea generators; and, finally, have an organizational structure that facilitates the completion of the new project and helps diffuse the innovation.

A few words need finally to be said about the way that sociologists have dealt with the issue of gender and entrepreneurship. Some solid sociological insights on intrapreneurship and gender have been developed by Rosabeth Moss Kanter (1977, 1983); and there also exists the previously mentioned study by Nicole Woolsey Biggart of female direct selling organizations. A few other studies—of women and self-employment more generally, for example—can also be found (e.g. Carter and Cannon 1992, Kovalainen 1993, Moore and Buttner 1997). On the whole, however, much more work needs to be done on this topic—a statement which is not only true for sociologists, but also for scholars from other disciplines who do research in this important field.

Compared to sociology, relatively few studies of entrepreneurship are to be found in *anthropology*. The only overview that exists is quite old, even though it should be added that comparatively little work has been produced on this topic during the last ten to fifteen years (see Owens 1978; see also Greenfield 1979, Greenfield and Strickon 1986, and “Entrepreneurship and Anthropology: The Case of Freddy, the Strawberry Man” by Monica Lindh de Montoya). Still, some of the work that has been produced by anthropologists on this topic—especially by Fredrik Barth and Clifford Geertz—belongs to the absolute finest in the social sciences. A student at a business school in, say, Europe or the United States may, of course, wonder what studies of non-Western and pre-industrial societies, of the type that anthropologists specialize in, have to do with entrepreneurship in the modern world. There are two answers to this question, as I see it. First, anthropologists, like other social scientists, aim at generality in their research, which means that the concepts they use and the insights they develop may also be applied to behaviour in contemporary western society. And second, modern-day anthropologists do not only deal with pre-industrial societies but also with developing countries and fully industrialized countries. Geertz’ best known study of entrepreneurship, for example, is an analysis of two Indonesian villages in the 1950s (Geertz 1963).

Fredrik Barth made his first attempt to develop an anthropological theory of entrepreneurship in his native Norway in the 1960s, but it is in a study of a Central African village from a few years later that his ideas have come to their clearest and most mature expression (for Norway, see Barth 1963; for Africa, "Economic Spheres in Darfur"). According to Barth, entrepreneurship has essentially to do with connecting two spheres in society, between which there exists a difference in value (see also Granovetter forthcoming). Something which is cheap in one sphere, in other words, may be expensive in another sphere. In the Norwegian study, for example, Barth argues that economics and politics constitute two different spheres, and that it can be very difficult (but also lucrative) to transfer value from one sphere to the other. It is, for example, illegal to use money to buy support in the political sphere. It is, on the other hand, possible to make financial contributions to political parties; and in this way some licence may be procured, a road may be built or something else be accomplished, which is worth much more than the amount that was given to the political party.

In his case study from Central Africa, Barth uses an example of an economy which has two distinct spheres. In one of these cash is used, in the other not. In the former people trade on the market in a few products, such as onions and tomatoes; while the second economic sphere is characterized by millet production and work to build houses, which only can be exchanged for beer, not for cash. That these two spheres should be kept separate from one another was seen as self-evident by the local population; and this was also the way it had 'always' been. One day, however, an Arab merchant appeared and connected the two spheres by offering beer in exchange for help in cultivating tomatoes—which he then sold for cash on the market at a good profit for himself. Barth's analysis of economic spheres illustrates not only that entrepreneurship is about spotting new opportunities, but also, as Robert K. Merton has suggested, that entrepreneurship may involve a challenge to some of the basic values that exist in a community.

More studies on entrepreneurship may well have been carried out within the field of *psychology* than in either mainstream economics or in sociology (for a survey of the field, see Chell *et al.* 1991). Psychological studies of the entrepreneur have none the less a fairly low status among social scientists who study entrepreneurship, and the main reason for this is that the attempt to single out one or several psychological traits as typical for the entrepreneurial personality is generally considered to have failed. That such a personality exists in the first place is also seriously doubted. To this can be added that psychologists often try to explain far too much, according to the other social

sciences, including those aspects of entrepreneurship that, for example, sociology or economic history are better equipped to handle.

It is possible to roughly divide the psychological studies of entrepreneurship into two groups: one where the main goal is to isolate the entrepreneurial personality; and another which is more social-psychological in nature and where the personality of the entrepreneur is seen as decisively shaped by something from the outside, such as the minority status of the parents or the way that children are socialized. The former types of study are typically conducted on a population of a few dozen to one or two hundred subjects, who are either interviewed or given a questionnaire to complete. Control groups are rarely, if ever, used. The list of traits that supposedly characterize entrepreneurs is long—independence, problem solving style, flexibility, creativity, high self-esteem, endurance and so on—but none of these (or no combination of them) has won general acceptance. The results, to cite some knowledgeable psychologists, are 'contradictory', and there is 'little agreement' among the researchers as to the nature of the psychological makeup of the entrepreneur (Chell *et al.* 1991: 29, 37; cf. Brockhaus and Horwitz 1986).

Some of the best known attempts to unlock the secrets of entrepreneurship with the help of psychology can more appropriately be labelled social-psychological, since they are centred around the interaction of the entrepreneur with his or her social surroundings. There are in particular two studies of this type that have become famous: David McClelland's *The Achieving Society* (1961) and Everett E. Hagen's *On The Theory of Social Change* (1962). McClelland's basic thesis is that entrepreneurship has to do with an individual's so-called need for achievement (referred to as *n* Achievement); while Hagen (trained as an economist) argues that people who have grown up in certain minorities develop a much stronger psychological propensity for entrepreneurship than those who have not.

The approaches of McClelland and Hagen are generally seen as discredited today (see for example *The Modernization of Entrepreneurship* by Alexander Gerschenkron; see also Schatz 1965). Both theories may well contain a grain of truth, but McClelland as well as Hagen try to bite off far too much in their analyses and especially disregard the complicated institutional environment that surrounds the entrepreneur. As an example of this one can mention McClelland's argument that the achievement motive of the ascetic Protestants created modern capitalism (while Weber had argued something different, namely that the ascetic Protestants had helped to create the spirit of modern capitalism but none of its many institutions, from commercial law to the modern enterprise). Hagen's argument is similarly tenuous: status withdrawal

from a minority supposedly leads to the development among future male children of a certain 'retreatism'; after having lived with such retreatist males for a few generations, their wives get annoyed and try to install an achievement motive in their sons—and thereby social change and economic growth begin.

Despite all the critique that can be directed at the works of McClelland and Hagen, it is also clear that much can be learned from their studies—something which is also true for many works in the psychological literature on entrepreneurs. McClelland in particular is a very creative thinker and has introduced fascinating new types of material into the discussion of entrepreneurship, such as children's tales and different forms of popular culture (McClelland 1962 is a good and easy-to-read example of this). It would also seem obvious that there *does* exist a psychological dimension to entrepreneurship, and that psychologists have an important contribution to make to this field. Exactly how this can be done is not clear today, even if it is often suggested that in order to be successful, psychological research has to be better coordinated with the insights of the other social sciences. It is unlikely, in other words that *the* 'entrepreneurial personality' will ever be discovered. It also seems likely that psychologists would do better if they focused on some unit other than the entrepreneur's personality—for example on different types of entrepreneurs, on the gender dimension of entrepreneurship or on entrepreneurship in different kinds of organizations.

The number of studies which have been carried out within the field of *economic history* is enormous and probably exceeds what all the other social sciences have produced together. This literature not only includes traditional economic history (in all its national variations), but also business history and the kind of monographs which corporations like to publish in connection with their jubilees. Adding to the difficulty in summarizing the main trends in this giant literature is also the fact that the only available surveys of studies of entrepreneurship within economic history are incomplete, somewhat old and heavily biased to Anglo-Saxon contributions (Soltow 1968, Mathias 1983; see also Hannah 1983 and Livesay 1989). Judging from what my colleagues in economic history tell me, the current profile of entrepreneurial study may look something like this: there is an increasing number of sophisticated studies of entrepreneurship within single corporations and also attempts to use concepts and theories from microeconomics on economic development; studies of entrepreneurship within small enterprises, of female entrepreneurs and of commercial failures are, on the other hand, still very much underrepresented.

A great landmark in entrepreneurial studies is represented by what was accomplished during the decade that the Research Center for Entrepreneurial

History was in operation at Harvard University (1948–58). The main spirit behind the Center, economic historian A. H. Cole, felt that entrepreneurial history must be interdisciplinary in nature and did his best to get people from a number of different social science disciplines interested in its activities. A list of those who in one way or another participated in the Center includes the following: Bernard Bailyn (history), Thomas Cochran (economic history), Alexander Gerschenkron (economic history), David Landes (economic history), Talcott Parsons (sociology), Fritz Redlich (economic history), and Joseph Schumpeter (economics). Also a small number of anthropologists were involved, such as Richard Wohl and Cyril Belshaw.

That scholars of this calibre would leave behind many interesting studies is obvious, and this is also what happened (see e.g. Aitkin 1965). Some of these exist in the form of monographs, while others were published in the journal of the Center, *Explorations in Entrepreneurial History*. A central theme in much of this work was that entrepreneurship should not be studied by focusing on the individual entrepreneur but rather by looking at the enterprise. Special attention was often paid to the social relations within the enterprise and to the relations between the enterprise and its surroundings. A special effort was made by several members at the Center to apply the concepts of social role and social attitude to the study of entrepreneurship—but there also existed some significant opposition to this. Marshalling a number of historical examples in his support, Alexander Gerschenkron, in particular, countered that entrepreneurship has flourished in many places where the general attitude of the population to economic innovations had been negative. In countries where the prerequisites for an industrial takeoff did not exist, he also noted, substitutes had usually been found, with the state or the banks filling in for local entrepreneurs (“The Modernization of Entrepreneurship”).

One of the most solid contributions to the study of entrepreneurship during the post-World War II period has been made by business historian Alfred Chandler. In several huge volumes, which began to appear in the 1960s, Chandler more or less singlehandedly wrote the history of an extremely important innovation in US economic history: the huge industrial corporation, which appeared at the end of the nineteenth century. Chandler, however, was not so much interested in writing the history of the entrepreneurs who had started these corporations, as in understanding the new type of administration that characterized them. These huge corporations, he argued, could produce products which were considerably cheaper than their competitors, for mainly two reasons: decreasing costs, due to large production (*size*), and a big repertoire in products (*scale*; cf. Chandler 1990). To Chandler, it is these giant industrial corporations

which have driven economic growth and entrepreneurship during the twentieth century in the OECD countries; and he is convinced that they will also do so in the future. (For a counterargument which highlights the importance of small and flexible firms in contemporary society, see “The Origins and Dynamics of Production Networks in Silicon Valley” by AnnaLee Saxenian on Silicon Valley in the 1970s; see also Saxenian’s well-known study *Regional Advantage* [1994]).

It was perhaps not to be expected that those scholars who wanted to apply microeconomic concepts to economic history would be particularly interested in entrepreneurship; and this has also turned out to be the case. In the work of economic historian and Nobel Laureate Douglass North, for example, the entrepreneur plays a very small role, when mentioned at all. In *The Rise of the Western World* (1973) North and Thomas argue that differences in relative prices create incentives for the emergence of efficient organizations, and it is these latter which produce economic growth. In a later study North backtracks and says that political rulers devise property rights in their own interest, something which can lead to the creation of inefficient economic organizations and a blocking of economic development. In *Institutions, Institutional Change and Economic Performance* (1990)—North’s latest, major statement—it is explicitly stated that the individual entrepreneur is ‘the agent of change’ and that he or she responds to incentives embodied in the institutional framework (North 1990: 83). As in North’s earlier work, however, the entrepreneur is only mentioned in passing, and there is no real attempt to flesh out what a new institutional theory of the entrepreneur might look like.

Finally, the reader may have noted that in discussing the non-economic sciences I have not mentioned their possible contributions to practical entrepreneurship. The main reason for this has been my desire not to unduly tax the patience of the reader; another reason is that it is fairly easy to spot the practical implications of the type of analysis that one can find in the non-economic social sciences. That it is easy to do so is probably due to their close link to empirical material; and in many cases the theories of sociologists, economic historians and so on are little but generalizations, based on a number of individual cases. This can be exemplified by the sociological literature on ethnic entrepreneurship, where quite a few of the insights can be directly translated into practical advice for how to start up a business, what traps to avoid, and so on. Some social scientists, it should be noted, also write because they want to change reality, and in this case the step from text to practical advice is naturally minimal.

It would, however, be a pity to close the section on the practical implications of the non-economic social sciences without mentioning one type of insight which can be found in this literature, but which is absent in most of the

economics literature. This is the fact that successful entrepreneurship usually involves more actors than the entrepreneur himself or herself, and that the behaviour of these other actors must be taken into account in the analysis. One of these actors is clearly the state, and I have also mentioned Gerschenkron's observation that the state can substitute for a native group of entrepreneurs under certain conditions (*The Modernization of Entrepreneurship*). Another type of state intervention—which is more in tune with the ideological climate of today—would be for the state to sponsor entrepreneurial education, supplied in schools, to the unemployed or to youths in the ghetto. This, for example, is what sociologists Ivan Light and Carolyn Rosenstein suggest for the United States (Light and Rosenstein 1995: 205–28). That parents can also play a role in entrepreneurial education is implied in several studies in psychology; but exactly how this is to happen is not clear. Intermediate organizations of the type that civil society is made up of, may also be very helpful in furthering entrepreneurship. Tocqueville, for example, pointed out in *Democracy in America* (1835–1840) that active political participation in the townships had helped the American population in the early 1800s to acquire skills which they later used for setting up and operating their own businesses.

3. Summing Up the Argument: Bringing Practical Knowledge and Scientific Knowledge Closer Together

Even if one goes through the social science literature in as quick and summary a fashion as I have done here, it should be clear that the social sciences not only have a contribution to make to the analysis of entrepreneurship but also to *practical entrepreneurship*. Some social science ideas, as I have tried to show, can be directly translated into advice for how to run a business, while in other cases a bit of ingenuity may be needed to ferret out the practical implications of some arguments. In a number of cases, finally, it is hard to find any practical implications whatsoever.

It deserves to be emphasized that the absence of practical implications is not necessarily a disadvantage since the social sciences also have other tasks than being of practical use. Certain questions—including ethical ones—need to be discussed, regardless of practical results or implications. Successful

entrepreneurship may, for example, benefit some groups in a society, but not all; and it is the duty of the social scientist to figure out if this is the case. It is similarly the duty of the social scientist to point out, as Baumol (1993) has done, that throughout history entrepreneurship has many times been destructive to all but a small minority in society. Finally, according to a common view in the social sciences, all values are scientifically undemonstrable (Weber 1994). If one should be for—or against—entrepreneurship is consequently something that social science cannot pronounce on.

It is clear that a social science which sees as its only task to produce practical recipes for entrepreneurs-to-be would soon become sterile. There exists a playful and impractical element to social science which is absolutely necessary for its development, but which has no place in the world of practical business. Businessmen, as David McClelland (1962) has pointed out, want quick results and plenty of money in exchange for their efforts, while scientists like to get involved in projects which stretch over a long period of time and where the 'payoff' is often neither very clear nor supplied in money.

The general thrust of this essay can be summarized and given some generality with the help of Hayek's argument about 'practical knowledge' versus 'scientific knowledge', which was mentioned at the outset. Hayek, to recall, contrasts scientific knowledge to practical knowledge, defining the latter as concrete knowledge about an individual case, and the former as a much more general and analytical kind of knowledge. In Hayek's view, practical knowledge has often been looked upon with a certain disdain by scientists, something which he felt was wrong.

With a bit of oversimplification it is possible to conceptualize practical knowledge and scientific knowledge as being situated along one and the same continuum, with a minimum of abstraction and analytical complexity at one of the ends and a maximum of the two at the other. What has earlier been said about social science and practical entrepreneurship can then be placed along this continuum, and a typology suggested. First of all, there exists the kind of detailed, practical knowledge which the entrepreneur has of his or her own business deals (*Type 1: practical knowledge of the entrepreneur*). Next comes the kind of knowledge that is often taught in courses on entrepreneurship at business schools today. This type of knowledge about how to spot and develop business opportunities is very concrete in nature but differs from Type 1 in that it is more general, especially since it has to be taught to a plurality of students (*Type 2: practical knowledge about entrepreneurship, as taught in the business schools*). Social scientists can sometimes contribute to this type of knowledge by directly translating some of their insights into practical advice, but most of

the research that the social scientists produce can be found at the next stage of abstraction. This type of knowledge is often rich in practical implications for entrepreneurship (*Type 3: social science knowledge with practical implications for entrepreneurship*). And finally, the most abstract type of social science knowledge is of such generality that it is often totally impractical or otherwise irrelevant for practical entrepreneurship (*Type 4: pure social science or social science with no implications for practical entrepreneurship*).

Hayek's critique of scientific knowledge in the 1940s, and the critique of the social sciences that today is coming from some of those who teach entrepreneurship in the business schools, can be interpreted as a plea for shifting the emphasis in current social science research from Type 4 (or pure science) to something like Type 3 (or social science research with direct implications for practical entrepreneurship). In my opinion this is a reasonable request; it would also be good if it was possible to develop more of a direct overlap between practical entrepreneurship, as taught in the business schools, and social science research at the universities. Both parties would no doubt benefit from this.

Notes

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