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## THE PARTICULAR CASE OF THE KIRZNERIAN ENTREPRENEUR. A FOCUS ON THE INTERNATIONAL MARKET

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### Abstract

Israel Kirzner built a particular model of entrepreneur. He is an alert individual, a discoverer of entrepreneurial opportunities, who does not need capital for running an entrepreneurial activity. According to him, the worst case scenario for this type of entrepreneur is related to the inability of discovering profit-generating opportunities. Because of this approach, he was criticized for limitations and omissions such as: the exclusion of innovation, action in an environment with predetermined variables, etc.

The aim of this article is to bring to the foreground a different approach to the particular image of the entrepreneur in the economic literature. Starting from this, we intend to use logical-deductive reasoning to develop a scenario in which the entrepreneur does not need to invest capital in order to operate on the international market. Furthermore, we will propose some arguments to help integrate the Kirznerian entrepreneur in a generic portrait.

One of the main contributions made by this research is the devising of a different approach to the Kirznerian entrepreneur, for the purpose of integrating the latter into the international market mechanism. In this context, we thought it relevant to carry out a literature review, as well as an extrapolation of the information therein.

### Keywords

Kirzner, Entrepreneurship, Entrepreneur, International market.

### JEL Classification

B25, L20

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### Introduction

The heterogeneity of opinions on the image of the entrepreneur in the specialty literature highlights to a good extent the impossibility of quantifying the individual activity and framing it in specific templates/standards. Starting from this premise, we acknowledge and identify in the literature a series of directions with regards to the topic at hand (*the entrepreneur*) and we intend to take a closer look at the highly disputed image of the entrepreneur as built by Israel

Kirzner. In the context of an ambitious long-term goal, that set out to create a comprehensive portrait of the entrepreneur, this article discusses the particular case of the Kirznerian entrepreneur. By analysing the defining characteristics and features thereof, the author produces a scenario that justifies the activity of this individual (the Kirznerian entrepreneur), starting from the information provided by the literature.

Israel Kirzner's distinctive entrepreneurial construct appears to be substantiated on antithetic tenets, such as market equilibrium and dynamics. The pure entrepreneur is a speculator, an arbitrator that does not possess capital and that generally does not innovate, but rather discovers, without assuming the risks and uncertainty pertaining to the market. The novelty of the Kirznerian entrepreneur draws attention by means of its distancing from uncertainty, and the possibility to discover opportunities that they exploit without losing capital (which is not necessary for the entrepreneur). This surprising concept can illustrate and explain the practice of trades that occur on the financial market.

By extrapolating the information we have, we set out to outline the image of the Kirznerian entrepreneur and (in a subsequent paper) we intend to integrate it in the complexity of the Austrian entrepreneur. Demonstrating its affiliation with this vision confirms the complementarity of different, yet clustering and overlapping types of entrepreneurs within the marketplace.

### Literature review

The complexity and uniqueness of the portrait Israel Kirzner outlines for the entrepreneur resides in the mixing and matching of features that can be found here and there in the writings of economists such as Joseph Schumpeter, Ludwig von Mises, and Friedrich von Hayek, as well as in the introduction of features that were less highlighted up to that point (for instance, the inter-temporal dimension of the entrepreneurial activity). In order to illustrate how the Kirznerian entrepreneur acts, we plan to synthesize the primary elements that highlight its features.

Kirzner operates with a novel concept, never before seen in the literature to that date: *pure entrepreneur* (Kirzner, 1973). This label designates an individual that identifies or discovers profit generating entrepreneurial opportunities. What helps this actor achieve their profit-making goal is a unique trait, namely *entrepreneurial alertness*. Guided by knowledge towards the identification of entrepreneurial opportunities that were untapped up to that moment (Topan, 2013, p.110), the Kirznerian entrepreneur is a *discoverer*. In building his case for the pure entrepreneurial act, Kirzner works with an individual that is constantly on the lookout for identifying the existing opportunities on some market. The entrepreneur's role is to harness the discrepancies between current market prices, and this can only be achieved by possessing superior knowledge (Kirzner, 1973, p.27).

Although the Kirznerian entrepreneur does resemble the Schumpeterian entrepreneur in certain aspects, there are also many distinctive elements. Of these, we would highlight the manner in which the two individuals see *innovation* and *the innovating process*. While Schumpeter's entrepreneur is guided by a *creative destruction* that allows for constant innovation, Kirzner's entrepreneur neither creates, nor innovates, and instead just discovers as a result of the knowledge they possess. Kirzner thus creates a random individual without heroic abilities. However, he does possess the *entrepreneurial alertness* (Kirzner, 1973, p.39) that allows him to make decisions concerning the entrepreneurial activity by harnessing the existing opportunities. Although Kirzner believes entrepreneurship is possible without innovation, his concept also allows for a situation in which the entrepreneur has to resort to innovation: *innovative activity*. Innovation entails creating a new *output*, a new method, etc., creating an opportunity that did not exist up to that point, requiring both creativity and imagination from the stakeholder. Going from the idea of inter-temporality, it supports the existence of exceptional situations where merely introducing an innovation does not suffice

unless one also takes into consideration the price discrepancy at different times, which could take the form of speculation (Kirzner, 1985, p.85).

In Kirzner's vision, the entrepreneur must not carry out any specific activity that entails risk-taking (Kirzner, 1973, pp.78-79). In other words, the only entrepreneurial errors result from incorrectly identifying certain opportunities that were not capitalized to the full extent of their capacity. The profit of the pure entrepreneur, for this is the type of entrepreneur Kirzner operates with, is the result of a superior capacity to identify and tap into market opportunities, without entailing the assuming of any risk or uncertainty. Allowing for this vision, the failure of this entrepreneur cannot be clearly defined, as it may be associated with the failure to discover opportunities. The manner in which the Kirznerian entrepreneur could lose is a dilemma. Regarding this latter aspect, the remark of both Rothbard and Foss & Klein is eloquent: the entrepreneur is a *curious, phantasmal formulation*, which apparently risks nothing in its activity (Rothbard, 1985, pp. 282-283; Foss and Klein, 2012, p. 54). Offering no information on how opportunities can be harnessed to make a profit, Foss and Klein are entitled to state that the entire process that Kirzner proposes is nothing but *black box (identification itself is a black box)* (Foss and Klein, 2012, p. 70).

Kirzner treats the issue concerning the holding of capital for the purpose of conducting the entrepreneurial activity in a manner that is similar to the one advanced by Schumpeter. Neither requires available capital for the entrepreneurial act and implicitly for the purpose of making a profit. While Schumpeter seems more lenient in allowing situations in which the entrepreneur could also be the holder of the capital, although the latter is not necessary (Schumpeter, 1939), Kirzner, in his work titled *Competition and Entrepreneurship*, states loud and clear that an individual can undertake an entrepreneurial activity geared towards making a profit without holding any capital (Kirzner, 1973, p. 19), excluding from his analysis all the entrepreneurs that might also be the holders of the capital to be invested (*Robbinsian entrepreneur*). Therefore, the entrepreneurial decisions are defining for individuals that effectively possess nothing (in terms of capital) (Kirzner, 1997).

Kirzner discusses about the competition that Hayek labels as being a *discovery process* (Hayek, 2002; Hayek, 2014), and profit comes as a result of a foresight capacity well above the average of other individuals in the marketplace (*superior foresight*). The critics of Kirzner's theory state that the mere identification of opportunities does not suffice to make a profit; in order to benefit from profits, entrepreneurs should identify earning opportunities and, on top of that, to also invest (Foss and Klein, 2012). Kirzner correlates the opportunity discovery process with Hayek's dynamic world, thus developing a perspective according to which the market process is a permanently entrepreneurial one, a process of discovering opportunities that are unidentified and untapped up to that point. The coordination of entrepreneurial plans is the only chance for *pure profit*, where the latter element is in no way connected to the ownership right over the capital. In his view, the profit opportunities derive from variations in prices, quantities and quality; these variables do not remain in a state of equilibrium. In other words, entrepreneurship is the act of understanding and the response to profit opportunities existing in an imperfect world, considering a marketplace in a permanent state of disequilibrium that cannot be stopped and, moreover, the entire marketplace scenario cannot be approached systematically, but rather conversely solely based on vigilance and entrepreneurial impulse (Kirzner, 1985, p. 11).

Referring to his own entrepreneurial construct, Kirzner states impersonally that it is engaged in acts of entrepreneurial arbitrage, without requiring that it be a creator or innovator (Kirzner, 2009, p.147), as is the case with the Schumpeterian entrepreneur. Kirzner's entrepreneur finds sellers from whom they can purchase cheaper, as well as buyers to whom they can sell the same product for a higher price. However, this scene introduces a novel element that changes, to a certain extent, how one looks at things: *time* (Kirzner, 1973, p. 41). The inter-temporal dimension of the entrepreneurial activity is clearly defined here, although the scenario thus

built could be a genuine disaster, considering the equilibrium state based on which the entrepreneur operates. Counting on the conduct of the entrepreneurial act without holding capital, he draws attention to the fact that the profit belongs to the entrepreneur, not at all to the owner of the capital. In other words, the profit origin in the partial knowledge of the marketplace, and this is impossible to omit in the business activity.

Irrespective of the type of entrepreneurial activity, we cannot disregard the fact that knowledge, alertness and motivation are necessary for making a profit. Rothbard criticized the Kirznerian portrait for adopting the Walrasian equilibrium, as well as for its mistake of seeing resources as an unchanging factor (Rothbard, 1985, pp. 285-286). Under such conditions, technological innovation alone could have been seen as the sole driving force of the economy.

By building and developing a case for a pure entrepreneurial act, Kirzner creates an economic actor in a permanent state of vigilance (*entrepreneurial alertness*) for the purpose of identifying the opportunities already existing on a certain marketplace. It allows for a state of market equilibrium, although this approach to reality in the market would not justify the existence of imperfections that would ultimately give the entrepreneur the possibility to act, even for the mere purpose of discovering and tapping into opportunities.

### **Methodology**

As the entrepreneur devised by Israel Kirzner is a particular case in the economic literature, by means of this research undertaking we set out to integrate it in a general context regarding the conduct of entrepreneurial activity in its complexity. Thus, this approach is intended to be different from the existing ones in the specialty literature.

The first phase of the research process entails carrying out a systematic and integrative review of the specialty literature in order to identify the Kirznerian outlook on the entrepreneur and the latter's activity. Then, building on the totality of data we identified and that Kirzner used, by means of logic and deductive reasoning, we devised a scenario in which the entrepreneur is not required to own capital in order to operate on the international market. This was one of the main critiques to Kirzner's writings on entrepreneurs.

The image of the Kirznerian entrepreneur was integrated in the generic portrait of the entrepreneur based on the research and development of arguments existing in the literature. Identifying Kirzner's contribution aimed to create a comprehensive picture of the existing entrepreneur on the competitive market.

### **Results and Discussions**

The complexity of the entrepreneurial activity is the result of a composite aggregate with intertwining elements, and treating them as units *per se* calls on the other ones, as they are indissolubly connected. Organically part of the same process, their operation can be endangered by eliminating or omitting other elements of the ecosystem. *Isolation* or separation is not a solution that can provide justifications concerning the entrepreneurial activity. As they are part of the same entrepreneurial loop, each of them acts multi-directionally, impacting and being impacted by the improper treatment of the other component parts.

In the economic development process, the entrepreneur should be deemed a respondent to opportunities, not a creator thereof. The entrepreneur identifies opportunities that could generate profits, while constantly seeking market equilibrium (unlike the Schumpeterian entrepreneur). In general, the Kirznerian entrepreneurial activity does not involve innovation, and there are two categories of entrepreneurial activities in this direction: *arbitrage* and *speculation* (Kirzner, 1985). For the entrepreneur, arbitrage entails neither a pre-existing capital stock, nor risk-taking via action carried out simultaneously over different marketplaces. The speculative activity has an inter-temporal characteristic, being based on the

flair of entrepreneurs thinking they managed to identify price differentials between the present and future moment.

The fracture in logic appears when – analysing the entrepreneurial act without prior capital – we try to pinpoint how entrepreneur acts on the marketplace in order to obtain the benefit they desire, irrespective of whether it is an intrinsic one or a financial compensation-type profit.

In the attempt to allow for the hypothesis according to which the economic actor can carry out entrepreneurial activities without also being the owner of a certain capital, one cannot ignore a series of fair questions this approach raises:

(1) Firstly, *is there a situation in which the availability of a capital stock is not a sine qua non condition in the conduct of the entrepreneurial act?* If the answer is affirmative, then *what is this situation in the reality of the market corresponding to Kirzner's perspective?*

(2) Secondly, *if we allow for this context, what are the instruments used by entrepreneurs without capital?*

(3) Last, but not least, *can we accept such a scenario in the reality of the free market where the actor-entrepreneurs' activity is guided by the principle of competitiveness?*

As the questions have already been asked, the next step is to identify several directions that could serve as answer lines capable to support – even for particular cases – the hypothesis argued along the Schumpeter-Kirzner line. Starting from this premise, we can conclude as follows:

(1) Admitting (with difficulty) the optionality of capital in the conduct of entrepreneurial activities, we can have a look at the activity on the financial market. Although we cannot fully support Kirzner's hypothesis, we could be permissive (yet sceptical) in accepting it, for instance, under conditions where the entrepreneurial activity is carried out on the *secondary financial market*. However, creating this type of scenario does not suffice, and it requires a series of conditions that have to be met simultaneously in order to partially validate the opinion under analysis.

By means of spot or fixed-term operations, the entrepreneurs that are (this time) putting on the speculator hat could make a profit without having any capital under the conditions of a hypothetical situation we imagine could materialize as follows: there are at least two transactions (one purchase and one sale transaction), of which at least one is a fixed-term transaction. To go on with the proposed reasoning, another mandatory requirement to be validated is the collection of the equivalent value of the sale contract before the due date of the purchase agreement. In other words, these individuals will be buyers that do not pay the equivalent value of the contract until the time when they collect the amounts due from the equivalent value of the agreement where they act in the capacity as sellers. Although this entails a very high risk, these individuals could have an ace up their sleeve owing to the price differential.

In the case of arbitrage, which entails purchasing an item at a lower price and selling it on another marketplace at a higher price, the same hypothesis could be admitted under the conditions in which the payment for the first transaction could be made only after collecting the equivalent value of the contract for the second transaction. What this scenario omits (through no fault of ours) is the uncertain market context. Disproving this hypothesis could be an easy feat and, in our opinion, correctly justified if we allow for uncertainty in the context. Nevertheless, as mentioned at the beginning of this research endeavour, we admit the particularity of the entrepreneur created by Kirzner and we will treat it as such.

(2) Fixed-term contracts could be an instrument that would allow Schumpeterian or Kirznerian entrepreneurs to make a profit without holding any investment capital. However, in order to allow for this scenario, we cannot disregard an element having a crucial role in the conduct of the entrepreneurial act: *knowledge*. If we accept the hypothesis that knowledge is, in fact, another form of capital that entrepreneurs use to make a profit, the scenario devised along the Kirzner line looks less and less credible. Ultimately, we believe that every individual

has certain knowledge, but the difference is in their ability to harness such knowledge. If entrepreneurs do not have the specific knowledge to help them identify certain niches in the market process, whether this refers to creation and innovation or the discovery of already existing opportunities, the entire hypothesis can be (once again) vehemently disproved.

(3) Whether or not we can accept such a scenario as being valid in the reality of a free market subject to ongoing competition is for each individual interested in this issue to decide for themselves. However, we cannot be convinced by the validity of this orientation so long as questions still remain on the failure of an entrepreneur that had no capital to invest. For us, the main question that remains unanswered is: *What happens if the entrepreneur's initial estimates or economic calculations were wrong? Who takes the loss if the entrepreneur that does not hold any capital makes a decision that is unable to deliver positive values of the estimated results?*

In connection with commercial trades, Kirzner's entrepreneur concept can be very useful for explaining the very practice of *spot* market trades, fixed-term transactions on the stock exchange market. Moreover, this could also serve to explain earnings from commerce. Given our aim to identify the particularities of the Kirznerian entrepreneur and, moreover, our subsequent attempt to integrate it in a general portrait, we find it necessary to make a few comments:

(1) The Kirznerian concept is a partial one, and this statement is supported logically. If we admit that opportunities already exist, it is evident that there was *someone* that created them, and this entity/force can be illustrated by the image of an innovator, of a visionary.

(2) The vision of entrepreneurship as an opportunity discovery process entails *decision-making*. Accepting the market's tendency towards equilibrium, Kirzner took the concept of general equilibrium for granted or as a criterion of truth, but this excludes the entrepreneurial activity. The market process and competitiveness as discovery draw attention to the dynamic character of the market, not at all focused on equilibrium. The state of equilibrium must somehow be used in any construct as a state of the economy, precisely in order to notice what happens over the course of changes.

(3) Entrepreneurship as discovery of opportunities and the approach to entrepreneurship as a *judgemental decision-making process* refers to an abstract function that, let us say, concurs to the progress or exit from the perpetual rotation of an economy (*evenly rotating economy*).

(4) Taking the Kirznerian construct literally, entrepreneurship resides in identifying and taking opportunities. In principle, Kirzner does not exclude the mental pattern or the thought process of the entrepreneur, and this attitude contributes to adopting a vision according to which a possibility also exists to create opportunities.

(5) The activity it conducts is *inter-temporal*, and this could be synonymous in our opinion with risk-taking, although Kirzner does not seem to touch on this matter.

(6) The knowledge that the Kirznerian entrepreneur possesses can be assimilated to capital, and this goes against the postulated hypothesis.

Complementarity could be the keyword forming the backbone for creating a comprehensive portrait of the entrepreneur. All the visions on this major market actor are complementary and form a whole. In the spirit of the liberal and Austrian tradition, a concept of *entrepreneurship* and *entrepreneur* comprises the Kirznerian entrepreneur, as well as the ones devised by Rothbard, Knight, Mises, Hayek, etc.

## Conclusions

The equilibrium situation does not allow for *surprise*, unpredictability and, implicitly, for innovation. The latter generates the creation of new entrepreneurial opportunities, and we believe this is where we should once again draw attention to the incomplete picture provided

by Kirzner, an image that does not correspond to the reality of the market, although he set out in his endeavour by taking the concept of Misesian origin, but framed in a different context. Competition as a discovery process as found in Hayek and the use of knowledge dispersed asymmetrically in individuals were the background for outlining the concept of an entrepreneur that does not need capital to be used in the entrepreneurial act. The vision of entrepreneurship as discovery of opportunities and the approach to entrepreneurship as judgemental decision-making are, in our opinion, complementary. Activities are carried out inter-temporally, and this approach is nevertheless risky and uncertain.

In conclusion, reconsidering our position towards the pure entrepreneur proposed by Israel Kirzner to a certain extent, we accept his concept as a partial one, yet one that we can use in the process of creating a comprehensive picture of the entrepreneur. Although it comprises conflicting elements, the Kirznerian entrepreneur does illustrate, to a great extent, a series of activities specific of the international market, which allows us to achieve our initial goal, namely to integrate it in the general portrait of the entrepreneur.

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