

The Determinants of Entrepreneurial Alertness and the Characteristics of Successful Entrepreneurs

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1. Introduction

Israel Kirzner has made considerable contributions to our understanding of capital theory (Kirzner 1966), the nature and meaning of the market process (Kirzner 1992), the problems with theories of distributive justice (Kirzner 1989) and the history of economic thought, particularly the history of the Austrian school (Kirzner 1960). Most importantly, however, Kirzner (1973, 1979) has made key contributions to our understanding of the critical role that entrepreneurship plays in markets. For Kirzner, understanding the role of the entrepreneur is essential to understanding how errors get corrected in the market and understanding the role of alertness is essential to understanding how it is that entrepreneurs come to identify these errors. As he explains, in a world where knowledge is necessarily dispersed and individuals are necessarily ignorant of all changes that occur in markets, alert entrepreneurs discover profit opportunities (i.e. opportunities to buy at a low price and sell at a high price) and, thus, drive the market process toward equilibrium.

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Kirzner's insights on entrepreneurship have been widely celebrated and have had considerable influence in economics, public policy and entrepreneurship studies. Although Kirzner's work on entrepreneurship has been widely celebrated, it has been criticized on several fronts. Specifically, his theory of entrepreneurship has been criticized for abstracting from the psychological characteristics of real world entrepreneurs and the determinants of alertness. High (1982, 1990), for instance, has criticized Kirzner for abstracting from the uncertainty that necessarily surrounds real world entrepreneurship and so neglecting the critical role played by judgment in entrepreneurial activity in practice.¹ Additionally, Lavoie (1994) has criticized Kirzner for abstracting from the cultural dimension of entrepreneurship and so neglecting the critical role played by interpretation in real world entrepreneurship.

These criticisms, we contend, are unfair and misunderstand Kirzner's project. In order to identify the essence of entrepreneurship, he purposely abstracted from the circumstances that condition entrepreneurship in the real world (including both the psychological and cultural determinants of successful entrepreneurial activity in practice). Kirzner separates the ignorance that plagues market participants from the uncertainty that necessarily conditions all human action in-the-world. Rather than being a shortcoming of Kirzner's theory, Kirzner's abstraction allows him to identify and elucidate the entrepreneurial element in economic behavior. As Kirzner (1973: 15-16) writes, "the entrepreneurial element in the economic behavior of market participants consists ... in their alertness to previously unnoticed changes in circumstances which may make it possible to get far more in exchange for whatever they have to offer than was hitherto possible." Similarly, by assuming an environment where opportunities are readily identifiable rather than on the challenges that real world entrepreneurs face in identifying profit opportunities (i.e. his focus on arbitrage), he was able to isolate the role that entrepreneurship plays in the market process. As Kirzner writes, an analytical world without alert entrepreneurs "completely lacks the power to explain how prices, quantities and qualities of inputs and outputs are systematically changed during the market process" (ibid.: 42) and so cannot explain how the market equilibrates (ibid.: 73).

Rather than closing off inquiry, we contend, his theory of entrepreneurship makes a fruitful analysis of the psychological characteristics of entrepreneurs and

¹ Foss and Klein (2010) have recently criticized Kirzner along similar lines. Foss and Klein's critique, though borrowing a lot from High, is much more extensive.

the determinants of alertness possible. As we problematize the environment in which Kirzner's entrepreneur operates by complicating the simple theoretical model with a single period and a single good that he employed, we are better able to explain how entrepreneurs are likely to behave and to isolate which traits entrepreneurs must possess if they are to be successful in different environments. Consider how with the aid of Kirzner's theory we might discuss the impact of culture on entrepreneurship. We might, for instance, expect that culture will direct an entrepreneur's gaze as well as her ability to recognize certain opportunities as in fact opportunities. We might also expect entrepreneurs with different traits to be more successful or less successful at identifying and deciding between different opportunities in different contexts. Entrepreneurs with different cultural backgrounds will likely be alert to different sorts of opportunities and so will see and fail to see different opportunities.

Admittedly, Kirzner has at times objected to extending his analysis in this way and insisted that such a discussion requires moving beyond his theory of entrepreneurship. Kirzner (1979: 8), for instance, has remarked that "we do not clearly understand how entrepreneurs get their superior foresight. We cannot explain how some men discover what is around the corner before others do." And, "my own work has nothing to say about the secrets of successful entrepreneurship. My work has explored, not the nature of the talents needed for entrepreneurial success, not any guidelines to be followed by would-be successful entrepreneurs, but, instead, the nature of the market process set in motion by the entrepreneurial decisions (both successful and unsuccessful ones!)" (Kirzner 2009: 145). Still, Gaglio (1997), Venkataraman (1997), Shane and Venkataraman (2000), Gaglio and Katz (2001), Shane (2003) and others have relied on Kirzner's theory of entrepreneurship and specifically his emphasis on alertness in their explorations of the process and dynamics of opportunity identification. And, Kirzner has acknowledged that the determinants of entrepreneurial alertness are not entirely mysterious (see, for instance, Kirzner and Sautet 2006, 17).

This article has a dual purpose. First, we wish to defend Kirzner against the criticism that his theory of entrepreneurship is too simplistic. Although he does not discuss the role of judgment or interpretation, his simple model, because it isolates the role of alertness, actually helps us to identify how interpretation and judgment enter into the entrepreneurial process. Second, we wish to explore how a discussion of the determinants of entrepreneurial alertness (and in particular the role of culture in entrepreneurship) might proceed. By extending Kirzner's theory

of entrepreneurship, it is possible to discuss how culture affects entrepreneurship theoretically and to explain real world differences in entrepreneurship across cultures. *Section 2*, thus, summarizes Kirzner's theory of entrepreneurship. *Section 3*, then, explains some of the most trenchant critiques of Kirzner's theory of entrepreneurship and attempts to defend his theory of entrepreneurship against these critiques. Next, *Section 4* extends Kirzner's theory to explore the determinants of entrepreneurial alertness and the characteristics of successful entrepreneurs. Special emphasis will be placed on how culture might affect an entrepreneur's alertness to and her ability to see and evaluate particular opportunities. *Section 5*, then, offers concluding remarks.

2. Kirzner's Theory of Entrepreneurship and the Critical Role of Alertness

For Kirzner, the entrepreneur is at center stage in the market process and, so, the process of economic development. As Kirzner (1997a: 31) summarizes, "the success which capitalist market economies display is the result of a powerful tendency for less efficient, less imaginative courses of action, to be replaced by newly discovered, superior ways of serving consumers—by producing better goods and/or by taking advantage of hitherto unknown, but available, sources of resource supply." Entrepreneurs in the market, Kirzner explains, notice and exploit opportunities to earn profits by replacing "less efficient, less imaginative courses of action" with "superior ways of serving consumers." For Kirzner, the entrepreneur also plays a key role in micro-economic theory. Ironically, though most economists will employ the entrepreneur in classroom discussions of how the market moves from disequilibrium to equilibrium, "standard theory has not been able to explain how markets systematically gravitate towards the equilibrium states (relevant to the given conditions of those markets)" (Kirzner 2008: 4). Introducing the entrepreneur and outlining her role in "driving the process of equilibrium" is critical to understanding the market as a dynamic process. Kirzner's theory of entrepreneurship, thus, makes an important contribution to standard price theory and our understanding of real world markets. This section will outline the basic elements of Kirzner's theory of entrepreneurship.

In an effort to understand the nature of the market process and to tease out the essential role that the entrepreneur performs, Kirzner (2008: 4) begins his theorizing in the "*simplest* Marshallian demand-supply context," that is, a single

period world with a single commodity and no scope for uncertainty. The only assumption that typically accompanies this framework that Kirzner relaxes is the perfect knowledge assumption. In a world of perfect knowledge, individuals do not really make decisions about how to succeed but instead calculate optimum strategies on the basis of given data. Deciding is merely a matter of deciding to exchange something that is less preferred or valued for something that is more preferred or valued. The results of this “decision” is implied in and perfectly determined by the decision-maker’s situation. “If each individual knows with certainty what to expect,” as Kirzner (1973: 37) explains, “his plans can be completely explained in terms of economizing, of optimal allocation, and of maximizing—in other words, his plans can be shown to be in principle implicit in the data which constitutes his knowledge of all the present and future circumstances relevant to his situation.” In such a world, there is no possibility of the same good selling for different prices in the market. Any apparent price discrepancies that did exist would necessarily be explained by differences in transaction costs, like differences in transportation costs between the space where the good was produced and the two points-of-sale. As such, in a world of perfect competition, there is no possibility of earning pure profits (that is, profits apart from normal rates of return on investments) and so there is simply nothing for the entrepreneur as seeker of pure profit to do.

In Kirzner’s view of the world, however, knowledge is imperfect and imperfectable. And, it is the very imperfection of knowledge that allows for the entrepreneur to have a function and for market process to take place. Because knowledge is imperfect, Kirzner (1973: 37 footnote 4) points out, there is the possibility of the same good selling for different prices in the market and, thus, the possibility for arbitrage. As an example, in a world of imperfect knowledge, a Store A may be selling a particular Brand X shoe for \$50.00 while Store B sells the same Brand X shoe for \$100.00 with neither the storeowners nor their customers being aware of the price discrepancy. In such a market, it would be possible for some individual to buy shoes from Store A and sell them to customers of Store B at a profit.

These arbitrage opportunities exist because, where knowledge is imperfect, buyers and sellers can make errors of over-optimism which lead to frustrated plans and errors of over-pessimism which lead to unexploited opportunities. Because of their ignorance and “errors made in the course of market exchanges,” Kirzner (1999: 6) explains, market participants can be led,

(i) over-optimistically to insist on receiving prices that are ‘too high’ (to enable them to sell all that they would like to sell at those prices) [or on paying prices that are ‘too low’ (to enable them to buy all that they would like to buy at those prices)]; or (ii) over-pessimistically to enter into transactions that turn out to be less than optimal in the light of the true market conditions as they in fact reveal themselves (e.g., a buyer discovers that he has paid a price higher than that being charged elsewhere in the market; a seller discovers that he has accepted a price lower than that which has been paid elsewhere in the market).²

The over-optimistic seller is unable to sell her wares. Similarly, the over-optimistic buyer is unable to find the goods she desires at the price she is willing to pay. On the other hand, the over-pessimistic buyer or seller has left money on the table. She could have made more or saved more than she did on the transaction.

According to Kirzner, individuals qua entrepreneurs are alert to these arbitrage opportunities (that result from errors of over-pessimism and over-optimism) and, it is their alertness to these opportunities, which explains the tendency of entrepreneurs to equilibrate the market. As Kirzner (2000 16) explains, “each market is characterized by opportunities for pure entrepreneurial profit. These opportunities are created by earlier entrepreneurial errors which have resulted in shortages, surplus, misallocated resources. The daring, alert entrepreneur discovers these earlier errors, buys where prices are ‘too low’ and sells where prices are ‘too high.’” If these errors/opportunities are to be discovered, individuals must be vigilant and embody a “natural alertness” to such errors (ibid.: 18). As he (ibid.: 23) writes, alertness is a key factor, “discovery is attributable, at least in significant degree, to the entrepreneurial alertness of the discoverer.”

² Stated another way, “a state of market disequilibrium is characterized by widespread ignorance. Market participants are unaware of the real opportunities for beneficial exchange which are available to them in the market. The result of this state of ignorance is that countless opportunities are passed up. For each product, as well as for each resource, opportunities for mutually beneficial exchange among potential buyers and sellers are missed. The potential sellers are unaware that sufficiently eager buyers are waiting, who might make it worth their while to sell. Potential buyers are unaware that sufficiently eager sellers are waiting, who might make it attractive for them to buy. Resources are being used to produce products which consumers value less urgently, because producers (and potential producers) are not aware that these resources can produce more urgently needed products. Products are being produced with resources badly needed for other products because producers are not aware that alternative, less critically needed resources can be used to achieve the same results” (Kirzner 1973: 69).

This alertness, it is important to point out, is quite different from possessing superior knowledge. It is true that the entrepreneur knows something that his fellow market participants do not know. He knows, for instance, that there is an opportunity to buy Brand X shoe from Store A and sell it at a higher price to the customers of Store B. But, it is not that he possesses superior knowledge that he can take advantage of—he is not at all like the doctor who possesses superior knowledge of medicine than lay individuals that he can take advantage of—but that the entrepreneur noticed that opportunity when others who might have noticed it did not that explains the essence of entrepreneurship.³ It is also important to point out that deliberately searching for profit opportunities is altogether different than an entrepreneur being alert to and so discovering profit opportunities. An individual will only decide to engage in a deliberate search for knowledge if the costs of search are less than the expected returns from search. In order to calculate the costs and benefits of a deliberate search, an individual must possess some degree of knowledge about the landscape and the likelihood of finding what he hopes to find. That knowledge of the landscape and the likelihood of finding what he is looking for must necessarily be given to him in advance of his search. Consequently, any so-called “search for profitable opportunities” necessarily follows the discovery of an opportunity to potentially benefit from a particular kind of search.⁴

For Kirzner, then, entrepreneurship is an equilibrating force that consists of (and is reducible to) an alertness to arbitrage opportunities which are readily discernable and that only exist because of widespread ignorance in the market. Admittedly, this view of the market process is quite simplistic. In the real world (i.e. where there are multiple periods and multiple commodities), market participants

³ As Kirzner (1973: 67) states, though “the element of knowledge is tied to the possibility of winning pure profits, the elusive notion of entrepreneurship is, as we have seen, not encapsulated in the mere possession of greater knowledge and market opportunities. The aspect of knowledge which is crucially relevant is not so much the substantive knowledge of market data as *alertness, the “knowledge” of where to find market data.*” Furthermore, (1979: 8), “entrepreneurial knowledge is a rarefied, abstract type of knowledge—the knowledge of where to obtain information (or other resources) and how to deploy it.”

⁴ As Kirzner (1985: 22) states, “If an entrepreneur’s discovery of a lucrative arbitrage opportunity galvanizes him into immediate action to capture the perceived gain, it will not do to describe the situation as one in which the entrepreneur has decided to use his alertness to capture this gain. He has not “deployed” his hunch for a specific purpose; rather his hunch has propelled him to make his entrepreneurial purchase and sale. The entrepreneur never sees his hunches as potential inputs about which he must decide whether they are to be used.”

are not simply prone to commit errors because of their ignorance but are also necessarily uncertain as to the best course of action available to them (i.e. there is scope for creativity and judgment). Furthermore, they are not able to unambiguously make sense of their circumstances and their options (i.e. there is scope for interpretation). However, in working with this simple model, Kirzner is able to isolate the essence of entrepreneurship. He is able to demonstrate that if the market is to move toward equilibrium (i.e. the elimination of errors of over-optimism and over-pessimism) it must be comprised of not only agents who can economize (i.e. Robbinsian maximizers) but must also contain agents who are alert to profit opportunities (i.e. pure entrepreneurs). As will be argued in the next section, those criticisms of Kirzner's project that argue he focuses too exclusively on alertness and disregards the creativity, judgment and interpretation that are necessarily a part of entrepreneurship in-the-world are somewhat unfair. He should not be faulted for not discussing the determinants of entrepreneurial alertness and the psychological characteristics of successful entrepreneurs, particularly, since (as we hope to show in *Section IV*) his theory of entrepreneurship actually makes a fruitful analysis of the determinants of alertness and the psychological characteristics of successful entrepreneurs possible.

3. Ignoring Judgment and Interpretation when Discussing the Essence of Entrepreneurship

As noted above, Kirzner's theory of entrepreneurship has been criticized for abstracting from the psychological characteristics of real world entrepreneurs and the determinants of alertness. Kirzner's theory of entrepreneurship, it is suggested, overemphasizes the role played by alertness and ignores the critical role played by judgment and interpretation. Arguably, the most compelling critiques along these lines were articulated by High (1982, 1990) and Lavoie (1994). High (1982, 1990), for instance, criticized Kirzner for stressing ignorance rather than uncertainty and, as a result, neglecting the critical role played by judgment in entrepreneurial activity in practice. Additionally, Lavoie (1994) has criticized Kirzner for describing profit opportunities as if they were readily identifiable (e.g. \$20 bills on the sidewalk) and so minimizing the critical role played by interpretation

in real world entrepreneurship.⁵ Kirzner (1994, 1999, 2008) has offered direct and indirect defenses against both charges. Ironically, while his indirect defense against the charge that he too quickly disregards uncertainty and judgment is quite effective,⁶ his direct defense against the charge that he leaves no scope for the interpretive element of entrepreneurship (though accurate) deserves to be augmented. This section will, thus, focus on Lavoie's critique of Kirzner's theory of entrepreneurship.

Lavoie (1994) argues that Kirzner's theory of entrepreneurship does not take into account the interpretive dimension that is a part of all human action including entrepreneurship. For Kirzner, Lavoie (*ibid.*: 43-44) correctly explains, the entrepreneur is an individual who notices a hitherto undiscovered opportunity for pure arbitrage. These opportunities, though only spotted by the alert entrepreneur, are unambiguous. The same Brand X shoe is being sold at different prices in the market. There is a clear opportunity to buy the shoe at a relatively low price from Store A and sell it at a relatively high price to the customers of Store B. Kirzner has at times likened the profit opportunity to be discovered by the entrepreneur to a twenty dollar bill lying on the beach, waiting to be snatched up. That picking up the twenty dollar bill would be beneficial is entirely obvious. Once the

⁵ Baker, Gedajlovic and Lubatkin (2005: 495) issue a similar critique of Kirzner's ignoring cultural context and argue that "people perceive opportunities through a cultural or institutional lens," and that "individuals are influenced by social circumstance and express a broad range of idiosyncratic motives as they enact entrepreneurial opportunities. By drawing attention to—rather than holding constant—differences in human motivations and national contexts, we base the CDEE framework on the view that entrepreneurial opportunities—and not just their discovery—are inescapably subjective and context dependent."

⁶ See, for instance, Kirzner's (2000: 247-248) recent discussion of why he did not stress creativity: "In recognizing how, (in order to act entrepreneurially in the uncertain context of time-consuming producing possibilities) the entrepreneur will need to display qualities of boldness and creativity, there was no intention (and no real need) to see these qualities as essential to the pure entrepreneurial role, as that role enters into our analysis and understanding of the market process. In acknowledging that, for Mises, the uncertainty within which the entrepreneur operates is an essential defining condition for the situations in which scope for entrepreneurship exists, there was no intention (and no need) to see boldness and creativity as anything more than the psychological qualities needed in order for the entrepreneur to effectively recognize, in peering into the future, those pure price differentials in which prospective entrepreneurial profits are to be won." Kirzner continues (*ibid.*: 247) to say that "while psychological and personal qualities of boldness, creativity and self-confidence will doubtless be helpful or even necessary in order for a person to "see" such price- differentials in the open-ended, uncertain world in which we live (with "seeing" defined as necessarily implying the grasping of the opportunity one has seen), the analytical essence of the pure entrepreneurial role is itself independent of these specific qualities." The same logic would apply to the critique that he did not stress the superior judgment that entrepreneurs would have to possess.

entrepreneur notices the twenty dollar bill as a twenty dollar bill, there is nothing left to do other than pick it up.

As Lavoie (1994: 43) explains, however, individuals do not experience the world unambiguously. We must attach meaning to our environment and to the opportunities in front of us before we can choose between the courses of action available to us. Interpretation necessarily precedes all human action. The problem with the “twenty dollar bill” example is that it trivializes the interpretive element that is a necessary part of entrepreneurship. Recognizing that this piece of paper lying on the beach with colored ink stenciled across it is in fact a twenty dollar bill does require an act of interpretation. However, the interpretative act involved here is quite straightforward for almost everyone who comes across the bill. The profit opportunities that the real world entrepreneur must discover if the market is to tend toward social coordination, then, are not really like twenty dollar bills lying on the beach. The interpretive act involved in real world discoveries is much more complex. As Lavoie (1991, 44) states, “most acts of entrepreneurship are not like an isolated individual finding things on beaches; they require efforts of the creative imagination, skillful judgments of future costs and revenue possibilities, and an ability to read the significance of complex social situations.”

Lavoie contends that, for Kirzner, the entrepreneur is like the person who has sight in a world where blindness and sight are predetermined. As such, there is no real choice in the matter. The blind simply never get to see. Those with sight only need open their eyes to see. And so, many individuals just do not see profit opportunities that might be right in front of their faces, because they are not alert to them. The person with ‘sight’ however, notices yet to be discovered opportunities that others might have noticed had they only been alert to them. Lavoie (*ibid.*: 44) contends that, for Kirzner, “being more alert seems to be simply a matter of opening one’s eyes to see what is right there under one’s nose.”

Kirzner’s view of alertness, Lavoie (*ibid.*: 46) complains, is too simplistic and says far too little about why certain individuals are alert to certain opportunities and about why some profit opportunities are discovered and others are not. As Lavoie (*ibid.*: 44) explains, “if entrepreneurship is like vision...it is like human vision, which does not merely see patches of color but meaningful things.” That is, when we open our eyes and look around, we attach meanings to what we see. And, as such, different individuals see the same phenomena in different ways. Consider, for instance, what Jack and Jill notice from their shared vantage point at the top of the hill. As Jack looks round, he might see a large tree, their black

minivan and a crowd of ten children. Jill, however, from the same plateau, looking at the same objects, might see a large, dying sequoia, their black walnut colored Toyota Sienna, and ten neighborhood teenagers walking home from high school. Jack and Jill essentially see the same things but interpret what they see in different ways. Similarly, Lavoie maintains, this difference in perception and interpretation is crucial in explaining why some individuals are able to notice opportunities that others have been unable to see. As he (1991, 44) maintains, “the profit opportunities the entrepreneur discovers are not directly copied off reality in itself; they are interpreted from a point of view.” That Jill might see an opportunity to provide transportation services for the neighborhood teenagers to and from school while Jack does not see this opportunity makes sense given the different meanings they attach this situation.

If we are to understand entrepreneurship we must understand why certain individuals are alert to certain opportunities and not others. Understanding entrepreneurship, it would thus seem, must involve a discussion of the role of not only alertness but of interpretation as well. Lavoie (*ibid.*: 46) worries that in failing to emphasize the interpretive dimension of entrepreneurship, Kirzner’s theory leaves too much of the entrepreneurial process unexplained. As Lavoie (*ibid.*) complains, in Kirzner’s theory, “it appears to be an arbitrary matter why some things get noticed before others.” Statements by Kirzner that “entrepreneurs are alert to what it is in their interest to be alert to” do not satisfactorily elucidate the determinants of entrepreneurial alertness or the characteristics possessed by successful entrepreneurs. As Lavoie (*ibid.*) suggests,

Profit opportunities are not so much like road signs to which we assign automatic meaning as they are like difficult texts in need of a sustained effort of interpretation. Entrepreneurship is not only a matter of opening one’s eyes, of switching on one’s attentiveness; it requires directing one’s gaze. When an entrepreneur sees things others have overlooked, it is not just that he opened his eyes while they had theirs closed. He is reading selected aspects of a complex situation others have not read.

For Lavoie, recognizing that alertness is not merely about “opening one’s eyes” but about “directing one’s gaze” raises the question about “what gives a predirectedness to the entrepreneur’s vision, of why he is apt to read some things and not others” (*ibid.*: 46). The answer that Lavoie poses has to do with culture. In failing to address the address the interpretive dimension of entrepreneurship,

then, Kirzner's theory of entrepreneurship is, according to Lavoie, unable to discuss the cultural dimension of entrepreneurship.

For Lavoie, culture is a lens through which individuals see and make sense of the world. Stated another way, it is a source of their interpretations; it is the fount from which they derive meanings. As such, it is akin to the "social stock of knowledge" that Schutz (1932) explained individuals employed when they were attaching because-of and in-order-to motives to their actions and the actions of others. According to Lavoie, Kirzner's theory of entrepreneurship does not acknowledge the role of culture in entrepreneurial discovery and so ignores a key factor that affects entrepreneurs. But, as Lavoie (*ibid.*: 49-50) explains, the entrepreneur's

... ability to read new things into a situation is not primarily due to his separateness from others, but, indeed, to his higher degree of sensitivity to what others are looking for. The really successful entrepreneurs we know are not unusually separate from others; on the contrary, they are especially well plugged into the culture. What gives them the ability to sense what their customers will want is not some kind of mysterious alertness that gets "switched on" but their capacity to read the conversations of mankind. They can pick up the sense of where their fellows in the culture stand, what values they adhere to, what purposes they pursue, what they consider beautiful, and what they deem profane.

Successful suppliers are able to figure out what their consumers will like, are able to tweak their product to better suit their customers' preferences, are able to present those products in the manner that they sense will appeal to their customers, all because they are "especially well plugged into the culture." This entire process is interpretive, and interpretation necessarily occurs through a cultural lens. Being immersed in a culture, thus allows the entrepreneur to make accurate interpretations. For Lavoie (*ibid.*: 51), then, a more complete theory of entrepreneurship must begin with a hermeneutical theory which stresses cultural transmission and the interpretive dimension that is a part of all human decision making.

Kirzner (1994: 329) has conceded that Lavoie is likely correct when he stresses the interpretative dimension of entrepreneurship and how culture impacts entrepreneurial alertness. But, Kirzner argues, Lavoie's insights ought only to affect the application of economic theory not the content of economic theory. "It does follow," Kirzner (*ibid.*) argues, "that for the purposes *within economic theory* for which the entrepreneurial role has been introduced, it is necessary to

go beyond the bare propensity of being alert. In *applying* economic theory, one immediately looks for the cultural, historical, and social detail ... through which the economic processes make themselves manifest.” Kirzner believes that Lavoie has confused economic theory with economic history. Paying attention to culture does not add to understanding of the “systematic market forces.” The market is driven toward equilibrium because of the existence of entrepreneurs who are alert to yet to be discovered profit opportunities. This is true regardless of the cultural context. “To suggest that the ‘incompleteness’ of such pure theory is in any way an inadequacy,” Kirzner (*ibid.*) explains, “would be an unfortunate misunderstanding of what theory is all about.” Kirzner is, of course, correct that theory necessarily abstracts from cultural and institutional detail and that understanding the theory must precede any effort to understand actual entrepreneurs within a particular context. As Kirzner (*ibid.*) explains, “it is only when one has grasped the pure entrepreneurial character of market processes that one can begin to enrich one’s understanding of the real world by drawing attention to cultural and institutional detail.”

It is our contention, however, that while it is unfair to criticize Kirzner’s theory of entrepreneurship for not accounting for culture, that it is also possible for a theory of entrepreneurship to elucidate the interpretive dimension of entrepreneurial activity and the role for culture in directing the gaze of entrepreneurs. Though incompleteness is not a fair criticism of theory, it is possible to extend theories in an effort to make them more complete. Rather than seeing Lavoie’s criticisms of Kirzner as critiques, we believe that it may be more appropriate to view them as suggestions for how Kirzner’s theory of entrepreneurship may be fruitfully amended. It is simply not true that Kirzner’s theory of entrepreneurship, because it is silent on the role of interpretation and culture, “leaves no room for culture.” Instead, we contend, that his theory of entrepreneurship makes a fruitful analysis of the psychological characteristics of entrepreneurs and the determinants of alertness possible. Indeed, as Storr (2004: 29) argued elsewhere, “if Kirzner’s theory of entrepreneurship was really not amenable to discussions of culture then Lavoie would have had to discard it.” Lavoie, however, did not abandon Kirzner’s framework but set out to build upon it. The next section extends Kirzner’s theory to explore the determinants of entrepreneurial alertness and the characteristics of successful entrepreneurs. Ironically, Kirzner’s own efforts in this regard have not been all that successful.

4. A Kirznerian Theory of the Culture of Entrepreneurship

In discussing the consequences of extending his model to discuss a multi-period, multi-commodity market process where not only ignorance but uncertainty is endemic, Kirzner contends that the entrepreneur would not only have to be alert but would possess the psychological characteristics that Schumpeter attributes to the entrepreneur.⁷ “To see things in [my] way,” Kirzner (2008: 9) has written, “did not (as the critics have somehow understood) mean that I was in any way denying the elements of boldness, creativity, and innovativeness which, in the real world, certainly do characterize entrepreneurial activity.” And, Kirzner (1997b: 12) has conceded that

once we permit the multi-period character of real world entrepreneurial behavior to be explicitly considered, the relevance of the active aggressive characteristics of Schumpeter’s entrepreneurs becomes understandable and important. Entrepreneurial alertness, in this essentially uncertain, open-ended, multi-period world must unavoidably express itself in the qualities of boldness, self-confidence, creativity and innovative ability.

This concession of Kirzner, however, both concedes too much and too little. He concedes too much because he seeks to add to the realm of theory attitudes and propensities that we have no reason to believe would characterize all entrepreneurs in all contexts. For instance, one might imagine that the successful entrepreneurs in some contexts are not the bold ones, but the unassuming ones who are alert to the profit opportunities that might come from marketing the familiar and making only minimal changes to what is already popular. Similarly, the copycat rather than the innovator may prove to be more successful in some contexts. As such, boldness and creativity may sometimes actually obscure rather than enhance an entrepreneur’s ability to notice hitherto undiscovered profit opportunities. Kirzner concedes too little, on the other hand, because he does not admit that once the market environment utilized in the model becomes more complex, the scope for interpretation grows larger and it becomes necessary to employ something like culture to explain why some opportunities get noticed and others do not.

⁷ See Schumpeter (1960) for his discussion of the attributes of the entrepreneur.

A discussion of the determinants of entrepreneurial alertness and the characteristics of successful entrepreneurs, we suggest, would result in a Kirznerian theory of the culture of entrepreneurship. A Kirznerian theory of the culture of entrepreneurship would not try to single out characteristics that may or may not describe actual entrepreneurs. Instead, such a theory would focus on how cultural and psychological factors affect the opportunities that entrepreneurs perceive. It would also have to give some hint as to what cultural factors scholars wanting to understand entrepreneurship in some particular context should look for when they seek to apply their theory of entrepreneurship.

A Kirznerian theory of the culture of entrepreneurship, we contend, would proceed as follows: (a) entrepreneurs alert to profit opportunities are the driving force in the market process and explain the tendency toward equilibrium in the market; (b) these opportunities exist to all market participants because there is widespread ignorance (and uncertainty) in the market; (c) these opportunities are not readily identifiable as opportunities but must be interpreted as such; (d) differences in stocks of knowledge (both individualized and social/cultural) explain why different individuals are alert to certain opportunities and not others; (e) applied efforts to make sense of real world entrepreneurship must pay attention to the differences in stocks of knowledge that might explain the differences in interpretative frameworks across contexts. Kirzner (with Sautet 2006: 17) has largely endorsed this way of moving forward. “Culture,” he explains, “can shape what an individual perceives as opportunities and thus what he overlooks, as entrepreneurship is always embedded in a cultural context. ... culture for the most part has to do with orientation (affecting where an entrepreneur may direct his gaze) and results in entrepreneurship looking differently across contexts.”

To illustrate how a Kirznerian theory of the culture of entrepreneurship might help us explain real world entrepreneurship, we turn to two examples from our own research into entrepreneurship in the Bahamas and in Trinidad and Tobago. Storr (2004) gives an account of the economic history of the Bahamas, in order to explain the particular flavor of enterprise there. In Storr’s narrative, there are two “ideal types” of entrepreneurs. The first is the “master pirate” who is alert, like the Kirznerian entrepreneur. However, because of the importance of piracy in the Bahamas’ past, she is alert to *profiteering* opportunities (ibid.: 10). The master pirate Bahamian entrepreneur is therefore a “trickster”, who is known for her cunning, has a “narrow radius of trust” (ibid.: 106), and is rather impatient with a high discount rate. The other ideal type is the “enterprising slave” type who,

because of Bahamians' previous experiences with slavery, has come to understand the value of hard work even when obstacles are evident. The enterprising slave is alert to profit opportunities in the regular sense. Both the piratical and enterprising entrepreneurial types are evident in Bahamian culture, sometimes even within the same individual (*ibid.*: 106). Storr explains how the culture has evolved so that entrepreneurship in the Bahamas is explainable and fairly predictable using those two metaphors.

While Storr's narrative elucidates the cultural dimension of entrepreneurship in the Bahamas, we never lose sight of that Kirznerian entrepreneurial process at work. To illustrate the point, we refer to the cultural legacy of the *master pirate* type of entrepreneur. Remember that the master pirate is always alert to opportunities for profiteering. The way the master pirate's culturally inherited behaviors manifest in individual business activity is often through the "nepotism and predominance of small, hierarchically organized family firms" (2004, 107), the relatively low national savings rates, and the underinvestment in capital-intensive industries that are all typical of the Bahamian entrepreneur. As Storr (*ibid.*: 108) describes, "the master pirate is on the lookout for the quickest route to prosperity," which explains why Bahamians "tend to invest in restaurants, salons, clothing stores, and other retail or service oriented companies and not in large-scale manufacturing or commercial agriculture." Thus, the master pirate's alertness to alternative business types seems to be switched off, whereas she appears to be hyper alert to opportunities for quick and easy bounty in the form of rent seeking and political profits. The Kirznerian discovery process is still at work, in that the master pirate is alert to arbitrage opportunities. However, the spheres of business activity to which she is alert are to a large extent determined by her historical experiences with piracy, her culture.

Similarly, the narrative of the enterprising slave also involves the Kirznerian discovery process. "The peculiarity of Bahamian slavery," Storr (2004, 99) contends, "and the presence of a large population of free and materially well-to-do blacks in the Bahamas gave birth to the *enterprising slave* (an equally prominent figure in the economic story of the Bahamas)." During slavery, blacks were assigned to task groups where they were made responsible for particular chores (*ibid.*: 89). Additionally, they were allowed to work on their own plots of land when official work was completed for the day. As a last point, slaves in the Bahamas did not work on tropical staple crops, and faced with so much free time, the farmers allowed slaves to seek paid work on their own when their slaves had

the time. Storr argues that these experiences with slavery explain, at least in part, the attitudes of the present Bahamian entrepreneur, who displays ingenuity and a “strong work ethic” (ibid.: 109). Furthermore, Storr (ibid.: 110-111) claims that this spirit of “resourcefulness” and hard work in the face of difficulty is the reason why the Bahamian entrepreneur, “whether he is a “peanut boy” or a straw vendor or a shopkeeper or a restaurateur, is a capable, creative creature. Like the master pirate, the enterprising slave is an entrepreneur in the Kirznerian sense, in that she is alert to a different set of opportunities for profit. She notices the errors made by other entrepreneurs, and, seeing hungry tourists waiting near docks and parking lots, she exploits those opportunities by setting up shop there.

Colonialism has, likewise, left a particular legacy in Trinidad and Tobago that colors entrepreneurial alertness in that context. John and Storr (2010) have detailed the peculiar arrangement of entrepreneurship in Trinidad by race/ethnicity—the distinct ethnic groups exhibit distinct entrepreneurial patterns. John and Storr’s empirical study of the labor force revealed that those Trinidadians of African descent have the lowest self-employment rate of the four ethnic groups in Trinidad, at 16.1 percent. This number is below the average self-employment rate for the entire sample, which is 19.7 percent. In fact, Trinidadians of African descent are the only ethnic group to perform below average. One-fifth of Mixed persons in the sample are self-employed, and therefore their rate is average. Indians (now considered the new business class) have an internal group self-employment rate of 22.7, which ranks second only to the Chinese, Syrian-Lebanese and White Trinidadians, who outperform all the other groups substantially. If a person in Trinidad is of Chinese, Syrian-Lebanese or European ancestry, he/she is 35.5 percent likely to be self-employed, which makes him/her at least twice as likely as an African person to be self-employed (John and Storr 2010).

What explains these patterns in Trinidad? Like Storr’s work on the Bahamas, culture and history have a lot to contribute to the explanation. Because of colonialism, Whites have traditionally been the owners of big businesses, and this minority ethnic group retained control over the most important sectors of the economy (John and Storr 2010). Over generations, this control has been passed down, and the children who inherit their ancestors’ companies tend to remain in the same business. Crichlow (1998) adds that the Whites were able to consolidate their dominant position in business in the 1960s and 70s because the elites benefited most from post-independence industrialization programs created by the government. In general, then, members of different ethnic groups in Trini-

dad, because of their different experiences during and after colonialism, are alert to different kinds of opportunities. The Syrian-Lebanese control over the garment industry in Port-of-Spain, for instance, provides evidence of this. Ryan and Barclay (1992) claim that the advantages that the other ethnic groups had over blacks were “those resources they possess which have proven critical to their entrepreneurial success”, resources that were both “cultural and ethnic” (ibid: 143). Indians, Chinese and Syrian-Lebanese learned the virtues of hard work, thrift and planning for the future from their ancestors, who saved greatly in preparation for their return to their homelands (ibid.:145). Those three groups, like Whites, also formed business associations to support their race’s success in business. Bridget Brereton, in her book “Race Relations in Colonial Trinidad, 1870—1900” (1979: 36), also mentions that among the white elite, “a high value was placed on family connections” and French Creoles routinely inbred and intermarried to keep economic networks and kinship tight. These cultural patterns map somewhat neatly to present day Trinidad and Tobago, where Indians, Chinese, Syrian-Lebanese and Whites have relatively high internal group self-employment rates.

A combination of practices that occurred during and after slavery appears to determine African Trinidadians’ low entrepreneurship rates in comparison. In the early 1900s, the planter class took deliberate steps to raise taxes and make land acquisition difficult for blacks (Ryan and Barclay 1992: 4), blacks depended on volatile crop prices for their success yet spent their incomes “lavishly” (ibid: 8), and blacks tended to borrow too much credit from white planters, who ended up seizing blacks assets when the blacks could not repay (ibid: 9). Blacks also frequently migrated to urban areas in search of jobs and schools, thus forfeiting their lands to Indians, who preferred to work in rural areas (ibid: 11). Furthermore, in contrast to Whites and Indians, blacks never saw themselves as transients in Trinidad’s history—they always regarded themselves as Trinidadians and hence focused instead on “education rather than business as a vehicle for social mobility” (Brereton 1979, 146). Brereton (ibid.: 85) argues that Afro-Trinidadians were more likely to seek status by investing in education, as opposed to entrepreneurship, because “school represented the main chance of mobility for the sons of the black and coloured lower class and lower middle class.” Black parents discouraged their children from becoming businessmen, choosing instead to instill academic values so that their children could grow up and secure status from “good” jobs, particularly in the public service. Contemporary findings indicate a preponderance of blacks in the public sector and a low rate of self-employment for the group.

The Trinidad and Tobago case study shows that while Africans have a different “taste” for entrepreneurship than other ethnic groups, and this taste is a cultural legacy, this is tantamount to saying that blacks in Trinidad are more likely to have their alertness to commercial entrepreneurial opportunities switched off. Stated another way, while some ethnic groups (say Trinidadians of African descent) are likely to be alert to opportunities for political and bureaucratic entrepreneurship, members of other groups appear to be more acutely alert to particular opportunities for commercial entrepreneurship. Blacks are less likely to discover these opportunities period, because they are generally looking elsewhere to improve their standard of living. In contrast, the other ethnic groups have their alertness switched on. They see arbitrage opportunities in economic markets, while blacks have a propensity to notice opportunities in politics (John and Storr 2010).

The examples of the Bahamas and Trinidad and Tobago are presented here in order to show that the Kirznerian theory of the culture of entrepreneurship can actually be quite useful in helping us explain cultural differences in entrepreneurship. Indeed, while all decisions are made within a cultural context, as Lavoie pointed out, the process of entrepreneurial discovery that occurs because of the fundamental ignorance and radical uncertainty in the world can still be identified.

5. Conclusion

If entrepreneurship is the driving force of capitalism and hence economic growth and development, then economists should engage in the project of understanding how that force works. Israel Kirzner has made significant strides in advancing a theory of entrepreneurship. While the theory is not without its limitations, it has proved useful and as a point of departure for theories that attempt to incorporate culture in the decision-making process of entrepreneurs. Those who would object to Kirzner’s theory based on its simplicity must recall certain indelible tenets in economics such as “people are rational” and “demand curves slope downward” also involve basic observations about human action. Without such foundational statements of theory, economics as a social science would be constrained. While critics are correct in pointing out that a discussion of culture is largely absent in Kirzner’s earlier work, this is not to say that Kirzner’s project is not useful in helping to explain how entrepreneurship differs across culture. On the contrary, the concepts of alertness and discovery can and arguably should be conjured even when highlighting at a theoretical level how culture impacts entre-

preneurship and at an applied level when discussing the specific cultural aspects of entrepreneurship in some context. An opportunity, as Kirzner pointed out, can only exist to the discoverer when she notices it. In order to notice it, she must be alert to it. Culture will largely explain why she is alert to certain activities and not to others.

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