

---

**SCHUMPETERIAN**

---

**AND AUSTRIAN**

---

**ENTREPRENEURSHIP:**

---

**UNITY WITHIN DUALITY**

---

HOCK-BENG CHEAH  
*University of Pennsylvania*

**D**ISAPPOINTMENT WITH THE PERCEIVED LIMITED PROGRESS IN ESTABLISHING THE conceptual foundations of entrepreneurship has been growing. This arises from the difficulties in establishing a clear definition of the phenomenon of entrepreneurship and from the plethora of different approaches to the subject (Low and MacMillan 1988; Hisrich and Peters 1989; Carland, Hoy, and Carland 1988).

The suggested solutions to these problems have also been varied. Low and MacMillan (1988) recommended that greater attention be given to six aspects of research design: purpose, theoretical perspective, focus, level of analysis, time frame, and methodology. However, Van der Werf and Brush (1989) argue that it is not necessary to have a consensus on the definition of the subject to achieve progress. Adopting a purely empiricist approach, they suggest that "by agreement on the real world population from which the empirical samples would be taken," comparability of research findings can be established.

Bygrave (1989) advocates that the focus of research should be narrowed to "macro-entrepreneurs," whose activities have a greater social and economic impact. It should exclude "micro-entrepreneurs," who are theoretically uninteresting because their activities have little significance, as well as "intrapreneurs," who operate in "entirely different environments." However, Hornaday (1989) goes to the extent of advocating the discontinuation of the use of "E-words" (entrepreneur and entrepreneurship), and a shift to focusing research on the motives of the owners of small businesses.

These efforts to refine methodological focus and rigor would benefit from further development of theory. In this regard, we return to the insights provided by Schumpeter and extend these insights to take account of these ideas offered by the Austrian school. This

---

Address correspondence to Hock-Beng Cheah % Dr. Ian MacMillan, Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, Vance Hall, 3733 Spruce Street, Philadelphia, PA 19104-6374.

effort offers a new perspective that provides additional insights about the phenomena in this field.

## SCHUMPETER'S CONCEPTION OF ENTREPRENEURSHIP

Schumpeter perceived the entrepreneur to be an extraordinary person who promotes "new combinations" or innovations. He noted that

the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing an new commodity or producing an old one in a new way by opening up a new source of supply of materials or a new outlet for products, or by reorganizing an industry and so on . . . This kind of activity is primarily responsible for the recurrent "prosperities" that revolutionize the economics organism and the recurrent "recessions" that are due to the disequilibrating impact of the new products or methods. To undertake such new things is difficult and constitutes a distinct economic function, first, because they lie outside of the routine tasks which resist in many ways . . . from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it. To act with confidence beyond the range of familiar beacons and to overcome the resistance requires aptitudes that are present in only a small fraction of the population and that define the entrepreneurial type as well as the entrepreneurial function (Schumpeter 1950)

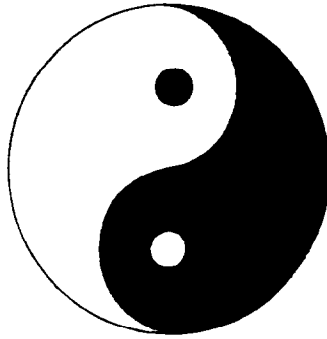
Such innovative efforts, which revolutionize the existing situation, are, for Schumpeter, an aspect of the process of "creative destruction" in capitalism. However, owing to the inherent uncertainties in the development process, it was also clear to Schumpeter that, in addition to technical skills and expertise, the exercise of intuition and strategy was of particular importance (Schumpeter 1934). At the same time, Schumpeter's conception of strategy is different from Robbinsian economizing efforts oriented towards utility maximization (Robbins 1935).

## THE AUSTRIAN CRITIQUE OF SCHUMPETER

The Austrian critique of Schumpeter's ideas has been associated with, among others, Ludwig von Mises, Friedrich Hayek, and the earlier work of Israel Kirzner. While they share some of his insights, they differed significantly from Schumpeter in their conception of the nature of the entrepreneur and entrepreneurial activity, the impact of these on the capitalist development process, and even the long-term prospects for capitalism.

For Kirzner, the entrepreneur profits from his alertness to opportunities that exist in an uncertain, nonequilibrium situation. This alertness enables the entrepreneur to perceive those opportunities before others do (Kirzner 1973, p. 67; see also Shand 1984, pp. 77–97, and Smith 1986, pp. 18–24). Kirzner described the difference between the Schumpeterian and the Austrian conceptions as follows: "Schumpeter's entrepreneur acts to disturb an existing equilibrium situation . . . By contrast, my own treatment of the entrepreneur emphasizes the equilibrating aspects of his role" (Kirzner 1973, pp. 72–73).

An important reason for Kirzner's dissatisfaction with Schumpeter stemmed from Kirzner's perception that "Schumpeter's unfortunate emphasis upon the entrepreneur as pushing the economy *away* from equilibrium helps promote the quite erroneous belief that entrepreneurship is somehow unnecessary to understanding the way the market tends toward the equilibrium position" (1973, pp. 74–75). An example that helps to illustrate this difference in perception of the two entrepreneurial modes to which Kirzner is referring may be drawn from the views of Drucker, who has a Schumpeterian concept of entrepreneurship. According



**FIGURE 1** Relationship between the forces of the yin and yang.

to Drucker (1985, pp. 21–22), the establishment of a new, husband-and-wife delicatessen is not entrepreneurship, whereas the establishment of McDonald's was entrepreneurship. This is the kind of Schumpeterian perspective against which Kirzner reacted. Kirzner (1973, p. 81) argued that "entrepreneurship is manifested in short-run movements as much as in long-run developmental changes, and is exercised by imitators (who move to exploit the opportunities exposed by the activities of the innovators) fully as much as by the innovators themselves."

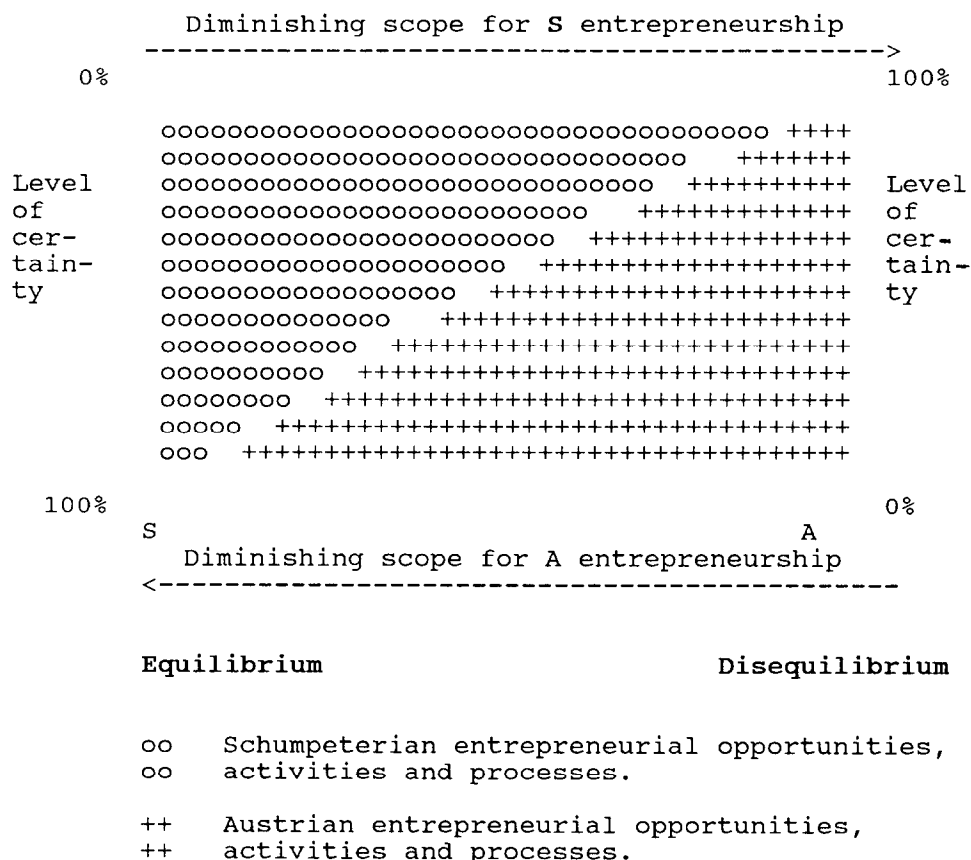
### **SCHUMPETERIAN VERSUS AUSTRIAN ENTREPRENEURSHIP: OPPOSITES OR COMPLEMENTS?**

Despite agreement on some points, there was a significant difference of opinion between Schumpeter and his Austrian critics. These differences can be transcended by conceiving of two modes of entrepreneurship that can be termed as Schumpeterian (S) and Austrian (A) entrepreneurship.

Schumpeterian entrepreneurship promotes disequilibrium; Schumpeterian entrepreneurs promote the change of an existing situation. Their activities result in major innovations and even systematic changes, generating new development processes that create and/or widen the (e.g., technological) gap between leaders and followers.

In contrast, Austrian entrepreneurship promotes equilibrium; Austrian entrepreneurs promote changes within an existing situation. Austrian entrepreneurship stems from the discovery of the existence of profitable discrepancies, gaps, and mismatches in knowledge and information that others have not yet perceived and exploited, and the entrepreneur acts to capitalize upon the opportunity for gain or advantage which that discovery presents. These activities increase knowledge about the situation, reduce the general level of uncertainty over time, and promote market processes that help to reduce or eliminate the gap between leaders and followers.

Instead of treating these as contradictory concepts between which we are forced to choose, it would be more fruitful to perceive Schumpeterian and Austrian entrepreneurship (and their associated activities, opportunities, and processes) as opposites and yet complements to each other, just like the forces of the yin and the yang of Chinese philosophy and folklore (see Figure 1). As Capra (1984, p. 97) observed, "This diagram is a symmetric arrangement of the dark yin and the bright yang, but the symmetry is not static—it is a rotational symmetry suggesting, very forcefully, a continuous cyclic movement . . . The two dots in the diagram symbolize the idea that each time one of the two forces reaches its extreme, it contains in itself already the seed of its opposite."



**FIGURE 2** Relationship between Schumpeterian (S) and Austrian (A) entrepreneurial opportunities, activities, and processes.

The most noteworthy feature is the manner in which each force rises gradually to a peak then “gives way” to its opposite (complementary) force. A similar conception of the systemic alternation between the two entrepreneurial modes is able to encompass the definitions and propositions that Schumpeter and the Austrians make about each mode of entrepreneurship and, at the same time, reveals the manner in which each mode is related to the other in different (changing) situations.

This relationship is illustrated in Figure 2, where the point *S* represents an ideal situation characterized by complete certainty. In this situation, there are no longer any "scraps of existing information that are present in scattered form throughout society" (Kirzner 1985, p. 162) that remain to be exploited by an alert Austrian entrepreneur. This situation presents the greatest scope for the disequilibrium-generating activities of the "long-run" Schumpeterian entrepreneurs. Their innovative activities lead to the discovery of "an intertemporal opportunity that cannot, even in principle, be said actually to exist before the innovation has been created," (Kirzner 1985, p. 85), and this causes disruption and transformation of the preexisting equilibrium situation.

As the level of uncertainty rises, as a consequence of Schumpeterian activities and

processes, the scope for "short run" Austrian entrepreneurs grows. The short-run process, which Kirzner perceives to be composed of arbitrage and speculative activities, are based on the fact that "at a given date a market economy is likely to be less than fully coordinated with respect to information currently possessed . . . What the entrepreneur does, in this case, is discover the existence and/or the value of available knowledge" (Kirzner 1985, pp. 157–158).

In Figure 2, the point *A* represents an ideal disequilibrium situation. It is a situation characterized by complete uncertainty. This situation presents the greatest scope for the equilibrium-promoting activities of the Austrian entrepreneur. Such activities as arbitrage, speculation, nonradical or adaptive innovation, and imitation, as well as planning and management efforts in response to market signals and other indicators of market opportunity, led to a progressive increase in knowledge and understanding of the situation and, consequently, a higher level of certainty. They are "responsible for a continuous tendency toward economic balance and internal economic consistency" (Kirzner 1985, p. 68). The result is a reduction of disequilibrium and a tendency towards increasing equilibrium. As the level of certainty rises, as a consequence of Austrian activities and processes, the scope for Schumpeterian entrepreneurs grows.

Figure 2 also depicts that at almost every point between *S* (Schumpeterian opportunities) and *A* (Austrian opportunities), both Schumpeterian and Austrian activities, opportunities, and processes can occur. However, from the viewpoint of the overall entrepreneurial process, their respective periods of hegemony revolve in an alternating fashion. At points to the right of *S* (the scope for Schumpeterian opportunities), activities and processes diminish progressively; conversely, at points to the left of *A* (the scope for Austrian opportunities), activities and processes also diminish progressively. Indeed, on the basis of the analysis postulated so far, we could even argue that Australian and Schumpeterian entrepreneurship are interdependent in the overall evolutionary development process. Specifically, the activities and processes generated by Schumpeterian entrepreneurs increase the scope for Austrian entrepreneurs over time, and vice versa. This idea of a systematic variation over time in the scope for Schumpeterian ("long-run") and Austrian ("short-run") entrepreneurial processes is not found in Kirzner's work.

## SOME IMPLICATIONS AND QUALIFICATIONS

We believe that the analysis presented above is a source of useful hypotheses about the entrepreneurial processes, and that it would be fruitful to initiate research to test those ideas. For the present, however, the distinction between Schumpeterian and Austrian entrepreneurs has some parallels with those made by Stevenson and Sahlman (1986), and others, of entrepreneurs (leaders) versus administrators (managers). Similarly, Ansoff (1988) has distinguished between entrepreneurial behavior (associated with the creation of new profit potential) and competitive behavior (associated with the exploitation of available profit potential). Finally, Bygrave's (1989) distinction between macro and micro entrepreneurs fits well with the distinction we have made.

However, it would also be important to emphasize that even if it were possible to distinguish some individuals as being predominantly either Schumpeterian or Austrian entrepreneurs, not all persons can be so neatly classified. One reason, emphasized by Drucker (1985, p. 26), is that entrepreneurship is a form of behavior rather than a personality trait. Behavior can be learned and, thus, changed. Second, Schumpeter (1939, p. 103) had pointed

out that "it is not always easy to tell who the entrepreneur is in a given case. . . . Nobody is ever an entrepreneur all the time, and nobody can ever be only an entrepreneur. This follows from the nature of the function, which must always be combined with, and lead to, others." Thus, in many cases, real individuals (and also processes, strategies, and organizations) could manifest some combination of the qualities of these two entrepreneurial modes, either simultaneously or sequentially.

A further complicating factor is that, partly because of the possible unintended consequences of human action, it is difficult in many cases to determine *ex ante* whether an innovation would be a Schumpeterian or an Austrian innovation and, in both cases, whether it would be successful. These factors contribute to the complex character of the phenomenon. However, many of the empirical studies in this field fail to take these considerations into account.

## CONCLUSION

The distinction between Schumpeterian and Austrian entrepreneurs (as well as opportunities, activities, and processes) identifies the dual nature of entrepreneurship, and strengthens the theoretical foundation of the research in this field by linking it more closely to propositions that originate from Schumpeter and his Austrian critics. At the same time, it places the ideas of both Schumpeter and the Austrians in a better perspective. Consequently, we better appreciate the significant roles that the two different modes of entrepreneurship can play in the evolutionary development process.

This analysis also suggests that the distinction between Schumpeterian and Austrian entrepreneurs is sufficiently comprehensive to encompass all types of entrepreneurs, whether in small or large businesses, or in new ventures or established enterprises, as well as entrepreneurs. While it is important to note the complicating factors cited above, and while the actual dynamics involved in each situation may vary because of special circumstances, we suggest that the general propositions arising from this analysis provide a useful, basic model of the entrepreneurial process.

## REFERENCES

- Ansoff, I. 1988. *The New Corporate Strategy*. Chichester.
- Burke, J. 1989. *The Management of Luck*. London: MacDonald
- Bygrave, W.D., Micro-, Macro-, and Corporate Entrepreneurs: Can They All Fit in the Same Paradigm? Paper presented at the Academy of Management annual meeting, August 3–16, 1989, Washington, D.C.
- Capra, F. 1984. *The Tao of Physics*, 2nd rev. ed. Toronto: Bantam Books.
- Carland, J.W., Hoy, F., and Carland, J.A. 1988. "Who is an entrepreneur?" is a question worth asking. *American Journal of Small Business* 12(4):33–39.
- Drucker, P. 1985. *Innovation and Entrepreneurship*. New York: Harper and Row.
- Gartner, W.B. 1988. "Who is an entrepreneur?" is the wrong question. *American Journal of Small Business* 12(4):11–32.
- Hisrich, R.D., and Peters, M.P. 1989. *Entrepreneurship: Starting, Developing, and Managing a New Enterprise*. Homewood, IL: R.D. Irwin.
- Hornaday, R.W. 1989. Dropping the E-words From Small Business Research: An Alternative Typology. Paper presented at the Academy of Management annual meeting, August 13–16, 1989, Washington, DC.
- Kirzner, I.M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press.
- Kirzner, I.M. 1985. *Discovery and the Capitalist Process*. Chicago: University of Chicago Press.

- Low, M., and MacMillan, I. 1988. Entrepreneurship: Past research and future challenges. *Journal of Management* 14(2):139–161.
- Ricketts, M. 1987. *The New Industrial Economics*. New York: St. Martin's Press.
- Robbins, L. 1935. *An Essay on the Nature and Significance of Economic Science*. London: Macmillan.
- Schumpeter, J.A. 1934. *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- Schumpeter, J.A. 1939. *Business Cycles*. New York: McGraw-Hill.
- Schumpeter, J.A. 1950. *Capitalism, Socialism and Democracy*. 3rd ed. New York: Harper and Brothers.
- Shand, A. 1984. *The Capitalist Alternative: An Introduction to Neo-Austrian Economics*. New York: New York University Press.
- Smith, B. 1986. Austrian economics and Austrian philosophy. In W. Grassl and B. Smith, eds., *Austrian Economics: Historical and Philosophical Background*. New York: New York University Press.
- Stevenson, H.H., and Sahlman, W.A. 1986. Importance of entrepreneurship in economic development. In R.D. Hisrich, ed., *Entrepreneurship, Intrapreneurship and Venture Capital*. Lexington, MA: Lexington Books, pp. 1–26.
- VanderWerf, P.A., and Brush, C.G. 1989. Toward Agreement on the Focus of Entrepreneurship Research: Progress Without Definition. Paper presented at the Academy of Management annual meeting, August 13–16, 1989, Washington DC.
- Wortham, A. 1988. Schumpeter and His Critics on the Future of Capitalism. Working Papers in Economics E-88-27, The Hoover Institution, Stanford University.