3. A Subjectivist Theory of Entrepreneurship

INTRODUCTION

One Sunday morning in 1972, Bill Bowerman’s wife went to church. While she was at church, Bowerman’s thoughts turned to his perpetual work-related preoccupation: how to help his team’s athletic runners gain better foot traction. Bowerman was the head track coach at the University of Oregon, and his coaching career aspiration was to win more track and field events. Bowerman noticed his wife’s waffle iron out on top of the kitchen counter, and he noticed the waffle tread design on the griddle. He poured liquid rubber onto the hot waffle iron. From this inspiration, he began to produce soles of athletic shoes with a waffle tread, sewing the soles onto other shoes. He soon discovered that the deeper indentation and the more detailed pattern allowed his runners better foot traction. Eventually, the outcome of his experiments emerged as Nike’s first shoes (Strasser and Becklund, 1993; Yoffie, 1998).

College of Business students who are business administration majors typically have little difficulty relating to this business story concerning entrepreneurship. University students who are economics majors, however, while typically finding this business story intrinsically interesting, are often puzzled. Nothing in their formalized disciplinary economics training guides these students to understand more fully how this entrepreneurial activity occurred. Scanning the table of contents of the typical microeconomics textbook yields multiple references to concepts such as consumer surplus, cost functions, demand functions, economic rents, elasticity, equilibrium, externalities, game theory, oligopoly, production functions, social welfare, supply curves, transaction costs, utility maximization, and so forth. One searches in vain, however, for entrepreneurial topics on entrepreneurial discovery, entrepreneurial vision, experimentation, and “exploratory learning” (see e.g., McGrath, 2001). In short, equilibrium theory neglects market
processes. In fact, in standard neoclassical equilibrium theory there is simply nothing for the entrepreneur to do. Returning to our earlier business example, to maintain, as neoclassical microeconomics theory does, that Bowerman was acting in ways that maximized his own utility function is no doubt true, but such an obviously tautological argument does not take us very far. For one thing, this knowledge claim fails to explain why Bowerman’s utility function was not maximized sooner. Why didn’t Bowerman search for the waffle iron when he came home from work on Friday night?

In this research paper, we argue that a subjectivist theory of entrepreneurship is required in order to deal constructively with the knowledge creation process. O’Driscoll and Rizzo state that: “On the most general level, subjectivism refers to the presupposition that the contents of the human mind, and hence decision making, are not rigidly determined by external events. Subjectivism makes room for the creativity and autonomy of individual choice” (1985: 1). We seek to ground an economic theory of entrepreneurship in subjectivism, because we argue in the current paper that an entrepreneurial theory that dismisses the very idea of entrepreneurial discovery and creativity misses much of entrepreneurship in action.

The paper proceeds as follows. First we offer a brief criticism of traditional neoclassical microeconomic theory and we note how the entrepreneur and entrepreneurial activity have vanished within this formalized neoclassical framework (Baumol, 1968). Second, we review key elements of a potential subjectivist theory of entrepreneurship that is grounded in economic logic (Vaughn, 1994). Third, we identify a potential source for such new theory building contained in the thought of Edith Penrose (1959), and we analyze the contributions of this resource-based approach in developing a subjectivist theory of entrepreneurship. Conclusions and suggested directions for future research then follow.

TRADITIONAL ECONOMIC THEORY

The entrepreneur and entrepreneurial activity have vanished from traditional neoclassical microeconomic theory. Baumol states that: “The theoretical firm is entrepreneur-less—the Prince of Denmark has been expunged from the discussion of Hamlet” (1968: 66). Formalized, neoclassical economic models simply do not take account of the entrepreneur and entrepreneurial activity. Baumol elaborates further by noting that: “There is no room for enterprise or initiative. The management group becomes a passive calculator that reacts mechanically to changes imposed on it by fortuitous external developments over which it does not exert, and does not even attempt to exert, any influence” (1968: 67). Over thirty-five years later, this fundamental criticism still applies.