

**David B. Audretsch, *The Entrepreneurial Society*
Oxford University Press, 2007. ISBN: 0195183509**

Martijn Adriaan Boermans

Published online: 27 July 2010
© Springer Science+Business Media, LLC 2010

“Es ist nicht genug zu wissen, man muss es auch anwenden; es ist nicht genug zu wollen, man muss es auch tun.”

- Johann Wolfgang von Goethe (1749–1832), quote from Audretsch (2007, p.135)

Introduction

Where does entrepreneurship start? Moreover, what is so different about entrepreneurship in this *New Age of Innovation*? What do entrepreneurs do when the world becomes more “flat”? According to *The Entrepreneurial Society* by David Audretsch something novel is happening, something only Schumpeter (1942) could have imagined. He argues that the combination of technological advancements and globalization have led a baby boom generation to *manage things differently*.

From managed economy to entrepreneurial society

Audretsch begins with a historical account. In the postwar period economic growth took off in the Western world. Economic policies were then strongly guided by government intervention and support for large corporations, which Alfred Chandler (1977) famously termed the “Visible Hand”. However, there was neither room for “small business” development nor for entrepreneurship. Within this framework, Audretsch’s book, *The Entrepreneurial Society*, points out there were hidden weaknesses in this era precisely because of the lack of entrepreneurship.

M. A. Boermans (✉)
Faculty of Economics and Management, Hogeschool Utrecht University of Applied Sciences,
“InnBus”, Padualaan 101, 3500 AA Utrecht, The Netherlands
e-mail: martijnboermans@yahoo.com

Audretsch congratulates a generation of baby boomers who revealed the culprits behind the managed society and initiated the rise in entrepreneurship. The gales of creative destruction in the Schumpeterian sense were spurred by the crises in the mid 1970s and early 1980s. Audretsch uses William Whyte's 'organization man' to signify how workers felt alienated within big bureaucracies. The large corporations begat a drive towards control and uniformity and hamper organizational change and innovation. Whyte's message was that the elimination of the human element backfired. Subsequently employees liberated themselves with a new type of flatter organization. Audretsch uses the term *knowledge filter* to signify how corporate red tape blocks the entrepreneurial spirits as it "impedes and slows the spillover of knowledge and ideas" (p.108). He sees entrepreneurship as a creative and necessary force against these filters. It enables the transformation of ideas and knowledge to innovation and practice (Acs et al. 2004).

In the 1980s regulations in favor of big firms were continuously reversed and 'destroyed' the visible hand system. According to the author the Nixon era - "we're all Keynesians now" - died and was replaced by an entrepreneurial society. As Audretsch (2007) explains: "it was a symbolic of a seismic shift. The established, large corporation lost its omnipotence as the engine of economic growth - instead, action shifted to unheard of start-ups like Apple Computers, Microsoft, Ben and Jerry's, Dell Computer, and Starbucks.... What had saved America ... was the demise of the managed and the emergence of something entirely different" (pp.4,12).

A global generation with new ideas

But what caused this change in attitudes towards large corporations? Or, as Audretsch asks: "how can society reap the benefits of the large corporation in an oligopolistic setting while avoiding or at least minimizing the costs imposed by a concentration of economic power?" (p.47). His answer is that the managed economy required too much control to survive on its own and lacked creativity. Thus globalization during the postwar era empowered the "global generation" (p.62) to act according to their entrepreneurial spirits and followed Goethe with their actions.

The book repeatedly argues that globalization forces combined with the rise of a creative class have created innovations and new methods of production that resulted in regional clusters. With the emergence of the knowledge economy firms have a greater need to be close to the locations where they can find talent or people with good ideas. As Audretsch argues: "Success stories of Silicon Valley, Boston's Route 128, North Carolina's Research Triangle, as well as Austin, Texas, and Maddison, Wisconsin, they realized that these places, their industries, and their people had one thing in common: they were all about ideas" (p.90). New governmental stimulus programs facilitate various locations that breed a comparative advantages in human capital. For instance, the author analyzes how the Bayh-Dole Act of 1980 assisted commercialization and innovation at the university. As MIT's *Technology Review* (2000) wrote: "the Bayh-Dole Act turned out to be the Viagra for campus innovation." Specific

locations were complemented with open social environments. The paradox of geography, as Audretsch points out, is that internationalization and ICT have made agglomerations more important, since knowledge and ideas cannot easily be exported: “the marginal cost of transmitting knowledge ... rises with distance... when it comes to communicating ideas [as opposed to information] the internet or any type of mass communication becomes less useful” (p.94–95). Large networks of small and large firms can now serve as incubators for new firms and industries to strengthen the locational advantage (Sirkin et al. 2008). International forces have made capital less important and led to a renewed focus on knowledge and innovation. The global generation can only deliver new kinds of tailor-made services that contrast mass production techniques with international entrepreneurship (Ruzzier et al. 2006; Prahalad and Krishnan 2008).

The book is a compact, accessible contribution to research on how globalization and entrepreneurship are changing Western society and is written by a preeminent expert in the field. Nonetheless, one of the topics the author does not address is how difficult the political process will become to further promote the entrepreneurial society. Although he is well-known with the European paradox – there are too few entrepreneurs - he makes no suggestions as to how governments can fundamentally alter their economies and remove red tape to unleash entrepreneurs. He only explains that universities have a key role as incubators for talent and that they need support (e.g. Bayh-Dole Act). Indeed, small enterprises in the United States have prospered compared to the period before the 1980s. However, he remains vague (p.133) about the current and prominent role of large firms in his entrepreneurial society. The notion of entrepreneurship and “big business” are non-contradictory. Large companies are currently very innovative and work together in global networks with small enterprises, so the two can even join forces. Also, most people admire big companies and these firms are still rated as most desirable employers.

Of course, the book was researched and written in pre-crisis times and sketches an optimistic story. From Audretsch reasoning, the current crisis may have resulted from conformism and groupthink à la Whyte, that is, entrepreneurship is a capitalist development of renewal. Some innovations created by entrepreneurial activity can have destructive consequences, which have gone unmentioned. Hence, if Audretsch argues that ideas are the new competitive advantage then how can we distinguish a good idea from a bad one? Don't we need more control using a visible hand and mitigate Schumpeter's creative destruction? Audretsch quotes Marx: “capitalism bears the seeds of its own self-destruction,” and points to a dismal Schumpeterian trade-off (p.39): economic concentration and centralization versus the unknown innovations from bottom-up.

In 1985, Peter Drucker wrote his famous book *Innovation and Entrepreneurship* of which Audretsch is reminiscent. Drucker also attempted to explain the rapid Western economic growth between 1960s and 1980s. In line with Drucker's insight (p.27) that “entrepreneurs innovate” Audretsch's (p.136) main message is that “*entrepreneurship is the key way to innovate*” especially in a new flat world. Nearly 25 years after Drucker we can safely say the entrepreneurial revolution is underway, but it is coming much more slowly than experts in the field have expected and still expect.

References

- Acs, Z., Audretsch, D. B., Braunerhjelm, P., & Carlsson, B. (2004). The missing link: The knowledge filter and entrepreneurship in endogenous growth. *CEPR Discussion Paper No. 4783*.
- Audretsch, D. B. (2007). *The entrepreneurial society*. New York: Oxford University Press.
- Chandler, A. (1977). *The visible hand: The managerial revolution in American business*. Cambridge Massachusetts: Belknap Press.
- Drucker, P. (1985). *Innovation and entrepreneurship: Practice and principals*. New York: Harper Collins Business.
- Prahalad, C. K., & Krishnan, M. S. (2008). *The new age of innovation: Driving cocreated value through global networks*. New York: McGraw-Hill.
- Ruzzier, M., Hisrich, R. D., & Antoncic, B. (2006). SME internationalization research: Past, present, and future. *Journal of Small Business and Enterprise Development*, 13(4), 476–497.
- Schumpeter, J. (1942). *Capitalism, socialism, and democracy*. Harper Perennial Modern Classics.
- Sirkin, H. L., Hemerling, J., & Bhattacharya, A. (2008). *Globality: Competing with everyone from everywhere for everything*. New York: Business Plus.