Schumpeter's Plea:

Rediscovering History and Relevance in the Study of Entrepreneurship

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Abstract:

Joseph Schumpeter believed that history was essential to the study of entrepreneurship. It is a perspective that has been lost in recent scholarship. This paper shows why this has been detrimental to the field, and explores how the current situation can be improved. We begin by surveying the development of the social scientific literature on entrepreneurship since the field first emerged as an area of academic interest in the 1940s. We show that, despite theoretical agreement on the importance of context in the study of entrepreneurship, empirical research in recent years has ignored historical setting in favor of focusing on entrepreneurial behavior and cognition. The result has been a pre-occupation with high-tech start-ups in the United States, and growing irrelevance from the major issues in the contemporary global economy. The paper outlines ways in which the rediscovery of history can facilitate entrepreneurial studies, using examples from international entrepreneurship. We conclude by arguing that these methods can stimulate the kind of exchanges between the history and theory of entrepreneurship that Schumpeter envisioned.

Joseph Schumpeter began his now-famous 1947 article on "Creative Response in Economic History" with this plea: "Economic historians and economic theorists can make an interesting and socially valuable journey together, if they will" (Schumpeter, 1947). Though his article is most often cited for the distinction it developed between "adaptive" and "creative" responses in business, Schumpeter's main purpose was to call for the extensive use of historical methods in the study of entrepreneurship. To Schumpeter, the very nature of entrepreneurship – the empirical difficulty of identifying it *ex ante*, the way it "shapes the whole course of subsequent events and their 'long-run' outcomes," the great extent to which its character differed from place to place and over the course of time – suggested that a dynamic historical perspective was necessary in studying how it worked within capitalist economies.

The purpose of this paper is to elaborate on the role of historical methods in the study of entrepreneurship. We outline the arguments for why and how historical approaches are essential for understanding entrepreneurial processes. Our more ambitious agenda is to re-stimulate the exchange between historical and social scientific studies of entrepreneurship that Schumpeter envisioned and at least briefly inspired in the decades after World War II. Today, empirical historical research on entrepreneurship and social scientific theorizing about it are separated by a deeper gulf than they were half a century ago. This is a loss to both sides.

The paper begins with a brief survey of the evolution of the scholarly literature on entrepreneurship, paying particular attention to the changing ways in which historical perspective has been used by scholars in the field. We demonstrate that social scientific research on entrepreneurship has displayed declining analytical attention to historical context over the last few decades. The arguments supporting Schumpeter's assertion that "history matters" in the systematic study of entrepreneurship are then outlined. We highlight three specific historical methods that can contribute to the study of entrepreneurship. To ground our discussion, we focus on how historical perspective can contribute to the emerging field of international entrepreneurship. We conclude by suggesting that a fruitful exchange between historical and social scientific approaches offers management scholars an opportunity to gain significant theoretical insights into entrepreneurial process.

Historical Approaches to Entrepreneurship: Evolution of the Literature

Historical perspectives have played a role in the theoretical development of entrepreneurship since the very inception of the concept. J.B. Say, for instance, used the example of the rapid rise of the eighteenth-century English textile industry over the earlier dominance of Belgian woolens and German cotton products to develop the theoretical distinction between "scientific" ability and "entrepreneurial" skill (which he defined as combining together factors of production) and to argue that the supply of entrepreneurship was critical in determining the wealth and growth of a nation's economy. He likewise used the example of the introduction of tea as a commodity in the seventeenth-century Dutch trade with China to extend Richard Cantillon's notion of entrepreneurship as risk-bearing by arguing for what he believed was a defining characteristic of entrepreneurship: running limited-risk experiments when introducing new commodities or entering into new markets (Say, 1855).

However, on the whole, classical and early neoclassical economic thought in the nineteenth and early twentieth centuries eschewed both the notion of entrepreneurship and the legitimacy of historical reasoning. Adam Smith and David Ricardo conceived of no distinctive role for entrepreneurship in even pulling together factors of production, as Say had. Even when the term "entrepreneurship" or "undertaker" was finally reintroduced into economic theory in the second half of the nineteenth century by John Stuart Mill, Francis Amasa Walker, Alfred Marshall and others, it tended to be conceived primarily as a *managerial* function rather than containing the dynamic and innovative connotations that the term's use has today. In his discussion of the "undertaker's" profit, for instance, Mill describes entrepreneurship as the "labour and skill required for superintendence" (Mill, 1848).

Early economic theorists hence left largely undeveloped the concept of entrepreneurship as a source of structural change and productivity improvement within capitalist economies. That theoretical insight emerged forcefully out of the early-twentieth-century work of Joseph Schumpeter. Building on Say's seminal definition of entrepreneurship as the act of combining factors of production, Schumpeter insisted that the essence of entrepreneurial activity lay not simply in pulling together businesses in established ways but in creating "new combinations" (in markets, supplies, products, processes, or organization). Successful new combinations in turn disrupted market equilibrium and were the source of the "entrepreneurial profits" that the economist Frank Knight had begun to explore. The creation of such new combinations, Schumpeter argued, was a constant source of disruptive and fundamental change within markets, industries, and national economies and ultimately defined the chameleon-like character of capitalism itself. "Capitalism … is by nature a form or method of economic change and not only never is but never can be stationary," he insisted in *Capitalism, Socialism and Democracy* (Schumpeter, 1975).

Schumpeter recognized that if his theory of entrepreneurship as the dynamic engine at the heart of capitalism was to have validity it needed to be studied as a historical phenomenon. Social scientific investigation of entrepreneurship needed to focus not only on entrepreneurs and their firms but also on the *structure of and changes in the industries, markets, societies,* *economies, and political systems* in which they operated. Entrepreneurial behavior, in the Schumpeterian framework, made little sense without equal analytical attention to historical context in which it operated. In the 1940s, Schumpeter repeatedly called for empirical historical studies of entrepreneurship. In a series of publications and speeches, he suggested an extensive research agenda that involved collaboration between economic historians and economic theorists around the empirical investigation of how entrepreneurship had shaped the historical development of firms, industries, economies, and modern capitalism itself. "Personally, I believe that there is an incessant give and take between historical and theoretical analysis and that, though for the investigation of individual questions it may be necessary to sail for a time on one tack only, yet on principle the two should never lose sight of each other," Schumpeter wrote not long before his untimely death in 1950. "In consequence we might formulate our task as an attempt to write a comprehensive history of entrepreneurship" (Schumpeter, 1949).

Empirical Research on the Historical Dynamics of Entrepreneurship

In the 1940s a number of economic historians, inspired in part by Schumpeter's plea, began to investigate entrepreneurship as an empirical historical phenomenon. The effort was led by Harvard economic historian Arthur Cole. Echoing Schumpeter, Cole argued that economic and business historians ought to use their empirical research to engage theoretical concepts by focusing on themes or problems that cut across individual firms. The study of Schumpeterian entrepreneurial processes within industries and economies was particularly promising to Cole because it addressed the fundamentally dynamic nature of the historians' subject matter.

Cole's agenda for empirical historical research on entrepreneurship was complemented by the application of sociological theory by two other American historians: Leland Jenks and

Thomas Cochran. In 1944, Jenks used a Schumpeterian perspective to examine railroads as a dynamic and disruptive entrepreneurial force in American economic development. He not only showed how the rise of the railroads had disrupted the equilibrium of a number of industries and markets and created a ripple of business innovations across many sectors but also set an agenda for research on entrepreneurship that extended beyond both neo-classical economists' exclusive focus on rationality and Schumpeter's earlier focus on the heroic individual. "The theory of innovations is neither a 'great man' [i.e., Schumpeterian] nor a 'better mousetrap' [i.e., neoclassical economic] theory of history," Jenks declared. "The innovator is a person whose traits are in some part a function of his sociocultural environment. His innovation is a new combination of factors and elements already accessible" (Jenks, 1944). Over the next few years Jenks and Cochran would elaborate further on the sociological approach to the study of entrepreneurship, drawing particularly heavily on Talcott Parsons' structural-functional theories in order to understand the origins of entrepreneurial "roles" within history (Sass, 1978).

Jenks and Cochran's approach quickly became the dominant approach to historical research on entrepreneurship by the 1950s. Each of them produced empirical studies on the rise of entrepreneurship in the transition to capitalism and inspired a wave of comparative historical investigations that examined the emergence and social conditioning of entrepreneurship in countries around the world (Sass, 1978). In each case, researchers sought to understand how historical context and social structure shaped the emergence, amount, and character of entrepreneurship within a particular national setting. This stream of research resulted in a large body of literature that amounted to the cumulative case that the levels and character of entrepreneurship varied significantly over time and place and was essentially determined by historical and social context (Sass, 1978; Cochran, 1953; Landes, 1949; Landes, 1958; Sawyer, 1954; Cochran, 1959; Kellenbenz, 1953-4; Parker, 1954; Ranis, 1950; Yamamura, 1968; Morris, 1967)

By the 1960s, however, this stream of research was losing momentum among historians. At least in part, this was because a strictly structural-functional approach seemed to yield few insights beyond the notion that entrepreneurship was socially and historically determined. The "iron cage" of historical and social determinism offered few new vistas for research. Historians also lacked comparative methodological advantage when it came to trying to study entrepreneurial traits or "roles" systematically or quantitatively. In contrast, the new organizational approach to business history developed by one of Arthur Cole's protégés, Alfred Chandler, held tremendous promise for systematic new research by a new generation of business historians. Chandler's organizational approach provided an accessible synthetic framework for research into the role of firms in historical change and development. Increasingly, business historians were drawn to the Chandlerian approach rather than to the study of entrepreneurship. In a landmark article in 1970, the historian Louis Galambos declared its triumph when he documented the "emerging organizational synthesis in Modern American History" (Galambos, 1970).

Entrepreneurship as Modernization: The Emergence of Social Scientific Studies

At the same moment that American business historians were shifting their attention from entrepreneurship to organizations, social scientists interested in the subject were embracing a comparative-historical approach in a series of large-scale studies designed to scientifically identify and analyze the key "traits" or "roles" associated with entrepreneurship in modern societies. As a result, historical research on entrepreneurship continued to flourish in the 1960s and 1970s, primarily in the work of sociologists, psychologists, and heterodox economists. Most of the landmark entrepreneurship studies of this era embraced comparative-historical methods as essential to the study of entrepreneurship. McClelland's' *The Achieving Society* examined levels of his achievement orientation indicator over long stretches of historical time (McClelland, 1961). Hagen's *On the Theory of Social Change* analyzed the historical emergence of innovation and technological creativity in England, Japan, Colombia, and Burma (Hagen, 1962). Wilken's comparative study of entrepreneurship delved even further into the histories of Great Britain, France, Germany, Japan, the United States, and Russia (Wilken, 1979). Moreover, the social scientific research of this era explored for the first time into the historical record on entrepreneurship in the developing regions of Africa, Latin America, and Asia (Kilby, 1971; Leff, 1979).

In large part, the historically oriented research of the 1960s and 1970s was an extension of the sociological approach to entrepreneurial history that Jenks and Cochran had developed two decades earlier (Kilby, 1971). On the whole, most researchers continued to view entrepreneurial behavior as determined by one's social environment. But *unlike* the earlier work, the social scientific research of the 1960s and 1970s was shaped by a narrower conception of historical context; it focused on identifying specific "traits" or "personalities" that were considered markers of a distinctively "modern" outlook. The older historical literature sought to understand the substantial *variations* in entrepreneurship caused by historical and institutional context. In contrast, the newer social scientific work searched for what were believed to be modal traits and personalities that distinguished modern societies from pre-modern ones. Sociologists, for instance, focused on theories that considered the role of social norms and legitimacy as well as social mobility in understanding the supply of entrepreneurship in a society

(Wilken, 1979; Marris & Somerset, 1969; Parsons & Smelser, 1956; Lipset, 1967; Hoselitz, 1957; Katzin, 1964). Psychologists focused on such factors as the achievement-orientation and status-orientation of individuals within a population to consider their likelihood of engaging in entrepreneurial behavior (McClelland, 1961; McClelland, 1965; McClelland & Winter, 1971; Hagen, 1967; Hagen, 1963). In each case, researchers heralded the "trait" or "personality" or "orientation" as uniquely modern.

The narrower focus of entrepreneurship research in the 1960s and 1970s was the result of the adoption of a relatively rigid theory of historical modernization. Modernization Theory was spurred by the Cold War and decolonization and emerged in large part as a prescriptive theory of capitalist development for less developed countries. Modernization theorists posited that a particular formula of social changes, including the unleashing of entrepreneurial creativity, had formed the basis of sustained economic growth among wealthy Western countries and that similar changes would inevitably spark the "take off" of developing economies (Rostow, 1960; Rostow, 1963; Weiner, 1966). Rather than identifying historical and institutional variation around the world, social scientists focused on what they conceived as the *one* historical path to modernity (Wilken, 1979). History assumed the role of an instrumental tool in the social scientific search for the causes of a supposedly unique set of entrepreneurial "traits" and "personalities."

The empirical research, however, belied the theory because it persisted in identifying *different* critical traits. In a 1971 critique, the economist Peter Kilby famously compared the growing body of entrepreneurship research to the search for the imaginary Heffalump in A.A. Milne's *Winnie the Pooh* (Kilby, 1971). The problems with personality-oriented research on entrepreneurship were exacerbated as the broader framework of modernization itself came under attack for disregarding the diversity of options that developing nations encountered, as well as the historical interrelations between national economies that had created structural inequalities in power and wealth between nations (Leff, 1979; Wallterstein, 1974).

The sharp critique of early modernization theory sapped much of the explicit motivation for the social scientific research on entrepreneurship. As social scientists interested in long-term development adapted to the critique, they placed increasing focus on the specific economic and institutional circumstances that nations faced, giving far less attention to understanding the complex non-economic determinants of entrepreneurship. By the end of the 1970s, entrepreneurship was dying as a topic of inquiry among social scientists, as it had done among historians a decade earlier (Leff, 1979). A striking, but neglected, exception, was the work of the economist Mark Casson, who in the context of developing a formal economic theory of the entrepreneur, explicitly sought to relate it to historical patterns of economic development, and to explore societal, religious and cultural determinants (Casson, 1986, 1990, 1995 and 2003).

The Behavioral Approach to Entrepreneurship and the Decline of History

At the very moment that sociologists, psychologists, and economists were shifting their focus away from entrepreneurship, the topic was gaining increasing attention among management scholars. From the late 1970s, a number of conferences organized by management scholars focused specifically on the problems of small business and entrepreneurial management. A decade later several of the field's major journals were launched (Cooper, 2003).

At first, the emergent management research on entrepreneurship picked up where the social scientific research had left off, searching for entrepreneurial "traits" and personalities.

Much of this scholarship focused on the question of who was likely to start a business (Brockhaus, 1975; Brockhaus, 1980; Hochner & Ganrose, 1985; Rowen & Hisrich, 1986). Unlike the earlier historical and social scientific work on the social and cultural origins of entrepreneurship, however, this search for archetypal personalities was almost completely divorced from considerations of historical context. By the late 1980s, a number of management scholars, most notably William Gartner, Ian MacMillan, and Murray Low, had served up sharp critiques of the research on entrepreneurial personalities, describing it as "inherently futile" absent an understanding of the context and economic processes in which entrepreneurs operated (Gartner, 1988; Shaver, 1995; Low & MacMillan, 1988).

The growing critique of trait-oriented research led to the publication of a number of landmark studies advocating instead a focus on the observable behaviors of entrepreneurs. Stevenson and Jarillo astutely pointed out that much of the previous social scientific research had focused either on the causes of entrepreneurial behavior or its consequences, with surprisingly little empirical research on what entrepreneurs actually do. They suggested studies on "the different life cycles through which new ventures pass," "the problems entrepreneurs face as their companies mature," and the role of networks in entrepreneurship (Stevenson & Jarillo, 1990; Gartner, 1985; Low & MacMillan, 1988). More recently, management scholars working in the field have added cognitive research to the behavioral approach in order to emphasize the "opportunity identification" aspects of the entrepreneurial process (Shane & Venkataraman, 2000; Kreuger, 2003; Shane and Eckhardt, 2003).

The behavioral and cognitive approaches that now predominate are starkly different in assumptions and method from the historically and socially contextualized early studies of entrepreneurship. The earlier scholarship's focus on the historical and social determinants of entrepreneurship had rendered entrepreneurs as captives of their historical and social contexts. In focusing on individual behaviors rather than contexts, management scholars have implicitly reasserted the fundamental agency of entrepreneurs and opened up directions for research that were foreclosed by the "over-determined" nature of the earlier scholarship. The new behavioral approach has in turn yielded new and important insights into how entrepreneurs operate. Particularly strong streams of research have developed on the financing of new ventures; the role of entrepreneurial networks in assembling resources; issues of organization formation and governance in new ventures; the dynamics of entrepreneurial districts; entrepreneurship among larger, established firms; and the role of alliances with universities and other institutions (Gompers & Lerner, 2000; Berger & Udell, 2003; Larson, 1992; Stuart, 2000; Gardner & Carter, 2003; Wasserman, 2003; Saxenian 1998; Feldman, 2003; Rosenberg, 2003). Promising new streams of literature have emerged on, among other topics, the internationalization of new businesses (Dana, 2004; Oviatt & McDougall, 2005; Kummerle, 2002; Kummerle, 2005; Knight & Cavusgil, 1996; McDougal & Oviatt, 2000; Oviatt and McDougal, 1994; Wright & Ricks, 1994) and entrepreneurship policy (Hart, 2003; David Storey, 2003).

However, as the behavioral approach to entrepreneurship matures, it has become increasingly clear that much of this work has unmoored entrepreneurial phenomena from the historical and institutional setting in which it is embedded. While the older generations of entrepreneurial studies suffered from an overly deterministic role for history and the social environment, the newer scholarship seems to largely ignore the broader context in which entrepreneurial individuals and firms operate. Recent studies that have tracked entrepreneurship literature over the previous 15 years found a strong trend toward studies of entrepreneurial processes at the individual and firm level with sharply declining analysis at the level of industry, region, or economy. One analysis of trends in the mainstream management literature on entrepreneurship found that between 1988 and 1998, publications that analyzed entrepreneurial phenomena beyond the level of the individual and the firm – i.e. at the levels of the industry, region, or economy – had declined from 34 percent to 22 percent (Davidsson & Wiklund, 2001; Chandler & Lyon, 2001). Rarely are studies longitudinal. Chandler and Lyon found that a mere 7 percent of studies included multi-year analysis of any sort, and most of these were short in duration (Chandler & Lyon, 2001). And the settings for research are highly skewed toward high-technology companies in a few regions of the United States. In other words, generalizations are being developed using empirical evidence from an exceptional and atypical industry and location.

The declining attention to historical context in empirical entrepreneurial research over the last two decades is perplexing, especially given the widely espoused stance in the theoretical literature that entrepreneurship *needs* to be understood as a *dynamic* phenomenon operating in *specific* contexts. Low and MacMillan, for instance, emphasized that the purpose of entrepreneurship research should be to "explain and facilitate the role of new enterprise *in furthering economic progress*." "This means we may be concerned with the fate of the individual entrepreneur, the progress of an entire industry, or the impact of that industry on society as a whole," they explained (Low and MacMillan, 1988). While pointing to multiple levels of analysis, they emphasized that because of its nature, entrepreneurial phenomena needed to be studied simultaneously at the micro (individual, firm) and macro (industry, region, economy) levels because of the interaction between the two. It also needed, they insisted, to be studied over long periods of time. "For entrepreneurship research this is extremely important," they wrote. More recently, Shane and Venkataraman have chided entrepreneurship scholars for focusing just on “who the entrepreneur is and what he or she does” without understanding the specific context for “the presence of lucrative opportunities” (Shane & Venkataraman, 2000). Like Low and MacMillan, they have emphasized that one of the primary reasons for studying entrepreneurship is to understand it as “the crucial engine driving the change process” in “a capitalist society” (Shane & Venkataraman, 2000).

A number of recent developments suggest that the moment is ripe for a reintroduction of the study of the historical dynamics underpinning entrepreneurial processes. They also suggest that the potential insights from re-integrating history are great. First, there is a growing interest in evolutionary economics (Galambos, 2003; Nelson & Winter, 1982; Aldrich, 1999). Evolutionary approaches have reintroduced the process of change into management scholarship and, to some extent, reinvigorated interest in historical particularity and context for understanding the competitive dynamics of firms (McKelvey, 1996; Murmann, 2003). Perhaps the most important and extensive application of evolutionary theory has been to the development of national innovation systems, but some fruitful work has also begun on applying evolutionary methods to understanding entrepreneurial processes and their effects on industry structure. The growing interest in historical institutionalism among management scholars is a second major development that may serve as a means for reintroducing historical context and particularity back into the study of entrepreneurship. Institutionalism focuses on how the historical development of certain kinds of rules (e.g. laws, norms, rights) affects the nature of competition and innovation in industries. Research on the “co-evolution” of institutions and organizations has the potential to deliver powerful insights on how entrepreneurship affects long-term changes in social and economic institutions as well as in their own organizations (Murmann, 2003; Murmann, et al., 2003).

A recent renewal of historians' interest in entrepreneurship also suggests that there is now potential for the re-integration of history and theory. Business historians have begun to revisit thematic issues about founders, entrepreneurial finance, and innovation. (Cassis & Minoglou, 2005). A new generation of scholarship on entrepreneurial "diasporas" has likewise re-introduced the issue of entrepreneurial subjectivity in historical analysis (Oonk, 2004; McCabe, Harlaftis, & Minoglou, 2005).

It is far too early to claim that these developments constitute a convincing "trend" toward re-historicizing the study of entrepreneurship. But an emerging awareness among some entrepreneurship scholars that the study of entrepreneurship, by its very nature, needs to address issues of historical change in capitalist economies suggests that the potential for new historically-informed research and synthesis is great. In the final essay in the *Handbook of Entrepreneurial Research*, Rita Gunther McGrath makes precisely this Schumpeterian point to organize her ideas on where research in the field needs to go. "In capitalist systems, to study entrepreneurship is to study its fundamental workings," she asserts. "The study of entrepreneurship is fundamentally about the process of economic change" (Gunther McGrath, 2003). "We view entrepreneurship as what happens at the intersection of history and technology," write Zoltan Acs and David Audretsch. "History is the written record of everything that has happened in the past, and technology is a way we view the future" (Acs and Audretsch, 2003).

The next section examines more closely the questions of how and why history matters to the empirical study of entrepreneurship.

Reintegrating Historical Approaches in Entrepreneurship Research

In this section, we examine more carefully the basis for the claim that an understanding of historical context is critical for identifying and meaningfully studying entrepreneurial behavior. We outline three specific ways in which history matters when making meaning out of entrepreneurial behavior and we provide illustrations of how each method fundamentally affects our understanding of central concepts in the scholarship. To ground the discussion, we apply the methods to the emerging field of international entrepreneurship.

We begin by discussing how *variation in historical setting* affects the kinds of generalizations we can and cannot draw about entrepreneurial behavior. Next we consider how historical *path dependence* affects entrepreneurial cognition and behavior in the present. Finally, we examine how deep *historical institutions* affect and are affected by entrepreneurship.

Variation in Historical Context and the Scope of Entrepreneurial Behavior

At a basic level, an understanding of historical context – the broader industrial, economic, and social setting for a study – is critical for drawing sensible generalizations about entrepreneurial behavior. In particular, an understanding of the historical context for a study helps correct for the empirical bias created when trying to make generalizations using a narrow band of evidence centered on the present.

Historicism is predicated on the understanding that the *foundational basis* of social behavior varies significantly over time and place. A theoretical generalization that may be valid today may not be applicable to behavior in the past or the future. Likewise, behavior that is entrepreneurial and the source of creative destruction in the context of American capitalism may simply be destructive and lack any meaningful sense as productive entrepreneurial behavior in the context of Japanese capitalism. Historians often deal with this by delineating “periods” or “eras” when foundational assumptions about behavior appear to be coherent.

The purpose of understanding this type of historical and geographic variation in context is not necessarily to create "general theories" of entrepreneurship that transcend all time and place but rather to create valid generalizations that hold true for meaningful boundaries of period and geography. While it may be feasible to make some general theoretical propositions, the wide variation in entrepreneurial behavior over geographic and historical context practically ensures that they are likely to be so broad and abstract as to lack useful explanatory force in understanding particular entrepreneurial actions. To develop useful mid-level theories of entrepreneurship, then, we need to recognize how the value of those theories is bounded by time and place (Hodgson, 2005).

The practical implication for social scientists interested in studying entrepreneurship in the present is that an understanding of historical context matters for the kinds of generalizations we draw based on studies of our own time and place. In particular, an uncritical or misguided understanding of the context often leads to two types of fallacies in generalizations based on studies of entrepreneurial behavior in the present. One type of fallacy, indeed the most common, is that the model or finding is assumed to be applicable to behavior in the past and in the future – i.e., to be timeless. The other type of error, often found when social scientists generalize based on fast-changing entrepreneurial behavior in the present, is that the phenomenon (or its pace of change) is either fundamentally new or is *sui generis*.

The entrepreneurship literature on so-called "born-global" companies provides one illustration of how temporal bias toward the present combined with a lack of critical examination of historical context can easily lead to inappropriate generalizations based on claims of "newness." A "born-global" firm is usually defined in the entrepreneurship and international business literatures as a start-up company that "from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt and McDougall, 1994). The number of such start-ups, limited to a few just two decades ago, has soared in recent years. Moreover, these "born-global" firms seem to fit poorly into multinational theories of staged internationalization, in which a firm develops specific ownership advantages in its home market before incrementally moving into similar types of markets abroad. Focusing on the rapid rise of such companies in the last two decades, entrepreneurship scholars have concluded that we are seeing the emergence of a new organizational form that, some argue, requires new theories and even the formation of a new subfield: international entrepreneurship (Dana, 2004; Oviatt & McDougall, 2005; McDougal & Oviatt, 2000). The rationale for treating this behavior as unprecedented is based on the assumption that its social foundations are new. Dana, Etmad, and Wright, for instance, assert that during the nineteenth and most of the twentieth century "entrepreneurship took place within the firm-type economy, in which industry and trade primarily evolved within a set of impersonally defined institutions." They contrast this with an "emerging scenario: where relationships play a more important role in business decisions, and transactions have become less standard … the unit of competition is no longer the individual firm but rather its position within a multi-polar network of relationships" (Dana, Etemad, & Wright, 2004).

In historical reality, however, new global start-ups founded based on network relationships are not new. While the majority of *American* firms have traditionally expanded abroad incrementally, "born-global" strategies were an integral part of European start-ups and new firms in the nineteenth century. On the eve of World War I, for instance, there existed thousands of British "born global" companies that operated exclusively in foreign countries based on existing relationships with other firms. Similar patterns existed for companies from many small countries with limited domestic markets (Wilkins & Schroter, 1998).

The purpose of highlighting this literature is not to make pedantic historical points about adhering to "accurate facts" but rather to point out that a better understanding of historical context fundamentally re-casts the generalizations that can be made based on the current social scientific research on the behavior of born-global companies. An understanding of the geographic and historical context for the study of modern American born-global companies makes it clear that studying the entrepreneurial behavior absent a critical understanding of context leads to problematic assumptions and generalizations about the unprecedented nature of the born-global strategy. The inappropriate foundational assumption about the "newness" of the born-global phenomena in turn leads to inappropriate generalizations and conclusions about the reasons for this "newness." An understanding of historical context makes it clearer that the appropriate assumption for studying American born-global companies is not why born-global strategies are new but rather why the internationalization behavior of *American* firms changed.

Just as a lack of understanding of historical context can lead to unfounded claims about radical changes in entrepreneurial behavior, it can also lead to the creation of general theories espousing inappropriately timeless and unbounded generalizations based on studies of behavior in the present. Entrepreneurship scholars have recently devoted much energy and attention to developing "general theories" of entrepreneurship that transcend time and place based on the belief that such theory-building will significantly strengthen and bring coherence to a fragmented field with research from many disciplines. In particular they have tried to identify the *essential* or *universal* elements of entrepreneurial behavior and cognition in order to delineate a unique and consistent domain for entrepreneurship research (Shane and Venkataraman, 2000).

The limits and problems of such general theories usually lie in the great level of abstraction necessary to achieve something approaching claims that transcend history and geography. Abstracting from studies of entrepreneurship in developed Western countries in recent years, scholars seeking to develop a general theory have focused on a combination of behavior and cognition related to the identification of new opportunities and the assembly of scarce resources or factors of production. The limitation of such theorizing is that these general propositions explain relatively little when they are held up against specific, grounded entrepreneurial cases or situations in context. The pursuit of new economic opportunities, in particular, can in fact be applied so broadly as to encompass, with little distinction or analytical usefulness, a virtually endless variety of behavior.

This problem with timeless general propositions is highlighted as we slowly move our focus away from what is intimately familiar to management researchers — businesses in developed economies in the present — to geographically and temporally more distant contexts. While one might still use the defining generalization of entrepreneurship as the pursuit of new opportunities, it becomes clear that general theory explains very little of the most interesting and important variation in entrepreneurial behavior. In this landmark 1971 article, Peter Kilby struggled with precisely this issue in trying to identify a useful cluster of behaviors to delineate as entrepreneurship. Drawing on his own studies of entrepreneurship in West Africa, he argued that neoclassical views of entrepreneurship that emphasized new opportunities and the assembly of resources were too limited to capture behavioral reality of what African entrepreneurs actually did. Kilby pointed out that, in Western economies, stable political-legal processes and a market for good managerial talent could simply be acquired from the environment or market. Western neoclassical thought had hence focused on the opportunity identification and resource-assembly aspects of the creative and unique work of entrepreneurs that could *not* simply be acquired through external market mechanisms. In developing countries, however, entrepreneurs usually needed to create these elements of political-legal process and sound managerial control in order to launch a productive new business; because of their lack of availability in the market or environment, these functions were in fact essential elements of entrepreneurship (Kilby, 1971). Kilby's point highlights the limitations of timeless and boundless general theoretical abstractions about entrepreneurship in meaningfully capturing the significant contextual variations in entrepreneurial behavior.

It is important to understand that the need to establish historical and geographic boundaries for studies of entrepreneurial behavior is not the same as suggesting that theory itself is unimportant or useless; history and theory are not antithetical. Rather, it is to argue that time and geography often act as fundamental boundary constraints that need to be taken into account in developing more useful generalizations about entrepreneurship. Entrepreneurship remains fundamentally contingent on historical context.

Indeed, William Baumol's well-known essay on productive, unproductive, and destructive entrepreneurship provides an excellent illustration of how a critical understanding of historical context and variation can help create useful and robust generalizations that are nevertheless bounded by time. Building on theories of the supply of entrepreneurship, Baumol argues that, in fact, the allocation of entrepreneurship between productive and unproductive ends varies much more widely than the total supply of entrepreneurial skill and hence is more important to long-term innovation and productivity growth of a society. The development of this theoretical concept, for Baumol, depends primarily on his use of historical variation in patterns of entrepreneurship over time, since contemporary evidence provides little in the way of sufficient differences to substantiate his claim. “Since the rules of the game change only very slowly,” explains Baumol, “a case study approach to the investigation of my hypotheses drives me unavoidably to examples spanning considerable periods of history and encompassing widely different cultures and geographic locations” (Baumol, 1990). Baumol shows how the nature of entrepreneurial behavior has varied significantly based on the institutional foundations of a society.

Understanding the historical context for studies of entrepreneurship is hence essential in shaping the generalizations that social scientists draw from studies of entrepreneurial behavior. Entrepreneurship, in almost all approaches, is theoretically conceived as context bound. Thus, even the most carefully defined studies of entrepreneurial behavior that ignore historical context are likely to render mis-specified generalizations about the entrepreneurship.

The Influence of Historical Path Dependence on Entrepreneurial Choice

Variations in historical context that create fundamental variations in entrepreneurial behavior provide one methodological reason why history matters. For most historians, however, it is not sufficient to simply consider the variations in context and behavior; it is also necessary to understand the particular sequence of variation over historical time. Unlike strictly atemporal versions of social science, historical methods fundamentally assume that past choices and behaviors change the conditions under which present and future ones are made. Under these methodological conditions of path dependence, history matters for a reason other than simple temporal variation; the past is important to study because it directly constrains the behavior under consideration. “[I]t is sometimes not possible to uncover the logic (or illogic) of the world around us except by understanding how it got that way,” economic historian Paul David has explained. “A path-dependent sequence of economic changes is one of which important influences upon the eventual outcome can be exerted by temporally remote events, including happenings dominated by chance elements rather than systematic forces” (David, 1985).

Path-dependent historical methodologies have, at least in name, been increasingly adopted by social scientists, particularly those studying the “evolution” of organizations and industries (Nelson and Winter, 1982). They have, however, generally been overlooked by social scientists studying entrepreneurship. This may be attributable, in part, to an assumption that *de novo* startups and entrepreneurial behavior more broadly are less subject to path-dependent processes and constraints on behavior than established firms. But we believe that for most of the topics that scholars of entrepreneurship actually study, path-dependent assumptions are far more sensible than the atemporal ones often used. In understanding founder backgrounds and the identification of new opportunities, in specifying how resources flow (or do not flow) to new opportunities, in understanding the success or failure of novel ventures, in conceptualizing incumbent-new venture dynamics, and in understanding spillover and spawning patterns, to name just a few, path-dependent processes can play an important role.

Path dependence is most obviously useful in understanding corporate entrepreneurship and internationalization, because established corporations have an undisputable historical record that can be examined as a source of influence. Mira Wilkins’ path-breaking work on the history of multinationals over the last four decades provides an excellent example. As early as 1969, Wilkins criticized the insufficiency of international business theories based purely on comparative advantage and strategic thinking, using evidence from the history of early American multinationals to demonstrate the importance of evolutionary choices in entrepreneurial decision-making. (Wilkins, 1969, 1970).

As Wilkins' research shows, path-dependent reasoning is critical for understanding entrepreneurial decision-making processes in established corporations. But path-dependent methods are often crucial for understanding entrepreneurial decision making in *de novo* companies as well, in large part because founders and investors of new companies are often themselves acting within path-dependent constraints that are easy to miss if researchers focus on their behavior and slight the broader context. Jones's research on the history of British-based international business groups includes an examination of "born global" companies established in the late nineteenth century. These start-ups created natural resource or infrastructure-building businesses in foreign countries with no apparent strategic advantages aside access to British capital markets. At first, they seem — like other *de novo* start-ups — to be fundamentally free from the constraints of past decisions and routines. However, Jones shows that such apparently *de novo* companies typically spawned from pre-existing British merchant houses doing business in those regions. The start-ups were founded to pursue new spillover opportunities, but maintained on-going links to their parents through equity, debt, cross-directorship, and other connections.. These start-ups can best be understood as spin-offs resulting from the path-dependent evolution of the trading companies. As the companies expanded operations from trading to financial and insurance service suppliers and eventually into local construction and production, they often created closely allied small independent companies that focused on particular kinds of operations (Jones 2000).

Historical path dependence thus helps us understand how entrepreneurial behavior is constrained or enabled by previous choices and developments at the firm and industry level. A cross-sectional or short time-series perspective is inherently limited in its ability to identify these constraints. For instance, theories of internationalization based on ahistorical factors (such as ownership, location, and transaction cost advantages) often fail to account for the cumulative processes that work to constrain or enable behavioral choices. Historical or evolutionary approaches are hence critical for understanding how the previous behavior of firms, individuals, and stakeholders affect entrepreneurial cognition, choice, and action in the present.

The Role of Historical Institutions in Shaping Patterns of Entrepreneurship

The scholarship that uses path-dependent historical reasoning to understand the behavior of firms and entrepreneurs tends to focus primarily on the role of the historical choices and behaviors of the specific agent (the entrepreneur or firm) under consideration. Both Wilkins and Jones, for instance, focus on how firm and business-group evolution shape entrepreneurial choice. Path dependence is less frequently evoked in considering how history shapes other factors that can condition entrepreneurial behavior or choice in the present. The most common method by which these other historical factors are taken into account in social scientific reasoning today is through historical institutionalism (Hodgson, 2004). Institutionalism is most commonly defined as the way in which formal rules and informal norms shape behavior and choice. The social scientific study of such institutions tends to be historical in nature because rules and norms are understood to be relatively stable in character, hence requiring a deeper historical perspective to uncover how they are formed and how they work.

In theory, institutionalism and path dependence share many features and are not truly mutually exclusive methods and assumptions. But, in practice, historical institutionalism in social science tends to focus on different sets of concerns and issues, particularly on how external rules are formed, and often on very deeply embedded historical structures that are not easily transparent when one focuses on the study of the choices of the agents themselves. Since many of the most important economic rules and norms governing behavior have deep historical roots, much of the new institutionalism in social science focuses on long (usually decades or centuries long) historical processes. They take as their subject what the historical methodologist Ferdinand Braudel called the "long duree" in history in order to understand the influence of deep historical structures on the current moment (Braudel, 1958). Over the last two decades, institutionalism has become the most common methodological path by which history has made its way into social science. Although there are important disciplinary differences in its application, some form of historical institutionalism now pervades many of the leading research agendas in economics, sociology, and political science (Steinmo, 2001; Nee, 1998).

Despite the prevalence of "historical institutionalism" in mainstream social science, however, there has been relatively little work in this vein by social scientists interested in entrepreneurship. Yet many of the most interesting and intriguing research questions about entrepreneurship beg for institutionalist methodologies. This is particularly true when one considers comparative and global views on the study of entrepreneurship. The perennially engaging question of how and why the character of entrepreneurship has differed in various cultures begs for good historical institutionalist methodology if it is to ever transcend vague cultural notions and stereotypes. So do questions of how differences in the national rules and norms governing entrepreneurial behavior become resolved in cases of international entrepreneurship.

Though explored relatively little by entrepreneurship scholars today, the role of historical institutionalism in shaping entrepreneurial behavior and strategies actually formed the substantive heart of the post-World War II scholarship in entrepreneurial history. That scholarship, shaped primarily by a Parsonian view of institutions as governing roles and dispensing sanctions, focused considerable attention on how entrepreneurial behavior differed from country to country based on what we might today label national institutions. While this older scholarship's line of inquiry into the role of historical institutionalism in shaping the character of entrepreneurship remains largely forgotten, its potential for shaping interesting and valuable social scientific studies about entrepreneurship in the global economy remains particularly great.

Opportunities and Challenges

It has been argued that the disciplinary separation of historical studies of entrepreneurship from social scientific and management approaches is problematic because ahistoricism distorts our understanding of entrepreneurial behavior and its dynamic interaction with the capitalist system. This is not an original argument. Schumpeter made it half a century ago. Unfortunately the message has been lost.

It will not be easy to reintegrate history into the entrepreneurship literature. The subject has only recently re-emerged on the research agendas of most business historians. Formidable professional roadblocks arise in the entrepreneurship literature, as in other areas of management studies, from the veritable impossibility of publishing in a leading journal an article that does not use standardized social science methodology, especially quantification (Jones & Khanna, 2006). This rules out as "non-rigorous" studies using small samples or qualitative data. The impact on entrepreneurship research has been hugely distorting. Research agendas are driven by the need to use large statistical databases. This has led to a huge amount of attention on start-ups in the United States, and because of the availability of patent data, on high technology industry in Silicon Valley. The opportunity cost has been a dearth of studies about entrepreneurship in the world's most dynamic economies, China and India, or in the mature economies of the European

Union and Japan. Nor does the field devote resources to studying how entrepreneurship in developing nations, or the lack of it, contributes to global inequality. As a result, entrepreneurial studies have become largely irrelevant to understanding global wealth and poverty.

Yet an opportunity for a radical breakthrough exists. Schumpeter's plea for an active exchange between historical approaches and theories of entrepreneurship is as trenchant to the state of scholarship and understanding in the field today as it was more than half a century ago. The prize is a more dynamic understanding of entrepreneurship, and richer insights into its relevance to capitalist enterprise today.

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