

Preface to the second edition

I am delighted that the continuing demand for this book warrants the publication of a new edition more than 20 years after it first appeared. Although the book has been in print almost continuously since it was first published, thanks to a reprint arranged by Gregg Revivals some twelve years ago, this is the first occasion on which the text has been revised.

I don't know if other authors have a 'favourite book' amongst those that they have written, but I do – and this is it. I like it in spite of its deficiencies, and to some extent because of them. It is the most ambitious book that I have ever attempted, and I freely admit that it does not entirely accomplish what it set out to achieve. Indeed, attempting to make good the deficiencies of this book has become a major preoccupation of my subsequent academic career.

It is sometimes said that authors 'give birth' to their books, and regard them as their 'children'. Authors are certainly very concerned for the survival of their books – in particular, keeping them in print – as publishers are only too well aware. Pursuing this metaphor, it may be said that writing this book was the most difficult pregnancy I have ever endured (even if it was nowhere near as difficult as the real thing). The reason for the difficulty is that I wrote the book to bring some order into my own thoughts, so that for much of the time during which I was writing the book I wasn't entirely sure what I was trying to say!

Ever since I had been an undergraduate at Bristol University I had been disturbed by the tension between the comparative static method of neoclassical economics and the real-world dynamics of market adjustment. For example, I could never understand why, when demand in an industry increased, it was sometimes firms from outside the industry that entered, whereas in other cases firms already inside the industry expanded existing capacity instead. Moreover, how could the firms that expanded capacity know how many other firms were expanding capacity at the same time, so that just the right amount of additional capacity was created in the industry as a whole? Our lecturers at Bristol were very good at directing us to relevant writers – such as George Richardson and Ronald Coase – but, as is often the case, the answers provided to one set of questions raised new questions too. I eventually came to the conclusion that it was access to information that determined the dynamics of market adjustment, and that entrepreneurship was crucial in understanding

who obtained the relevant information first. This in turn led me to the work of Frank Knight, Friedrich von Hayek, Israel Kirzner and Joseph Schumpeter. Reading these classic writings on entrepreneurship proved immensely stimulating, but it also produced some intellectual ‘indigestion’. The ideas of each author seemed quite different, and it was not clear how they all fitted together. I therefore wrote the first draft of this book simply to sort out my own ideas – to cure my indigestion, in other words.

Some authors claim that writing is a form of ‘therapy’, and from what has been said above it is clear that ‘therapy’ was a motive in the present case. The disadvantage of therapy as a motive for authorship, however, is that the book is written for the benefit of the author and not the reader. If the author has no clear concept of the intended audience, other than people like themselves, then the book is likely to fail in commercial terms. The first edition of this book almost fell into this trap – but not quite. The danger was averted because, through giving seminars to colleagues at Reading and elsewhere, I began to appreciate the wide variety of motives that stimulate interest in the entrepreneur. For many people the major motive for studying entrepreneurship is not pure intellectual curiosity, but rather an admiration for entrepreneurs as successful and wealthy people. In recognition of this, I began the book with a mythical biography of Jack Brash – the stereotypical entrepreneur. If there is one thing that readers of this book seem to remember, it is the story of Jack Brash, which is reassuring in some ways, but rather depressing in others.

The most enthusiastic reviewer of the first edition was Karen Vaughn, who was very supportive of the notion of building a bridge between conventional economic theory on the one hand and the study of real-world entrepreneurship and market processes on the other. Not all reviewers shared her enthusiasm, however. A mathematical economist considered my reliance on diagrams, supported by verbal argument, to be an ‘old-fashioned’ method of exposition. A specialist on small business economics considered the book ‘too philosophical’. Another reviewer confessed that that they could find nothing at all of any substance that was original in the book.

The most perceptive criticisms of the book, in my view, were those which drew a parallel between entrepreneurship and leadership. As already noted, much of the popular appeal of the entrepreneur rests upon the entrepreneur as ‘role model’. People admire the way that a successful entrepreneur inspires their employees to dedicate themselves to the business, and converts their customers into enthusiastic believers in the product. Entrepreneurs benefit society, from this perspective, not only in material terms, but in raising morale, and in doing so they benefit themselves as well. By focusing, as its sub-title suggests, on the strictly economic aspects of entrepreneurship, the book failed to address the social aspects of the subject in sufficient depth.

I was particular sympathetic to these criticisms because I had already come to the same conclusion myself, but only at the end of the book, and without appreciating the full implications of this view. The first edition of this book concluded by looking forward to the emergence of an integrated social science – a social science that could do justice to the social as well as the economic aspects of the entrepreneur. This has provided me with a research agenda which I have pursued steadily over the last 20 years. Readers who enjoyed the book, and are looking for a sequel, could consult *The Economics of Business Culture* (1991), *Entrepreneurship and Business Culture* (1995), *Information and Organization* (1997) and *Enterprise and Leadership* (2000). All of these books attempt to build upon the foundations set out in this book in order to generate a more balanced approach to leadership and to the role of the entrepreneur.

Within the field of entrepreneurship, the ideas presented in this book have been taken up quite widely. The concept of entrepreneurship set out in the opening chapters is the basis for the definition of the entrepreneur used in *The New Palgrave Dictionary of Economics*, *The International Encyclopaedia of Social Science*, the *Fortune Encyclopaedia of Business*, the *Penguin Dictionary of Economics* and the *Oxford Encyclopaedia of Economic History*.

However, the field of entrepreneurship still remains somewhat divorced from mainstream economics. Ever since this book was written, it has seemed 'obvious' to me that entrepreneurship is at the heart of the market process, which is, in turn, supposed to be at the heart of mainstream economics. Entrepreneurs are the personification of the market process: without them, the market system as we know it would barely exist. Some markets might operate as auctions, but the familiar market in which entrepreneurs advertise products they have developed, and quote prices at which they are committed to trade with the public, would not exist without them. It seems equally 'obvious' that flows of information, and not just flows of product, are crucial to economic activity, for without a flow of information no-one would know what products are for sale. Indeed, it could be argued that, in a metaphysical sense, flows of intangible information are more 'real', in the modern economy, than the tangible product flows which they coordinate. Yet mainstream economists continue to emphasize flows of product, and flows of payment, as if they were the core of the economic system.

It is not only mainstream economists that continue to ignore the economic theory of the entrepreneur. Ironically, some researchers on small business do so too. Considerable confusion has been generated over the last 20 years by the mistaken habit of regarding the owners of small businesses as the only true entrepreneurs. Entrepreneurship, as defined in this book, is concerned with the exercise of judgment in all sorts of different business situations, including large-scale technological innovations undertaken by multinational

manufacturing firms and large-scale financial speculations undertaken by international banks. It also includes political entrepreneurship – such as the founding of a new political movement – and criminal entrepreneurship, such as drug-dealing. Some small firms are certainly very entrepreneurial, but others are not. The notion that entrepreneurship is only to be found in small business is a myth, although quite a useful myth for those who wish to subsidize small business, or to win the small business vote. It is unfortunate that this myth has been perpetuated because researchers have taken too little note of the economic theory of the entrepreneur.

When revising a book that is more than 20 years old, a number of issues arise regarding the changes that should be made. To begin with, should the book be thoroughly rewritten and updated? If it were a textbook that had been regularly updated before then it would certainly be sensible to update it again. Recently published work would be cited and discussed, and issues raised by the latest thinking on the subject would be addressed. This book is not a textbook, however, but is intended to be an original contribution to theory. Furthermore, there has been a phenomenal growth in the literature on entrepreneurship in the last 20 years – particularly on the empirical side – and two different edited collections of major writings on the subject have recently been published. To incorporate all of this literature into the new edition would have meant writing a new book rather than producing a new edition of an existing book. I have therefore decided to leave the literature review and references as they were. This will help the reader to appreciate the context in which the book was originally written, and in particular to appreciate the relatively limited resources available to students of entrepreneurship some 20 years ago.

Economic theory has advanced significantly in the last 20 years, notably in the analysis of asymmetric information, which has an important bearing on the theme of this book. However, these advances have been broadly in line with the developments anticipated in the first edition, and so it has not been necessary to amend or correct any of the text in the light of recent work. Because the concept of asymmetric information is now more widely understood, however, it has been possible to abbreviate or omit certain sections of the text in which these ideas were elaborated. Growing recognition of the coordination problems created by asymmetric information means that general equilibrium theory is no longer such a dominant force in conventional neoclassical economics as it was at the time this book was written. To reflect this change, criticisms of ‘neoclassical theory’ in the first edition have been replaced by criticisms of ‘*simple* neoclassical theory’ in this new edition, since sophisticated neoclassical theory is now immune to some of the criticisms advanced in the first edition of this book.

In the light of these remarks, the main changes in this new edition are designed to clarify the arguments which were advanced in the original edition

of the book. The final draft of the first edition was completed in some haste, over a summer vacation. There was no time to put the draft manuscript to one side and return to it later for a final revision. As a result, some rather turgid sections of prose remained in the final version, together with some peripheral material which distracted from the main argument of the book. These problems were recognized in the opening sentence of the original Preface, which began, rather ominously, 'Inside every long book there is a good short book trying to get out.' In response to this problem, the present draft has been slimmed down by one-third – mainly just by eliminating repetition and peripheral material. The benefit to the reader is considerable, as the chapters now 'hang together' much better than they did before.

There is one important part of the book where no changes need to be made, and that is in thanking those friends and colleagues who helped me with the first edition of this book. I should like to reiterate my thanks to Peter Buckley, Paul Geroski, Charles Sutcliffe and Mike Utton for their detailed criticisms of the manuscript, and to Phil Rosson for his advice on the economics of marketing. Nicole Collis typed the manuscript, and my wife Janet helped me to improve the style. Michael Hay (now of London Business School) and Sue Corbett saw the book through the press. Lauraine Newcombe provided secretarial support during the recent revision of the book.

There are two people I should like to thank in particular because they have been involved with both the first edition and the revised edition. The first is Edward Elgar, who originally commissioned this book some 24 years ago when he was an editor with Martin Robertson (a division of Blackwells). I am very pleased that this new edition is appearing under his own imprint. The second is Jill Turner, Executive Assistant in the School of Business at the University of Reading, who has always been on hand to provide advice and support throughout the time in which this book has been in print.

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