

# Collective Entrepreneurship: *In Search of Meaning*

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## 1.0 Perspectives and Issues

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*Collective entrepreneurship*, at first glance, appears to be a new term that combines business risk and capital investment with the social values of collective action. Certainly, this is an appealing proposition. A second look at the term begs the question: Is this an oxymoron? Can we use “collective” and “entrepreneur” together? From a conventional perspective, one that equates entrepreneurship with a highly successful, self-employed *individual*, the two terms may seem related like lead is to balloons. In this regard, collective entrepreneurship may not withstand scrutiny. As many buzz words, it may simply slip from use. Nevertheless, this paper seeks to explore the multiple facets of the term and its possible application in rural economic development.

The starting point of this paper is a review of entrepreneurship, *sans* collective. A brief look at the importance of entrepreneurship highlights its significant role within economic development. This helps to establish a context within which to explore the many dimensions of entrepreneurship.

Another perspective of entrepreneurship, this time within the history of economic thought, reveals the origins of the characteristics commonly associated with entrepreneurship: a profit-seeking, risk-taking businessperson. Interestingly, this brief look at economic thought also explains the disappearance of entrepreneurship within orthodox economics.

In spite of its displacement by the modern theory of the firm, entrepreneurship thrives within the field of economic development. Within this context, entrepreneurship attracts the attention not only of economists, but also of sociologists. Not surprisingly, sociologists emphasise the social environment within which entrepreneurship exists. This shift away from individual entrepreneurship provides an avenue to explore other possibilities. The field of collective action behaviour lends insight into why individuals may organise into groups for collective benefit. This is an essential issue if collective entrepreneurship is to have a theoretical underpinning.

Taken together (collectively, one might say), the above exploration supports possible connections between *entrepreneurship* and *collective*. This starts with a review of different uses of the term collective entrepreneurship. This immediately reveals some ambiguity as to what it might mean. A look at co-operatives and social capital helps to resolve this ambiguity. As the meaning of the term becomes clearer, the challenge that emerges is how to embrace the social benefits of collective action and entrepreneurship, not just the social conditions that give rise to each. Shapero's *entrepreneurial event* provides a framework within which this challenge is addressed. The search for the meaning of collective entrepreneurship ends with a proposed definition.

The final section of the paper reflects upon the implications of collective entrepreneurship for rural economic development.

## 1.1 The Importance of Entrepreneurship

The *Encyclopedia of Entrepreneurship* (Kent et al, 1982) offers a comprehensive account of the field. The book begins with a bold statement:

First, entrepreneurship is important. The introduction of new products and technologies to better satisfy consumer wants and raise productivity has been the most important force in man's long and precarious climb from underdevelopment to affluence (p. xxxvii).

This presents entrepreneurship on a grand scale. Nichol (1999) offers a local, more pragmatic view:

Like most of rural and small-town Canada, the residents of Huron County, Ontario, want better jobs, a diversified economy, youth opportunities, increased commerce, long-term competitiveness and sustainability, and the encouragement of an entrepreneurial spirit (p. 4).

Thus, in these two statements we immediately see the breadth and significance of entrepreneurship within economic development. It is portrayed as a significant factor of our historical development and as a solution to present economic challenges. However, "(d)espite the importance of entrepreneurship, economic theory has yet to adequately explain either the process by which entrepreneurship springs forth or the results of entrepreneurial activity in stimulating growth" (Kent, 1982, p. 237).

At the outset, many questions may be raised:

- What is entrepreneurship?
- What is the nature of economic growth?
- Why look only to economic theory?
- Can entrepreneurship be applied to collective?
- Can we extend individual characteristics to community?
- Can we extend individual actions to collective actions?
- Can we extend individual motives to act to collective motives to act?
- What does collective entrepreneurship contribute to rural economic development?
- What does collective entrepreneurship contribute to sustainable rural communities?

Not all of these questions can be answered in this paper. However, it is hoped that this exploration of collective entrepreneurship will lend insight to help answer some of them.

## 1.2 The Dimensions of Entrepreneurship

Vesper (1982) offers a contemporary view of entrepreneurship. He states, "the overall field of entrepreneurship is loosely defined as the creation of new business enterprises by

individuals and small groups” (p. xxxi). However, a review of entrepreneurship reveals many more dimensions.

From a rational economic perspective, a simple definition of entrepreneur is one who seeks profits. As Kirzner (1982, p.272) states:

Economics explains that where there are unexploited profit opportunities, resources have been misallocated and resulted in some kind of social “waste.” If a resource can be used to produce \$15 worth of output and is currently being used to produce \$10 worth of output, the current use of the resource is a wasteful one and offers an opportunity for pure profit, i.e., entrepreneurship. A profit opportunity implies a preexisting waste. Entrepreneurship corrects waste.

Throughout the social sciences, on the other hand, entrepreneurship is used interchangeably with self-employed (Bates, 1993). Adding the qualifier “highly successful” narrows this further (Kent, 1982, p. 4).

Figure 1 provides a conceptual map of the dimensions of entrepreneurship. This map shows entrepreneurship’s beginning within economics and, through subsequent developments, its shift into sociology. This is not chronological, however. The intent is to illustrate the relations and significant differences within the literature of entrepreneurship, thus providing a framework to explain its diffusion. For the purposes of this paper, this conceptual overview of entrepreneurship illustrates seven aspects of its evolution. These are: (A) created, (B) displaced, (C) evolved, (D) refined, (E) expanded, (F) adopted, and (G) merged. Each of these is briefly reviewed here. The section that follows takes a closer examination of the theoretical underpinnings of entrepreneurship.

*a) Entrepreneur Created*

Barreto (1989) identifies four distinct roles of entrepreneur as represented by specific theorists to “convey the fundamental, indispensable nature of the entrepreneur throughout the history of economic thought” (p. 4).

- i. co-ordination: (Say) combines and coordinates productive resources;
- ii. arbitrage: (Kirzner) sells something at a higher price than at which it was bought;
- iii. innovation: (Schumpeter) generates change in a market system through creative destruction; and,
- iv. uncertainty-bearing:
  - (Cantillon) speculates during uncertainty;
  - (Hawley) assumes responsibility in industrial undertakings;
  - (Knight) performs responsible decision-making by forecasting demand and estimating the factors’ marginal productiveness.

Each of these is explained in more detail later in the paper.

*b) Displaced: No Place for Uncertainty*

Despite Say's and Cantillon's contributions, orthodox microeconomic theories of the firm displaced entrepreneurship from economic literature by the 1930s. The production function, the logic of rational choice, and perfect information render the entrepreneur sterile; there is no room for the functions of the entrepreneur as defined above. Thus, the entrepreneur does not exist in modern microeconomic theory (Barreto, 1989).

c) *Evolved: Innovation to Economic Development*

“(T)he Schumpeterian entrepreneur is a special kind of creative person, one who brings about growth through changes in production functions. It is this special quality of change — innovation — that sets the entrepreneur apart” (Broehl, 1982, p. 264). Thus, although the entrepreneur disappeared from microeconomic theory, it contributed to, and subsequently thrived within, theories of economic growth and development.

d) *Refined: What is Entrepreneurship?*

As the frequency of the term entrepreneurship increased within economic development, its meaning and characteristics received more attention. Kent suggests that “entrepreneur” is used as though it were interchangeable with “highly successful entrepreneur.” From this, he seeks to understand “(w)hy particular individuals are achievement oriented and are prepared to take risks associated with the creation of a new venture while others are not” (1982, p. 2). Herein lies the quest for the psychological profile of the entrepreneur that includes, among others: need for achievement, a high degree of ambition, risk-taking propensity, work experience, and an appropriate role model, and other characteristics. Although research finds that many of these factors are associated with entrepreneurship, the causal relationship is still not clear (Brockhaus, 1982).

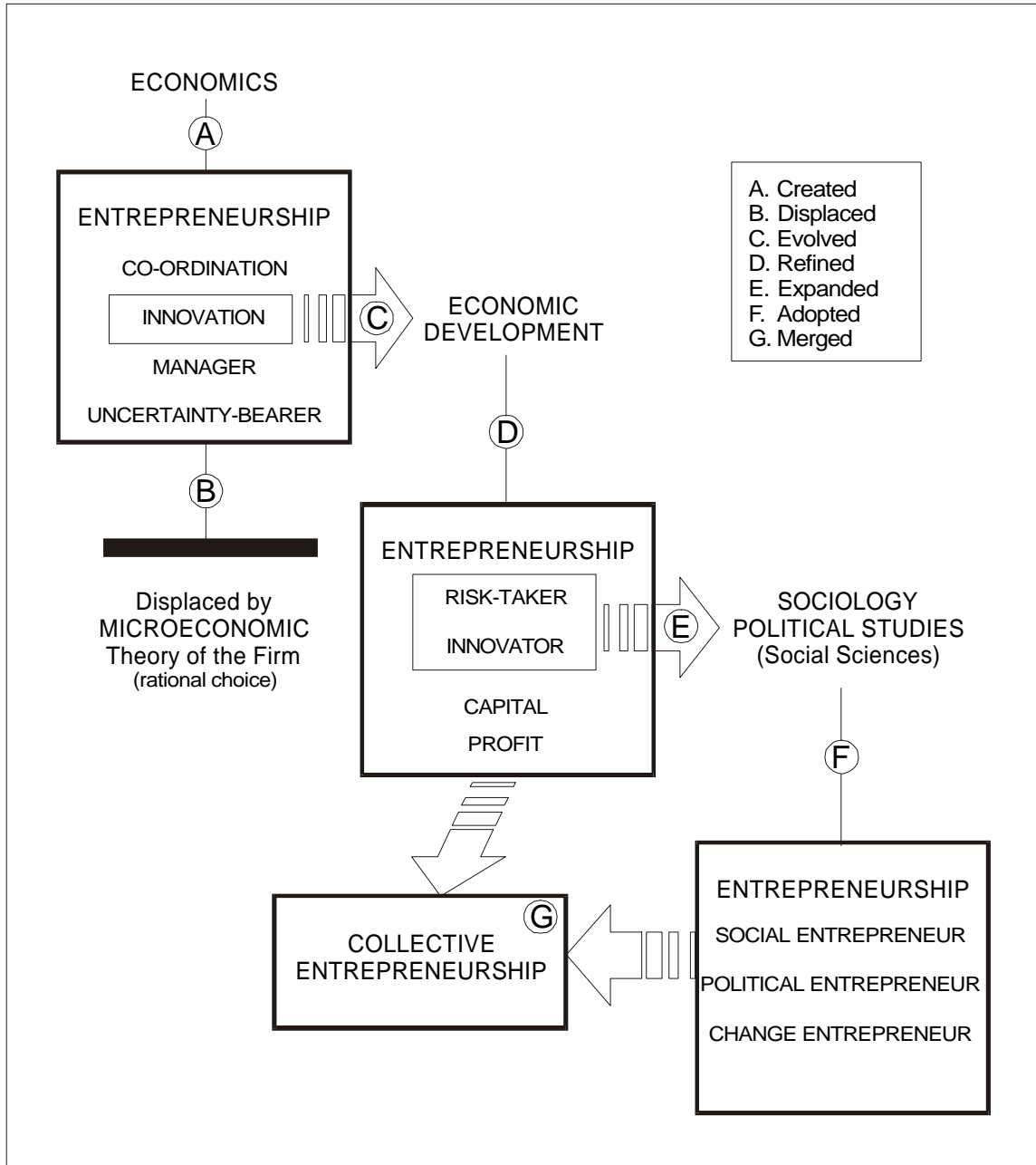
e) *Expanded: Organisation, Events, Culture, and Community*

Inquiries into the nature of entrepreneurship soon moved beyond a focus on the individual. Alfred P. Sloan, chief spokesperson for General Motors in the 1940s, is credited with being one of the first to apply entrepreneurship to a business. In his autobiography, Sloan states: “the most effective results and the maximum progress and stability of the business [were] achieved by placing its executives in the same relative position ... that they would occupy if they were conducting a business of their own account.” The proper structure, Sloan thought, could provide “monetary reward” and “ego satisfaction” that generated “a tremendous driving force with the Corporation” (Livesay, 1982, p. 10).

With respect to events, Kent explains:

According to one school of thought, the sociological event is the major motivating factor in the creation of a new venture, and current efforts to define personal entrepreneurial characteristics are addressing a symptom rather than a cause. Those who support this approach emphasize

Figure 1. A Conceptual Map of Entrepreneurship.



situational conditions such as job dissatisfaction or displacement, family displacement, and the presence of desirable opportunities... “accidental” entrepreneurs who “fall into” ventures (1982, p. 3).

Efforts to explain the high propensity of Asian immigrants to the United States to pursue self-employment led to other theories of entrepreneurship. Bates explains: “Emphasizing the relevance of cultural factors, the sociological analysis of small

business treats firm ownership as a group phenomenon, heavily dependent upon social resources available from group support networks. The entrepreneur is seen as a member of supportive kinship, peer, and community subgroups.” (1993, p. 250)

Dykeman (1990) goes beyond subgroups to the community as a whole. “Sustainable communities are also entrepreneurial communities. This suggests that sustainable community approaches must involve a process that will motivate, build self-confidence, be committed to the long term, reflect high energy levels, be a persistent problem solver, demonstrate initiative, be willing to establish goals and be committed to objectives, and be a moderate risk taker” (p.8). Strategic planning is an important aspect of Dykeman’s entrepreneurial communities.

f) *Adopted: Social and Political Theories*

The most consistent characteristics associated with entrepreneurship are risk-taking and innovation (the latter usually meaning the formation of a business venture). One reason for this is that these two characteristics are easily adopted for use outside of the business context. For example,

Theobald argues for a social entrepreneur movement that is based on willingness and ability to embrace and manage change, a movement that is based on strong local leadership, a movement that is driven by a vision, and a movement that is based on an understanding of how to use knowledge and knowledge systems for management of change (Dykeman, 1990, p. 4).

Duhl (1990) also refers to *social entrepreneurs*, as well as *change entrepreneurs*. He applies both terms to someone who is willing to challenge the status quo within the social field.

*Political entrepreneur* emerges in collective action studies. This defines a person who works to the benefit of groups. This may work because a candidate for elected office seeks to provide a group some collective benefit given that they might vote for him or her.

The second way political entrepreneurs may work to the benefit of groups is – just as entrepreneurial business leaders do – by founding and expanding organisations and by seeking collective benefits for organisation members, in part, because their own careers will be enhanced by the size and prosperity of their organisations (Hardin, 1982, p. 36).

g) *Merged: Collective Entrepreneurship*

The search for “new” solutions to economic and social problems inevitably drew upon both the business aspects of entrepreneur and the social aspects. Collective entrepreneurship is a term that describes this merger. Albeit, there are differences

as to how this term is now used. Collective may refer to the interactions and networks of businesses (Jonsson, 1997), the interactions and networks of communities (Putnam, 1993), or the “collective identity” of a locality (Priore, 1995). This topic is addressed separately below.

The economic and sociology theories underlying entrepreneurship help to explain the diffusion illustrated by Figure 1.

## 2.0 Theories of Entrepreneurship

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As demonstrated above, entrepreneurship has many dimensions: from individual risk-taking to collective action, from economic theory to social development. The qualities and characteristics associated with each of these dimensions differ. In this section, the economic theories of entrepreneurship, the sociology theories of entrepreneurship, and collective action are each reviewed.

### 2.1 The Economics of Entrepreneurship

Books on entrepreneurship and economic development both reference the role of entrepreneurs in economic theories (Bingham and Mier, 1993; Blakely, 1994; Wilken, 1977). Humberto Barreto (1989) deals explicitly and comprehensively with this subject. Mark Casson (1982) also provides an excellent overview of the relations between entrepreneurship and economic theory. Both Barreto and Casson state that there is no economic theory that explains entrepreneurship. Casson sums it up well in the very first paragraph of his book:

It may be said quite categorically that at the present there is no established economic theory of the entrepreneur. The subject area has been surrounded by economists to sociologists, psychologists and political scientists. Indeed, almost all the social scientists have a theory of the entrepreneur, except economics (p. 9).

Why is there no economic theory of entrepreneurship? Casson offers two main reasons, the first of which is presented here. Casson argues that the explanation “lies in the very extreme assumptions about access to information which are implicit in orthodox economics – that is in the neoclassical school of economic thought. Simple neoclassical models assume that everyone has free access to all the information they require for making decisions. The assumption reduces decision-making to the mechanical application of mathematical rules for optimization. It trivializes decision-making, and makes it impossible to analyze the role of entrepreneurs in taking decisions of a particular kind” (Casson, 1982, p. 9). Thus, for example, Knight’s *decision-maker* entrepreneur is easily singled out as incompatible.

Barreto’s explanation of the disappearance of the entrepreneur in microeconomic theory expands upon Casson’s statement. He begins by asking, why is the theoretical core of microeconomic theory so restrictive that it prevents the introduction of the entrepreneur? His answer begins with the emergence of the modern theory of the firm within orthodox microeconomic theory in the 1930s. “The aim of the modern theory of the firm is to present a determinate and consistent model of the market system. It accomplishes this task admirably with the essential help of its theoretical core” (p.132). This theory offers a consistent framework. “In one interlocking system, the theory explains the supply curve on the output side, demand curves on the input side, and income distribution” (p. 132). Barreto continues:

However, in achieving a perfect fit among the various facets, the theory found no use for the entrepreneur. The model only requires a production function, the logic of rational choice, and perfect information (p. 132).

Underlying this explanation is the rational *homo economicus*, inherently absent of the human element. Rational choice removes any opportunities for innovation, for coordination, and for uncertainty. After explaining the above, Barreto concludes: “More and more, however, we see economists introducing ‘imperfect information’. As economics moves toward relaxing the core assumptions, toward incorporating ‘human elements’, and toward explaining technological change, the entrepreneur will reappear” (p. 143-144).

Interestingly, the explanation of the disappearance of the entrepreneur in economic theory also answers the question, what is the link between economic theory and theories of economic development. The latter, as will be shown below, rests upon “irrational” decision making of humans.

### 2.1.1 *Economic Development*

The entrepreneur has played several fundamental roles in economic development. Barreto presents four groupings of these roles: coordination, arbitrage, innovation, and uncertainty-bearing. He further divides the last category into three sub-groupings: speculation, ownership, and decision-making. (All page references below are from Barreto, 1982.)

#### 1. *Coordinator*

Jean-Baptiste Say describes the entrepreneur as a “combiner and coordinator of productive resources.” He placed the entrepreneur “as the crux of the market system.”

He is the link of communication, as well between the various classes of producers, one with another, as between the producer and consumer. He directs the business of production, and is the center of many bearings and relations (p. 11)

#### 2. *Arbitrageur*

The entrepreneur as arbitrageur comes from Israel Kirzner; someone with “the ability to perceive profit opportunities and act upon them” (p. 13) “The ‘pure’ entrepreneur observes the opportunity to sell something at a price higher than that at which he can buy it” (p. 18)

#### 3. *Innovator*

Joseph A. Schumpeter believed the market system “has an inherent tendency toward change and that the dynamic attributes of capitalism were its most useful characteristics.” Herein, innovation is an outcome of new combinations created by the entrepreneur. “Thus the chain is complete: the hallmark of capitalism is

change which, in turn, is caused by the entrepreneur” (p. 22). Schumpeter’s innovation is an outcome of new combinations. These new combinations are broad, including new goods, new methods of production, new markets, or new organisations that define economic development (p. 28).

4. *Uncertainty-bearer*

This is divided into three sub-groups.

Speculator: Richard Cantillon, writing before Adam Smith, appears to have been the first to introduce the entrepreneur to economics (Casson, 1982). Cantillon’s entrepreneur is a speculator.

The entrepreneur ... conducts all of the exchanges in the market, buying from producers and selling to consumers. By performing this function, he leads the market toward equilibrium. But he is more than a mere arbitrageur (buying low and selling high) because of the presence of uncertainty. The entrepreneur, in conducting his transactions, buys at a certain price and sells at an uncertain one” (p. 34). As speculator, Cantillon’s entrepreneur is “the key to the market system because of his willingness to bear risk” (p. 35).

Owner: Frederick Bernard Hawley added the motivational force of enterprise to the discourse on entrepreneurship. Enterprise, as defined by Hawley, is “the assumption of responsibility in industrial undertakings. ... But the adoption of the entrepreneurial role carries with it a cost – the assumption of responsibility. In an uncertain environment, the enterpriser motivates production and becomes the responsible owner of the product” (p. 36-37).

Decision-maker: Frank H. Knight states that, in uncertain conditions, someone must decide what to do and be responsible for that decision. The decision-making function forecasts demand and estimates the factors’ marginal productiveness. “Thus Knight’s entrepreneur is more than a manager or actual productive service. He keys the productive process by deciding, in an uncertain environment, what and how to produce. He is entrepreneur by virtue of his willingness to accept the results of a particular endeavor” (p. 41).

These characterisations demonstrate the human elements of entrepreneurship. Barreto, for example, describes Schumpeter’s entrepreneurship as “not something done on rational utility-maximising grounds. Schumpeter’s entrepreneur is a creature driven by instinctive and non-calculating motives” (p. 29). This view of entrepreneurship, in turn, underpins theories and policies of economic development, including location theory, human resource development, and financing.

Once outside of the interlocking modern theory of the firm, economic development makes great use of entrepreneurial decision-making. Much of this depends upon the sociological aspects of entrepreneurship.

## 2.2 The Sociology of Entrepreneurship

A significant distinction between the economics and the sociology of entrepreneurship exists. Economists, generally, view entrepreneurship as an independent variable. That is, the role of the entrepreneur is downplayed in economic growth and development while the economic conditions receive greater attention. Sociologists, on the other hand, view entrepreneurs as the dependent variable. Herein, entrepreneurship is a necessary condition of economic growth and development (Wilken, 1979).

Shapiro and Sokol's work on entrepreneurship highlight the social nature of decision-making processes inherent in economic development. They explore the nature of actions taken by the entrepreneur, the role and affect of peers, and, among others, the effect of previous work experience. Their work illustrates how entrepreneurial formations are the result of interacting situational and cultural factors (Shapiro and Sokol, 1982). This shifts the focus of entrepreneurship from the individual to the social dimensions of the individual and to the social group itself.

Applying entrepreneurial traits to organisations, cultures, and communities requires an examination of the theoretical links between the individual and the group. One important question, for example, is: can entrepreneurial traits, typically associated with individuals, be applied to groups? Wilken argues that entrepreneurship does apply to both individuals and groups.

All phases of the entrepreneurial role may be carried out by the individual, they may be divided among individuals, or they may be carried out by a corporate actor – an organization. The transition from individual to collective entrepreneurship has been a major historical trend, representing a response to the capital limitations of individual actors and to increases in capital requirements for many entrepreneurial actions. The typically greater resources of combinations of individuals should enable them to behave entrepreneurially more easily than individuals, or should at least influence their perception of opportunity conditions. So the causal significance of entrepreneurship in a particular situation may be due to a greater or lesser willingness of individuals to join with others in entrepreneurial endeavors (1979, p. 66).

Wilken makes the link between individual and collective entrepreneurship explicit. In doing so, he highlights several important issues:

- Collective entrepreneurship may be a response to the economic situation;
- Greater access to resources may increase collective entrepreneurial behaviour; and,
- Collective entrepreneurship is a function of the willingness of individuals to co-operate.

These factors are the subject of social choice theory, or collective action.

## 2.3 Collective Action

The relations between an individual and the group fall within the scope of collective action. The purpose of this section is to draw upon game theory to lend insight into the dynamics underlying collective action as it relates to entrepreneurship<sup>1</sup>. Specifically, the author presents the deterministic logic and extrarational behaviours under which groups are likely to organise or not organise.

### 2.3.1 The Logic of Collective Action

Collective action and game theory are essentially the same: both seek to explain the motivations of individuals to act together (Hardin, 1982). To understand why this is so, one must first understand the logic used by game theorists. The following example, by William Baumol, illustrates the underlying logic of game theory in a community setting.

... (T)he individual as a citizen, having his share of local pride, may desire an improvement in the general future state of welfare in the community. If, however, he alone directs his activities in a manner conducive to it, the effects of his action may be quite negligible. It is true that in the process he may also be improving the value of his own assets, but his private return must be discounted by a risk factor which does not apply in the calculation in the expected gain to the community. Thus neither private interest nor altruism (*except if he has grounds for assurance that others, too, will act in a manner designed to promote the future welfare of the community*) ... can rationally lead him to invest for the future, and particularly the far distant future, to an extent appropriate from the point of view of the community as a whole. Taken as a commodity, improvement in the future state of the community as a whole is one that must serve as a group demand and not just the demand of isolated individuals (p. 21, emphasis added).

Thus, the individual calculates his willingness to act based on the benefits he receives directly from his own contribution, as well as the expected participation of others. Ultimately, his private benefit is conditional upon others sharing his concern for the community's future welfare.

The "logic of collective action" calculates this willingness to act. Mancur Olson developed an equation for this purpose:  $A_i = V_i - C$ . Herein, costs  $C$ , gross benefits ( $V_i$ ) to the individual  $i$ , and net benefits ( $A_i$ ) to the individual from  $i$ 's own contribution to a group's collective good are included. Thus, as Olson's logic stands:

If the net benefit for  $A_i$  is positive for some  $i$ , the group is *privileged* and likely to successfully organise;

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<sup>1</sup> Game theory is a complex field of study that precludes an in-depth review within this paper. The material in this section draws upon the work of Russell Hardin, from his book *Collective Action* (1982). This material should be viewed as general statements. For example, Prisoner's Dilemma, from game theory, plays a central role in this discourse but is not addressed here. Hardin provides an excellent explanation of this in Chapter 2 of his book.

If the net benefit for  $A_i$  is negative for all  $i$ , the group is *latent* and likely to fail (i.e., not organise).

Further, this logic also states that large groups will fail; small groups may succeed. Olson gives three arguments to explain why larger groups will fail to further their own interests:

1. The individual incentive not to contribute increases with group size;
2. Larger groups are less likely to be privileged; and,
3. The larger the number of people who must be co-ordinated, the higher the costs of organising them to an effective level (Hardin, 1982).

The introduction of extrarational behaviour seeks to explain situations wherein this logic is overturned, i.e., when latent groups do organise and when large groups succeed.

### **2.3.2 Convention**

*Extrarational behaviours* explain how and when the logical outcome is over-ridden by other considerations. One of these behaviours, *convention*, appears to have implications for collective entrepreneurship. According to David K. Lewis, convention exists when players of a game successfully achieve tacit communication to co-operate (Hardin, 1982, p. 158). For example, caring about truth in relating events of interest is a social choice convention. This is sustained, in part, because people value the sharing of knowledge that is desired (Hardin, 1982, p. 160). As such, Hardin emphasises that one cannot look at the incentives deriving from a group's structure and goals alone to understand why members of the group behave as they do. Thus,

... (A) convention is honored because, once it exists, it is in our interest to conform to it. Because we have a convention, we have expectations about each other's behavior; and because we have expectations, we suffer costs if we do not live up to them. The unfavorable responses evoked by my failure to conform are an additional cost of my not conforming. Conventions are like social institutions that have power over individual decisions because there are expectations built on the institutions (p. 175).

Herein lie the seeds of co-operation – and collective entrepreneurship. Members of a community may collectively engage in entrepreneurial activities (i) when members perceive of an individual private net benefit; or (ii) if private benefit is insufficient for collective action, members have a shared belief in the community's future welfare. In the latter case, individuals will co-operate if they know others will act the same.

In conclusion, convention plays two roles in collective action. First, once undertaken, convention may direct the form of the action as well as individual behaviour. Second, “a perhaps far more important role of convention is to underpin the life of a group enough to enable the group to organize and stay organized for political or other action” (Hardin, 1982, p. 221). Thus, community-wide collective entrepreneurship is more likely to take place when the initiative is part of a network of mutual interactions, where smaller groups feed into larger groups. The logic of collective action helps to understand the dynamics

of choice; extrarational behaviour helps to understand everyday experiences. In summary:

The greater distinction between small and large groups is not one of Olson's logic, but merely of the likelihood of their being involved in a thick network of mutual interactions. Almost any commonsense assumption of the limits as to how many people one can involve in ongoing exchange relations with oneself would suggest that very large groups might have greater difficulty than smaller groups in acting collectively when there are costs to individual participants. Generalization of such a commonplace conclusion, however, is not easy, because over-lapping small-group and large-group relationships may enable even very large groups to achieve cooperation, and because very small groups defined by some common interest may not be bound by any ongoing relationships (Hardin, 1982, p. 229).

The characteristics of successful co-operatives, for example, appear to rest upon both strong convention and overlapping small groups, as will be explored below.

### 3.0 Collective Entrepreneurship

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So far, there appears to be a place for *collective* and *entrepreneurship* to come together. The breadth of entrepreneurship justifies the inclusion of collective and the dynamics of collective action give rise for co-operation. Within the literature, collective entrepreneurship has been used in different situations. Wilken (1977) uses collective entrepreneurship to describe the source and structure of economic development, i.e., whether it was an individual, family, a group of unrelated people, or government that formed a business venture. He used this categorisation to describe the economic development of different countries. The form of development undertaken being a reflection of culture, economic conditions, and public policy.

David Wolfe (1997) uses the term to describe the "patterns of interactions between firms." This is in the context of a collective learning process in the acquisition and use of new technical knowledge amid global and institutional restructuring. Collective entrepreneurship, then, plays a part in a nation's or region's institutional capacity for adaptation.

Jonsson (1997), on the other hand, uses collective entrepreneurship for the role it plays in the capital accumulation process and innovation. He emphasises that "the entrepreneurial function can not be reduced to an individual or firm.... The active economic role of institutional actors such as local authorities, communes, the central state, international organizations and organized co-operation between firms in regulating and promoting conditions of competition and competitiveness leads us to the conclusion that the entrepreneurial function is realized through a process of collective entrepreneurship." This use of the term accomplishes two goals. First, Jonsson sets out the categories of actors involved in collective entrepreneurship. Second, he uses these

categories of actors to define collective-entrepreneurship interrelationships. For example, the state and the firm may act collectively around procurement, science parks, and tax allowances for innovative firms. (See Appendix A for a table Jonsson created using these groups to categorise examples of collective entrepreneurship in west-Nordic countries.)

### 3.1 Co-operatives

Co-operatives may be the clearest example of collective entrepreneurship<sup>2</sup>. They are, by definition, a collective effort. Accordingly, co-operatives are a group initiative to self-manage combined resources and to share the organisation's success or failure.

From another perspective, co-operatives correspond to the logic of collective action. First, co-operatives are *privileged* groups: it is expected that the net benefit to at least one individual is positive. For example, this is achieved through securing a market for the co-operatives goods or from the distribution of profits to the membership. Second, convention may also play a role in keeping co-operatives functioning. As Shapero stated, entrepreneurship is more likely to occur when embraced as a social value. This underlies the importance of articulating the values of co-operatives, as the International Co-operative Alliance has done (Thordarson, 1990, p. 1).

Jonsson (1997) cites another factor contributing to success in remote fishing communities that applies well to the many co-operative experiences. That is, a homogenous population with a clear sense of identity stemming from common culture, language and religion. This, too, has implications for the role of convention. It may also lend support to the proposition that larger groups are more likely to succeed if made up of overlapping smaller groups.

### 3.2 Social Capital

Social capital, like collective entrepreneurship, is a term used in various capacities. As Wall suggests with reference to social capital, "elasticity in applicability might threaten its utility as a social construct" (Wall et al., 1998, p. 319). Nevertheless, a connection between the two appears to exist. Wall suggests that one appeal of social capital is its possible links to other disciplines, particularly to economics. For example, Wall explains that social interactions and networks "are construed as capital when some transformation takes place based on incorporating those resources" (p. 312). Green illustrates this connection more explicitly. He links the importance of social capital to entrepreneurship and small business development (Green, 1996).

The importance for social capital to the study of family businesses is that the concept provides a link between macro and micro analyses of business decisions. Rather than viewing family businesses as solely rational decision makers, the

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<sup>2</sup> Surprisingly, among the entrepreneur and economic development literature covered in this paper, the author came across only one reference to co-operatives. While there may have been others, this single reference was to the nineteenth century Russian *artels* set up among the peasantry (Wilken, 1977, p. 245). This may reflect a lack of integration of entrepreneurship, collective action, and economic development. As such, this may further indicate the emergence of collective entrepreneurship as an economic development strategy.

social capital approach suggests that family businesses are embedded in social relations that influence their activities (p. 4).

Putnam's conclusion that strong social capital indicates economic success lends further insight into the relations between the two. As recounted by Sullivan (1995):

A strong civic culture, he discovered, turned out to be the best (in fact the only significant) predictor of economic success for a locality over the long term. Civic culture, norms and networks of civic engagement seem to be the 'precondition for economic development, as well as for effective government (p. 28).

The relations between social capital and collective entrepreneurship are apparent. At their cores, both are set within the norms, values, and networks of society. Collective entrepreneurship, however, also refers to the interactions among firms, among producers and users of technology, and among individuals, organised interests and other actors. It also refers to collective learning, economic structures, and social networks. The need, then, is to crystallise thoughts surrounding collective entrepreneurship, to find a specific meaning and use for the term.

### 3.3 Entrepreneurial Event

The need to manage the various applications of collective entrepreneurship stems from the diffusion of the term entrepreneurship. The latter was illustrated above. Shapero and Sokol focus on the *entrepreneurial event* to satisfy this need.

[The entrepreneurial event] ... avoids such questions as whether an individual who has carried out one entrepreneurial act is or is not an entrepreneur. It permits one to consider the one-time entrepreneur and the part-time entrepreneur as well as the repetitive or full-time entrepreneur, and to consider a large variety of activities without being tied to a particular kind of individual. The event becomes the dependent variable while the individual or group that generates the event become the independent variables, as do the social, economic, political, and cultural contexts (p. 77-78).

Clearly, Shapero and Sokol place high importance on social dimensions. Their construct of the entrepreneurial event creates an appropriate space for this. Operationally, Shapero and Sokol denote the entrepreneurial event by:

1. *Initiative-taking*. An individual or group takes the initiative.
2. *Consolidation of resources*. An organisation is formed or restructured to accomplish some objective.
3. *Management* of the organisation by those who took the initiative.
4. *Relative autonomy*. Resources are disposed of and distributed with relative freedom.
5. *Risk-taking*. The organization's success or failure is shared by the initiators.

Harwood, although in favour of the above, is critical of Shapero's entrepreneurial event because it is too liberal. He is concerned that it "includes any role, regardless of the occupational or social context, that can be associated with initiative, risk-taking, resource aggregation, and autonomy. By such expansion, a 'venture' can come to include almost any new accomplishment (Harwood, 1982, p. 93). Alternatively, Harwood modifies the event such that it restricts risk-taking to contributions of capital assets for unknown outcomes. This may include time, skills, and energy in exchange for a hoped-for equity and earning gains rather than a fixed salary or fee (p. 94).

The modified version of the entrepreneurial event has the advantage of preserving the private-venture aspects of entrepreneurship. As such, managers, for example, are excluded. As Shapero and Sokol explain, "managers take initiative, innovate in the technological sense, and even bring together resources, but if they do not personally share the risk of success or failure, if they do not manage the organization with a considerable degree of autonomy, they have not generated a genuine entrepreneurial event" (p. 78). Similarly, social entrepreneurs and political entrepreneurs do not fit. While they may take risks and contribute time and energy, they are not likely to receive equity or earnings gains in exchange. Similarly, many voluntary not-for-profit initiatives may not meet the conditions of this construct.

## 4.0 Synthesis

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### 4.1 Collective Entrepreneurship Is Feasible

From an abstract point of view, collective entrepreneurship is feasible. Entrepreneurship alone includes both individual and group initiatives. Collective action provides an understanding of the conditions that spur co-operation.

From a practical point of view, a modified version of Shapero's entrepreneurial event helps to operationalise collective entrepreneurship. This framework, as presented above, is denoted by:

1. *Initiative-taking*. An individual or group takes the initiative.
2. *Consolidation of resources*. An organisation is formed or restructured to accomplish some objective.
3. *Management* of the organisation by those who took the initiative.
4. *Relative autonomy*. Resources are disposed of and distributed with relative freedom.
5. *Risk-taking*. The organization's success or failure is shared by the initiators. With the condition that risk-taking is restricted to contributions of assets, including capital, time, skills, and energy in exchange for a hoped-for equity and earning gains rather than a fixed salary or fee.

Adopting this framework infers that collective entrepreneurship also retains the private-venture aspects of entrepreneurship. Likewise, collective entrepreneurship does not include concepts like social and change entrepreneurs. Thus, we move closer to a meaning of the term.

## 4.2 Collective Entrepreneurship Is A Vision

Crouch and Marquand (1995) may advance the potential of collective entrepreneurship: On a deeper and more important level, we speak of a social coalition, not just a political one. A vision of collective action that embraces more than the central state cannot be realized solely, or even mainly, through the familiar mechanisms of party politics. It must be embodied in a variety of institutions and practices – local authorities, churches, charities, community groups, business associations – that transcend the logic of individualism (p. 19).

This sets up the challenge for society today: to move toward a new vision of collective action. Borrowing from the co-operative movement, this new vision of collective action might aim for the economic and social betterment of its members by means of the exploitation of an enterprise based on mutual aid (Thordarson, p. 4).

Herein, collective entrepreneurship is not just a business development solution, nor just a community economic development solution. The issue at hand is the means to find a balanced, viable alternative to the individualism of conventional economic development. The pitfall we must avoid is thinking we must choose one approach over the other: local over global, or right over left. The correct approach is finding a balance. The situation we are faced with today is that current economic development strategies focus on global solutions and operating on industrial scale development – at the expense of local sources. The goal is not to isolate communities from globalisation. Rather, the goal is to mobilise local means and ingenuity and take advantage of global opportunities (Connell, 1999, p. 57).

Sullivan (1995) describes the problematique another way:

Articulating a convincing alternative to the privatism of the growth society's ideal of 'enterprise culture' must address not only its practical failures, but the attraction of its moral core. An alternative must supply critique; but also acknowledge the real worth of autonomous selfhood and expressive individuality, while giving those values place within a wider, more mature vision (p. 27).

## 4.3 Moving Toward a Definition of Collective Entrepreneurship

A definition of collective entrepreneurship must distinguish itself. It has to synergise the combination of the two terms, to build upon the social dimension of each. *Collective* must not simply describe a situation when more than two or more people act co-operatively. Similarly, *entrepreneur* must not only mean highly successful, self-

employed people. The challenge is to embrace the social benefits of each, not just the social conditions.

As stated previously, collective action lends insight into the nature of co-operation among large groups. As for convention, Shapero and Sokol provide an example of how it may play a role in collective entrepreneurship:

...in a social system that places a high value on the formation of new ventures, more individuals will choose that path in times of transition. More diffusely, a social system that places a high value on innovation, risk-taking, and independence is more likely to produce entrepreneurial events than a system with contrasting values (1982, p. 83).

Thus, an opportunity exists to define a relationship among social capital, convention, and collective entrepreneurship. In many ways, the author suggests, social capital provides the broader context to situate collective entrepreneurship. Whereas social capital lends an economic, or productive, perspective to social relations, collective entrepreneurship lends a business development perspective to social capital. In this, collective entrepreneurship is a means of realising the inherent potential of social capital. Convention is the catalyst that brings the two together.

A definition, at a minimum, must set collective entrepreneurship apart from other forms of economic activities. It must address the question of who benefits, that is, it must consider the benefits and costs to the community within which the initiative takes place.

The author offers the following definition:

***Collective entrepreneurship combines business risk and capital investment with the social values of collective action. It is an event that exists when collective action aims for the economic and social betterment of a locality by means of some transformation of social norms, values, and networks for the production of goods or services by an enterprise.***

## 5.0 Implications for Economic Development in Rural Ontario

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Amid the current state of “rural restructuring,” the broader question is: how do we protect and preserve rural living, its amenities, and character? Within this context, what is the role of collective entrepreneurship?

Jonsson, in addressing the challenges facing small Nordic countries, sees collective entrepreneurship as the “more realistic concept” to build upon the dynamics of innovation. However, Aldrich and Stern suggest:

... collective entrepreneurship is at a disadvantage because the societal context favours material incentives over solidary and purposive ones. They indicate the necessity for the mobilization of political and economic resources as a means to counteract the North American cultural bias toward individualism. The kind of mobilization of resources required to establish industrial co-operatives has not taken place because political movements supportive of collective entrepreneurship strategies have been too weak and labour unions too ambivalent (Wilkinson and Quarter, 1997, p. 147).

They might both be right. The logic of collective action shows why this may be so. Jonsson's view of collective entrepreneurship emphasises rational economic choices: the accumulation of capital for innovation. His collective action is likely to occur because, within the scope of private interests, one of the members is likely to receive positive benefits. Thus, in Olson's terms, Jonsson's group is privileged. On the other hand, Aldrich and Stern imply the need for extrarational behaviour. They cite the convention of individualism as a barrier to collective action. In this scenario, no one would want to play the game since it is most likely that others will not.

These perspectives call attention to the two sides of collective entrepreneurship: the collective side, and the entrepreneur side. On the one hand, rural economies must realise the role of entrepreneurship for its innovative abilities, as well as its ability to work on both the supply side and demand side of the growth equation (Kent, 1982, p. 237). On the other hand, society's present ideology is distinctly individual. Collectivism is associated with stifling, centralised state control (Brown, 1995, p. 2). In addition to a commitment to tackling entrenched interests, Brown stresses that markets must work for the public interest; that markets "are not the only means of empowerment, or even the most important ones" (p. 15).

For these reasons, Jonsson concludes that collective entrepreneurship builds upon local ingenuity and strategies. Jonsson, however, relies on privileged groups, as noted above. Rural communities in Ontario are not like Evangeline or small fishing villages. They are not isolated communities with strong homogeneous identities and cultures. As such, they lack much of the embeddedness that makes co-operatives and collective entrepreneurship successful in other areas.

In addition, rural Ontario communities may not have large groups made up of overlapping smaller groups in which to foster a convention for collective action. According to Fuller's conception of the Arena Society (1994), rural society today is more wide open, with fewer boundaries. This corresponds to more opportunities to associate with disparate groups, resulting in less overlap among groups. As such, a co-operative, if it is to organise and sustain itself, must be privileged, i.e., at least one person must expect positive net benefits.

Alternatively, if local governments are to use collective entrepreneurship as a strategy, they must direct public policy toward building a social convention of sharing. This acts

as a way of organising latent groups for the benefit of the community. Given this, collective entrepreneurship offers a possible *alternative* strategy. It is alternative because its collective nature sets it apart from other economic development strategies. Likewise, collective entrepreneurship supports development by the community and for the community, as Douglas (1994) characterises community economic development (CED). As such, local policies must incorporate this difference if collective entrepreneurship is to work. It is one thing to support (individual) entrepreneurship, it is another to support collective entrepreneurship. As pointed out above, however, the challenge of overcoming North American individualism is significant.

## 6.0 Conclusion

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An array of complex factors affect the economic development of a locality. These same factors influence both the availability of entrepreneurs and the ability to attract them (Bates, 1993). Collective entrepreneurship adds a further dimension of complexity: the propensity for collective action. This dimension is significant because it sets collective entrepreneurship apart from other economic development strategies. It requires a deliberate choice to pursue collectivism over individualism. Where there is choice, there must also be balance. Ultimately, rural communities must embrace a range of development strategies. They must find ways to link bottom-up and top-down efforts, to find synergy between individualism and collectivism.

Toward this balance, collective entrepreneurship embraces the social benefits of collective action with the innovation and power of the market. Herein lies the meaning and utility of collective entrepreneurship.

**Appendix A. Forms of Collective Entrepreneurship**

Actors	The state: governments, municipalities and institutes	Organized interests	Firm	Individual
The state: governments, municipalities and institutes	Supporting international R&D projects, e.g. EUREKA, ESPRIT, ERASMUS; developmental plans for R&D on regional level; Establishing R&D funds and institutions, science parks etc.; tax reductions for R&D, procurement etc.	Collaboration between employers organizations, trade unions and the state in developing R&D and innovative institutes run by organized interests	Procurement, science parks, tax allowances for innovative firms etc. Technological transfer via foreign MNCs (c.f. Taiwan, S-Korea, Singapore etc.)	Centres and laboratories for inventive individuals
Organized interests of capital and labour	R&D projects in the welfare state, health and work conditions. Collaboration in the field of transformation of skills and flexibility of labour and technology as well as spatial flexibility of labour	R&D funds and institutes established and run by employers organizations and/or trade unions from different branches of industry	R&D funds and institutes established and run by collaboration and run by employers' organizations and/or trade unions from different branches of industry	R&D contracts with individuals and access to laboratories and other facilities
New social movements: environmentalists, consumer organizations, women's movements	R&D projects related to the improvement of the environment, consumer information and health standards and gendered technology and discrimination	R&D collaboration by new social movements related to the interests of the new social movements	Collaboration as concerns definition of market niches and access to laboratories and other facilities	R&D contracts with individuals
Firm			R&D and innovation networks of firms; user-producer networks	firms provide innovative individuals with risk capital, mass produce prototypes and bring them to the market
Individual				Groups of individuals initiate and finance R&D projects

Source: Jonsson, 1997.

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