

CHAPTER 1

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Entrepreneurship in Business and Research: An Introduction

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Håkan Lindgren – A Research Entrepreneur

Håkan Lindgren came to Uppsala University at the beginning of the 1960s, where he studied political science, economics and pedagogy. His prime interest, however, was economic history, and after his Master of Arts exam, he began his Ph D studies within this field, also at Uppsala University. In 1971, he defended his thesis – *Spannmålshandel och priser vid Uppsala akademi 1720–1789. En prövning av markegångstaxornas källvärde* – with distinction. The thesis dealt with the pricing of and trade with grain in Sweden during the 18th century and has been important for later research, especially in connection with judging the reliability of price series. (See Bibliography of Håkan Lindgren, pp. 349–354.)

During the 1970s his teaching abilities were put to use on all levels at the Department of Economic History in Uppsala, but he also found the time to extend his research into business history. In 1979 he published *Corporate Growth. The Swedish Match Industry in Its Global Setting*, where he analysed the marketing policy of Swedish Match and the structure of the world match market during the interwar years. His estimates of the size of the global market, and the Krueger share of that market, has been widely referred to by scholars assessing Ivar Krueger's importance in the interwar years.

During the 1980s, he was engaged in a large research project focusing on the history of the Stockholms Enskilda Bank. In 1987, he published the book *Bank, investmentbolag, bankirfirma. Stockholms Enskilda Bank 1924–1945*. After that opus, he took a closer look at the largest Swedish investment company – Investor. In *Aktivt ägande. Investor under växlande konjunkturer* from 1994, he analyzed different issues within corporate finance and corporate governance.

He has published several articles in national as well as international volumes within the fields of financial and business history, of which some have had an important impact on the work of other researchers (see pp. 349–354). He has also contributed numerous articles about Swedish industry, banks and individual entrepreneurs to the Swedish National Encyclopedia (*Nationalencyklopedin*).

From 1987 he conducted a doctoral and post-doctoral research project in Uppsala, concerning the role of commercial banks in the transformation of Swedish industry. In the 1990s, he was one of the promoters of another large project – on the role of savings banks in the Swedish economy – before he left his position at Uppsala University to become full professor at the Stockholm School of Economics in July 1995. At the Stockholm School of Economics he has initiated doctoral projects regarding informal and formal financial markets during the late 19th century and early 20th century.

In the last couple of years Håkan has also shown an interest in the development of Swedish media. Since 1996 he has been the research co-ordinator for a project dealing with the development of the Swedish media-group Bonniers. In 1996, he was also appointed chairman of the Editorial Committee for the Press History of Sweden.

He has successfully attracted researchers and funding to the Institute for Research in Economic History (EHF) at the Stockholm School of Economics. A large number of books and research reports have been published under the auspices of the EHF, and it is generally recognized in the business history

profession that these studies maintain a high international standard.

Håkan is a dynamic and focused person and also a good listener and discussion partner. This makes him a highly appreciated member of targeted research teams. He has expressed a healthy scepticism towards theories without a sound empirical basis. Based on his own research, he has reason to question a simplistic view of economic and social change. He shows a great willingness to read all kinds of papers, regardless of the author's academic status. Thus, he has encouraged many students to continue the study of economic history and business history.

A Tour of the Volume

Throughout the contributions in this volume entrepreneurship looms large, both in a more abstract sense as describing a crucial – perhaps the most crucial – prerequisite for economic growth and technological change, and more concretely when embodied in individual entrepreneurs. Great efforts have been expended in order to define this elusive concept. Based on the modern discussion (e.g., Hébert and Link 1989 and Wennekers and Thurik 1999), we (the editors) define entrepreneurship as the ability and willingness of individuals, both on their own and within organizations to:

1. perceive and create new economic opportunities;
2. introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions;
3. compete with others for a share of that market.

By creating opportunities for entrepreneurial behavior of their employees, organizations and not only individuals can become entrepreneurial. It is also evident that entrepreneurship cannot be set equal to self-employment. From our definition it is evident that entrepreneurship is a highly complex phenomenon, and in a collected volume focusing on entrepreneur-

ship it is natural to begin with some contributions dealing with the phenomenon *per se*.

In chapter 2 Lars G. Sandberg ("The Entrepreneur: Innovator or Manager, Individualistic Hero or Factor of Production") surveys the role, varying quality and sources of entrepreneurs and entrepreneurship in the discussion in economics and economic history. Sandberg maintains that while serious disagreements have resulted in a good deal of enlightening debate, it is also the case that much of the work has been at cross purposes. The root of this problem lies in differences in the definition of entrepreneurship and, equally important, in the criteria for measuring the success or failure of a group of entrepreneurs.

After a highly informed discussion of the various views on entrepreneurship and the types of institutions that are likely to promote productive entrepreneurship, Sandberg cogently concludes that

... we are left with a conviction that no society can prosper without an ample domestic supply of able business managers and economic innovators. ... It is difficult to believe that any economic system which views, and treats, its entrepreneurs as little more than a convenient source of tax revenues can succeed in the long run.

If one is allowed to mention one scholar only in relation to entrepreneurship, the choice of Joseph A. Schumpeter is unlikely to stir any controversy. As a result, it is natural to include a paper in this volume that deals with Schumpeter's conception at some length. This is done by Kersti Ullenhag in chapter 3 ("Joseph A. Schumpeters entreprenör. Teoretiskt koncept och empirisk verklighet"). Ullenhag stresses that Schumpeter's notion of the entrepreneur identifies the crucial importance of the individual for economic development and industrial breakthroughs. Schumpeter's entrepreneurial notion is then applied to two Swedish entrepreneurs: Henrik Gahn and Theodor Adelswärd. Although highly innovative, neither of these two innovators and founders of local businesses managed to turn their businesses into highly profitable, fast-growing enterprises in their own life time. In this sense they cannot be seen as role models for the Schumpeterian entrepreneur. On the other

hand, their respective efforts subsequently led to the development of large and profitable companies that could be characterized by the creative destruction emphasized by Schumpeter.

But the entrepreneur – Schumpeterian or not – is also highly dependent on the economic system in which he/she is active. It is hardly controversial to maintain that the payoff of a certain degree of entrepreneurial effort is likely to vary depending on the characteristics of the economic system in which the entrepreneur is acting. For example, what were the institutions in the UK of the 18th century that allowed a long-term growth process to start? Or analogously, why did not other technologically advanced countries, such as China under the Ming Dynasty, embark on a similar growth path? Baumol (1990) specifically deals with the effect of institutions/the social payoff structure on the supply of productive entrepreneurship across highly varying historical contexts.

However, to our knowledge, there are few studies that analyze how various institutional set-ups in a contemporary context affect firms of different size, industry, age *et cetera*.

It is of course a formidable task to construct convincing tests of the hypothesis that the institutional setup is an important determinant of entrepreneurial activity. Nevertheless, it is a key element in the understanding of entrepreneurial activity, and in this book we include three studies dealing with various systemic issues related to entrepreneurship.

In chapter 4 Raghild Lundström (“Taxes and Corporate Structure in Sweden”) examines how the Swedish tax system has affected the incentives for entrepreneurial activity. The corporate structure in Sweden has been characterized by a high degree of concentration with regard to both production and ownership. In most cases the dominant owner or owner group emanated from the 1920s and 1930s. Lundström shows how the tax system has contributed to this outcome. Until 1938 corporate taxes were progressive: the higher the profitability, the higher the taxes. As of 1938 taxes for limited joint-stock companies became proportional. More important than the tax

rate *per se*, varying from 20 per cent of net profits in the 1930s and 1940s to 55 per cent in the 1970s, was the scope for generous depreciation allowances, for carrying losses forward, and for tax-exempt appropriations to various funds. This led to great differences between nominal and effective tax rates. The income taxes pertaining to individuals, including sole proprietors and small unincorporated firms, were less favorable, and the progressive property taxes were prohibitive for the growth of small businesses until the 1970s. Moreover, the progressive inheritance taxes made it difficult for a new generation to take over. The tax rules contributed to the trend towards an increased concentration of economic activity in larger, older and capital-intensive firms and industries, to the detriment of small, entrepreneurial and independently owned firms.

In chapter 5 Tom Petersson (“Promoting Entrepreneurship. Bank-Connected Investment Development Companies in Sweden 1962–1990”) deals with one particular feature of the Swedish system, namely, the bank-connected investment development companies. This ownership institution developed and flourished as a direct result of the tax laws analyzed in chapter 4. Petersson begins by observing that in spite of the interwar period being a time during which many new companies were started, and in spite of the generally good economic conditions throughout most of the postwar period, very few companies grew into large-scale companies. The increasing problems of small and medium-sized firms and the ownership void that ensued paved the way for the bank connected investment development companies formed in Sweden in the early 1960s. The fundamental business idea was to acquire small and medium-sized companies that were family-owned. An investment development company stepping forth as a majority owner gave the acquired companies access to funds, management potential, and resources that these companies lacked, and could not expect to accumulate given the prevailing tax code.

Thus, throughout the postwar period, the Swedish industrial sector has been dominated by a limited number of very large, capital-intensive firms. We have already noted that one important explanation for this fact is that the economic policies pursued have been highly favorable for such firms. In addition to this explanation, it is important to evaluate how the general climate in society may affect the motivations of potential small firms or firms considering expanding. If nothing else, the social and political climate might offer clues about the future business climate, which could reasonably be expected to affect decisions about starting a new business, expansion of incumbent firms, *et cetera*. Such an evaluation of the general climate in Sweden is provided by Magnus Henrekson in chapter 6 ("The Entrepreneur and the Swedish Model"). He conveys a broad picture of the thinking about entrepreneurship and business formation that lay behind the political decisions from the mid-1950s to the early 1980s. This thinking provided the intellectual foundation that resulted in the rules of the game that benefited large, well-established, capital intensive firms and disfavored small, new, labor intensive and human capital intensive firms.

One kind of attitude that may be of particular importance as a determinant of the supply of effort is how the national culture looks upon entrepreneurial failure. This important aspect is examined in depth by Karl Gratzner in chapter 7 ("The Fear of Failure. Reflections on Business Failure and Entrepreneurial Activity"). Gratzner starts by noting that there is a general perception that attitudes towards entrepreneurial failure differ widely between Sweden and the US. Academics and journalists often claim that in the US entrepreneurial failure is seen as part of a learning process, while in the Swedish culture entrepreneurial failure is stigmatizing. Hence, the argument goes, the relatively low level of entrepreneurial activity in Sweden can be partly explained by socially negative attitudes towards entrepreneurial failure. However, Gratzner finds no systematic evidence supporting this assertion.

No volume dealing with entrepreneurship could possibly be complete without a number of interesting case studies of entrepreneurs and entrepreneurial behavior. In chapter 8 Jan Ottosson ("Entrepreneurs in Emerging Technology. The Case of Early Civil Aviation in Sweden") studies the rise of the Swedish civil aviation industry. He describes the entrepreneurs, and the financiers of the early operations of civil aviation in the 1918–1925 period. There is a clear tendency during the first years of civil aviation towards close connections between the early aviators and other groups, notably, military officers, engineers and natural scientists. Numerous roles were often embodied in the same person: aviator, entrepreneur and military officer. The rise of this industry also provides an illustrative example of how complex interrelations between the state and private entrepreneurs were crucial in the early phases of what turned out to be an important development block (Dahmén 1970).

As a result of the decreasing relevance of the notion of the nation state, the importance of regional aspects on economic and social change have increased greatly. In chapter 9 Hans Sjögren ("Regional Business Destruction – The Case of High-Tech Sectors in East Gothia 1985–1998") focuses on firm exits and entries within the region of East Gothia in Sweden. Sjögren examines business destruction during the 1980s and 1990s, with a special emphasis on bankrupted high-tech firms. At the macro level, he finds the expected negative correlation between the business cycle and the frequency of bankruptcies. However, further insights on entrepreneurial behavior may be gained if this relationship is analyzed at a more detailed level.

In a comparison of high-tech bankruptcies with insolvent firms in East Gothia – on the meso level – Sjögren finds that high-tech firms, even the unprofitable ones, generated more jobs during a given period of time than firms in general. Moreover, his findings suggest that high-tech entrepreneurship is more risky than the average economic activity. Thus, the

higher expected rate of return and job creation cannot be had without accepting a higher level of risk.

Another important aspect of entrepreneurship is the tension that may arise when the need for entrepreneurial risk-taking is set against the strive for security and stable rates of return in old, mature family-controlled businesses. This issue is treated by Mats Larsson in chapter 10, where he studies the Swedish media conglomerate the Bonnier Group after the Second World War. In particular, he focuses on the ubiquitous tension between the need for regular long-term management of old, mature operations within the conglomerate and the entrepreneurial opportunities that may be seized along the way. The results show that the Bonnier group to a large extent was an entrepreneurial business entity, open to new ideas, especially in industrial production. In this respect Bonnier cannot be seen as a typical representative for media groups in general.

According to our definition of entrepreneurship above, organizations and not just individuals may be entrepreneurial. In fact, it is hard to imagine that large corporations can continue to thrive for a century or more unless they are entrepreneurial, at least in times of rapid structural and technological change. In chapter 11 Susanna Fellman and Riitta Hjerpe ("The Strengberg Tobacco Company – An Early Successful Finnish Multinational") analyze the evolution of an entrepreneurial firm that became one of the very first Finnish multinationals, namely, Ph. U. Strengberg & Co. Ab, a producer of tobacco products. The Strengberg Company was established in Sweden in 1903 and shortly extended its activities to both Norway and Denmark. Through skilful application of new technology and modern organizational methods, the firm quickly acquired a leading position in Sweden, attaining a market share of cigarette production of some 45 percent by 1911. Unfortunately, the success in Sweden came to a complete stop in 1914 with the foundation of the state-owned Swedish tobacco monopoly in 1914.

In chapter 12 Margarita Dritsas ("Modernization in Post-War Greek Banking: The Case of Ergobank S.A.") studies the

profound modernization of the Greek banking industry that started in the 1970s. This is done by focusing on the creation of a new bank, Ergobank S.A., founded in 1975 by Constantinos Kapsaskis. Kapsaskis is a true entrepreneur who, through the introduction of novel banking methods, becomes a catalyst for the modernization of the whole banking industry in Greece. Dritsas highlights the most important features of the reform and their limits. Against a background of strong forces of preservation, the new organization profited from liberalization and thrived by introducing new features into the Greek system. In particular, it embarked on introducing, for the first time in Greece, what could be described as “niche” banking.

Chapter 13 also deals with entrepreneurship in the banking market, in this case among Scottish savings banks in the first half of the 19th century. The chapter is written by Duncan M. Ross (“Between Philanthropy and Entrepreneurship: Two Scottish Savings Banks in the Early Nineteenth Century”). His point of departure is the Savings Banks Act of 1835. This Act gave Scottish savings banks either the possibility to enter a “road to safe, secure and relatively trouble free return”, but with little room for entrepreneurship, or to try to develop the local market for those savings banks that did not adopt this Act. Based on two illustrative cases of this latter type of savings banks – Greenock Provident Saving Bank and Dumfries Parish Savings Bank – he shows how these savings banks were able to develop their lending to local industry. Thus, they managed to strike a balance between entrepreneurship and philanthropy.

So far in this volume the entrepreneurial examples have invariably been economically productive, or at least they have aimed at creating economic value. But as William Baumol (1990) so convincingly argued, entrepreneurship could be productive as well as destructive depending on the payoff structure. Moreover, entrepreneurship is not only limited to the economic arena. In fact, entrepreneurs may be barred entirely from acting on the economic arena, as in the old Soviet bloc. But this does not mean that entrepreneurial behavior was

nonexistent. Instead it could emerge in the most surprising of places.

In chapter 14 Lennart Samuelsson (“Vingklippta entreprenörer: Visioner och realiteter i stalinismens Sovjetunionen”) shows how entrepreneurial effort and drive was instead deployed on the military arena. However, the main entrepreneurs on this arena became victims of Stalin’s terror in 1937–38, and as a result the Soviet military was much weaker than it could have been when Hitler attacked in 1941. Applying an experimental approach to Soviet military history in the 1930s, Samuelsson unveils an otherwise often forgotten military-industrial and technical potential of the command economy. Tukhachevskii formulated the Red Army’s advanced theories of modern warfare with mechanized and motorized armies supported by parachute troops. As Chief of Armaments in 1931–1936, he supported the farsighted aircraft and rocket designers Tupolev, Korolev and Grokhovskii. In 1937–38, thousands of high-ranking officers, scientists and technicians fell victim to the Great Terror. Tukhachevskii’s fall led to arrests of these designers, and promising projects for the armed forces were stopped. In 1941, the Red Army’s capability was actually lower than its military-technical development path during the preceding decade would implicate. Thus, even the Red Army, the apogee of the Soviet command economy, was highly dependent on its entrepreneurs to be successful.

Having completed this brief tour of the contents of this volume, no one can doubt that we are convinced that entrepreneurial effort is a key element in sustained economic development. However, it is also crucial in extending the fringe of other human endeavors: music, literature, art, sports... and, last but not least, research. Research without entrepreneurship is doomed to stagnation in the long run. A hallmark of a true entrepreneur in the research arena, like Håkan Lindgren, is that he excels in creating environments where groups of researchers come together in a productive effort. As a result, Håkan’s influence on the economic history profession goes well beyond the direct impact of his own writings.

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