



# Changing Ideas and Contours of Entrepreneurship in the History of Thought: On the Fluidity and Indefiniteness of a Term

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**Abstract.** Not only in the history of economic theory are changing conceptions and definitions of entrepreneurship on the agenda but also current entrepreneurship research shows oscillating contours in the semantic use of the word. The paper takes this notion as a backdrop, endeavouring to differentiate and spell out different relationships between entrepreneurship and self-employment. In some cases, entrepreneurship and self-employment have a one-to-one fit and can be used interchangeably while in other cases, entrepreneurship does not correspond to the labour market category of self-employment or, vice versa, self-employment as practised in reality does not match entrepreneurship empirically. Freelancers working part-time or full-time, farmers, micro-entrepreneurs without employees, and “big” entrepreneurs employing a larger number of wage- or salary-dependent employees are difficult to summarize in one single box. The intention of this paper is to provide an introduction to the different semantics and to highlight and explain difficulties that arise when talking about entrepreneurship in order to systematize competing and hazy interpretations. The general discussion attempts to combine an explanation in economics, which is rather economically-functionally oriented, with an explanation with a sociological-institutional focus, which is oriented more in terms of social rationalities, biographies and various other dimensions.

**Keywords:** entrepreneurship, history of economic thought, competition, Adam Smith, Joseph A. Schumpeter, Israel Kirzner.

## 1. Introduction

The present paper is about entrepreneurship but it regards entrepreneurship in a non-conventional sense in order to tackle the content. While most contemporaries in the field of entrepreneurship as a scholarly domain take the term as given, this paper questions what others take for granted. It explores the content and emergence of the semantics of entrepreneurship. Entrepreneurship has become a prominent and strategically important issue when talking about driving forces towards prosperity and job creation. In combination with ideas about new regional economies and new information and communication technologies, entrepreneurship serves as universal key, which provides in-itself fruitful paths into the future. However, entrepreneurship seems to be somehow

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vaguely and oscillating defined. The phenomenon is more complex in reality than public discourse sometimes suggests. Consequently, we have to talk about entrepreneurship with not only one meaning but with several, some of which contradict each other. Entrepreneurship is an *economic function*, entrepreneurs are a category of the occupational structure and the labour market, entrepreneurship is a tool of economic and regional policies and, in the same sense, entrepreneurship is hardly defined, neither in the public sphere, nor by the academic entrepreneurship domain itself, nor within the history of economic thought. Many forms of self-employment are labelled entrepreneurship (and vice versa) but this semantic equation is problematic and must be treated carefully (Van Stel 2005).

It has been argued that entrepreneurship is a heterogeneous domain which is on the verge of turning into a new academic subject (Shane and Venkataraman, 2000; Davidsson, 2016). According to this, entrepreneurship can be seen as being on the way to integrating itself and integrating other academic terrains (Bögenhold, Fink and Kraus, 2014) in a unique new field. The aim of this paper is to point to the different semantics of entrepreneurship when referring to economics, business administration or sociology. In a nutshell, the current use of wordings like entrepreneurship and competition always implies a split between economic and social perspectives, which follow different rationalities. In some way, the paper tries to disintegrate the field of entrepreneurship by distinguishing between an economic-functional, a contextual-institutional and a social and individual view of actors.

Different interpretative issues surrounding the word “entrepreneurship” are overlooked, and the use of the term is often based on selective associations. Not only has the nature of entrepreneurship changed during the historical processes of the last century but also the academic handling of entrepreneurship in the history of economic thought has been changed and is inconsistent. Different approaches coexist and academic discussion on entrepreneurship is trying to develop typologies of the different concepts. A brief glance at selected classics in the field already serves to show how disparate the contents of the meaning of entrepreneurship have been and still are (Kuratko, 2006; Hébert and Link, 2009; Landström and Lohrke, 2010).

### 1.1. Entrepreneurship in Times of the Digital Knowledge Economy

While discussion about entrepreneurship in economics is mostly concerned with economic functions, different uses in labour market research, in psychology or in sociology embody various forms of social and occupational practice. In principle, an asymmetry exists between the terms entrepreneurship and self-employment. It is too difficult to put all of these different items under one semantic umbrella of entrepreneurship as though all academics were raising the same research question, as Gartner (1988) pointed out some time ago. Times are changing rapidly and, accordingly, so are the structure of the economy and the

division of work. Self-employment in the so-called digital age has different colours and contours than it had in capitalist societies 50 or 100 years ago. In former decades, the largest companies in the world were mostly concerned with manufacturing. At the beginning of the 20th century, the most famous companies were in the steel industry and engaged in diverse applications of steel production, such as building cars, railways, ships or tanks. Landes (2006) has discussed those dynasties as family clans which were central to the rise of specific technologies and their production, which earned their fortunes and bequeathed and often multiplied their wealth from generation to generation. Later, other technologies became more central so that among the wealthiest and most powerful industrial companies, there were enterprises spanning a wide range of industries, such as the chemical or pharmaceutical industry, banking, insurance, energy, or the food industry. Looking at the most powerful companies worldwide in terms of their stock market capital, it is clear that the landscape of the wealthiest companies has changed. Today, the top five companies in the world are Apple, Microsoft, Alphabet, Facebook and Amazon. All of these companies are US-based firms which operate globally and which are ultimately linked to the so-called digital age of capitalism. Among them, only Apple is mainly engaged in manufacturing, although this is carried out mostly in China, while the other big companies are primarily centred on developing, producing and selling software (Alphabet), running internet applications (Facebook, Google) or mainly engaged in selling and logistics (Amazon). All of these big ventures are knowledge intensive; they were created just a few decades ago as start-ups by regular individuals and they serve as impressive examples for hundreds or thousands of other young companies, passing on the message that creativity combined with knowledge may matter, especially in the digital world. In other words, turning good ideas into opportunities and vice versa seems to have become one of the challenges of recent times.

It was already Schumpeter who pointed to the fact that in dealing with capitalism “we are dealing with an evolutionary process” (Schumpeter [1942] 2003, p. 82). Therefore, analysing capitalism is – according to Schumpeter – “by nature a form or method of economic change and not only never is but never can be stationary” (Schumpeter [1942] 2003, p. 82). Entrepreneurship is closely linked to market competition and the emergence of opportunities but it has also become a kind of time diagnosis when it is said that societies have changed from a managerial to an entrepreneurial form of capitalism (Audretsch and Thurik, 2000). This paper tries to reconstruct when and where and in which context talking about entrepreneurship first emerged. Scanning some selected but relevant works within the history of economic thought during the last 250 years, it is argued that one has to differentiate between what entrepreneurship is (and can be). One side of talk about entrepreneurship covers phenomena which include dynamic fast-growing firms, which are at the core of hope of the economic policy debate. This practical field is closely related to further discussion on how to raise funds, especially through venture capital markets.

Another, less spectacular, form of entrepreneurship covers the emergence of new micro firms, of solo self-employment without intentions or possibilities for growth and of many diverse new developments in small business (including so-called social entrepreneurship), which are more or less effects of labour market changes and which are often connected to low income levels rather than themselves being potential new multipliers.

The set-up of the paper is as follows. In Section 2, we will discuss some seminal works in the history of entrepreneurship thought. Section 3 then makes an attempt to link these seminal works to contemporary phenomena in entrepreneurship research. Finally, Section 4 concludes.

## 2. Visions of the Classics

Since the existing literature in the area of entrepreneurship has become extremely broad and manifold, the article will select some so-called lighthouses in the course of the history of entrepreneurship thought as major pieces of intellectual debate and its evolution. Table 1 indicates seminal works covered in the following discussion with their relevance to dimensions such as uncertainty, knowledge creation and entrepreneurship.

Table 1: Major Authors in the History of Entrepreneurship Thought

Author/s	Year	Conceptual/ Empirical	Discussion of Competition	Uncertainty/ Complexity	Centrality of Knowledge	Discussion of Entrepreneurship
Cantillon, Richard	1755	conceptual	yes	implicit	yes	implicit
Smith, Adam	1776/1790	conceptual	yes	implicit	no	implicit
Knight, Frank H.	1921	conceptual	implicit	yes	implicit	yes
Hayek, Friedrich v.	1940	conceptual	implicit	yes	yes	no
Schumpeter, Joseph A.	[1912] 1963, 1942	conceptual	implicit	no	no	yes
Leibenstein, Harvey	1968	conceptual	yes	implicit	yes	yes
Kirzner, Israel	1973	conceptual	implicit	no	no	yes
Baumol, William	1990	conceptual	no	no	no	yes
Acs, Zoltan J./ Audretsch, David B./ Lehmann, Erik F.	2013	conceptual	implicit	implicit	yes	yes
Shane, Scott/ Venkataraman, V.	2000	conceptual	no	no	implicit	yes
Foss, N./ Klein, P. G.	2012	conceptual	yes	yes	yes	yes
Davidsson, Per	2015	conceptual	yes	yes	yes	yes

Source: own elaboration.

## 2.1. Competition and Markets

Competition is one of the essentials of market capitalism in the view of classic economics. It is regarded as the driving force behind economic dynamics as well as behind wealth and prosperity. According to the idea of perfect capitalism, the institutions of market and competition go hand in hand as two sides of the same coin. Different agents compete through different mechanisms to maintain advantages over others, and these mechanisms can consist – among others – of price, product or process innovations. The classic idea already provided by Adam Smith is that individual companies and the global economy both profit when individual companies try to realize competitive advantages by following their own aims (Goodspeed, 2015). Although Adam Smith is often regarded as the starting point of reasoning on market dynamics, one must go back for one further generation to the Irishman Richard Cantillon who spent most of his life in Paris and who wrote in French. His famous (originally French) book “Essay on the Nature of Commerce in General” (1755) was the first attempt to deal with markets and to introduce the term of the entrepreneur who was always thought and translated as the “maker” or “undertaker”.<sup>2</sup>

One of the premises in Smith’s reasoning is that the driving engine for prosperity lies in the division of labour, which interacts with ideas of corporate competition. As Schumpeter pointed out, “[n]obody, either before or after A. Smith, ever thought of putting such a burden upon division of labour. With A. Smith it is practically the only factor in economic progress” (Schumpeter 1954, p. 187). Although many classifications of his work run the risk of being turned into clichés (Naz, 2014), Smith is much more complex than those few sketchy lines may indicate and there are different academic routes, including sociological and philosophical ones, in his writings (for a comprehensive view, see Sen, 2010; Evensky, 2011; Hanley, 2016). Especially his Theory of Moral Sentiments sheds light on different topics. Nevertheless, Smith is the theorist who came up with a positive evaluation of competition and who introduced the metaphor of the invisible hand although this term is just mentioned once in “The Wealth of Nations” (Smith 1977, Book 6). According to Smith, the division of labour is the first source of productivity and selfishness the second driver towards prosperity. If people follow their own egoistic purposes, it turns out to be advantageous for the whole economy: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own

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<sup>2</sup> According to Cantillon, *entrepreneurs establish markets in centrally located villages which provide the necessary conditions under which prices are established between supply and demand. The size of the market town depends on the size of the economy it serves (Cantillon [1755] 2010, p. 31). The entrepreneur is mostly described functionally as an arbitrageur. Jean-Baptiste Say ([1803] 1971) enlarged the set of competencies of the entrepreneur. Say regards the entrepreneur as a very special labourer who is a coordinator, modern leader and manager within his firm (Van Praag, 2005).*

interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” (Smith 1977, p. 26-27).

## 2.2. Planning, Prices and the Market as the Sum of a Puzzle

Much of the contemporary and previous discussion about economic theory and economic policy is due to a misconception of the economic problem of society. If we follow F. v. Hayek, the problem of a rational economic organization of the economy relies on implicit methodological questions, which are often not fully indicated. One of the central points Hayek tackles is the common assumption in classical theory that information is given in identical portions of quality and quantity to all market participants (for a comparison of Hayek with Keynes, see Backhouse, 2014). However, as Hayek points out, the problem in determining a rational economic order lies in the fact that the essential knowledge of circumstances exists only in “dispersed bits of incomplete and frequently contradictory knowledge” (Hayek, 1945, p. 519). There is an asymmetry between knowledge in a society as such and the division of knowledge possessed by all individuals; knowledge does not show up in its totality to the individual. A crucial analytical question for Hayek is the issue of who performs planning in an economy (Caldwell, 2013), with planning thought of here as a complex of interrelated decisions.

Does planning have to be divided among several people or agencies, or can planning be done efficiently by one single authority on behalf of the whole economic system? That is the alternative which leads Hayek’s discussion. Hayek states that planning in a specific sense is central planning, which is found in the case of monopolies or in socialist planning societies. On the other hand, decentralized planning by many people can be identified as being competition. This way, competition is seen as a split of knowledge dispersed among many different individuals.

The efficiency of one or the other alternative depends mainly on whether they fully use the tool of existing knowledge or just parts of it. This in turn “depends on whether we are more likely to succeed in putting at the disposal of a single central authority all the knowledge ..., or in conveying to the individuals such additional knowledge as they need in order to enable them to fit their plans in with those of others” (Hayek, 1945, p. 521).

Hayek discusses a taxonomy of different types of knowledge, which includes scientific knowledge at one end of the span and tacit knowledge at the other. The concrete composition in which individuals dispose of knowledge differs widely and can be regarded as a specific resource of opportunities, “almost exclusively one of temporary opportunities” (Hayek, 1945, p. 522). A striking, narrow example of the idea is given by the occupational function of the arbitrageur, who profits from specific knowledge of circumstances within knowledge packages related to social figurations within time and space.

Prices serve as the “invisible hand” in the framework of Hayek’s argumentation; they are signals for coordination (for various further aspects, see Leeson, 2013). The price system is not a conscious invention but a spontaneous order, which serves as a mechanism for communicating information. In a “system where the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people in the same way as subjective values help the individual to coordinate the parts of the plan” (Hayek, 1945, p. 526). Prices must be regarded as a phenomenon at an aggregated level which can be compared in their relevance e.g. with language. Prices act to coordinate the separate actions of different people and the interplay of decisions on the basis of prices leads to one market, “not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all” (Hayek, 1945, p. 526).

Complex societies, which are understood as differentiated market societies based on an extensive division of labour and which are not governed by monopolies, have no way to eliminate the price system. The “unavoidable imperfection of man’s knowledge” is very much connected with the idea of decisions based on partial knowledge. These decisions continuously serve and provide new sources of opportunities in supply and demand. Due to the issue that, ultimately, decisions have to be left to those who are familiar with the circumstances, decentralized markets will always get support and input rather than central planning agencies.

### 2.3. From Uncertainties to Evolutionary Change

Increasing flexibility is nothing other than an attempt to minimize uncertainties. A study which addressed the phenomenon systematically and early on was the book by Frank H. Knight, “*Risk, Uncertainty and Profit*” (1971, originally 1921). Knight discussed strategies of business organizations in relation to issues of planning certainties. His study and practical teaching was, to an extent, a starting point for the famous Chicago School of Economics (Emmett, 2009). While competition between enterprises is modulated under the premise of perfect competition, where all participants share all the same relevant information, Knight argues that modern dynamic economic societies do not comply with this assumption. His premise is that we are in a world of dynamic and related uncertainties.<sup>3</sup> If we want to understand the economic system adequately, we have to arrive at a better understanding of uncertainties and corresponding zones of complexities. Expectations and certainties are separated by the issue of uncertainty. In economic life, nearly all future prospects and activities are based upon specific assumptions. These assumptions concern data

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<sup>3</sup> For a discussion of Frank Knight and his relation to institutional thought in economics, see Emmett (2013).

from competitors, the business cycle, labour markets, innovation and technology standards and institutional settings. The problem for corporations is how to act *despite* uncertainties.

Knight takes up a discussion which was already a topic in the reasoning of Adam Smith. Also Knight investigated the issue of how people cope with uncertainties. By introducing the elements of knowledge and uncertainty, Knight provides a much more detailed understanding of the competition processes than was given by the early classics. His distinction between an economy with certainty and one without certainty helps us to understand the inherent problems of competition. Suppliers produce for markets without knowing how times will evolve and how consumers will go on to decide between alternatives. However, Knight goes further when he also differentiates between different types of individuals. If we take Knight seriously, he was already dealing with many topics which are relevant in behavioural economics and the cognitive sciences of our times.

Knight's approach is important when bearing the history of economic theory in mind, since he refers systematically to the idea of uncertainty, which is of essential importance in the discussion about market processes and competition. Knight also refers to the idea of the entrepreneur, but this is just out of the corner of his eye and is of no further strategic relevance. For him the entrepreneur is just a proxy for a businessman. While Knight discusses uncertainty with respect to producers and to consumers, he mentions that uncertainty is of specific relevance for the entrepreneur (Brouwer, 2002; Andersson 2017). Recent entrepreneurship discussion in the context of the Austrian economic theory takes up Knight's premises very centrally and tries to bundle uncertainty, evolutionary change and assumptions of the free market economy to manage the task of dealing with uncertainty (Foss and Klein, 2012).

In cases of certainty, no planning scenario is needed since all parameters are known. On the other hand, an economy which is interpreted as being in a permanent storm of "creative destruction" – to use the famous term coined by Schumpeter (Schumpeter [1942] 2003) – is always in a flux of making new things. Joseph A. Schumpeter was among the first authors to establish a clear break with stationary neoclassic economics by highlighting the dynamics of capitalism.<sup>4</sup> Along with Marx, Schumpeter acknowledged the double face of capitalism, with its interplay of destruction and creativity, but Schumpeter stressed the dynamic process of industrial change much more than Marx ever did, and highlighted the principally *open nature* of the process, which comes clearly out in the term "creative destruction" (Schumpeter [1942] 2003, p. 82-83).

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<sup>4</sup> There is an ongoing series of publications regarding the work of Schumpeter in combination with entrepreneurship; for a few selected examples, see Becker et al. (2011), Andersen (2009), McCraw (2007), Heertje (2006), Shionoya (1997), Reisman (2004), Backhaus (2003), Metcalfe (1998), Moss (1996) and Swedberg (1991a, 1991b).



Creative destruction is a contradictory expression which seeks to highlight the fact that competition and inherent processes towards monopolistic and oligopolistic competition are only one part of the overall economic game. The simultaneous processes of creating new firms, new ideas and even new business leaders elsewhere in an economy are neglected too often. Deaths and births – both of business enterprises and of individuals – are two sides of the same coin, namely economic dynamics, and Schumpeter dubbed creative destruction as an essential fact of capitalism. Innovation is the steady flow of “fresh blood” through new ideas and people who keep the “capitalist machine” going. However, creativity is always combined with destruction elsewhere. When new products appear, the consumer demands change, and existing production and related markets are rendered obsolete.

#### 2.4. The Entrepreneur Enters the Intellectual Scene

In accordance with the Schumpeterian framework of thought, innovation and technical progress are not external factors but they belong to the economic system as internal factors. The crucial question is not what capitalism does with economic structures but how capitalism creates and destroys its own structures. The basic assumption of its dynamics is the existence of competition for innovation: Companies always compete for new ways of innovation. Innovation is regarded as introducing a new combination of things which did not exist before or which were not done in that way before. The implementation of a new combination is the successful test on the market (Schumpeter, 1963).

To a far greater extent than the other authors discussed previously, Schumpeter is an author who deals explicitly with economic change and the related dynamics and innovation processes (Bögenhold, 2014). Although Schumpeter was not the first to raise the question of entrepreneurs, he did so very consciously by emphasizing the strategic role of the entrepreneur (Wadhvani and Jones, 2014). The fact that a capitalist economy and society is very much dependent upon innovation and permanent renewal does not necessarily answer the question as to which agents in the economy are responsible for fulfilling these tasks of introducing new elements into the business cycle. In the argumentation framework of Schumpeter, the entrepreneur is the actor who performs this task. Entrepreneurs have the task to innovate the economy. Entrepreneurs are treated as agents who introduce new inputs into the economy. Schumpeter defined an entrepreneur as a person who comes up with “new combinations” (new goods, new methods of production, new markets, new sources of supply, new organizations of any industry or any combinations of these items), which are commonly called innovation (Schumpeter [1942] 2003; 1963). The activity of entrepreneurs is classified as being fundamental for economic development (Kurz, 2012).

Entrepreneurship is regarded as an institution which has to carry out the function of providing innovations. “Swarms of entrepreneurs” coincide with

economic upswings. According to Schumpeter, the economic function of entrepreneurship is to initiate and continue the process of creative destruction as the “permanent storm of capitalist development”. In this view, entrepreneurs act as personifications of economically necessary functions of economic change. Schumpeter’s definition is remarkable, since he considers only those economic actors as entrepreneurs who create “new combinations” and who do this, effectively, by risk-taking with loaned capital. In this sense, an entrepreneurial being is “not a profession and as a rule not a lasting condition” (Schumpeter, 1963, p. 78).

Here, we see that a discussion of competition is incomplete if the actors are not included. Schumpeter introduces entrepreneurial activities which are ultimately linked to sources of uncertainties. Only those people who deal with uncertainties are regarded as – innovative – entrepreneurs. We see the nexus between the thoughts of Knight, Hayek and Schumpeter, which is the management of uncertainties under conditions of asymmetric information and perception. Management processes are always practised in and against dynamic environments under processes of uncertainties; they are realized under generalized hypotheses and normative assumptions in order to reduce complexities. Neither Adam Smith nor Karl Marx acknowledged the entrepreneurial actor, since both assumed implicitly that the economic process initiated by competition would run autonomously; the actor was treated like a black box.

The history of economic thought already knows the writings of J.B. Say and especially of Cantillon, who both referred to the entrepreneur as a “maker” or “undertaker”. However, this portrait seems to be a bit sketchy from today’s point of view because Cantillon ([1755] 2010) regarded entrepreneurs as agents with self-interested judgements in order to please consumers best but he did not come up with further explanations. He did not realize that “a greatly improved theory of the economic process might be derived by making the entrepreneur in the analytic schema what he is in capitalist reality, the pivot on which everything turns” (Schumpeter, 1954, p. 555). Schumpeter was the one who finally combined the idea of the analysis of the economic process with the entrepreneurial actor, which had been overlooked by other authors up until then. “Studies on the economic process without an understanding of entrepreneurship is like a study of Shakespeare in which Hamlet is drafted without the Danish prince” (Schumpeter, [1942] 2003, p. 86), a statement which has been quoted more than once since it was penned. It was not only the function that Schumpeter was interested in; he also wanted to get to know why specific actors really do what they do. So, already in his early work on the *Theory of Economic Development* (German 1912, English 1963) Schumpeter was interested in the essence of entrepreneurial motivation. Asking about the rationality of actors and – in this case – of entrepreneurs, Schumpeter pointed to the necessity of employing sociological and psychological arguments in order to provide a more firmly grounded perspective (Schumpeter, 1993). Schumpeter’s point is not to

leave the discussion at the level of a dark diagnosis of recent cultural and economic times related to capitalism, but he tries to understand the sense of economic activities as well (Michaelidis and Milios, 2009). When Schumpeter asks about the meaning of economic action, he discusses models of rationality. All of his theorizing is against practices of utilitarianism and against basic assumptions of economic theorizing. In other words, Schumpeter proves to systematize arguments in favour of an economics that is oriented towards “real life”, which has become more popular in recent times.

Schumpeter discusses three different complexes of motives which lead to entrepreneurial activities (Schumpeter, 1963, p. 93-94). In doing so, he provides not only very important elements for a psychology of entrepreneurial activity but also for the need to invest in research on economy-related behaviour overall (Bögenhold, 2011). He clearly insists that motives such as the need for achievement and success can also be found in other regular professions and that the financial motive is always present but never dominant (Schumpeter, 1963, p. 94).

Taken together, Schumpeter specifies seemingly non-rational motives as driving forces for entrepreneurialism. Economic life and related motives to participate and to compete can be compared to sports: achieving for the goal of having success and receiving rewards in terms of recognition and prestige. In some way, Schumpeter portrays an eroticism of business life which serves as the driving force of champions. Successful people have comparatively high incomes but that is very often an appreciated secondary effect and not the primary or only source of motivation (Swedberg, 1991a).

In Schumpeter’s view the entrepreneur is a risk-taker, a restless person who is permanently engaged in trying to optimize business and to seek new opportunities. Schumpeter further defines an entrepreneur as somebody pushing innovations, and this is independent of the question of being self-employed or wage-dependent as a manager (Schumpeter, 1963, p. 74-75). Leibenstein (1968) provides a useful description of the capacities of the entrepreneur by listing the different roles the entrepreneur exercises. Entrepreneurs are also gap-fillers, having the ability to perceive market opportunities and to develop new goods/services that are not currently being supplied. He postulates that entrepreneurs have the special ability to connect markets and make up for market deficiencies. Kirzner’s (1973, 1985) later formulation of the entrepreneur as an opportunity-finder fits in well with Schumpeter’s position. An entrepreneur is thus an economic agent who is defined through his/her creativity to combine “new combinations” (new goods, new methods of production, new markets, new sources of supply, new organizations of any industry or combinations of these items), but as Baumol (1990) argued very carefully, an economy can also host entrepreneurial activities such as rent seeking or organized crime, which do not really contribute to a positive and successful track of wealth accumulation. Baumol (1990) gives a series of historical examples in different centuries, showing that the allocation of entrepreneurship has implied very different issues,

leading him to conclude that entrepreneurship can be productive or unproductive or even destructive (Baumol 1990). He also adds that innovations and inventions are not separated carefully enough.

Nevertheless, Schumpeter furnished the entrepreneur with motives and real life when he transferred the figure from a function to a “real person” with plans and emotions, with an autonomous rationality fitting with strategic aims or even failing with this. What Schumpeter practised was explicitly reflected and discussed in Kirzner’s writings (Kirzner, 1973, 1985). Kirzner claimed that the entrepreneurial element within individual human behaviour is not fully recognized. A model of individuals only dealing with the core dimensions of homo oeconomicus is not appropriate to arrive at a satisfying understanding of the economic process. Instead of simply referring to a model by which actors are portrayed as egoistic profit seekers, a model which has been employed by so many economists, Kirzner repeatedly discusses Robbins (1932), who stated that one has to assume that human behaviour is more complex and that the factors which influence decisions are more diverse (Bögenhold et al., 2016).

In contrast to that criticized way of treating issues, Kirzner draws a link to Mises (1933, part 1) and his concept of an acting man, the so-called homo agens, who is comparatively open with respect to different aspirations which aim and motivate people’s behaviour in different directions. When Kirzner talks about his concept of alertness, which is central for his discussion of the entrepreneur, he is inspired by Mises’ idea of combining human behaviour with an active and creative direction, this being in opposition to human behaviour as an automatic reflex. In a nutshell, Kirzner (1973) and Schumpeter (1963) disagreed over whether the existence of entrepreneurial opportunities involves the introduction of new information or just differential access to existing information (Shane, 2003) and they had different conceptions regarding disequilibrium and equilibrium, but they harmonized in underlining the strategic status of the entrepreneur as a person pushing things forward and providing impulses for the whole economy.

### **3. Challenges for Recent Discussions on Entrepreneurship: From Functions to an Institutional View and the Relevance of Context**

#### **3.1. The Entrepreneur and the Stationary Economy: Limits and Specifics of the Entrepreneur Definition**

The puzzle which has been elaborated so far is a brief composition of central assumptions about capitalism and market competition, taken together with a few Hayekian ideas on knowledge and information and with Knight’s thoughts on uncertainties and divergent capacities of human beings and, finally, bound together with Schumpeterian and Kirznerian arguments on the entrepreneur as

agent and the institution of entrepreneurship, as the “pivot on which everything turns” (Schumpeter, 1954, p. 555).

So far, we can follow very well and we have already done this for decades, but we tend to overlook two dimensions too easily, both of which Schumpeter had pointed out, without his readership paying much attention to them. Writers on Schumpeter recapitulated too often the key ideas of the innovative entrepreneur without really studying Schumpeter’s methodological script, which he used as an economist (see, in more detail, Bögenhold, 2014). Firstly, we have to distinguish what the term ‘entrepreneur’ really means: For Schumpeter, Kirzner and several followers, the term was restricted to the alert opportunity seeker who brought innovations into the business cycle, a person who is portrayed with some features of being special, dreaming of success for the sake of having success. However, the majority of independent business people (more than half) belong to the category of small economic actors without further employees in their firms, where the owner is his/her own boss and the only actor (Cieslik, 2015). In many countries, they run small and smallest ventures; they just maintain self-employed activities without having a real company building, a registered company name or an entry in the yellow pages. Colloquially all these economic activities are also called entrepreneurial activities: Public statistics count those people as being self-employed; they are also commonly considered to be entrepreneurs, both by Chambers of Commerce and public policy makers. Practically speaking, fostering entrepreneurship implies fostering the ratio of self-employment, although many of them belong in the category of so-called micro entrepreneurs, or they practise part-time entrepreneurial activities (alongside other wage-dependent jobs), or they treat their self-employed work merely as a biographical episode.

Secondly, what the idea of simple market competition of “pure economics” (Schumpeter, 1954) does not realize is the fact that “entrepreneurship happens in various contexts and that entrepreneurship research takes place in specific contexts and communities” (Welter, 2011, p. 178). One has to accept that entrepreneurship is a societal and economic phenomenon which takes place in specific situations of time and space, and entrepreneurship is also a scholarly domain trying to arrive at general conclusions, which does not always fit together (Davidsson, 2003; Gartner, Davidsson and Zahra, 2006; Welter and Gartner 2016). Baumol already described the fact that different times and spaces with different institutional characteristics show different institutional “rules of games” (Baumol, 1990). The analysis of the different rules of the game falls into the competencies of historians, sociologists, anthropologists and political scientists, and shows lighter and darker sides of the phenomenon of entrepreneurship.

The seminal paper by Baumol (1990) is primarily a paper that takes the perspective of a business historian, scanning several centuries for different contexts of economic life in different regions and asking about forms of entrepreneurship. This academic method was also certainly demonstrated earlier

by Max Weber ([1905] 1988), when he described a coincidence between the Protestant ethic and the rise of capitalism. Various other important contemporary works indicate the same way of analysing links between entrepreneurial activities, economic activity and economic change (Jin, 2016; Van Bavel, 2016), stating that economics alone “can’t explain the modern world” (McCloskey, 2011). Both Mokyr (2005) and McCloskey (2011) have discussed impressively the relative autonomy of innovation regimes which changed accidentally during past centuries. Successful economies are portrayed by well working socioeconomic regions which must be researched centrally because those regional entities serve – in difference to nations – as the real actors. Their microeconomics of prosperity must be analysed in order to find answers regarding (positive or negative) inner dynamics (Baumol, 2010).

### 3.2. The Rise of the Knowledge Economy and the Shift from Managerial to Entrepreneurial Capitalism

In line with the Baumol-Weber-McCloskey argument is the one provided by David Audretsch and Roy Thurik (2000, 2004) about the changing nature of capitalism with a shift towards a knowledge economy. The thesis is that “developed countries are undergoing a fundamental shift away from a managed economy and towards an entrepreneurial economy” (Audretsch and Thurik, 2000, p. 17). While the managed economy is primarily based on the traditional inputs of natural resources, labour and capital, the entrepreneurial economy of our recent times is based more on the input of knowledge and ideas (Audretsch and Thurik, 2000, p. 31). In their recent *Knowledge Spillover Theory of Entrepreneurship*, Acs, Audretsch and Lehmann (2013) contend that entrepreneurship is the missing link between investment in knowledge and growth by innovation.

They highlight the importance of the local combination of entrepreneurs and knowledge disseminated mainly by universities and research centres: The ability to transform knowledge into economic knowledge involves not only a set of skills and insights but also local proximity to the source of the knowledge (Acs, Audretsch and Lehmann, 2013). In a knowledge-based economy, the entrepreneur is the agent that perceives the relevant economic information and decides to “choose between forgoing his/her idea or else starting a new firm to appropriate the value of his/her knowledge” (Audretsch, 2007, p. 68). Entrepreneurship then results from an individual decision-making process and is an important conduit of useful and valuable information for the commercialization of new ideas, new products and new processes (Aubry, Bonnet and Renou-Maissant, 2015, p. 24).

### 3.3. Social Rationalities and Labour Market Behaviour: The Level of Individual Action

Schumpeter uses the meaning of the entrepreneur just for the innovative actor who wants to get further and who is engaged in renewing the economy. At the point where the entrepreneur loses his/her willingness to expand further, he/she will no longer be an entrepreneur. The consequence is that being an entrepreneur is just an economic function within the process of the business cycle. Entrepreneurs are “a special type of people” (Schumpeter, 1963, p. 81) who have a “different meaning of economic action” (Schumpeter, 1963, p. 91). Schumpeter always operates with the dichotomy of a dynamic and a static economy and – correspondingly – an “advance” and a “synchronization economics” (Schumpeter, 1954, p. 564-565). As an alternative to the entrepreneur, Schumpeter portrays the pendant of a stationary business person who runs the business in routines without the will or the dreams to expand and to grow. This – in German – *Bedarfswirt* or *Wirt schlechtweg* (Schumpeter, 1912) has a hedonistic character and is satisfied with the status of his/her current being. Obviously, this category encompasses the greater proportion of people engaged in business. Taken together, this is the real world of small freelancers, owners of small bars, butcheries, bakeries, kebab shops, driving schools, farms, freelance doctors and lawyers, and so on.<sup>5</sup> While the real world of the small business owners represents the vast majority of corporations, they remain outside theory building in economics: “No attempt to understand the nature and methods of business enterprise while ignoring the family firm can be adequate to the task. Indeed, customers seem to understand this better than economists” (Landes, 2006, p. 293). Among the “errors in economics” (Baumol, 2005) is the fact that theories in economics are very often based on the observation of a dozen giant firms. While Baumol (2010) uses nearly the same distinction as Schumpeter (1963) when he distinguishes between an innovative and a replicative entrepreneur, Baumol puts both actors under the same umbrella of being an entrepreneur.

Public policy and broad swathes of sociological and labour market discussion do the same. Since no commonly shared concrete definition in academia exists as to what a universal definition and indicator of entrepreneurship is, a shift is executed by which entrepreneurs are defined practically as those people in the labour market who are self-employed. In recent times, self-employment has served as a proxy for entrepreneurship and, vice versa, entrepreneurship is counted as being the number of people in self-employment. Following this track is clearly a break with an academic tradition provided by Schumpeter and Kirzner, who had different contexts in mind when drafting their theories. Establishing the equation between entrepreneurship and self-employment implies substituting the former economic functional treatment with an analysis

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<sup>5</sup> Wennekers and Van Stel (2017) argue that such businessmen make an important, static, contribution to the economy through “their crucial role in the continuous production flow of goods and services in a capitalist economy and their importance for the continuity of employment” (p. 38).

of the labour market and the social structure of occupations. It was Schumpeter who said: “Because being an entrepreneur is not a profession and as a rule not a lasting condition, entrepreneurs do not form a social class in the technical sense” (Schumpeter, 1963, p. 78). Changing to a statistical-categorical classification within the division of occupations and labour market entities completely sheds the context we have been discussing so far with reference to the workings of market capitalism. Then Hayek, Knight, Schumpeter and Kirzner, including their intellectual contributions, will receive new contours, since the former link between entrepreneurship and competition no longer works in that way.

It is necessary to come up with preferences regarding the discussion of entrepreneurship. Is entrepreneurship primarily a transitional economic function or is it a classification for specific labour market groups (e.g. the category of self-employed entrepreneurs)? The question has not really been answered, neither by academics nor policy makers, leaving the decision open to pure arbitrariness.<sup>6</sup> In case the entrepreneurship discussion opts to follow the widely used practice which identifies entrepreneurs as self-employed people and vice versa, it will evolve to become a discussion of a sociology of social stratification and mobility and of labour market divisions. Such a variety of different entrepreneurial categories and related discussions about them does exist; among them are female entrepreneurs, migrant entrepreneurs, freelancer entrepreneurs, academic entrepreneurs, micro-entrepreneurs, agricultural entrepreneurs like farmers and fishermen, team entrepreneurs, senior entrepreneurship by actors after their retirement, or social entrepreneurs, so that the divergences are sometimes greater than the common attributes they share.

Schumpeter described the entrepreneur as the “captain of industry” (1963, p. 78), but looking at the subdivisions of the category of self-employed people (commonly regarded as entrepreneurs) proves that many of those are very basic actors at best. Sociological analysis shows that many of them have low incomes and instable working conditions, which very much indicates that being a self-employed person is just a status passage for a limited time. The category of self-employed entrepreneurs includes winners and losers in society and in the labour market as well as diverse zones between them with high degrees of uncertainty regarding the future due to permanently changing market situations for goods and services to offer. Sociological stratification and mobility research shows the powerful dynamics between wage-dependent work and unemployment on the one hand and self-employment on the other. So, entrepreneurial activities continuously receive fresh blood through “underground mobility”, with backgrounds like unemployment or blue-collar workers. The labour market

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<sup>6</sup> The literature is full of definitions of entrepreneurship “which differ along a number of dimensions, i.e. whether entrepreneurship should be defined in terms of dispositions, behavior, or outcomes; whether it belongs in the economic-commercial domain or can be exercised also in not-for-profit contexts; whether it belongs only in small and/or owner-managed firms or in any organizational context, and whether purpose, growth, risk, innovation or success are necessary criteria for something to qualify as entrepreneurship” (Davidsson, 2003, p. 316).



dynamics and social mobility patterns are of great interest to researchers looking into the division of occupations and related dynamics in and for the economy. The general question is whether entrepreneurship is an economic function and/or an occupation or a vocation, or just a biographical job passage, which people move in and out of. Due to increased recent trends of dynamics and related flexibility and uncertainties, people show up in the guise of entrepreneurs who are sometimes just de facto labourers without social security benefits. On the other hand, due to secular changes in lifestyles and values, an increasing number of freelancers is emerging (not only but often in relation to the growing IT sector), who just want to work on their own without being involved in hierarchies.

Bögenhold (2004) developed a scheme which illustrates a few divergent paths and logics of people moving towards self-employment so that not only one typical way of recruitment is visible but several different ones with competing social logics. In contrast to stereotypical assumptions, the phenomenon of entrepreneurship may look totally different when it is studied as a phenomenon embedded in the labour market and specific occupational contexts, applications and sectors. Some types of small business people and independent professionals belong to a category which does not fit with an image of entrepreneurship (Burke, 2015). They do not show ambitions for growth and they operate in routines which are sometimes very close to low-income ranges, occasionally to poverty (Shane, 2008). Empirical studies on diverse groups of self-employed individuals in larger societal and labour market contexts may produce alternative pictures, challenging stereotypical assumptions and rhetoric related to entrepreneurship (see Blackburn and Kovalainen, 2008; Bögenhold and Klinglmaier, 2016a). The term entrepreneurship is very often used in an undifferentiated way, so that talk about entrepreneurship generates myths. A narrower and more realistic view shows that there are diverse agents under the flag<sup>7</sup> of entrepreneurship who are usually not regarded as “core entrepreneurs”.<sup>8</sup>

According to Shane and Venkataraman (2000, p. 218) three sets of research questions are central about entrepreneurship: (1) why, when, and how opportunities come into existence; (2) why, when, and how some people and not others discover and exploit these opportunities; and (3) why, when, and how different modes of action are used to exploit entrepreneurial opportunities. Additionally to this tableau of research domains, the question may be raised as to *where the entrepreneurs come from, how they sustain themselves, and what their occupational and social biographies* are within the division of work. Related to this question one may continue with specific social issues of

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<sup>7</sup> Shane and Venkataraman (2000) was discussed very frequently. For a retrospective on their review career, see Shane (2012). Davidsson (2015) takes up the opportunity theorem and suggests to replace it by dimensions being more subtle.

<sup>8</sup> See Bögenhold, Heinonen and Akola (2014) on freelancers and the blurred boundaries of entrepreneurship and dependent work.

relevance: Which divergent social networks can people instrumentalize to operate their strategies and to maximize their social positions (Davidsson and Honig, 2003; Bögenhold, 2013)? Reasoning about the future of entrepreneurship (Wiklund et al., 2011) should include these sociological questions although Davidsson (2015) makes clear that the turn from entrepreneurship to opportunity research is not concise enough. According to this argumentation it is more appropriate to introduce the three dimensions of an external enabler, new venture ideas and opportunity confidence.

The second point mentioned earlier is that entrepreneurship (in the wider and in the narrower sense) always happens in contextual frameworks. Markets are always in transition, they come up, they go down, and they change. These markets are carried out by actors with sets of people they know and whom they trust, while other people may be regarded as hostile competitors. However concrete markets may look, they always have very social traits, and economics would fall short if it did not ask about those issues. Competition processes must also be analysed and understood as ongoing social processes which are involved in social structures and which are permanently in processes of reorganization, which are embedded in institutions with specific coordinates of time and space. If we agree that sociology, history and other domains matter, we can also conclude that “culture matters” (Harrison and Huntington, 2000). “Culture makes almost all the difference” (Landes, 2000, p. 2) and, of course, it was already Max Weber’s approach to highlight the synchronization between Protestant ethics and the rise of capitalism.

Economic historians place stress upon the importance of “cultural factors in economic growth” (Cochran, 1960) and they follow that the “really fundamental problems of economic growth are non-economic” (Buchanan and Ellis, 1955, p. 405). Schumpeter’s *Theory of Economic Development* (1912, 1963) is more or less silent regarding those contextualizing factors; the same is true for the thoughts of Hayek, Knight and Kirzner.

Contextualizing entrepreneurship (Welter, 2011) means respecting Schumpeter’s methodological hints for the analysis of economic and entrepreneurial dynamics. When talking about entrepreneurship abstractly, no institutional framing is needed because abstract economics talks about entrepreneurship in a sterile way as if the economy works in a vacuum. In reality, economies are concrete and have time and space coordinates so that we have to address the conceptual challenges which are provided by the need to contextualize. In general, a coincidence between the emergence of newborn firms, the general macroeconomic business climate and a wide range of institutional factors is noted (see Davidsson, 1995; Audretsch, 1995; Acs and Karlsson, 2002), and the fostering of competition and new firm formation goes along with increased business entries (Wennekers et al., 2010; Thurik and Dejardin, 2012).

In the meantime, it has become increasingly clear that entrepreneurship (in a wide sense) and culture have to be linked to each other. There are many

empirical studies that already follow the script provided by Schumpeter (1954) or Baumol (1990). Zahra (2006), Welter (2011) and Welter and Gartner (2016) have brought the fact to our attention that researchers are faced by a multiplicity of contexts and that a distinction has to be made between those institutional variables. Bruton et al. (2018) argue for the case of self-employment in non-Western countries and they focus on the case of China, claiming that the role of the state and innovation differs in those countries from textbook knowledge as we know it in standard (Western) education in relation to patterns of development and growth. Aiming to understand the formation of markets and the inherent competition processes one needs both empirical studies but also a theoretical framework of socioeconomics helping to seriously investigate entrepreneurship formation in a wider concept. Analysing the current state of literature in economics and entrepreneurship discussion gives the impression that the relationship of the theoretical and the empirical side is not fully balanced and that both sides may be better integrated. Taking together this variety of topical interpretations, entrepreneurship emerges as a “hodgepodge” (Shane and Venkataraman, 2000, p. 217). Instead, we shall “not restrict ourselves to a singular meaning of entrepreneurship, but should instead fully embrace heterogeneity and differences” and call for “diversity in entrepreneurship” (Welter et al., 2017, p. 317).

#### **4. Conclusion and Outlook**

Schumpeter said that everybody feels authorized to come up with judgments regarding economic life and economic policies. Economic competition and entrepreneurship are both topics belonging to fields where everybody believes they have a qualified expert opinion. Academics should be better at giving proof of higher sensitivity. This includes at least a more precise understanding of what entrepreneurship really is. In some cases, entrepreneurship and self-employment have a one-to-one fit and can be used interchangeably while in other cases, entrepreneurship does not correspond to the labour market category of self-employment or, vice versa, a given case of self-employment does not match entrepreneurship empirically (Stam, 2008). Freelancers working part-time or full-time, farmers, micro-entrepreneurs without employees, and “big” entrepreneurs employing a larger number of wage- or salary-dependent employees are difficult to summarize in one single box (Bögenhold, 2019). Nowadays, we even speak about “hybrid entrepreneurs” (Folta et al., 2010), who are, in a sense, a caricature of the Schumpeterian entrepreneur (Bögenhold and Klinglmair (2016b). Female entrepreneurs, ethnic entrepreneurs, academic entrepreneurs, senior entrepreneurs, micro entrepreneurs: all these labels refer to different circumstances in the labour market.

This paper tried to mix and match the interpretations of classic authors including Knight, Schumpeter, Hayek, Kirzner and Baumol as well as some more recent ones like Audretsch and Thurik in order to arrive at a more

substantial understanding of the different intentions provided by different authors. The aim of the paper was to provide an introduction to different semantics and to highlight and explain difficulties when talking about entrepreneurship in order to systematize competing and hazy interpretations, and to fight against myths which are still widely held to be true. The starting point of our thoughts were ideas of capitalism and the market as a system which governs the economy and society. It is still a challenging puzzle to sort out ideas provided by the classics and to combine them with the up-to-date discussion on the necessities and potentials for capitalism in the 21st century. The paper focused on the changing ideas and contours of entrepreneurship in the history of thought and tried to shed some light on the fluidity and indefiniteness of the term. Even within the last 25 years substantial changes can be discovered within the discussion on entrepreneurship (Urbano, Aparicio and Audretsch, 2019; Wiklund, Wright, and Zahra, 2019) but looking over 250 years, the content and context has changed even more significantly. With the shift to a knowledge economy, entrepreneurship will certainly gain a growing role as an agent of change and a transmitter of innovation. However, it is misleading to identify all forms of self-employment with entrepreneurship since the overlap is only partially given. An economic function (of renewal) cannot be taken as the social rationality to carry out things. We have learned from Joseph A. Schumpeter (1963) that processes of renewal are always double-edged, including the side of innovation and novelty but also that of decline and decay. The term of “creative destruction” (Schumpeter, 1993; Michaelidis and Milios, 2009) aims at precisely this ambiguous interplay between coming and going, applying the social, economic and occupational view where births and deaths are positively or negatively balanced. Current processes of creative destruction run in more complex ways than ever before.

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