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**Conceptualising entrepreneurship as economic “explanation” and the consequent loss of “understanding”**

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**Abstract**

The purpose of this paper is to examine how entrepreneurship has become conceptualised as an economic phenomenon. We explain how the outcomes, the admirable results of entrepreneurship, have led to this position. An understandable concern for the economic benefits from enterprise, and the appeal of measurability, has led to a focus on *explaining* entrepreneurship. This has been matched by a relative neglect of examining processes that would help us to *understand* entrepreneurship.

Explanations of entrepreneurship fit best into the logics of a systems view, where entrepreneurship is viewed as a mechanism for adjustment to change, as for example in Kirznerian alertness. This view carries the advantages of a positivistic approach, an appreciation of some universality in entrepreneurial process and the detection of patterns in activities. But such a view cannot take full account of how entrepreneurship actually produces change. In smoothing out the lumpiness of entrepreneurial events and homogenising its idiosyncratic nature, we miss the nuanced understanding of how the entrepreneurial self fits into prevailing circumstances, context, to create as well as employ change. The instrumentality of explanation objectifies, and necessarily obscures the subjectivity of entrepreneurial practices. In contrast, understandings of entrepreneurship, give due weight to the uniqueness of each entrepreneurial event. They help show how entrepreneurship is formed, enacted and shaped in context.

**Keywords**

Entrepreneurial enactment; opportunity creation; social construction; social process and context

## **Conceptualising entrepreneurship as economic “explanation” and the consequent loss of “understanding”**

This paper makes a case for understanding entrepreneurship as a social phenomenon to argue that the typical economic perception is so incomplete that it may even be misleading. Economists give analytical primacy to environmental factors in a systems approach (Bouchikhi, 1993) that prioritises outcomes rather than process. They neglect the importance, and dynamics of the agency in the entrepreneurial role within the interactive duality of structure and agency in change processes (Anderson, 2000). This is important because change processes are at the heart of entrepreneurship. Yet such economic perspectives can diminish the specific importance of context and the significance of how it shapes what entrepreneurs do (Dana, 2007; Anderson and McAuley, 1999) and how they do it (Anderson, 2005). Bjerke (2013) refers to this issue as the narrow and broad view of entrepreneurship. The narrow view is functionalist and objective and aims at “explaining”. This explanatory view is dominated by economic thinking. In contrast, the broad view is about “understanding” and has conceptual room for the subjectivities that characterise (Korsgaard and Anderson, 2011) and indeed as we argue, define (Anderson and Starnawska, 2008) the practice of entrepreneurship. Moreover, in the narrow view, entrepreneurship appears as little more than functionalist innovative management which hardly does justice to the power of entrepreneurship to bring about change.

Entrepreneurship is concerned first and foremost with a process of change, emergence and creation: creation of new value; but also, and at the same time, change and creation for the individual (Bruyat and Julien, 2001). Entrepreneurs capture or produce change, so that entrepreneurship is the manifestation of change and change is the entrepreneurial milieu. Entrepreneurship works to capture change, employ change and create change as it forms new order, new organisations manifest as new business and new products from the turbulence and chaos of change (Anderson et al, 2012). But whilst change surrounds us constantly and continuously, its shapes, its patterns and formations are unknowable in advance (Anderson and Atkins, 2001). For most people, change challenges and threatens our routines and established practices. But for entrepreneurs this threat becomes a Schumpeterian opportunity. So change is clearly both the milieu and medium for entrepreneurship. Conceptually we can envisage this process as a grand socio-economic experiment; across regions, nations, societies and cultures become the entrepreneurial arenas where individual entrepreneurs try out innovations and new ways of doing. If the innovation works, it creates and embeds change. As Hjorth puts it, entrepreneurship is a ‘handy disturber of order’ (2004), yet, and importantly, it creates new order; such is the nature of entrepreneurial change.

But change arises in the social; most often the economic merely offers signals about change rather than change itself. Of course, societies, like economics do not determine entrepreneurship; nor do entrepreneurs determine society, but they may have considerable impact on each other (Drakopoulou-Dodd and Anderson, 2007). Entrepreneurship is a coming together of the entrepreneurial self and the prevailing circumstance (Anderson, 2000). For example, social structures become the medium and the outcome of interactions

between entrepreneurs and their environment. Structures can both constrain and facilitate human action (Giddens, 1984). As Anderson and Jack (2002) show, change arises within existing structures and entrepreneurial agents of change work from that basis. They describe how structuration theory shows the dynamic nature of the relationship between social structure and entrepreneurial agency, but equally well they might have pointed to how institutions shape what is entrepreneurially possible. Institutions are social formations that represent structure. Indeed, Harbi and Anderson (2010) showed how institutional factors shaped the nature of enterprise in different counties; that is to say, in different social and institutional contexts. It would seem then that entrepreneurially wrought change is in fact socially enacted. Certainly entrepreneurship is about change, and change enacted in entrepreneurship is a reflection that the future will be different from the past (Drakopoulou Dodd et al, 2013). The entrepreneurial promise is that tomorrow will be better than today. This future orientation of entrepreneurship may help to explain the popularity of the concept, in that there are few practices which are so well equipped to deal with the uncertainty of the future. Indeed, Johnes et al (2005) propose that entrepreneurs may be more successful than others in dealing with the chaos that represents the future. It also goes some way to explaining why entrepreneurial outcomes have come to dominate over understanding process.

Yet as we see it, this entrepreneurial capability to work with change is socially enacted. Entrepreneurship, suggest Fuller et al (2005), can be theorised as the production of sustained novelty with theoretically knowable multiple causal mechanisms, but always as socially situated. Indeed, Hytti (2005) suggests that one of the most compelling suggestions has been to view entrepreneurship not merely as an economic activity but also as a social activity, which shapes and is shaped by our society (Steyaert and Katz, 2004). We argue too that the very concept of entrepreneurship is socially constructed. The meanings and contents of entrepreneurship in different places can change over time and place. For example, Dodd et al (2013) and Anderson et al (2009) showed how understandings of entrepreneurship varied dramatically across Europe. Hence, an understanding of time and place become crucial for understanding entrepreneurship itself. But as Zhara (2007) points out, when reading recent entrepreneurship papers, one rarely gets a sense of the substance, magnitude or dynamics of the research context. Thus it seems that all too often our entrepreneurial thinking is swayed by economic outcomes and neglects the social processes that would enable us to understand how entrepreneurship arises and, significantly how processes are contingent on context.

### **Towards understanding entrepreneurship and change**

Pettigrew (1990) argues that theoretically sound and practically useful research on change should explore the contexts, content, and process of change through time. Van de Ven and Engleman (2004) characterise what we earlier called a systems approach, as variance research aimed at *explaining*. They note that despite the many appeals for more event-driven process research, outcome-driven research based on cross-sectional variance methods remains the dominant approach in entrepreneurship research. Interestingly, a principle critique is that this approach cannot take much account of how entities change over time as a result of participating in events. This point is of course the central feature of structuration arguments that show how agents change structure and in turn, structure shapes agency (Anderson and Warren, 2011). Van de Ven and Engleman (2004) explain how variance research is based on a certain way of constructing the object of study which involves cutting up the world into researchable pieces. "The variance approach works perfectly well for examining research questions about comparisons among entities or

relationships among variables. However, in the study of change and development, its assumptions prove too restrictive. An alternative scientific approach that has been articulated in recent years is much better for addressing process research questions". They cite Poole et al (2000; 29) "While the variance approach offers good explanations of continuous change driven by deterministic causation, this is a very limited way to conceptualize change and development. It overlooks many critical and interesting aspects of change processes.....because most organizational scholars have been taught a version of social science that depends on variance methods, and because methods for narrative research are not well developed, researchers tend to conceptualize process problems in variance terms. One can see the 'law of the hammer' in operation here". As Zhara (2007) points out, there is much to be gained from questioning the assumptions of a well established theory. Traditional economic theory has benefited greatly from relaxing the assumptions about equilibrium, opening the door for different predictions that are grounded in the neoclassical and Austrian research traditions. Yet even more requires to be done.

Our central argument is that although entrepreneurship arises in the social sphere and is enacted socially, it is construed as an economic function. As we see it, the powerful economic effects; the attractiveness and sheer desirability of the economic outcomes means that entrepreneurship is all too typically economically interpreted. We argue that this reification of the economic neglects the explanatory power that lies in the social domain. In other words, our understanding of entrepreneurship as a socially embedded process has been overwhelmed by a narrow functionalist perspective. Reflecting on the progress of entrepreneurship scholarship over the last 40 years or so, Steyaert and Katz (2004) regret that it has planted entrepreneurship so strongly in the middle of economic life instead of life *tout court*. Zhara (2007) expands on this; theories are applied to sterile and highly sanitized settings, leaving a major gap in our understanding. In turn, we argue that we have become habituated into thinking and acting as if entrepreneurship was entirely and solely an economic function. As we see it, there is an ensuing conceptual problem arising from the application of this functionalist perspective. What is assumed to comprise entrepreneurship is read back to examine who performs these economic tasks; the assumption of why they perform is determined as an economic motivation. The important question of how entrepreneurship is performed is similarly determined as a largely material process. Whilst this functionalist approach offers some simplicity for analysis, the concomitant and necessary reductionism deters understanding.

### **Explaining versus understanding**

Explanations in entrepreneurship seem focused on establishing what causes outcomes. Most often they are concerned with "testing" existing theory rather than building new theory. Consequently, they are deductive rather than inductive and most interested in establishing the relationships between entrepreneurial variables. However, 25 years ago Bygrave had proposed. 'the emphasis in an emerging paradigm should be on empirical observations with exploratory or, preferably, grounded research rather than on testing hypotheses deduced from flimsy theories.' (1989; 19). Contrast this view with Morris et al (2001) who saw a key objective in entrepreneurship research as building theories and discovering the irrefutable laws of entrepreneurship. A search for explanatory laws seems very much at odds with the understanding suggested by Bruyat and Julien (2001; 177), "to understand an entrepreneurial event, we must first understand the individual and the project, and then the links between them throughout the start-up, survival and/or development process, and

finally the influence of the environment, and hence of other entrepreneurs and the various resources provided by the environment.”

We might compare two well established theories or theoretical frameworks, McClelland's need for achievement and Weber's protestant work ethic to see how the contrast between explanation and understanding works in practice. Both scholars were originally interested in why some nations were more entrepreneurial than others. It is useful to recall how McClelland's (1961) original work was less about personality, but in demonstrating that need for achievement was a cultural characteristic. The presence of this quality became an *explanation* of why some nations are more entrepreneurial than others. But the explanatory concept of need for achievement was taken up as an individual personality trait that *explained* entrepreneurship more generally. With hindsight we can now recognise why the early, but sustained and extensive pursuit of explanation by the entrepreneurial personality (Anderson and Starnawska, 2008) was fruitless. Personality variables without due heed for understanding of the context in which they operate, explain very little. The need for achievement may well be associated with enterprise, but it is also associated with successful criminals! The important point however is that a variable, or in more sophisticated models a number of variables, is constructed and used to explain enterprise.

However, we can usefully contrast this with Max Weber's (1930) Protestant Work Ethic which tried to understand (*versehen* in his words) why Protestants seemed to be more economically successful. Like McClelland, Weber wanted to account for differences. However in doing so, Weber constructed a process account, rather than offering an explanatory variable. He showed how religion promoted deferred gratification which combined with a spiritual engagement with work created a unique socio-economic context that led to economic outcomes. His concept of the protestant work ethic included a number of what would count as variables, but the concept, rather than simply the variables, shows how they combine in a process. The explanatory account uses an understanding to provide explanation. Need for achievement offered a explanation but not much understanding; the protestant ethic provides an understanding which becomes explanatory.

Entrepreneurial orientation (EO) provides us with another example of how a concept is applied to provide explanation. EO was established by the seminal work of Danny Miller (1983) as a composite variable of entrepreneurship, consisting of innovation, risk taking and proactiveness. In 1996, Lumpkin and Dess coined the expression 'entrepreneurial orientation', but added competitive aggressiveness and autonomy to the construct. The original intention was to identify what entrepreneurial qualities a firm might possess, but been hijacked to provide an explanation of performance. In other words (Anderson et al, 2012) it has been taken up to explain various outcomes such as comparative performance or competitiveness of both firms and nowadays individuals. From trying to understand entrepreneurship as Miller had originally proposed, EO and its measurement, has become the explanation. In a similar fashion to the application of the psychological attributes recognised by McClelland, the attribute or quality EO becomes an unquestioned explanation. The issue is often reduced to how much EO is present. As was the case with research employing psychological traits, there is a powerful practical appeal in a readily "measureable" construct that seems to offer explanations of outcomes. But when constructs are simply "read off" in the entrepreneurial process, understanding of nuances, interplay and dynamics are lost.

Entrepreneurship is concerned first and foremost with a process of change, emergence and creation: creation of new value, but also, and at the same time, change and creation for the individual. However, given the variety of different types of entrepreneurship, motivations and contexts, it is extremely unlikely that understanding could arise from any single construct, far less follow any irrefutable laws. Nor is it even likely that purely economic outcomes are the direct rationale for being entrepreneurial. For example; Ssendi and Anderson (2009) in examining poor Tanzanian women's entrepreneurship, found that the motivation was the need for a livelihood to sustain self and family; but this livelihood was as much about social status and position as economic well being. Confidence in the self, an awaking of awareness of ability was both input and outcome of the entrepreneurial process. The end game was indeed economic, but in the entrepreneurial process, economic was only one dimension. Korsgaard and Anderson (2012) looked at a community development, the village of Friland in Denmark. The residents' objective was to escape some of the pressures of the economic by an alternative life style promoting lower levels of consumption. They found that the production of social value was paramount, and economic value generation was at best a secondary motive. We might also consider social enterprises where the economic, making some profit, was the means to the end of creating social benefits (Diochon and Anderson, 2009, 2011). Similarly, McKeever et al (2014) examined entrepreneurship as a community level phenomenon. They found that outcomes were important, but the outcomes were about social well being and that the entrepreneurial processes, as well as the outcomes, were more social than economic. In essence then, across these studies there were no explanatory "laws" that could explain either what was done or why, nor how it was done. Instead there were complex socialised processes, individually enacted that shaped enterprise. Consequently we argue that rather than explaining outcomes produced from some black box of the entrepreneurial process; entrepreneurship is best understood as a complex, deeply socially embedded, system of adaptation. A functionalist perspective simply cannot delve into the black box to provide a full understanding, nor is variance likely to provide an account of process. Nonetheless, regardless of critique, this perspective is very well established, so it may be useful to consider why this is so.

### **The conceptual antecedents of entrepreneurship as an economic phenomenon**

Bjerke (2013) explains that academic interest in entrepreneurship has been around for some 300 years, but for the first 250 years only economists were interested in the topic. Indeed Karp (2006) argues that the entrepreneurial concept is almost as old as the discipline of economics. The functionalist view of entrepreneurship can be traced back the first identification of, and use of the term, the entrepreneur by Cantillon in 1755 (Cantillon, 1931). Hébert and Link (1989) argue that Cantillon broke with convention when he emphasised the economic function of the entrepreneur over their social position. For Cantillon, the entrepreneurial role was simply that entrepreneurs buy at a certain price to sell again at an uncertain price, with the difference being their profit or loss. Stevenson and Jarillo (1990) explain how Jean Baptiste Say (1767-1832) broadened this definition to include the concept of bringing together the factors of production. Redlich (1949) argues that following Say's definition, entrepreneurship began to be considered as an economic phenomenon.

Bruyat and Julien (2001) reviewing the history of entrepreneurship identified the following key authorities; Cantillon: The entrepreneur is someone who assumes the risk and may legitimately appropriate any profits; Turgot and Say: The entrepreneur is different from the capitalist, who assumes the risk or uncertainly—the entrepreneur obtains and organizes

production factors to create value; Schumpeter: The entrepreneur performs the function of innovation that enables the liberal system to persist by going beyond its contradictions. Bruyat and Julien specifically note that all four of the authors cited above worked in an economic perspective and make no attempt to define entrepreneurship as a new field of research. They (2001:177) go on to discuss how some economic views are exceptional in that they try to move the arguments beyond the functions of entrepreneurship. However they also claim that these less conventional economists are mainly interested in the relations between the object created (an enterprise and/or an innovation) and the economic environment. Their goal is not to penetrate the “black box,” or to understand or predict the entrepreneurial event. What they are trying to do is to explain the impact of this entrepreneurial “black box,” with its specific attributes or behaviours, on the economic environment or, conversely, to establish the environmental characteristics that are favourable or unfavourable to the phenomenon. As we see it, this is very useful for explaining outcomes, but not very helpful for understanding what actually goes on.

Regardless of our claims about the economic reification of entrepreneurship, it is paradoxical that entrepreneurship is not, and never has been, part of mainstream economics. Klein (2008) notes how it is largely absent from contemporary economic theory. One exception is the “Austrian” school of economics where the most important economic works on entrepreneurship are Schumpeter’s account of innovation, Knight’s theory of profit, and Kirzner’s analysis of entrepreneurial discovery (1973,1979). These, Klein claims, are viewed as interesting, but idiosyncratic insights that do not easily generalize to other contexts and problems. Baumol (1968) in his usual insightful way explains, “the theoretical firm is entrepreneurless- the Prince of Denmark has been expunged from the discussion of Hamlet. Later (:67) he expands on this, “the entrepreneur has been read out of the model. There is no room for enterprise or initiative... one hears of no clever ruses, ingenious schemes, brilliant inventions, of no charisma or of any of the other stuff of which outstanding entrepreneurship is made: one does not hear of them because there is no way in which they can fit into the model.”

Despite Baumol’s concerns, it may be instructive to consider how economists’ attention to entrepreneurship returned when Arthur Cole set up Harvard’s Research Center for Economic History in 1948. In a rather archaic manner, Cole describes the 20 years at Harvard. Again the emphasis is on the economic, but had shifted to economic outcomes – American economic growth – and the heroic performance of American entrepreneurs, (1968:61), “I would merely suggest that such a heavy fertilization of the area of business could hardly fail to generate in a thousand ways an enhancement of the national income.” Soltow (1968) explains much of this work was descriptive. Moreover, Hirschmann (1958:159) summed up the prevailing view of the entrepreneur, “as a more or less continuous set of functions ranging from the purely innovative to the purely routine”. Perhaps offering the best “explanation” of why entrepreneurship was reified as economic, Wohl (1954) argues their “entrepreneurial” problematic was in discovering how the diverse and separate activities of a multitude of firms can explain the development of a nation. We suggest that this view still prevails, simply because of the recognition that new firm creation is a critical driving force of economic growth (Low and MacMillan, 1988). As we see this history, the understandable concern for explaining entrepreneurial development and subsequent progress simply overwhelmed interest in understanding the complexities of process.

More recently, McMullen and Shepherd (2006) similarly argue that this is a system level approach concerned primarily with how the economic system functions; one that emphasises that the health of the economy depends on the pursuit of opportunities by



prospective entrepreneurs (e.g., Kirzner, 1973; Schumpeter, 1934). There is little interest in who acts; the central issue is whether entrepreneurial action occurs. Moreover, McMullen and Shepherd also note that although these models may be sufficient for examining entrepreneurial action at the system level, they can collapse when applied at the individual level, making them susceptible to confounded theorising and inconclusive or misleading empirical findings.

This then, to borrow from Hirshleifer (1985), means that economics has become a universal grammar of entrepreneurship. It results in what Granovetter (1992) calls economics' imperialism. It seems that from these early beginnings, seeing and explaining entrepreneurship within an economic paradigm has prevailed. In turn this approach has shaped how we should conduct entrepreneurship research. Grant and Perren's (2002) analysis shows a dominance of the functionalist paradigm that pervades the elite discourse of research in leading journals and acts as a potential barrier to other perspectives. More problematically, as Steyaert and Katz (2004) point out, scholarship tends to follow to the path that is already illuminated.

### **Challenges to the economic view**

Granovetter (1992) challenges the dominant economic paradigm on three classic sociological grounds. First, he explains how the pursuit of economic goals is normally accompanied by non-economic goals such as sociability, approval, power and status. As we discussed earlier, our own empirical work clearly demonstrates and confirms this critique. Granovetter's second point is that economic action is socially situated and cannot be explained by individual motives alone. Again this point is well borne out in empirical work that looks at the entrepreneurial process (Anderson and Miller, 1983; Anderson, 2002, Dodd and Anderson, 2007). Granovetter also emphasises how entrepreneurship is embedded in networks of personal relations. Again there is a wealth of empirical evidence to support this view (Jack et al, 2008) along with powerful evidence of how this embedding shapes entrepreneurial practices (Anderson and Lee, 2008; Jack et al, 2010). Granovetter's final point was that all economic institutions (including even banks) are socially constructed. Thus the operations of institutions are shaped by how people understand them and the meanings they decide to attribute.

This notion of gaining an understanding of meanings seems crucial to understanding entrepreneurship itself (Anderson and Smith, 2007). One appropriate and very effective method of tapping into meanings is narrative. As Larty and Hamilton (2011) explain, narrative provides an approach that promises insights into the prosaic or everyday aspects of entrepreneurship, as it is co-constructed through language, as well as a very different angle that helps researchers critically question the way in which they have constructed their own field of research (Steyaert, 2005). Narratives help make clear entrepreneurs own meanings as a form of sense making but also offer sensegiving- how we might understand what they do (Smith and Anderson, 2009).

An excellent example is Dimov's (2010) account of entrepreneurial emergence. Dimov (2010) tells us the story of the emergence of Chegg.com, a college textbook rental company, that shows us the "folly" of trying to reduce this story to a single person, single action, single insight, or any other single factor. Dimov explains how the firm was set up to sell or exchange expensive text books, but that didn't work out very well. What did become the opportunity that was enacted, was a text book rental company. Trial and error, imitation, application and all with others determined this opportunity rather than some economic

determinism of the nature of the opportunity. As Dimov insightfully notes, “constructing its history forward is quite different from reading it backward. The underlying opportunity has been unfolding from a series of actions and events, each dealing with the uncertainty and possibilities of the future from the point of view of a moving present. Looking at the opportunity backward, from the vantage point of the unfolded—and already known—future, the words discovery, recognition, or identification readily come to mind; looking at it forward, into the opaqueness of the future, only groping comes to mind”. So meanings in context and how they impinge on practices seem vital to understanding entrepreneurship, As Weick (1995: 389) suggests, the “key lies in the context—what came before, what comes after”.

### **Implications for research**

If we (our ontology and epistemology) believe that the concept of entrepreneurship is essentially economic, we are likely to be asking the wrong questions and we will fail to arrive at a complete understanding of the entrepreneurial process. For example we saw how the methodological individualism of the isolated individual lead to the early fascination with finding the explanatory traits that explain entrepreneurship. Twenty years of scholarship that seemed to be barking up the wrong tree ensued. We saw how in treating a construct as given, EO became an answer in search of a question, rather than building understanding of the construct itself. Moreover, but similarly, the enthrallment with economic outcomes gave rise to the picture of the entrepreneurial hero. Yet this ignores most entrepreneurship, the everyday prosaicness of being enterprising (Steyaert and Katz, 2004; 189) “a matter of everyday activities rather than actions of elitist groups of entrepreneurs”.

### **Conclusions**

Karp (2006) explains that most approaches to entrepreneurship theory are rationalistic and attributes this, in part, to systems thinking and attempts to apply the method of natural science to human action. He is concerned that entrepreneurship may not be understood merely as an economic but also as a social activity constrained by time and place. Sarasvathy (2001) makes a similar point to stress entrepreneurial contingency. Polanyi's (1957) challenges the assumptions of the classical economics, that there is a socially disembedded sphere of economic relations. Such a challenge also emphasises the interwoven interdependencies of the economic and social spheres and the crucial interplay between social, economic and local institutional contexts. An economic perspective may blinker us to the variety, homogeneity and social embeddedness of entrepreneurship so necessary if we are to understand the phenomenon.

In sum then there is considerable evidence in both theory and practice that a functionalist, but especially an economic functionalist, perspective is simply too narrow, too restricting and too limited in scope to fully develop and understanding of entrepreneurship. For us, this draws out the difference we described in our introduction, the difference between the narrow and broad view of entrepreneurship. The narrow view is functionalist and objective and aims at explaining. This explanatory view is dominated by economic thinking. In contrast the broad view is “understanding” and has conceptual room for the subjectivities that characterise the practice of entrepreneurship. Such a view frees up entrepreneurship accounts from an econometric ghetto to provide a human (Polanyi, 1957) and spatial dimension (Steyaert and Katz, 2004). It allows us to see how context modifies general process and how the entrepreneurial self fits into the prevailing circumstance to bring about change.

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