

**Revitalizing Entrepreneurship by Leaping Off the Theory Merry-Go-Round  
and into the Arms of Art**

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## **Revitalizing Entrepreneurship by Leaping Off the Theory Merry-Go-Round and into the Arms of Art**

In spite of the explosion in entrepreneurship studies (Murphy, Liao, & Welsch, 2006) we have yet to agree what it is all about. Some consider entrepreneurship theory a muddle, or tautological, or worse (Davidsson, Low, & Wright, 2001; Gartner, 2001; Phan, 2004; Shane, 2005). Some favor the structured approach of Low and MacMillan, who argued closer attention to our theorizing's purpose, perspective, focus, level of analysis, time frame, and methodology would give rise to a more distinctive domain for entrepreneurship theory (Low & MacMillan, 1988). Venkataraman suggested we should throw off the psychological traitism (Miner, 2000) that has similarly bogged down leadership theory (Hunt, 1999), to consider the relationship between the entrepreneur and the context of her/his entrepreneurial opportunities (Shane & Venkataraman, 2000; Venkataraman, 1997). This has resulted in some turning away from inquiries, conceptual or empirical, into the psychology (e.g. Begley & Boyd, 1987; Woods, 2006) or social background of those displaying entrepreneurial ability, and towards their processes of opportunity discovery (Baron & Shane, 2005; Corbett, 2007; Eckhardt & Shane, 2003; Shane, 2000). A conservative line of argument has maintained that entrepreneurship is not merely about the perception of opportunities but also about the appropriation and monetization of that perception.

The fact that, for decades, entrepreneurship theory has failed to coalesce around either a characteristic set of topics or methods, or as a community of like-minded scholars,

indicates deep problems. In this paper I suggest not only is there confusion about the topics being considered, there are some issues around our expectations of what our theorizing might produce. There may also be conflict between the methodologies we adopt and the phenomena we wish to understand. To help the discussion along we shall consider first some history of the notion of entrepreneurship, secondly its present condition, and third how we might re-frame it and illuminate it with a discussion about art. The three parts are related. We need deeper insight into the present condition of entrepreneurship theory, and its history is one way of providing this. With this in hand, we reach towards some different insights about the relationship between entrepreneur and context, along the lines Venkataraman suggested. This is where the theorizing about art can help us. The implication, of course, is that entrepreneurship is, at its roots, an art form, though in the special and rather curious medium of the economy (Sexton & Smilor, 1986). This is neither the medium of society, for entrepreneurs create systems that are purposive (*Gesellschaftlich*) rather than social (*Gemeinschaftlich*), nor that of technology, which shapes the relations between inputs and outputs, both of which are often entangled into entrepreneurship theory (Toennies, 1971). It also follows we cannot theorize usefully about entrepreneurship solely within the deterministic frameworks and causal models so characteristic of our academic journals and that we find ourselves on a merry-go-round for purely methodological reasons.

## **Some History of the Concept of Entrepreneurship**

Murphy, Liao and Welsch performed a signal service for our discipline with their paper on the history of entrepreneurial concepts, making management scholars aware of what the economists and economic historians have been familiar with for centuries (Holcombe, 1998). While we can argue Murphy *et al.* have not added materially to our understanding of the field nor of how it might be delimited, they have demonstrated forcibly that the field has a history, and a long one (Murphy et al., 2006). We can observe a trend from simple or one-dimensional theoretical models and concepts towards more complex ones. This is much along the lines of the drift from modernism to postmodernism, and if postmodernism is to be our metaphor, we should probably not agonize so much over the current multi-faceted nature and fuzzy boundaries around our subject area. In this business is not likely to be much different from art, which is undeniably postmodern.

We can also see some isomorphism as in ‘new institutional theory’ as entrepreneurial activity adapts to the changing nature of the socio-economy in which entrepreneurs are active (Powell & DiMaggio, 1991). The focus of entrepreneurial attention has shifted as the economy has changed, not simply under the impetus of its own evolutionary impulses (Aldrich & Martinez, 2001). For instance, if we are now in the Information Age, knowledge rather than tangible resources like land seems to command our attention (Boisot, 1998). Historians have suggested the economic circumstances in Europe changed imperceptibly between Roman times and the 1600s, and in this sense no theory of entrepreneurship was necessary. Whether valid or not, for the Roman economy was

complex and extensive (Anderson & Latham, 1986), the theorizing done between the time of William Petty in the late 1600s and that of Joseph Schumpeter in the early 1900s constitutes the arc of contemporary entrepreneurial theory. It is not clear we have made much progress since Schumpeter. History helps us appreciate how the legal and political contexts of entrepreneurial activity changed. The most important being that entrepreneurship was, and remains, intimately tied up with the notion of the citizen's freedoms, both to possess property and to dispose of it as s/he wishes through, for instance, relatively well-functioning markets. One way of handling one's wealth, of course, is to invest it in a project, such as those Defoe considered in his *Essay on Projects* (1697), which led him to use the term 'projector' in much the same way as we now use the term 'entrepreneur'.

The English language theorizing about entrepreneurship began as people without special station and political pull began to engage in commerce, part of the political, legal, and religious changes that followed the Civil Wars. This is when mercantilism and the idea of a centrally controlled economy attempting to maximize the nation's wealth through international trading began to come apart across Europe (Chydenius, 1931). Previously land was the most important form of wealth, not simply in its extent but rather in terms of the rents that would be paid by the tenant-farmers. Land was both an immobile asset and basically Crown property. Rights to use it were granted to individuals for military and diplomatic service or for financial services to the Crown such as tax gathering. These rights could pass through marriage and inheritance, which arrangements became the principal concern and pastime of the landed families and Court.

Since government maintained a monopoly on the means of violence, a pre-requisite for there to be a functioning state, earlier modes of acquiring wealth by seizure, theft, and happenstance were no longer tenable. The government likewise controlled trade and granted letters patent to individuals or 'companies' such as the Guilds, who commanded sectors of commerce (Kieser, 1989), or overseas to bodies like the Companies which landed settlers in North America in 1607. Around the end of the 17<sup>th</sup> century the UK economy began a transition towards internal manufacturing becoming more politically dominant than international trade. The emerging theorizing, the beginning of economics, organization theory, and entrepreneurship, was part political rhetoric, such as Smith's *Wealth of Nations*, and designed to persuade those in political power to step back from commerce and to let entrepreneurs loose, and part instruction manual or textbook for this new cadre and their supporting infrastructure of bankers, legislators, etc. Of course commercial trade was already highly developed throughout the Mediterranean and Middle East, double entry book-keeping being famously present in Florence at the beginning of the 14<sup>th</sup> century.

In the 16<sup>th</sup> and 17<sup>th</sup> centuries there was considerable intellectual traffic between the UK and France, and ideas about economics were developing on both sides of the Channel. Petty, commissioned to draw the map of Ireland after Cromwell's conquest and rewarded with 30,000 acres, had been instructed to think hard about schemes for raising new taxes. The result was his *Treatise on Taxes and Contributions*, published in 1692. Since the purpose of the map was to subjugate the new colony, slice it up, and give it to those whom the Crown needed to reward, Petty turned to alternative bases, envisaging two

sources of taxable value, land and labor. Conceiving labor as a taxable resource was crucial to Adam Smith's thinking, and to those in France, and eventually flowered into Marx's labor theory of value. But in Petty's analysis it left an ambiguity only resolved by setting a 'par' or equivalence between land and labor, though this was insufficiently constant or determinable to lead him to a workable theory.

It is said that the Irish/Frenchman Richard Cantillon coined the term 'entrepreneur' while writing his *Essay on the Nature of Commerce* in the 1730s, published posthumously in 1755 (Cantillon, 2003). He noted the possibility of arbitrage, buying low and selling high. By this definition, the entrepreneur's talent lies in the perception of trading opportunities to buy low and sell high, both domestic and international (Murphy et al., 2006). His ideas were taken up and extended by the French Physiocrats, Quesnay, Turgot, Law, and others. As with Adam Smith, their *bete noire* was government intervention, especially with mercantilist policies. Their slogan was "He who governs best governs least", heard often since. Cantillon extended Petty's notions into his system of 'flows of income and expenditure' and what is regarded as the first real theory of economics<sup>1</sup> (Cantillon, 2003).

In Cantillon's system labor extracted value from the land contributed by landlords who, in return, received rents to be consumed in luxuries. Labor's contribution was rewarded with wages spent on the necessities that maintained them, the whole comprising a two domain economic system, linked and equilibrating so long as there were determinable relationships between labor and the land necessary to sustain it. Likewise attending to

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<sup>1</sup> <http://cepa.newschool.edu/het/essays/youth/cantsys.htm>

both land and labor, the Physiocrats elaborated Cantillon's system, distinguishing agriculture from manufacturing and drawing in international goods flows so raising the possibility that all three, land holding, manufacturing, and international trade might be taxable<sup>2</sup>. Rather than repairing the ambiguities in Cantillon's system, adding a third basis for value complicated and confused things further. While it might have the benefit of extending the tax base to embrace those engaged in foreign trade as well as those engaged in domestic land holding and in manufacturing, it have required more 'pars' between the sources. The Physiocrats simplified instead by denying industry or commerce as sources of value. Nonetheless we see the emergence of three conceptually distinct domains of entrepreneurial activity and wealth - trading, domestic and international, and the control of labor, what we would now call organization.

In the *Wealth of Nations*, published in 1776, Smith considered wealth the consequence of the division of labor, freely explored without government intervention. This implied the existence of both markets and organization as means to coordinate the division of labor, though Smith was not entirely specific about the causal mechanisms involved, nor their administration, nor about how the organization came to exist. Nor did he indicate how the entrepreneur might choose from among the various coordinating opportunities available - the issue which became problematic for Coase (Coase, 1937). Smith observed two specific phenomena facilitated if not caused by the division of labor; (a) the workman's increasing dexterity and (b) his tendency to invent machines which 'facilitate and abridge labor and enable one man to do the work of many' (Smith, 1985). In this sense Smith focused on the enlargement of the gross stock of knowledge applied in the

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<sup>2</sup> <http://en.wikipedia.org/wiki/Physiocrats>

nation's 'commerce' and was not particularly concerned with the entrepreneurial activity of starting firms to exploit that knowledge. By way of explanation Teichgraber commented "few merchants ... brought labourers into owner-supervised establishments, choosing instead to reap the profits of commodity circulation while leaving the risks of production to local small-scale domestic producers" (Smith, 1985). Even today the bulk of European commerce is conducted by SMEs. So Smith's conclusion was that the true wealth of the nation was its stock of productive and coordinative knowledge rather than its bullion.

While Smith focused on the craftsman, Cantillon focused on the entrepreneur. He also saw beyond arbitrage and was sensitive to the presence of uncertainty in commercial affairs. He saw the possibility of speculative success or failure, and in this he anticipated the Austrian school of economics (Foss, 1994; Murphy et al., 2006; Rothbard, 1995). The crucial distinction between arbitrage and speculation lies in whether or not the person engaging in them knows the future value of what is being purchased, in the sense of being forecasted or manufactured. Of course by 'knowing' we do not mean being certain or without doubt, rather we mean having knowledge sufficient to support a rational decision process through which the conclusion is driven by what is known. If the future state is so known, the entrepreneur's decision becomes part of an equilibrating market process via which resources settle at their locations of highest value or Pareto optimality. Speculation, in contrast, is not rational decision-making and entails the exercise of some form of extra-rational judgment when the future value is not known or forecasted. Such conditions of uncertainty or knowledge-absence might arise even when

the future state is knowable but, in the event, not yet known on account of, perhaps, the lack of suitable forecasting tools. But uncertainty also arises from our bounded rationality, our inability to grasp all the facts necessary to think rationally (Simon, 1997).

In the extreme, however, it might also be because the future is simply not knowable. Such Knightian uncertainty is the core of the Austrian position (Dempster, 1999; Langlois & Cosgel, 1993). Shackle argued we act more often on our expectations - speculations rather than logical implications from the data we have available - than on the basis of our estimations because the future we are imagining has not yet been created and is therefore not present to be known (Shackle, 1972). This is a different and, to many researchers, uncomfortable epistemological position for it throws the notion of 'reality' into question. One implication is that the future being considered is a social one, shaped by our interactions with each other, rather than a physical one, shaped only by the laws of an inanimate nature. Thus we can predict how long it will take the ocean current to carry us from Newfoundland to Eire because the process does not depend on the actions and attitudes of our fellows, while the price of Impressionist paintings does. Shackle presumed our socio-economic life is replete with uncertainty and our future is what is created as we speculators act in the face an open and yet-unrealized future. We act on our expectations as well as on our values and judgments, as distinct from acting rationally on our knowledge of what already must be because it is imprisoned within known causal relationships. Only under uncertainty, Shackle argued, could there be a place for Cantillon's speculating entrepreneur, whose defining contribution is the judgment deployed in arriving at expectations rather than her/his alertness to the trading or

manufacturing opportunities presented by the already existing (Shackle, 1972). The distinction between trading and speculation, and therefore between these different types of entrepreneurial opportunity, was already widely appreciated in the 18th and 19th centuries (Freedley, 1853). It survives today embedded in the notion of bounded rationality and the resulting need to manage the employees' value premises and judgment under uncertainty, i.e. while they speculate, (Simon, 1997), in the notion of 'architectural innovation' (Henderson & Clark, 1990), and in the oft-remarked difference between 'management' as exploitation and 'entrepreneurship' as exploration (Hitt, Freeman, & Harrison, 2001; March, 1991).

Adam Smith's focus was on the enterprise of the individual craftsman in control of his own work-space and work-process, rather than on the specifically entrepreneurial process of crafting an enterprise. Thus Rothbard argued Smith rendered the entrepreneur as enterprise-maker all but invisible, creating the opportunity for Jean-Baptiste Say's *Treatise*, published in 1803, to reintroduce the term into economics (Rothbard, 1995). Say noted the distinction between the mere perception of entrepreneurial opportunities, trading or speculative, and their appropriation through enterprise or entrepreneurial activity (Say, 2005). He argued entrepreneurs used their 'industry' to organize and direct the factors of production to achieve the satisfaction of human wants<sup>3</sup>. In this they are not merely 'managers', but also forecasters, project appraisers, and risk-takers, dealing with the uncertainties that Cantillon considered. He concluded a "country well stocked with intelligent merchants, manufacturers, and agriculturists has a more powerful means of attaining prosperity than one devoted chiefly to the pursuits of the arts and sciences"

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<sup>3</sup> <http://www.mises.org/content/jean-baptiste.asp#43>

(Say, 2005). They must be doers as well as imaginative visionaries. He generalized the three sources of tax revenue suggested by the Physiocrats, and added the vital distinction between the entrepreneur's imaginings and her/his ability to control their enactment and implementation. But since this entails working through others and it is no more fully controllable than is the purely intellectual activity of personal decision-making under the uncertainties Cantillon recognized, a point articulated in March and Simon's analysis of the dysfunctions of bureaucracy (March & Simon, 1958). Thus to the possibilities for personal contributions through trading and speculation in the markets beyond the entrepreneur Say added contributions in the interpersonal processes of production and administration that bring the more complex kinds of enterprise to life. Entrepreneurs must be entrepreneurial both externally and internally.

Say's attention to human desires as the basis for economic value undercut the notion that the value of resources and services could be determined unambiguously externally. He opened up questions about the relationship between use-value and exchange-value. Say himself was inclined to consider them to be the same, ruled by market forces, and he thereby exposed himself to critical Coasian questions about why markets would then exist for both buyer and seller would be guided by the same ideas of value. Nowadays we assume the disjunction between utilities, between use-value and exchange-value, is the precise locus of the entrepreneur's talent, her/his ability to see resources in new ways and as having new values not perceived by the market either because of information asymmetries about what is already known but not widely so, or because the context in which the resource has a higher value has not yet been created. Thus on the one hand we

have the possibility of gains from arbitrage, but on the other the possibility of gains from novelty, and this last is where technological change is considered to act most powerfully.

One formal treatment of the generation and management of novelty is Penrose's (Penrose, 1995) though she did not stress the impact of science and external technological change. Rather she paid special attention to the internal organizational processes, the managerial team, and the learning-by-doing they generated. She argued the experience of using resources in innovative ways, leading the team to generate novel services, was the way to understand the firm as a value-generating apparatus and, if that added value was so allocated, to the firm's growth also. Again, this possibility stands entirely on the uncertainty about the future and about the potential value of the resources to hand, so creating the gap between the resources consumed and the services produced for which she is widely known. In this sense Penrose was a 'closet Austrian' who had little to do with the positivist approaches of the resource-based view which denies such a gap (Kor & Mahoney, 2004; Lockett, 2005; Pitelis, 2002; Spender, 1994).

### **Entrepreneurship Theory Today**

This quick dip into the history of entrepreneurship theorizing gives us some pointers with which to consider its present state. We see two fundamental distinctions (a) that between trading and speculation, and (b) that between activities external to the firm and those internal. We can present these as a two-by-two matrix of the contexts in which entrepreneurial activities might add value:

	arbitrage	speculation
internal		
external		

**Table 1: A Matrix of Entrepreneurial Contexts**

Internal entrepreneurship is the kind discussed by Henderson and Clark and the vast bulk of the ‘management of innovation’ literature (Tushman & Anderson, 1997; Tushman & Moore, 1988), and within what has become known as ‘intrapreneuring’ (Lessem, 1988; Pinchot, 1985). External is the kind most commonly considered by entrepreneurship theorists, focused especially on the formation of a new firm as a ‘nexus of contracts’ (Aoki, Gustafsson, & Williamson, 1990) or as the legal or social institution available to retain the residuals of unallocated teamwork (Alchian & Demsetz, 1972). This gets us into questions which are customarily glossed by entrepreneurial theorists such as why the firm should be the chosen apparatus for appropriating the value of the entrepreneur’s ‘idea’. It also gets us into questions about whether every firm is a manifestation of an original entrepreneurial idea (an invention), or is merely another instantiation of an already existing idea (an innovation, perhaps). This raises, in fact, questions about the theory of the firm which is generally implicit within every entrepreneurial theory; and suggests that as we have no satisfactory theory of the firm, we can have no satisfactory theory of entrepreneurship if it is to stand on a concept of the firm (Alchian &

Woodward, 1991; Demsetz, 1991; Foss & Klein, 2005). Entrepreneurial theory cannot be defined as the process of creating a firm if we do not know what a firm is.

But this also lets us see some other assumptions likewise buried in the entrepreneurship discourse, such as “To what extent can one separate the external and internal modalities?” This is unclear when considering alliances and networks (Gerlach, 1992; Gulati, 1998; Powell, Koput, & Smith-Doerr, 1996). It is also unclear if, as Spender argued, the entrepreneurial idea generation process arises at some ‘higher’ level ‘above’ the firm, such as at the level of the industry (Davidsson & Wiklund, 2001; Spender, 1989). The ‘industry recipe’, based on Marshall’s ideas of ‘industrial regions’ (Marshall, 1964), is a fundamental critique of entrepreneurship theorizing that is decontextualized and overly focused on individual firms instead of the more aggregated levels of the industry, the region (Best, 1990; Saxenian, 1994), or the nation (Nelson, 1993).

In a series of papers initiated by Venkataraman (1997), Shane, Eckhardt, and others have suggested entrepreneurial theory has been trapped on a merry-go-round, looking in the wrong place for the wrong kind of solution, focusing on personal attributes rather than seeing enterprise as a focused human response to opportunities located in a specific context (Baron et al., 2005; Eckhardt et al., 2003; Shane, 2000, 2003, 2005; Shane et al., 2000; Venkataraman, 1997). While this seems a useful nudge to re-frame the discussion and bring it down to earth, many additional problems are introduced. Context seems obvious enough but it turns out to be far from clear. In the event Venkataraman continued to define ‘entrepreneurship’ as the discovery, evaluation, and exploitation of

future goods and services without paying much attention to the specifics of the context in which these entrepreneurial opportunities were presumed to occur (Corbett, 2007; Shane et al., 2000; Venkataraman, 1997). The notions of context and opportunity remind us of the strategy discussions of a generation ago about the 'relevant environment', since it was clearly not possible to consider the entire economy in one's strategizing (Learned, Christensen, Andrews, & Guth, 1965). Only under conditions of complete and certain knowledge, when the entire universe of economic activity is known, can any strategist be certain his/her description of the enterprise's context is correct. Under the conditions of bounded rationality and uncertainty that alone make entrepreneurship meaningful the process of defining the context is itself inevitably entrepreneurial, calling for judgment rather than rational analysis of a defined body of data. In this sense the move to consider the interaction of entrepreneur and context is no move at all. We are still trying to find out what it is about the entrepreneur's judgment that makes for success or failure.

A rather different analysis turns on the notion of the firm embedded in the discussion of context and opportunity. We might describe the environment as that which is beyond the entrepreneur's control and the firm as a domain which is relatively within her/his control. This might seem an atypical concept of the firm; indeed one might equally well refer more directly to a network of power and influence without drawing in the more problematic idea of the firm at all. The implication is that the entrepreneur uses her/his power and judgment to establish a system novel relationships, contractual, informal, physical, productive, distributive, and so forth. But we can also apply Occam's Razor and leave the question of whether these arrangements are best organized and controlled

using the legal and institutional apparatus of the firm to one side as an unnecessary and complicating component of the theory.

The implication is that there may be fundamental differences between theory that applies to perceptions of that which is not susceptible to the entrepreneur's control, and theory that presumes such control. The boundary between the two would only be sharp under conditions of perfect knowledge since, in practice, we can never be certain about what we think we control nor *vice versa*. Indubitably, the entrepreneur is presumed to be able to control something, yet not everything. The issue, of course, is how to separate these and so establish the proper domains for the entrepreneurial theory we seek. But is it meaningful to speak of entrepreneurship applied to that which is beyond one's control?

Entrepreneurship is clearly about choice, choosing resource allocations, trust relationships, and so forth so it seems silly to speak of entrepreneurship absent control. But this is where we run into the individualist assumptions which so permeate the entrepreneurial discourse, reinforcing its tendency to traitism and hagiography. In spite of much criticism, mostly drawing on Durkheim, collective notions have been almost entirely excised from the entrepreneurial discourse. Few write about the entrepreneurial firm, save as a vehicle for the entrepreneur (Langlois, 2005). We are fixated with the notion of an individual possessing various psychological abilities that lead him or her to commercial success. This cuts off two discussions; first, about the individual and the social and psychological context wherein the individual's sense of capability arises. There seems no obvious reason to treat this internal context as more significant than the

‘external’ context proposed by Venkataraman. Second, as mentioned already, it cuts off discussion of collective enterprise, be that of the team, industry, or the network, all now much in favor in the innovation literature.

Finally there is the question Eckhardt and Shane raised of whether it makes any sense to look for entrepreneurship within an equilibrium model of the economy, whether the choice of such a model would actually prevent one theorizing about the entrepreneur (Eckhardt et al., 2003). This takes us back to Cantillon and his awareness of uncertainty, or to bounded rationality, or to the disagreements the Austrian economists have with the neo-classicists. It is the obvious presence of uncertainty in economic practice that leads these authors to argue prices do not accurately convey all the information necessary to coordinate economic decisions (Eckhardt et al., 2003). People, they tell us, must disagree on the value of resources. But how then is value to be determined? How is coordination to happen?

In spite of a detailed analysis Eckhardt and Shane cannot escape the merry-go-round of their own making. While they propose disequilibrium we are left unclear what this is. What can it mean - other than being defined by its opposite, of not being equilibrium? What precisely is a ‘disequilibrium framework’ (Eckhardt et al., 2003)? How does the notion of disequilibrium contribute to explanation? In the end Eckhardt and Shane retire to a convention that the economy is on its way to equilibrium as the information asymmetries which lead to rents and entrepreneurial opportunity are diffused through communication and market signaling. In this framework all entrepreneurial opportunities

seem like Marshallian ‘quasi rents’, purely temporary (Marshall, 1964). While this seems to move the theorizing into a dynamic framework, it actually obscures the fact that we have still no clear idea of where opportunities come from in the first place, of the underlying dynamic. Before the information differentials that are defined as the source of rents can be used or diffused they must become present. Where do they come from? The answer here is the pivot around which entrepreneurship theory must spin if it is to be something other than a theory of market or communication failure. At the same time we get clear sight of the fact that there may be no theory of entrepreneurship that can be purely abstract, detached from our uncertainties about the practical contexts in which our economic activities happen.

### **The Entrepreneurial Firm**

In this section we tackle two further issues and finish preparing the ground for our comments on art. First, in the light of the apparatus developed above, we review the theories of Kirzner, Schumpeter, and Knight, which more or less summarize the non-traitist or economic approaches to entrepreneurship theory, taking off from Langlois’s analysis (Langlois, 2005). Second, we reconsider Langlois and Cosgel’s earlier work to probe the idea of distributed entrepreneurship, the mechanisms that might leverage or complement the bounded entrepreneurial abilities of particular individuals (Langlois et al., 1993). This takes us towards a theory of enterprise as an apparatus for channeling others’ entrepreneurial abilities rather than leaving us focusing on the entrepreneur sole. This will complement Simon’s notion of organization as an apparatus to deal with

individuals' bounded rationality (Simon, 1997). We might also bear in mind empirical evidence of the frequency with which two or more people come together to create an enterprise and in some way complement each other - Rolls and Royce, Neiman and Marcus, Marks and Spencer, Babcock and Wilcox, Bergdorf and Goodman, and so on.

Kirzner saw entrepreneurship as the result of a special 'alertness' or talent for perceiving profit opportunities already present (Kirzner, 1973). The sources of the changes that create entrepreneurial opportunity are presumed external, exogenous to the system. In a sense the Kirznerian entrepreneur is engaged in a game of arbitrage with Nature, the source of new opportunities, acquiring new ideas for free instead of moving them from a more proximate and expensive source, like an R&D lab, to some higher value position closer to the market. The more general case is that these opportunities can be created by us as well as by Mother Nature, and still lie around like gold nuggets waiting to be panned. The image is inherently Physiocratic, though with the source extended beyond agriculture to embrace all of the domains of human productive activity. The underlying notion is of the entrepreneur profiting from repairing a market failure, one that might occur because of the information asymmetries considered within Eckhardt and Shane's work, and since s/he neither knows nor is in control of the opportunity generation process, the opportunity's discovery is likely to attract the attention of others and so accelerate the erosion of the rents available.

Langlois argued that while Kirzner is about discovery, Schumpeter is about exploitation (Langlois, 2005). The key to this distinction is Say's insistence of the entrepreneur's

‘industry’, and of the difference between ideas - perhaps ten-a-penny as the saying goes - and their successful implementation - much rarer. Here is a subtle shift in entrepreneurial context, in Venkataraman’s sense. Kirzner’s field of opportunity lies in the existence of nuggets of opportunity to be transferred like spices from a place of zero or low value to a place of higher value, from the East Indies to Amsterdam perhaps. These opportunities are created beyond the analysis. Schumpeter’s notion of new combinations suggests a different domain of opportunities implying, of course, that value is extracted from multiple and different resources through the entrepreneurially driven process of combination, much as the Smithian model of enterprise combines land, labor and capital. Grant’s insistence that the nature of the firm lies in its combination processes is a contemporary expression of the same thought (Grant, 2001). All imply speculative dimensions of entrepreneurial activity absent from the Kirznerian model. The bringing together is an asset created in context by the entrepreneur. Perception of an opportunity to integrate is not in and of itself a source of value or something that can be arbitrated.

The difference between Kirzner and Schumpeter is aligned with that between the neo-classical theorists and the Austrians. To say ‘the Austrians’ is to suggest something clear about their approach when its essential features are, as with most schools of thought, highly debated (Dempster, 1999; Foss, 1994; Klein, 1999; Rothbard, 1995; Shane, 2000). Rather than probe the work of the Austrian school of economics here, we can point to its distinctive epistemological position, suggested in the discussion above about ‘making the future’. Austrians such as Shackle and Lachmann consider the economic agent to be active, not passive, actually constructing the economic world. They make human agency

central to their economics - positioning neo-classical economics as a sort of mathematical pastime. They imply two worlds, one abstract, the other contextualized, and locate entrepreneurship in the latter, arguing there can be no such concept in the former.

The history of agency is intimately tied up with the citizens' freedoms we noted earlier in our comment that entrepreneurship is ultimately about our responses to freedoms in the economic dimensions of social life. We have economic choices and these clearly include decisions about which we can collect data, reason, and decide rationally, but they must also include the many practical situations in which we find ourselves uncertain and forced to exercise our judgment. Agency aligns entrepreneurship with art, wherein it is normal regard the artist as 'agentic', operating in a situation that is not determined or given. Instead the artist is exploring what is possible within her/his medium. Likewise the entrepreneur is not so much discovering pre-made opportunities as exploring what opportunities it is possible to create given the context, resources, supplies, and demands at her/his disposal, i.e. under her/his control.

Historically the agency that matters here is that of citizen's rights, emerging in part from the work of the Enlightenment philosophers such as Locke and Hume as they sought to express the dimensions and nature of human freedom (Battilana, 2006; Emirbayer & Mische, 1998). These philosophers' thinking is part of an economics of agency, creation, and disequilibrium which clearly stands opposed to the more familiar economics of equilibrium, which entails no agency, being instead an economics of redistribution of the already created. Evidently the problem for entrepreneurship theory is not so much

Smith's writing the entrepreneur out of Cantillon's work as Walras's writing out Knightian uncertainty. Smith located creative practice at the level of the individual craftsmen, and had the philosophy and epistemology to support this even though he is often portrayed as the originator of the equilibrium of supply and demand. Schumpeter's regard for Walras and his mathematical skills led him to the deep ambivalence evident in his work as he straddled between the neo-classical and Austrian positions.

Langlois argued the notion of there being two Schumpeters, one early one late, one focused on the entrepreneur as the agent of economic change precipitating 'gales of creative destruction', the other on the obsolescence of the entrepreneur as large-scale organization routinizes discovery, is simply incorrect. The confusions and contradictions are not so much indicative of any change of Schumpeter's opinions as the result of a 'tension' between incompatible epistemic positions (Langlois, 2002). Langlois went on to contrast a 'rationalist' epistemology with an 'empiricist' one, recalling, of course, the *Methodenstreit* and the struggle between the German Historical School and the Austrian Economists. While the rationalist position proposes abstract closed models, the empirical one is forever open, transient, under construction, dynamic. In the first knowledge is of what already exists, in the second it is merely a record of what has been created.

Schumpeter was attempting to synthesize two kinds of economics, an equilibrium one and a disequilibrium one, and was bound to fail unless he de-stabilized both. Absent that, Langlois argued the historically appropriate meaning of entrepreneurship - Cantillon's - can only be found in the second kind of economics for it must have the space for novelty, giving new depth to the notion of 'opportunity' which can only be present in an

economics that is itself supported by an epistemology of opportunity - one that admits human agency, or what Langlois dubbed 'intuition, the leap of logic' (Langlois, 2002) or what Locke would earlier have called 'judgment' (in Spender, 1989).

### **An Economics of Agency?**

The question is 'Can we have an economics of agency?' and illuminate what we mean by a 'disequilibrium framework'. This is a huge question, framed by Nelson and Winter as the economic discipline's inability 'to come to grips with uncertainty' (Nelson & Winter, 1982n) so we had best shortcut to a tentative conclusion using Langlois and Cosgel's work (Langlois et al., 1993). Their answer is 'yes' and 'no', that Knight's theory of the firm indicates how entrepreneurs might manage the entrepreneurial judgment of others, but it does not tell us how that person's agency or entrepreneurial judgment is itself managed. Knightian uncertainty, which presupposes creativity and novelty, destabilizes the economic equilibrium, creating an epistemic space into which human agency is projected as the application of imagination and judgment. Knight considered the firm an apparatus within which the entrepreneur, as the creator of organization, makes judgments about the judgment of others whose activity is different from their own, and whose knowledge therefore differs too; 'business judgment is chiefly judgment of men'. The key here is the relationship with practice, for the judgment to be controlled is that being applied during the practice that instantiates the organization, and the judgment needed is that acquired through learning-by-doing, not by observing (Ryle, 1949). Given a substantial division of labor and a significant coordinating process, those 'senior' are

distant from those whose practice is entrepreneurial, creative, and adding value. Thus Knight envisaged a mechanism for controlling a complex of divided labor, one that complements a bureaucratic system of plans, rules, roles, and accountability.

A theory of entrepreneurship must embrace both the agency of the entrepreneur and that of the others that comprise the Knightian organization (Langlois, 2005). But how is human agency itself to be controlled? Is this not a contradiction in terms? Most economists are familiar with the term agency through principal-agent theory, a theory of how agents can be 'controlled' to align their entrepreneurial capabilities to the principal's objectives (Pratt & Zeckhauser, 1991). At this point it is useful to distinguish the quality of mind we call 'imagination' from that complementary quality of mind we call 'rationality', the one subjective, the other objective. The epistemological struggle is to bring imagination into economics to complement the widespread adoption of rationality, for it is imagination that lies behind agency and novelty. Secondly, as Say told us, we need to distinguish the subjective act of imagining from the process of bringing our imaginings into the objective world. Thirdly, we wonder whether entrepreneurship is inevitably a solitary activity or whether it can be collective.

It would seem that the study of entrepreneurship requires us to consider both rationality and imagination, to undertake the same kind of synthesis as defeated Schumpeter.

Clearly this is a recipe for failure, which is why we need to get clear about our aspirations. Something has to give or alternatively we have to appreciate the term 'theory' meets its logical and epistemological limits when confronting the imagination.

In practice no theory of the imagination is required beyond its recognition, for it is axiomatic to our sense of ourselves. Our sense of it is as complete an explanation of it as we can hope for. To speak of our imagination's causes is (a) to be ignorant of its givenness and (b) to confuse it with our agency. Thus it is an error to think that we can encourage or discourage the imagination, it is with us every waking moment and our sleeping moments too, perhaps. It is wherever and whenever we are conscious without certainty, which is always when we are in the real world. When authors such as Amabile discuss creativity they actually mean agency, the imagination's appearance in the real world (Amabile, 1998). So it is to the journey from the privacy of the mind in which both reason and the imagination are active, to its impact on our context of practical activity that we must look for a useful theory of entrepreneurship.

One way of describing this journey is as a set of collisions between the entrepreneur's imagination and the constraints that make up what s/he knows or learns of the world. The entrepreneur, as an agent in a socio-economy, is constrained by the totality of ways in which that socio-economy can be experienced and known. This is an empirical matter, as is entrepreneurship theory; it is not of the epistemology of abstracted coherent systems and ultimate causes within which positivistically inclined researchers seek knowledge. The constraints on the entrepreneurial imagination are largely obvious and understood for they are around us all the time, even though sorely neglected in our literature. For instance, corporate law sets boundaries to forms of organization, registration, funding, and so forth. It makes a difference whether the firm is a PLC or a 501(C)(3) or an S-Corporation or an LLC. Each of these is a historically-contingent legal space into which

the entrepreneur's agency can be projected. This space is determined by others and, at the first level of analysis, beyond the entrepreneur's control. But this is not the physical universe. Since we are only constrained by social forces these are changeable rather than 'cast in stone'. Lobbying those who have the shape of the State within their control is so important and relevant because, in the manner keenly understood by Smith and the Physiocrats, it can change the entrepreneur's specific opportunity space.

The likely inventory of constraints in a real opportunity space scarcely needs recitation since, though its general outlines are clear, its details are the precise descriptors of that context. It would cover all manner of infrastructural issues as well as the more personal constraints of ethical judgment and ambition. All are ultimately moveable, some in the short-term, others might take longer, some will be susceptible to personal action, and others will call for collective action and political processes. There are social constraints; many are about communicating with other people whose imagination the entrepreneur seeks to harness. There will be technical or physical constraints. For instance the meat industry was transformed by incorporating refrigeration into its business model. When we say technological innovations trigger economic change this is not strictly correct, rather it is the entrepreneur's ability to draw the technology into a new business model that makes the difference. There is also the deeper question of whether the entrepreneur will create an organization as part of her/his strategy for meeting specific constraints, and if so, precisely why. This gets us back to some of the alternative theories of the firm noted above. Part of the mystery is that there may be several quite different reasons for creating an organization as opposed to, say, a network, or to working through a market.

Langlois inclined to the view that the flexibility of organizations enables the entrepreneur to cope better with the uncertainty and variability that characterizes markets. But that would seem un-compelling in situations of monopoly, seeming to miss half of Burns and Stalker's analysis (Burns & Stalker, 1961).

In the end the ultimate test of the entrepreneur is less a matter of visions than his/her negotiation of the practical hurdles encountered as their imagination collides with the contextual constraints on the journey towards agency. No question entrepreneurs may fail to complete that journey for many reasons, including the failure of personal will as it slides off towards other projects. But each confrontation will be like its own trial of Hercules, and as each constraint is met and matched, so another petal is added to the flower that comes forth as the economic-value-adding business model that is the key actor in the dynamic disequilibrium economic model the Austrians seek.

### **The Theory of Art**

In the section above we argued the entrepreneurial process is not simply a matter of awareness of an arbitrage possibility, in the spirit of Kirzner, nor is it one of imagining the novel in the spirit of Schumpeter, but it is also a matter of agency, in the spirit of Say which may or may not entail the creation of an enterprise or organization. But before we grapple with this final mystery, a look at art can sharpen up our sense of the possibilities. The relation between art and entrepreneurship is that both can be cast usefully in terms of

experiencing and meeting constraints during the transformation of the imagined into things present in the world, so demonstrating the imaginer's power of agency.

First the theory of art has paid little attention to traits or other such psychologisms. On the contrary it has focused on the context of artistic activity. Low and MacMillan noted the importance of purpose, and one key to understanding art is to understand how it is an activity with purpose, just as enterprise is an activity with purpose. To define the business's purpose as 'maximizing shareholder wealth' is to risk confusing purpose, desire, and result. We have argued that the firm cannot be understood in the abstract, torn apart from the socio-historical context of legitimate available purposes within which it is hung. Purpose cannot be found within an abstract equilibrium model for it is always a creature of a particular context; likewise art. But while we may argue that business's purposes have remained more or less the same since the 1700s and the emergence of the capitalist economy, art is interesting because its purposes have so clearly changed. This might us more sensitive to the difference between entrepreneurship in the private sector, the public sector, NGOs, philanthropic organizations, and so forth.

While the history and theory of art is vigorously debated we can get a sense of the possibilities for illuminating entrepreneurship without getting too bogged down in whether or not we are in line with mainstream opinion among art academics. During the time of the Greeks and Romans it is thought that art's purpose was both decorative and educational. The wall and floors of the public buildings and wealthy peoples' houses needed covering just as they do today. But the notions behind them, the ideas that were

constraining the artists' agentic choices, were often associated with the notion of perfect beauty, so mirroring the notion of Platonic essence. An example was Polycleitus's 'Canon', the 5<sup>th</sup> century BC sculptured figure of the spear-carrier *Doryphoros* so perfect that Pliny considered it to be 'the entirety of art itself', somewhat as Fukuyama incorrectly considered Western capitalist democracy to be the end of history (Williams, 2004). Polycleitus's figure was regarded as so much the standard against which all others should be measured that it gave rise to the term 'canonical'. Artistic objects were, as always, vehicles for the display of power and wealth, but at issue is what constituted their 'quality', a matter of equal concern to us as we evaluate our business and organizational models and our non-economic lives (Pirsig, 1974).

Given the low level of literacy, art's educational possibilities were harnessed to religious purposes; indeed one can see art and religion as coevolving. In mediaeval times the Church used art not only to project spiritual beauty and dogma but to embrace believers in ecclesiastical spaces of transcending beauty. At the same time the Church used art in many different media - triptychs, sculptures, illuminated manuscripts, gargoyles, religious plays, etc. - to inform the people of the dire circumstances awaiting them in Hell. With the shift towards secularism and capitalism precipitated around the time of Cantillon art became adapted to more obviously political purposes. Thus David's 1788 portrait *Bonaparte Crossing the St. Bernard Pass* is a hugely powerful political document for an age without TV or even wide readership, designed to stir hearts and minds of the masses, as it still does today.

The impact of the Enlightenment on art is the same as its impact on politics, to free the individual from un-criticized structures of authority and open out a subjectivist agenda and the notions of agency. At this point we can recall Hayek's oft quoted remark that 'every major advance in economics in the last 100 years has been a move towards subjectivism', by which he meant human agency, so leading to 'methodological individualism'. For art the major transition is from representation of the world as seen towards the expression of the felt and thus to a representation of the individual rather than his/her context. While feelings may be abstractions and essence-like, as much of the contemporary discussion of emotion suggests, art requires they be brought into the world, agentically. So they are inevitably contextualized. There is the challenge of capturing feelings of personal political anger, say as in Picasso's *Guernica* or Grosz's *Die Stützen der Gesellschaft*, in the two dimensional passive medium of painting, as opposed to the seemingly dynamic medium of film - such as in Lang's *Metropolis*.

The story of art's breaking free of representation and the evolution of abstract art is widely known, but such art is only broken free of the visual and physical dimensions of our everyday existence. It still engages the psychological, sociological, and, on occasion, the political dimensions of our existence - witness Ofili's 1998 *Holy Virgin Mary* and the furore it caused in the New York Sensation show. We might argue Jackson Pollock broke even further, not only by abandoning the established technology of painting, brushes and so forth, for 'drip-painting', but also abandoning the inventory of formalized visual constraints that had been in place throughout previous abstract painting. These

required conscious working, while Pollock painted in a state of 'flow' (Czikszentmihalyi, 1988) yielding, perhaps, to his tacit and inarticulable knowledge and feelings.

The point of these cursory comments about art is to show how artwork itself is inevitably the outcome of a complex collision between the artistic imagination and the constraints present in a particular situation. The long run history of art, the discussion of schools like the Florentine or Dutch Schools, or movements like Impressionism or Abstract Expressionism, is to highlight two kinds of constraint. At one level we see a long running exploration of art's purpose, contextualized in a particular historical and often political context, at another the artist's own purpose, be that to pander to a patron or to pillory political power or to express a life-philosophy, as did Van Gogh. At the same time the art form has the constraints characteristic of the medium, such as oil paint or watercolor or marble or 16mm film or dance. More subtle are the constraints arising from the distinction between art and non-art. Indeed we might say the longest running story in art is the continuing exploration of this boundary, so visible tested in Warhol's works. Not only is art incomprehensible without some understanding of or feeling for these constraints, it does not speak to other artists, those who also know these constraints, if it does not test and meet them in novel ways.

Art is also a business and has been so since the time of the Greeks, the Medici's, the horse-loving gentry, and the local portrait painter before photography. Art is a craft-product for a tricky market that scarcely knows its own mind. In this sense the artist is a prototypical entrepreneur taking high risks in an attempt to corner a market. The point of

looking at art as a metaphor for entrepreneurship is to reinforce the discussion in previous sections about its agentic nature but also to open up ways of understanding how to theorize it. Art theory, as noted above, pays little attention to the psychological traits that continue to capture the attention of researchers into business entrepreneurship. Rather it is assumed we are all artists engaged in the construction of our own lives, what is of interest is the choice of medium. Thus art means human agency acting within certain boundaries that can only be comprehended historically and to understand art we have to study its history. Likewise to become an artist a person must study its history to get a sense, at the level of each particular art's practice, of its purpose and the constraints that constitute its frontiers, and where its boundaries lie. This is familiar to academics, for it is precisely how we learn our own craft. We do our research in part to understand the constraints on what is publishable and what is not. Thus a theory of art is also a set of ideas about learning how to be an artist, a key part of which is learning how to 'read' the work of others, vividly illustrated in the few years of ultra-rapid interchange between Picasso and Braque around 1910 that shaped Cubism.

In short, a theory of economic entrepreneurship will be about learning how to be an entrepreneur, which itself means learning how to act purposively in a particular context or medium. It cannot be a macro theory seeking to encompass the entire universe of entrepreneurial opportunities, if only because these are constantly shifting under the press of technological, legal, institutional, and social change, as fashions come and go, and as the economy is re-constructed by the actions of others. Rather than being in the abstract it must be embedded in the here and now. It begins with learning how to 'read' the

medium and the agentic activity going on within it, with learning how the context is going to be changed by the activities of others.

The study of art can be helpful here. The Discipline-Based Art Education curriculum stands on four pillars: art history, aesthetics, art criticism, and the production of art (Smith, 2000). The first three are about learning to read the context and so become aware of the opportunities it presents for experiment, disagreement, and discourse. The last emphasizes the tacit craft dimensions only accessible through experience of the activity and without which the journey to agency cannot be completed. It is no great help to assert those who seek to learn must be good learners; the ideas about awareness, risk-propensity, persistence, flexibility, quick learning, and so forth are mere tautologies, as contradictory as the proverbs of administration that Simon criticized so roundly (Simon, 1997). The entrepreneurial curriculum suggested is of the kind of detailed empirical study of particular business contexts that marked the early curricula at the Harvard Business School in Dean Gay's time (Cruikshank, 1987). Only by knowing the location of its sides can one comprehend what it means to think 'outside the box', and thinking outside the box is of no profit until one can act outside it as well.

## **Conclusion**

Entrepreneurship began at a particular time in Western history as opportunities to generate personal wealth emerged along with citizen's political freedoms. Much of the entrepreneurial discourse is the economic version of a political discourse around rights,

responsibilities, and the benefits of having a functioning State, and about how one might evaluate its condition. The odd part of its history is the post-Walrasian attempt to sever it from familiar experience-based knowledge of the economic, institutional, technological, religious, social, etc. dimensions of the entrepreneur's context. The impulse is obvious, since the detailed level of analysis requires a complete theory of the world's economy before one can model the entrepreneur's opportunity rigorously. The penalty is that it severs the entrepreneur too. Nor is returning to the details a solution since their selection becomes an entrepreneurial act that defies analysis. We used art as a metaphor to get a sense of how studying the history of its form of agency helps identify which aspects matter. But denies the theory sought is the rigorous type familiar to the readers of our research journals but rather heuristics for guiding the process of learning by doing.

We left the trickiest question around the Knightian concept of the organization until last. Why would an entrepreneur choose to build an organization to exploit an opportunity? Langlois's discussion of 'flexibility' is interesting but leaves open the question of how the organization is to hold together while being flexible, and so on. It might be more useful to shift language and talk expressly about power; organizations are more powerful than individuals and that, in the end, is their underlying *raison d'être*. Power can be gained in many ways, each suggesting its own theory of the firm; we have no reason to think of one overarching theory for a world that we cannot completely know or model. Thus the entrepreneur might develop an organization because the task to be undertaken, is beyond the scope of a single person, and under conditions of incomplete specification and contracting, the firm is a useful and available apparatus that meets the employment

expectations of those one wants to hire. But this skirts the problem addressed in the Knightian analysis, of harnessing these others' imaginative capabilities to the firm's objectives. Again the reason to do this is bounded rationality. The challenge is to have these others respond to the uncertainties they find in their work situations as the entrepreneur would even though the entrepreneur has no experience and tacit understanding of their work. Knight's answer was 'cephalization' (Langlois et al., 1993), a nice Edwardian term for persuading them to 'get with the program' or 'buy into the company's mission'. This dimension of entrepreneurial challenge introduces these others, and their imaginations and dispositions, as key constraints to the entrepreneur's agentic process, and so to our theory of entrepreneurial practice. The entrepreneurial firm, as Langlois envisaged it, addresses this question, giving us a comprehensive but open-ended model, Knightian experience based heuristics that encompass and revitalize the entrepreneurship of Cantillon and Say, of Kirzner and Schumpeter, and so based on both information asymmetry and on human agency.

	Information Asymmetry	Agency
Entrepreneur Sole		
Entrepreneurial Firm		

**Table 2: A Matrix of Entrepreneurial Theorizing**

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