Chapter 10
Entrepreneurship, Business Culture and the Theory of the Firm

Mark Casson

Introduction

This chapter is concerned with the relationship between the entrepreneur and the firm. It is written from the perspective of the modern economic theory of the entrepreneur, which is explained in the first part of the chapter. This perspective is rather different from that which dominates the small business literature, as reflected in some of the other chapters in this handbook.

In the small business literature the entrepreneur is often identified with the founder of a firm, or with the owner-manager of it. The entrepreneur is self-employed, and may employ others, but is never an employee. This creates the paradox that the Chief Executive Officers of large firms are not entrepreneurs because they are salaried employees. However, "entrepreneurial" their firm may be, they are not entrepreneurs because they are employees. This paradox is caused entirely by reliance on an unsuitable definition of the entrepreneur.

The definition of entrepreneurship in term of running a small business has wide appeal because it invokes a popular cultural stereotype of the individualistic and competitive founder of a successful firm. Despite all the evidence that many small firms fail, the stereotype perpetuates the mistaken idea that people who found firms are successful people who deserve admiration. This appeal to misleading stereotypes is a weakness rather than a strength of popular theories of the entrepreneur.

The economic theory of entrepreneurship presented in this chapter helps to place the analysis of entrepreneurship on a more rigorous basis. Critics have alleged that the resulting theory is too abstract, or too philosophical, to be of much practical use. In fact, however, the theory has proved extremely useful in the field of business history, and is widely used by business historians to explain differences in performance between firms. The theory is also increasingly used by economic historians to address long-term "big issues" such as the causes and consequences of the rise and

M. Casson (✉)
University of Reading, Reading, England, UK
e-mail: m.c.casson@reading.ac.uk

Z.J. Acs, D.B. Audretsch (eds.), *Handbook of Entrepreneurship Research*, International Handbook Series on Entrepreneurship 5, DOI 10.1007/978-1-4419-1191-9_10,

decline of nations, and the influence of politics and religion on national economic life (see, for example Godley, 1996). It is, indeed, somewhat ironic that the field of small business research, which professes to specialise in the study of entrepreneurship, has been particularly notable for neglecting the practical application of the economic theory of the entrepreneur.

A possible reason why small business researchers have neglected economic theories of entrepreneurship is that they may believe that the theory is still rooted in the "neoclassical" thinking which dominated the economic theory of the firm in the 1960s. As other chapters in this handbook show, however, this view of modern economic theory is misleading. Economics is a dynamic and evolving discipline, and many of the restrictive assumptions of neoclassical economics, which limited its usefulness in small business research, have now been relaxed.

The main assumptions that have been relaxed concern the objectivity of information, autonomy of preferences and costless optimisation. Relaxing these assumptions makes it possible to accommodate theoretical insights derived from other social sciences. To retain predictive power, however, it is necessary to replace the assumptions that have been relaxed with specific postulates about how people handle information within a social environment. These postulates generate hypotheses about entrepreneurial behaviour, which can be tested at the individual, corporate, industry and national level.

Once these assumptions are relaxed, it become evident that theories of entrepreneurship are closely related to modern theories of the firm, such as transactions cost theories (Williamson, 1985) and resource-based theories (Penrose, 1959). The theory of entrepreneurship emerges as a powerful mechanism for synthesising the insights of these modern theories of the firm.

It also turns out that, once these assumptions are relaxed, the theory of entrepreneurship can address issues concerning the role of the entrepreneur in cultural change. The "change management" literature (Peters & Waterman, 1982) has placed considerable emphasis on the role of the entrepreneur in providing employees with a vision of the future, and in inculcating values in the workplace, which will serve to realise this vision. Conventional economic theories encounter difficulties in analysing this role because of the assumption of autonomous preferences on which they are based. Relaxing this assumption allows the theory of entrepreneurship to examine the costs and benefits of cultural change, and the role of the entrepreneur in effecting such change.

Finally, it should be pointed out that before the hey-day of the neoclassical theory of the firm, economic theorists did not normally make the very strong assumptions on which the neoclassical theory of the firms was based. Relaxing these assumptions gives intellectual access to the classic writings on entrepreneurship of previous generations. The insights of the great writers of the past can therefore be synthesised with modern thinking in a systematic way. One result of this process is that the reader will notice that many of the references and citations in this chapter are to relatively early literature. The profusion of references to recent papers, which is a hallmark of modern professional literature in business studies, is missing from this chapter. Because of the wide span of publication dates, and the breadth of the issues addressed, only a representative set of references to recent literature on each individual topic is given.

The Division of Labour and the Role of the Entrepreneur

Entrepreneurial Judgement

The modern economic theory of the entrepreneur has evolved from a series of fundamental contributions going back to Cantillon (1755). Leading 20th-century writers include Knight (1921), Schumpeter (1934), Hayek (1937), Kirzner (1973) and Baumol (1993). A modem synthesis defines the entrepreneur as *someone who specialises in taking judgemental decisions about the coordination of scarce resources* (Casson, 1982).

In this definition, the term *someone* emphasises that the entrepreneur is an individual. It is the individual and not the firm that is the basic unit of analysis. A full analysis of entrepreneurship must explain the internal structure of the firm as well as its external competitive strategies; in other words, it must explain the place of the entrepreneur within the firm. It cannot be assumed that membership of the firm is so cohesive that the firm has a "will of its own", and that this "will" of the firm, as exemplified by its strategies, is simply the will of the entrepreneur. This starting point of the theory reflects the methodological individualism, which the economic theory of entrepreneurship shares with other branches of economics.

Judgemental decisions are decisions for which no obviously correct procedure exists – a judgemental decision cannot be made simply by plugging available numbers into a scientific formula and acting on the basis of the number that comes out. The need for judgement reflects both the costliness of factual information, and the partial and limited nature of the conceptual frameworks used to interpret this information when arriving at a decision. The entrepreneur does not normally possess a correct model of the environment, and even if they did possess one, much of the information they would need to apply the model would only be available at prohibitive cost.

Judgement is defined here in terms of what it is *not* – namely the routine application of a standard rule. What it is can best be explained by describing when it is most likely to be required. Judgement is most important in taking decisions where relevant information is very scarce. Key facts may be missing, or the facts may be known but, in the absence of a suitable model, their meaning may be unclear. It is where information is scarce that good judgement is of the greatest value. Judgement draws upon intuition, and the capacity to reflect on relevant experience, to supplement meagre resources of objective information. Judgement is particularly important in improving the quality of decisions that must be taken *urgently* in *novel* and *complex* situations where objectives are *ambiguous*. The urgency of decisions is often stimulated by *competitive forces*; in particular, by the need to recognise and exploit profit opportunities before others do so. The novelty of decisions, as reflected in the absence of suitable precedents, tends to be greatest when the business environment is rapidly *changing*, and is *evolving* in such a way that the same situation never occurs twice. Complexity is often associated with *long-term* decisions taken in situations where the potentially *adversarial reactions* of other people must be taken into account (Casson, 1990a, Chap. 3). Ambiguity is exemplified by a situation where a number of stakeholders have clubbed together to undertake a project (for example the entrepreneur may have borrowed funds from business partners). Although the stakeholders share a commitment to the success of the project, their interests may differ in other respects, and these conflicting interests can lead to tensions. Under these conditions the entrepreneur may have to negotiate key decisions with the individual stakeholders rather than simply impose the decision that he would favour himself. This not only complicates the decision-making process, but also slows it down.

Information is always scarce (Simon, 1983), and so judgement is required for many different types of decision, as diverse as selecting a marriage partner or choosing a career. The emphasis in the definition on *scarce resources* confines attention to decisions of an economic kind – such as business decisions. Reference to the *coordination* rather than the allocation of resources emphasises the dynamic aspect – coordination *changes* the allocation in order to improve the situation. It should be emphasised, though, that entrepreneurial activity does not necessarily improve the situation from everyone's point of view. An entrepreneur's decisions may have adverse effects on third parties who have no right of redress because they possess no property rights through which they can articulate their opposition.

In principle, judgemental decision-making could be a once-for-all rather than a continuing process. In an economic system, where everything depends on everything else, each individual faces a single integrated life-time problem – namely how best to allocate their time, their wealth and their effort over the rest of their life. To cope with uncertainty, each individual could develop a contingent inter-temporal plan which would specify how every moment of the remainder of his (or her) life would be spent. Reactions to new events would be pre-planned, by calculating in advance the best response to every situation that could possibly occur. Provided all possibilities were considered at the outset, all decision-making could be telescoped into the present.

In practice, of course, such planning is prohibitively costly, and so many decisions are deferred on the basis that the situations to which they relate may never materialise. While entrepreneurs may well find it useful to pre-plan their responses to the most commonly occurring types of situation, because the costs of identifying the situations and calculating the appropriate responses are fixed costs, which can be spread over repeated occurrences, pre-planning is uneconomic for situations which are unlikely to occur, and whose recurrence is even more improbable. Plans are therefore left open-ended, covering only the major contingencies, and consequently they need to be refined as and when improbable or unexpected situations occur. In the volatile environment in which entrepreneurs operate, change is endemic and so improbable and unexpected situations of this kind arise on a regular basis. Thus, entrepreneurial decision-making becomes a continuing process.

The Mental Division of Labour and Intellectual Comparative Advantage

An integrated decision problem may be decomposed into constituent parts. For example, an entrepreneur may decide to separate the question of whether to invest in some asset from the decision of how best to utilise that asset on a daily basis later on. In certain cases the logic of a problem may permit exact decomposition, but this is fairly unusual. Decomposition normally involves ignoring some of the interdependencies in a situation. This introduces errors, which would be unacceptable to an individual who faced costless information. But when information is very costly the overall quality of decision-making may actually improve. This is because the cost of the information required to take a sequence of simple decisions is often much less than the cost of the information required to take a single complex one. This is mainly because information on current situations is usually far easier to collect than information which will predict future situations. Because of this, short-term decision-making is often artificially separated from the long-term decision-making by replacing a long-term strategic objective with a sequence of short-term tactical ones. Tactics can then be altered without changing the entire strategy.

A strategy that has been immunised against tactical change need not be continuously reconsidered. A sensible response is only to reconsider strategies when it seems likely that a significant change may be required. This involves establishing some norm for an acceptable risk of error, and passively following a no change policy in strategy until the norm has been breached. Individuals working with norms tend to re-examine their strategies only when they have been surprised (Shackle, 1979). Problem-solving thus becomes an intermittent process driven by what appears to the problem-solver to be stochastic events.

The sub-problems generated by decomposition can usually be specified more precisely than the integrated problem from which they have been derived. Moreover, they tend to be of a standard type. Thus, while an overall strategic problem may be idiosyncratic, it may simply be an unusual permutation of tactical problems, each of a common type.

When a problem has been decomposed in this way, different sub-problems can be allocated to different people. Because different types of integrated problem can generate the same kind of sub-problem, several different people may call upon the same person to solve a given sub-problem. By concentrating his effort on a particular sub-problem, the person concerned may acquire considerable expertise. Efficiency therefore dictates that problem-solving should be concentrated on specialists.

This is a particular manifestation of the *division of labour* – albeit applied to the intellectual task of problem-solving rather than the physical tasks of production. The related principle of *comparative advantage* implies that people with particular aptitudes should concentrate on particular types of problem. Specifically, some problems call for greater judgement than others – and it is people who specialise in judgemental decision-making that become entrepreneurs. Thus, while everyone takes judgemental decisions from time to time, it is only entrepreneurs that *specialise* in doing so.

Delegation

The division of labour in problem-solving can be effected either by *referring* problems or *transferring* them. *Referral* involves *delegation* – someone is instructed to solve the problem on someone else's behalf. Shareholders, for example, delegate corporate managers to solve the problem of how the wealth they have invested in the firm is to be used. The senior managers may in turn delegate some responsibility to junior managers. For example, the problem of factory management may be decomposed functionally into a production planning problem, a personnel problem and a financial problem, each of which is delegated to a different manager. Since the solutions to these sub-problems must complement each other, those involved must work as a team.

In a managerial division of labour the chief executive is responsible for synthesising the overall solution. The chief executive's role normally requires the greatest judgement and so carries the main entrepreneurial responsibility. Whether other managers share this responsibility depends on whether they are given discretion to exercise their judgement. If so, the team is a coalition of entrepreneurs; if not, it is a hierarchy in which the members obey instructions on information-processing dictated by a solitary entrepreneur.

A problem is *transferred* when the resources to which the problem pertains are allocated to someone else. Problems can be transferred either *between principals* or *between delegates*. The first involves an *arm's length transaction* between two ownership units. Consumers, for example, pay producers for solutions to problems. These solutions are embodied in consumer goods and services. Problems relating to the production of those services are entirely the responsibility of firms. Producers may also pay other producers for solutions – a firm may sell off a component factory, for example, and buy back components at arm's length from the subcontractor. In this case the assembly firm has transferred problems of component manufacture to another firm.

The transfer of a problem between delegates is affected by an *internal transaction.* Assuming both delegates work for the same principal, the transfer occurs within the ownership unit. In a vertically integrated production sequence, for example, responsibility for the quality of intermediate products may be transferred from an upstream division to a downstream division as the products flow down the chain. Under long-term corporate restructuring, an entire facility may be transferred from one division to another – as when a central research laboratory is "captured" by one of the application-centred divisions.

Inter-Personal Subjectivity

Subjectivity

In an evolving economy, the division of labour will adapt as new problems arise and existing ones are solved. Environmental change is endemic because of population ageing, resource depletion, wars, etc. But it is the *perception* as well as the reality of problems that is important. Information lags mean that real problems may not be immediately perceived, while cultural changes mean that new problems may be perceived even if the underlying reality is unchanged.

At the root of this is the *subjectivity* of problems. This pertains both to their identification and solution.

Identification is subjective because people have different objectives and different norms. Conventional economics stresses that objectives differ because of differences in tastes. But the problem goes deeper than this. People also need to morally legitimate their wants, so objectives are affected by personal morality too (Casson, 1991). Differences in taste and morality mean that in the same situation one person may perceive one problem and another person another.

Differences in norms are important too. In economic problems efficiency considerations are paramount and so the emphasis is on performance norms. A person with high norms may perceive a problem where a person with low norms does not.

Solutions are subjective because of both the information available and the model (or "mental map") used. Because information sources are localised, different people have access to different information, but even where access is similar, opinions may differ as to reliability. No item of information can authenticate itself, and so one person may dismiss as false and misleading information which someone else regards as true. People capable of synthesising information from diverse sources are the best judges of veracity because they can use different items to corroborate each other.

The interpretation of information requires a model. Models are typically very simple in relation to the environment they claim to represent, and so in many situations – particularly complex ones – there may be several models representing different aspects of the situation. At the other extreme, in an unprecedented situation there may be no adequate model at all. The decision-maker may have to rely on very crude analogies instead. People who have been educated in a different way may be biased towards particular types of model or analogy and so interpret information very differently.

Thus, a consumer products industry, which involves the continuous innovation of novel designs, may require entrepreneurs who are good at taking decisions without a carefully specified model and with only limited information. A mature process industry, by contrast, may require entrepreneurs who are good at reconciling different models, which deal with complementary aspects of a very complex production system. The principle of comparative advantage applied to subjective decision-making therefore implies that people with different personal qualities will gravitate to different industries. Individuals who are good at coping with ignorance due to shortage of data will incline to innovative industries, while those who are good at synthesising different models will opt for mature industries with complex technologies.

Innovation and Arbitrage

In a free enterprise economy anyone can devote their time to identifying and solving any kind of problem they wish – provided they are willing to pay the opportunity cost involved. Profit opportunities provide the material incentive to use their time in this way.

Profit opportunities are exemplified by *innovation* (Schumpeter, 1934) and *arbitrage* (Kirzner, 1973, 1979). The most dramatic forms of innovation are those concerned with *infrastructure* – notably transport, communication and the distribution systems associated with utilities (electricity grids, gas mains, etc.). These innovations solve crucial problems relating to the movement of people and freight, the exploitation of scale economies in energy-generation, etc. Also significant, but less dramatic, are ordinary *product and process* innovations. A consumer product innovation, for example, may be based on the solution of a common household problem. The solution is embodied in the design of an ingenious durable good. The production and marketing of this good may form the basis of profitable corporate activity.

Innovation usually involves the entrepreneur in the active *management* of resources under his control (though see Section "Internalisation"). Arbitrage, on the other hand, does not. Arbitrage deals with problems which lie purely in the domain of *ownership*. For example, one party may require resources urgently to resolve a pressing problem, but the relevant resources may initially belong to someone else. Alternatively, someone may be mismanaging resources, which would be better placed under someone else's control. A single transaction can solve problems of this kind, and recognition of this solution provides an opportunity for arbitrage. When the problem lies in the future rather than the present, the opportunity becomes a speculative one instead.

The successful appropriation of profit depends upon maintaining a monopoly of the solution until the appropriate contractual arrangements have been made. Competition from other entrepreneurs exploiting a similar solution will drive up the prices of resources it is planned to acquire, and depress the prices of resources, which are to be sold.

Even with a monopoly, however, the appropriation of profit may be impeded if a key resource required to implement the solution is monopolised by someone else. To avoid being held to ransom, the entrepreneur must understate his valuation of the resource – withholding relevant information as a secret – so that the other monopolist underestimates his own market power. *Negotiation skills* of this kind are very important to the entrepreneur.

Because the economy is in a continual state of flux there is always uncertainty about whether any particular solution is really the best. The prudent entrepreneur will ask himself whether the problem is really as easy to tackle as he believes, and whether his solution is really the best available. Has he really discovered something that other people do not know, or has he merely overlooked some aspect of the problem that they have recognised? This issue can never really be resolved until the outcome is known. Indeed, even then it can never be fully resolved – for what seems in immediate retrospect to have been a failure may turn out even later to look like a success. Nevertheless, the entrepreneur must be prepared for the fact that the consensus of opinion, acting on hindsight, may condemn the judgement that underpinned his solution.

The entrepreneur therefore needs to be not only *optimistic* that the problem can indeed be solved, but also *confident* that his optimism, even though it is not shared by others, is still justified. He must also be able to *tolerate the stress* of waiting for the outcome to materialise, and wondering if he can find a suitable excuse if it is a disaster. Indeed, it is because of his optimism and confidence that the entrepreneur is likely to have a monopoly of the opportunity – there is a subjective "barrier to entry" into the exploitation of the solution created by the relative scepticism of the other people involved.

Capital Requirements as an Entry Barrier

When the resources required to exploit a solution are large, however, the entrepreneur may himself become the victim of an entry barrier – namely lack of funds. To capitalise an enterprise properly, the funds must be sufficient to meet contractual obligations in the event of failure as well as in the event of success (Casson, 1990b). These funds may be quite large in relation to the entrepreneur's personal wealth. Because of subjective differences in the perception of risk, potential financiers will be less optimistic than the entrepreneur. There is, moreover, a "catch-22" problem, because if the entrepreneur presents potential backers with convincing evidence for his optimism then they may decide to invest directly themselves. Since they have the funds and he does not, they can cut him out altogether. The evidence must therefore be presented with some crucial information withheld.

The success of the solution may also depend on the effort supplied by the entrepreneur after the funds have been made available. To provide a suitable material incentive, the backers may insist that the entrepreneur place some of his own personal wealth "on the line". It is in this way that the entrepreneur becomes an uncertainty bearer (Knight, 1921).

If the entrepreneur does not have funds of his own then the backers may insist on powers of supervision. In effect, the entrepreneur becomes an employee. He receives a basic salary, and will normally be "incentivised" by bonuses, share-options, or other forms of performance-related pay. His job security may be limited too – if he performs badly then he can be fired from his job.

The fact that an entrepreneur becomes an employee does not imply that his role becomes a purely passive one. In many large companies the directors on the board may each represent a particular "constituency" – such as a particular group of shareholders – and the chairman may be quite independent, leaving the chief executive, who makes the key decisions, as the entrepreneur, even though he is an employee. The board is there to exercise oversight, appoint auditors and to fix the chief executive's remuneration. Thus, the employee, rather than the owner-employers, takes the key strategic decisions that govern the performance of the firm. The main responsibility of the owners is to decide which chief executive to hire.

Some writers dub the employed entrepreneur an "intrepreneur". This is quite helpful if it is understood that the intrapreneur is a special type of entrepreneur –

namely an employee – but it can be confusing if it is taken to mean that the intrapraneur is not a proper fully fledged entrepreneur.

The entrepreneur may, however, be reluctant to submit to supervision, or to share authority with outside shareholders. An entrepreneur who values autonomy may confine his backing to family sources. Relatives may interfere less because they trust the entrepreneur more than do other people. In cases where the older generation of the family are lending to a descendent, the entrepreneur is effectively taking a loan against his own inheritance. In the absence of family sources, the entrepreneur may be able to realise other assets – taking a second mortgage on his house (particularly useful if he has obtained capital gains), selling his second car and so on. Apart from this he will have to rely on savings out of income from work.

The Nature of the Entrepreneurial Firm

Intermediation

The flexibility of a private enterprise economy owes much to the individual initiative of the entrepreneur. The decentralisation of initiative is, in turn, promoted by specific institutional arrangements – in particular, *money* and *markets. Money* is important because it allows complex multilateral networks of trade to be resolved into separate bilateral arrangements. These are sufficiently loosely coupled that anyone of them can normally be renegotiated without simultaneously changing all the others. *Markets* are important because they facilitate switching between trading partners – switching which can be informed by price comparisons obtained at convenient central places.

In a market economy a good deal of entrepreneurial effort is normally devoted to the problem of improving trading arrangements – i.e., to *reducing transaction costs*. Transaction costs are incurred in seeking out a partner (including advertising), specifying requirements, negotiating terms, transferring title (and exchanging physical custody of goods where appropriate), checking compliance and sanctioning defaulters.

Two transaction cost-reducing strategies are particularly important for the entrepreneurial firm – namely *intermediation* and *internalisation.* Both involve a significant measure of *building trust.*

Intermediation is exemplified by entrepreneurial activity in retailing and commodity broking, which is finely tuned to reducing customer's transaction costs. Reputation is very important to an intermediator. An intermediator with a reputation for integrity can establish a chain of trust between a buyer and seller who do not directly trust each other. The gains from reputation are such that even if the intermediator is not particularly moral, it is in his own interests to maintain any reputation that he has incidentally acquired because of the profit it will yield in the long run. Thus, the customers' collective trust in the intermediator has a self-validating property.

An intermediator with a widespread customer base will also wish to establish a reputation for taking a hard line in negotiations – i.e., quoting a firm price and sticking to it – particularly where low-value items are involved. Otherwise the time costs of negotiation will become prohibitive. Intermediation is particularly entrepreneurial when it involves buying and re-selling goods on own account, rather than simply charging customers a fee, because it affords opportunities for speculation as well.

Some of the inputs into intermediation are of a very specialised nature. Since transactions normally involve the transfer of legal title, lawyers have an important role. Monitoring the timeliness of payment and managing the associated cash-flow problems is the prerogative of accountants. The demand for transaction cost savings therefore creates a derived demand for specialist employees.

The hiring of specialists in turn creates its own transaction cost problems – in particular assessing individual competence, which is very difficult for the layman to do. Professional accreditation, backed by examination and peer group review, has emerged as an important mechanism for guaranteeing quality. It is financed by professional membership fees paid by licensed practitioners out of the economic rents that flow from their accredited status. The employment of qualified professionals is an important feature of large-scale entrepreneurial activity, and the integration of different professions into a harmonious management team is a potential source of problems, which require considerable judgement to resolve.

Internalisation

Internalisation is another important strategy for reducing transaction costs. Internalisation is effected by bringing both the buying and the selling activity under common ownership and control (Coase, 1937). It is most appropriate when there are regular flows of intermediate products between two or more activities in the business sector. Internalisation is particularly useful in a low-trust environment as it eliminates the incentives to haggle and default.

Internalisation of the market in innovative solutions (see Section "Innovation and Arbitrage") is particularly important for the entrepreneur. An entrepreneur can assure the technical quality of the solution most easily if it is generated by employed inventors working under his supervision. He therefore integrates backwards into R&D. Given the limitations of the patent system, it is often difficult to appropriate rents effectively by delegating exploitation to a licensee. He therefore integrates forward into production too. Economies of scale in transport and in wholesale and retail facilities normally discourage full forward integration into distribution, but nevertheless most entrepreneurs employ their own sales forces to monitor the distribution channel and ensure adequate point-of-sale promotion (Casson, 1990c). Thus, transaction costs are minimised by establishing a firm which embraces several functional areas, rather than by simply arbitraging in an intellectual property market for innovations.

Some ideas have very wide applicability. For example, a knowledge of how low-income households can improve their status by conspicuous consumption of certain types of product may have implications for the marketing of an entire range of mass-produced goods. Such general concepts, exploited through internalisation, can lead the firm to develop a diversified product range. Similarly, concepts which are general in a geographical sense – for example pharmaceutical treatments – can lead to exporting and multinational production.

The Growth of the Firm

Entrepreneurs are often identified as the founders of new firms or as the owner-managers of small and medium-size enterprises (SMEs). Economic principles indicate, however, that entrepreneurship is much broader than this, and encompasses senior management role in long-established large firms. Indeed, a marketing manager in a large firm may take judgemental decisions much more regularly than the founder of an SME, whose exercise of judgement may be confined largely to a one-off decision to work for themselves instead of for someone else.

The frequency with which judgement has to be exercised within a firm is partly a consequence of its size, but is also dependent on the volatility of the environment in which the firm operates. Volatility creates a stream of new problems, and of new opportunities, for the firm. Volatility creates opportunities for the firm when it creates problems for other people that the firm can help them to solve – in other words, when it creates new customers for its products. Problems and opportunities may well occur together. For example, an increase in local raw material prices may create problems for the firm on account of higher costs. On the other hand, higher raw material prices faced by its customers may encourage the customers to invest in new technology to cut down waste, and this may generate new orders for equipment. An entrepreneurial firm is constantly on the look out for opportunities of this kind.

In terms of "resource-based" theories of the firm (Teece & Pisano, 1994), this argument suggests that entrepreneurship is the key resource possessed by the firm. Indeed, much of the literature on resource-based theory can be interpreted as a restatement of propositions in the theory of entrepreneurship with the word "resource" substituted for "entrepreneur". The greater is the firm's endowment of entrepreneurship, the higher is the rate of profit it will earn for a given degree of risk, and the faster the firm will grow relative to the average for its industry. Indeed, the theory goes beyond resource-based theories, by highlighting the role of factors such as volatility in driving a wedge between the performance of average firms and the performance of highly entrepreneurial ones. In an industry with high volatility, differences in performance between firms will tend to be wider because differences in entrepreneurial endowments will have a greater impact on profitability and growth.

Inter-Cultural Subjectivity

Culture

Subjectivity has hitherto been discussed as an individualistic phenomenon – as in the Austrian literature (Hayek, 1937; Mises, 1949). But subjectivity can also be collective. Culture may, indeed, be usefully defined (from an economic standpoint) as a collective subjectivity – a shared set of values, norms and beliefs.

Because culture deals with values and beliefs to which everyone in a group conforms, individual members are often not aware of its influence. This in turn means that they are not naturally critical of these beliefs. Some of these beliefs may be quite naive because they are imparted in childhood when people are uncritical anyway. Culture is important both for geographical units, such as the nation or the region, and for organisational units, such as the firm. The discussion below focuses on geographical units first.

Values are reflected in the legitimation of objectives – for example one culture may see scientific progress as an important collective endeavour, but another may see it as a purely utilitarian exercise. Since different values legitimate different objectives, and different objectives generate different kinds of problem, societies with different cultures will tend to focus on distinctive types of problem-solving. "Learning by doing" is an important aspect of problem-solving, and so learning effects will give each culture a distinctive kind of problem-solving expertise. This may show up in the industrial pattern of comparative advantage between different cultural groups.

Absolute advantage as well as comparative advantage is important to a group. Absolute advantage confers high productivity on the comparatively advantaged sectors, thereby raising the standard of living. A culture that establishes *high norms* will keep group members "on their toes", and so develop the high-level expertise that underpins absolute advantage of this kind.

Values and norms are also reflected in the relative status accorded to different roles. A culture that promotes *industrial progress effected through structural change* will confer high social status on entrepreneurs. Conversely, a culture that promotes *stability maintained by formal authority* will accord high status to politicians and bureaucrats instead.

It is beliefs about the *social environment*, rather than the *natural environment*, that are of greatest moment for the entrepreneur. Such beliefs can affect the political choice of the economic system within which the entrepreneur has to work. A belief that *only a few people of a certain type are well-informed* tends to support centralised decision-making by the state, as in socialist planned economies, whereas a belief that potentially anyone may be well-informed tends to support decentralisation through private enterprise based on individual property rights. In the centralised state entrepreneurial activity is concentrated on the planners, whereas under private enterprise it is much more widely diffused. In the intermediate case of a "mixed economy", culture can affect the amount of bureaucratic intervention and market regulation to which private enterprise is subject.

Beliefs about *genetics* can be important too. Non-scientific beliefs may lend support to traditional systems of authority – kingship at the state level, paternalism in the family, etc. Tradition often favours hereditary systems such as primogeniture – which is important to entrepreneurship because it maintains the personal concentration of wealth within family dynasties (see Section "Capital Requirements as an Entry Barrier"). Tradition can also reduce social mobility by discouraging trade or inter-marriage between different classes or castes.

Perhaps the single most important set of beliefs, however, relate to the question of *who can be trusted* (see Section "Intermediation"). When few people can be trusted transaction costs become very high. This affects relations both between firms and within them. Inter-firm relations are undermined because licensors cannot rely on licensees, assemblers cannot rely on subcontractors and *vice versa*. In response to this, internalisation becomes a widespread strategy. Industrial activities get divided up between a small number of large integrated firms.

Unfortunately, however, internalisation encounters its own problems of distrust within the firm. To discourage slacking, complex and intrusive monitoring systems have to be established using a formal hierarchy supported by accountants, work-study specialists and the like.

In a high-trust culture, by contrast, complex interdependencies between firms can be sustained by arm's length contracts, and within each firm the owner can rely on the loyalty and integrity of employees. One important implication of this is that it is a high-trust culture rather than a low-trust culture that sustains an industrial structure based on a large number of small highly productive firms.

The high-trust culture and the low-trust culture are, of course, the two extremes of a continuous spectrum. In the middle of this spectrum culture influences perception of where exactly trust should be placed. Some authoritarian cultures suggest that subordinates must trust their superiors irrespective of their personal qualities, thereby allowing superiors to exercise moral suasion purely by virtue of their role. Other cultures require superiors to win the respect of their subordinates by "getting along side them"– reducing "power distance" in Hofstede's (1980) terms. Management is clearly much easier in the first situation than in the second, though arguably good management, when available, can achieve much more in the second situation than in the first.

The Entrepreneur as Leader: Corporate Culture as an Instrument of Strategy

The basic cultural unit is the social group. Each group typically has a leader whose role is to engineer the values and beliefs to which members conform. The firm is the basic social unit in which people work. Although a firm does not necessarily consist of a single entrepreneur, one of the entrepreneurs in any given firm may well be the dominant personality, and this dominant entrepreneur is likely to act as the leader, and to fashion the corporate culture of the firm. In other words, even if entrepreneurship is not unitary, leadership is.

Where the members of a firm are recruited from similar backgrounds, corporate culture may well "free ride" on national culture, or on values and beliefs inspired by religion or social class. Religions that stress freedom of conscience and the subduing of nature are most likely to sustain entrepreneurship. It is on this basis that Protestantism and Quakerism have been said to promote entrepreneurial behaviour (Kirby, 1984). Furthermore, "middle class" attitudes that endorse social competitiveness, wealth accumulation and upward mobility are more likely to encourage entrepreneurship than "working class" values of conformity and solidarity with fellow employees.

The 1980s has witnessed a surge of interest in corporate culture (Schein, 1985), which has been sustained ever since. The engineering of corporate culture is claimed to hold the key to long-run corporate performance. Much of the analysis has centred on the large enterprise. Since managerial effort, being mental rather than physical, is difficult to monitor, managerial motivation cannot easily be achieved by supervision alone. Moral manipulation may be more effective. By creating a corporate ethic of integrity and dedication, the owner of the firm may encourage employees to punish themselves emotionally for lack of effort. External supervision is replaced by internal monitoring by the individual himself, and from an information-handling point of view this is much more effective (Casson, 1990a).

Moral manipulation thus provides a useful complement to supervision. While supervision is helpful in discouraging gross misconduct, because such misconduct is easily observed, manipulation is valuable in eliciting that extra degree of effort of which only the employee himself is immediately aware. It may be suggested that it is a capacity for moral manipulation that distinguishes the true "business leader" from a mere "entrepreneur".

The Market for Entrepreneurship

Demand and Supply of Entrepreneurs

The market for entrepreneurship equates demand and supply. The demand for entrepreneurship determines the number and nature of the entrepreneurial roles that need to be filled. Supply factors govern the availability of suitable candidates to fill these roles.

It has been stressed throughout this chapter that the demand for entrepreneurship is highly subjective. This means, first, that the roles created reflect a perceived need for solutions to problems rather than any underlying reality. Second, and more important, it means that some roles may be specifically created by individuals who believe that it is their mission to occupy them. This is typically the situation of the self-employed entrepreneur, who has created his own demand for the role he plays.

The overall intensity of entrepreneurial demand will reflect the level of norms in the population for, as noted in Section "Subjectivity", high norms generate problems that low norms do not. Coordination problems are particularly intense when there is a perceived need for structural change. Structural change requires a pervasive reallocation of resources from declining industries into growth industries, and generates substantial profit opportunities for the entrepreneur. It is, therefore, amongst a population with high norms that perceives a far-reaching need for structural change that there is likely to be the most intense demand for entrepreneurs.

The supply of entrepreneurs is governed by occupational choice. The options include manual work as well as intellectual work and, within intellectual work, the rule-governed as well as judgemental. Other options include unpaid work – housework, charitable work – and no work at all – unemployment, leisure. It follows that, for a given distribution of entrepreneurial aptitudes, recruitment to entrepreneurship depends upon the entire spectrum of rewards to alternative uses of time.

These rewards may contain a significant non-pecuniary element. These may be a moral element (as in the case of charitable work). Negative moral attitudes to profit-seeking – especially low-level activities such as arbitrage – may inhibit entry into entrepreneurship. The social dimension can be important too. Some roles carry a much higher status than others. Status may be particularly important in choosing between a professional career as a lawyer or accountant or a more broadly based entrepreneurial career.

It has been emphasised that entrepreneurs must continually put their personal judgement to the test, and that in doing so they must also place some of their own resources, and their personal reputation at risk. They must also be able to work in partnership with other risk-bearers too. The supply of entrepreneurs is therefore influenced by the level of confidence, tolerance of stress, moderation of risk-aversion and willingness to share responsibility – all factors which have been mentioned earlier.

Occupational choice will also reflect educational background. Basic education increases the supply of entrepreneurs by inculcating basic literacy and numeracy. Further education has a more ambiguous effect. On the one hand, it can help to refine entrepreneurial judgement – for example, by providing historical awareness of the endemic nature of change – and so increase the rewards to entrepreneurship. On the other hand, it can open up artistic and scientific careers that can entice people away from business.

Early specialisation in education can also reduce entrepreneurship by encouraging people to enter narrowly defined professions instead. Although these professions support entrepreneurial activity indirectly, the support they give is often limited by the inability of complementary specialisms to coordinate with each other under the direction of the entrepreneur (see Section "Intermediation").

The market for entrepreneurship will tend to adjust to equilibrium through changes in the pecuniary rewards offered to entrepreneurs. These rewards may be in the form of profits for owner-entrepreneurs or salaries for employee-entrepreneurs.

It is, of course, anticipated rather than actual rewards that are important – expected profits may not materialise and even expected salaries may not get paid if the employer goes bankrupt. Because anticipations are liable to change even when there is no change in the underlying situation, the market for entrepreneurs is potentially volatile. The tendency to equilibrium is, therefore, only a fairly weak one in the short run. In the long run the underlying situation too is liable to change, and so the equilibrium to which the market tends is itself a moving target.

Subject to these reservations, though, certain predictions about market behaviour can be deduced using the method of comparative statics. A real resource shock, for example such as a substantial oil price increase, will create a perceived need for structural change, which stimulates the demand for entrepreneurs. Although the initial impact of this may be modified through macroeconomic effects caused by wage and price rigidities, the profit opportunities created by potential substitution possibilities will stimulate entrepreneurial demand in new and growing industries. The anticipated reward to entrepreneurship will rise, and new recruits will be attracted to these industries. While there may be some transfer of entrepreneurs from obsolescing industries, this will be limited by the industry-specificity of many people's skills. Many of the new recruits will therefore be people drawn away from non-entrepreneurial occupations.

The increased pressure on a limited supply of competent entrepreneurs will reduce the average quality of judgement amongst practising entrepreneurs. Thus, while there will be more entrepreneurs earning a higher reward for a given quality of judgement, many new recruits, though earning more than they would in some other occupation, may not earn anywhere near as much as the more able and experienced entrepreneurs.

Entry into entrepreneurship will be effected most smoothly when new recruits have an accurate perception of their own quality of judgement. If they overestimate this quality, however, then too many people of poor quality will enter. Mistakes will be made because of poor judgement – and as expectations fail to be realised, confidence will be undermined and entrepreneurs will withdraw from the industry in an atmosphere of crisis. In certain cases the effect may be severe enough to precipitate a macroeconomic recession (Schumpeter, 1939).

A similar analysis can be provided for shifts in supply. This shows, for example, that a shift to greater breadth in further education, by stimulating entrepreneurial supply, will lead to a greater number of people entering business because their potential productivity in more specialised work has been reduced. This will lead to greater entrepreneurial activity, but lower anticipated rewards for each entrepreneur because of greater competition between them.

Because state education is subject to government policy shifts, a public perception of rising demand for entrepreneurs may indirectly induce an increase in supply. Because the supply response refers to a flow of newly trained entrants, however, it will take a long time to impact significantly on the total stock of entrepreneurs. By the time the supply effect works through, demand may have changed, and so this lagged response may generate a "cobweb" cycle in the market for entrepreneurs.

The Role of Financial Institutions

The preceding analysis was silent on the crucial question of how exactly the market for entrepreneurs adjusts towards an equilibrium. It followed a long tradition amongst economists of fudging this issue. According to Adam Smith (1776), the market works through an "invisible hand" – a concept which later economists attempted to formalise in terms of the hypothetical Walrasian auctioneer. Austrian economists have rightly criticised the Walrasian notion and stressed that the market is a process. They emphasise the decentralised nature of the process, and tend to suggest that the market generally "gets it right".

The view that the market gets it right is dubious, however. Few markets get it right in the short run, and there are special reasons for believing that the market for entrepreneurs is one of the least efficient in the economy. While entrepreneurial activity may well improve the functioning of other markets, it has only a limited impact on the market for entrepreneurs itself.

One reason is that – like other labour markets – the market for entrepreneurs is a market in people and, in the absence of slavery – or transferable long-term employment contracts generally – opportunities for intermediators to arbitrage are limited. The main potential for arbitrage lies in identifying able entrepreneurs who are in the wrong job and offering them the right job for only a little additional pay. If the entrepreneur is loyal to his new employer he may refrain from demanding increased pay and so allow the employer to retain the arbitrage profit generated by his "headhunting" activity. There is only limited scope for exploiting this approach, however, because of the problem of adverse selection – those who are most easily enticed to quit their present job are likely to turn out to be disloyal in the future.

Another problem with the market is that it is difficult to screen accurately for entrepreneurial qualities. Indeed, until recently, the backward state of entrepreneurial theory has meant that it was not even clear what the desirable qualities were.

Because of these difficulties, intermediation in the market is confined mainly to the activities of financial institutions. There are grounds for believing that these institutions may systematically select inappropriate people for entrepreneurial roles. Key decisions are concentrated in the hands of a few institutions operating behind substantial barriers to entry, and the decisions of these institutions may well reflect shared – and possibly inaccurate – culturally specific values.

Pension funds are major shareholders in large corporations and can influence the selection of chief executives, while clearing banks and venture capitalists can regulate start-ups by potential self-employed entrepreneurs through their procedures for approving loan applications. The agglomeration of financial decision-makers in major financial centres (see Section "The Spatial Dimension") facilitates the formation of a distinctive culture based on frequent social interaction between them. This culture may involve stereotypes of other social groups, which influences financiers' decisions whether to place financial resources under the control of members of particular groups. An inappropriate financial culture can therefore undermine performance at the micro-level even though at the macro-level the underlying demand and supply conditions are favourable.

If true, this proposition has important implications for economic performance. It suggests that good economic performance is not just the consequence of an intense demand for entrepreneurship driven by high norms, and sourced by an abundant supply of able entrepreneurs, but also depends on the micro-level efficiency with which individual entrepreneurs are matched to particular roles. Are potentially good entrepreneurs overlooked and incompetents appointed in their place? Are entrepreneurs who would be good at managing innovation in high-growth consumer product industries mismatched to jobs managing complexity in mature process industries, and *vice versa*? Are young entrepreneurs who lack experience promoted too soon to positions of responsibility, and are old entrepreneurs allowed to stay on when they should be retired?

An economy that has a good supply of entrepreneurs, but serious inefficiencies in the domestic market for entrepreneurs, may find that entrepreneurs emigrate to exploit opportunities overseas. In addition, foreign capital may enter the country to employ the able entrepreneurs that domestic institutions are unwilling to support. Thus, international migration and capital flows may emerge to compensate (partially) for the inefficiencies of the domestic market.

The Spatial Dimension

The division of labour has an important spatial dimension. This applies both to the physical division of labour in production and to the mental division of labour in problem-solving. It is the spatial division of labour in problem-solving that holds the greatest significance for the location of entrepreneurial activity.

Economies of internalisation mean that in a global economy many production plants are branch plants owned by multinational firms. The headquarters of these firms are drawn to large financial centres because of the importance to managers of face-to-face contact with financiers and professional specialists such as international lawyers, tax advisers, and so on. Access to government for lobbying, and to major corporate clients for marketing intermediate goods, may also be important. The agglomeration of headquarters activities around major financial centres means that most high-level judgemental decisions will be taken by people living within commuting distance of such centres. Only lower-level decisions will be taken elsewhere.

The most important centres may become international service centres, and play an important role in cross-cultural communication. Merchants, bankers and businessmen from different cultures meet there to make contracts. For a city to achieve the status of an international service centre the local culture must support religious and ethnic toleration. Respect for business confidentiality, and impartiality in the legal enforcement of contracts, are important too.

Such centres are attractive to frustrated foreign entrepreneurs who cannot get backing from their own domestic financiers. They are also attractive to exiles. At any one time, civil wars and persecutions create refugees who need to re-establish their culture overseas. Exiled people, though dispersed, often maintain contact amongst themselves, creating channels of international communication along which commercial as well as personal and domestic information can flow. These channels are particularly well-adapted to developing the international trade of an entrepôt, and to speculation and arbitrage in international financial markets.

Certain exile groups – "wandering Jews", "sojourning Chinese" and so on – have very strong business-oriented cultures which can survive persecution and take root in new locations. The creative intellectual tension generated by the arrival of these groups can transmit – through parental influence and schooling – a strongly entrepreneurial culture to the next generation of both indigenous and immigrant people. In this way the international service centre may be able to maintain its economic base even though the original rationale – such as port activity – goes into decline as a result of the geographical restructuring of trade.

The Life Cycle of the Entrepreneur

The co-existence, within the division of labour, of high and low-level problems is important for the career structure of the entrepreneur. High-level problem-solving typically requires a broader range of relevant experience and hence calls for older people to take it on. These people should have "spiralled upwards" in their careers through a variety of more functionally specialised roles. Senior professionals who have remained within the same functional area all their life are not well-suited to these roles. They may be important as advisors to the high-level entrepreneurs (as noted above), but are not capable of filling the roles themselves.

Those who occupy high-level roles also require personal skills to elicit relevant information from delegates. They need team-building skills to handle their subordinates, and an extensive network of contacts to allow them to access a wide variety of consultants. This suggests that the successful high-level entrepreneur will typica1ly have followed a career path, which begins with a fairly routine functionally specialised role ("learning the business" in his twenties) and switches to a more responsible innovative role (in his 30s). This role, as it expands, gives him team-building experience and brings him into contact with a wider group of people. He can then move, in his forties, to a leadership role – acting as an exemplar to an increasing number of subordinates and representing his organisation to other institutions. He can retain this role until it becomes increasingly symbolic rather than executive (in his 60s). Finally, he retires and functions purely as an "elder statesman" of business in a consultative and counselling capacity.

In exceptional circumstances the entrepreneur's responsibilities may grow along with the firm he has founded, so that his career development is also the biography of the firm. More usually, though, where high-level entrepreneurs are concerned, he will have acquired his initial experience of the industry as an employee of a large firm. In some cases he may remain with this firm throughout his career. In other cases he may quit to found his own business at the innovative stage of his career. When the innovation becomes successful, and the scale of operations grows, the entrepreneur may then sell out to a larger firm in return for a seat on the board, and pursue his rise to the top by internal promotion at board level. On this analysis, those most likely to reach the top are people who are willing, when necessary, not merely to share responsibility with, but even to subordinate themselves to others, and are willing to move geographically around production locations to learn the business and then transfer to the metropolis to take up a high-level post. The most successful entrepreneur, therefore, is unlikely to be the ruggedly independent self-employed individual of popular myth.

Summary

The preceding analysis has used a fairly conventional economic methodology to generate an unconventional synthesis of insights derived from various social sciences. The entrepreneur has been defined as someone who specialises in judgemental decision-making. Judgement is required in finding urgent solutions to novel, complex and ambiguous problems. Within a private enterprise economy, specialisation is normally effected in two distinct stages. First, problems are decomposed and allocated to separate ownership units. The coordination of problem-solving between ownership units is then coordinated by the market mechanism. Further decomposition of problems can then be effected within the ownership unit if desired.

The firm itself is an institutional product of the first stage of the specialisation process. It takes over from consumers the problem of finding solutions to common household problems. It takes over from wealth-holders the problem of how to manage the resources they own. It takes over from workers the problem of how to organise themselves as a team. The second stage of specialisation is exemplified by the delegation of decisions to functional roles within the firm. Because delegates can enjoy considerable discretion, entrepreneurship is not necessarily confined to the owner or chief executive of the firm. The entrepreneurial firm is an opportunity-seeking information system, geared to identifying profit opportunities, based on solving other people's problems, and to setting up administrative systems to exploit these opportunities in an efficient way. It is also a problem-solving system, employing professional specialists to tackle its own internal coordination problems as and when they occur. New problems and opportunities continually arise with a frequency that reflects the underlying volatility of the firm's environment.

Innovation is a very judgement-intensive activity – particularly where infrastructure investments are concerned. Arbitrage and speculation require a rather different kind of judgement, since they are concerned, not with the management of resources, but merely with the transfer of resources between one ownership unit and another. Internalisation economies explain why innovation leads to managerial involvement – problems of insecure intellectual property rights and difficulties in quality control encourage backward integration into technical research and forward integration into production.

The demand for entrepreneurship is partly created by entrepreneurs themselves who perceive opportunities that they believe they are personally well-equipped to exploit. A culture that emphasises high norms will stimulate this perceptual process. Another source of demand arises from people who perceive a need for economic restructuring, but who wish to hire entrepreneurs to take decisions on their behalf. While the first source of demand leads to self-employment, the second source leads to the recruitment of entrepreneurial employees.

The supply of entrepreneurs depends upon natural abilities, the nature of the educational system (in particular the degree of specialisation) and the relative status of entrepreneurial careers. Demographic factors are important because few entrepreneurs acquire the breadth of experience needed for high-level entrepreneurship until early middle age.

Entrepreneurial rewards, in the form of profits for the self-employed or salaries for employees, tend to adjust to balance overall supply and demand. Adjustment is subject to substantial disequilibrium fluctuation, however, because it is anticipated rewards rather than real rewards to which supply and demand respond. Inefficiencies are even more serious where the matching of people to specific roles is concerned. Thus, consumer product industries may require individuals who can take urgent and novel decisions of a fairly simple kind, while mature process industries may require people who can cope with complexity instead. Because it is difficult to screen for the necessary qualities, suitable placements can often be found only by trial and error.

The matching process is typically intermediated by financial institutions. Cultural stereotyping may result in group affiliation being used as a surrogate for personal qualities in deciding whether entrepreneurs are to receive financial backing. If the financial community has its own culture, then the stereotyping may merely reflect one culture's views of other cultures, and the outcome of the process may be quite poor.

Financial institutions tend to agglomerate around international financial centres, which then compete to attract business from entrepreneurs. Any centre needs a culture of tolerance and impartiality. It also needs a culture that employs stereotypes, which are realistic – or ideally with personal information that is so good that stereotyping is not required.

The international competitiveness of an economy will depend crucially on entrepreneurial factors. The norms and values of the domestic culture will determine the types of problems that are researched, and hence the industrial structure of the expertise that is developed. This expertise can be exploited internationally through either exporting, licensing or foreign direct investment. Education policy and the social ranking of occupations will govern the supply of indigenous intrepreneurs, while toleration and impartiality will govern the supply of immigrant entrepreneurs.

A combination of buoyant demand, abundant supply and efficient matching will sustain international competitive advantage through entrepreneurship.

References

Baumol, W. J. (1993). *Entrepreneurship, Management and the Structure of Pay-offs*. Cambridge, MA: MIT Press.
Cantillon, R. (1755). In H. Higgs (Ed.), *Essai sur la Nature du Commerce en Generale*. London: Macmillan, 1931.
Casson, M. C. (1982). *The Entrepreneur: An Economic Theory.* Oxford: Martin Robertson.
Casson, M. C. (1990a). *Enterprise and Competitiveness: A Systems View of International Business.* Oxford: Clarendon Press.
Casson, M. C. (1990b) Entrepreneurship: A model of risky innovation under capital constraints. *University of Reading Discussion Chapters in Economics.*
Casson, M. C. (1990c). Internalization theory and beyond. *University of Reading Discussion Chapters in International Investment and Business Studies.*
Casson, M. C. (1991). *Economics of Business Culture: Game Theory, Transaction Costs and Economic Performance.* Oxford: Clarendon Press.
Coase, R. H. (1937). The nature of the firm. *Economica (New Series)*, 4, 386–405.
Godley, A. C. (1996). Cultural determinants of Jewish immigrant entrepreneurship in the UK and USA, 1880–1914. In A. C. Godley, & O. M. Westall (Eds.), *Business History and Business Culture*: 222–240). Manchester: Manchester University Press.
Hayek, F. A. yon. (1937). Economics and knowledge. *Economica (New Series)*, 4, 33–54.
Hofstede, G. (1980). *Culture's Consequences.* Beverly Hills, CA: Sage.
Kirby, M. W. (1984). *Men of Business and Politics*. London: Allen & Unwin.
Kirzner, I. M. (1973). *Competition and Entrepreneurship.* Chicago: University of Chicago Press.
Kirzner, I. M. (1979). *Perception, Opportunity and Profit.* Chicago: University of Chicago Press.
Knight, F. H. (1921). In G. J. Stigler (Ed.), *Risk, Uncertainty and Profit.* Chicago: University of Chicago Press.
Mises, L. yon. (1949). *Human Action: A Treatise on Economics.* London: William Hodge.
Penrose, E. T. (1959). *The Theory of the Growth of the Firm*. Oxford: Blackwell.
Peters, T. J., & Waterman, R. H. Jr. (1982). *In Search of Excellence*. New York: Harper & Row.
Schein, E. H. (1985). *Organisational Culture and Leadership.* San Francisco, CA: Jossey-Bass.
Schumpeter, J. A. (1934). *The Theory of Economic Development.* Cambridge, MA: Harvard University Press.
Schumpeter, J. A. (1939). *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process.* New York: McGraw-Hill.
Shackle, G. L. S. (1979). *Imagination and the Nature of Choice.* Edinburgh: Edinburgh University Press.
Simon, H. A. (1983). *Reason in Human Affairs.* Oxford: Blackwell.
Smith, A. (1776). In R. H. Campbell, A. S. Skinner, & W. B. Todd (Eds.), *An Inquiry into the Nature and Causes of the Wealth of Nations*. Oxford: Clarendon Press, 1976.
Teece, D. J., & Pisano G. (1994). The dynamic capabilities of firms: An introduction. *Industrial and Corporate Change*, 3(3), 537–556.
Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. New York: Free Press.