



DIGGING AMONG THE ROOTS OF ENTREPRENEURSHIP

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***Abstract.** Without claiming to be an exhaustive exposition of two of the most important perspectives in the field of entrepreneurship studies, this paper points out some key distinctions between the Austrian Economics and Schumpeterian perspectives on the process of entrepreneurship. It employs a comparative approach and addresses point by point the nature of entrepreneurial opportunities, the sources of uncertainty in the initialization of entrepreneurial action, the process of competition and its role in the market as well as the relationship between entrepreneurship and knowledge. The article examines the importance attributed by these two perspectives to the socio-economic environment in which entrepreneurial activity arises, instead of focusing directly on their exclusively economic aspects.*

***Keywords:** Austrian Economics; Schumpeter; Subjectivism; Knowledge.*

I. Introduction

Many recent papers are dedicated to entrepreneurship and its role in economic growth. It is often approached as a type of panacea solution. Furthermore, it is also viewed as the key answer promoted for changing mentalities, attitudes or the quality of life for nations as a whole. *How did the process of consolidation of the main concepts form the entrepreneurship field look? Which were the main features of the individual entrepreneur in some of the classic texts of the field? When we look inside of Schumpeter's work can we still label him as Austrian or should we make a clear distinction between Schumpeter's and Austrian perspectives on entrepreneurship?* These are the types of questions that were the underlying reasons for choosing the topic for the current article. Keeping in mind the space limitations, the article tries to provide some answers to all of them.

With a focus on opportunities and knowledge, this article aims to point out a few essential differences between two of the most important contributions to the study of entrepreneurship. There is no unitary perspective on entrepreneurship

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within Austrian economics¹, so the approach used in this paper is composed of many fragments of various perspectives. Some approaches within the school do complement one another, and where possible these will be presented as such. In this way, preserving the characteristics of individual thought within Austrian economics, emphasis will be given to the distinctiveness and variety of this body of thought on entrepreneurship in contrast with the more unified nature of the Schumpeterian perspective.

Making a short excursus into the history of Austrian economics, the paper will address the subjectivist way in which Carl Menger influenced the methods of theorizing human action. According to Kirzner (1992) Menger made a significant imprint on the perspectives used and promoted firstly by Eugen von Böhm-Bawerk and Friedrich von Wieser and later developed by Ludwig von Mises and Friedrich von Hayek. This line of thought also had a substantial influence on authors such as Israel Kirzner, Ludwig Lachmann and Lawrence White. The way in which Austrian economics consistently emphasizes the importance of individual action in the initiation, maintenance and completion of entrepreneurial activity later influenced the way in which one important school of thought was developed, namely new economic sociology (Boettke and Storr, 2002; Fillieule, 2010). Economic sociology is one of the main perspectives concerned with entrepreneurial behaviors. This perspective is built on the legacy of sociologists and economists such as Weber [1930] (2001), Schumpeter (1934, 1939), Parsons and Smelser (1957), etc., and it has been recently reconfigured in papers authored by Swedberg and Smelser (1994), Swedberg (2002), Portes (2010), etc. Another important scholar in this field is Granovetter (1985, 2001, 2002) who was concerned with the relationship between social structure and economic performance. In order to do relate social structure and economic performance, Granovetter pointed out the analytic relevance of concepts such as: social networks, embeddedness, oversocialization and undersocialization. Following a classic distinction in the field, Thornton (1999: 20) argues that “the entrepreneurship literature can be classified into two schools: one taking the supply-side perspective and the other, the demand-side perspective. The supply-side school focuses on the availability of suitable individuals to occupy entrepreneurial roles; the demand-side, on the number and nature of the entrepreneurial roles that need to be filled.” Keeping this in mind, we should

¹ This was outlined in an elegant fashion by Shackle, one of the economists influenced by the Austrian School’s line of thought “Since its beginnings in the early 1870s Austrian economics has been shaped successively by a number of brilliant minds, each sized by a highly individual conception differing from those of the others.” (Shackle, 1988, p. 204)

mention that the present paper is exclusively organized in relationship with concepts from the 'supply side'.

Over the time the question about "*what is an entrepreneur?*" has received many answers. Following Casson's line of thought, we can see why entrepreneurs are different from other people. From Casson's point of view this difference should be linked to the fact that "they possess the quality of judgement required to improvise a decision successfully when no agreed decision rule is available. Entrepreneurs – whether at a high or low level – are therefore those who exercise entrepreneurial judgement" (Casson et al., 2010: 11). In this sense, we will analyze how the Schumpeterian and the Austrian economics perspectives help us to have a deeper understanding of what the concept of 'entrepreneurial judgement' means and why is it useful in the attempt of explaining people's behavior. On the other hand, Baumol's (2002) theory about 'innovation' cannot be understood without a previous excursion in Schumpeter's work. A different approach on the topic can be found in Shane (2003) who moves the emphasis from the individual to the 'entrepreneurial opportunities'.

In recent years the Global Entrepreneurship Monitor becomes one of the most important socio-economical types of research in the field of entrepreneurship. Based on a quantitative methodology, this type of approach is interested in finding out the role "of entrepreneurship in economic growth, enhancing the national characteristics of entrepreneurial activity. GEM focuses on three main objectives: to measure differences in entrepreneurial attitudes, activity and aspirations among economies, to uncover factors determining the nature and level of national entrepreneurial activity, and to identify policy implications for enhancing entrepreneurship in an economy" (Tünde-Petra et al., 2011, p. 7). For our paper these kinds of studies are important particularly because they are interested in analyzing the individual entrepreneur in three different phases of their entrepreneurial careers: *potential entrepreneurs* (those with entrepreneurial intentions), *early-stage entrepreneurial activity* ('nascent' and 'new' entrepreneurs) and *established entrepreneurs* (Xavier et al., 2012, p. 13). These three types of entrepreneurs used by GEM are linked to the level of enterprise structure: the first category can be associated with 'the intention' of setting up a business, the second phase consists of 'nascent entrepreneurs' and the third category is made up of entrepreneurs who have at least 3.5 years experience in the market. From this point of view, this article emphasizes the main concept that can be associated with these phases of entrepreneurial careers, namely the importance of subjective recognition of market opportunities, the high importance of the innovative nature of entrepreneurial entries in the market and also the entrepreneurs' adjustable nature and their ability to keep themselves in business. In the first half

of the 20th century Austrian economists laid the groundwork that would later lead to the construction of all of the aforementioned concepts.

The structure of the paper is organized as follows: the first section provides a brief introduction into the main topics analyzed and configures the lines of the theoretical framework; the second section is dedicated to presenting an overview of “the subjectivist perspective as a main feature of the entrepreneurship analysis of Austrian economics”; the third section of the paper underlines some differences regarding the perspectives on opportunities, sources of uncertainty, and competition between Schumpeterian and Austrian economics; the fourth part of the paper is mainly concerned with the relationship between entrepreneurship and knowledge, and the last section contains some final remarks about the main differences between Schumpeter’s and Austrian economics approaches to entrepreneurship.

II. The subjectivist perspective as a main feature of the entrepreneurship analysis of Austrian economics

The aim of this section is to give an insight into the subjectivist nature of Austrian economics (Kirzner, 1990; Gunning, 1991, 1997; Wubben, 1997; Oakley, 1999), as it pertains to the conceptualization of entrepreneurial action. With this in mind, the paper does not go into a detailed discussion regarding the philosophical traditions¹ that influenced the subjectivism put forth by Menger and later adopted in different forms by Austrian economists.

Using Gunning’s distinction (1991, p. 17; 1997, p. 174) between the ‘old subjectivism’ associated with Menger’s conception and the ‘new subjectivism’ associated particularly with Mises’s *Human Action*’ (1949), we can envisage the way in which the latter described an ‘autonomous’ individual, conscious of his or her goals and actions. From the perspective of ‘old subjectivism’ “the concern of men for the satisfaction of their needs thus becomes an attempt to provide in advance for meeting their requirements in the future, and we shall therefore call a person’s requirements those quantities of goods that are necessary to satisfy his needs within the time period covered by his plans” (Menger, [1871] 1994, p. 60). In this type of analysis Menger emphasizes the importance of individuals’ regard for their present and future needs, but also the significance of knowledge about the market

¹ For an in depth discussion about the contested foundation of Menger’s subjectivism, see Oakley (1999) who outlines the argument between advocates of an Aristotelian foundation as compared to a Kantian one. For a succinct enumeration of the main Aristotelian influences on Austrian economics see Smith (1994).

– information about the quantity of goods that are and will be available for their needs. Following this line of thought, individuals are able to choose between different goods on the market while taking into account their own perceived needs (Menger, [1871] 1994, p. 61-66). This perspective emphasizes that goods are evaluated from the perspective of consumers' needs¹. According to this way of thinking, we have on the one hand the individual's resources, needs and plans, and on the other a competitive market context where the individuals interact. As far as Austrian economics is concerned, the main result of the interaction between the participants and the changing needs of individuals is the 'processual' nature of the market, and so analysts must treat economic reality as permanently changeable. One of the essential things that can be seen in Menger's writing, and which can be later found in different forms in many papers written by scholars on Austrian economics, is the individual's capacity to improve his or her knowledge through participation in the market. In the context of a broader discussion on the relationship between time and economic activity, between past, present and future and the production process Menger claimed that ([1871] 1994, p. 68) "on the basis of previous experience as to their needs and as to the process of production, men continually improve their ability to estimate more exactly the quantities of their various goods that will be needed to satisfy their needs, as well as the particular time periods within which these requirements for the various goods will arise". We will see in the next pages how important this capacity of improvement in individuals' abilities and knowledge proves to be for Austrian economists, but this statement also points out the high significance of individuals' capacity to assess the future from a realistic perspective given the condition of 'imperfect knowledge' in the present.

The Austrian perspective attributes a high level of autonomy to individuals, though not as high as that of the *homo economicus* model. The writings of Wieser, one of the founding scholars of Austrian economics, on the relationship between individuals and the social environment form a key aspect of this topic. Wieser holds that "the social environment in which agents find themselves and through which they operate is composed in part of institutions" (Oakley, 1999, p. 34). This kind of analysis must take into account the way in which institutions have been theorized as the result of cooperation between individuals for long periods of time, and that this generates the capacity of institutions to change their forms, contents or aims. Wieser's subjectivism points out to the individual's capacity for

¹ In the words of Israel Kirzner "Menger had pioneered the theory of market prices as governed, both at the product level and at the resource level, by the demand of the consumer. The valuations of consumers (given the configuration of resource availability) determine the values of resources of production." (2001, p. 109-110)

action, but also takes into account its limitations on that action¹. This kind of approach to the relationship between individuals and their environment² proved to be a fertile path to the analysis of socio-economic life.

Returning to Gunning's distinction between 'old' and 'new subjectivism', we can see that the moment of crystallization of the main lines of 'new subjectivist' thought was when it truly gave prominence to the role of entrepreneurship in the analysis of the economic environment³. The new subjectivist perspective developed by Mises holds that "the significant type of uncertainty is *intersubjective* - uncertainty about the wants, abilities and knowledge of *other* actors" (Gunning, 1997, p. 174, emphasis added). What makes this type of analysis stand out is that it underlines not only the imperfect knowledge about the present and future, but also the significance of other individuals who are active in the socio-economic environment. One of the solutions proposed by the Austrian school in the face of this type of uncertainty is linked to the entrepreneur's capacity to adapt to the constantly changing nature of relevant data. Individual entrepreneurs cannot work with an unalterable imagined script of the future and they cannot follow the steps in the script while ignoring the changing signals gathered from other participants in the market. Operating in this manner will inevitably lead to economic failure. Under the conditions outlined above – the impossibility of perfect knowledge about the market (Hayek, [1946] 1990, p. 170-172) – actors must constantly change their behaviors while taking into account the most relevant data learnt in each moment. The fact that Mises saw this new subjectivist 'theory of economic action' as one of the Austrian School's main points of distinction (Kirzner, 2001, p. 95) brings us closer to the perception of the

¹"It simply did not occur to him to model the human agents responsible for the generation of economic phenomena as isolated, omnipotent and purely rational beings. They are, as realism in subjectivist economics demands, always of limited capacity and fallible, but at the same time socially and institutionally situated and conditioned in ways which enable them to transcend some of their shortcomings as active individuals." (Oakley, 1999, p. 36) no direct quotation

²"While the Austrians construct their economics on a socially embedded foundation from which institutional questions naturally evolve, the "new institutionalists"—often referred to as transaction cost economists for their emphasis that institutions evolve to reduce the cost of doing business in a world of uncertain and unknowable futures—tend to graft a theory of institutions (and institutional evolution) onto the neoclassical frame." (Boettke and Storr, 2002, p. 163)

³ It is interesting to see how Gunning said that Mises' subjectivist approach is closer to Weber than to Menger's 'old subjectivism' (Gunning, 1991, p. 17).

entrepreneur as an important component of the Austrian School's 'processual' approach to the market.

The Austrian School analysis of the role of the entrepreneur argues that the ways in which actors behave generate different types of entrepreneurial action. Another feature emphasized by Mises is that suppliers are in a permanent state of competition regardless of their activity niches or relationship to one another and that this state increases the actors' uncertainty: "competition does not take place only among those who offer the same item for sale, but also among those who wish to sell different articles. The sums which a consumer spends on buying any commodity reduce the sums which he can put up to buy other commodities. All entrepreneurs try hard to draw into their coffers as much as possible of the cash at the public's disposal. All goods and services are in competition with all other goods and services" (Mises, [1961] 1994, p. 154). Thus, individuals' efforts to gain a constant improvement of knowledge, abilities, skills and resources become an essential aspect of the analysis. From the perspective of Austrian economics the success or failure of an entrepreneurial activity is the direct result of an individual's interpretations of the signals received from other market participants. The individuals can perceive the information or signals received in market contexts in different ways¹ as well as the presence or absence of entrepreneurial opportunities. These perceptions generate different forms of entrepreneurial behavior. This realization gives insight into the relationship between entrepreneurship and the market process, wherein Kirzner emphasizes that "the character of that process for Mises is decisively shaped by the leadership, the initiative, and the driving activity displayed and exercised by the entrepreneur" (Kirzner, [1982] 1990, p. 122). The entrepreneur is the one who has assumed an essential role in the evolution of the market seen as a process, and the concrete form of his or her manifestation is the interaction.

III. Opportunities, sources of uncertainty, and competition from two different standpoints

As detailed above, the Austrian School treats entrepreneurship from a subjectivist point of view. In this view, entrepreneurial opportunities can be found in the entrepreneur's subjective interpretations of socio-economic contexts (Lavoie,

¹ On the perspective built by Kirzner about markets, Lavoie ([1991] 2002, p. 104) remarks, "The actor's objective circumstances are not important in themselves, but the specific opportunities and constraints he perceives are. Action, Kirzner says, is not a direct confrontation with objective reality itself but always takes place within an interpretative framework."

[1991] 2002, p. 104). This perspective differs from the one constructed by Joseph Schumpeter with its focus on the action of individual entrepreneurs as the most important factor in an economic system (Schumpeter, 1939, p. 102; 1976, p. 132) and generally with the more objective features of the socio-economic environment. This section explores aspects of both of these perspectives including entrepreneurial opportunities, the variety of sources of uncertainty, the relationship between entrepreneurs and their client base, and the importance of competition for the market process.

It must be noted that this article is not primarily concerned with economic theory, despite the important elements that the two perspectives have drawn from some aspects of this theory, and the significant role entrepreneurs play in an economic system. As such, it does not deal with distinctions such as that detailed by Kirzner (1973, p. 81), though it is helpful to note here: “what entrepreneurship achieves within the Schumpeterian system is the disruption of the circular flow, the creation of disequilibrium out of equilibrium. For me, on the contrary, the entrepreneurial role, although of course the source of movement within the system, has an equilibrating influence; it is entrepreneurial alertness to unnoticed opportunities which creates the tendency toward the even circular flow of equilibrium.”

Firstly, we can examine the discussion regarding the objective existence of opportunities for entrepreneurial endeavors. There is disagreement within the Austrian School as well as between them and the Schumpeterian perspective concerning differing individual perceptions of the features of the market and so-called entrepreneurial opportunities. This aspect brings into focus the fact that individuals using different capabilities¹, skills, resources and knowledge develop distinct individual pictures of the situations that can be transformed into successful entrepreneurial action. For some in the Austrian School, it is particularly important to take into account the distinction between “discovery and interpretation” of entrepreneurial opportunities (Lavoie, [1991] 2002). Under Lavoie’s ‘cultural approach’ on entrepreneurship, these two aspects of the process are built on different foundations. The ‘dynamic perspective’ on opportunities, favored by Austrian economists, focuses on the processual character of markets and individuals’ understanding of this characteristic under conditions of interaction between autonomous individuals. In this interpretation, such opportunities are significant not only in the stage of motivating and initiating the

¹ Loasby (1999, p. 50) defines ‘capabilities’ in the terms used by Richardson (1972), emphasizing that it cannot be interpreted in the terms of ‘rational choice’ because “skill, and therefore the quality of performance, is both important and problematic.”

entrepreneurial action, but must be continually followed by individuals. That which can be perceived by an individual at a given moment as a chance to capitalize on an entrepreneurial opportunity can, in time and as a result of the actions of other participants in the market, become a failure for that individual. As a result, the individual cannot with any certainty anticipate the future of the action in its initial moment, and for that reason he or she must constantly reconfigure his or her present and future image of the context (Kirzner, 1973, p. 9-11). This aspect of the entrepreneurial process has led to the Austrian School's emphasis on the analysis of 'uncertainty'.

Kirzner (1973) associated the way in which entrepreneurs perceive their opportunities in a market with their 'alertness' abilities. This perspective provides the possibility of outlining the distinction between the 'discovery' of opportunities (Kirzner, 1973, 1982) and the capacity to 'imagine' market opportunities as it was rendered by Shackle (1979) and other Austrian economists after him. White's dissatisfaction with Kirzner's "viewing entrepreneurial activity as responsive and unambiguously equilibrating" (White, [1976] 1990, p. 87) and his wish to reconcile this perspective with the Schumpeterian view of the entrepreneur who is in a "gale of creative destruction" led him to build a different perspective on uncertainty. In his words "the pervasive uncertainty faced by entrepreneurs, stressed by Mises but deliberately downplayed by Kirzner, suggests speculation or imagination more than alertness to be characteristic of entrepreneurship" (White, [1976] 1990, p. 88). In a similar line of thought to Shackle (1979), he considers opportunities as a results of an individual's 'imaginative capacity'. For Kirzner, opportunities exist on the market and must be discovered, while for White opportunities "certainly cannot be said (*ex ante* at least) to exist in any objective sense" (underlining in the original). In their concern with the discovery or imagination of *future* opportunities, the authors influenced by Shackle pointed out the importance of the time dimension in the analysis of entrepreneurship and used the distinction between 'the entrepreneur' and 'the arbitrageur'. 'The entrepreneur' has to deal with uncertainty¹ generated by the weakness of his or her knowledge about the future, while 'the arbitrageur' does not have this problem because he or she does not deal with the future but rather speculates on the differences within or between markets in a given moment. The

¹ The difference between the entrepreneur and the arbitrageur was built on the foundation of different senses of uncertainty: "Uncertainty, like numerous other terms in economics, can be understood in two senses, one 'subjective' and the other 'objective'. The first designates an attitude or state of mind on the part of the decision-maker, while the second signifies the indeterminateness or unpredictability of future states of human affairs." (White, [1976] 1990, p. 91)

concept of uncertainty discussed by these authors forms an important part of discussion later in the paper.

Even if the conceptual tool of uncertainty¹ is not exclusively an Austrian one, they have made important contributions to the way in which it is used. The work of Mises cited above, which maintains that the competition between a market's actors does not finish at the boundaries of the industry or niche in which the actor operates, can be seen in a new light in this context. Under such conditions of generalized interconnection, entrepreneurs cannot possibly be aware of all relevant participants, let alone relevant data, a situation that creates its own dimension of uncertainty. Regardless of the level of investment into knowledge of the market, no participant can have absolute or perfect knowledge of the environment; therefore uncertainty is inevitable (Hayek, [1946] 1990; Kirzner, 1973, p. 38-39). Seen from this perspective the relationship between uncertainty and the entrepreneur can generate a number of approaches including the following. Firstly, uncertainty is a factor that decreases the possibility of a successful entrepreneurial act because individuals have limited knowledge on the conditions of their action. Secondly, uncertainty increases the probability of a successful entrepreneurial act because the other participants in the market have a limited knowledge of the context². Changing the perspective from the environment to the individual, Austrian economists held that the individual can never be prepared enough for entrepreneurial activity and for this reason he or she must always be attentive to changeable signals from other participants³. In this type of analysis entrepreneurial opportunities from the first moment of an entrepreneurial action maintain an essential role only if the individual has the abilities and skills needed for constantly appropriate access to relevant information at the right moments.

¹ Since its publication in 1921, Frank Knight's work '*Risk, Uncertainty and Profit*' has contributed some important interpretations to the analysis of economic uncertainty. He emphasized the difference between 'the measurable uncertainty and the unmeasurable one', and associated the concept of risk with the former. This article deals with a few characteristics of uncertainty in the definition of Austrian economics without aiming to compare or weigh these against Knight's.

² This specific aspect can be read in the following from Kirzner: "Only the introduction of ignorance opens the possibility of such unexploited opportunities (and their associated opportunities for pure profits), and the possibility that the first one to discover the true state of affairs can capture the associated profits by innovating, changing, and creating." (1973, p. 67). As we have already seen, this aspect of the analysis becomes possible in Kirzner's analysis of the individual's alertness to entrepreneurial opportunities.

³ This aspect of the analysis can be emphasized even if the individual 'chooses' how to act and he or she has an 'imagined' plan for his activity (Shackle, 1979)

We have seen the importance for Austrian economists of underlining the significance of a constant effort by the entrepreneur in ‘discovering’ or ‘imagining’ opportunities and constant ‘learning’, while in the Schumpeterian vision, other factors receive an important role, particularly those linked with the innovative nature of the entrepreneur. In contrast with the perspective of the Austrians on the condition of inescapable uncertainty, the Schumpeterian perspective allows for more stability, taking into account that “the routines of the circular flow provide the stable background which is necessary for the calculations of Schumpeterian entrepreneurs” (Loasby, 1999, p. 175). The Schumpeterian entrepreneur does not establish an enterprise under the Austrian School’s conditions of uncertainty but rather in a relatively stable environment¹. In a different take on the issue, the Schumpeterian entrepreneur faces the challenge that “the number of possible combinations is nearly infinite and that the entrepreneur cannot possibly go through them all in some rational way... The entrepreneur does not make a rational choice, but an intuitive one; and it is the capacity to make the right intuitive choice that separates a good entrepreneur from a bad entrepreneur” (Swedberg, 2007, p. 10). The difficulty of entrepreneurial activity for Schumpeter stems not from uncertainty but rather from individual and social limitations.²

In the perspective of Austrian economics, the individual capability to alter behavior according to the signals received from the market is of particular importance in the success of entrepreneurial activity. For Lachmann ([1976] 1990, p. 82), this alteration relates to the individual ability to differentiate between ‘old knowledge’ and ‘new knowledge’ and to maintain an optimal balance between these two spheres. ‘Old knowledge’ and ‘new knowledge’ coexist in individuals’ processes of building representations of the context of their activities, and the choice of the best type of knowledge to be used in a given situation is made by the

¹ “Why is innovating activity most favored by equilibrium? A comparison of the difficulties and risks of innovation at different stages of the two-phase cycle shows a heavy balance in favor of this situation. The stability of business conditions, as well as the complete absence of profits, is more conducive to innovation than any other stage of the cycle could be. Since the risk of failure is at a minimum, and the pressure to innovate at a maximum, we should expect that innovating activity, under capitalist arrangements, would be extraordinarily great.” (Clemence and Doody, 1966, p. 54)

² “First, in the case of something new being attempted, the environment resists while it looks on with - at least - benevolent neutrality at repetition of familiar acts.... Second, for the repetition of acts of routine the environments offers the prerequisites, in the case of new things it sometimes lacks, sometimes refuses, them... customers buy freely what they understand. Third...most people feel an inhibition when the possibility of treading a new path offers itself...” (Schumpeter, 1939, p. 100)

individual. Even if opportunities exist in the market, these representations are the means by which these are converted into entrepreneurial behaviors (Kirzner, 1973). In this context we can examine the different roles of the signals that the entrepreneur receives from the market from both perspectives. In Austrian economics, signals received from markets indicate to the entrepreneur whether he or she must make changes in his or her behavior for a better response to competitors and a better adaptation to consumers' preferences¹. In the Schumpeterian perspective, negative signals can be only a sign of the essentially innovative nature of the entrepreneur and the challenges that this nature presents to old, deeply-rooted behaviors and knowledge.²From this point of view importance is given to the entrepreneur's intuition (Swedberg, 2007) rather than the signals received from the other participants in the market. In any case, the variety of reactions in a market renders their interpretation impossible or very difficult.

The introduction of consumer preferences into the analysis brings to light further areas of contrast between the two perspectives which assume different points of view regarding the nature of the relationship between sellers and consumers. We have emphasized above that in the perspective of Austrian economics the entrepreneur must adapt his behavior to market signals (Kirzner, 1973; Shackle, 1979; Lachmann, 1976). We can now take a short look at the way in which the Schumpeterian entrepreneur alters the environment with his or her 'new combinations'. Consumers must be influenced to buy the entrepreneur's goods or services, even if this runs counter to their existing preferences. This influence can be illustrated by a short example: "visualize the situation of a man who would, at the present time, consider the possibility of setting up a new plant for the production of cheap aeroplanes which would pay only if all people who now drive motorcars *could be induced to fly*" (Schumpeter, 1939, p. 100, emphasis added). The difference between the two perspectives can be easily recognized if we follow the trail of influence through the processes. In the Austrian School's approach the seller is influenced in his or her behavior by the other competitors or by the

¹ Carl Christian von Weizsäcker (2011) provides a useful analysis of the character of consumer preferences and of the distinction between adaptive and fixed preferences with an emphasis on the necessity of a multidisciplinary analysis.

² "In fact, it is easy to realize that those disturbances must necessarily be 'big', in the sense that they will disrupt the existing system and enforce a distinct process of adaptation which should show up as such any time series material. This is independent either of the size of the firm or *of the importance of the immediate effects their action would in itself entail. What we see at first glance may well be a multitude of reactions not easily traceable to any definite innovation behind them.*" (Schumpeter, 1939, p. 100-101; emphasis added)

consumers of his or her goods or services. Conversely the Schumpeterian entrepreneur, through his or her innovative behavior, influences the behavior of consumers and competitors.

Competition is emphasized by both perspectives as the essence of entrepreneurship. This does not mean that Austrian scholars and Schumpeter operated with the same definition of the term. Kirzner (1973, p. 16-17) is indicative of the Austrian School when he argues that, “the entrepreneur’s activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process.” This aspect of the Austrian School’s work employs definitions of competition that emphasize the significance of small changes resulting from entrepreneurs’ constant attention to the details of market contexts and his or her goal of gaining a better position therein. For Schumpeter the entrepreneurial process can be understood only if we take into account the importance of innovation, which in contrast to the Austrian perspective, is the most important aspect of competition. The Schumpeterian perspective compares competition based on its model of creative destruction with a more traditional conception including that of ‘price competition’. In terms of the market, it “is as much more effective than the other as a bombardment is in comparison with forcing a door.” (Schumpeter, 1976, p. 84-85) This difference between the two perspectives on competition arises, as briefly mentioned above, from the distinct character associated with the relationship between entrepreneurship and the economic system.

IV. Differences in the analysis of the relationship between entrepreneurship and knowledge

Knowledge is one of the most important components of the analysis of entrepreneurial activity. This is true from an Austrian perspective on entrepreneurship, whose scholars have built a nuanced image of the concept, as well as the perspective of the field in general. This section will deal with some distinctive features of knowledge as defined by Austrian economics as well as the relationship between entrepreneurship and knowledge. Subsequently, these features will be contrasted with the Schumpeterian perspective.

Following the premise employed by Austrian economists that no participant in a market can have complete knowledge¹ of all relevant conditions, better

¹ For Hayek, ‘complete knowledge’ is one of the features of the state of ‘perfect competition’ and this state is not possible in a real economy. “Accordingly to the general view, perfect competition presupposes: (1) A homogenous commodity offered and demanded by a large number of relatively small sellers or buyers, none of whom expects to exercise by his action a perceptible influence on price (2) Free entry into the market

knowledge of socio-economic context can decrease but not eradicate an individual's uncertainty (Gunning, 1991). This knowledge constantly alters itself because the market is a changeable environment. The individual's stocks of knowledge at the moment of entry into a market are important but play a decisive role only if the individual also has the ability to adapt his or her behavior to market conditions. Thus, there exists in the Austrian line of analysis a distinction between two spheres of knowledge. Firstly, there are stocks of knowledge employed at the moment of entry into the market, and this knowledge can be more or less useful to an individual in the accomplishment of his or her goals. Secondly, and more decisively for Austrian economic thought, individuals accumulate knowledge in the market. The latter knowledge is learned through participation¹ and is composed of the signals received from other participants in the market. This cannot be analyzed as objective information, however, as individuals form subjective perceptions of the market environment. It is important to emphasize that old and new knowledge have a complementary character, and the former is the foundation for the latter.

From this perspective the market becomes the only place where the entrepreneur can and must test his or her knowledge (Hayek, [1978] 1990, p. 188), and in Kirzner's analysis this test is made "of plans in the market" (Kirzner, 1973, p. 10). An important distinction which arises from the subjectivist character of the analysis is the fact that different people learn different things to differing extents (Lachmann, 1990, p. 83) regarding the market, and that this knowledge will inform future individual action in distinct ways. Success is considered to be a true 'Litmus test' for the entrepreneur's capacity to interpret signals from the market. Success suggests high ability in this regard while failure implies important shortcomings (White, [1976] 1990, p. 100).

Another distinction used by Austrian economists is the difference between the spheres of theoretical and practical knowledge. Swedberg interprets Hayek's discussion of spheres of knowledge thus: "the type of knowledge that has come to be known as 'scientific knowledge' in economics, Hayek argues, had distanced itself far too much from 'practical knowledge', which it views with a mixture of

and absence of other restraints on the movement of prices and resources (3) Complete knowledge of the relevant factors on the part of all participants in the market." (Hayek, [1946] 1990, p. 172)

¹ In Kirzner's analysis this dimension of knowledge is associated with the individual's alertness "once we become sensitive to the decision-makers' alertness to new possibly worthwhile ends and newly available means, it may be possible to explain the pattern of change in an individual's decisions as the outcome of a learning process generated by the unfolding experience of the decisions themselves." (Kirzner, 1973, p. 36)

distrust and contempt. Practical knowledge... Hayek defines as ‘knowledge of the practical circumstances of time and place’ (Swedberg, 2002, p. 10). Theoretical knowledge regarding market features is particularly relevant at the moment of initiation¹ of an entrepreneurial action.² The fact that an individual cannot evaluate in the first moment either his or her degree of knowledge or which part of his or her knowledge will prove useful, is demonstrated by Lachmann’s assertion that “all useful knowledge probably tends to be diffused, but in being applied for various purposes it also may change character, hence the difficulty of *identifying* it” (Lachmann, 1990, p. 81, emphasis in original). At this point of the analysis, it becomes clear that an entrepreneur not only uses new data from the market to improve his or her knowledge but also comes to know more about the relevance of his or her own pre-existing knowledge – that which he or she possessed at the very beginning of the entrepreneurial action. This aspect of knowledge poses a challenge for the entrepreneur and for social researchers in the entrepreneurship field³.

In the Schumpeterian perspective the distinction between ‘old’ and ‘new’ knowledge is not applicable because of the impossibility that it sees in converting old knowledge to new. From the Austrian point of view, the process of improving knowledge is made in a constant and gradual fashion, while for Schumpeter the change is a radical one embedded in the process of ‘creative destruction’. In Kurz’s words, this change implies a state of conflict between the spheres of knowledge: “new economically useful knowledge is frequently the enemy of old knowledge. The new does not simply grow out of the old, but

¹ This becomes especially visible in the perspectives outlined by Shackle (1988, p. 64) and White (1990, p. 93). It has been shown in their work that the individual’s ‘imaginative capacity’ is not associated with a ‘fantasy capacity’, but rather with a realistic vision of the future. Shackle holds that the plan used for an individual’s action is chosen after he or she has evaluated the barriers to other possible plans. Through this process, an attempt is made to eliminate unrealistic images of the future.

² Taking this into account, we must also note that for Kirzner’s entrepreneur the notion of knowledge is linked with his or her ‘alertness’. “[T]he aspect of knowledge which *is* crucially relevant to entrepreneurship is not so much the substantive knowledge of market data as *alertness, the ‘knowledge’ of where to find market data.*” (1973, p. 67, emphasis in original)

³ “Indeed, even if it is possible to design appropriate incentives for individual agents to reveal which knowledge they privately possess, important aspects of personal knowledge will not be transferable to a central operator. In fact, these bits of knowledge could only be used by the individual agents themselves. Hayek himself referred to Michael Polanyi in maintaining that the ‘knowledge how’ to do something refers mainly to skills and can be considered tacit. Polanyi, 1958; Hayek, 1997, p. 43-5.” (Zappia, 1997, p. 273)

replaces it and ‘eliminates it in competition’” (Kurz, 2012, p. 5). On the same topic, it can be observed that innovative acts are intrinsically linked to the creation of new knowledge. Loasby argues that, “Schumpeter’s entrepreneur is the *creator of the new data*” (Loasby, 1999, p. 172).

The description of the process of influence forms a point of disagreement between the two schools of thought as it did in the earlier discussion about the relationship between entrepreneurs and consumers. The main difference between the two schools regarding the relationship between entrepreneurship and knowledge can be summed up with regard to influence: the entrepreneur in the Austrian School perspective is influenced by the information received from the market, while Schumpeter’s entrepreneur radically influences the knowledge available on the market through his or her innovation.

V. Conclusions

The aims proposed in the introduction of this paper included an attempt to point out some differences in two of the main perspectives on the roots of entrepreneurship. Without dealing with the strong influence of the economic system (particularly with regard to equilibrium or disequilibrium) on entrepreneurial behavior, the analysis in this article has underlined the significant differences between Austrian School and Schumpeterian perspectives in distinct aspects of entrepreneurship including the nature of opportunities, sources of uncertainty, competition and knowledge. It has argued that besides the similarities that exist between and the two, there are also some significant differences.

Firstly, an important difference pointed out in this text was the ways of defining the concept of *process*. On this topic the paper has shown that the Austrian scholars define the concept of process in the field of entrepreneurship as the interaction between autonomous individuals in market contexts. The Schumpeterian notion, on the other hand, was used mainly with regard to the individual’s introduction of innovation into a market. This distinction was followed by a discussion regarding the way in which the two perspectives construct the relationship between entrepreneur and other participants in the market. It was shown that while the Austrian School saw the entrepreneur as having distinct relations with individual others in the market, the Schumpeterian entrepreneur has a relation with others as a whole by means of his or her innovation.

Secondly, the way in which entrepreneurial opportunities are examined in these different lines of thought represents an important aspect of their distinctiveness. The process of discovery of opportunities in individual representations of market

contexts or the process of building and choosing the right plan for an ‘expected’ reality as outlined by the Austrian economists is quite different from the process of ‘creative destruction’ analyzed by Schumpeterian scholars. At this moment it should be noted that many in the Austrian School found some points of agreement with the broad definition outlined by Schumpeter on the concept of ‘new combinations’.

The analysis showed that in two important aspects of the analysis of entrepreneurship, namely the relationship between entrepreneur and consumers and between entrepreneurship and knowledge, the two perspectives grow from different roots. For Austrian economics the primary aspect of these relationships can be found in the process of constant adaptation to the market’s changeable character. Thus, the entrepreneur in the Austrian vision changes himself or herself according to signals perceived in the market. Schumpeter’s innovative entrepreneur, on the other hand, was not only capable of changing the consumer’s preferences and behaviors but also the knowledge existent in the market. The successful entrepreneurial act is linked, in the Austrian school analysis, with the process of learning in the market context, while in Schumpeter’s analysis the entrepreneur provides an example to his or her competitors as to how things must be done.

The article points out why Schumpeter is not an Austrian economist although he was born, raised, and intellectually trained in Austrian cities such as Wien and Graz. His approach to entrepreneurship is different from what we know today as being labeled as Austrian economics. His point of view regarding what innovation really means is still present in many analyses of the topic and his 1934 book is probably one of the most quoted papers of the field. The fact that Schumpeterian and Austrian economics perspectives are built on an individualist basis turned them into an ideal foundation for later developments for economic sociology.

Finally, we should mention that from a sociological point of view the main contribution to the schools of thought analyzed in this paper is linked to the importance of the forms of capital including human and social capital. The entrepreneur’s social abilities receive a new role in explaining the entrepreneurial behavior through ‘interaction’ as one of the principal constitutive elements of the market. Complementarily, the role attributed to the process of ‘learning’ by the Austrian economics makes possible a deeper understanding of the mechanisms for building and improving the stocks of human capital held by individuals. Each of these two forms of capital can be seen as substitute for economic capital. Following this line of thought the Schumpeterian metaphor of “new combination” receives new meanings. Even if they did not use these labels of ‘human’ or ‘social’ capital,

the roots of these types of approaches of entrepreneurship can be linked to the concepts analyzed in the present article.

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