

Unit 15

Entrepreneurship and Capitalism

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Learning Objectives

After you have read this unit you should be able to

- provide the meaning of entrepreneurship
- discuss the contributions of Weber and Schumpeter
- describe other attempt to study the phenomena of entrepreneurship

15.1 Introduction

In this unit entrepreneurship and development of capitalism as analysed by social scientists to the theoretical understanding has been discussed briefly. Effort has been made to analyse that how social sciences can provide new and fresh ideas about the theory of entrepreneurship and development of capitalism. While analyzing this, theoretical foundation of the classical thinkers, Weber and Schumpeter, has been identified. When classical theory of economics on its strength was rejected by the German Historical School, Weber's theoretical assertion had become meaningful on its theoretical ground, it has been described in section 1.3. Weber's idea on entrepreneurship is generally identified with the theory of Charisma, the perspective to which this theory is able to demonstrate the development of capitalism in the primitive stage of society is appeared in the sub-section 1.3.1. Also, this section presents how protestant ethos has provided such a social condition where entrepreneur achieved social acceptance, and led development of capitalism which was not available before the reformation. While sub-section 1.3.2 of this unit dealing with Schumpeter's contribution on entrepreneurship with reference to the theory of economic development and his economic, psychological and sociological perspectives have also been identified. How for Durkheim's idea can be useful to understand entrepreneurship has been tried to develop in sub-section 1.3.3. And some ideas of modern sociologists have also been incorporated in this section. Finally summary of this unit is given.

15.2 Meaning of Entrepreneurship

There is some unresolved controversy in the meaning of entrepreneurship. Although, there is some consensus also about the entrepreneurship which includes a part of administration and its function in decision making process for regulating some types of organisation. Some scholars refer to the term

for strategic or innovative decisions while others apply it for business organisations. The term can be clarified in the historical context. The genesis of the word is French which appeared long back particularly to denote "to do something". During early sixteen century, those who were engaged in leading military expeditions were labelled as entrepreneurs. After 1700, the word was frequently referred to by the French for government road, bridge, harbour and fortification contractors and later to the architects. By 1800, the word appeared in the academic discipline as it had been used by a considerable number of the French economists, who treated the word in a specific sense in the field of economics that has given special meaning to entrepreneur and entrepreneurship, with differences emerging mostly from the features of the sector of economy. And those economists who were interested in Government treated the entrepreneur as a contractor, agricultural specialist (farmer) and industrialist as a risk taking capitalist (Encyclopedia of Social Science, 87-88). However, entrepreneur and entrepreneurship have been used in various contexts by the scholars at various points of time.

15.3 Theoretical Background of Entrepreneurship with Special Reference to Max Weber and Joseph Schumpeter

Max Weber and Schumpeter though they belong to sociology and economics respectively, have contributed to develop theory to analyse entrepreneurship and its role in the development of capitalism in society. Both theorists with respect to their ideas and theories have some consensus and some differences. Schumpeter paid attention on identifying prescientific vision, hence, he made the task rather easier and assumed entrepreneur merely a manager, circular flow development system. So far as Weber's ideas are concerned, it is a difficult task to make an identification as his thoughts on entrepreneurship are often scattered in his all works. Nevertheless, *The protestant ethic and spirit of capitalism* can be identified a point of departure where he built up some theoretical foundation to understand the development of capitalism. Both scholars, varying in their interests, have formulated social theories and economic sociologies which, up to some extent, are similar in scope and theoretical conclusions. Many analogies can even be attributed Marx and many are yet to be explained (Macdonald, 1971: 71). Schumpeter though took the idea of Marx in analysing social aspect of entrepreneurship and tried to link with the development of capitalism, but his approach and conclusions are very much non-Marxian. Weber also in this context is not an exception whose treatment of social phenomena is not different with Schumpeter. Weber's conception, on attack on Marx's idea of materialistic explanation of history, was too a challenge to the economics as an autonomous scientific discipline. This situation has been explained by Bendix as "Weber has demonstrated... economic conduct was inseparable from the idea with which men pursued their economic interests, and these ideas had to be understood on their own term" (1960: 52).

Reflection and Action 15.1

Is Webers and Schumpeter analysis on entrepreneurs similar or different note down your answer.

At that time scholars of German historical school had been involving in asserting it for many years, and rejecting classical economic theory on its

strength. The new situation which emerged was Weber's assertion of entrepreneurship and development of capitalism on theoretical ground. Schumpeter (1980) stated that his exposition on entrepreneurship and development of capitalism rests on the fundamental distinction between static and dynamic situations. Both have formulated the theoretical structure at about same points of time, Schumpeter was trained in Austrian tradition of economic theory and Weber in German historical school.

15.4 Contribution of Max Weber

Weber's idea on entrepreneurship and development of capitalism is contradictory with Marx. Weber's attack on Marx's view was that the capitalist, equipped by new techniques and driven by rational procurement, had always neglected the old traditional method and attitudes, and had imposed on society his own ethos and a specific mode of production. Weber never accepted this and said that this was never a realistic situation for the process of capitalistic development. Even some situation had occurred in Weber's life span where a new man broke into a totally adopted traditional environment, and mode of production was specially capitalist therein. Apparently, here, new man neither was equipped by a new invention nor was capable of revolutionizing industry, however, he had a new spirit. Weber afterward takes a turn by emphasising to capitalist form of an organisation with capital turn over, entrepreneurial business activity and rational bookkeeping. Nonetheless, it was also traditionalistic in every way.

Box 15.1: Weber and Economics

Weber is always treated as a scholar of sociology, but during the last span on his career, when he was a mature Weber, he devoted nearly a decade in developing of perspective which was, no doubt, sociological but blended with economics (Swedberg, 1988). As a matter of fact, Weber was trained in the field of legal history, thus, the area in which he may have been much renowned could have been history of law. He also devoted about two years in teaching economics at two leading universities of Germany where he imparted the topics which were a combination of historical economics and marginal utility economics.

Apart from this, Weber through out his academic career worked for propagating philosophy of social sciences, economic history and political science. All these aspects can be observed in his idea about the entrepreneurship and development of capitalism.

Weber's theoretical propagation of entrepreneurship is generally identified with the theory of Charisma, which can be observed in Weber's analysis of exceptional type of human being, the Charismatic man, who by virtue of extraordinary personality influences others to follow him/her. Unfortunately, Weber's treatment of Charisma was misunderstood by many scholars. In fact, Weber treats Charisma as a significant agent of change of primitive phase of the society. And it has no relevance in modern capitalist society, where economic changes occur due to the enterprises which generate opportunities to make profit in market situation. Rationalisation of society begins with the replacement of myth and religion by science and Methodism. However, Charisma has a bit scope in development of capitalism in modern society. Weber's theory of entrepreneur and development of capitalism has two

important aspects: (1) as he says entrepreneur can be found in economic system and (2) entrepreneur will have to do much more with the direction of economic action in a collective perspective viz. enterprise which certainly is not an economic operation of an individual. At elementary stage of his work on entrepreneurship, Weber says, "Entrepreneurship means the taking over and organisation of some part of economy, in which people's needs are satisfied through exchange, for the sake of making profit and at one's own economic risk ([1898], 1990:57). His work, 'Protestant Ethic and Spirit of Capitalism' is significant to understand the theory of economic development from two aspects: (1) it brings out the reality of change in attitudes to words entrepreneurship that had been generated due to the reformation of western society, either one would be hostile or alienated for accepting or promoting it actively and (2) it brings out the fact that a certain kind of religious ethos namely Protestantism contributed a favourable condition for the development of capitalism as well as work culture which had given a scope for broader changes in the attitude of the society towards entrepreneurs. Prior to reformation, there was no social acceptance for money lending, trade and commerce as well as entrepreneurship.

Reflection and Action 15.2

Outline the role of Calvinism in reinterpreting religious ideology.

Religious sanctions did not allow to accept them, not only in western, but through out the societies around the globe. These endeavors, in fact, were at the best tolerated but never be embraced. A certain form of Calvinism as well as some sects of Christians during sixteen and seventeen centuries setup a movement of reforms by reinterpreting religious ideology which brought major changes in the ethos of business and industry as well as having its impacts to the people who had accepted the modified ethics of religion in particular and society in general. At this point of reference, a positive condition for entrepreneurial works had emerged which led the capitalistic development. Henceforth, religious constrains gradually begun with lasting their luster and control over the society, soonly, in persuasion of economic action, religious grip had been weakening. Hence, such a social condition had emerged where entrepreneurship to generate capital had become independent variable. Hear, Weber demonstrates changes in cultural values and belief as the key of the development of capitalism among various social groups with their own world views (Bendix, 1960: 258-62). In early work, Weber gives much stress on entrepreneurship as the skillful direction of enterprises which corresponds to opportunities in market situation for making profit than the personality of an individual entrepreneur.

Box 15.2: Entrepreneurship and Capitalism

Interestingly, Weber's contribution on entrepreneurship and development of capitalism, which appeared in his political and sociological writings from 1910 onwards, clearly indicates that Weber shifted his idea of entrepreneurship to bureaucrats. Weber, in this context, argues that as soon as society becomes more rationalized, bureaucracy dominates both enterprise as well as state. In case, political bureaucracy succeeds in handling all of the economic activities, viz. by socialist kind of revolution, capitalistic development will be struck out and democratic system will be turned down by dictatorial system.

In a capitalist society, economic sector operates in coordination with political sector. Nevertheless, economy can be also shifted within, in a situation

when bureaucratic notions within the individual enterprises are permitted to takeover. In this respect, Weber had personal dilemma if it crystallizes, which is very likely, rent would replace profit, the economy will fall down and soonly, repressive political condition would emerge in the society. According to Weber entrepreneur is the only person in economic sector who can force to keep the bureaucracy at its proper place as entrepreneur has an extensive knowledge and experiences of the business organisation rather than bureaucrats. The above discussion raises a question: How to identify the routes by which entrepreneurial groups are guided into the business endeavors and capitalistic development in society? According to Weber, whose centre was protestant Europe, the Calvinist notion of the advisability to justifying one's faith in cosmic endeavors, with no exception, strengthened the choice of business as a profession. Nevertheless, at this juncture, Weber also felt a major influence of ascetic Protestantism was transformed leisurely, satisfying traditional capitalists who happened to acclimatize new beliefs into perpetuating, ever extending modern capitalists.

15.5 Contribution of Schumpeter

Schumpeter had looked different theoretical aspects of entrepreneurship at different points of his life span. He, in fact, used a variety of approaches including psychology, economic theory, economic history and sociology. It is worthy to note here that Schumpeter first propagated competent history of entrepreneurship in the economic theory. And in this regard, the history of economic thought has been influenced greatly by his approach which still dominates the academic field.

Although, Schumpeter followed versatility and multi-disciplinary approach, nevertheless, as evident by his writings, he never produced a concrete guidance for the behaviour of entrepreneurs as business schools have been formulating it. It is worthy to note here that Schumpeter repeatedly had pointed out that when ordinary economic behaviour is more or less automatic, the entrepreneur has always to think seriously over his/her action which is to be taken as entrepreneur is involved in doing something that is fundamentally new. This is such insight which seems to be very significant as when someone does something extraordinary new does not know how to proceed further, hence needs fresh guidance.

Reflection and Action 15.2

What is Schumpeters vision of an entrepreneur? Write down your answer.

The idea of capitalist process which is the key point in the Schumpeter economic theoretical analysis can be stated that circular flow, as developed by Schumpeter, is disturbed and transformed by the innovators and their imitators. Given to certain technical economic conditions, the business begins to make profit, even when the market prices fall as a consequence of increased output. Here it is important that aggressive entrepreneur breaking into the placid circular flow, armed with nothing will, strengthen the idea of innovation, his/her success against obstacles of established firms, their forced liquidation or adaptation, is the key point on which Schumpeter interacted to a versatility through out his career. Schumpeter's first effort to develop the theory of entrepreneur can be traced out in the theory of economic development. In this pioneer work, he tried to formulate a completely new economic theory and paid a bit little attention what earlier economists had

accomplished. In this respect, his argument was that all significant changes in the economy are initiated by the entrepreneur, and that changes then gradually work at their own through the economic system, that is the business cycle. Schumpeter also regarded that his idea of endogenously generated change, as opposed to change induced from exogenous forces, not only applicable to economic, but to all social phenomena and they could be conceptualised as consisting of two types of activities, on the one hand there were creative and innovative activities, while on the other repetitive and mechanical activities. The second edition of the *theory of economic organization* was published after the one and half decades later, in which Schumpeter made his argument more logical, systematised it and broaden its implications. After thirteen years, an other his work "Business cycle" came up in which the carried further and here he had described entrepreneurship in much technical sense. When we think of Schumpeter theory of entrepreneur, we simply mean entrepreneurship as innovation. And perhaps the point on which Schumpeter speaks rather directly of the entrepreneur, his main bulk of his work represents an attempt to develop many economic theories viz. interest, capital, credit, profit and business cycle by interconnecting them to a theory of entrepreneurship. By doing so, he asserts that entrepreneurship can be defined as the making of a new combination of already existing materials, and forces; that entrepreneurship related of making of innovations, as opposed to inventions; and that no one is an entrepreneur forever, only when he/ she is doing the innovative activity.

Box 15.3: Schumpeter's Typology of Entrepreneurs

The typology given by him in the theory of economic development related to the practical implications, among them, the first has gained much popularity due to its operationalisation ability of the behaviour of entrepreneurs. These three typologies can be summarised as follow: (1) the introduction of new goods; (2) the introduction of new mode of production; (3) the initiating of new market; (4) innovating a new source of supply of raw materials; and (5) the creation of a new industrial organisation. Schumpeter's second typology is also very much popular as it is related with the motivation of entrepreneur and there are three important elements which motivates the entrepreneur: first, the dream and will to find out a private kingdom; secondly, the will to conquer; and thirdly, the joy of creating something (Schumpeter, (1934) 1961: 93).

Only money is not sufficient to motivate an entrepreneur, as he expresses that entrepreneurs are definitely not economic men in theoretical sense ([1946] 1991: 408). He goes to the extent by saying in the theory of economic development; that his idea related to the motivation of the entrepreneur easily comes in the field of psychology and thus has no scope in economic theory. During the last decade of his career, Schumpeter's views, as evident in his writings, shifted from economic theory to sociology and economic history. His work on Capitalism, Socialism and Democracy (1942) is a sociological contribution, as in this work, his focus of inquiry is on the institutional structure of society where he analyses the entrepreneurial function and concludes that a number of institutional factors are weakening entrepreneurship and contributing to stagnation of capitalism as a social system. And people are more prone to change resulting lesser opposition to entrepreneurship. As a routine, the big enterprises, through a specialised team are beginning to develop innovative technology. Hence, capitalism has

such notion where society rationalizes and demystifies along with entrepreneurship.

15.6 Studies on Entrepreneur other than Weber

The studies on entrepreneurship have not much attracted the attention of practitioner of the discipline, nonetheless, a few studies have been extended in this direction over a period of time. As it is an established fact that sociology has been influenced very much with its theory of social change and innovation. And as such, this theory might be meaningful to analyse entrepreneurship in sociological frame. Durkham's notion about change of society can be stated in generalised form: more the population density, more the demand, more the division of labour and specialisation occur in the society to fulfill its demand ([1912] 1965). What specialisation of work is meant for, it can best be explicated that an entrepreneur throughout his/her carrier innovates the avenues for professionalisation and expertisation of work to succeed in the field of its own. In this respect Durkham's idea of specialisation of division of labour itself hints a theoretical genesis of entrepreneurship. And perhaps, this social condition during eighteen century might have led French revolution and industrial resolution which seemly was a beginning phase of the development of capitalism in European society. Analysis of entrepreneurship appeared even in the writings of modern sociologists. In this context, mention can be made to the work of Merton, in which he states that most of the discoveries had taken place accidentally. In this connection, it is difficult to elicit the causes, further in another article, he suggests there may be inadvertent interrelation between entrepreneur and crime. In a society where much stress is given to the direction of achieving desirable goal and people struggle for it, however, there also would be an avenue for goal attainment. This kind of social situation, as Merton says, compels to its member to render efforts in searching out new avenue to succeed. Here, innovation is unavoidable phenomenon, but there is also another situation, the members who do not succeed in goal attainment, they are likely to adopt unfair means to succeed which will lead the crime and deviance in the society (1968). In contrast to other discipline, sociologists have looked entrepreneurship in comparative frame (Cardoso, 1967). Such kind of analysis has been done by Lipset (1967), he finds out that intensity of economic development depends on cultural values and entrepreneurship in a given society. He compares two cultures of Latin America and North America. In Latin America Iberian, culture is dominating through its notion of discouragement of manual labour practices, commerce and industry. While the situation of North America, is such where Puritan values laid emphasis on work and money making as a vocation and was predominated in most of the parts of United States and hence resulted the economic development. In Latin America when Iberian values was replaced by the landed property and it had become the symbol of success, at this juncture also economic development had taken place in Latin America.

15.7 Conclusion

What does the idea about entrepreneurship and theory of capitalism, as given by different scholars in preceding pages, lead upto? Now it is time to review the main thrust of the theoretical contribution and its applicability. There is nothing doubtful that the contribution of Weber is of immense in the theoretical sense but it seems weaker in its practical implications. It

represents just social science as sciencing. In spite of this weakness, Weber's idea can be taken as point of departure for developing and shaping its practical applicability to entrepreneur with reference to the capitalist development. And Weber's initial definition of entrepreneurship may facilitate in extending Schumpeter's individualistic entrepreneurship into a sociological perspective. The idea, for survival of entrepreneurship; modern enterprise or an organization which is able to generate chances of profits; is essential condition, can be commented as that only creative personality loaded with bundles of ideas is not sufficient for survival. Weber's notion of methodical work and money making as vocation as they have been demonstrated in *The Protestant Ethic* raises an important question: How far elements of methodical work and money making articulate in the present dynamic situation of globalisation and liberalisation? This is such a question which perhaps needs modification of the theory of entrepreneurship and capitalism.

15.8 Further Reading

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