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Grabbling with the Kirznerian Heritage in a Time of Economic and Environmental crisis

Abstract:

This chapter tries to grapple with the Kirznerian heritage of the entrepreneurship research field in light of the current financial crisis. This is done through the identification and discussion of three anomalies in the Kirznerian heritage as “normal science”; the socialized nature of entrepreneurship, the role of context, the relation between entrepreneurship and the environment. On the basis of this, three themes are developed, which explore how we might resolve the anomalies, while still retaining useful aspects of the Kirznerian heritage. The themes include; a functional definition of entrepreneurship with an extended conception of value to include non-economic forms of value; a continued exploration of uncertainty; and a shift in focus from opportunities to resources. Implications for research, teaching and policy are briefly introduced in the final section.

Keywords: Entrepreneurship; Kirzner; crisis; uncertainty; resources; environment

1. Introduction

The Austrian economic tradition is the closest thing to a Kuhnian “normal science” as can be found in entrepreneurship research. In particular the work of Israel Kirzner has set the tone for theoretical and empirical advances in our understanding of entrepreneurship over the last two decades (Douhan, Eliasson, and Henrekson, 2007; Klein and Bylund, 2014; Korsgaard et al., Forthcoming). Kirzner’s theories suggest that entrepreneurs play a vital function in the development of markets and economies. They discover opportunities to allocate resources in better ways and in doing so making a profit. This depiction of the entrepreneurial function as one of discovery of opportunities
has helped researchers cast light on important issues related to entrepreneurship, such as why some people and not others engage in entrepreneurial activity and how entrepreneurs organize their entrepreneurial ventures, as well as connect these findings to a macro-level understanding of market processes and economic development.

Kirzner’s work thus constitutes a heritage that most if not all entrepreneurship researchers and educators must somehow relate to, by either working within the boundaries defined by the “normal science” of entrepreneurship or position oneself in marginalized oppositional groupings challenging the mainstream (cf. e.g. Hjorth, Jones, and Gartner, 2008). In this chapter I will therefore argue that the Kirznerian heritage, on the one hand, represents a challenge and potentially a stumbling block for entrepreneurship research. It holds a number of anomalies, which are impossible to ignore in a time of economic and environmental crisis where policy makers and others look to entrepreneurship, to help solve our vital economic and environmental challenges (Korsgaard, Anderson, and Gaddefors, Forthcoming; Rae, 2010). A continued rooting in the Kirznerian tradition without critically challenging its basic assumptions and interpretation of key concepts, may prevent us from conceptualizing entrepreneurship in ways that are inherently socialized, contextualized, localized, and environmentally and culturally sensitive. On the other hand, I will argue that simply abandoning the Kirznerian heritage will entail the risk of furthering the gap between mainstream entrepreneurship research and oppositional groups, as well as ignoring the concepts and ideas that, if re-interpreted, can help move entrepreneurship research forward in new directions that incorporate a broader range of entrepreneurial actions than opportunity discovery.
If we consider Kirznerian ideas as the mainstream “normal science” for entrepreneurship research, it is expected that, over time, anomalies will appear; observations, results and problems that cannot adequately be explained within the frame of the dominant paradigm (Kuhn, 1996). Such anomalies are inherent in all “normal sciences” and will accumulate over time until such a point where they can no longer be ignored, and new streams of research will emerge that question the basic assumptions of the dominant paradigm. Such new streams of entrepreneurship research have been emerging at least since the turn of the century, primarily in Europe. Yet, these alternatives have made limited impact in the mainstream research for various reasons that lie beyond the scope of this chapter. With the onslaught of the financial crisis of 2008 and onwards this intra-field discussion has taken a new dimension. The financial crisis highlighted the economic, social and environmental consequences of the opportunistic exploitation mindset incorporated in the Kirznerian heritage (Munir, 2011; Rae, 2010), and provide a moral obligation for entrepreneurship researchers to critically examine the assumptions and values incorporated in how we have conceptualized entrepreneurship – although there is no moral obligation to arrive at similar conclusions as is done in this chapter (see Agarwal et al., 2009 for an example of a reflection on the crisis and entrepreneurship and strategic management theory that arrives at very different conclusions).

Following this line of thought, the chapter will argue that Kirznerian ideas as mainstream “normal science” hold several anomalies, and that the current economic and environmental crises highlight these in ways that are impossible to ignore. In particular, it will be argued that anomalies exist in relation to 1) the socialized nature of entrepreneurship, 2) the role of context in entrepreneurial processes, and 3) the relation between entrepreneurship and the environment.
From these anomalies it is clear that the rooting of entrepreneurship in the Kirznerian heritage has drawbacks as well as advantages. Within an Austrian paradigm, entrepreneurial activities not undertaken for economic reasons and seeking to create non-economic (e.g. environmental, cultural and social) impacts are necessarily marginalized, and privilege is given to certain types of entrepreneurs (e.g. growth oriented high tech success-stories) (Steyaert and Katz, 2004). Also, it offers a monochord response to social and environmental challenges; namely entrepreneurial discovery of market failures predicated on deregulation of markets.

On the basis of the identification of the key anomalies of the Kirznerian paradigm, the chapter focuses on key concepts in Kirzner’s work in an attempt to develop new conceptualizations or readings of these, which address the anomalies. In particular the focus is on the idea of entrepreneurship as a function of value creation, uncertainty, and resources. Firstly, a functional definition of entrepreneurship remains useful as it allows us to capture entrepreneurial phenomena regardless of the organizational form it takes (Klein, 2008b) and whichever motives drive the entrepreneurial activities. Yet it may be conducive to re-interpret how this function works and the outcomes it produces. In continuation of this, the function of entrepreneurship should be considered value creation more broadly than economic value. Entrepreneurs create multiple forms of value – deliberately or accidentally (Korsgaard and Anderson, 2011). Thirdly, the concept of uncertainty becomes central when the image of opportunity discovery is challenged, and must therefore take a more central role in the conceptualization of the entrepreneurial function. Finally, the issue of resources needs to be addressed differently, and in ways that acknowledge how some resources are materially grounded and how their use have environmental, social, and cultural implications (Hudson, 2005, 2010).
For these concepts the chapter thus offers a re-interpretation that extends traditional Kirznerian thinking and aligns it with a vision for entrepreneurship that is more comprehensive yet also more modest. Comprehensive in the sense that entrepreneurship is considered a function for value creation through re-interpretation of resources across economic, social, cultural, environmental spheres, yet modest in the sense that entrepreneurship cannot be considered the one and only mechanism through which unfortunate allocation of resources can be addressed, as is often suggested in the Kirznerian tradition.

2. The Austrian heritage in entrepreneurship research

Austrian economics has become increasingly influential in entrepreneurship research over the past decades, in particular the work of Kirzner, which for many entrepreneurship scholars is the primary reference point (Klein and Bylund, 2014). Indeed, the conceptual inventory of Kirzner’s discovery perspective of entrepreneurship, as developed in the 1973 book “Competition and Entrepreneurship”, has largely been copied into much of the mainstream empirical research in the field; and no less so since the introduction of Shane and Venkataraman’s (Shane, 2003, 2012; Shane and Venkataraman, 2000) influential nexus perspective. Understanding the Kirznerian heritage and its role in entrepreneurship research is thus mainly about understanding how Kirzner’s ideas of the alert entrepreneur, entrepreneurial discovery and the market as a process have been integrated and operationalised in mainstream entrepreneurship research and theory building (Douhan, Eliasson, and Henrekson, 2007; Klein and Bylund, 2014; Klein, 2008b; Korsgaard, et al., Forthcoming).
As is the case with most economic literature dealing with entrepreneurship, Kirzner is first and foremost concerned with the function of the entrepreneur in the economic system (Hebert and Link, 1988), and hence deals with entrepreneurship as a distinct function in the market process. The cornerstone work of Kirzner’s (1973) “Competition and Entrepreneurship” offers an attempt to create a place for the entrepreneur in neo-classical equilibrium theory. In order to create this place, Kirzner questions some of the basic assumptions of neo-classical economic theory. According to Kirzner neo-classical economics assumes that individual actors make rational decisions, and that markets are in a state of equilibrium. The rational actor maximizes utility relative to a given set of ends. With this knowledge she allocates scarce resources to optimize her utility given the tastes and preferences she may have. Similarly, the market is in a state of equilibrium where resources are allocated optimally. Any divergence from the equilibrium state will immediately be remedied as information about prices and qualities are assumed to be openly available and accessible to all actors in the market.

By (wrongly) assuming this state of equilibrium, the neo-classical view renders invisible a number of key elements, including the competitive nature of the market process and the role of the entrepreneur (Kirzner, 1973). It is therefore necessary to shift focus from equilibrium states to the market forces that compel changes in prices, outputs, methods of production, and the allocation of resources (Kirzner, 1973). Contrary to the assumptions of neo-classical economics, the Kirznerian view assumes that actors have imperfect knowledge, and therefore constantly make errors in their assessment of prices and qualities. In equilibrium theory, where actors make “perfect” decisions, there is no room for the role of the entrepreneur. But when actors make erroneous decision, the entrepreneur is of vital importance.
The ignorance of other market actors and their plans leads individuals and organisations to overestimate or underestimate the real value of resources so that some will be willing to pay “too much” for products and resources, while others will be willing to pay “too little”. This in turn leads to a suboptimal coordination of resources in the market. An opportunity is the result of inefficient exploitation of resources caused by an absence of coordination (Kirzner, 1973). This lack of coordination is expressed in price differences. A given resource may be sold at different prices in different markets. It is basically this difference that the entrepreneur discovers. An opportunity in the Kirznerian view is thus an arbitrage opportunity (Kirzner, 1973). A prototypical example of an arbitrage opportunity is an entrepreneur buying a piece of land and subsequently making a profit by selling out smaller parcels of the land at a profit (Alvarez, Barney, and Anderson, 2013).

Unlike the neo-classical framework, Kirzner does not assume that all market actors are, in principle, equally likely to discover a given opportunity. Some actors are simply more alert than others. Kirzner contrasts the notion of alertness from search and knowledge. Alertness is not the possession of knowledge, but a “knowing where to look for knowledge” (Kirzner, 1973, p. 68). Therefore, alertness cannot be seen as a production factor that can be acquired. Similarly, alertness is different from search. The discovery of an opportunity, argues Kirzner, always involves an element of surprise (Kirzner, 1997), which stems from the fact that for it to be a discovery, the actors cannot by definition have known what was to be discovered. It is therefore impossible to search for opportunities, as searching involves some knowledge of what you are searching for.
Kirzner’s contribution to the entrepreneurship field can thus be argued to consist of two elements. Firstly, Kirzner’s disequilibrium model demonstrates the importance of an entrepreneurial function in continually developing the market. Kirzner thus embodies what Klein (2008b) refers to as the functional definition of entrepreneurship. The functional definition of Kirzner places the entrepreneurial function at the heart of all change and development, and thus makes entrepreneurship an inevitable element in all theorizing and policy-making that seeks to create development at all levels from the global to the very local (see e.g. OECD, 2006). Secondly, the conceptual inventory of Kirzner’s view of entrepreneurship has been integrated into some of the most central debates and streams in the field: Opportunities, discovery and alertness have thus all been subjected to theoretical development and empirical research by centrally placed and influential entrepreneurship researchers. An early example is the inquiry into whether entrepreneurs search actively for opportunities or discover them accidentally by being alert, as was suggested by Kirzner (see e.g. Busenitz, 1996; Gaglio and Katz, 2001; Kaish and Gilad, 1991). These studies generally found limited support for the existence of entrepreneurial alertness. Also Shane and Venkataraman’s (2000) influential nexus perspective draws heavily on Kirzner’s work. In this perspective, as in Kirzner’s view, opportunities are considered objective and independent from the entrepreneur; the entrepreneurial process is initiated by an entrepreneurial discovery; and some characteristics – although not necessarily alertness – make certain individuals more likely to discover opportunities than others (cf. Eckhardt and Shane, 2003; Shane, 2000, 2003; Shane and Venkataraman, 2000).

Recent developments in the field relating to discovery and opportunities are thus very much related to the Kirznerian view of entrepreneurship. The psychology-informed research on how entrepreneurs discover opportunities, and how the discovery processes might be influenced by
contextual and emotional factors, is a case of this (Baron, 2004, 2006, 2008; Foo, 2011). A fine example of this is Foo’s (2011) finding that positive emotional affect influence opportunity evaluation positively. Also in the discussion on whether opportunities are discovered or created, the former standpoint is clearly Kirznerian, and draws some of its legitimacy from being aligned with Austrian economic thinking (Alvarez and Barney, 2007; Alvarez and Barney, 2010).

There has been some reservation about the interpretation of Kirzner’s ideas in the entrepreneurship field. Kirzner (2009; 1999) himself has stated that the adoption of the central ideas from his 1973 book has been different from what was intended. Specifically, Kirzner suggests that the model presented in the 1973 book was a deliberately simplified one, intended to address neo-classical economists, but not intended to stipulate how actual entrepreneurial processes play out (Korsgaard, et al., Forthcoming). As a consequence the passage of time was not taken into account, meaning that key concepts of real life entrepreneurial processes such as uncertainty were ignored (Kirzner, 1982, 1985; Korsgaard, et al., Forthcoming). In similar fashion some have argued that entrepreneurship scholars have been reading the wrong Austrian economists, suggesting that Lachmann or Knight present better options than Kirzner, because of their emphasis on creativity and judgement as opposed to opportunity discovery (Chiles, Bluedorn, and Gupta, 2007; Chiles et al., 2013; Chiles et al., 2010a; Chiles et al., 2010b; Foss and Klein, 2012; Klein, 2008b). It has also been suggested that Kirzner has been read in a limited or overly simplified way (Barreto, 2012; Klein, 2008b; Korsgaard, et al., Forthcoming; McCaffrey, Forthcoming). As examples Klein (2008b) emphasizes how entrepreneurship scholars have ignored the metaphorical nature of key concepts such as alertness and opportunities, and Korsgaard, Berglund, Thrane and Blenker (Forthcoming) have shown that entrepreneurship scholars have embraced only a part of Kirzner’s work, and arguably the parts least suited to provide a basis for exploring real life entrepreneurial
processes. These critiques are relevant and to some extent probably correct. They suggest that it is likely fruitful to revisit the conceptual inventory adopted from Kirzner into the entrepreneurship field; in particular the central ideas of opportunity, discovery and alertness that have been drawing the contours of the field for the past three decades. The critique does not, however, warrant a complete abandonment of Kirznerian ideas. It would be premature to suggest that Kirzner’s work does not hold elements that would be useful in further developing entrepreneurship research and help bridge the current tradition and paradigm with new conceptualisations.

2.1 The heritage in a time of crisis

In times of economic growth and environmental optimism, the image of entrepreneurship inherited by the entrepreneurship field from its economics roots in general (Hebert and Link, 1988; Landström, 1999) and the Kirznerian heritage in particular may seem relevant and appropriate. Primarily, because it incorporates faith in the ability of economic opportunism to create social welfare and hopefulness with regards to the ability of profit driven entrepreneurship to solve environmental problems (see e.g. Cohen and Winn, 2007; Dean and McMullen, 2007; Pacheco, Dean, and Payne, 2010). Consequently, entrepreneurship research has had much to say about how to create economic growth on global, national and regional levels. The recent economic crisis and the increasingly imposing environmental problems facing our current society, has cracked the image, and poses questions (long overdue perhaps) about the relevance and appropriateness of the Kirznerian heritage. The crises make thoroughly visible the down-sides of opportunism and pure profit motives.
The exact causes of the economic and environmental crises are debatable and to some extent probably dependent of the theoretical and political standpoint from which the analysis of the causes is conducted (Hudson and Maioli, 2010). From the perspective of an entrepreneurship researcher it is, however, difficult to ignore the possibility that risky and opportunistic short term entrepreneurial actions are significant contributors to the crises. The crash of the financial market in the US which triggered the international economic crisis was caused partially by risk taking opportunism, with both house owners and loan brokers making overly risky decisions based on over-optimistic assessments of the housing market (Harvey, 2011; Hudson and Maioli, 2010). This type of risky opportunism helped create a short term profit, but longer term value destruction due to the bubble effect created by the short-termism. Similarly, profit seeking opportunism creates short term profits at the expense of environmental externalities. The costs of these externalities are borne by others than the entrepreneurs, at least in the shorter run. As such both the economic and environmental crises may share a root cause in opportunistic entrepreneurship, of the kind promoted in the Kirznerian heritage, and that has been passed on enthusiastically in business school and public discourse on entrepreneurship (cf. Rae, 2010).

As such it is not surprising that the entrepreneurship research community has had little to communicate and contribute in relation to the economic and environmental crisis that we are currently facing. They have largely joined organization scholars at large in adopting a silent stance (Munir, 2011). According to Munir (2011) business scholars have generally come too close to their subjects, becoming cheerleaders for big business, continually seeking out new ways for firms to make profits. This is certainly the case in entrepreneurship research (Rae, 2010). With the exception of emerging oppositional forces (see e.g. Hjorth, 2005; Steyaert and Katz, 2004) it is a generally accepted credo that the role of entrepreneurship research is to facilitate entrepreneurship and
growth, and to persuade entrepreneurs to grow their business as fast and big as possible. In other words exercise the kind of opportunistic behavior that is embodied in the Kirznerian heritage.

Rae (2010) refers to this approach as “old entrepreneurship” and suggests that while economies are growing and employment rising, the negative consequences of this form of entrepreneurship are overlooked. But not so in a financial crisis. In particular Rae emphasizes how the focus on opportunities without regards to the resources – quoting Stevenson and Jarillo (1990) – leads to a focus on short term economic profit and less concern for the responsible stewardship of finite resources. The economic and environmental crisis highlights a paradox that is difficult to ignore. On the one hand it is likely that opportunistic (Kirznerian) entrepreneurship is at the core of the capitalist system producing the crises. Yet, on the other hand at the same time entrepreneurship is aggressively promoted at the research and policy level as the way to (re)create economic growth (see e.g. OECD, 2006, 2010). A resolution of this paradox, inevitably must involve some re-examination of the image of entrepreneurship, towards what Rae (2010) refers to as “new entrepreneurship”.

3. The Kirznerian heritage as Normal Science and its Anomalies

The extensive application of the Kirzner-based discovery view of entrepreneurship has constituted a period of Kuhnian “normal science”, with most empirical research taking place under a broadly shared understanding of what the key theoretical concepts are and the nature of the phenomenon (Shane, 2012). This has allowed the field to progress rapidly and increase the output of research in both entrepreneurship and broader management journals.
As would be expected in a Kuhnian perspective anomalies accumulate during a period of normal science, with a rising number of empirical observations that cannot be explained properly by the dominant paradigm. While these anomalies have always been there, they have become even more prevalent and visible during the financial crisis; to a point where they can and must not be ignored. The anomalies are numerous and presenting a complete list is beyond the scope if this chapter (for examples of critical examinations of Kirzner and entrepreneurship with a focus on other anomalies see e.g. Foss and Klein, 2012; Klein, 2008a; Klein and Bylund, 2014; Klein, 2008b; Korsgaard, et al., Forthcoming; McCaffrey, Forthcoming). Focus will therefore be on anomalies that are both highly relevant in a time of economic and environmental crisis, as well as relevant to some of the theoretically most interesting discussions emerging in the field. Three anomalies will be discussed further in the following sections: the social dimension of entrepreneurship, the context of entrepreneurial processes, and the connection between entrepreneurship and the environment.

3.1 The socialized nature of entrepreneurship
The first anomaly relates to the socialized nature of entrepreneurship. One indication of the presence of this anomaly is the emergence of social entrepreneurship as a distinct phenomenon and research field. This suggests that existing theorising on entrepreneurship has problems accounting for entrepreneurial phenomena associated with social motives and outcomes (Dey and Steyaert, 2010) and that dominant entrepreneurship theories cannot readily be applied to social entrepreneurship (Korsgaard, 2011). Indeed, the social plays a diminutive role in the Kirznerian heritage, which is largely individualistic. While Kirzner does not necessarily explicitly state that the entrepreneur is an individual, this is certainly the case in the subsequent empirical research on (Kirznerian) opportunity discovery and evaluation (Dimov, 2007a). The discovery function of entrepreneurship is conceptualized as cognitive and moderated by factors that affect the individual
such as education, prior experience, emotions etc. (Baron, 2008; Foo, 2011; Shane, 2000; Shaver and Scott, 1991; Welpe et al., 2012). This stance has been subjected to severe criticism, suggesting that the discovery view blatantly overlooks social elements of the entrepreneurial process (cf. Korsgaard, 2013).

Also, the Kirznerian heritage defines entrepreneurship as an economic activity undertaken for economic reasons only. A profit motive sparks the entrepreneurial process (Kirzner, 1973). Consequently, the success of an entrepreneurial venture is measured by its economic outcomes. The emergence of socially, environmentally, and culturally motivated forms of entrepreneurship question this assumption. Empirical research shows that many entrepreneurs pursue entrepreneurial ventures for many different reasons (Austin, Stevenson, and Wei-Skillern, 2006). It is also evident that entrepreneurial ventures create multiple types of outcomes, not just economic, and that treating these as externalities of secondary importance does not capture the full complexity of entrepreneurial phenomena (Anderson, Dodd, and Jack, 2012; Korsgaard and Anderson, 2011).

In the Kirznerian view entrepreneurship is the fundamental mechanism through which the economy develops and growth is realised in society. Stifle entrepreneurship and suffer the consequences of a declining economic growth (Kirzner, 1973). Following this line of thinking, Venkataraman (1997: 133), in a precursor to the seminal 2000 article with Shane, states that the connection between the individual entrepreneur’s profit-seeking behaviour and the creation of social wealth is “the very raison d’être of the field”. It is because entrepreneurs create growth in the economy as a whole that they become a worthy object of study. Indeed, in many cases, growth is seen as the only satisfactory outcome of entrepreneurial activity. So entrepreneurship and growth has at least two dimensions:
Entrepreneurship as a driver of economic growth generally, and firm growth as an entrepreneurial pursuit and outcome. As a consequence economic performance of some variety is oftentimes used as the dependent variable in entrepreneurship studies (Leitch, Hill, and Neergaard, 2010).

The unidimensional connection between entrepreneurship and economic motives and growth is an anomaly. It does not fit with what is observed empirically. Achtenhagen et al. (2010) observe that researchers and practitioners have different conceptions of what growth is, and what it means to grow a business. Furthermore, considering economic growth, not all entrepreneurs want to grow their businesses (Cliff, 1998; Davidsson, 1989; Leitch, Hill, and Neergaard, 2010; Lewis, 2008; Morris et al., 2006). Many entrepreneurs balance different considerations when making strategic choices, of which the ambition to grow the venture is one of many (Müller, 2013; Wiklund, Davidsson, and Delmar, 2003).

The underlying problem is the overly narrow conception of value in the Kirznerian view. Value for Kirzner, as well as the research following the Kirznerian tradition considers value to be only economic value, and, therefore, cannot adequately describe entrepreneurial ventures that create non-economic forms of value (e.g. social entrepreneurship), and where entrepreneurs are driven by the motives related to non-economic value creation and appropriation. Consequently, there have been several calls for research that seeks to create conceptualisations and theories that embody multidimensional views of value in relation to entrepreneurship (Korsgaard and Anderson, 2011; Leitch, Hill, and Neergaard, 2010). The current financial and environmental crisis makes this need abundantly clear. Entrepreneurial activities, in order to contribute to recovery from the current crises and long term economic and ecological resilience, need to balance multiple values, and
incorporate a balanced view of the complex trade-offs between economic, social, cultural, environmental value (cf. Korsgaard and Anderson, 2011). It is simply not enough to just create economic value and profit for the entrepreneur. The entrepreneurial activities must be sensitive to the social and spatial contexts in which they are embedded, and the long term effects of the entrepreneurial activities on these contexts (cf. Hudson, 2010; Korsgaard, Anderson, and Gaddefors, Forthcoming; Rae, 2010). This ambition, however, is not easily realised within or aligned with the Kirznerian heritage.

3.2 Entrepreneurship and context

The second anomaly relates to the issues of context in entrepreneurial processes. Several scholars have pointed to the need for a better understanding of context in entrepreneurial processes (Hindle, 2010; Welter, 2011; Zahra, 2007). And certainly, the Kirznerian economic perspective offers outstanding possibilities for conceptualizing and researching the economic context (cf. Hindle, 2010). It is less clear to what extent a discovery based model is able to explore the temporal, spatial and institutional context. That is, how do the time/timing, location and institutional setting influence the entrepreneurial processes? Research focusing on the two latter issues indicates that entrepreneurial activity occurs in complex dynamic interrelations with the spatial and institutional environment, where a model built only on a discovery mechanism at best captures only parts of this interrelation (Buenstorf, 2007; Luksha, 2008).

According to several scholars the Kirznerian discovery view fails to make explicit the spatial, institutional and temporal context of entrepreneurial processes (Andersson, 2005; Dimov, 2007a, 2007b; McMullen and Dimov, 2013; Stam and Lambooy, 2012; Zahra, 2007). Firstly, according to Zahra (2007), researchers must be careful not to generalize theories too far. As an example
institutional settings impact severely on entrepreneurial processes (Mair and Marti, 2009), and the distinction between opportunity and necessity entrepreneurship suggests that entrepreneurial discovery of an objectively existing opportunity by an alert entrepreneur is not a universally applicable model (Hechavarria and Reynolds, 2009). Secondly, the arbitrage opportunity of Kirzner’s 1973 book, which served as the model for the discovery and nexus perspectives (Shane and Venkataraman, 2000), is devoid of a temporal dimension (McMullen and Dimov, 2013). As Kirzner himself pointed out the basic arbitrage model of entrepreneurship deliberately ignored the passage of time, and how the passage of time influenced on the presence of e.g. uncertainty in the entrepreneurial process (Kirzner, 2009; Kirzner, 1982, 1999; Korsgaard, et al., Forthcoming). Consequently, the discovery model adopted from Kirzner, really only works when nothing of consequence happens between the initial idea or discovery and the subsequent exploitation of the opportunity. Thirdly, the Kirznerian view does not make explicit the spatial dimension of entrepreneurship (Andersson, 2005; Stam and Lambooy, 2012). According to Andersson (2005: 21) “Kirzner’s theory is non-spatial”. Consequently, it does not incorporate questions that relate to the uneven spatial distribution of opportunities, and how entrepreneurial processes have spatial consequences such as increased urbanization. This has lead entrepreneurship scholars to largely overlook the socio-spatial embeddedness of entrepreneurial opportunities (Anderson, 2000; Hindle, 2010). And even when the spatial dimension has been integrated, the aim has been to explore how spatial barriers can be circumvented. The entrepreneur depicted by Kirzner and subsequent entrepreneurship research is thus overly detached from the context in which the entrepreneurial processes occur, and this constitutes an important anomaly. The presence of this anomaly becomes all the more obtrusive as the financial and environmental crisis has increased the gap between lagging and challenged regions both internationally and regionally. In such a situation entrepreneurship theorising that is sensitive not only to which resources entrepreneurs can extract
from the context, but most importantly to the particular needs and circumstances of the communities becomes all the more important (Hudson, 2010; Korsgaard, Anderson, and Gaddefors, Forthcoming; Rae, 2010).

### 3.3 Entrepreneurship and the environment

The third anomaly relates to entrepreneurship and the environment. Kirzner’s work builds on Hayek’s idea of the market as a learning process. Here the market is seen as a dynamic process, where entrepreneurial actions continually improve the overall allocation of resources through the discovery of better ways of using resources – again with value measured solely in economic terms. The optimized allocation of resources is understood to lead to improved overall societal and environmental outcomes. Following this rationale, environmental problems of pollution and degradation of natural resources are considered to be essentially market failures caused by skewed incentive structures related to e.g. inappropriate government regulation. Examples of this line of thought include Cohen & Winn (2007) and Dean & McMullen (2007) suggesting that market failures such as flawed pricing mechanism, inappropriate government interventions, monopoly power and information asymmetries, are the root of environmental problems. While it is perfectly possible that some environmental, economic and socio-spatial challenges are in fact market failures, this view re-produces, at a system level, the narrow view of the entrepreneurial function and entrepreneurial outcomes by providing explanations that one-dimensionally focus on economics and the market. In other words, it assumes that the invisible hand and learning process of the market will not only lead to economically better outcomes, but also improve socio-spatial and environmental conditions.
Paraphrasing Stevenson and Jarillo’s (1990) definition of entrepreneurship, Kirznerian entrepreneurship pursues opportunities without regard to the resources involved (Rae, 2010; Stevenson and Jarillo, 1990). The existence of profit opportunities calls forth entrepreneurship, and leads to an economically optimized allocation of resources, in the Kirznerian view. But whether the allocation is environmentally optimal is another question. The presence of environmentally motivated entrepreneurs that compromise economic concerns for environmental ones, suggests that sometimes the two might conflict (Anderson, 1998; Harbi, Anderson, and Ammar, 2010; Schaper, 2002). It has recently been argued that Kirznerian entrepreneurship does not take into account how production and consumption are grounded in material nature, and therefore cannot adequately provide an explanation of why entrepreneurs do (and should) care for the environment as they engage in entrepreneurial activities (cf. Hudson, 2005; Hudson, 2010; Korsgaard, Anderson, and Gaddefor, Forthcoming). What may be economically optimal in the short term may, from a multifaceted and balanced perspective, be sub-optimal, because the focus on short term opportunistic behavior obscures longer terms environmental concerns. Consequently, it would be naïve to adopt the Kirznerian and Hayekian assumption that the presence of economic profit in itself assures that the entrepreneurial process reflects some learning about of a better allocation of resources. The presence of economic profit is positive, but needs to be balanced by considerations of the possible destruction of other forms of value (environmental as well as social and cultural).

4. Discussion

In the above sections three anomalies of the Kirznerian heritage were identified and discussed. The Kirznerian view of entrepreneurship was criticized for underestimating the socialized nature of entrepreneurship, depicting entrepreneurial processes as overly detached from their institutional, temporal and spatial contexts, and wanting in its ability to capture the environmental aspects and
consequences of opportunistic entrepreneurship. These anomalies, it was argued, are impossible to overlook in a time of economic and environmental crisis.

A logical consequence of these anomalies would be to suggest a complete abandonment of the Kirznerian heritage in favour of other theoretical foundations. Yet, in the remainder of the chapter, I will attempt to develop three concepts which are explicitly or implicitly present in the Kirznerian heritage, and which I believe are well worth exploring further in an attempt to create new ways of understanding entrepreneurship; new ways that connect to and engage in dialogue with the mainstream Kirznerian heritage. Connecting to the Kirznerian heritage is important for several reasons. Firstly, it discourages the creation of more fragmented and partly isolated groupings within the entrepreneurship field. Secondly, it allows for a better use of valuable empirical and theoretical development over the last twenty years. Needless to say, despite the anomalies of the Kirznerian heritage, research building on this heritage has led to many insightful and useful findings that the field would sorely miss if the Kirznerian heritage was abandoned.

Addressing the three anomalies will require developing the Kirznerian heritage in ways that takes into account the socialized nature of entrepreneurship, a more contextualized understanding of entrepreneurial processes, and an increased sensitivity to the environmental consequences of entrepreneurial actions. This is no easy fix, but focusing on a functional definition of entrepreneurship as value creation, along with the concepts of uncertainty and resources can help extend the Kirznerian heritage into new understanding that address the anomalies.
In particular the extended conceptualization of entrepreneurship as a value creating function which includes the creation of economic as well as social, environmental, cultural etc. values addresses the need for a more socialized and contextualized understanding of entrepreneurship. Similarly, the emphasis of uncertainty and resources, seeks to underline the importance for integrating environmental concerns in entrepreneurship.

4.1 A functional definition of entrepreneurship

In the original Kirznerian view entrepreneurship is the function through which the market develops (Kirzner, 1973). The function of the entrepreneur is not necessarily connected to particular individuals or firms, but is seen as a mundane activity in which all market actors can engage (Foss and Klein, 2012). Drawing on this tradition, entrepreneurship can be understood as the recombination of resources to create value. To what extent this activity is manifested in the creation of a new firm, or whether it’s an individual that performs the function or a collective of actors, becomes an empirical question rather than one of definition.

This definition is a key contribution of the (Austrian and) Kirznerian perspective. Klein (2008b) distinguishes between structural, occupational and functional definitions of entrepreneurship. Structural definitions emphasize the firm as the unit of analysis, and suggests that entrepreneurial firms are small and/or new firms. The focus in research embracing a structural definition will often be on industry dynamics at the macro-level. Occupational definitions position the individual as the unit of analysis and will focus either on the (e.g. psychological) characteristics of the entrepreneur or explore the reasons for self-employment. According to Klein (2008b) both these definitions are overly restrictive by focusing on the firm or individual.
Maintaining a functional definition is important for several reasons. Firstly, even with an expanded conceptualization of value (see below), the creation of a new firm is in and of itself neither a sufficient nor a necessary condition for the recombination of resources to create value. Nor can we assume that entrepreneurship involving the creation of new firms by definition is more valuable or more likely to succeed than entrepreneurial activities through other organizational forms. Consequently, the adoption of a non-functional definition might support unfortunate monochord policies focusing on the creation of new firms, for the sake of creating new firms. Secondly, new organizational forms are constantly emerging where the formal setup of a company is not present or a undistinctive feature of the organization, e.g.in different forms of community entrepreneurship (Borch et al., 2008; Imas, Wilson, and Weston, 2012; Johannisson and Nilsson, 1989; Johannisson and Olaison, 2007; Peredo and Chrisman, 2006). Also, occasionally the government or public authorities may need to act as entrepreneur (Link and Scott, 2010).

Ideally, a definition of entrepreneurship would thus be able to encompass that entrepreneurship can happen in all sorts of organizations and not just new/small firms. It will also be able to conceptualize those aspects of the process that are not individual, and reside with an individual entrepreneur. A functional definition manages both these aspects. By considering entrepreneurship to be a function; a process, it becomes possible to explore entrepreneurship in a broad range of settings, and without restricting analysis to the individual entrepreneur (see also Shane and Venkataraman, 2000).

The financial crisis has shown that not all forms of entrepreneurship are equally valuable to society in general. Short term opportunistic entrepreneurship on the part of e.g. financial institutions
managing housing loans, real estate speculators and similar market actors have by most accounts contributed significantly to the destabilization of economies (Harvey, 2011). What is central is not the presence of profit, firms or enterprising individuals but the function of value creation. Focusing on occupational or structural definitions of entrepreneurship might obscure the functional nature of entrepreneurs regardless of its organizational manifestations. The key is exploring how the function is enacted and the consequences of the function in relation to the creation and destruction of value.

A functional definition of entrepreneurship does not invalidate the study of the many different organizational forms in which it occurs, and the relative (contextually moderated) efficacy of these forms. Indeed, it actually requires such studies. It is therefore imperative, under a functional definition, for entrepreneurship scholars to continuously explore new organizational forms, contexts, and manifestations of entrepreneurial value creation (Sarasvathy and Venkataraman, 2011).

Where the Kirznerian functional definition needs to be extended, is in its one-dimensional focus on economic value creation. Entrepreneurs create many different forms of value, and place different relative emphasis on these different forms (Leitch, Hill, and Neergaard, 2010). A new conceptualization of entrepreneurship needs to take a step further in the exploration of value creation in several ways. It is absolutely imperative to develop multidimensional conceptions of value and growth. To be able to conceptually manage the fact that entrepreneurs deliberately and inadvertently create many different forms of value, and that these are intertwined (Korsgaard and Anderson, 2011). It is also important to understand how the different forms of value creation may be destructive of other forms of value (see e.g. Tonts and Greive, 2002). As evidenced by the
financial crisis the creation of economic value, is all too often accompanied by the destruction of other forms of value. In a way this is part and parcel of the entrepreneurial process of creative destruction (cf. Schumpeter, 1950). A singular focus on economic value, however, invites researchers to obscure the complex interrelations between different forms of value creation and destruction in research, teaching and general societal debate. Thereby, we run the risk of inhibiting a critical reflection on which forms of value creation to prioritize and which forms of value destruction to accept in policy making, teaching, and actual entrepreneurial practice (Steyaert, 2007; Steyaert and Katz, 2004).

The further exploration of different forms of value creation (and destruction) is an important avenue for future research in the entrepreneurship field. Such research will likely benefit from a firm grounding in a functional definition of entrepreneurship, as this will combine the greatest definitional precision with the greatest flexibility in where we search for new emerging forms of entrepreneurial value creation. A search, that most importantly, identifies enactments of the entrepreneurial function which help communities and regions to recover from the crises and create long term resilience.

4.2 Uncertainty

As pointed out by the several critics of the discovery view, the issue of uncertainty has been unduly downplayed in much of the recent entrepreneurship research (Chiles, Bluedorn, and Gupta, 2007; Foss and Klein, 2012; Klein, 2008b). Indeed, uncertainty is typically not considered a central theme in the Kirznerian heritage. The discovery view, as rooted in Kirzner’s work, operates within the confines of risk, with risk as the conceptual opposition to uncertainty (cf. Alvarez and Barney, 2005; Alvarez and Barney, 2007). In the discovery view the information held in the opportunity as
such incorporates enough knowledge to assess possible future outcomes and probabilities (cf. Shane, 2003). Therefore, discovery based research naturally emphasizes business planning and market analysis (cf. Delmar and Shane, 2004; Shane and Delmar, 2004). The abandonment of discovery as the key operation shifts the emphasis to uncertainty. The classic Knightian distinction between risk and uncertainty posits uncertainty as a decision making context in which the information needed to assess possible outcomes and probabilities are not available (Knight, 1921). In the Austrian economic tradition the passage of time and uncertainty are linked, so that whenever an entrepreneurial process unfolds over time it is uncertain. The fundamental action of the entrepreneur is thus not risk taking, but decision making under uncertainty (Foss and Klein, 2012; Knight, 1921).

An entrepreneur obviously takes a kind of risk – in the sense that she is not certain to succeed – but it is in the common sense usage of the word, and not the theoretical sense invoked by e.g. Alvarez and Barney (2007; 2010), where risk refers to the possibility of calculating risk based on available information about the relevant outcomes and their probabilities. Therefore, as soon as we have the passage of time in an entrepreneurial process, the distinction between risky and uncertain decision-making contexts is unwarranted. Accordingly, the application of two types of opportunities in empirical research (see e.g. Hmieleski and Baron, 2008; Mitchell, Mitchell, and Smith, 2008; Zahra, 2008), – often based on Alvarez and Barney’s (2007; 2010) work, appears pre-mature in so far as it assumes that entrepreneurial processes exist, where the passage of time is either absent (pure arbitrage) or has no consequence (nothing of importance changes in the decision making context). Some cases may well be imagined, but they would constitute a small minority.
In times of economic growth it is all too easy to forget the fundamental volatility of all markets. Entrepreneurial action based on opportunity discovery in risky contexts, may tend to ignore the fundamental volatility, as it dives into and analyses recent market trends (most pointing steeply upwards until the crash of the US financial markets) (Wiltbank et al., 2006). When economic indicators and markets develop positively it is difficult to feel uncertainty and take action to mitigate the passage of time in entrepreneurial processes, because the assumptions (e.g. continued growth is housing prices and markets for new products) are not necessarily challenged, at least at the industry level. The financial crisis, however, was an unpleasant reminder of the need to organize in ways that are more resilient to external shocks (cf. Hudson, 2010; Simmie and Martin, 2010; Zolli and Healy, 2012).

Notably, the emergence of some of the recent popular normative models for entrepreneurship, lean start up and customer development, were developed in response to the com bubble of the early 00’s. following the sobering experience of the limits to growth in the emerging dot com markets, entrepreneurs such as Steve Blank came to realise that entrepreneurs need to organize in ways that take into account the fundamental uncertainty involved in all entrepreneurial processes (cf. Blank, 2005, 2013).

Within the entrepreneurship research field, similar theoretical development is present, with effectuation, bricolage, exaptation etc. describing modes of entrepreneurship that are more resilient to uncertainty than traditional opportunity discovery (Baker and Nelson, 2005; Dew, Sarasvathy, and Venkataraman, 2004; Sarasvathy, 2001, 2008). The Kirznerian heritage, however, being
associated with risk based theorizing, may potentially hinder the further conceptual and empirical
development of our understanding of uncertainty.

4.3 Resources

While opportunities and resources are inexorably intertwined, there has been a strong tendency to
focus on opportunities rather than resources in entrepreneurship research (cf. Short et al., 2010).
This is a consequence of the somewhat limited or tendencial reading of the Austrians that the
entrepreneurship research community has done. Kirzner as well as other Austrians have written at
length about the heterogeneity of capital/resources (Foss et al., 2007; Foss and Ishikawa, 2007; Foss
and Klein, 2012). Nonetheless, the historical legacy, perhaps passed on from seminal studies of
entrepreneurial versus managerial opportunity discovery (Busenitz and Barney, 1997; Kaish and
Gilad, 1991) have dictated a focus on opportunities rather than resources. Consequently, much
effort has gone into studying the nature of opportunities (Ardichvili, Cardozo, and Ray, 2003;
Buenstorf, 2007; Chiasson and Saunders, 2005; Companys and McMullen, 2007; Dimov, 2007a,
2007b) and how entrepreneurs discover opportunities (Baron, 2004, 2006; Gaglio and Katz, 2001),
and much less effort has gone into discussing the nature of resources in entrepreneurial processes,
and how entrepreneurs creatively engage with resources to create new products and services.

It may well be argued that even within a Kirznerian view, resources are ontologically and
temporally prior to opportunities. Opportunities arise from how individuals and markets assess the
value of resources. From this, it is in fact a small step to acknowledging that opportunities are
created from resources (Sarasvathy, 2001). Indeed, Kirzner himself suggested that entrepreneurs
may actually through their actions create the future reality they envisage: “the futurity that
entrepreneurship must confront introduces the possibility that the entrepreneur may, by his own creative actions, in fact construct the future as he wishes it to be” (Kirzner, 1985: 155). Shifting the focus from opportunities to resources or resourcefulness does therefore not entail a break with Kirznerian ideas. While it would certainly need to downplay the role of opportunity discovery, much would be gained from taking into account Kirzner’s ideas on capital heterogeneity (cf. Foss, et al., 2007), as well as the idea of the market as a dynamic learning process.

The Kirznerian concept of entrepreneurship as discovery is linked to a notion of the market as a learning process (Hayek, 1945; Kirzner, 1997). Through entrepreneurial discovery, learning about the true value of resources and hence improved allocation of these resources is achieved. The learning, however, engages only with the exchange value of resources; that is to say the market price; as opposed to e.g. the use value. Considering the proposed extension of value to incorporate multiple forms of value, we might consider all entrepreneurial activity as an experimental learning process, which, with each little or big success and failure, increases society’s knowledge of how resources can be combined to create (and destroy) different types of values. Indeed, the central (Austrian and) Kirznerian ideas on resource/capital heterogeneity and the learning process function of entrepreneurship could provide a useful platform from which the study of entrepreneurial processes can be extended.

An environmentally sensitive re-interpretation of Kirzner’s heritage, would emphasize that the current environmental crisis is not simply a pollution crisis, but also a crisis of resource scarcity. The priority given to resources over opportunities must thus assume that resources are limited and that the entrepreneurial function needs to make the most of the resources already available at
appropriate levels of analysis (venture, community, regional etc.). This frugal attitude to resources focuses attention not just to creating more value, but to creating more value with less; with lessened overall resource consumption (Hudson, 2005; Korsgaard, Anderson, and Gaddefors, Forthcoming). As suggested by Rae (2010), such an environmental sensitivity needs to be ingrained in all entrepreneurial activities, and promoted in all institutions seeking to facilitate future entrepreneurial activity.

5. Implications and conclusion

In the sections above I have tried to grapple with the Kirznerian heritage in light of the current financial crisis. This was done through the identification and discussion of three anomalies in the Kirznerian heritage as “normal science”. On the basis of this three themes were further developed to explore how we might develop entrepreneurship conceptualization and research further to address the anomalies while still retaining useful aspects of the Kirznerian heritage. In particular the emphasis was placed on retaining a functional definition of entrepreneurship with an extended conception of value to include non-economic forms of value; a continued exploration of uncertainty, despite this being a somewhat marginalized theme in the Kirznerian heritage; and a shift in focus from opportunities to resources.

These developments have implications for the kinds of research we may want to conduct as a field, what we would wish to pass on to our students, and what we might wish to advice to policy makers. Some brief comments on these implications conclude the chapter.
For research the ideas presented in this paper in some way merely reiterates existing calls for a continued and relentless exploration of entrepreneurial practices, both existing and new forms (Sarasvathy and Venkataraman, 2011; Steyaert, 2007; Steyaert and Katz, 2004). As stated above, a functional definition of entrepreneurship, combined with an extended conception of value to include non-economic value, provides a good reference point for such explorations. A certain focus, however, seems particularly important; namely the interrelations between multiple forms of value creation and destruction. This would enable a more complex and sensitive understanding of the positive and negative outcomes of entrepreneurial processes; be they economic (cf. our current financial crisis), environmental, or social.

For teaching purposes, the attempt to grapple with the Kirznerian heritage, brings attention to the theories, images, role models, and tools we present to our students. Too many textbooks convey the traditional model of profit driven opportunity discovery inspired by the Kirznerian heritage (cf. Edelman, Manolova, and Brush, 2008), without sight for the value destructive potentials of short sighted opportunistic entrepreneurship. The anomalies identified above, would suggest a critical reflection, which I suspect is already happening in very many entrepreneurship courses and programs, about the forms of entrepreneurship we introduce. Also the increasing use of lean start up methods and similar tools will better equip the students to build and manage entrepreneurial ventures in ways that are more resilient to the fundamental uncertainty under which entrepreneurship occurs.

Finally, in terms of policy advice, the reconceptualization of entrepreneurship that follows from a critical engagement with the Kirznerian heritage on the one hand involves a more comprehensive
understanding of entrepreneurship, where entrepreneurship as a function could/should be part of policy making across a broad spectrum including culture, welfare, regional development, environmental issues etc., which is already happening across the globe. Entrepreneurial value creation can potentially help to create all forms of value across sectors and domains, and independently of organizational forms. On the other hand, the complex relations between value creation and destruction suggests a more modest view of entrepreneurship. From a policy perspective it cannot be simply a monochord “the more entrepreneurship the better”. Some forms of entrepreneurship, despite being fully legal, may not be forms of entrepreneurship that the society would benefit from promoting. One example of this is discussed on several occasions by resilience scholars, emphasizing that regional policies seeking to support entrepreneurial activities, which are strongly embedded in global flows of input and output flows (e.g. the kind of entrepreneurial activities that can be incited with lowered company taxes), might create short term economic development in a region, but do also leave these regions exposed and vulnerable to external shocks, such as the recent financial crisis (Bristow, 2010; Hudson, 2010; Simmie and Martin, 2010; Zolli and Healy, 2012). Increasing global integration of production may also have negative environmental consequences. Accordingly, not all entrepreneurship is created equal and of equal value from a societal perspective. The support of entrepreneurship and certain types is a political choice, which must be discussed as such. And perhaps entrepreneurship is not always the best response; let us not overestimate the ability of profit driven entrepreneurs to solve all the problems of the world.

References:


