Entrepreneurship and economic development
From classical political economy to economic sociology

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Abstract
Purpose – The purpose of this paper is to reconstruct economic reasoning on entrepreneurship from the perspective of its institutional content, thus underlining the aspects of power relations and leadership, which are related with the organisational and technological dimensions of innovation and coordination as entrepreneurial functions.

Design/methodology/approach – In reconstructing the theory of entrepreneurship in a range from classical political economy to current efforts in economic sociology, the paper focuses on an appreciation of Schumpeterian entrepreneurship as a concept that is influenced both by Austrian marginalism and the German historical school.

Findings – The paper finds that the research perspective of economic sociology as a means for exploring the institutional foundations of entrepreneurship is of utmost relevance for further efforts in theorising the role of entrepreneurship in economic development.

Practical implications – The paper promotes policy implications, which underline that policies for the support of entrepreneurship need to account for the differentiation of entrepreneurial functions and their actual carriers, reconsidering the economic manifestations of their institutional embeddedness.

Originality/value – The paper establishes innovation and coordination as ideal types of entrepreneurial functions, perceiving them as fundamental concepts in economic reasoning on entrepreneurship in the process of economic development.

Keywords Entrepreneurialism, Political economy, Sociology, Economic theory

Paper type Research paper

Introduction
The interest of both economists and sociologists in the institutional manifestations of entrepreneurship and their role for economic development has been experiencing a sustained increase quite recently (Swedberg, 2000). This socio-economic concern is well reflected by the fact that all theories of entrepreneurship tend to trace the sources of economic change in activities exercised by certain types of individual or collective agents. Hence, the matter of entrepreneurship is combined with the assumption that economic agents are not to be treated as homogenous in motivation and behaviour. Due to that proposition, entrepreneurship poses multiple analytical problems. Its conceptual complexity is mirrored by attempts to address it from particularly conflicting perspectives. Thus, diverse notions like risk-bearing, leadership, and alertness have been identified as prominent categories for conceptual classification (Swoboda, 1984, p. 21). Yet most reviews of the history of economic thought on entrepreneurship are based solely on an analysis of entrepreneurial functions, perceived in terms of underlying economic theories with their distinct visions of the
interrelatedness of economic variables. The conceptualisation of entrepreneurship as an institutional aspect of economic development is therefore neglected.

For this reason, the present paper reconstructs economic reasoning on entrepreneurship from the viewpoint of its institutional content, thus underlining the aspects of power relations and leadership, which are related with the organisational and technological dimensions of innovation and coordination as entrepreneurial functions. These institutional dimensions of entrepreneurship are actually viewed as a decisive terrain for the provision of analytical material in the analysis of economic development. The matter of organisational change is of particular relevance, because it sheds light on the often misrepresented relationship between the theory of entrepreneurship and the theory of the firm. In this context, it is noteworthy that Schumpeterian entrepreneurship is appreciated as a concept which is not only influenced by positions of eminent Austrian theorists like Friedrich von Wieser, but is also nested in preceding discussions that emerged from within the German historical school, combining the analytical concern with the entrepreneurial dynamism of capitalist development with a methodological orientation towards economic sociology as a distinct analytical perspective (Ebner, 2003).

The presentation proceeds as follows. First, entrepreneurship in economic theory is taken to the fore, highlighting the matter of breaks and continuities regarding the conceptualisation of entrepreneurship that has accompanied the theoretical shift from classical political economy to the variants of neoclassical marginalism. In particular, this underlines the relevance of Friedrich von Wieser’s concept of entrepreneurial leadership in the framework of the Austrian school. Second, the discussion of entrepreneurship in the German historical school is addressed, highlighting the contributions of Gustav von Schmoller, Max Weber and Werner Sombart as distinct attempts of approaching the institutional dimension of entrepreneurship as a developmental factor, thus contributing to the formation of economic sociology. Third, the relationship between the analysis of entrepreneurship and the research programme of economic sociology is taken to the fore in relation with Joseph Schumpeter’s contributions. In conclusion, this review underlines the need for an economic sociology of entrepreneurship that accounts for its well-established foundations in economic thought.

Entrepreneurship in economic theory: from classical political economy to neoclassical marginalism

The notion of entrepreneurship was introduced to political economy in Cantillon’s “Essai sur la Nature du Commerce en Général”, published posthumously in 1755. Schumpeter claimed that Cantillon’s concept of the entrepreneur followed scholastic doctrine by emphasising the role of “risk-bearing” directors of production, contrasting with the safety of salaried employees (Schumpeter, 1954, p. 222). Curiously, discussions in classical political economy that evolved in the UK took little notice of these positions. Adam Smith, for instance, differentiated between the profit of capitalists and the wages of management, while the figure of the entrepreneur was paraphrased by the notion of the undertaker, identical with a business owner (Blaug, 1986). Nonetheless, in an early draft of parts of the Wealth of Nations, Smith discussed the matter of invention and innovation as a domain in which certain types of agents could be differentiated according to the degree of novelty attached to the improvements they put forward. The
“artist” would be able to proceed with minor technological improvements; major changes were the subject of the types of the “philosopher” and “man of speculation”, who would excel in recombining the powers of opposite and distant objects (Smith, 1978, p. 570). In the published version of the *Wealth of Nations* these passages were modified in a manner that reserved more space for the division of labour as the mechanism driving technological improvement, while inventions arising from the manufacturing process were appreciated more decidedly (1976, pp. 20-21). This neglect of entrepreneurship was a legacy Smith inherited to Ricardian theory as well as to the Marxian approach, for objective value theory corresponded with a rejection of individualist perspectives on the development process. Marx (1962, p. 16) actually explained in the preface to the first German edition of *Kapital* that he would deal with individuals only in so far as they are personifications of economic categories, embodiments of particular class-relations and class-interests.

It seems that political economy in continental Europe exhibited a slightly different direction concerning the topic of entrepreneurship and its impact on the dynamism of economic development. Say portrayed the entrepreneur as the type of economic agent who organises and supervises the application of existing knowledge and capabilities to production, differentiating between entrepreneurs as managerial organisers and capitalists who would operate with capital as money lenders (Hébert and Link, 1982, pp. 30-31). Intellectual developments in the German strands of classical political economy paralleled these French efforts. Hufeland explained entrepreneurial profit as an income derived from price differentials, an idea that was taken up by Rau who defined entrepreneurship as a factor production handling organisation and information by combining productive means (Streissler, 1994, pp. 16-17). However, as eminent economists in their contemporary discussions, both Thünen and Mangoldt contributed most decisively to theorising on entrepreneurship in Germany’s late classical debates during the nineteenth century. Thünen, in particular, elaborated on an approach to entrepreneurship based on the matter of uncertainty and creative activity (Blaug, 1986, p. 170).

Selectively referring to these positions, then, neoclassical marginalism began to dominate economic theorising since the 1870s. The Walrasian general equilibrium approach represented the most advanced theoretical endeavour. The entrepreneur comes into play as a buyer of services to be used as inputs in production, operating in a static framework with a given state of technology, that is, fixed technical coefficients of production (Jaffé, 1967, pp. 6-7). Due to the proposition of a zero-profit situation in static equilibrium, the constellation of “*ni bénéfice ni perte*”, the opportunity for realising an entrepreneurial profit arises basically from arbitrage, reflecting differences between competitive market prices and average costs. Thus, the function of Walrasian entrepreneurship is most important in disequilibrium situations (Walker, 1986). Schumpeter, however, suggested that households were the real agents of economic initiative in Walrasian theory. Hence, he proposed that the notion of Walrasian entrepreneurship should be replaced by the impersonal term “the firm”, for it would not denote a specific type of initiative or income beyond buying producer goods and selling consumer goods (Schumpeter, 1954, p. 1011). Moreover, it has been suggested that the arbitrage aspect would delegate to the Walrasian entrepreneur a role quite different from Marshall’s position, which combined the notion of the representative firm with the prospect of introducing organisation as a distinct fourth factor of production.
In this context, entrepreneurship should denote the managerial function of exercising organisational capabilities (Walker, 1986).

In this context, the Austrian school represented a variation of neoclassical marginalism that promoted the case for entrepreneurship most explicitly. This aspect has been derived from the methodological orientation of the Austrian school, namely individualism, subjectivism, the evolutionary nature of institutional change, and the importance of historical time in approaching economic development (Simpson, 1983, pp. 20-21). Indeed, the Mengerian position accounts for uncertainty and the disequilibrium nature of economic processes, promoting analytical specificity as compared with related theories of Walras and Jevons (Jaffé, 1967, p. 520). Menger’s approach to entrepreneurship is concerned with the intertemporal coordination of the factors of production, as the entrepreneurial position depends on knowledge as well as on the control of markets and production. Menger concluded that entrepreneurial activity would include four dimensions. First, information on the economic situation; second, the economic calculations required for arranging production processes; third, an act of will by which higher order goods are supplied to production; and fourth, supervision of the realisation of the production plan (Menger, 1923, p. 154). The matter of risk-taking, as adopted by Mangoldt, was explicitly excluded from that catalogue of entrepreneurial functions which could be exercised exclusively by one individual in small enterprises; although they were often split among employees in large enterprises, integrated only in the person of the entrepreneur himself (Menger, 1923, pp. 154-5).

In the succeeding generation of Austrian economists, Böhm-Bawerk would largely ignore further work on the concept entrepreneurship in favour of the theory of roundabout production, whereas von Wieser, in addition to his value and price theory of imputation, excelled regarding his theses on entrepreneurial leadership which exercised a major influence on Schumpeter’s theory of entrepreneurship in the succeeding generation of economic discourse (Streissler, 1981, pp. 66-7). A key concern of von Wieser’s was provided by the proposition that a useful economic theory with analytical relevance for the situation of modern capitalism should deal with power as a crucial socio-economic phenomenon (Wieser, 1914, pp. 235-6). The conceptual background of that approach was offered by contemporary sociological theories on the behaviour of masses and the necessity of leadership as an organisational device of general validity. In rejecting the sterility of Spencerian evolutionary theory, Wieser integrated the role of “leaders” as guiding forces in the development process. Leadership was perceived as a phenomenon prevalent in all areas of social life, involving military, political, religious and economic domains (Ekkelund, 1970, p. 184). Hence, the inherent impulse for development that needs to be analysed would correspond with the impact of novelty and leadership in the socio-economic domain (von Wieser, 1929, p. 340).

Still, the masses, necessarily organised by the leading personnel, play a decisive role in selecting among the novelty thus provided and put to practice. Therefore, the masses select leaders they are need in of. This relationship coincides with the tendency for an ever increasing role of leadership during the process of socio-cultural evolution, as general progress in knowledge and culture makes the introduction of novelty even more demanding (von Wieser, 1929, pp. 341-2). This argument on the role of a small number of leaders in organising the actions of the masses also shaped his position on the role of entrepreneurship in the organisation of the firm. In accordance with a
definition of the entrepreneur as the “economic leader of his enterprise”, entrepreneurial profit was defined as a premium on leadership. The historical variety of articulating the leadership principle included figures like the master of slave ventures as well as the guild master of craftsmanship; whereas, in the monetary economy of modern capitalism, the type of the entrepreneur would excel, proceeding with capital inputs in order to gain monetary yield (von Wieser, 1914, p. 352, pp. 374-5). Attributes of entrepreneurship should include an intuitive judgement of new business opportunities, a drive for their realisation and a risk-taking attitude associated with investing capital in new ventures, based on a “joy of playing”, but even more than that referring to a “joyful energy of creating” (von Wieser, 1914, pp. 352-3). Capitalist enterprise would serve as a terrain for diverse entrepreneurial types like the “courageous technological innovator”, the “organiser who knows human nature”, the “far-sighted banker”, the “reckless speculator”, as well as the “world-conquering leader of trust organisations” (von Wieser, 1914, p. 354). While the leadership function proved to be the decisive aspect of entrepreneurship, it was accompanied by the role of the entrepreneur as a risk-taker. In conclusion, leadership capabilities and property of capital were both addressed as indispensable conditions for achieving an entrepreneurial position (von Wieser, 1914, pp. 353, 375).

Consequently, Wieser maintained that the historical emergence of capitalist enterprise was related to “pioneers” who would “open up new ways” by making use of technological knowledge and organisational leadership, characterised by the “courage of the innovator” (von Wieser, 1914, pp. 375-6). Large enterprises evolved similarly as a result of activities guided by entrepreneurial leadership, with visionary drive as their general attribute (von Wieser, 1914, p. 406). The essence of that kind of entrepreneurial leadership would then persist with the spread of trustification, although market structures are markedly altered due to industrial concentration (von Wieser, 1914, p. 286). Entrepreneurial leaders of trust organisations then achieve an almost hegemonic public status as outstanding agents of ongoing processes of technological change and innovation (von Wieser, 1914, pp. 406-407). Still, on an organisational as well as institutional level, a shift in the role of individuals in the economic process was noted. It seemed that large enterprises with monopolistic market power would replace small competitive enterprises; a process paralleled by the transformation of leadership mechanisms from personal superiority to “capitalist supremacy”, based on the command of capital used for accumulation. Von Wieser (1914, p. 352) suggested that economic competition was paralleled by the phenomenon of personal supremacy as compared with a perspective on trusts as expressions of economic power. The thesis ensued that the personal element in the economic process could become obsolete, just like the position of the entrepreneur as an economic agent attached to enterprise by specific property rights. Hence, von Wieser announced a transformation towards a collective and bureaucratic-administrative type of enterprise, in which economic leadership and enterprise were detached. The emerging mass character of economic life could be illustrated by anonymous shareholders and employees of large business organisations (von Wieser, 1914, pp. 354-5).

This perspective points to positions on the decline of capitalism that were prevalent in the Austrian school. Menger and his successors in Austrian economic thought believed in a continuous process of bureaucratisation, and so did von Wieser, accounting for the advance of socialist ideas in political terms and thus sharing a
concern with the developmental dynamism of industrial society that was prominently reflected by Marxist positions, yet also by the analytical considerations of the German historical school. Thus, paralleling the conflicts that were related with the “Methodenstreit” between Menger and Schmoller, the German historical school discussed most intensely those historical and sociological aspects of entrepreneurship that seemed to remain underestimated in Austrian marginalism. Indeed, Schumpeter used to suggest that historical and sociological components of entrepreneurship were considered seriously only in the research tradition of the German historical school (Schumpeter, 1928, pp. 480-81). Yet these historist considerations may be viewed in terms of analytical complementarities that cover a broader spectrum of socio-economic thought including institutional analyses emerging from both Austrian marginalism and German historism – just in line with the fact that Max Weber edited a voluminous outline of socio-economic theorising that contained both von Wieser and Schumpeter as eminent Austrian theorists. As the corresponding conceptualisation of entrepreneurship in the historical school combined theoretical aspects of novelty, uncertainty and organisational capabilities with an exploration of the diverse institutional carriers of entrepreneurship, then, the institutional dynamism of capitalist development emerged as an eminent topic of research.

Theorising entrepreneurship in the German historical school: conceptual orientation and analytical impact

In Gustav von Schmoller’s historist approach, institutional customs and habits contributed to the dynamism of economic development, as the vital function of leading personalities, portrayed as the energetic sources of change, was acknowledged. Schmoller primarily hinted at the type of heroic individuals well-known from political historiography, including the example of entrepreneurial business leaders (Schmoller, 1901, pp. 413-14). This “impact of great men” was identified as a research device in the normative context of development analysis, which should proceed with detailed psychological and intellectual explorations of ordinary as well as extraordinary men, gaining further insights in the ethical forces of production and distribution (Schmoller, 1893/1898, pp. 286-7). Yet Schmoller neither defined nor explored the causality underlying the entrepreneurial function in economic processes by means of a specific theory, although an understanding of creative action belonged to the key concerns of historism (Redlich, 1964, p. 87). Nonetheless, this obvious lack of analytical specificity did not contradict a discussion of entrepreneurship that would theoretically reiterate late classical and early marginalist contributions while adding valuable historical and sociological content.

Schmoller’s characterisation of entrepreneurial profit emphasised its role as a premium on talent, effort and directive performance (Schmoller, 1898, p. 130). In accordance with that orientation, Schmoller’s (1901, p. 413) definition of the entrepreneur then pointed to the role of individual initiative and risk-bearing under private law as constitutive attributes of the entrepreneur as the centre and head of the enterprise. Accounting for organisational aspects, then, entrepreneurs in large enterprises seem to be endowed with specific capabilities of speculation and organisation, based on an energetic spirit that involves also a characteristic ruthlessness (Schmoller, 1901, p. 430). Hence, Schmoller emphasised that all those who were “born to command”, would range among the most successful entrepreneurs.
Therefore, entrepreneurial capabilities and the carrying out of leadership functions resemble each other. However, quite in contrast to the Austrian as well as late classical German strand of economic thought, Schmollerian entrepreneurship also exhibited a normative ambiguity. For entrepreneurs could promote socio-cultural decomposition and decline, well in addition to their organisational and speculative capabilities (Schmoller, 1901, p. 430). Economic improvements such as rising productivity levels and living standards would go hand in hand with motives of greed, stimulating social disintegration. Consequently, entrepreneurship should be embedded in a framework of regulations and institutions that could provide for its dynamising functions (Schmoller, 1898, p. 106). In particular, Schmoller argued that a loss of moral values on the part of the new entrepreneurial elite had contributed to the deconstruction of the traditional customary order yet without contributing to the establishment of a new one (Schmoller, 1901, p. 225). Thus, entrepreneurship remained both a productive and destructive force of economic development.

At this point, it may be added that Schmoller’s concern with the developmental impact of entrepreneurial activities in capitalist evolution, referring to the aspects of economic growth and social cohesion, influenced subsequent concerns with these topics in the theoretical domain of the US-American School of Institutionalism, as promoted most prominently by Veblen (Ebner, 2000, pp. 358-9). Indeed, Veblen’s criticism of neoclassical marginalism took issue with the procedure of perceiving human action exclusively with regard to an utilitarian position, whose “hedonistic conception of man is that of a lightning calculator of pleasures and pains” without taking initiative, without experiencing history, exhibiting “neither antecedent nor consequent”, never being “a prime mover” (Veblen, 1994, pp. 73-4). Veblen claimed that economic development was actually driven by cumulative causation based on collective experiences and institutional learning. Entrepreneurs would focus on the exploitation of technological opportunities for monetary gain; an orientation, which does not necessarily lead to the realisation of the most beneficial or even the most efficient technological choice. Hence, business enterprise and the “machine process” as commercial and technological dimensions of modern capitalism would persistently conflict with each other (O’Donnell, 1973, pp. 205-206). With the emergence of large enterprise organisations, the “captain of industry” would become the dominant type of entrepreneurial agent, whereas the general developmental perspective pointed to an intensification of the conflict between technological and pecuniary logic. Therefore, modern capitalism was unlikely to persist in its presently established institutional shape (Veblen, 1958, p. 29).

Similar concerns were also prevalent within the post-Schmollerian discourse of the German historical school. Indeed, with the “youngest” historical school of Max Weber and Werner Sombart, the matter of entrepreneurship was pronounced with an even more explicit sociological bias, shifting orientation definitely to the relationship between institutional motivation and human action. Right from the outset, Max Weber’s analysis of the “spirit of capitalism”, influenced the corresponding view on entrepreneurship. Indeed, the Weberian entrepreneur is not merely a risk-taking adventurer or explorer, but the representation of the rational attitude of the modern professional that is rooted in Protestant values of inner-worldly asceticism. Historically, the emerging capitalist form of organisation was accompanied by
routines of business conduct exhibiting tranquillity and leisureliness. The rationalisation of single business operations by pioneering individuals then led to industrial restructuring, fuelling the rise and decline of individuals and firms (Weber, 1920, pp. 51-2). Regarding a characterisation of individual types, Weber’s “new style entrepreneur” exhibited a firm character, an industrious work ethic, an energetic attitude as well as ethical qualities which would help winning the trust of customers and employees, overcoming the resistance against innovation. The work performance of these entrepreneurs was said to be only met by their non-utilitarian, almost ascetic attitude concerning pleasure and consumption, for their motivation was rooted in professional concern, also understood as a religious duty (Weber, 1920, pp. 53-4). Weber then introduced the notion of the ongoing bureaucratisation of socio-cultural life, maintaining that capitalist rationalisation would lead to the establishment of an “iron cage of serfdom” in which individuals were reduced to mere objects of administration. Thus, industrial trustification would be accompanied by an expansion of bureaucracy within the private business sector (Weber, 1924, pp. 506-507). However, Weber claimed that the only type of economic agent that was even superior to bureaucracy in commanding knowledge, at least regarding the own domain of activity, was the capitalist entrepreneur. Entrepreneurial knowledge of private agents interested in acquisition then allowed for a potential immunity from the ubiquitous drive for bureaucratic rule (Weber, 1972, p. 129).

Like in the case of capitalist development, Werner Sombart’s point-of-view on the matter of entrepreneurship paralleled the Weberian emphasis on charisma and formal rationality in an even more comprehensive approach. For Sombart (1987, pp. 328-9), the emergence of a capitalist spirit corresponded to the development of entrepreneurship, for pre-capitalist economic life was a routine process with an emphasis on custom and community, while capitalism set free novelty and individualism driving modern capitalism, as will for power and unlimited acquisition were brought together. In economic terms, it was introduced as a force of economic development that needed to be understood in the context of capitalist enterprise as the “cell” of the capitalist economic system that harbours the driving force of the capitalist economy, namely the capitalist entrepreneur (Sombart, 1909, p. 698). In this sense, modern capitalism evolved less in terms of cumulative causation but rather by the direct intervention of entrepreneurial agents: (1987, p. 836). The allegedly aristocratic pattern of capitalism was based on the minority position of active and powerful economic agents, whose leading position mirrored higher standards of technological knowledge and organisational skills (Sombart, 1930, pp. 198-9, p. 206). This is in accordance with the argument that entrepreneurial positions would resemble aristocratic organisation, based on personality as opposed to collectivist community. The difference between both would lie in the matter of innovation as the breaking of customary routine (Sombart, 1987, p. 837).

Sombart thus associated the entrepreneurial function with the material implementation of imagination, including calculation and planning as well as the mobilisation of co-operative partners and the rejection of resistance. While entrepreneurs would be forced to act within an ends-means framework of striving for profit and rationalisation, they were attributed with a position for vitalising that scheme (Sombart, 1909, p. 717). Credit and technological innovation were portrayed as essential counterparts in the capitalist economic process, revolutionising established
structures, as they were mediated by entrepreneurs (Sombart, 1927/1987, p. 220). Related motives pointed to a concern for successful business performance in combination with an interest in the dissemination and diffusion of novelty (Sombart, 1909, pp. 703-704). In this context, Sombart distinguished between invention as the mere creation of a new idea or artefact and the applying dissemination of that invention through the actual innovation. Inventions are not pulled by the demand side of users and consumers, for it is the entrepreneur who decides which invention is realised as an innovation according to the expectations on market and profit. Thus the entrepreneur forces the commercial outcome of certain inventions on the public (Sombart, 1987, pp. 95-6). Accordingly, Sombart claimed that the persistence of technological improvement was the decisive weapon for eliminating competitors on markets by offering superior goods at lower prices. Innovation would yield a differential profit that served as a dynamic factor of capitalist economic development (Sombart, 1930, p. 199). Underlying motives of entrepreneurs mirror a diverse array of impulses such as “acquisitive drives”, “desire for power”, “craving for acclaim”, “impulse to serve the common good”, “urge for action”. Yet entrepreneurs need to concentrate on the realisation of profits, whatever the underlying motives, as they contribute to the “Objektivierung” of the capitalist spirit, that is, the establishment of the acquisitive profit principle as an objective manifestation of capitalism, based on subjective motives of entrepreneurs (Sombart, 1930, p. 200). Consequently, in full capitalism, entrepreneurial motivation becomes devoid of religious motives and customary bonds beyond bourgeois morals; it is secularised in the same way as the capitalist spirit is secularised (Sombart, 1987, pp. 30-31). The capitalist enterprise thus serves as the “locus of economic rationality”, which becomes increasingly independent of the owner or staff of the establishment (Sombart, 1930, p. 200).

The matter of motivation corresponds to the diverse entrepreneurial types presented by Sombart. He described the entrepreneur as an agent concerned with the uncompromising realisation of imagined tasks and duties, subject to long-run engagement, as illustrated by the example of adventurous explorers. The notion of the entrepreneur was styled with reference to characteristic types of man: the inventor of technological and economic-organisational modes of production, transport and sales; the discoverer of new areas for sales and distribution; the conqueror who fights down any resistance he meets; the organiser who is capable of organising a business venture by combining people and material most effectively. Second, the type of the trader was presented, who is alertly concerned with business ventures and profit opportunities, acting most successfully on competitive markets. The trading function points at the conclusion of lucrative business contracts by the means of calculation and bargaining (Sombart, 1909, pp. 728-9). These types of the conqueror, the organiser and the trader as the historical sources of entrepreneurship should also represent bourgeois economic attitudes. Hence, the capitalist entrepreneur would combine features of a technological as well as organisational inventor; a discoverer of ever new improvements in the business organisation, a risk-taking conqueror, an organiser of men combined with productive means, a calculating and speculating merchant (Sombart, 1930, pp. 201-202). It has been argued that this position would mirror a double character of Sombart’s entrepreneur, constituted by two contrasting types of agents that are driven by specific psychological and institutional motivations, namely the adventurous-heroic as well as the rationalist-professional types (Prisching, 1996, pp. 304-305).
Yet Sombart’s suggestion that the content of the entrepreneurial function needs to be distinguished according to the type of business activity was supplemented by a historical differentiation of entrepreneurship with regard to the developmental phases of capitalism, as illustrated by emerging trusts in high capitalist economies (Sombart, 1909, pp. 721-2). The advance of abstract and generalised rules and routines represented an inherent component of the “capitalist spirit” that could be traced in the systems of administration and accounting as well as in technological systems of production (Chaloupek, 1995, pp. 135-6). Furthermore, Sombart maintained that the essential dynamism of entrepreneurship was undermined by the transformation of enterprises to large bureaucratic organisations. The rationalisation of business processes is accompanied by organisational systems and structures following the requirements of efficiency, often in accordance with the principles of Taylorist “scientific management”. In accordance with that organisational differentiation, the area of technological innovation would be delegated to specific research and engineering departments, as innovation becomes the organisational subject to economic calculation, administration, and design (Sombart, 1987, pp. 900-901).

However, in spite of rationalisation and the dominance of impersonal relations in bureaucratic organisations, the importance of the personal element in capitalist economies would remain important. In the evolving “mechanized world” outstanding individual personality would matter more than ever, for the gigantic mechanised apparatus of modern organisations, like corporations, governments or armies, needs leaders who can deal with that mechanism and provide it with guidance. Thus, modern organisation contributes to a centralisation and concentration of personal power (Sombart, 1930, p. 205). Yet the original entrepreneurial spirit of full capitalism was said to be subject to a changing orientation, for all the differentiating aspects of entrepreneurial spirit, namely daring decision, intuitive judgement, and instinctive grasp of a situation tended to become less important in the conduct of business (Sombart, 1930, p. 207). The shifting character of entrepreneurship, dispersed in the administrative mechanism of the large organisation, then signalled a steady decline of capitalism and its economic spirit, even accompanied by a decomposition of the bourgeoisie as an intellectual or material force, and paralleled by an increasing economic impact of rentiers, once again underlining the historical specificity of capitalism (Sombart, 1988, pp. 60-61). All of these themes, namely the role of institutional variety, historical specificity and socio-economic rationalisation, shared by all historist contributions, prepared the ground for subsequent attempts in promoting economic sociology as a distinct domain of economic analysis that should involve the matter of entrepreneurship. This theoretical project was most promisingly pursued in the context of Joseph Schumpeter’s research agenda.

**Entrepreneurship in the research agenda of economic sociology**

With reference to Max Weber’s notion of *Sozialökonomie*, Schumpeter (1954, p. 21) discussed economic sociology in terms of a typified, stylised or reasoned economic history. Analysing the variety of motives and economic attitudes is a major contribution of economic sociology, for it would cover both the matter of economic behaviour as well as the characteristic institutions of the economic organisation of the societies under examination (Schumpeter, 1954, p. 544). From these intentions, a “Schmoller-Weber-Schumpeter nexus” has been identified, based upon their shared
vision of economic life which is expressed, despite some methodological differences, by their institutional analyses of modern capitalism as a unique historical formation (Shionoya, 1991). Accordingly, it has been pointed out that Schumpeterian economic sociology should parallel theory, statistics and history as a means for analysing the social process as a whole, highlighting a distinct methodological position regarding the social sciences (Shionoya, 1997). Therefore, Schumpeter’s contributions to economic sociology as a scientific discipline need to be considered in terms of a comprehensive socio-economic agenda of research interests (Swedberg and Joseph, 1989). In particular, Schumpeter’s recognition of the historical specificity of economic phenomena implied the acknowledgement of an inherent diversity of economic motives and modes of behaviour, expressed by a distinction between ordinary and entrepreneurial types of economic agents. Indeed, according to Schumpeter (1954, p. 895), the functional character of theorising on entrepreneurship rests on the general proposition of attributing entrepreneurs certain functions in the economic process, while explaining the corresponding gains with respect to the carrying out of that function.

The outcome of that argumentation is a causal relationship between personal characteristics, leadership qualities and the drive for development and change. The corresponding phenomena related with the matter of leadership were delegated to the sphere of sociology (Schumpeter, 1954, pp. 25-6). Thus, the matter of entrepreneurship and its sociological connotations represent a defining component in Schumpeter’s approach to economic sociology, quite in accordance with the methodological inclusion of economic sociology in Schumpeter’s arrangement of techniques for economic analysis. This argumentation allows for an identification of Sombart and Wieser as major influences on Schumpeter’s theory of entrepreneurship (März, 1983, pp. 98-9). In particular, Schumpeter’s (1926, p. XVIII) repeated references to the outstanding Wieserian inspiration in terms of a “sociology of leadership” are to be assessed, as the latter should serve economic analysis through its application to the theoretical problems of entrepreneurship in economic development, thus paralleling the outstanding role of Walrasian positions in the domain of static economic theory.

In theoretical terms, then, Schumpeter (1939, p. 241) dealt with innovation as a driving force of economic development, carried out by the means of entrepreneurial leadership, framed by the idea that novelty does not evolve harmoniously from within an established economic setting, but rather places itself alongside established patterns and then competes them down. The entrepreneur is an economic agent who carries out innovations by setting up a firm, credit-financed by capitalists who represent the rationally calculating as well as essentially risk-bearing element in the capitalist economic system. The cost-related competitive advantages that are linked with the introduction of innovations generate an entrepreneurial profit as the decisive material incentive. Yet this fundamental scheme is augmented by a rich content of institutional and organisational dimensions. Schumpeter (1926, p. 11) defined enterprise and entrepreneurs simultaneously, underlining the role of the firm as the terrain of entrepreneurial activity, while alluding to the idea that entrepreneurship is not necessarily linked to firms. Entrepreneurs fulfil their function by introducing new combinations of productive means, that is innovations, basically in the form of a new good or of a new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials or half-manufactured goods, as well as the carrying out of organisational change in an
industrial sector (Schumpeter, 1926, pp. 100-101). Thus, Schumpeterian entrepreneurs represent the internal carriers of the mechanism of change in capitalist economies (Schumpeter, 1926, p. 93).

The carrying out of innovations would be based upon entrepreneurial leadership capabilities, due to the disruption of routines that had governed economic agents in the circular flow. The radical change of data that had been used as guideposts for calculation would lead to a functional decomposition of habitual attitudes and experience-based rationality; hence, autonomous adaptation would become impossible for ordinary economic agents. This underlines the need for visionary guidance. Ordinary economic agents depend on that guidance for proceeding with the design of new plans of production and consumption while facing radical uncertainty. This aspect of entrepreneurial vision would be accompanied by individual will power that should help overcoming inner-personal resistance as well as the even more relevant resistance of the social environment. In this case, three major entrepreneurial tasks were to be considered: breaking the inertia of persisting traditions, finding strategic partners, and gaining the acceptance of consumers (Schumpeter, 1926, pp. 125-6). It follows that economic change by innovation needs to be forced upon the majority of economic agents who are shaped by static attitudes and hedonistic motives. Hence, progress in general is basically a result of force and confrontation, and not of persuasion and cooperation (Schumpeter, 1912, pp. 185-6). The clustering of innovations, generating the cyclical pattern of capitalist economic evolution, was accordingly derived from the effects of pioneering entrepreneurial leadership which was said to remove barriers to innovation and thus to enlarge opportunities for further innovations carried out by less venturing agents (Schumpeter, 1939, pp. 100-101).

Quite in accordance with the concerns of economic sociology, the pattern of motivation that drives the actions of Schumpeterian entrepreneurs derives its specificity from the role of economic incentives. Entrepreneurial profits and the corresponding attributes of economic success are not viewed as ends in themselves but rather as means to achieve further ends. These are first of all motivated by the drive for building a family-empire or dynasty. Further motives were, second, an impulse for conquering and fighting, based on striving for success itself, as well as, third, the artistic joy of creating, that is of exercising creative energy (Schumpeter, 1926, pp. 138-9). Thus Schumpeter’s entrepreneurs are driven by motivations which are basically alien to the capitalist rationale. While executing the entrepreneurial function, they remain partially strangers in the value setting of capitalist rationality, for, in addition to purely creative aspects, the underlying striving for power seems to follow an aristocratic ensemble of motives, rooted in pre-capitalist habits and values (Schumpeter, 1942, pp. 156-7). This accords with the argument that Schumpeter’s (1942, pp. 139-40) notion of capitalism allows for non-capitalist components as an indispensable requirement of its evolutionary dynamism, mirrored by the specific patterns of economic and social behaviour which it is bound to destroy.

Yet the logic of Schumpeterian entrepreneurship is not associated exclusively with the institutional setting of capitalist market economies. It represents a general principle that is also of utmost relevance for other historical formations, and in different areas of social life. Its historicity is described by the proposition that the universal nexus of novelty and leadership would manifest itself through diverse carriers, historically conditioned in institutional and organisational shape. Hence, Schumpeter (1926, p. 11)
claimed that the entrepreneurial function could be fulfilled by the organs of a socialist commonwealth or by the chief of a primitive horde, representing those agents who hold the leading and commanding position in their particular social and institutional environment, enabling them to enforce change by introducing novelty. Pointing to the historicity of entrepreneurship, Schumpeter’s position thus implied that the entrepreneurial function of introducing novelty by means of leadership represents a universal principle which is historically conditioned in its actual institutional realisation.

Schumpeter then turned to a characterisation of distinct phases of capitalist economic development, consistent with institutional characteristics such as the carriers of the entrepreneurial function, and related mechanisms of competition and selection. Like Sombart, who had pioneered the notion of formulating distinct phases in the evolution of economic systems, so was Schumpeter inspired by the question whether modern capitalism was evolving towards socialism. Schumpeter’s corresponding distinction of specific periods of capitalist development was formulated in terms of a “competitive” and a “neo-mercantilist” trustified period. The “competitive” period of capitalism was characterised by the competitive behaviour of heroic entrepreneurs in family enterprises, participating in an evolutionary economic process, driving the reorganisation of the productive organism in the direction of ever-increasing efficiency by the means of competing down unfit elements, that is principally unfit enterprises (Schumpeter, 1928, pp. 478-9). Trustification, the process that marked the emergence of a “neo-mercantilist” period of capitalism, would lead to the dominance of large enterprises, based on the capability for organising technological change as a routine, for technological progress would presuppose the large organisational unit (Schumpeter, 1929, p. 316). In effect, trustification would lead to the bureaucratisation of entrepreneurial leadership. The entrepreneurial type of the corporate “captain of industry”, endowed with professional habits and an authorisation by shareholders, would act unintentionally as the “pioneer of the planned economy” in neo-mercantilist, trustified capitalism (Schumpeter, 1928, pp. 484-5).

With reference to these shifts in the institutional articulation of the entrepreneurial function, certain sociological and functional types of entrepreneurs were distinguished. Schumpeter proposed a classification of entrepreneurial agents according to social origin and sociological type; pointing to feudal lords, aristocratic landowners, civil servants, farmers, workmen, artisans and members of the learned profession. This could be augmented by using the entrepreneurial function and related attitudes as criteria. Qualities such as the setting up and organising of enterprises could be distinguished from mere leadership; all of them subject to historical specificity (Schumpeter, 1947, pp. 153-4). In summary, thus, Schumpeterian entrepreneurship denotes a contextual subject of embodied functions, pointing to the historically rooted diversity of economic forms and modes of behaviour, and thus reaffirming concepts that had been constitutive for the perspective of the German historical school.

However, given the proposition that the historical school, as well as positions emanating from Austrian marginalism and institutionalist thought, contributed decisively to the analysis of entrepreneurship from the perspective of economic sociology, further contributions to the theory of entrepreneurship that add to the Schumpeterian argumentation need to be taken to the fore. Frank Knight’s intellectual debts to historist ideas may be addressed in that context, just like his English
translation of Weber’s *General Economic History* is a case in point. In an institutionalist approach to entrepreneurship and economic organisation, Knight (1964, pp. 19-20) suggested a distinction between measurable risk and immeasurable uncertainty as the basis for an analysis of competition and profit. The matter of entrepreneurship was accordingly derived from that impact of uncertainty in the development process, invoking problems of knowledge and coordination (Knight, 1921/1964, p. lix). The roots of that argument in Austrian marginalism lie in the specific role of the entrepreneur as an economic agent in a turbulent market setting, exercising a coordination function. Regarding entrepreneurial profit, however, Knight (1964, pp. 26-7, pp. 199-200) referred primarily to Thünen and Mangoldt, affirming their position that profit represented a specific type of income including a premium on dealing with uncertainty. Knight (1964, pp. 244-5) then proposed that the major effect of uncertainty on the organisation of the economic process, associated with production for a general market on the responsibility of the producers, was the establishment of enterprises in which the responsibility for production would be carried by entrepreneurs who direct productive resources for a contract price and hence bear uncertainty. The notion of enterprise then denotes a combination of responsibility and control with entrepreneurs as producers who offer a guaranteed income to their employees (Knight, 1964, p. 271).

Yet this interpretation of entrepreneurship as an explanative variable in the evolution of the firm rather abstracts from sociological content in terms of behavioural aspects that are indispensable ingredients for analyses of entrepreneurship. An alternative mode of analysis, which is biased towards the analyses of market competition, has been provided by modern Austrian theorising on entrepreneurship, as established by Ludwig von Mises and Friedrich von Hayek since the late 1930s. Von Mises’ approach of “praxeology” pinpoints a theory of human action that formulates universally valid principles underlying human behaviour which are needed as a priori devices for categorising and explaining the objects of inquiry (von Mises, 1949, p. 32). The notion of entrepreneurship represents a major concern in that theoretical scheme, for it should reflect the matter of rational economic activity in the face of uncertainty that emanates from changes occurring in the data of the market (von Mises, 1949, p. 255). In Hayek’s related approach, entrepreneurship demotes the search, discovery and adjustment procedures of economic agents in the market process, which is characterised by the dispersion of subjective knowledge. This is exemplified by the entrepreneurial figure of an arbitrageur who gains from local price differentials (Hayek, 1945). Further explorations into that type of Austrian approach are well represented by Kirzner’s (1973, p. 35) market process theory with its concept of entrepreneurial alertness that perceives human action as active and creative.

Yet from the position of institutionalist and historist concerns, these Austrian efforts in exploring the competitive dynamism of entrepreneurship are regularly criticised for underestimating sociologically most relevant aspects of power relations and non-rational habitual action. Hayek’s theory of cultural evolution, for instance, has been castigated forunderestimating the extent to which evolutionary processes tend to require an institutional variety that allows for a plurality of market structures and other institutional forms of socio-economic interaction (Hodgson, 1993, pp. 176-7). In a similar fashion, then, Kirzner’s modification of the Misesian framework to a theory of entrepreneurship has been criticised for its abstraction from aspects like uncertainty,
novelty and institutional variety. Thus, it has been demanded that an upgraded notion of the Kirznerian concept of entrepreneurial alertness needs to account for capabilities of judgement, creativity and interpretation that are reflected in distinct types of behavioural orientation (Lavoie, 1991, pp. 42-3). Consequently, it may be fair to suggest that the role of power and leadership in its diverse institutional manifestations, as discussed predominantly in historist contributions, is well preserved in the contemporary analyses of economic sociology.

Indeed, behavioural aspects and the related matter of institutional patterns represent crucial facets of the social science view on entrepreneurship, which is informed by the ongoing research venture of economic sociology (Swedberg, 2000). Behavioural modes of individual and collection action are set in relation with the embedding social and institutional context. Entrepreneurship is viewed as an expression of the interaction among individuals, social communities and the whole of society. Decisive components of the related analyses of entrepreneurship contain a combination of social cohesion and trust, viewed within a specific institutional setting of residual claims by the embedding community. These considerations then underline the delicate balance between the socially coupling and decoupling aspects of developmental dynamism (Granovetter, 2000, p. 258). Empirically, for instance with regard to the role of small and medium-sized enterprises in economic development, the sociology of entrepreneurship allows for a reconsideration of ethnicity and kinship as seemingly archaic aspects of modern society which are not at all superseded by impersonal rationalisation that should to the dominance of large bureaucratic organisations (Granovetter, 2000, p. 269). Economic sociology with its appraisal of institutional variety thus addresses topics that have been crucial for the theory of entrepreneurship, in particular from the historist perspective, as synthesised in Schumpeterian theorising (Ebner, 1999).

Conclusion
The preceding exposition has provided references for examining the matter of institutional and social concerns in the diverse theoretical traditions that constitute theorising on entrepreneurship, reconstructing positions that range from early contributions of classical political economy to modern economic sociology, with the argumentation of historism as an indispensable intellectual stimulant. This becomes most obvious with regard to the Schumpeterian scheme, which follows a line of reasoning that covers influences of the German historical school with a focus on Sombart and Max Weber, as well as Austrian economics with a focus on Wieser. In particular, this impact of the so-called youngest German historical school is to be traced in the characterisation of the institutional dimensions of entrepreneurship in the context of modern capitalism, accompanied by a concern with the historical specificity of development patterns as an epistemological device. Indeed, the Schumpeterian approach to entrepreneurship is an integral element of the Schumpeterian approach to economic sociology. Its concern with the institutional analysis of capitalist development is explicitly derived from the positions of post-Schmollerian thought. Nonetheless, at this point, an important differentiation of these positions is provided by a reconsideration of the thesis of the obsolescence of entrepreneur as an outcome of societal rationalisation. Actually, Weber and Sombart seemed to share Wieser’s belief in the persistence of personal authority in complex organisations, whereas Schumpeter
pinpointed the dissolution of entrepreneurship in the administrative division of labour of large bureaucratic enterprises. Given the empirical evidence of a persistence of institutional variety in capitalist market economies, this differentiation underlines the relevance of historist ideas (Ebner, 2002).

In conclusion, the line of reasoning that ranges from the Schmollerian research agenda to Weberian economic sociology and its contemporary variants is intimately related with the analysis of the institutional patterns of capitalist development. This perspective informs a socio-economic view on the institutional dimension of entrepreneurship that is addressed by the ongoing research venture of economic sociology both theoretically and empirically. This implies that historically-rooted behavioural modes of individual and collection action are set in relation with their embedding social and institutional context, highlighting the continuous interaction among individuals, social communities and the whole of society. In dealing with ideal typical coordination modes, usually outlined as market transaction, hierarchical command and network governance, the interactions between entrepreneurial agents and their social context point to the outstanding role of social cohesion and trust as institutional parameters of the actual pattern of embeddedness. Moreover, the role of organisational aspects is taken into account, pointing to the persistence of entrepreneurial activity in the setting of small- and medium-sized enterprises as compared with the variation of entrepreneurship in large bureaucratic organisations. The matter of ethnicity, kinship and social rationalisation adds to these aspects, thus augmenting the research agenda of economic sociology. At this point, the impact of positions that were shaped by the likes of Schmoller, Wieser, Sombart and Max Weber is most obvious, as is the continuous relevance of Schumpeterian thought.

References


