11. Conclusion: towards a new theory of entrepreneurship

In an island near the Orkneys, a child was born whose father was Aeolus, the god of the winds, and his mother a nymph of Caledonia. . . . During his travels he learned that gold glittered in every part of Betica . . . He judged it wise to go into all the cross-roads and cry continually in a hoarse voice, ‘People of Betica, you think yourselves rich, because you have silver and gold! I pity your error. Be ruled by me: leave the land of the base metals; come into the empire of the imagination, and I promise you riches which astonish even you.’

(Montesquieu, 142nd Persian Letter)

Self-adapting entrepreneurship triggering new dynamics is a long way from the economic liberalism of Jeremy Bentham, who regarded entrepreneurs as rational, egotistic beings seeking only ‘gold and silver’, and also from the concept of the firm working alone to stave off its competitors. Endogenous and dynamic entrepreneurship, going well beyond mundane small business such as the local garage, butcher or hairdressing salon, is first and foremost a product of scattered knowledge – ideas pulled from the air; in other words, an area’s imagination, as suggested by the child from the Orkneys in the above quotation. This imagination, and its impacts on the economy, must gradually be extended to the entire milieu, supplementing proactive social capital and complex human resources to create a stimulating entrepreneurial culture. In short, endogenous entrepreneurship is a social affair that needs an innovative milieu, where fast-growth and innovative small firms play a central role both as outcomes of and factors in local dynamics. The presence of gazelles provides clear evidence that the milieu is able to provide good quality human and social capital, multiply rich networking and shared learning and then create all kinds of other complementary firms and players, transforming itself into an environment conducive to entrepreneurship, where entrepreneurs also have the time they need to consolidate their foundations.

This would be another good time to return to our mystery novel metaphor in order to support our view of entrepreneurship as something that can only be developed if a very large number of players are involved, in a variety of different but complementary roles. Dr Watson, Sherlock Holmes’s faithful assistant, gives a detailed description of the stages in
Holmes’s investigation technique, consisting in a set of complex factors (his extraordinary observation and deduction skills to name but two) explaining the detective’s outstanding success. These factors not only explain why the first Industrial Revolution took place in Great Britain, but also show how the country was able to prosper, especially in the late nineteenth century, with the emergence of thousands of new firms in its regions. In solving a murder in an isolated British village, Holmes and Watson were able to send telegrams, print advertisements in newspapers published just hours later, reserve seats on trains that left and arrived on time, were met by comfortable coaches that transported them to equally comfortable country hotels with luxurious rooms and good food – and so on. In other words, in spite of his personal genius, Holmes would never have achieved the success for which he became famous, and which attracted princely customers from abroad, without the support of an economy that was, let us say, as complex and effective as it could possibly be more than a hundred years ago.

Similarly, the entrepreneurs who were the driving force of the Industrial Revolution were all the more likely to succeed because they had access to services such as proper transportation, warehousing in which to store their raw materials or from which to ship their products, local financing and banks or angel capital to support their investments, intermediaries (including wholesalers) to distribute their products, along with all kinds of other actors and organizations with whom to enter into production and service transactions on national and international markets. On the contrary, although they are certainly just as capable as their Western counterparts, the best entrepreneurs in today’s developing countries face problems of such scope that much of their energy is spent trying to obtain resources and to overcome such difficulties rather than improving their firms and developing their markets. Not only does their milieu not provide the support they need to succeed, but it actually places obstacles in their path.

This complex structure that gradually emerged in England in the eighteenth and nineteenth centuries, providing systematic support for entrepreneurship, forced researchers to ask serious questions about Max Weber’s explanation of why the first Industrial Revolution took place in England as opposed to somewhere else. Much of Weber’s analysis was based on the impact of the Puritan Protestant ethic, which he felt pressured people to work harder on business development. But if this had been the main reason, the revolution would probably have started in Switzerland or Holland, where Puritanism was even more widespread, rather than in England where the dominant Anglican Church tended to follow Catholic teachings to a large extent. It should be remembered that it was the disciples of the Puritan sects, persecuted by the official Church, who left Europe.
to colonize much of what was to become the USA. If Puritanism had truly been the driving force behind the English Industrial Revolution, it would have spread when the Puritans left the country. Braudel, in his sweeping panorama of social and economic development between the fifteenth and eighteenth centuries, suggests that it was the cumulative impacts of the development of wealth, technology and modern public and para-public institutions, most of which had actually been conceived elsewhere,⁵ that caused the Industrial Revolution to take place first in England, rather than in Italy or Holland, which were much richer in terms of accumulated wealth in the former case and capital in the latter case.

Again, we will turn back to our mystery novel metaphor as a way of understanding what this means. Maigret, in his Mémoires,⁶ explains that in a real investigation, police officers from the local police station would work alongside inspectors from the Quai des Orfèvres, questioning witnesses, visiting thousands of homes and observing faces at railway stations, not to mention the role played by the numerous informers. In some cases, the entire national police force would be involved in gathering clues, and the general public would also be asked to provide information, for example, after publication of the suspect’s photograph in newspapers. As Simenon pointed out, these thousands of players and hundreds of steps cannot be incorporated into a novel, because readers would become lost in a quagmire of detail. In the case of businesses, however, we know that success is achieved not by the firm’s leader working alone, but by a team effort involving members of the organization, partner firms upstream and downstream, the information system and many different actors both inside and outside the territory, not to mention the general context and an element of luck.

We therefore need to move away from the single-track theories that have been so unsuccessful at explaining endogenous entrepreneurship, and towards a more complex approach that takes into account the ability to overcome the uncertainty and ambiguity generated by market globalization and the knowledge economy. We also need to step away from analyses of isolated firms and ‘exceptional’ entrepreneurs, and look instead at firms as members of complex networks that are built into cooperative and competitive systems, facilitating the sharing of ideas and creating a more dynamic milieu. We must also examine sociological variables such as trust and relationship structures that foster technological and innovative developments, thus supporting local dynamics. Table 11.1 presents some of the complex links between the major phases of territorial development discussed in Chapter 9, namely, networking, the most common types of firms and state support.

How, then, can we justify this shift from simplistic theories to a more complex approach that takes into account the five principal players in the
Table 11.1  Some relationships between the phases of endogenous development (from stagnation or decline to fast development) and other variables

<table>
<thead>
<tr>
<th>Major development phases</th>
<th>Extent of networking</th>
<th>Most common firms</th>
<th>State contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependency</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Slowdown</td>
<td>Unconnected outside economic networks and social networks</td>
<td>Some large firms in traditional sectors and banal firms</td>
<td>Minimum state support, especially in infrastructures, and reactive, purely financial interventions</td>
</tr>
<tr>
<td>2. Waiting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Despondency or resignation</td>
<td>Languishing networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Endogenous development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Awareness of regional potential</td>
<td>Gradual shift from purely business networking to rich information networking</td>
<td>Some improver and adventurer entrepreneurs</td>
<td>Various support for venture start-up in new sectors</td>
</tr>
<tr>
<td>5. Emergence of innovative firms</td>
<td>Acceleration of the development of social capital and trust</td>
<td>More manufacturing SMEs and motor tertiary. SMEs serving as models</td>
<td>Development of rich information brokerage activities</td>
</tr>
<tr>
<td>6. Complex networks and stimulating structures</td>
<td>Growing numbers of internationally connected networks</td>
<td>More gazelles and exporting SMEs</td>
<td>Support for the most active firms to speed up technological penetration</td>
</tr>
<tr>
<td>7. Dynamic entrepreneurial culture</td>
<td>Creation of dense or hard technological networks</td>
<td>Emergence of exogenous entrepreneurs who move in to take advantage of local dynamics</td>
<td>Systematic stimulation of innovation and joint initiatives supporting competitive capacity</td>
</tr>
</tbody>
</table>
process, namely, the entrepreneur, the organization, the milieu, the environment and time, along with the three factors of dynamics, namely, information, networks and innovation? In this conclusion, we look at how the development of economic and management theory supports our cross-disciplinary approach. We end by returning to our mystery novel metaphor for evidence that local entrepreneurship depends on the development of a model that includes the social behaviours of the players – in other words, a collective entrepreneurial culture supported by environmental potential.

11.1 THEORY DEVELOPMENT

In looking at the development of theories that support our holistic approach, a good starting point is neoclassical economic theory, devised well before all the theories that subsequently addressed management and local development. Although this particular theory called into question many of the conclusions of the nineteenth century classical economists, including the French researcher Walras who settled in Switzerland, and the Vienna School, it nevertheless retained their basic foundations, namely, the rationality of economic agents, their quest to satisfy their own interests at any price, their purely selfish behaviour and the market’s ability to provide all the necessary information. Many economists still defend this theory (now referred to as neo-liberal theory) even today, because it is relatively simple, coherent and, most importantly, safe for its supporters, in that it enables them to explain everything in a rational manner without raising too many questions about its realism and, above all, its capacity to incorporate systematic change and instability in the economic environment. Being somewhat static, the theory does not consider either the complex behaviours of entrepreneurs or the role of the organization, knowledge of which, as pointed out by McCloskey and Sandberg (1971), is derived from other sciences. Similarly, it does not consider the organization’s black box, since it believes that the organization is bound to act rationally and seek profit at any price if it wishes to survive and face up to its competitors, as explained by Machlup (1967), for example. At the very most, the entrepreneur is considered to have a residual function with a marginal influence over business behaviour (Lucas, 1978), explaining why both the entrepreneur and the organization are virtually absent from most basic economics textbook. Baumol (1968) criticized harshly this situation, qualifying it as being the equivalent of Shakespeare omitting the Prince from Hamlet. If we look at it from the standpoint of our mystery novel metaphor, it would be like an author trying to solve a crime without input from an official or unofficial detective.
In the top part of the north-east quadrant of Figure 11.1, we see that the theory had to develop in order to move beyond these limitations. Simon (1976), for example, in the second part of this quadrant, questioned the idea of perfect information or non-existent uncertainty, pointing out that agents could not possibly foresee every eventuality and this would prevent them from entering into complete contracts covering every possible situation.
Their behaviours could therefore be satisfying at best, and not optimal, however rational they may be. However, information limitations are even greater than Simon suggested, since in a competitive market agents will retain information for as long as possible, or even release erroneous information. Not only that, but once information has been obtained, it must then be interpreted. This is no easy task and can often generate ambiguity. Mostly, however, information usually lags behind reality, which changes constantly. Another criticism of the neoclassical approach came from Coase in 1937, and was subsequently taken up by Williamson (1985). Both proposed the idea that the market, composed of thousands of small businesses and self-employed workers competing with one another to various extents, cannot explain everything, and the supplier’s research costs, as well as costs relating to transaction follow-up, especially where this is done only sporadically, must also be taken into consideration along with prices, which are based on management and production costs. Where these latter costs are too high, it is better to produce goods within a hierarchical system – in other words, within a large corporation that uses its authority to limit opportunistic behaviour, especially among its employees.

Figure 11.1 shows that the theories evolved in two ways. Obviously, the figure is simplified in the extreme and by no means reflects the wealth or development of the theories. All it does is to illustrate their evolution towards greater complexity, in order to justify our holistic approach to endogenous entrepreneurship in a knowledge economy. The horizontal axis represents the shift from the strong rationality (complete and substantive, that is, based on knowledge of the substance of things) of the neoclassicists or neo-liberalists, on the right, to the weak rationality, dependent on the information the agents or actors agree to provide, on the left. The vertical axis represents the agents’ grasp of the level of uncertainty with which they are faced. In neoclassical theory, substantive rationality is strong because the agents seek before all profit, and will voluntarily either comply with or defy market laws to obtain it; in addition, the market will provide a lot of information, thus diluting uncertainty and risk. This is the theory proposed in particular by the Chicago School, which Favereau (1989) referred to as the extended standard model EST1. It is the neoclassical model inherited from the classical theory of the eighteenth and nineteenth centuries (that is, from the ideas of Bentham, Weber and Sombart), to the effect that humans act rationally and selfishly. Simon and Coase, for their part, founded the EST2 model, creeping gradually into the north-west quadrant.

However, as we now know, agents do not act in isolation against their competitors, and may even tend to join forces. Some researchers go so far as to say that in many markets, it is not the demand that sets prices, but
rather the supply or the business itself, especially if it has a monopoly or is part of a cartel, with the support of increasingly complex advertising and marketing techniques. In many cases, competition exists in the long term only and often takes place between coalitions composed of hundreds if not thousands of firms along with order-givers, suppliers, equipment manufacturers, subcontractors, distributors and even the state, with ramifications that extend beyond national borders, as we see in the following pages. An example would be the competition that exists in the aeronautic industry between Airbus and Boeing, or between Bombardier Aeronautics and Embraer, which extends well beyond the principals’ headquarters. Prices may also depend on public and parapublic institutions, or in the case of isolated firms, on an efficient organization based, for example, on Harvard Management School’s LCAG model or on strategic planning. This rationality is conditional on the adoption of non-opportunistic behaviour by agents having access to privileged information. If these agents are to agree to work together without opportunistic behaviours, the market or the organizations concerned must use contracts that stipulate the costs and gains of each party. For example, in addition to its purchasing contracts with suppliers and sales contracts with distributors, an organization also has a set of contracts between management and employees, who agree not to pursue their own personal interests, in return for compensation and fringe benefits. It will also have contracts with other agents, such as service suppliers, at least for the duration of the supply. It is therefore not simple rationality that pushes agents to act – or at least, the rationality is questionable and conditional, because the information is asymmetrical, with some people (those who have the power or who are the first to innovate) knowing more or better than others. Finally, as explained by Jensen and Meckling (1976), the firm can be regarded as a system or core of contracts with a large number of stakeholders, invited by the firm to play the game in exchange for clearly defined gains.

Contracts alone, however, are not enough. Some researchers have therefore examined the role of the organization, explaining that agents also need authority to act – in other words, the hierarchy and strategic planning imposed by the business owner or the shareholders’ representatives. Indeed, there is no guarantee that contracts alone will eliminate opportunistic behaviours, especially in view of the fact that contracts are bound to be incomplete, given the opaque and asymmetric nature of economic information. The desire to work together in a business also derives from incentives to follow the firm’s main policies. This brings us to strategic planning and generic strategies, which, according to Porter (1981), can be used to influence if not control the market and set the conditions of competition, at least in the short term, for example by erecting entry barriers. In the end,
the firm has plenty of flexibility and the market is perhaps less questionable than the neo-liberals want to see it, as pointed out by Blaug (1982). This ultimately leads us to the EST3 model.

The firm’s flexibility when faced with unexpected circumstances means that economists are able go beyond the somewhat simplistic transaction cost theory to take into account intermediary or hybrid situations between hierarchy (integrated organization) and market, involving cooperation. Cooperation can take the form of capacity subcontracting or specialty and intelligence subcontracting, both formal (with relatively well-defined contracts) and informal (without contracts) in nature. As Richardson (1972) pointed out, most firms operate within cooperative arrangements or coalitions, with trust and trustworthiness, either upstream (with their raw material, service and equipment suppliers) or downstream (with their transporters, distributors and some customers). Their cooperation goes well beyond their contracts, which are often highly imperfect, and allows the firms not only to minimize their transaction costs, but also to obtain all kinds of strategic information when they find themselves in situations loaded with uncertainty and ambiguity. As we have shown, the development and success of a firm is dependent to a large extent on the support it obtains from its locality, if only in terms of access to qualified staff and services, or the contacts it establishes with other firms. Researchers have measured the benefits of proximity, for example in innovation (Audretsch and Feldman, 1996), thus going against the neoclassical view that information about innovation is automatically available and there is therefore no reason to concentrate activities in certain places, such as technology parks, to foster innovation. Yet, cooperation is often as beneficial for upstream firms as it is for downstream firms, since a functioning partnership speeds up the learning of those involved and facilitates the production of new information and innovation, thus enabling them to remain competitive.

As Mintzberg (1994) said, in a context of cooperation substantive rationality is insufficient and may be subject to all kinds of logical and rational, impulsive or intuitive behaviours when interests differ or opportunities arise. Information is generally asymmetrical, with some firms knowing more than others; for example, order-givers tend to know more than their subcontractors. In addition, uncertainty and ambiguity are greater for some firms than for others. Another mechanism in addition to that envisaged by the neoclassicists is therefore needed – namely, trust, a function of psychosociology. Trust, however limited it may be, is an additional element of authority and ownership in the organization and extends to personal, business and information networks to enable the firm to obtain the tacit information it needs to innovate, stand out from its competitors and support both its management and its production – in short, to commit itself
(Karpik, 1996). Trust mitigates information asymmetry and limits opportunistic behaviours. This brings us to the third transformation of the extended standard theory, namely, EST4, in the south-western quadrant.

This theoretical transformation goes beyond the school of planning, since planning is virtually impossible in a constantly changing environment (Brown and Eisenhardt, 1998), taking us to the resource-based and competency-based approach within which the firm and its partners can react quickly or adjust regularly to uncertainty and unforeseeable events, while learning collectively through trial and error and through experience. This approach goes beyond the idea of competition through price alone, introducing the notion of quality and exchanges of information (institution/organization-specific information, including norms and conventions, and information on quality) via the networks. Networking facilitates exchanges of information for consumers and organizations alike, enhancing their flexibility because they are no longer required to do everything and know everything. Networking becomes a way of coordinating a portion of their activities, especially at local level. Networking forms the backdrop to local governance, structuring many transactions between small businesses, especially the newer ones. Contrary to the precepts of neoclassical theory, which claims that firms can select any strategy they like, membership of networks and the flexibility it provides generates trail effects (Nelson and Winter, 1982), or choices that are limited by equipment, prior knowledge and contacts with partners. Obviously, the firm acts in a context marked by significant uncertainty and ambiguity, but it is able to react more effectively by forming coalitions, both internally with trusted, committed staff members, and externally with the business and information networks that also have an interest in the firm’s survival. However, the ‘trail’ is not a coercive one; it allows for adjustments, changes and even ruptures, depending on the quality of the information obtained, the firm’s flexibility with its partners, and their ability to innovate.

The last step is the involvement of the milieu and social capital which, when dynamic, motivate and provide resources and ideas, reputation, trust, and the conventions and rules deriving from coalitions created in order to address radical uncertainty and world competition in the knowledge economy. These rules and conventions may be general in nature, or specific to a handful of groups or coalitions. Rationality is procedural and social, not substantive; since it is impossible in any case to know whether the information obtained is true or valid, owing to the uncertainty deriving from the inherent nature of the economy. It is better to work (think and act) together, an approach that allows those concerned to behave as though the information were true, because their partners are doing the same. By joining forces, they believe things will work out, and take steps to ensure that this
is the case (Malecky, 1994). Moreover, this method allows for more effective action, since it is supported by collective consent, making it easier to obtain resources and ideas, and to generate enthusiasm. Strategies become interactive and respond to the group’s need to share and seize ideas from the air. What differentiates a firm from its competitors is the way in which it combines the ideas it obtains from its networks with its resources and skills, using contributions from its partners. It is this internal and external combination that constitutes the foundation for competitive capacity in the knowledge economy.

This new approach therefore adopts another type of rationality, a strong but also procedural and social rationality based on collective circumstantial truth in the long term. Truth can only be written in time and in space; in other words, what is true in a country or a locality today is not necessarily true elsewhere, and will not necessarily be true in the same country or locality at a later time. This takes us from extended standard economic theory to a non-standard theory (NST), consistent with the thinking of philosophers such as Habermas in a collective rationality that is the opposite of the positivist approaches.

In the new economic theory, collective rationality is built by means of a seven-stage process. The stages take place more or less at the same time, and the approach can be initiated at any one of the stages.

1. Individual rationality, mainly Western, deriving mostly from Descartes, Hobbes, Rousseau, Comte and Weber, and based on the precept that there is a relationship between individual rationality and economic effectiveness (clearly illustrated by the invisible hand of capitalism), is a distorted conception of reality.

2. Rationality (tendencies and desires, emotions and moods, understanding of the world, justification for one’s actions, and so on) is clearly subjective; it derives from heredity, family, friends, early education, meetings with people and desire – in other words, from what is innate, acquired or built by the entrepreneur in his or her milieu. It is therefore strongly influenced by the needs, knowledge and behaviours of the people around the entrepreneur.

3. It is through collective learning that individuals make this rationalization of world images – learning that serves to reduce uncertainty and ambiguity, and to support action, as Hodgson (1988), referring to Veblen, points out. Thus rationalization becomes a social construct, giving the approach its constructivist dimension.

4. Collective learning is achieved through interpersonal relations (in different types of more or less dense networks), supported by technical standards, social rules and conventions (or a shared language) and,
primarily, intercommunication. These norms and rules increase and go beyond the limitations set by contracts and the impacts of authority (power) to settle conflicts, generate support and foster coordination in organizations and institutions.

5. They evolve (especially technical norms supported by innovation, as opposed to institutional rules that are often inhibitive) and therefore require adjustments supported by collective learning, which explains the dynamism of institutions, organizations and regions.

6. The success of the entrepreneurial action depends on the actions of others and then on the exchange of information, suggesting that the firm will be able to bypass increasing uncertainty in the knowledge economy.

7. The success of the entrepreneurial action therefore depends on the quality and intensity of the cooperation and intercommunication within a milieu, as well as on the ability of the norms and conventions to promote technological and institutional change, and on a conducive environment providing systematic social capital, specific capacities able to support innovation, and a dynamic entrepreneurial culture.

Table 11.2 summarizes these various aspects and their impacts on entrepreneurship.

In the south-east quadrant is a theory based on subjective, collective, circumstantial rationality deriving from systematic sharing of information by all the stakeholders working with the entrepreneur and the organization to support innovation. This is clearly far removed from the image of an enterprise working alone against its competitors, whose functioning depends solely on its management. Although entrepreneurs seek independence, they will only be successful if they call on other actors to provide resources, information, ideas and opportunities to help them develop. This explains why entrepreneurship and venture creation models differ over time and in space; what is true today, here, will not necessarily be true later, or elsewhere.

In addition, even if entrepreneurs rely on the general ambiance for their actions, they themselves always have a certain influence over that ambiance, if only because they go ahead without knowing how other people will interpret the situation. Trust can never be full and complete, not only because opportunistic behaviours are always possible, but also because information is incomplete and some people may decide to work with other, more interesting actors in their own interests. Moreover, every time an entrepreneur converts a new idea into an innovation, he or she is, at the same time, driven by a desire to be the first, and faces the problem of explaining this to any partners, even if things are not entirely clear; all he or she can hope is that the partners will understand the various signs of the transformation
Table 11.2  Collective rationality and entrepreneurship

<table>
<thead>
<tr>
<th>Rationality</th>
<th>Impacts on entrepreneurs</th>
<th>Consequences for entrepreneurship research</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Purely individual rationality does not exist</td>
<td>Entrepreneurs are not exceptional, and are not very different from anyone else</td>
<td>Entrepreneurship should be regarded collectively</td>
</tr>
<tr>
<td>2. It is subjective and time-dependent</td>
<td>Every entrepreneur belongs to a milieu at a certain period</td>
<td>The milieu has an impact on entrepreneurship</td>
</tr>
<tr>
<td>3. It derives from collective learning</td>
<td>The emergence of an entrepreneur is triggered by the milieu</td>
<td>Dynamic localities are distinguished from other localities by their collective learning efficiency</td>
</tr>
<tr>
<td>4. It requires interpersonal relations, rules and conventions</td>
<td>Entrepreneurs are network creatures and their success is explained by their contacts and the actions taken by the networks</td>
<td>Network quality is one of the keys to slowing down or stimulating entrepreneurship</td>
</tr>
<tr>
<td>5. The rules and conventions are specific to the place and time</td>
<td>Conservative or dynamic rules and conventions distinguish between the most common types of entrepreneurs in a locality</td>
<td>Dynamic entrepreneurship must be based on open, changing rules and conventions</td>
</tr>
<tr>
<td>6. The success of the action depends on the actions of others</td>
<td>Entrepreneurs depend on the support and action of other entrepreneurs and actors</td>
<td>The quality of entrepreneurship depends on a set of actors and their level of dynamism</td>
</tr>
<tr>
<td>7. Entrepreneurial intensity depends on the level of cooperation and intercommunication in a milieu</td>
<td>Entrepreneurs should regard the firms with which they work as partners and join information networks to speed up their learning relating to technological changes and innovation and then to the knowledge economy</td>
<td>Local dynamism depends on the quality of the social capital and the presence of a proactive entrepreneurial culture</td>
</tr>
</tbody>
</table>
(purchasing new equipment, hiring new salespeople, market trials, and so on) and adjust to it.

It is this adjustment that generates flexibility, although it also increases uncertainty. Indeed, even entrepreneurs do not really know what they will be doing tomorrow, although they generally follow a routine and stay on the production and innovation trail available to them as a result of their existing resources and skills and the experience they gain through constant learning. They also do not know how their partners will react and adjust, and the partners themselves probably do not know either. As a result, procedural and social rationality means that the various parties must adjust gradually, without knowing where it will lead them, since the procedure itself is subject to change, as are the rules and conventions. This is clearly a long way from the trend towards a full or partial equilibrium between supply and demand, where the invisible hand forces everyone to adopt the minimum price.

11.2 THE TECHNICAL OR HOLISTIC APPROACH: CRIME, GANGSTERISM AND ENDOGENOUS ENTREPRENEURSHIP

The greater part of economic science has become so technical that it no longer understands reality. By shutting itself into a theory that is divorced from the real world, it has remained at the ‘Columbo’ level in its explanations, considering that venture creation in the localities depends solely on the distance from large urban centres and hence on specific needs or transportation requirements. When the market broadens, the firm can grow, gradually becoming a medium-sized or large firm that will ultimately move to the city, become a subsidiary or simply disappear because it is unable to deal with outside competition. The same applies to single discipline research in finance, marketing and socio-psychology, among others, which regard entrepreneurship solely in terms of its results, or in terms of available financing, a new demand or a social rupture – rather as though every murder that ever occurred had clear motives, such as hatred or a desire to steal someone’s money. Indeed, their homage to individualism or the ‘every man for himself’ approach perhaps allows them to divide and conquer; everyone knows that small, isolated firms are very easy to manipulate, as we can see in many capacity subcontracting systems.

At the very least, the ensuing neo-liberalism cannot deny the business contacts (including non-market relations, or unfortunately corruption and lobbying\textsuperscript{16}) linking firms to their many stakeholders and other actors. On the contrary, because it merely analyses the irrational behaviours of a given
firm, it is completely unable to understand that firm’s successes or failures. This is the danger that Sherlock Holmes managed to avoid, by considering not only the clues available at the crime scene, but also how the victim spent his or her time in the days preceding the murder, as well as his or her family and social contacts. Holmes’s examination of the clues was extremely detailed. Researchers would say he performed complex statistical analyses, interpreting the results in light of his extreme sensitivity to the real world. Unfortunately, in far too many scientific journals, statistically perfect studies often tend to ignore the subtleties of the real world, considering only slight differences close to the mean, which ultimately results in low-order work.

As an example of this, a firm’s history of success or failure is rarely explained by the decisions made in the last year of its existence. It is often necessary to look back to the choices it made at start-up, or in its early strategies. Other factors to be considered include the path taken by the entrepreneur and the firm’s key employees, along with any unanticipated changes, the contacts forged by the firm throughout its history, the networks it has joined, the innovations it has introduced and whether or not they were successful. This is consistent with Maigret’s approach to solving crimes. He would patiently review the victim’s recent and less recent activities and try to put himself in the victim’s shoes to understand how and why the victim did certain things. Indeed, Maigret was often highly critical of the ‘new type’ of police officers imposed by the public authorities, who tried to solve crimes from the comfort of their desks by collating and simplifying the information provided by their subordinates. In the case of entrepreneurship, many of the concepts relating to the firm or to the industrial economy are entirely artificial, since they were proposed by researchers who merely sorted through a limited supply of statistics from national institutes without ever setting foot in a real-world firm.

A Statistics Canada study conducted between 1999 and 2002 claims that Canadian firms with fewer than 20 employees lag way behind large corporations in terms of technology use. However, in reality these findings are meaningless. First, many very small firms simply do not need technology; and second, the study fails to consider the special relationships small firms maintain with their customers to compensate for their technical deficiencies, and the other behaviours they adopt to earn specific benefits. For example, tailoring requires very little leading-edge technology and proximity often compensates for so-called technological delays.
Finally, the milieu and its broader environment play a very important and active role in entrepreneurship by providing an atmosphere conducive to the strengthening of existing firms and the creation of new firms, and by furnishing shared information to decrease uncertainty and ambiguity in the knowledge economy. For example, economic science finds it extremely difficult to understand the entrepreneurial space. By taking the view that everything is global, it disregards the importance of what is local. At least 95 per cent of firms are first and foremost local entities, and their local roots are crucial in providing the basic resources they need to survive and develop. This is a curious paradox: virtually everything is local or territorialized, even though the economy has become global, competition has become international and networks have become enmeshed, joining the four corners of the planet (Conti, 2002; Schmitt, 2003). In accepting this, we are stepping well beyond the entrepreneur and the firm, into the collective factors that not only support innovation but also foster entrepreneurial contagion to stimulate the development of the entire locality. This is crucial to understanding the entrepreneurial pyramid, with its elements that affect local development as a whole (the quality and quantity of entrepreneurs and firms, types of industrial sectors, the dynamism of supplementary public and private services, the quality of infrastructures and institutions), as well as more complex issues such as networking, the vitality of the milieu and social capital, openness to the outside world, and the social norms and conventions on which the entrepreneurial culture is built.

To return to our mystery novel metaphor, William of Baskerville considered the political situation and religious beliefs of his time, especially in Austria just between the Germany where lived the Emperor and the Italy where lived the Pope, allowing him to make connections between the clues he found inside and outside the abbey, as well as the latent conflicts in the community which reflected the conventions of Western society even though the community was not necessarily in contact with its counterparts elsewhere.

Table 11.3 summarizes the links between these various elements and entrepreneurship, based on the three types of understanding described in the novel *The Name of the Rose* (column 2). They correspond to the behavioural, interpretationist and constructivist approaches, the latter going beyond the individual crime to try to explain why certain societies have higher crime rates than others. For example, anyone wanting to understand gangsterism (criminal networks) would have to look beyond individual criminal behaviours. Because every society is capable of creating marginal and violent people, it is necessary, in explaining higher criminal numbers, to consider social disparities and exclusions. However, limiting one’s analysis to these aspects would suggest that the per capita crime rate would be higher in India, for example, where the caste system which goes on in the
Table 11.3 Crimes, gangsterism and endogenous entrepreneurship: three types of approaches

<table>
<thead>
<tr>
<th>Type of approach</th>
<th>The Name of the Rose</th>
<th>Criminal networks</th>
<th>Endogenous entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positivist or behaviourist approach</td>
<td>Crimes of passion or the monks’ interests</td>
<td>Criminal behaviours and gangsterism</td>
<td>Entrepreneurs and their organizations</td>
</tr>
<tr>
<td>(Columbo)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-positivist or interpretationist approach</td>
<td>Conflict between the Pope and the Emperor and their representatives (Benedictines or Franciscans)</td>
<td>Poverty and exclusion, ostentatious wealth, and so on</td>
<td>Relatively organized, innovative networks, associations and milieus</td>
</tr>
<tr>
<td>(Holmes and Maigret)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constructivist approach</td>
<td>Importance of the quest for truth by inhabitants</td>
<td>Permissiveness and social deliquescence</td>
<td>Rules, conventions, spirit of innovation, and then a conservative or dynamic entrepreneurial culture</td>
</tr>
<tr>
<td>(de Baskerville)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Indian society, in spite of its suppression, fosters exclusion, than in the USA, where it is actually the highest of all the industrial countries. It is therefore necessary to move on to the third level of understanding, to see just how permissive society is, how far it encourages a certain level of social deliquescence or how it ends up trivializing many kinds of crimes. For example, modern Russia, which has long closed its eyes to the existence of a flourishing economy based on bribes and denunciations alongside its highly centralized official system, is now finding it extremely hard to eradicate gangsterism.

To understand endogenous entrepreneurship and how to generate dynamism within a locality, it is important to understand the interdependency between the microeconomic, macroeconomic and sociological variables. The former cannot be analysed without taking the latter into account. Figure 11.2 shows the links between the various elements, illustrating their complexity and showing that imagination, initiative, networking and innovation are the variables that facilitate the links between entrepreneurs, firms, the milieu, networks, social norms and entrepreneurial culture to generate
rich information, distinction and local development. There is, of course, no
generic model for the promotion of entrepreneurship, since all the elements
can be combined in an infinite number of ways, rather like a recipe rein-
vented over the years to reflect changing tastes. A model implemented in its
original form in a territory other than the one for which it was created will
always be poorly adjusted to its new environment, and will almost certainly
not work.

Doing what others do will always lead to a certain level of hybridization
that will prevent a locality from being as good as the others. Every area
must find its own model; it can borrow compatible elements from other
localities, provided it adjusts them to its own context. This is consistent
with the resource and competency-based approach, where every locality
must have access to a specific combination of entrepreneurs, firms and
actors of all kinds, forming a milieu focused on development, that is
capable of learning and innovating and that establishes conventions and
networks conducive to innovation – in short, it must create a true entre-
preneurial culture. A good example of this ‘specific combination’ is the
differing capacity of areas, over time, to integrate immigrants (there are
usually more entrepreneurs per capita among immigrant populations than

Figure 11.2 Levels of analysis for local endogenous entrepreneurship
among the host population in general); for example, Marseilles was well able to integrate the Italian Piedmontish in the early twentieth century, but is finding it much harder to integrate the Maghrebians today.

Endogenous entrepreneurship in the knowledge economy is a collective undertaking that requires a specific social structure of resources, competencies and productions in each locality. The structure must take into account differing values, dynamic or conservative behaviours and the institutions that encourage them (Jones and Wadhwani, 2006). Endogenous entrepreneurship therefore depends on social motivation, which will be slow at first, during start-up, and then will speed up when local identity and dynamic actors begin to lure others into the process. Motivation occurs first and foremost in the mind, through imagination, as suggested by Montesquieu in the citation at the beginning of this chapter. People have to believe something is possible. They will then gradually spread their belief from circle to circle and from network to network, ultimately moving beyond uncertainty and ambiguity to take definitive action.

In the end, the process is one of creating collective values, acknowledged first by stakeholders who agree to share the challenge and the risks of the new venture in spite of more uncertainty and ambiguity, and subsequently accepted by the local market, then by the milieu and, finally, by or in relation to the outside world. In the new knowledge economy, the product is more than ever before a human work, mainly because the share of services and immaterial elements is increasingly important. Fundamentally, the process is based on information, and is therefore collective in nature because information, in facilitating the development of opportunities and links with resources, allows the area to stand apart from others.

To come back to our mystery novel metaphor for one last time, the best mystery novels are often those that, as Simenon pointed out, go beyond the issue of the crime to examine the underlying human relations and the connections between the criminal and the victim, as well as the society that supported, facilitated or restricted those links. Great mystery novels, like great science fiction, are modern fables that describe the human condition by replacing the animals of Aesop, Phedra and La Fontaine with crime in the former case and representations of other worlds in the latter. Entrepreneurship, too, is a fundamentally human act starring an individual entrepreneur who is part of a milieu and who is connected to networks that provide support and stimulation – in other words, an amalgamation of elements that can, when encouraged to do so, accumulate the information and resources needed to speed up regional development.

Like every development process, entrepreneurship is simply the collective history of human beings (within a separate territory) seeking their own identity in order to find out who they are, and then seeking recognition for
what they do (the noble results of their work through creation and innovation). And the humans in question share this experience with all the members of their firms, their networks and their milieu. It is therefore true that every individual story also belongs to the people who endorse and give that story a value in terms of recognition, well beyond its monetary value, thus giving humanity its real meaning and the power to change the course of its own history.

It is natural for mankind to set a higher value upon courage than timidity, on activity than prudence, on strength than counsel.


NOTES

1. Or the ‘rational fools’ as criticized by Amartya Sen (1977), for example, always act to obtain as much as possible at the least possible price, leaving aside any other preoccupations such as habits, laziness, ignorance, friendship, carefree attitudes, and so on.
2. With this sentence, Montesquieu already presaged the negative effect of Peru and Mexico’s gold and silver on the Spanish economy, which collapsed when the American riches ran out.
3. With this sentence, Montesquieu already presaged the negative effect of Peru and Mexico’s gold and silver on the Spanish economy, which collapsed when the American riches ran out.
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5. Or, clearly, author Conan Doyle (1859–1930).
6. In his book entitled *The Protestant Ethic and the Spirit of Capitalism*, published in 1904, Braudel (1979: 506) points out however that, contrary to what his disciples including Sombart and Offenbacher said later, Weber believed this relationship was more of a coincidence that an admitted fact.
7. Most modern commercial institutions and practices actually emerged in the Southern European countries. The first bank appears to have been the Venice Rialto bank; the stock exchange was created in Portugal (first cited in 1294) and then spread to Lucca, Pisa, Venice and Barcelona well before being adopted by the Northern European countries; book-keeping and accounting were first used by the Arabs, who got these from the Indians, and were later adopted by the Italians (dual-entry accounting is described in detail in the 1494 book by Luca Pacioli), and brought to Britain much later by the Dutch (Braudel, 1979: vol. 2).
8. Obviously, these were written by Simenon (2003: 1419–20), based on an ironic and affectionate confrontation between the creator and his character, to explain the mechanisms of his creation and denounce his fictional nature.
9. For example, value and price mechanisms based on market alone, perfect competition, information that is fully available, neutral currency, and so on.
10. Milton Friedman, one of the creators of the neoliberal approach, who died in 2006, once said, probably as a joke, but repeating a similar assertion by George Stigler, that if the real world could not be explained by the theory, then the real world must be wrong!
11. Many mystery novels are centred around highly observant private citizens, such as Miss Marple, the character created by Agatha Christie, who worked alongside the police to solve crimes. Neither Sherlock Holmes nor William of Baskerville were official police officers.
12. In economic science and managerial science, there are heavy trends rather than laws as such – although, in the eighteenth and nineteenth centuries, so-called laws were established by economists hoping to be as rational as researchers in the natural sciences. They believed that, just as an understanding of nature enabled scientists to explain the behaviours of bodies in terms of physical laws, it should also be possible to identify natural laws to explain the behaviours of economic actors.
11. From the name of its principal authors, Learned, Christensen, Andrews and Guth, all professors at Harvard. There is also the SWOT model that balances strengths and weaknesses within the organization, along with opportunities and threats in the environment.

12. Lorino (1989) points out that, within the firm, everyone has access to a quantum of information that they transmit only partially, because they cannot (due to lack of time or lack of formalization capacity) or do not want to transmit it in its entirety. In other words, every person within the firm protects his or her own interests in different ways. Foray (1990) also states that, outside the firm, the availability of information is poor because resources tend to be increasingly specific. In other words, Walras's town crier is often either absent or ineffective because he prevents potential purchasers from talking to one another.

13. A contract that attempts to cover everything usually limits change and prevents the parties from seizing opportunities. Especially given that complex contracts can lead to contestation and high legal fees.

14. Pascale (Pascale and Athos, 1981) gives the example of Honda, who managed to penetrate the American market by learning from its mistakes, to show that the flexibility provided by a variety of good quality resources and competences within the firm and its partners is a good way of facing up to uncertainty and ambiguity.

15. Procedural rationality, however limited it may be, takes into account decision-making processes and how to define problems and learn (Quinet, 1994).

16. Examples of such recent practices include Elf, in France, and its systematic use of bribes, or the accounting scandals of Enron, Worldcom and Tyco in the USA, Hollinger and Nortel in Canada, Adecco in Switzerland, Parmalat in Italy, or the current stock options scandal affecting more than 25 per cent of large American firms. But these practices are not new, as we know in the American oil industry at the beginning of the twentieth centuries, as analysed by Ansiaux (1926: 242).

17. For example, the results of a survey composed of responses to semi-open questions on a scale of 1 to 5, with average values of 2.8 or 3.3, does not mean very much even if those results are statistically significant. Bygrave (1989) continues along these lines, saying that an R2 of 0.60 or more does not give any indication of the causality between the two variables.

18. Including failures in his or her personal or family life.

19. For example, the American Department of Justice admits that the number of people imprisoned per capita is higher in the USA than in any other industrialized country. As of 30 June 2005, American prisons contained 2 207 570 prisoners – 55 per cent more than in 1991 – for a rate of 738 prisoners per 100 000 adults, compared with 137 in Great Britain, 134 in Canada and 88 in France. But the figures differ between states. For example, Louisiana, Georgia, Texas, Mississippi and Oklahoma have nearly 1 per cent of their population in jail, whereas, Maine, Minnesota, Rhode Island, Vermont and New Hampshire have a much lower rate. It is probably not surprising that these differences are more or less the same as those between entrepreneurship rates, as we saw in Table 2.1, in Chapter 2.

20. For example, by preventing blocks on the free trade of firearms to satisfy powerful lobbies and the large number of Americans who invoke the libertarian philosophy of the Far West in support of their right to bear arms.

21. In his history of the mystery novel, Dubois (2003) explains that this delinquescence makes it fairly easy to go beyond social barriers. However, this does not mean that transgression is without limits in the business community. For example, tax fraud is tolerated provided it remains below a certain, fairly low threshold. Even so, permissiveness of this nature is dangerous, since it always leads to more serious offences, such as the financial manipulations of large corporations that we discussed in the introduction.