

DEFINING ENTREPRENEURIAL ACTIVITY:

Definitions Supporting Frameworks for Data Collection

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This paper sets out definitions of the entrepreneur, entrepreneurship and entrepreneurial activity for the purpose of supporting the development of related indicators. The paper recognises the long history in this area and the contention and differences that have existed, and that continue to exist, between academics who have confronted this issue over the last two centuries. As such it deliberately adopts a more pragmatic approach based on two principles – relevance and measurability - resulting in definitions that are developed from both a bottom-up and top-down approach. Importantly the definitions emphasise the dynamic nature of entrepreneurial activity and focus attention on action rather than intentions or supply/demand conditions. The paper concludes with a simple taxonomy of entrepreneurial activity based on the value created and captured by the entrepreneur.

Background

1. In September 2006, the OECD launched a new Entrepreneurship Indicators Programme (EIP) to build internationally comparable statistics on entrepreneurship and its determinants, whose aim is to create a durable, long-term, programme of policy-relevant entrepreneurship statistics. As such, the work involves developing standard definitions and concepts and engaging countries and international agencies in the collection of data.
2. The challenge for the EIP therefore is to define entrepreneurial activity in a manner that will enable valid indicators to be collected and compared across countries, allowing analysts and policy-makers to better understand the factors that influence the rate and type of entrepreneurial activity, as well as the outcomes or impacts of entrepreneurship, especially its contribution to productivity, wealth and employment creation.
3. This challenge is made all the more onerous because of the considerable confusion that exists in the way that people use the term entrepreneurship. For example, defining entrepreneurship has occupied scholars for many years and, indeed, to this day there is still a lack of consensus on its exact meaning. The French economist Richard Cantillon² is generally accredited with being the

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² The word *entrepreneur* itself derives from the French verb *entreprendre*, meaning ‘to undertake’.

first to coin the phrase in the context of what we view today as entrepreneurship in about 1730. Loosely, he defined entrepreneurship as self-employment of any sort, and entrepreneurs as risk-takers, in the sense that they purchased goods at certain prices in the present to sell at uncertain prices in the future.

4. Many eminent economists and scholars including Adam Smith Jean Baptiste Say, Alfred Marshall and Frank Knight elaborated on Cantillon's contribution, adding leadership and recognizing entrepreneurship, through organization, as a fourth factor of production, but the key tenets of risk taking and profit were nearly always retained as important features of entrepreneurship.

5. It was not until Joseph Schumpeter's definition of an entrepreneur in 1934 however, that the more modern interpretation, relating entrepreneurship, additionally, to innovation, entered the mainstream. Schumpeter defined entrepreneurs as innovators who implement entrepreneurial change within markets, where entrepreneurial change has 5 manifestations: 1) the introduction of a new (or improved) good; 2) the introduction of a new method of production; 3) the opening of a new market; 4) the exploitation of a new source of supply; and 5) the re-engineering/organization of business management processes. Schumpeter's definition therefore equates entrepreneurship with innovation in the business sense; that is identifying market opportunities and using innovative approaches to exploit them.

6. However, although Schumpeter's definition embodies a characteristic of entrepreneurship that is widely recognized today, namely, innovation, it still retains some ambiguity that has meant the debate regarding a definition of entrepreneurs/hip continues; although, to some extent, this reflects the definition of innovation, in particular whether it relates to incremental or quantum changes. Moreover, unlike the Knight perspective, for example, the Schumpeterian entrepreneur need not be a risk taker or business owner, for example. Indeed some (Drucker, 1985) have argued that entrepreneurship reflects merely the creation of a new organization and that any individual who starts a new business venture is an entrepreneur; even those that fail to make a profit. Although, it could be argued that this corresponds to Schumpeter's 'opening of a new market'.

7. Indeed, even the OECD itself has contributed to the confusion since virtually every study that has focussed on entrepreneurship has presented a different definition of the term. For example, in an OECD Economic Survey in 1997, it was defined as "the dynamic process of identifying economic opportunities and acting upon them by developing, producing and selling goods and services". In "Fostering Entrepreneurship", it was defined as "...the ability to marshal resources to seize new business opportunities...". In a 2001 publication on Youth Entrepreneurship, the term was equated with self-employment: "... an entrepreneur is anyone who works for himself or herself but not for someone else...". Finally, another 2001 publication entitled Drivers of Growth, referred to, "The concept of entrepreneurship generally refers to enterprising individuals who display the readiness to take risks with new or innovative ideas to generate new products or services."

8. One could go on, reviewing the entire history of entrepreneurship definitions, and indeed we could add our voices to many that have attempted to do so over the years by coming out on side or another but we do not think that this would be particularly insightful nor would it necessarily reflect the primary purpose of this paper.

9. In this context it's instructive to reflect a little on the genesis of many of the definitions developed and argued over the last two hundred years. The key here is that the definitions were largely developed from a philosophical perspective (top-down approach) with, often, little concern as to whether or how these definitions could actually be measured. This approach continues today, even in policy-oriented papers that discuss a concept of entrepreneurship without attempting to represent or measure it using concretely defined statistics or indicators. Other papers bypass the discussion of entrepreneurship definitions altogether and simply equate entrepreneurship to a specific empirical measure (bottom-up approach). Not surprisingly, the measures selected are those based on the most readily available statistics and only rarely do authors attempt to justify or explain how the measures represent "entrepreneurship". Many studies confuse the definition and the empirical measure of the concept defined as entrepreneurship. Thus, many studies state, "we define entrepreneurship as the self employed".

10. Our approach is different in that it looks at the process from both a bottom-up approach, that ensures that definitions are measurable, and a top-down approach that ensures relevance. Indeed the necessity of this overall approach is perhaps best summed up by the economist Peter Kilby³ who, in 1971, compared those who study entrepreneurship to characters in Winnie The Pooh hunting for the mysterious and elusive Heffalump. Like the economists and scholars, familiar with entrepreneurs and their contribution to economic growth, and who have attempted over the years to define an entrepreneur, the hunters in Winnie The Pooh all claimed to know about the Heffalump but none could agree on its characteristics.

11. In this sense one can describe our approach as bringing together the most important characteristics of the Heffalump that are generally agreed on by most academics/policy makers/analysts, whether those characteristics have been formulated from a bottom-up or top-down approach.

The Bottom-Up approach

12. The bottom-up approach bases itself on the measurable characteristics that have commonly been used, in practice, to measure entrepreneurship. It recognises that although the Heffalump is a relatively elusive beast, from a policy perspective at least, it remains broadly understood. Indeed when policy makers refer to entrepreneurship and entrepreneurs they typically do so in the context of identifying the phenomenon, and the individuals involved, as being factors that influence some predetermined policy goal, such as wealth of job creation or income inequality.

13. Our approach is to focus on definitions that facilitate these policy goals, and more specifically provide the basis for indicators that facilitate evidence based policy making. In that sense it is important to recognise an important point. The variety of policy goals and the way in which they can be measured (jobs created, wealth created) immediately points to the notion that entrepreneurship manifests itself in many ways and, so, is a multi-faceted phenomenon that cannot be measured with a solitary indicator but rather a basket of indicators. Moreover it is important to note too that our focus is on defining entrepreneurship from an economic perspective and so we will make no attempt to provide definitions that necessarily embody social entrepreneurship, important as this field is.

³ Hunting the Heffalump, 1971.

14. Fortunately, these key characteristics or indicators have already been summarised in accompanying work of the OECD's Entrepreneurship Indicators Project (Ahmad and Hoffman, 2007), that seeks to build a framework for addressing and measuring entrepreneurship. The paper describes and presents a framework that reflects both the determinants, outputs and most importantly manifestations (performance indicators) of entrepreneurship. And, so, in this paper we merely refer to and cite the list of performance indicators below:

- employer enterprise birth rates;
- rate of high-growth firms based on employment growth;
- rate of high-growth firms based on turnover growth;
- Gazelle rates based on employment;
- Gazelle rates based on turnover; and
- employer enterprise deaths.
- business churn (the addition of birth and death rates);
- net business population growth (a measure of births minus deaths);
- survival rates after 3 and 5 years,
- the number of firms aged 3 and 5 years old as a proportion of all firms with employees;
- the percentage of employees in 3 and 5 year old firms;
- the average size of 3 and 5 year old firms;
- business ownership rates
- business ownership start-up rates
- the value-added share of young firms, and the average productivity of births, deaths, small and young firms and their contribution to productivity growth, the innovation and export performance of small and young firms.

15. That is not to say that the list is necessarily exhaustive nor do the indicators necessarily claim to explicitly measure entrepreneurship nor entrepreneurs per se but they are important proxies that paint a picture of entrepreneurial activity and need to be taken into account in developing a definition that attempts to embody them. Indeed many studies that have used these indicators explicitly recognise their role as proxies. Many of these studies for example restrict the notion of entrepreneurship to those new business owners who are particularly innovative, on the basis that many new business owners simply replicate existing business ideas but data limitations compel them to use indicators of start-ups (whether self-employment, enterprise or employer enterprises) as a proxy measure (typically assuming that some stability exists in the share of innovative start-ups).

16. It may seem somewhat counter-intuitive that the list of indicators used to measure entrepreneurship described in the OECD's framework should precede the development of a definition. The truth is somewhat different however, since the development of a definition has proceeded in line with the development of the framework. Moreover the concurrent approach to

these developments reflects a pragmatism in both the definitions and the framework, which are both driven by the need to meet policy-makers needs.

17. Policy makers are interested in facilitating or encouraging the growth of entrepreneurship because it is recognised as a force for good. These 'goods' or objectives are about creating value in one domain or another, and, as noted above, these can be very diverse. And so 'value' covers both monetary and non-monetary returns. These values are, naturally, identified as objectives or targets by policy makers, who will then develop policies designed to achieve these targets although clearly they are carried out by entrepreneurs and entrepreneurial firms. Some countries for example will focus on entrepreneurship's contribution to economic growth. Other countries however might focus on entrepreneurship's contribution to solving environmental problems or its contribution to social inclusion. Distilling some commonalities, and relating these to the idea of value creation, one can distil the following key elements from the list above :

- entrepreneurship is about the creation of new businesses;
- entrepreneurship creates businesses, pre-existing or otherwise, with typically higher growth than non- entrepreneurial competitors;
- concomitant with the view that, at least some, high-growth enterprises reflect aspects of entrepreneurship is the idea that entrepreneurship can be manifested even in the absence of an entrepreneur. This creates an important distinction between Entrepreneurs and Entrepreneurial Activity. Where there are entrepreneurs there will always be entrepreneurial activity but it is important to note that the latter is not dependent on the existence of the former. This is important because individuals within businesses may demonstrate entrepreneurship without necessarily having a stake in the company. This means that all companies, whether owned by shareholders or trust funds for example and managed/run by salaried directors can still be entrepreneurial and the way they operate their businesses can be of benefit to other businesses owned and managed by entrepreneurs.
- following on from this, is the idea that entrepreneurs and entrepreneurship are not concepts that relate exclusively to small businesses or the self-employed, as many studies, through expedience, have often assumed. Our view is that entrepreneurship as a definable phenomenon reflects certain characteristics that relate to the processes through which it is manifested and this is not uniquely the preserve of small companies or entrepreneurs, important though these are to the entrepreneurial process. Moreover it is important to avoid a definition that is possibly counter-productive from a policy perspective. Clearly, large companies can be entrepreneurial and it is important that these companies are not ignored when formulating entrepreneurship policies
- entrepreneurs are business owners, incorporated or otherwise.

18. None of these measures reflect some of the more precise characteristics normally associated in the literature, and discussed below in more detail, with entrepreneurs/ship, such as innovation and perhaps risk taking, which, is however partly embodied in the idea of a business owner and businesses more generally. However they do all at least, in part, capture the essence of these ideas, and this explains why they are commonly used in entrepreneurship studies.

19. Ultimately when references are made to entrepreneurship it is in relation to the idea that there is something different about entrepreneurial businesses that sets them apart from other businesses. Policy makers are not for example interested in merely encouraging the creation of new businesses as the be all and end all. Their interest is in creating successful and sustainable entities (high-growth companies and gazelles) and indeed the creation of a business environment (competitive) that nurtures and stimulates their growth of, and the growth of more productive, companies in general (hence the encouragement of business creations). No country for example would ever target increased levels of self-employment indefinitely; businesses need employees to grow and to compete and clearly it would not be desirable for everybody to become self-employed in the truest sense of the word.

20. This is why it's important to recognise that the indicators described above are proxies for entrepreneurship. What policy makers are typically interested in, and indeed what the most common definitions embody, as shown below, is that entrepreneurial businesses are in the business of doing something different, new even, and in fairness this is what the most commonly used indicators try to capture. Clearly not all businesses are entrepreneurial despite the fact that they take risks, create products, employment, revenue and taxes. If entrepreneurship studies were just about businesses and the people who owned or ran them, entrepreneurship would just be a euphemism for the general business environment. Indeed not even all new businesses are necessarily entrepreneurial. But clearly, the indicators, proxies or not, provide an indication of the types of definitions needed for both entrepreneurs and entrepreneurship.

21. The indicators described in the framework for entrepreneurial performance therefore should be seen as tools that improve our understanding of 'pure' entrepreneurship and indeed can be viewed as measures that have loose or strict interpretations of 'new' and 'new' can reflect 'new products, processes or markets'. All new businesses or increases in self-employment for example could be considered as creating new markets if one takes a liberal interpretation of 'new' for example. Moving further down the spectrum one could equally argue that indicators of high-growth enterprises, which are more likely to have demonstrated 'pure' entrepreneurship, take us closer to a stricter definition of 'new'. But one still needs to recognise that all along the spectrum the indicators are merely proxies, For example some high-growth firms' growth will not reflect entrepreneurship at all, and indeed, their growth may reflect the very antithesis of entrepreneurship, for example, firms in monopoly positions with rapid growth.

22. In summary, therefore, the list of indicators points to the following: entrepreneurs, and what differentiates them from other business owners, are in the business of doing something different, whether that be through identifying new products, processes or markets that increase the likelihood of success, employment, productivity and efficiency of their company. Entrepreneurs are also involved in the day-to-day running of the company to differentiate them from mere financiers such as business angels, shareholders, silent partners etc. An entrepreneurial company is one that displays the characteristics of doing something different, (new products, processes, markets) but does not necessarily need to have an entrepreneur at the helm. Employees can also be entrepreneurial. Entrepreneurship is also about doing. The creation of a new idea is an important pre-cursor to the creation of an entrepreneur or entrepreneurial firm but entrepreneurialism is not just about thinking. There needs to be some concrete manifestation of the idea and this is reflected in the creation of a business or the embodiment of the idea within a business. That is not to say that indicators reflecting the numbers of creators of ideas are not

important. Clearly they are, as they provide an important indication of the potential for entrepreneurs and entrepreneurship, but one needs to recognise that indicators such as these will be rife with problems for international comparability, reflecting cultural differences as much as real differences in entrepreneurial potential.

Top-Down Approach

“The function of the entrepreneur is probably as old as the institutions of barter and exchange” (Hébert & Link, 1988 p. 8). The study of the entrepreneur also has a long tradition, and yet there continues to be no widely-accepted definition of the term ‘entrepreneurship’ (Hornaday, 1992, Ucbasaran, Westhead, & Wright, 2001, Watson, 2001).

Conflicting Extant Definitions

23. The lack of a single definition is partly due to the differentiated traditions within the field of entrepreneurship research including: anthropology (for example, de Montoya, 2000, Firth, 1967, Fraser, 1937), social science (see for example Swedberg, 1993, Waldringer, Aldrich, & Ward, 1990, Weber, 1898/1990), economics (including Casson, 2003, Kirzner, 1973, Schumpeter, 1934, Shane, 2003, von Hayek, 1948, von Mises, 1949/1996) and management (for example, Drucker, 1985, 1999, Ghoshal & Bartlett, 1995).

24. Conflicting definitions, even within the specific themes, such as economics, which is our key focus, are also due, in part, to the broad contextual focus of the studies, as demonstrated by the variety of entrepreneurship related indicators described above. A smorgasbord of definitions is presented in **Table 1** highlighting several definitional ambiguities. These ambiguities are further complicated by the proliferation of ‘sub-categories’ of entrepreneurship research, which introduce additional terminology including: ‘corporate entrepreneurship’, ‘corporate venturing’, ‘intrepreneuring’, ‘internal entrepreneurship’, and ‘venturing’ (Sharma & Chrisman, 1999).

Table 1 – A Superficial Review of Extant Definitions

<i>Essence of definition</i>	<i>Publication</i>
Entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty.	(Cantillon, 1755/1931)
Entrepreneurs are ‘pro-jectors’.	(Defoe, 1887/2001)
Entrepreneurs attempt to predict and act upon change within markets. The entrepreneur bears the uncertainty of market dynamics.	(Knight, 1921)
	(Knight 1942)
The entrepreneur is the person who maintains immunity from control of rational bureaucratic knowledge.	(Weber, 1947)
The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms:	(Schumpeter, 1934)
<ul style="list-style-type: none"> • the introduction of a new good or quality thereof, • the introduction of a new method of production, • the opening of a new market, • the conquest of a new source of supply of new materials or parts, and • the carrying out of the new organisation of any industry. 	
The entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come he is doomed...	(von Mises, 1949/1996)
The entrepreneur is co-ordinator and arbitrageur.	(Walras, 1954)
Entrepreneurial activity involves identifying opportunities within the economic system.	(Penrose, 1959/1980)
The entrepreneur recognises and acts upon profit opportunities, essentially an arbitrageur.	(Kirzner, 1973)
Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity.	(Drucker, 1985)
The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via ‘internal corporate venturing’.	(Lumpkin & Dess, 1996)
The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.	(Shane & Venkataraman, 2000)
Entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.	(Ireland, Hitt, & Sirmon, 2003)
Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.	(Commission of the European Communities, 2003)

25. However a number of commonalities emerge. Many recognise the risk-taking role of the entrepreneurs; others the role of innovation, or the creation of something new, whether that be a process, product, market or firm, others refer to the arbitrage role of the entrepreneur.

26. The challenge is to marry these commonalities with those identified from looking at the indicators above. First, the idea of risk-taking alone, or a bearer of uncertainty, as defined by Cantillon and Knight in his earlier thinking, seems a bit too broad to be a useful measure of entrepreneurship, at least for our purposes and indeed those of policy makers. Risk takers for example, or bearers of uncertainty, include money lenders, banks etc, and the lending of money, although of itself important to the entrepreneurial process as a form of funding, does not seem in and of itself to be entrepreneurial. The arbitrage view espoused by Walrus and Kirzner appears similarly deficient in this context, particularly given some of the key arbitrageurs in today's modern economies (traders on the money markets). Definitions that reflect risk or arbitrage alone therefore do not stand up to scrutiny as being workable definitions, at least as far as the key policy targets are concerned (both current and potentially those of the future).

27. That said an individual who created a business to lend money for example might be considered entrepreneurial if the firm itself demonstrated entrepreneurial characteristics, such as doing something 'new', as reflected in the definitions of many others, notably Schumpeter and Knight's later thinking, which includes a reference to innovation and change.

28. The idea of risk-taking however cannot be entirely overlooked. Our view however is that the notion of risk or indeed arbitrage is captured within the idea of doing something 'new'. Sometimes the entrepreneur for example creates the arbitrage situation by creating a new product or process for example, or takes a risk by entering a new market.

29. An important and necessary addition to these characteristics for our purposes is in the 'doing' as described earlier. There needs to be some visible manifestation of this doing through the creation of something new that in turn generates value, whether that value is in terms of jobs, wealth or some other policy objective..

Formal Definitions

30. Drawing on the above analysis and arguments, the following definitions of the entrepreneur, entrepreneurship, and entrepreneurial activity are therefore proposed

Entrepreneurs are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

Entrepreneurial activity is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

Entrepreneurship is the phenomenon associated with entrepreneurial activity.

31. . As shown, though we restrict our notion of entrepreneurship to economic activity, we do not simply equate any business activity with the term entrepreneurship. We associate entrepreneurship

with the critical stages of creation and development of new economic activity. Many other indicators already exist to measure all other stages of business activity in a country.

32. Another question that is often raised is whether an entrepreneur must be the owner of a firm. Can employees also be “entrepreneurial”? We recognise that many companies will want to instil an entrepreneurial spirit in their employees and will encourage them to take responsibility and to be creative and innovative. Employees are urged to “take ownership” of particular components of the company’s work and be remunerated accordingly for success. Terms such as intra-preneurship have been coined to describe some of these notions. These are all important activities to measure and will be of interest to those analysing entrepreneurship and its impacts. As stated above, our definitions recognise a distinction between the entrepreneur, who is a business owner, and entrepreneurial activity.

33. Finally, another much-debated notion of entrepreneurship is whether all self-employed are considered to be entrepreneurs, even if they are working independently without employees. Given technology and new business models, even an independent “entrepreneur”, without employees can innovate, implement new products and processes and “grow”. Furthermore, we realise that different countries have different objectives for entrepreneurship policy. Given these different possible policy objectives and other considerations, the definition is set deliberately broad to capture these possibilities. Importantly however it is precise, subject to a certain threshold of ‘new’ being established.

34. In offering these definitions, we realise that they cover only a subset of entrepreneurial activities, as they focus on business owners. The focus on business-related entrepreneurship does not imply that other forms of entrepreneurship are unimportant. It simply reflects a conscious decision to orient the definition towards the economic policy interests of OECD, EU and other countries. The definition facilitates and supports the construction of the framework, referred to above, that improves our understanding and ability to measure the process and outcome of activities that determine business-related entrepreneurship.

35. We do not set out to define what ‘new’ is or how it should be defined. This is deliberate. As discussed above the definition of new is in some respects an issue of convention. The indicators described in the OECD’s framework all implicitly focus on different interpretations of what ‘new’ is, and this, perhaps surprisingly, is one of the strengths of the framework and the definitions, since ultimately it is the role of policy makers to determine the policy goals, and so the types of entrepreneurship and entrepreneurs they wish to foster. Despite this relative ‘vagueness’ the definition also lends itself well to international comparability since it provides the umbrella for comparable indicators to be produced across countries that can be developed in a harmonised way, reflecting different definitions of new. Moreover it is also very easy to define ‘new’ in a more quantitative way as the basis for more focussed analyses and surveys.

36. The annex that follows takes a more detailed look at the various philosophical and theoretical treatises on entrepreneurship definitions and provides a more elaborate description and argument of how these thinkings have influenced our definitions.

ANNEX

There could be seen to be two broad streams of literature that have explored: (i) the entrepreneur’s characteristics and profiles, (ii) the entrepreneur’s processes and activities, and (iii) the impact of entrepreneurial activity. Academics have recently called for researchers to focus their efforts on the entrepreneurial process (Busenitz & Barney, 1997, Davidsson & Wiklund, 2001, Dess, Lumpkin, & McGee, 1999, Sarasvathy, 2004), an approach taken in this paper.

Understanding the Business of the Entrepreneur

Before exploring the nature of entrepreneurial activity, this paper anchors itself in management literature that has explored ‘ordinary’ business activity. As summarised in Table 2, researchers in the field of management have developed frameworks to assess the *external* environmental and industrial structures confronting a firm (based heavily on Porter (1980)) as well as the *internal* resources and capabilities of a firm (based heavily on Barney (1991)). These conceptualisations were developed to assist researchers and practitioners develop and explore strategies that create sustained competitive advantage and earn above-average returns.

Table 2 – Overview of Management Literature

<i>School</i>	<i>Concepts</i>	<i>Key Texts</i>
<i>Markets - the I/O or Market-Based View (MBV) of strategy</i>	<i>Superior firm performance is a result of industry structures. The structure of an industry is considered to have an impact on the conduct and behaviour of its participants, which in turn will impact firm behaviour (hence the Structure-Conduct-Performance framework).</i>	<i>Porter (1980, 1990), Bain (1951, 1956, 1968), and Mason (1939).</i>
<i>Resources & Capabilities - the Resource-Based View (RBV) of strategy</i>	<i>Superior firm performance is a result of valuable resources and capabilities. Resources can be physical (such as property or plant), financial, or intangible (such as brands, intellectual property). They are valuable if they are rare, there is demand for them, they cannot be easily copied or substituted, and they are durable and competitively superior. Resources can be traded (e.g. patents) and are converted into final products or services by using a wide range of other assets. A firm’s capabilities are based on “developing, carrying, and exchanging information through the firm’s human capital” (Amit & Schoemaker, 1993 p. 35)</i>	<i>Penrose (1959/1980) Wernerfelt (1984), Prahalad, Bettis and Hamel (Prahalad & Bettis, 1986, Prahalad & Hamel, 1990), Barney (1991), Castanias and Helfat (1991), Amit and Schoemaker (1993), and Peteraf (1993).</i>

The Market-Based View (MBV) perspective suggests that a researcher studying business activity could focus on understanding how particular industry structures will impact firm performance. For example, whether industries with a particular structure (such as industries with high barriers to entry and rivalry of competition, low threats of substitutes, in which participants enjoyed high bargaining power over suppliers and customers) are more, or perhaps less, 'conducive' to firms' earning super-normal returns.

Alternatively, the Resource-Based View (RBV) perspective could be utilised by researchers to explore how the performance of an organisation related to: (i) their financial, physical or social resource endowments (for example their financial resources or intellectual property), and (ii) how the firm's resources are deployed (as capabilities). In order to generate sustainable competitive advantage, resources "must provide economic value and be presently scarce, difficult to imitate, nonsubstitutable and not readily obtainable in factor markets (Barney, 1991, Dierickx & Cool, 1989, Peteraf, 1993)" (Powell, 1992 p. 552). A firm's capabilities are based on "developing, carrying, and exchanging information through the firm's human capital" (Amit & Schoemaker, 1993 p. 35) and may involve a firm's employees or systems, or be carried in the firm's customer base and their perceptions (e.g. brand) (Itami, 1987). These may be 'super' capabilities which have been referred to as 'core competencies', which are critical to a firm's performance and are typically those involving collective learning and are knowledge-based (Prahalad & Hamel, 1990).

Distinguishing between the resources, capabilities and market impacts on a firm's performance provides the platform for the definition of entrepreneurial activity.

DYNAMIC & INSIGHTFUL ENTREPRENEURIAL ACTIVITY

Returning to the dynamic conceptualisations emphasised in extant entrepreneurship definitions. Entrepreneurship was seen to involve human activity that was not generally done in an 'ordinary business routine' (Schumpeter, 1934, von Mises, 1949/1996). Entrepreneurial activity is differentiated from the relatively 'static' management (*Leitung*) (Hartmann, 1959), and is concerned with the process of change, emergence, and creation (Bruyat & Julien, 2000, Hartmann, 1959, Schumpeter, 1934, Weber, 1947).

Figure 1 – Entrepreneurial Activity in the Commercial & Wider Environment

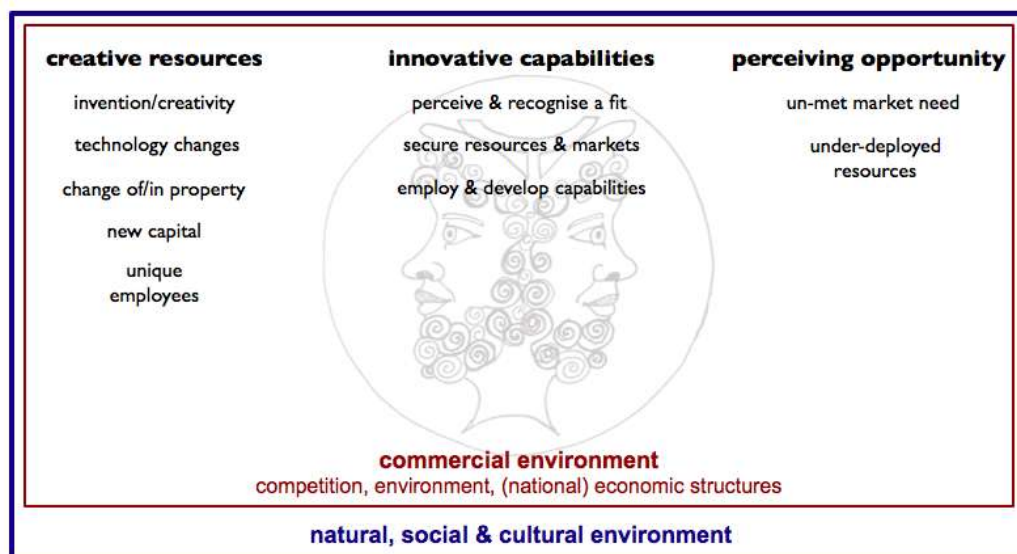


Figure 1 invokes the two-faces of the Roman god Janus to emphasise that the entrepreneur is simultaneously looking back to the resources (and combining them in new and creative ways) *and* forward to markets (and perceiving new or unmet opportunities). The entrepreneur perceives and recognises a fit between the two, a process referred to as innovating. The entrepreneur's activities occur within a business context, which includes industry structures, competition, and national economic structures. This business context is impacted in turn by wider environmental considerations, which include the economic, political, legal, social, cultural, social, and natural settings.

In undertaking such entrepreneurial activities, the entrepreneur is endeavouring to create value. The entrepreneurial community has long recognised the significance of value creation (for example, the venture capital community has this as a guiding mantra), and now management researchers too are increasingly recognising the importance of value analysis (for example (Lepak, Smith, & Taylor, 2007, Styles & Seymour, 2006)).

Understanding Entrepreneurial Activity

This paper focuses a researcher's attention on the understanding of four key considerations: (a) enterprising human activity; (b) the assembly of unique bundles of resources, identification of market opportunities, and/or utilisation of innovative capabilities; (c) the significance of the business and wider environments, and (d) the creation of value. These are now introduced in turn.

a) *Enterprising Human Activity*

Returning to the earliest conceptualisations of the entrepreneur as the person 'undertaking' or 'projecting' into their future (Cantillon, 1755/1931, Defoe, 1887/2001). As noted by von Mises

(1949/1996 pp. 290-91), the entrepreneur “cannot evade the law of the market. He can succeed only by best serving the consumers. His profit depends on the approval of his conduct by the consumers.”

As well as recognising the conceptual importance of action, researchers have included the concept in their definitions of entrepreneurship (Gartner, 1985, Low & MacMillan, 1988, Lumpkin & Dess, 1996). However, entrepreneurship need not be defined by the formation of a new enterprise, for example an entrepreneur may licence an idea or concept to another firm (Shane, 2003). A more appropriate conception is that from Stevenson and Jarillo (1990), who proposed entrepreneurship to be the study of why, how and what happens when entrepreneurs act. Understanding the organising process is one of the necessary elements of entrepreneurship: “Entrepreneurs create new organizations through a dynamic process that involves such activities as obtaining equipment, establishing production processes, attracting employees and setting up legal entities” (Shane, 2003 p. 247)

b) Leveraging Creativity, Innovation and/or Opportunity

To organise the human activities, the analysis now explores the nature of entrepreneurial activities, organising the analysis according to resources, capabilities and markets introduced above.

Resources include access to: (i) physical capital such as property or plant and equipment, (ii) financial capital such as debt finance or equity, and (iii) intangible resources such as intellectual property or technology. These resources can typically be bought and sold by firms or individuals. Changes in these resources can have dramatic implications for firm performance, with changes in these resources typically resulting from (i) creative inventions or discovery, or (ii) unusual and unique combinations of these resources such as venture capital funding. Entrepreneurial activity in ‘creative resources’ is supported by the ‘entrepreneurial community’, which includes venture capitalists, debt providers, and intellectual property lawyers.

Capabilities include the human and social expertise required to leverage a firms resources to market. In an entrepreneurial context, these innovative capabilities include the perception and recognition of a match between creative resources and market opportunities. This may include novel and skilled capabilities as well as unique or unusual social networks and connections.

The perception and discovery of market opportunity is an important focus of entrepreneurship research (Ardichvili, Cardozo, & Sourav, 2003, Gaglio & Katz, 2001, Hills, Lumpkin, & Singh, 1997, Kirzner, 1997, Shane & Venkataraman, 2000), as it is one of the most important abilities of successful entrepreneurs (Ardichvili, Cardozo, et al., 2003) and is one of the core intellectual questions for researchers (Gaglio & Katz, 2001). Market entry need not result in the founding of a new firm or the use of market mechanisms, however “it does require the creation of a new way of exploiting the opportunity (organizing) that did not previously exist” (Shane, 2003 p. 7). This organising is a process (not a state).

c) Operating in Changing & Uncertain Environment

Two influential perspectives on entrepreneurship stem from Joseph Schumpeter and Israel Kirzner: Schumpeter (1934) viewed entrepreneurship as creating market disequilibrium from its

original equilibrium position by generating innovations, i.e., as disruptive. This disruptive entrepreneurship should not be interpreted as destroying and replacing industries with new ones but as bringing change to the market to a greater or lesser degree.

Given the different ways entrepreneurs fulfil their role in the market; it can be argued that Kirznerian and Schumpeterian entrepreneurs could both work simultaneously, as the former engage in arbitrage and the latter in innovation.

Cultural impacts, widely considered in Entrepreneurship literature, are a narrow consideration of the entire environment affecting entrepreneurial activity. These wider environmental impacts include the natural, social and cultural environments. One popular framework for analysing these impacts is the PESTLN framework: political, economic, socio-cultural, technological, legal and the natural environments. These environmental impacts are typically outside the control of the entrepreneur, and outside the control of the particular industry participants.

In addition to the environmental factors, the business environment will impact entrepreneurial activity. These factors could include industry structures, impacted by bargaining power, threats and competitive rivalry. Policymakers can have significant impact on these industry conditions.

d) The Creation of Value

The entrepreneur creates extraordinary value in the sense that their entrepreneurial activity results in sustained competitive advantage and super-normal returns for a number of parties. Innovators (entrepreneurs) enjoy “temporary monopoly power” (Baumol, 1993 p. 6). When imitators see a signal that above-normal gains can be made, they enter and erode the entrepreneurs’ profit and return the market to equilibrium.

As reviewed in Walker and Brown (2004), entrepreneurs have been shown to value a number of non-financial measures of success, including autonomy, job satisfaction, the ability to balance work and family. These are all subjectively and personally defined, however can have a major impact on the decisions and exchanges involved in the creation and exploitation of opportunities.

Similarly, at the firm and national levels, value can include economic, social or cultural significance. Economic value would be considered in relation to an activity’s pecuniary, or dollar, output and include concepts such as economic growth, productivity growth etc. Alternatively, an entrepreneurial undertaking can create *social value* such as personal relationships, poverty reduction, enhancement of job satisfaction or the creation of better jobs. A third value that could be considered in addition to these two extrinsic values is cultural value, which relates to the development of creative or cultural capital.

Entrepreneurial activity results in more than self-employment, and may include returns to employees, shareholders, society (through taxes and other payments), other members of the entrepreneurial community (such as financiers and advisors) and customers (through superior value propositions).

Entrepreneurial value creation and exchange can form the basis of understanding entrepreneurial activity and its impacts at both a microlevel (individual, group) and macrolevel (organisation theory, strategic management, and policy-level). Furthermore, impact of value

creation provides insights into the relationship between new ideas and their exploitation (March, 1991) and the associated differences between value creation and value capture (Lepak, Smith, et al., 2007).

MEASURING DETERMINANTS, PERFORMANCE & IMPACT OF ENTREPRENEURIAL ACTIVITY

It is important for policy-makers and academics to recognise that a suite of data will be required to measure and influence entrepreneurial activity. In addition to the data sourced from national statistical offices, data sets will necessarily include survey and other sources of information.

What the Definitions Do Suggest

The definitions suggest that any indicator should include reference to the value created by entrepreneurial activity, the changes in resources, capabilities and opportunities confronting an entrepreneur, and the business and wider environments that will impact activity. The definitions are proposed to guide the collection and interrogation of data sets.

What the Definitions do Not Suggest

Note that these definitions differentiate entrepreneurial activity from 'ordinary' business activity, and: (i) do not limit entrepreneurial activity to new markets (opportunity) or new products (creative resources) alone, but also includes new processes (innovating), (ii) emphasise entrepreneurial action is manifested rather than planned or intended, (iii) do not equate activity with the formation of any particular 'vehicle' such as incorporated entity or legal structure, and (iv) incorporate economic, social and cultural value created. Addressing each of these issues in turn...

Entrepreneurial activity includes the entry of new markets, the creation of new products or services, and/or the innovation associated with different business activities (new markets, new capabilities, new products/services). Entrepreneurial activity can therefore be associated with organic as well as acquisitive decisions. The essential question relates to whether the activity involves new entry and activity (not how that entry or activity was 'acquired').

Secondly, entrepreneurial activity does not include those people considering or planning entrepreneurial activity. Such phenomena would be considered in relation to cultural or socio-cultural analysis, which may indeed impact entrepreneurial activity indirectly. This could be contrasted with the Index of Total Entrepreneurial Activity (TEA-index) (Reynolds, Bosma, Autio, Hunt, De Bono, Servais, Lopez-Garcia, & Chin, 2005), which measures the ratio of people classified as entrepreneurs to the total adult population. The criteria for classification of 'entrepreneur' is based on whether a respondent is planning to, or owning and managing a business aged between 0 and 42 months (Minniti, Bygrave, & Autio, 2006). The definitions

proposed in this paper do not measure those ‘considering’ entrepreneurial activity, nor does it differentiate between entrepreneurs in new or old ventures. The success of an entrepreneur’s undertaking is based on the strength of their perceived opportunity, innovative capabilities and creative resources. It is not based on their intentions or on a supply/demand equation for entrepreneurs.

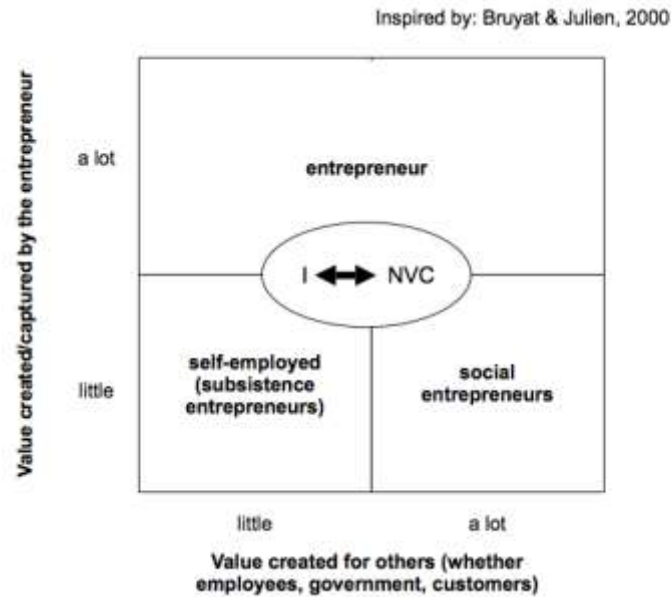
Thirdly, and related to the second point above, there is no particular ‘vehicle’ that is required for entrepreneurial activity to be ‘undertaken’. In developing economies, it may be appropriate for researchers to measure the number or rate of firms entering the formal economy, however for developed economies, an entrepreneur may utilise either an incorporated entity, partnership, or operate as a sole trader as the entrepreneurial vehicle. It may well be that the establishment of new firms can be an important indicator of entrepreneurial performance, however it is not in itself entrepreneurial. For illustrative purposes: The formal establishment of a firm is perhaps one of the *least significant* events that an entrepreneur will initiate. For example, Bhidé (2000) argues that the most critical issue for entrepreneurial businesses is the first large *investment* (and not the establishment of the business).

Finally, entrepreneurial activity does not result in economic impacts alone. There are important social and cultural impacts of entrepreneurial activity. These impacts can affect the narrower business environment or industry, as well as the wider natural, social and cultural environments. Although pecuniary data are often the simplest and most widely available measures available, the definitions do not limit the value considerations to economic outputs alone.

Different ‘Types’ of Entrepreneurial Activity

As has been alluded to in the above review, there are many ‘types’ of entrepreneurial activity, from corporate venturing to social change enterprises. Value created by entrepreneurs can be either captured by the entrepreneur (either a lot or a little) and/or exchanged or shared with others (for example with employees, stakeholders and society).

Figure 2 – Categorising the Impact of Entrepreneurial Activity



Referring to Figure 2, those people creating little personal and little value for others are referred to as ‘self-employed’ or ‘subsistence entrepreneurs’. Traditionally these people have been considered as self-employed or micro-businesses. Those creating value primarily for others are categorised as ‘social entrepreneurs’. Traditionally these people have been considered as volunteers or development workers. The term ‘entrepreneur’ is reserved for those creating significant value or wealth themselves and others. This group of people are often considered in terms of ‘born-globals’ or ‘gazelles’. The framework can also be expanded to a three-dimensional box if it recognises that this value creation can occur in benign or hostile environments (Covin & Slevin, 1989).

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